

NAO Malta Comments on IPSASB Consultation Paper “Reporting Service Performance Information”

Preliminary View 1 (following paragraph 1.6):

The reporting of service performance information is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the Conceptual Framework Exposure Draft (CF-ED 1), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*.

NAO Malta agrees with the above statement. GPFRs for public sector entities are to provide information about the reporting entity that is useful to users for accountability and decision-making purposes.

Accountability

Users need to evaluate the entity’s performance in providing services and the effects of those services, over time and between public entities providing the same service locally or abroad. Performance information indicates how well an organisation is performing against its aims and objectives.

Performance information should help managers to understand how well the organisation, parts of the organisation, and individuals are performing. Sound measures of performance allow clear targets to be set, and people are to be certain about what level of performance is expected. achieve

Decision making

Users also need service performance information to influence their decisions in relation to their transactions with a public sector entity. Performance information helps to make public services accountable to stakeholders, including the public and Parliament. Performance measures describe whether the service has achieved the goals that were set.

Performance information is also essential for management decisions. As well as indicating whether the required level of performance has been achieved, it should also assist in deciding the allocation of resources.

Specific Matter for Comment 1 (following paragraph 1.11):

Should the IPSASB consider issuing (a) non-authoritative guidance for those public sector entities that choose to report service performance information, (b) authoritative guidance requiring public sector entities that choose to issue a service performance report to apply the guidance, or (c) authoritative guidance requiring public sector entities to report service performance information?

NAO Malta opines that the IPSASB is to issue authoritative guidance requiring public sector entities to report service performance information. Hence, the reporting of service performance information by public sector entities worldwide would be mandatory and the

information provided would be more comparable. In addition, users would thus have the information necessary for assessing the service performance of a public sector entity.

Specific Matter for Comment 2 (following paragraph 2.3):

Do you agree that this project should not identify specific indicators of service performance?

NAO Malta opines that specific indicators of service performance are to be indicated as guidelines by this project and not be made mandatory.

Preliminary View 2 (following paragraph 3.5):

Developing a standardised service performance information terminology for the reporting of service performance information is appropriate, and should include the seven terms and working definitions in Table A on page 14.

NAO Malta agrees with the above statement. However, one may consider including processes, as well as economy and exogenous factors.

Processes represent the procedures, systems and activities that are needed to convert inputs into outputs. These procedures are required to achieve programme objectives and outcomes, and may include such tasks as providing education or reducing disease. Processes also relate to the efficiency of the organisation to ensure that actions being taken are being performed in a cost-effective manner.

Economy factors are also to be included. Economy signifies that the public sector entity is to strive to achieve the minimisation of the cost of inputs, having due regard to quality. It is concerned with minimising the cost of resources used (staff, materials and equipment) for an activity in the pursuit of its objectives and whether such resources are in accordance with sound administrative principles and practices and management policies. An audit of economy is therefore concerned with determining whether the most appropriate and lower cost inputs are chosen to achieve the given objectives. It will deal with such issues as to whether the:

- Audited entity acquires the appropriate type, quality and amount of resources at the minimum cost;
- Audited entity manages its resources with a view to minimising overall outlay; and
- Programme could have been designed or implemented in another way that would have resulted in lower costs.

The treatment of exogenous factors is also to be considered. Exogenous factors are factors that are independent of the programme or activity and are partly or entirely the result of changes (results and impacts) observed among stakeholders (e.g. climatic conditions, evolution in economic situation, performance of contractors, beneficiaries' behaviour).

Specific Matter for Comment 4 (following paragraph 4.18):

This Consultation Paper identifies four dimensions of service performance information that are necessary to meet the needs of users. These are:

- (a) Information on the public sector entity’s objectives, including the need or demand for these objectives to be achieved (the “why” dimension);
- (b) Input, output, outcome, efficiency, and effectiveness indicators, including service recipient perception or experience information (the “what” dimension);
- (c) Comparisons of actual performance to projected (or targeted) results, including information on the factors that influence results (the “how” dimension); and
- (d) Time-oriented information, including comparisons of actual results over time and to milestones (the “when” dimension).

Do you agree with these dimensions of service performance information? Are there dimensions that should be added or deleted?

NAO Malta agrees with the above dimensions of service performance information. However, it also opines that the following dimensions be added:

- Comparison of objectives against established benchmarks.
- Comparison of actual performance with similar programmes elsewhere.
- Consideration of actual performance to projected (or targeted results) achieved by individual employees of the public sector entity, as compared to that attained by the entire entity.
- Information that describes the wider environment an organisation is working in, including factors that may affect the outcomes which the organisation is aiming to achieve, and factors which may affect how well the organization can operate.

An overall assessment of service performance information is to be carried out using all dimensions.

In addition to the measurement of input, output, outcome, efficiency and effectiveness indicators referred to in the second dimension identified by the Consultation Paper, one might also consider grouping performance measures under the four headings of the Balanced Scorecard – business processes perspective, financial perspective, learning perspective, customer perspective. Performance measures can also be used to measure timeliness, quality and cost dimensions in a systematic fashion. Different groups may be used depending on what factors are important for the success of an organisation. Measures must capture all important areas of activity, and major dimensions – quantity and quality – of performance.

Preliminary View 3 (following paragraph 5.23):

Components of service performance information to be reported are (a) information on the scope of the service performance information reported, (b) information on the public sector entity’s objectives, (c) information on the achievement of objectives, and (d) narrative discussion of the achievement of objectives.

NAO Malta agrees with the above view because it opines that guidance is to be offered regarding presentation of the performance information. Performance information needs to be presented in a way that is accessible to the audience that will be using it.

NAO Malta is also of the opinion that performance information in adequate detail is to be provided on all services provided by a public sector entity and not just on a selected few. Furthermore, in stating how objectives are established, as required by paragraph 5.10 of the Consultation Paper, reference is to be made to appropriate benchmarks.

Moreover, the information on the achievement of objectives should include, in addition to the matters identified by paragraph 5.12 of the Consultation Paper, the following:

- The degree to which the achievement of objectives compares favourably with the degree of achievement of similar programmes elsewhere.
- The degree to which actual performance to projected (or targeted results) on an individual employee basis, is reflected in the actual performance of the whole organisation.

Paragraph 5.15 states that the value of service performance indicators identified in the Consultation Paper (inputs, outputs, outcomes, efficiency and effectiveness) is enhanced when they are linked to the objectives established by the public sector entity. In addition, paragraph 5.17 states that “Despite the need for comprehensive reporting on all five types of indicators (inputs, outputs, outcomes, efficiency and effectiveness), entities need to be wary of reporting too many indicators and overwhelming users. Public sector entities therefore need to use judgement in selecting those indicators that would have the greatest influence on a user’s assessment of accountability or informed decision-making.”

NAO agrees with the above. However, without overwhelming users with too many indicators, economy and process indicators are also to be linked to the objectives established by the public sector entity. In addition, exogenous factors facilitating and/or hindering the achievement of objectives are to be identified. Moreover, results across the four aspects of the Balanced Scorecard are to be compared to their respective objectives. Furthermore, actual time, cost and quality results may also be compared to projected results. As stated in paragraph 5.17 of the Consultation Paper, public sector entities are to use their judgement in selecting the most relevant indicators to influence on a user’s assessment of accountability or informed decision-making.

NAO Malta agrees that a narrative discussion of the achievement of objectives is to be included as a component of service performance information included in GPFRs and is to include the three factors identified in paragraph 5.19 of the Consultation Paper.

Preliminary View 4 (following paragraph 6.9):

The qualitative characteristics of information and pervasive constraints on the information that is currently included in GPFRs of public sector entities also apply to service performance information.

NAO agrees with the above statement.

One might include two other characteristics in addition to the above:

Avoid perverse incentives – i.e. not to encourage unwanted or wasteful behaviour and;
Attributable – the activity measured must be capable of being influenced by actions which can be attributed to the organisation, and it should be clear where accountability lies.

In this regard, one may also refer to the document “Choosing the Right Fabric – A Framework for Performance Information” that states that a good system of performance information is to be:

- focused on the organisation’s aims and objectives;
- appropriate to, and useful for, the stakeholders who are likely to use it;
- balanced, giving a picture of what the organisation is doing, covering all significant areas of work;
- robust in order to withstand organisational changes or individuals leaving;
- integrated into the organisation, being part of the business planning and management processes; and
- cost effective, balancing the benefits of the information against the costs.

Specific Matter for Comment 5 (following paragraph 7.9):

Should service performance information be reported (a) as part of the GPFR that is currently issued (for example, an annual financial report) but not part of the GPFSS, (b) in a separately issued GPFR, or (c) in both a separately issued GPFR and as part of the currently issued GPFR?

NAO opines that service performance information be reported as part of the GPFR that is currently issued (for example, an annual financial report) but not part of the GPFSS. These would better assist users in analysing both financial and service performance information since both would be included in one report.

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