



<b>Project:</b>	<b>Reporting Service Performance Information</b>	<b>Meeting</b>	AASB December 2016 (M155)
<b>Topic:</b>	<b>Comments on ED 270</b>	<b>Agenda Item:</b>	13.1
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Redeliberations

## Introduction and objective of this paper

- 1 The objective of this paper is to provide the Board with a summary of the feedback received on ED 270 *Reporting Service Performance Information*.
- 2 This paper is structured as follows:
  - (a) background (paragraph 3); and
  - (b) staff analysis (paragraphs 4-98).

## Background

- 3 ED 270 was issued in August 2015 with comments by 29 April 2016<sup>1</sup>. The AASB received 32 comment letters (Appendix A contains a list of respondents, roundtable discussions and education sessions were undertaken in Adelaide, Brisbane, Canberra, Melbourne, Perth and Sydney in November 2015. Summary of the feedback received from the roundtable and education sessions was provided to the Board at its December 2015 meeting<sup>2</sup>. Staff also held a number of individual meetings with constituents.

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<sup>1</sup> The Board at its December 2015 meeting approved the extension of the initial comment period in ED 270 of 12 February 2016 to 29 April 2016.

<sup>2</sup> Link to AASB 2-3 December 2015 Meeting – Staff Paper 6.1 ‘Reporting on Service Performance Information – Feedback and Outreach Sessions’  
[http://www.aasb.gov.au/admin/file/content102/c3/M149\\_6.1\\_Staff\\_Paper\\_ED270\\_Feedback\\_from\\_Outreach.pdf](http://www.aasb.gov.au/admin/file/content102/c3/M149_6.1_Staff_Paper_ED270_Feedback_from_Outreach.pdf)

## Staff analysis

### *Summary of Comments Received*

- 4 The majority of constituents generally agreed with the principles and objectives of the draft Standard, and were supportive of:
  - (a) the proposed application of the draft Standard to not-for-profit entities in both the private and public sector;
  - (b) the reporting entity for service performance information being the same as the reporting entity for the financial statements;
  - (c) the proposed flexibility in location of service performance information;
  - (d) the proposed reporting of service performance information in a different time period to that of the entity's financial statements; and
  - (e) the defined terms in Appendix A of ED 270.
- 5 However, the majority of constituents were not supportive of:
  - (a) requiring service performance reporting at the WoG and GGS level, as they were of the opinion that this would be difficult for preparers;
  - (b) the proposed mandatory status of the draft Standard; and
  - (c) the proposed application date of 1 July 2018.
- 6 Constituents had concerns relating to:
  - (a) the overlap between the draft Standard and existing reporting frameworks and government reporting requirements;
  - (b) the use of efficiency and effectiveness as performance measures;
  - (c) the costs of implementing the Standard outweighing the benefits of the information provided, particularly for small and medium entities that would require an increase in resources to produce service performance information; and
  - (d) consultation between the constituents, other framework-setters of each jurisdiction (State and Commonwealth) and AASB.

## ***Question 1***

***Paragraph 20 proposes the principles for reporting service performance information. These principles state that an entity reports service performance information that:***

- (a) is useful for accountability and decision-making purposes;***
- (b) shall be appropriate to the entity's service performance objectives;***
- (c) clearly shows the extent to which an entity has achieved its service performance objectives; and***
- (d) should enable users to assess the efficiency and effectiveness of the entity's service performance. Do you agree with these principles?***

***Why or why not?***

### **Support**

- 7 The majority of constituents supported the proposed principles that entities report service performance information that:
- (a) is useful for accountability and decision-making purposes;
  - (b) is appropriate to the entity's reporting service performance objectives;
  - (c) shows clearly the extent to which an entity has achieved its service performance objectives; and
  - (d) enables users to assess the efficiency and effectiveness of the entity's reporting service performance.
- 8 Three constituents<sup>3</sup> commented that the proposed principles are in line with frameworks existing in some not-for-profit areas, such as the *Guide to the Queensland Government Performance Management Framework*.

### **Other views**

- 9 Some constituents<sup>4</sup> did not support a Standard on reporting service performance information on the basis that:
- (a) there are existing reporting guidelines and frameworks, such as the ACNC *Annual Information Statement*. The constituent<sup>5</sup> stated the proposals in ED 270 would duplicate the reporting on service performance information. This comment was also stated by a constituent who supported the proposals in ED 270<sup>6</sup>;

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<sup>3</sup> S10-Australasian Council of Auditors-General, S31-Queensland Department of the Premier and Cabinet, S32-Queensland Treasury

<sup>4</sup> s11- National Disability Services, S18-KPMG, S9- John Church, S12- Keith Reilly, S14- Community Council of Australia

<sup>5</sup> S11-National Disability Services

<sup>6</sup> S18-KPMG

- (b) “the draft fails to establish that [service performance reporting] is an accounting issue”. The constituent questioned whether the AASB was the appropriate body to issue a Standard on this matter<sup>7</sup>;
- (c) the proposed principles “may be useful for a public sector NFP [not-for-profits], the principles [would] require tailoring for non-public-sector NFP as they generally provide charitable services and should not be mandatory”<sup>8</sup>;
- (d) “what really matters is not inputs, outputs or even outcomes, but real impact over time and over communities”. The constituent referenced The Productivity Commission’s 2010 report *Contribution of the Not-for-profit Sector* as supporting this statement<sup>9</sup>.

## Concerns and suggestions

### *Concerns*

- 10 Four constituents<sup>10</sup> in their support for the proposed principles in ED 270 expressed concerns on the additional effort and resources required to report on service performance information, which would be an additional cost to the entity. Two constituents<sup>11</sup> noted that this would be difficult for smaller to medium organisations due to their lack of resources, while one constituent<sup>12</sup> noted the added costs would lead to “reducing service efficiency, without material benefit to stakeholders and clients”.
- 11 A minority of constituents stated concerns related to:
- (a) the use of efficiency and effectiveness as performance measures. The constituents expressed these measures are not applicable to all not-for-profit entities, difficult to measure and are too onerous for many. Two of these constituents<sup>13</sup> suggested the removal of this principle from the proposed requirements. While other constituents:
    - (i) requested additional guidance and clarity regarding this requirement; and
    - (ii) acknowledged that reporting of efficiency and effectiveness of its service performance could be difficult and require additional resources, the omission of this measure would reduce the usefulness of the reporting service performance information;

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<sup>7</sup> S9-John Church

<sup>8</sup> S12-Keith Reilly

<sup>9</sup> S14-Community Council of Australia

<sup>10</sup> S1-Vision Australia, S7-Australian Council for International Development, S9-John Church, S11-National Disability Services

<sup>11</sup> S7-Australian Council for International Development, S13-CONFIDENTIAL

<sup>12</sup> S11-AICD

<sup>13</sup> S16- Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC), S19-Australian Institute of Company Directors

- (b) performance indicators being difficult to define for some entities, specifically:
  - (i) religious organisations do not have service performance objectives<sup>14</sup>;
  - (ii) “the objectives of some not-for-profit entities do not include, or can be measured in, clearly defined outcomes”<sup>15</sup>.

Two of these constituents<sup>16</sup> requested the proposals are issued as a best practice guide, similar to IPSASB’s Recommended Practice Guideline 3 *Reporting Service Performance Information* instead of a mandatory Standard. While one constituent<sup>17</sup> offered an opposing view that the “report from various organisations for specific programs/projects/objectives/sectors should be in a prescribed format” for meaningful analysis and comparability.

### *Suggestions*

12 Other constituents offered the following suggestions:

- (a) “that consideration be given to further align the Qualitative Characteristics in (Paragraphs 25-29) with the proposed principles (Paragraph 20)”. This constituent requested the Board considers “public accountability for determining when and what service performance information should be reported ... In other words, the reporting service performance information reported may be wider than the scope of what entity is accountable to its funders”<sup>18</sup>;
- (b) further guidance and clarification for the identification and measurement of both quantitative and qualitative measures, especially the measures of efficiency and effectiveness<sup>19</sup>;
- (c) inclusion of a fifth principle that information is unbiased and capable of independent verification<sup>20</sup>

### Feedback from roundtables

13 The greatest cause for concern was on the proposal requiring an entity to report on the efficiency and effectiveness of the entity’s service performance. Many participants considered that this may be too onerous particularly if the service performance objective was outcome focussed, because measuring outcomes is difficult and can be resource intensive. It was suggested that the principles could stop at (c) and that efficiency and effectiveness

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<sup>14</sup> S17-Australian Catholic Bishops Conference

<sup>15</sup> S4-Nexia Australia

<sup>16</sup> S3-William Buck, S10-Australasian Council of Auditors-General

<sup>17</sup> S30-Core Community Services

<sup>18</sup> S20-EY

<sup>19</sup> S26-CPAA

<sup>20</sup> S10-ACAG

could be reported if the information was available but it should not be a mandatory requirement.

- 14 Participants questioned who the users were that were requiring service performance information as this was not fully explained in the ED and it was suggested that a detailed discussion on users should be included in the final pronouncement on Service Performance Reporting.
- 15 There was some discussion regarding terminology, specifically whether ‘appropriate’ was a suitable term to use in principle (b) as it was not clear what ‘appropriate’ meant in this context. Some suggestions for an alternative term included ‘relevant’, or ‘targeted’. It was further suggested that (b) needed more guidance to bring the concept to life. Participants stated that ‘service performance objective’ was a foreign concept and needed more explanation. This was supported by other participants who stated that ‘service performance objective’, did not resonate well as it was not immediately clear what was meant by a service performance objective and proposed alternatives such as ‘activities’ or ‘purpose’. However, some participants considered that ‘purpose’ was at a higher level than an objective and was akin to an entity’s vision/mission statement.

## ***Question 2***

***It is proposed that the [draft] Standard will be applicable to NFP entities in both the private and public sector. The performance of these entities cannot typically be evaluated from the financial statements alone. Accordingly, users of NFP entity reporting require further information for accountability and decision-making purposes.***

***Do you agree that it is appropriate that the [draft] Standard apply to NFP entities in both the private and public sectors? Why or why not?***

### Support

- 16 The majority of constituents agreed the Standard should apply to NFP in both the public and private sector. Four constituents<sup>21</sup> agreed that NFP entities in both the private and public sector are similar in their funding and activities, and therefore their users have similar information needs.
- 17 While three constituents<sup>22</sup> agreed information on service performance would be useful for both public and private sectors, these constituents recommended the document is issued as a best practice guide and not a mandatory Standard.

### Other Views

- 18 A minority of constituents did not support the application of the Standard to NFP in the public sector on the basis that there are existing reporting requirements for reporting service performance information, such as the *Public Governance, Performance and Accountability (PGPA) Act 2013*, the Queensland Government Performance Management Framework and

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<sup>21</sup> S1-Vision Australia, S18-KPMG, S20-Ernst & Young, S26-CPA Australia

<sup>22</sup> S6-CA, S22-YWCA, S16- Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC)

the Report on Government Services (RoGS). These constituents propose the Standard apply to NFP in private sector only.

- 19 Furthermore, one constituent<sup>23</sup> expressed the existing reporting requirements for NFP in the public sector provide an adequate level of service reporting information and an “information gap” has not been identified to warrant the application of the Standard to public sector NFP entities.
- 20 One constituent<sup>24</sup> commented regulators of NFPs are in the best position to identify information gaps in reporting, and they should therefore determine whether the Standard is mandatory for the entities which they oversee. One constituent<sup>25</sup> recommended the AASB work with the regulators to determine which guidance would take precedence, to eliminate an overlap in reporting.
- 21 Two constituents<sup>26</sup> suggested the AASB work with regulators to determine overlap in existing legislative requirements and the Standard.

### **Question 3**

***The AASB discussed whether this [draft] Standard could be applied by for-profit entities at a future date. The Board noted that the principle objectives of NFP entities and for-profit entities are different and, therefore, user needs are potentially different. However, the Board is of the view that users of for-profit reporting may also benefit from for-profit entities reporting service performance information. Do you agree that the application of this [draft] Standard could be extended in the future to include for-profit entities?***

***Why or why not?***

Not support

- 22 The majority of constituents did not support the future extension of the service performance reporting to for profit entities for the following reasons:
  - (a) the objectives of for-profit entities were different to the objectives of NFP entities, and the user needs are therefore potentially different. Constituents noted general purpose financial statements adequately met the needs of for-profit users. One constituent<sup>27</sup> referenced ED 270 (paragraph BC17<sup>28</sup>), in to support this view.

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<sup>23</sup> S31-Department of the Premier and Cabinet Queensland

<sup>24</sup> S16-Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC)

<sup>25</sup> S27-PricewaterhouseCoopers

<sup>26</sup> S20-Ernst & Young, S27-PricewaterhouseCoopers

<sup>27</sup> S3-William Buck

<sup>28</sup> Paragraph BC 17 of ED 270 states that “The Board observed that the principal objectives of NFP entities and the needs of users in relation to those objectives are potentially different from the principal objectives of for-profit entities and their related users’ needs. Accordingly, the Board decided that the current project should not

- (b) the application to for-profits entities, as there are existing reporting frameworks that require or provide guidance for similar reporting. Constituents made note of a number of guidance frameworks, such as section 29 of the *Corporations Act 2001*, which requires qualitative information in the annual directors' report, ASIC's Regulatory Guide 247 *Effective disclosure in an operating and financial review*, which give guidance for directors on providing useful and meaning information to shareholders, and the International Integrated Reporting Framework, which is focused on "bringing greater cohesion and efficiency to the reporting process, and adopting 'integrated thinking' as a way of breaking down internal silos and reducing duplication".

#### Other views

- 23 Two constituents<sup>29</sup> supported the objectives of extending service performance reporting to the for-profit sector, however did not think that ED270 could be applied. Constituents noted that due to objectives being primarily profit based and not necessarily containing service performance objectives, any service performance reporting Standards would need to be thoroughly considered and tailored to the industry.

#### Concerns and suggestions

- 24 Four constituents<sup>30</sup> suggested that a review of the for-profit sector should be conducted to find any "information gaps" and to identify whether users of for-profit reports require a service performance information statement.

#### **Question 4**

***The AASB discussed whether the requirements of this [draft] Standard should apply to entities that prepare consolidated financial statements including whole-of-government (WoG) and the general government sector (GGS) financial statements. The Board decided that if the [draft] Standard did not apply to entities preparing consolidated financial statements, some important information might not be reported, particularly if a controlled entity was not required to apply this [draft] Standard. Further, it was noted that some governments prepare a strategic plan for the WoG (not just individual agencies). Therefore, this [draft] Standard could be applied in relation to those WoG plans.***

***Do you agree that this [draft] Standard should apply to all NFP entities that prepare consolidated general purpose financial statements (including WoG and GGS financial statements)?***

***Why or why not?***

#### Support

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include for-profit entities within its scope. However, the Board further decided to ask constituents for their views on this matter."

<sup>29</sup> S0-Ernst & Young, S26-CPA Australia

<sup>30</sup> S10- Australasian Council of Auditors-General (ACAG), S26-CPA Australia, S27-PricewaterhouseCoopers, S31- Queensland Department of the Premier and Cabinet

- 25 Four constituents<sup>31</sup> supported the Standard being applied to all not-for-profit entities that prepare consolidated general purpose financial statements, including WoG and GGS. Constituents noted that reporting at a consolidated level would increase comparability to the consolidated figures in the financial statements.

### Concerns and suggestions

- 26 The majority of constituents were concerned with requiring reporting at the WoG and GGS level. These concerns included:
- (a) that the objectives of government reflect the policies of those in power at the time, which can change suddenly and drastically. One constituent<sup>32</sup> was concerned that “identifying appropriate performance indicators which provide accountability will be more difficult”. Another constituent<sup>33</sup> acknowledged paragraph AG57 of ED 270<sup>34</sup> which states that service performance should be reported against public plans, and changes to performance plans can be used to identify variances between the plan and the outcomes, however the constituent thinks “this would be impracticable, as systems and processes would be unlikely to cater for reporting against superseded performance objectives.”
  - (b) it may be difficult to determine what outcomes are specifically linked to strategic objectives of a government. Constituents noted that objectives of WoG and GGS are broad and cover a vast number of entities, and due to this identifying and presenting information on the outcomes in a meaningful way would prove to be difficult.
  - (c) measuring outcomes at the WoG and GGS level would be difficult, due to the objectives being large and wide, resulting in difficulty in determining how to present information in a meaningful way to users.
  - (d) WoG targets published by government are often ambitious, not reflecting proportionately the overall government inputs, activities and outputs, and therefore reporting against this targets may not be an appropriate representation.
- 27 For non-WoG or GGS entities preparing consolidated general purpose financial reports:
- (a) at a consolidated level, “reporting will be far more complex and laborious for an organisation with multiple programs and services”<sup>35</sup>.

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<sup>31</sup> S10- Australasian Council of Auditors-General (ACAG), S18-KPMG, S22-YWCA, S30-CORE Community Services

<sup>32</sup>S10- Australasian Council of Auditors-General (ACAG)

<sup>33</sup> S16-Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC)

<sup>34</sup> Paragraph AG57 of ED 270 states “When an entity has made its service performance plan public, an entity shall report its actual service performance against that plan. In this circumstance, entities should apply the principles in AASB 1055 Budgetary Reporting, which require reporting against original budgets. However, an entity may consider any revised service performance plan to help identify any variance(s) that may have occurred between the original planned service performance and its actual service performance.”

<sup>35</sup> S24-Justice Connect

(b) clarification was requested on how to report on service performance information in relation to controlled entities without overwhelm and is useful to users.<sup>36</sup>

28 Some constituents requested further guidance on the level and methodology of aggregation of service performance information for WoG, so to give users a useful representation and not overwhelm them.

29 One constituent<sup>37</sup> requested clarification in the Standard that performance indicators in a consolidated report should be relevant to the controlling entity's own service performance objectives, not the individual objectives of subsidiaries.

### ***Question 5***

***This [draft] Standard proposes that the reporting entity for which service performance information is reported shall be the same as that used for the entity's financial statements.***

***Do you agree with this proposal?***

***Why or why not?***

#### **Support**

30 The majority of constituents agreed that the reporting entity for service performance information should be the same as the reporting entity for the financial statements.

#### **Concerns and suggestions**

31 Two constituents<sup>38</sup> requested guidance on

- (a) how an entity may go about identifying performance objectives at a consolidated level. Constituents commented that, without guidance, entities may just aggregate information that is separately provided by entities in the consolidated group, and not provide new information that is useful to users at the consolidated level. Constituents commented that this may be an onerous task for entities with a diverse or complex set of subsidiaries.
- (b) which entity would claim credit for an outcome of an objective when numerous entities worked together on the project<sup>39</sup>.
- (c) "as to which reporting entity becomes responsible for reporting the service performance information in cases where all of its activities are undertaken through a trust fund".<sup>40</sup>

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<sup>36</sup> S20-Ernst & Young

<sup>37</sup> S10-Australasian Council of Auditors-General (ACAG)

<sup>38</sup> S18-KPMG, S27-PricewaterhouseCoopers

<sup>39</sup> S16-Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC), S23-Council of Rural Research and Development Corporations

- 32 One constituent<sup>41</sup> supported reporting at the same entity level, however suggested that where different reporting is more relevant to users, flexibility should be allowed.

#### Feedback from roundtables

- 33 This proposal created much resistance particularly from the NFP public sector. Reasons given as to why it would not be appropriate included:
- (a) the information reported would be meaningless;
  - (b) whole of government or state plans are just political tools which are likely to change in an instant with a change of government;
  - (c) the whole of government does not provide a service therefore there is nothing to report performance against; and
  - (d) whole of government objectives tend to be long-term and therefore reporting performance on these long-term outcomes may be problematic.
- 34 In regard to the NFP private sector, it was noted that the ACNC does not require entities to report on a consolidated basis unless the entity has applied for group status, therefore reporting at a consolidated level would create an extra burden.
- 35 Other participants noted that faith organisations are not controlled and therefore do not provide consolidated financial statements. AASB staff advised participants that this requirement would only apply to entities that prepared consolidated financial statements for example at a whole of government, general government or controlling entity level and therefore there would be no implications for entities that do not consolidate.

#### **Question 6**

***This [draft] Standard allows an entity to present its service performance information in:***

- (a) the same report as the financial statements;***
- (b) a separately issued report; or***
- (c) in a variety of different reports.***

***Do you agree that this [draft] Standard should not specify the location of service performance information?***

***Why or why not?***

***If you disagree with the approach proposed in this [draft] Standard how do you consider entities should present service performance information and why?***

#### Support

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<sup>40</sup> S7-Australian Council for International Development

<sup>41</sup> S22-YWCA

- 36 The majority of constituents agreed that the Standard should not specify the location of service performance information. Constituents agreed that flexibility would allow entities to determine how and where users would find the information most valuable.

### Concerns and suggestions

- 37 A minority of constituents considered that service performance information should not be placed in the General Purpose Financial Reports as:
- (a) t due to Australian Auditing Standard ASA 720 *The Auditor's Responsibilities Relating to Other Information*, which requires auditors to read other information included in the financial report to identify material inconsistencies with the audited financial report, auditors would be required to work with this information. Constituents commented that this would create extra work and therefore extra costs for entities. One constituent<sup>42</sup> were also concerned that auditors would not be able to obtain sufficient appropriate evidence to satisfy the requirements of AS 720.
  - (b) financial reports should remain focussed on financial matters.<sup>43</sup>
- 38 Four constituents were concerned that spreading information over a variety of reports would cause complexity and reduce usefulness, as users will not be guaranteed that all relevant information is in the report they are viewing.<sup>44</sup>
- 39 In addition, one constituent<sup>45</sup> acknowledged paragraph 18 of ED 270 which requires entities to identify the location of information by cross referencing, however calls for guidance on this. The constituent expresses the following concerns: "Paragraph 18 requires that where information is not presented in a single report, an entity is required to identify where the information is located by cross-referencing. However, it is unclear how this requirement would be met (eg. whether a 'main'/summary report would need to be prepared that would include a cross-reference to the other reports, whether the cross-reference to reports should be from the annual report or the financial statements themselves, and what the primary report should be)."
- 40 Two constituents<sup>46</sup> suggested that a reference to the location of service performance information with in the general purpose financial reports would be useful.
- 41 One constituent<sup>47</sup> suggested that the regulator (Parliament or Treasurer) should be able to determine where the information is reported to enable consistency and predictability for users.

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<sup>42</sup> S4-Nexia Australia

<sup>43</sup> S15-NSW Treasury

<sup>44</sup> S1-Vision Australia, S2-Queensland University of Technology, S27-PricewaterhouseCoopers, S26-CPA Australia

<sup>45</sup> S27-PricewaterhouseCoopers

<sup>46</sup> S18-KPMG, S20-Ernst & Young

<sup>47</sup> S10-Australasian Council of Auditors-General (ACAG)

- 42 Two constituents<sup>48</sup> considered that service performance information should be included in the financial statements as:
- (a) users would be using both reports and correlation should be made. The constituent also stated that this will ensure accurate and consistent reporting.<sup>49</sup>
  - (b) service performance information and financial statements should be presented together, and that a level of flexibility as to the format and location within the reports should remain.<sup>50</sup>
- 43 Two constituents<sup>51</sup> commented that the presentation of service performance information on company websites is appropriate and should be encouraged by the AASB.
- 44 One constituent<sup>52</sup> requested guidance on paragraph AG16 of ED 270 which states service performance information should be “cross-reference to information in the relevant financial statements” where service performance information and financial statements are not for corresponding time periods. The constituent called for clarity around the level of information to meet this requirement, for example whether the information would need to be reconciled to financial statements or whether simply identifying financial reporting periods would suffice.

#### Feedback from roundtables

- 45 The flexibility regarding how service performance information could be presented was welcomed by participants. However, comments were made that if service performance information was presented in the same report as the financial statements, an entity’s auditor would need to review that information for consistency with the financial statements.

#### *Question 7*

***This [draft] Standard allows for an entity’s service performance information to be reported for a different time period to that of the entity’s financial statements. Do you agree with this proposal?***

***Why or why not?***

#### Support

- 46 The majority of constituents agreed that it would be acceptable for service performance information to be reported in a different time period to that of the entity’s financial statements. A majority of constituents also noted that the preferred and expected scenario would be that service performance information and financial information are reported in the

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<sup>48</sup> S23-Council of Rural Research and Development Corporations, S30-CORE Community Services

<sup>49</sup> S30-Core Community Services

<sup>50</sup> S23-Council of Rural Research and Development Corporations

<sup>51</sup> S27-PricewaterhouseCoopers, S28-Institute of Public Accountants

<sup>52</sup> S27-PricewaterhouseCoopers

same period, however where appropriate and necessary, it would be appropriate to report service performance information in another period.

### Concerns and suggestions

- 47 A minority of constituents were opposed to allowing information in a different time period. Constituents were concerned that if the period for financials and service performance information did not match, the usefulness, comparability and the link between the two types of information would be lost.

### Feedback from roundtables

- 48 Participants generally supported the option for an entity to provide service performance information on a different reporting period to its financial statements although they noted that it would be easier to report on the same period.
- 49 Some concern was expressed regarding identifying the related financial information, but seem satisfied when informed that a cross-reference to all relevant financial statements would be required, along with an explanation of why the reporting periods differed.

### **Question 8**

***The [draft] Standard includes defined terms in Appendix A. Do you agree that the proposed defined terms in Appendix A appropriately explain the significant terms in the [draft] Standard? Why or why not? Do you agree with these defined terms?***

***Why or why not?***

***Are there additional terms that should be defined in Appendix A to assist application of the [draft] Standard?***

### Support

- 50 The majority of constituents supported the proposed defined terms in Appendix A.

### Concerns and suggestions

- 51 A minority of constituents made the following comments on the defined term ‘effectiveness’:
- (a) effectiveness “can also be the extent to which an entity achieves its planned objectives or outcomes regardless of the number of outputs produced. This constituent acknowledged that this definition was acknowledged in the “simple chart” provided in ED 270, however not in the text.<sup>53</sup>
  - (b) the definition of effectiveness is inconsistent with the definition used by the Productivity Commission and Queensland Government Performance Management Framework, established in the Productivity Commission’s *Report on Government Services (RoGS)*. Constituents were concerned that the AASB measure of

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<sup>53</sup> S10-Australasian Council of Auditors-General (ACAG)

effectiveness measures the relationship between outputs and objectives, whereas the RoGS measures the relationship between outcomes and objectives.

(c) this definition is vague and open to many interpretations.<sup>54</sup>

52 Some constituents made the following comments on the defined term ‘efficiency’:

(a) the definition used in ED 270 is very simple, which is not in line with the Productivity Commission’s RoGS definition<sup>55,56</sup>.

(b) this definition would be “misleading for some charities. Some Charities’ work cannot be reduced to normal standards of efficiency”.<sup>57</sup>

53 Some constituents made the following comments on the defined term ‘inputs’:

(a) that the Standard should make clear that money is an important input, “probably more so than labour”. This constituent attempted to demonstrate the importance by explaining that if the total cost for eleven staff was 80 per cent of the expected cost of ten staff, then the entity would have had greater efficiency.<sup>58</sup>

(b) the term ‘inputs’ was confusing for practitioners upon application, and recommended the use of the term ‘resources’ in its place.<sup>59</sup>

54 Some constituents made the following comments on the defined term ‘outcomes’:

(a) reconsider or further define the term ‘society’ used within the definition of ‘outcomes’. Constituents were concerned that ‘society’ was too broad, and without a more narrow approach, entities may find it difficult to measure how their performance has affected a ‘society’.<sup>60</sup>

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<sup>54</sup> John Church

<sup>55</sup> The Productivity Commission Report on Government Services (RoGS) states:

“The concept of efficiency has a number of dimensions. Overall economic efficiency requires satisfaction of technical, allocative and dynamic efficiency:

- technical efficiency requires that goods and services be produced at the lowest possible cost
- allocative efficiency requires the production of the set of goods and services that consumers value most, from a given set of resources
- dynamic efficiency means that, over time, consumers are offered new and better products, and existing products at lower cost.”

<sup>56</sup> S10-Australasian Council of Auditors-General (ACAG)

<sup>57</sup> S9-John Church

<sup>58</sup> S10-Australasian Council of Auditors-General (ACAG)

<sup>59</sup> S30-CORE Community Services

<sup>60</sup> S7-Australia Council for International Development, S20-Ernst & Young, S26-CPA Australia

- (b) the term ‘outcomes’ was confusing for practitioners upon application, and recommended the use of the term ‘services’ in its place.<sup>61</sup>
- (c) the definition will be different between government and charities, and that the definition is too vague to provide any useful guideline for many charities.<sup>62</sup>

55 One constituent<sup>63</sup> was concerned that the term ‘outputs’ was confusing for practitioners upon application, and recommended the use of the term ‘services’ in its place.

56 Some constituents made the following comments on the defined term ‘performance indicators’:

- (a) the term ‘performance indicators’ would be confused to mean ‘key performance indicator (KPI)’, suggesting an alternative such as ‘service performance measures’.<sup>64</sup>
- (b) ED 270 defines “inputs, outputs, outcomes, efficiency and effectiveness as types of performance indicators”, whereas the Productivity Commission’s RoGS only defines efficiency and effectiveness as performance indicators.<sup>65</sup>
- (c) narrative and qualitative descriptions were seen as performance indicators, as the constituent noted that these types of communication did not provide users with a basis to compare service performance over time.<sup>66</sup>

57 Some constituents made the following comments on the defined term ‘service performance’:

- (a) the definition being based on ‘delivery of goods and/or services’ overly emphasised outputs and not the ‘performance’, defined by the constituent as “quality/quantity of goods and service provided”. This constituent also requested the removal of the phrase ‘with the intention of having a positive impact’, as it may cause confusion when an output has a positive impact on one segment but a negative impact on another.<sup>67</sup>
- (b) the discrepancies between definitions with ED 270 and the Productivity Commission’s Report on Government Services. Constituents commented that ED 270 defined ‘service performance objectives’ as “a description of the planned results”, and that this form of measurement can be expressed through a number of different performance indicators, whereas the RoGS calls for an objective that is clear and measurable.<sup>65</sup>

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<sup>61</sup> S30-CORE Community Services

<sup>62</sup> S9-John Church

<sup>63</sup> S30-CORE Community Services

<sup>64</sup> S18-KPMG

<sup>65</sup> S30-Queensland Department of the Premier and Cabinet, S31-Queensland Treasury

<sup>66</sup> S31-Department of the Premier and Cabinet Queensland

<sup>67</sup> S18-KPMG

- 58 Some constituents requested definition or guidance for the additional terms that are used in the draft Standard of ‘overall objectives’<sup>68</sup>, ‘consistency’<sup>69</sup>, ‘public sector’<sup>70</sup>, ‘private sector’<sup>71</sup>, ‘Goods and Services’<sup>72</sup> and ‘cost of output’<sup>73</sup>.
- 59 In addition, one constituent<sup>74</sup> requested that ‘units’ be defined for each sector, so that sectors report the same information and thereby make it comparable.

#### Feedback from roundtables

- 60 Participants were asked if there were any issues with the terminology used throughout the proposals. In addition to those mentioned in regards to question one (appropriate and service performance objectives) it was also suggested that:
- (a) goods and services may not be indicative of an entity’s endeavours, particularly for faith organisations and that perhaps ‘activities’ would be more suitable;
  - (b) the term ‘service performance’ by itself should not be used as it can be confused with service performance objective;
  - (c) the term ‘performance indicator’ conjured thoughts of key performance indicators and numerical measures, it was suggested and noted that the commonwealth government uses the term ‘performance measures’; and
  - (d) the phrase ‘positive and negative information’ might seem too threatening and that it should be changed to either ‘balanced’ or ‘neutral’ information.
- 61 Some participants suggested using terms associated with social impact reporting whilst others suggested aligning terms with those used in existing performance reporting frameworks.

#### **Question 9**

***The AASB’s view is that this [draft] Standard should be mandatory as it, in conjunction with an entity’s financial statements, provides useful information for users to assess the performance of NFPs in relation to an entity’s service performance objectives. Providing this information will further assist users for accountability and decision-making purposes.***

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<sup>68</sup> S27-PricewaterhouseCoopers

<sup>69</sup> S28-Institute of Public Accountants

<sup>70</sup> S1-Vision Australia

<sup>71</sup> S1-Vision Australia

<sup>72</sup> S18-KPMG

<sup>73</sup> S23-Council of Rural Research and Development Corporations

<sup>74</sup> S30-CORE Community Services

***Do you agree that this [draft] Standard should be mandatory for NFP entities?***

***Why or why not?***

Support

- 62 A minority of constituents support the mandatory application of service performance reporting to all not-for-profit entities. These constituents commented that the accountability and decision making qualities of service performance reporting would be an important addition to users of reports.

Concerns and suggestions

- 63 The majority of constituents did not support the mandatory application of service performance reporting due to:
- (a) the burden on small entities who were lacking in resources would be too high.
  - (b) the training, resources, assessment systems and set up costs of service performance reporting would far outweigh the benefits for users. Constituents noted that these costs would take away from the services that not-for-profits are trying to achieve.
  - (c) the overlap of this standard with many pre-existing reporting requirements (as previously outlined in this document) would cause inefficiencies and double reporting.
  - (d) the IPSASB Recommended Practice Guide 3 *Reporting Service Performance Information* is a best practice guideline and suggested that any pronouncement the AASB releases should follow the same character.
  - (e) auditing and assurance of service performance information would be difficult due to a lack of Auditing and Assurance Standards regarding service performance information, as well as a lack of knowledge and experience in the area.
  - (f) some not-for-profit entities may change their financial reporting framework from Tier 2 Reduce Disclosure to special purpose to overcome additional administrative burden of complying with the standard.<sup>75</sup>
- 64 Constituents made the following suggestions:
- (a) a minority of constituents suggested that the AASB only release a best practice guide, allowing entities, users or regulators who want to implement the principles of service performance reporting to do so.
  - (b) some constituents who were particularly concerned with the burden on small and medium sized not-for-profits recommended that smaller entities should be granted reduced disclosure requirements or exemptions, as to not adversely affect these entities through the costs and resources required.

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<sup>75</sup> S4-Nexia Australia

- (c) the AASB should take a phased implementation, so that studies can be conducted on the costs and benefits to not-for-profits and their users.<sup>76</sup>

#### Feedback from roundtables

- 65 Whilst there were mixed views on whether a final pronouncement should be mandatory, the majority of participants were not in favour of a mandatory status.
- 66 Participants commented that if an entity was a grant recipient, that entity was already subject to detailed reporting back to the grantor (much of this reporting is not made public) and that further reporting requirements would be onerous.
- 67 Although ED 270 does not propose that service performance information is required to be audited, participants nevertheless commented that if any pronouncement had a mandatory status there would be concerns over the validity of the information provided and depending on where it was presented, for example, in a report accompanying the financial statements, it may still require oversight by the auditor which would increase compliance costs.
- 68 There were further concerns on how compliance with a standard would be communicated, because if Note 1 of the financial statements stated that the entity had complied with all accounting standards (including a standard on reporting service performance information) then this would also require the service performance information to be audited. Participants also commented that if the reporting requirements are mandatory but there was no audit requirement, entities may not comply.
- 69 Some participants that did not support a mandatory status suggested that the final pronouncement should become a best practice guide and that if users wanted the information, the market would compel the entities to report the information. It was also suggested that better information would be reported if it was issued as best practice guidance. It was further stated that it is the role of the regulator, not the standard-setter to set the status of any pronouncement of reporting service performance information.
- 70 Another suggestion was to make the a final pronouncement voluntary guidance and then undertake a post implementation review a few years after the guidance was issued to determine the adoption, this participant also commented that it would be important to get support from the ACNC on this.
- 71 Of those participants that supported a mandatory status some suggested that if the final pronouncement were only an overarching framework then that framework should be mandatory. Others suggested that if an entity was in receipt of government grants then final pronouncement should be mandatory and if grants were not received the market would determine whether an entity should provide service performance information. Similarly, another participant suggested that it should not be mandatory for entities already required to report service performance information under another framework.
- 72 Other comments in support of a mandatory status included that a voluntary status would defeat the purpose of the project, that is, to get all NFP entities reporting service performance information on at least some basis. It was also suggested that the information may be unreliable if it was not mandatory. It was suggested that the information provided

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<sup>76</sup> S16-Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC), S20-Ernst & Young

under a non-mandatory basis could be likened to ‘marketing fluff’. However, other participants suggested that a mandatory status would result in poor data as entities might take a ‘tick the box’ approach and provide the least amount of information possible, further entities might ‘cherry pick’ service performance objectives to ensure a positive outcome.

- 73 It was suggested that the final pronouncement could be implemented on an ‘if not why not’ basis, much like the *ASX Corporate Governance Principles and Recommendations*, this idea gained some support from participants.

### **Question 10**

***It is proposed that this [draft] Standard will be applicable for annual reporting periods beginning on or after 1 July 2018. Early application will be permitted. Do you agree with the proposed application date of 1 July 2018?***

***Why or why not?***

#### Support

- 74 Four constituents support the proposed application date of 1 July 2018.

#### Concerns and suggestions

- 75 The majority of constituents do not support the application date of 1 July 2018.

- 76 Concerns include:

- (a) that the Standard is not ready, as outlined in concerns already outlined in previous points of discussion.
- (b) that the implementation date is not appropriate due to constituents not supporting a mandatory application.<sup>77</sup>
- (c) whether entities would have an appropriate length of time to prepare their resources, including their reporting procedures and their identification of their key performance objectives before the proposed implementation date of 1 July 2018.
- (d) due to other imminent AASB projects, such as AASB 9 *Financial Instruments*, AASB 15 *Revenue from Contract with Customers* and AASB 16 *Leases*, the application date of ED 270 should be pushed back after these have been implemented. Constituents commented that the varying degrees of complexity may make it difficult to implement a large number of standards simultaneously.<sup>78</sup>

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<sup>77</sup> S6-Chartered Accountants Australia and New Zealand, S8-Australian Charities and Not-for-profits Commission, S23-Council of Rural Research and Development Corporations, S26-CPA Australia

<sup>78</sup> S20-Ernst & Young, S27-PricewaterhouseCoopers, S32-Queensland Treasury

77 Two constituents<sup>79</sup> who commented that service performance reporting should not be mandatory stated that they are supportive of a best practice statement becoming available as soon as finalised.

### ***Question 11***

***(a) there are any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals by not-for-profit entities, including any issues relating to public sector entities, such as GAAP/GFS implications?***

#### Support

78 Three constituents<sup>80</sup> commented that they were not aware of any regulatory issues that would arise with the implementation of the Standard.

#### Concerns and suggestions

79 A minority of constituents raised regulatory concerns regarding:

- (a) State and Territory governments regulations, as well as the current reporting requirements of the ACNC, may conflict with the Standard, resulting in either regulatory changes or increased costs for entities.
- (b) the Standard being contrary to the Government's policy of reducing un-necessary red tape and its broad de-regulatory program.<sup>81</sup>

### ***Question 11***

***(b) overall, the proposals would result in reporting that would be useful to users?***

#### Support

80 Most constituents who commented agreed that, overall, the principles and objectives of reporting service performance information would be useful for users, on the proviso that issues previously mentioned in the responses are addressed appropriately.

#### Concerns and suggestions

81 Four constituents<sup>82</sup> commented that the Standard would not be useful. These constituents all made this conclusion considering the reporting requirements already existing under local government legislation, such as Queensland Government's Performance Management

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<sup>79</sup> S6-Chartered Accountants Australia and New Zealand, S8-Australian Charities and Not-for-profits Commission

<sup>80</sup> S1-Vision Australia, S10-Australasian Council of Auditors-General, S18-KPMG

<sup>81</sup> S12-Keith Reilly, S29-PKF

<sup>82</sup> S4-Nexia Australia, S16-Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC), S30-Queensland Department of the Premier and Cabinet, S31-Queensland Treasury

Framework. Constituents agreed that there would be no added value by reporting service performance information.

### ***Question 11***

#### ***(c) the proposals are in the best interests of the Australian economy?***

##### Support

82 Four constituents<sup>83</sup> agreed that the proposals are in the best interest of the Australian economy, for reasons such as greater confidence in the large NFP sector<sup>84</sup> and the encouragement for not-for-profit entities to maximise outcomes at the lowest price<sup>85</sup>.

##### Concerns and suggestions

83 The majority of constituents were concerned that the proposals were not in the best interest of the Australian economy. Constituents who elaborated on this position generally commented that the costs would outweigh the benefits due to the extra resources required to complete the reporting.

### ***Question 12***

***Unless already provided in response to the matters for comment 1-10 above, the costs and benefits of the proposals relative to the current Australian Accounting Standards, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.***

##### Support

84 One constituent<sup>86</sup> expressed the view that that the benefits would exceed the costs, as efficiencies, effectiveness and expenses would improve.

85 One constituent<sup>87</sup> commented that they did not expect increased costs and times involved in transition to the requirements of the Standard.

##### Concerns and suggestions

86 The majority of constituents were concerned that costs would increase due to ongoing increased costs to prepare service performance reports.

87 Two constituents<sup>88</sup> were also concerned that reporting service performance information would lead to increased audit costs. One constituent<sup>89</sup> was concerned with the costs to

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<sup>83</sup> S1-Vision Australia, S10-Australasian Council of Auditors-General, S18-KPMG, S27-PricewaterhouseCoopers

<sup>84</sup> S27-PricewaterhouseCoopers

<sup>85</sup> S1-Vision Australia

<sup>86</sup> S30-CORE Community Services

<sup>87</sup> S18-KPMG

develop indicators and systems for entities that weren't already reporting service performance information.

- 88 Three constituents<sup>90</sup> were concerned that smaller not-for-profit organisations would be affected significantly more than larger not-for-profits, due to their limited resources, including the difficulty in paying for technical and professional advice<sup>91</sup>.
- 89 Two constituents commented that the costs of implementing the Standard would outweigh the benefits to users, the reasons being:
- (a) compliance costs would lead to reduction in the availability of funds for the activities of the firm.<sup>92</sup>
  - (b) the current reporting by many entities is sufficient, and the costs of reporting extra information required of ED 270 would not outweigh the benefits.<sup>93</sup>
- 90 One constituent<sup>94</sup> attempted estimating the costs of implementing the standard, and stated that:
- (a) organisations who already report performance information would have increment costs amounting to less than \$50,000p.a.
  - (b) organisations who report to a standard set of consolidated performance information would have set up costs for data extraction, database construction and employment of skilled individuals would have costs exceeding \$150,000, being \$100,000 of annual costs and \$50,000 set up costs.

#### Feedback from roundtables

- 91 Comments were made that clarity was needed about the proposal to provide the total cost of goods and services. Participants were unsure if this meant at a program level, objective level or even entity purpose level. The level of aggregation possible would depend on the costing systems utilised which may or may not support detailed cost information, therefore, some participants considered that this could be quite onerous.
- 92 A suggestion was made that an approach similar to segment reporting could be used which had appeal for some participants.

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<sup>88</sup> S10-Australasian Council of Auditors-General (ACAG), S23-Council of Rural Research and Development Corporations

<sup>89</sup> S10-Australasian Council of Auditors-General (ACAG)

<sup>90</sup> S12-Keith Reilly, S14-Community Council of Australia, S24-Justice Connect

<sup>91</sup> S24-Justice Connect

<sup>92</sup> S29-PKF

<sup>93</sup> S16-Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC)

<sup>94</sup> S1-Vision Australia

### ***Other comments to ED 270***

- 93 Four constituents<sup>95</sup> are concerned that the demand and need from users has not been appropriately explained and justified in ED 270.
- 94 Four constituents<sup>96</sup> suggested that the AASB and ACNC work closely together on this project to further identify an appropriate level of reporting to satisfying user needs whilst not imposing too many costs on not-for-profit entities.
- 95 Two constituents<sup>97</sup> commented that IPSASB RPG 3 *Reporting Service Performance Information* which ED 270 is based on applies only to public sector not-for-profit entities, and therefore raise concern that the AASB has not made enough amendments to cater for the private not-for-profit sector.
- 96 Two constituents<sup>98</sup> were concerned with the ‘one size fits all’ nature of the proposed Standard, commenting that due to the different objectives of many not-for-profits, a more fragmented framework would be more useful for comparability.
- 97 One constituent<sup>99</sup> was concerned that the allowance in ED 270 for an entity to create its own service performance objectives would lead to organisations setting easily achievable objectives so that favourable results could be shown.
- 98 One constituent<sup>100</sup> commented that local governments that already require service performance information do so under state law, whereas a Standard from the AASB would be enforced under Commonwealth law. The constituent requested that, as Commonwealth law takes precedence over state law where two laws are in conflict, there should be legislation stating that those already complying with state law should be exempt from complying with future AASB requirements, as to not increase resources needed.

### **Question to the Board**

Q1 Does the Board have any questions or comments on the feedback received on ED 270?

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<sup>95</sup> S9-John Church, S19-Australian Institute of Company Directors, S21-Saward Dawson, S26 CPA Australia

<sup>96</sup> S4-Nexia Australia, S21-Saward Dawson, S27-PricewaterhouseCoopers

<sup>97</sup> S120-Keith Reilly, S29-PKF

<sup>98</sup> S23-Council of Rural Research and Development Corporations, S24-Justice Connect

<sup>99</sup> S23-Council of Rural Research and Development Corporations

<sup>100</sup> S25-Local Government Finance Professionals Queensland

## Appendix A List of respondents to ED 270

The AASB received comment letters on ED 270 from the following respondents.

Submission number	Name of respondent
S1	Vision Australia
S2	Queensland University of Technology (QUT)
S3	William Buck
S4	Nexia Australia
S5	Mark Schiliro and Associates (MNSA)
S6	Chartered Accountants Australia and New Zealand (CAANZ)
S7	Australian Council for International Development (ACID)
S8	Australian Charities and Not-for-profits Commission (ACNC)
S9	John Church
S10	Australasian Council of Auditors-General (ACAG)
S11	National Disability Services (NDS)
S12	Keith Reilly
S13	Confidential
S14	Community Council for Australia
S15	NSW Treasury
S16	Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC)
S17	Australian Catholic Bishops Conference
S18	KPMG
S19	Australian Institute of Company Directors (AICD)
S20	Ernst & Young Australia (EY)
S21	Saward Dawson
S22	YWCA Australia (YWCA)
S23	Council of Rural Research and Development Corporations (CRRDC)
S24	Justice Connect
S25	Local Government Finance Professionals Queensland (LGFPQ)
S26	CPA Australia (CPAA)
S27	PricewaterhouseCoopers (PwC)
S28	Institute of Public Accountants (IPA)
S29	PKF
S30	CORE Community Services
S31	Queensland Department of the Premier and Cabinet (Qld DPC)
S32	Queensland Treasury