

Consultation Paper, *Reporting Service Performance Information*

response to consultation

15 April 2012

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As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

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Our ref: Responses/120415 SC0176

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Dear Stephenie Fox

Consultation Paper, *Reporting Service Performance Information*

CIPFA is pleased to present its comments on this consultation paper, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General comments

As noted in successive CIPFA responses on this topic and others

- CIPFA strongly supports IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's recent project to develop IFRS converged IPSASs or through wholly public sector specific IPSASs.
- CIPFA agrees that it is important to broaden the developing Conceptual Framework to cover matters which go beyond a focus on financial statements.

In the light of the above comments we would like to strongly reiterate and reinforce CIPFA's support for the aspirations of this project, which together with other IPSASB initiatives will provide a more complete view of the financial affairs of government than are presented in conventional financial statements.

General comments

This consultation on *Reporting Service Performance Information* is one of a number of initiatives which relate to reporting that goes wider than financial statements, including recent and current exposures drafts ED 46, *Reporting on the Long Term Sustainability of a Public Sector Entity's Finances* and ED 47, *Financial Discussion and Analysis*.

The main counterpart of these types of reporting for the private sector is *Management Commentary* on which the International Accounting Standards Board (IASB) issued a non-mandatory Practice Statement in December 2010. The IASB recognises that, even in the context of for-profit reporting where profit measures provide a more uniform basis for assessing and comparing the performance of reporting entities, a more complete and useful view of performance and position can be provided through narrative and analytical commentary, reflecting the perspective of those determining the objectives of the entity and directing its activities.

CIPFA recognises that *Management Commentary* does not fully parallel the wider reporting being considered by the IPSASB Board, and that for example *Long Term Sustainability* is a rather different kind of reporting to even more complicated aspects of going concern. We also recognise that reporting on service performance information provides additional benefit to public sector entities which do not obtain useful information by reporting on profit, and that for this reason more developed guidance on such reporting would be helpful.

Against this background we can understand why the IPSASB Board has chosen to pursue wider reporting through several projects, rather than a single project. We can also see that the non-mandatory nature of the IASB practice statement does not necessarily transfer to the related IPSASB development for public sector reporting.

However, as the proposed IPSASB conceptual framework has been expanded to encompass the wider scope of public sector financial reporting, the projects being considered by the Board are correspondingly more likely to capture aspects of reporting which are either desirable, or which are necessary for some entities in some circumstances. As we explain in our comments on Preliminary View 1, we would only support mandatory standards on issues which are material and significant for all entities, or where a standard can be drafted to allow proportionate application or exemption where the cost of reporting exceeds the benefit.

Observations on the Preliminary Views

CIPFA observations on the Preliminary Views presented by IPSASB are set out in Annex A.

Specific Matters for Comment

CIPFA responses to the Specific Matters on which IPSASB would particularly value comment are set out in Annex B.

I hope this is a helpful contribution to the development of the Board's guidance in this area.

Yours sincerely

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**CONSULTATION PAPER, REPORTING SERVICE PERFORMANCE INFORMATION
SPECIFIC MATTERS FOR COMMENT****Preliminary View 1**

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*.

CIPFA has some concerns that setting out this view in this way does not accord with our understanding of how the Objective of GPFR should drive the standard setting process.

When the objective and scope of the IASB conceptual framework were limited to financial statements, a question similar to this could often be used as a basis to decide whether a topic should be the subject of mandatory standards. However, as the basis of the conceptual framework has been expanded to encompass financial reporting, and having regard to the wider scope of public sector reporting, the objective is much more likely to capture aspects of reporting which are either

- desirable; or
- necessary in specific circumstances.

The formulation of this Preliminary View in terms of 'necessity' results in a much less sensitive approach to the objective, which is essentially equivalent to asking 'would mandatory standards in principle be required, notwithstanding practical issues which might arise given the current state of financial reporting'. As such, answering this question affirmatively would predispose respondents to a view that there should be mandatory standards either now or eventually.

Against this background, we suggest that, strictly speaking, reporting on service performance is not necessary.

We would however observe that when compared to private sector profit focused financial statements, public sector financial statements lack a unified indicator of performance such as profit, and for this reason the financial statements of many public sector entities might be considered to give a reduced representation of the effectiveness of the reporting entity. Reporting on service performance is one way, and a very valuable way, of providing a more complete view of the performance of an entity substantially engaged in service provision.

CIPFA would therefore encourage the reporting of service performance by all significant public sector service providers.

Preliminary View 2

Developing a standardized 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.

CIPFA considers that this approach is helpful. We are content with the terminology, much of which is well understood in the UK context. The Board may need to consider any comments from other jurisdictions in case some of the terms do not transfer helpfully to other cultural contexts.

Preliminary View 3

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.

CIPFA agrees that this is a helpful way of thinking about service performance information. It is particularly important that there is a link between this information and the objectives of the entity preparing the financial statements. However, it is also important that there is a focus on key measures of performance that provide the best insight into the effects of the services provided, in order to avoid long and voluminous reporting that reduces understandability.

Preliminary View 4

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.

CIPFA expects that the qualitative characteristics and the constraints, which are set out in the draft Conceptual Framework, can be applied to GPFs, established elements of GPFs, and service performance information.

However, additional guidance on the application of the qualitative characteristics and constraints is likely to be necessary. This will need to be rather more than the indicative guidance in section 6 of the Consultation Paper, much of which concerns the Qualitative Characteristics generally and the views of the Board, rather than the specifics of application to service performance information.

We note that ED 47, *Financial Discussion and Analysis* provides such guidance on the application of the qualitative characteristics currently listed in IPSAS 1; the ED includes guidance on applying QCs to forward looking information, and reliability issues for information which may be less verifiable than information in the main financial statements. CIPFA has yet to complete its consideration of ED 47, but we can see that this may be workable for information in the relatively narrow scope of that proposed standard.

We would expect it to be more difficult to develop similar guidance for non-financial information on performance which works across the very wide variety of services and performance measures.

**CONSULTATION PAPER, *REPORTING SERVICE PERFORMANCE INFORMATION*
SPECIFIC MATTERS FOR COMMENT**

Specific Matter for Comment 1

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?

In the light of our comments on Preliminary View 1, CIPFA suggests that IPSASB pursue option (a) non-authoritative guidance for those public sector entities that choose to report service performance information.

Specific Matter for Comment 2

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

CIPFA agrees that this project should not identify specific indicators of service performance.

Specific Matter for Comment 3

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

In general, CIPFA agrees that the information should relate to the GPFR reporting entity.

However, additional reporting which is not purely focused on the entity may be appropriate where, for example, several reporting entities contribute to a combined performance target.

Specific Matter for Comment 4

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

CIPFA agrees with the proposed dimensions, although we consider that these will need a degree of fine tuning and refinement when developing an Exposure Draft. For example, the 'what' dimension might be considered to include information on both 'what' has been provided and with 'what' consequences, and 'how' efficient and effective the provision was, and 'how' it was perceived.

Specific Matter for Comment 5

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?

In CIPFA's view it would normally be helpful to include service performance information as part of a GPFR which is currently issued.

However, for entities carrying out a large number of services subject to targeting regimes the inclusion of comprehensive service performance information might result in information overload. Under such circumstances it might be helpful for full information to be provided in a separate GPFR, while overview information could be provided in the GPFR which included the GPFSSs.