



May 6, 2014

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Re: PSAB Staff Comments on Exposure Draft, “Reporting Service Performance Information”

Thank you for the opportunity to provide input on the Exposure Draft, *Reporting Service Performance Information*. We feel that this project is an important initiative as the resulting guidance will assist public sector entities in meeting their responsibility of being publicly accountable and in providing users with information which is useful for decision-making purposes.

Overall, PSAB staff is in support of the proposals in the Exposure Draft. Responses to the Specific Matters for Comment are set out the Appendix to this letter and represent the views of PSAB staff and not those of the Public Sector Accounting Board (PSAB).

Thank you again for the opportunity to provide you with input on this Exposure Draft. We hope that you find our comments helpful.

Sincerely,

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APPENDIX

General Comments

a) *Non-authoritative guidance*

PSAB staff agrees with the IPSAB decision to issue non-authoritative guidance. An authoritative standard would also achieve the objectives; however, it could discourage public sector entities that do not have the resources, capacity and experience to prepare a service performance information report from adopting IPSASs. Further, the area of reporting of service performance information is an evolutionary process which builds on research, experimentation, practical experience and consensus and will therefore require time to mature.

The framework will encourage public sector entities that choose to report service performance information to report on a consistent basis and ensure comparability of service performance information among public sector entities.

Given that the Recommended Practice Guideline is non-authoritative, paragraph 4 of the Exposure Draft may be problematic in this regard. It states service performance information should not be described as complying with the Recommended Practice Guideline unless it complies with all the requirements. Although this paragraph is included in both RPG 1, *Long term sustainability of public finances* and RPG 2, *Financial statement discussion and analysis*, it may not be appropriate for service performance reporting due to its evolving nature and the diversity of existing practice. This Recommended Practice Guideline is intended to help preparers develop effective methods of reporting on service performance.

The RPG could acknowledge that service performance reporting is evolutionary and allow that entities could progress to an outcome reporting model over time as they develop capacity and experience. This would be consistent with the fact that performance reporting practices are an evolutionary process. It also recognizes that some recommended practices require more effort than others to implement and, therefore, full implementation of all of the recommended practices will likely be achieved progressively.

Non-authoritative guidance may encourage public sector entities to include the components of the reporting framework and use a standardized terminology proposed in the Recommended Practice Guideline. As entities experiment with applying the principles, it may be the precursor to issuing an IPSAS in the long term. Non-authoritative guidance may encourage public sector service performance reporting to continue evolving over time while enhancing comparability of the service performance information that is reported by those public sector entities that choose to do so.

b) *Best practice guidance*

IPSASB is proposing to issue a Recommended Practice Guideline that sets out principles based framework for the reporting of service performance information by public sector entities. The Recommended Practice Guide is intended to focus on reporting service performance information that meets the needs of users of General Purpose Financial Reports. The Recommended Practice Guideline has been structured to accommodate diverse accountability and decision-making contexts

world-wide. It also recognizes the divergent information needs of users arising from the nature of the services provided and the context for their provision. The IPSASB concluded that a Recommended Reporting Guideline should be able to be applied to entities in jurisdictions where service performance reporting requirements already exist.

Service performance reporting has historically focused on input and output measures. The performance information was used in assessing how efficiently entities used resources to provide services. The performance information tended to be more quantitative in nature. These indicators have been used in management of operations when comparing actual performance to benchmarks and experience of other entities.

More recently, it is generally accepted that one of the main objectives of service performance reporting for public sector entities is to provide information useful for evaluating the effectiveness of the entity in achieving its policy objectives. Those policy objectives may be set out by legislative mandate, budget, speech from the throne or strategic plan are being met. Service performance is reported in order to demonstrate accountability as to how public policy objectives are being met.

This is consistent with the Basis of Conclusion appended to the Recommended Practice Guideline. It states that the recommended reporting practice is underpinned on the principle that public sector entities discharge their obligations to account for, and justify the use of, the resources raised from constituents through service performance reporting. The information in the report should aide users assess the entity's achievement of service delivery objectives. Comparison between service delivery objectives and achievements during the reporting period should also assist in making decisions about the future allocation of resources among competing programs.

The closest the Exposure Draft comes to incorporating this conclusion is in paragraph 55 that states, "An entity is encouraged to display information about its intended outcomes and its achievements with respect to those outcomes." This paragraph, however, fails to recognize such reporting as a recommended best practice.

Reflecting that the primary objective of a service performance report is accountability, it should describe the strategic direction of the public sector entity. The strategic direction reflects an entity's high-level priorities and long-term goals. The service performance report needs to present time-oriented service performance information that would assist users make periodic assessments of the degree to which progress is being made in the achievement of certain goals and objectives.

It is recommended that the Recommended Practice Guide should state upfront that the ultimate goal of a service performance report should be to provide information about the entity's intended outcomes and its achievements with respect to those outcomes. Providing information on outcomes assists users assess whether the entity's service provision is having the intended effect and whether the resources spent on services are producing the intended results. To encourage preparers to adopt the Recommended Practice Guideline, it could acknowledge that initially preparers may not be able to comply with all the requirements of this RPG.

Specific Matter for Comment 1

Do you generally agree with the proposals in the ED? If not, please provide reasons.

Subject to the General Comments above, we generally agree with the proposals in the Exposure Draft.

Specific Matter for Comment 2

Do you agree with the definitions in paragraph 8? If not, how would you modify them?

PSAB staff generally agrees with the seven terms and working definitions. They are representative of essential elements within the service performance reporting framework proposed by IPSASB. They achieve the objective of providing a standardized service performance information terminology with associated working definitions.

However, we would make the following observations.

a) Outcomes

The Exposure Draft proposes the definition, “Outcomes are the impacts on society, which occur as a result of the entity’s outputs, its existence and operations.” We suggest that the definition exclude the terms “existence and operations”. Inclusion of the impacts that result from an entity’s existence and operations suggests that performance can be passive.

While public sector entities exist to carry out public policy objectives as set out by legislation or other mandate, well managed entities operate in accordance with a budget, strategic, operational or other plan. The plan establishes the specific performance goals by interpreting the broad policy objectives set out in legislation or mandate. They also determine how resources get allocated among an entity’s programs, operations and activities. Public sector performance is reported against the plan in order to demonstrate accountability as to how public policy objectives are being met. Publicly reporting on what was accomplished against what was planned explains significant differences and identifies areas where changes to performance expectations, targets or strategies may be necessary.

We would also suggest that the definition include reference to the fact that an outcome must be reasonably attributable to outputs.

b) Efficiency/Effectiveness

These are performance indicators by definition. That is, they are quantitative measures, qualitative measures, and/or qualitative discussions of the nature and extent to which an entity is using resources, providing services, and achieving its service performance objectives. Incorporating these concepts in the definitions and guidance is inconsistent with IPSASB’s stated intention in the consultation paper. It stated that IPSASB did not intend to identify specific indicators of service performance within the framework developed.

Similarly, paragraph .53 and .54 indicate that judgment is needed to determine the most suitable set of performance indicators to be reported. Performance indicators selected should be related in such a way that users can ascertain how efficiently and effectively the entity has used its resources to deliver

services and achieve its service performance objectives. As well, paragraph BC.35 states that “the presentation of service performance information will vary between entities depending on (a) the services that the entity provides, (b) the nature of the entity, and (c) the regulatory environment or other context within which the entity operates.

Because services provided, service performance objectives, and applicable service performance indicators depend on these different factors, the IPSASB decided that the RPG should not identify specific performance indicators that must be presented. Instead, it should identify broad types of information that should be reported and provide guidance on achievement of the qualitative characteristics when selecting service performance information.

As stated in paragraph BC37, the Recommended Practice Guideline should provide guidance on how an entity should choose the types of performance indicators that it reports. The principle is captured in paragraph BC36. A report should facilitate users’ assessment of an entity’s service performance, including both (a) its achievement of objectives and (b) the extent to which it has used resources efficiently and effectively to deliver outputs and achieve outcomes.

c) Outcomes/Effectiveness

There may be confusion between outcomes and the performance indicator of effectiveness. The Exposure Draft proposes that outcomes are the impacts on society which occur as a result of the entity’s outputs. Effectiveness is the relationship between actual results and service performance objectives in terms of outputs or outcomes. Both definitions suggest that outcomes and effectiveness may be interchangeable concepts. Both terms imply the target that the entity’s activities are intended to accomplish.

To illustrate the potential for confusion, paragraph .14 states that “The “percentage reductions in infants contracting measles” would be one possible outcome indicator...” Similarly, paragraph .10 provides the example of an effectiveness indicator as the percentage reduction in the number of infants contracting measles.

To avoid confusion, we suggest that one or the other definition be deleted. The definition of effectiveness in GASB Concepts Statement 2 may be considered. It defines effectiveness “as an ends-oriented concept that measures the degree to which predetermined goals and objectives for a particular activity or program are achieved.”

d) Service Performance Objective/Effectiveness

A service performance objective is defined as “a description of the planned result(s) that an entity is aiming to achieve expressed in terms of inputs, outputs, outcomes, efficiency or effectiveness.” This reflects that IPSASB’s desire is that a service performance report could be based on either attainment of planned inputs, outputs, outcomes, efficiency or effectiveness.

If this is the intent of IPSASB, the suggested definition of effectiveness is not inclusive when it states that efficiency is the relationship between actual results and service performance objectives in terms of outputs or outcomes. Effectiveness could also be the attainment of planned inputs. We suggest

that the phrase “in terms of outputs or outcomes” be eliminated to be consistent with the definition of service performance objectives.

e) *Objectives/Goals*

The Recommended Practice Guideline does not include a definition of goal. While it is true that both objectives and goals are used interchangeably, there are some differences in the context of performance reporting that may warrant reconsideration of the decision not to include a reference to goals. This may be important when one of the stated objectives of the Recommended Practice Guideline is the provision of a standardized service performance information terminology with associated working definitions.

Inclusion will reinforce the perspective of a time element to the accomplishment of goals to the service performance report. As stated in Consultation Paper paragraph 4.17, users may benefit from service performance indicators that allow them to assess the extent to which (a) progress is being made towards the end result, and (b) that a service is likely to achieve that desired end result.

Objectives and goals imply the target that an entity's activities are intended to accomplish. What sets them apart is the time frame. A goal is a statement of what an entity desires to achieve. An objective is what it expects to achieve within a specific period of time.

A goal is a measurable statement of the desired long-term impact of an entity's programs and activities. Goals generally address change. Public policy goals are generally achieved over a long period. Objectives are how you will achieve a goal. An objective is a specific, measurable statement of the desired immediate or direct outcomes of the program that support the accomplishment of a goal.

In addition, goals may be achieved as a result of multiple objectives. For example, a goal to improve road safety could be achieved by an objective of improving road design (an activity may be extending on and off ramps on major highways) and an objective of reducing speed (an activity may be installation of traffic calming devices in neighborhoods).

While both goals and objectives should be tangible and measurable, goals by their nature may or may not be quantitatively measurable. In most cases objectives are measurable.

Specific Matter for Comment 3

Do you agree that the ED adequately addresses reporting of service performance information by entities at different levels within government, including situations where a controlling entity reports service performance information that encompasses that provided by controlled entities? If not, how would you modify the ED's coverage of this?

PSAB staff generally agrees that the Exposure Draft adequately addresses reporting at different levels within government. PSAB staff agrees that the service performance information included in General Purpose Financial Reports should be prepared for the same reporting entity as for General Purpose Financial Statements for the following reasons:

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- a) Links all of the information provided for an entity in the General Purpose Financial Report, whether financial and non-financial in nature.
 - b) Users are able to identify the relationships between the financial information (resources) and the service performance information for decision making.

There may be situations when it is not practical to provide service performance information for the same reporting entity because the information is either not available or not available on a timely basis for reporting purposes. This could be prevalent when entities are first developing the capacity to prepare performance reports. In these situations, it may be appropriate to provide service performance information covering the key objectives of the entity as available. Such information could still be useful to the users of service performance information and preferable to not providing any information at all. The ultimate objective would remain the reporting service performance information for the reporting entity as a whole.

This reporting strategy may be problematic in light of paragraph .05 that states that “Service performance information should not be described as complying with this RPG unless it complies with all the requirements of this RPG.” This may discourage entities from preparing service performance reports.

The Recommended Reporting Practice does not reflect the comments of many respondents to the Consultation Paper. They commented that it may be necessary to report for a different reporting entity than for the General Purpose Financial Statements because:

- a) GBEs have their own performance measures as applied in the private sector;
- b) several entities, both within and outside the reporting entity, may contribute jointly to one service;
- c) public sector entities may be reporting on their service performance within a service area; and
- d) service performance information is generally reported within a budget framework.

These respondents felt that the reporting boundaries should be left up to the discretion of the reporting entity and not prescribed by IPSASB.

Specific Matter for Comment 4

Do you agree that service performance information should:

- (a) Be reported annually; and,*
- (b) Use the same reporting period as that for the financial statements?*

If not how would you modify the ED’s provisions on these two matters?

PSAB staff generally agrees that service performance information should be reported annually and for the same reporting period as that for financial statements. However, given the complexity of some outcomes, it may not be practical to report annually. For example, to assess performance, more sophisticated data and analyses may be required such as completion of a program evaluation. Due to

the complexity and expense of doing a these types of assessments, it may not be practical to complete it annually. The guidance should recognize that in order to report annually, it may be necessary to extrapolate performance based on analysis from previous reports updated for inputs and outputs achieved during a period.

Specific Matter for Comment 5

Do you agree with the ED's proposed principles for presentation of service performance information (see paragraphs 31 to 39)? If not how would you modify them?

PSAB staff generally agrees with the proposed principles for presentation.

Specific Matter for Comment 6

Do you agree with:

(a) The factors identified for consideration when deciding whether to present service performance information as part of a report that includes the financial statements or in a separately issued report (see paragraphs 41 to 42); and

(b) The additional information to present when reporting service performance information in a separately issued report (see paragraph 43)?

If not how would you modify them?

PSAB staff generally agrees with the factors for consideration in deciding whether to present service performance information as part of a report that includes the financial statements or in a separately issued report. PSAB staff generally agrees with the additional information to present when reporting service performance information in a separately issued report.

Regardless of the decision, the guidance should make it clear that it is important to link financial and non-financial performance information. When financial and non-financial performance information is linked, results and resources are aligned, and the relationship between them described and demonstrated. This information will assist users in assessing the accountability of the entity for the use of the resources.

Specific Matter for Comment 7

Do you agree with the ED's proposed approach to presentation of service performance information within a report, which:

(a) Provides scope for entities or jurisdictions to decide how to present the information, applying the presentation principles in the ED and further considerations applicable to this decision, and

(b) Does not specify one particular style of presentation such as, for example, a statement of service performance?

If not how would you modify this approach?

PSAB staff generally agrees with the proposed approach to presentation.

Specific Matter for Comment 8

Do you agree with the ED's identification of service performance information that:

(a) Should be "displayed", where information selected for display should communicate the key messages in a general purpose financial report, (see paragraphs 50 to 51);

(b) Should be disclosed as part of narrative discussion and analysis (see paragraphs 70 to 77); and,

(c) Should be considered for disclosure as part of the basis of the service performance information reported (see paragraph 80).

If not, how would you modify the ED's identification of information for display and for disclosure?

PSAB staff generally agrees with the proposed identification of service performance information.

However, narrative discussion and analysis should include information on significant lessons learned during the reporting period and a plan of how the issues will be addressed in the future. Users are interested in knowing that lessons learned are being addressed. It may also identify areas requiring further study or evaluation that requires changes to strategies or refining the performance measures.

PSAB staff does not support inclusion of the discussion in paragraph .76 and .77 related to risk assessment and risk tolerance. It is not clear how the extensive discussion of the parameters around the risk of "false positives" and "false negatives" would assist preparers of service performance reports. The discussion deals with technical issues more related to specific program design and do not have a place in a principles based Recommended Practice Guideline on service performance reporting.

PSAB staff recommends that the principle should be as follows:

The public performance report should include information about the significant risks critical to understanding performance. This information includes the nature of the impact that these risks have had on the decisions made and strategies adopted. This information contributes to explaining and understanding the results that have been achieved.

Risk refers to factors that may affect the achievement of service performance objectives either adversely or positively. A strategic plan would generally describe the significant risks and opportunities identified and discuss what the plan is to manage those risks. The discussion of risk would focus on those risks that had a significant impact on performance. Such disclosures will provide users with a better appreciation of the challenges that were faced and will help clarify why certain results proved more difficult to achieve than expected or others were better than expected. Examples of such risks include public health and safety issues, significant political changes, significant unexpected economic changes and significant demographic trends impacting the delivery of an activity.

Specific Matter for Comment 9

Do you agree with:

(a) The ED's approach of providing principles and guidance on the identification of the type of performance indicators that entities present, rather than requiring entities to report on particular types of performance indicators, for example outcomes or outputs; and

(b) The guidance and principles that the ED provides with respect to choice of performance indicators?

If not, how would you modify the description of performance indicators that should be presented and/or the guidance on selection of performance indicators?

PSAB staff generally agrees with the approach of providing principles and guidance on the identification of the type of performance indicators that entities present. PSAB staff does not believe the guidance should require entities to report on particular types of performance indicators.