

2 April 2012

Ms Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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CANADA

Submitted to: www.ifac.org

Dear Stephenie

Consultation Paper *Reporting Service Performance Information*

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments regarding the International Public Sector Accounting Standards Board (IPSASB) Consultation Paper *Reporting Service Performance Information*.

The NZASB is very supportive of the Consultation Paper and the IPSASB's attempts to link this work with its Conceptual Framework Project. We are strongly supportive of the IPSASB developing guidance on service performance reporting. We consider that the Consultation Paper will provide a good starting point for further development of authoritative guidance in this area.

However, we suggest that the IPSASB does not refer to the service performance information reporting project as providing a "framework" for service performance reporting. We consider that constituents may assume it is part of the Conceptual Framework Project. We further suggest that the IPSASB consider clarifying the links between this project and the Conceptual Framework Project. For example, when and how will the IPSASB's work on service performance be incorporated into the Conceptual Framework?

We have responded to the specific questions posed in the Exposure Draft in the appendix to this letter.

If you have any queries or require clarification of any matters in this submission, please contact Sarah Bate (sarah.bate@xrb.govt.nz) or me.

Yours sincerely

A handwritten signature in black ink, enclosed within a hand-drawn oval. The signature appears to be 'A. Ryan'.

Angela Ryan

Deputy Chairman – New Zealand Accounting Standards Board

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NZASB Comments on Consultation Paper *Reporting Service Performance*

Appendix

Preliminary View One

The reporting of service performance information is necessary to meet the objective of financial reporting (accountability and decision making) as proposed in the Conceptual Framework Exposure Draft (CFR-ED 1)

We strongly support Preliminary View 1. The NZASB is of the view that it is of vital importance that appropriate and sufficient service performance information is included in general purpose financial reports in order to meet the objectives of general purpose financial reporting within the Conceptual Framework. However, we acknowledge the difficulty in determining how much service performance information is appropriate and sufficient.

Readers of the general purpose financial reports of public sector entities need service performance information in order to assess whether the entity has met its service performance objectives. Service performance information will also enable users to make decisions about the entity's use of resources.

The financial and non-financial information in an annual report must work together to tell the entity's performance story. We expect that, on completion, the IPSASB's Conceptual Framework will note the central role of service performance information and the need for it to be clearly linked with the financial information.

We accept that different jurisdictions have developed different requirements in relation to the reporting of service performance information (for example, what information is required, and where it is required to be reported). These requirements are often inextricably linked with the way in which a service performance model is applied by a jurisdiction. We consider that the IPSASB has a major role to play by encouraging and engaging in an informed debate on this topic and establishing broad principles for reporting service performance information.

We consider it is critical that service performance information be reported in general purpose financial reports of public sector entities. Flowing on from this, it is our view that the service performance information should be in respect of the same reporting entity and for the same period as that reporting entity's general purpose financial statements.

Preliminary View Two

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.

We agree that continuing the development of working terms and definitions in the area of service performance information is appropriate and as noted in our covering letter, we consider that the proposals in the consultation paper are a promising start to this work.

However, we counsel the IPSASB against making the terminology too “standardised” as different jurisdictions will have developed different terms and models which meet the requirements of that jurisdiction. The IPSASB should seek to continue to develop principle based guidance which is mandatory for entities that choose to provide service performance information, but which still allows the local reporting terms and models to be utilised so that the readers continue to find the information familiar, readable and useable.

Preliminary View Three

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.

The NZASB agrees with this preliminary view, and considers the points listed above to be relevant and necessary to enable readers to understand the service performance information published. However, the NZASB considers that there is an additional aspect of service performance reporting which needs to be included, the key activities of the public entity. These are often referred to as outputs of the entity, and should link with information on the achievement of objectives.

The NZASB considers that the components listed above should be linked back to the qualitative characteristics set out in Chapter 3 of the *Conceptual Framework Exposure Draft 1* issued in December 2010. Entities should report on the key aspects of the entity’s activities in a consistent manner period on period, highlighting changes to the structure which requires the addition, deletion or adaptation of any of the key aspects reported on.

By providing all of the above components, readers can assess service performance over the period and determine how the entity has performed against its service performance objectives and the extent to which scarce resources have been allocated efficiently and effectively. However, the NZASB notes that these comments are only pertinent if an entity reports on **all key** aspects of service performance. We would not support entities being able to select which key aspects they report on, nor changing the key aspects reported on from period to period unless the underlying activities had changed and full disclosure for the change in key aspects reported on was made.

Relevance should be applied when deciding which aspects of an entity’s activities to report on. Many existing conceptual frameworks link relevance with information that can affect the decisions made by users. This same principle should apply to the selection of both financial and non-financial information.

Preliminary View Four

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

The NZASB is strongly of the view that the qualitative characteristics and constraints applied to information provided in public sector general purpose financial reports should also be applied to service performance information. However, the application of qualitative characteristics in the

context of service performance information may differ from their application in financial reporting. This should be highlighted in the document. It is vital that the same qualitative characteristics be applied to both types of reporting so that the results within general purpose financial statements are meaningful in that they start from the same set of principles.

We note that the IASB *Conceptual Framework* (1989) regards the characteristic of completeness as a subset of the wider characteristic of reliability. Similar ideas are expressed in the more recent *IASB Conceptual Framework for Financial Reporting 2010*. In the 2010 *Framework* the concept of completeness and neutrality are discussed in the context of faithful representation. While these Frameworks are written in the context of financial information, the NZASB considers that this is an important concept for service performance and suggests that the IPSASB explores this further.

Specific Matter for Comment One

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?

The NZASB considers that the IPSASB should apply option (b). That is, the IPSASB should issue authoritative guidance that public sector entities that choose to issue service performance information within a general purpose financial report must follow. We have stopped short of proposing that the IPSASB require all public sector entities to report service performance information, as we are of the view that such a requirement should be imposed by each jurisdiction (either through legislation or the standard setting arrangements) as part of a consideration of the appropriate contents of a general purpose financial report in that jurisdiction. That is, the jurisdiction must decide whether the guidance shall be mandatory or not.

In New Zealand the External Reporting Board (XRB) is consulting on the proposal that public sector entities (and some not-for-profit entities) report in accordance with standards based on IPSASs. A significant number of public sector entities that would report in accordance with these standards are already required by legislation to report service performance information. Any authoritative guidance issued by the IPSASB would be considered for adoption as part of the Public Benefit Entity Standards in New Zealand to the extent that they do not conflict with legislative requirements.

Despite the commitment to the reporting of service performance information in New Zealand, we do not support option (c). We acknowledge that other jurisdictions may have different requirements regarding the types of public sector entities that should report service performance information.

Specific Matter for Comment Two

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

The NZASB agrees that the proposed guidance should not identify specific indicators of service performance. We consider that the IPSASB should aim to provide principles that enable an entity to develop appropriate and meaningful indicators of service performance that, in turn, will enable users of the information to understand the outputs provided by that entity and the entity's contribution to the outcomes sought. Further, guidance developed by the IPSASB should be able to be applied by a range of public sector entities. We consider that the selection of specific indicators of service performance is more appropriately done by entities themselves, or in some cases, relevant regulatory bodies within a jurisdiction.

The provision of indicators, as opposed to the principles that should guide the selection of indicators, could be counterproductive as it could result in indicators that are too specific or inappropriate.

Specific Matter for Comment Three

Should service performance information included in GPFRs be prepared for the same reporting entity as for general purpose financial statements (GPFs)?

The NZASB considers that the service performance information included in a general purpose financial report for a reporting entity should be for the same reporting entity as for the general purpose financial statement. We note that the IPSASB has recommended this approach in Exposure Draft 46 *Proposed Recommended Practice Guideline Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances* and we support this approach.

Given that the presentation of service performance information will lead to segmentation or disaggregation of some cost information, users also require knowledge that the financial information presented in the service performance report is for the same entity and activities as covered by the financial statements. We consider that a reconciliation between the expenses in the statement of financial performance and any output costs shown in the service performance information is a practical way of providing this information. This reconciliation need not be tabular in format, but could be a narrative explanation of the linkages between the expenses in the statement of financial performance and the output costs shown in the service performance information.

The NZASB is aware that in some jurisdictions there may be supplementary information produced and published for entities that differ from the entity used for financial reporting purposes. In such circumstances, the NZASB considers it important that supplementary service performance information is clearly reconciled with the service performance information included in the general purpose financial statements, and any differences in entity structure for reporting explained.

Specific Matter for Comment Four

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

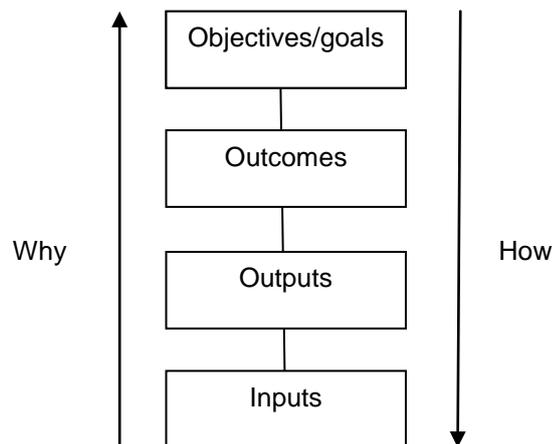
- (a) Information on the public sector entity's objectives, including the need or demand for these objectives to be achieved (the "why" dimension);**
- (b) Input, output, outcome, efficiency, and effectiveness indicators, including service recipient perception or experience information (the "what" dimension);**
- (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?

The NZASB broadly agrees with these dimensions of service performance information and does not advocate deleting any of them.

However, we do not consider that the linkages between all four dimensions and the concept of service performance information are clear. We consider that a more principled/structured approach would be helpful.

The NZASB considers that the consultative paper would have benefited from a clear explanation of how the elements of service performance reporting link, e.g.:



The “why” dimension should drive decisions that get an entity from its inputs via outputs and outcomes to its end goal or final objective; that is, it explains why an entity utilises various inputs to get certain outputs and outcomes and ultimately achieves its objectives. In other words, the why dimension guides the reader upwards towards the objectives of the entity. The “how” dimension should explain the manner in which the ultimate goal/objective is achieved as well as encompassing how services will be provided and outcomes achieved.

We also consider further elaboration is warranted of a number of aspects such as (i) how will performance be measured, (ii) are there any targets in relation to that performance, and (iii) how did actual performance compare with projected performance. We consider that each of these should be specifically discussed in future documents.

If on publication of a further consultation paper or exposure draft, the IPSASB continues to explain the dimensions of service performance using “what” and “how” as descriptors, we would suggest moving the efficiency and effectiveness indicators from part (b) to (c). Efficiency and effectiveness indicators explain how an entity has performed rather than being integral to service performance in the way that inputs and outputs are.

The NZASB notes that customer perception or service recipient perception is not necessarily a good indicator of performance and, in some circumstances, may actually be a poor indicator. Often the responses highlighting poor performance are received too late or are not helpful in terms of rectifying the poor performance. Therefore, in respect of (b) we propose that the reference to service recipient perception or experience information be deleted. Service recipient perception is an indicator of performance, but it is not always relevant nor does it need to be highlighted in (b).

We also consider that much of the discussion in section four is very similar to that in section five of the Consultation Paper and suggest that the two sections be combined to reduce repetition.

It may be that the first part of a combined section is written as an overview of the dimensions, with a more detailed part following.

Specific Matter for Comment Five

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 GPFs, (b) in a separately issued GPFR, or (c) in both a separately issued GPFR and as part of the currently issued GPFR?

The NZASB does not wish to express a preference for any of the three options in this Specific Matter for Comment. We are of the view that an entity produces a single general purpose financial report, but that this general purpose financial report may consist of a number of components. In the context of where service performance information is disclosed, we would prefer that the options refer to separate components of a [single] general purpose financial report rather than separate general purpose financial reports.

The NZASB does not consider that it is appropriate for IPSASB guidance to mandate where service performance information should be reported. Rather, it is preferable for the IPSASB to draft authoritative guidance on the principles of service performance information and the application of those principles. Jurisdictions may already have specific requirements on where general purpose service performance information must be presented. This may be impacted by the jurisdiction's legislation or guidance on the auditing of such information. For example, in New Zealand service performance information is generally situated within a general purpose financial report.

Although the NZASB has not expressed a preference for the location of service performance information, we consider that, irrespective of where service performance information is situated, it must be linked to the pertinent parts of the general purpose financial statements and together the two components should be seen as part of the same reporting package. For example, if service performance information is contained within different areas of the financial report and the financial statements, then it should be clearly cross referenced so as to enhance readability and understandability for the user. An analogy might be to the display of financial information in a CEO's report at the beginning of a financial report being cross referenced to the financial statements.