



## REPORTING SERVICE PERFORMANCE INFORMATION

RESPONSE FROM THE INSTITUTE OF CHARTERED ACCOUNTANTS OF  
SCOTLAND TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING  
STANDARDS BOARD

13 April 2012

## Introduction

1. The Public Sector Committee of The Institute of Chartered Accountants of Scotland (ICAS) welcomes the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) consultation paper "Reporting Service Performance Information". The Public Sector Committee is a broad based committee of ICAS members with representation from across the public services.
2. ICAS's Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

## Key points

3. We believe that accessible published reporting of high level performance which is balanced and accurate is necessary to demonstrate the accountability and responsibility of decision makers for achieving an entity's objectives. Accountability is better demonstrated if a chief officer/chair signs off the report with a statement of responsibility.
4. A framework for the public sector should demonstrate clearer and fuller alignment with existing best practice and terminology (e.g. IASB Management Commentary Practice Statement and developments in integrated reporting). This facilitates consistency (a key principle of IFRS) and comparability which is essential for benchmarking – a key performance management tool. It is also likely to aid implementation as the concepts and terminology, are consistent with other organisations.
5. In our view a framework works well if it is based on a top-down approach. The guidelines need to differentiate between larger and smaller organisations. This would be consistent with statutory practice in the UK private sector. Public sector organisations are myriad and varied; this does not lend itself to a one-size fits all approach. It could potentially result in either an onerous burden on smaller bodies which is not justifiable in terms of cost/benefit and a light touch approach to larger more complex organisations.
6. A key element to meeting the needs of multiple varied users/stakeholders in the public sector is to maximise the use of a high level summary report which is supported by signposting to other more detailed sources of information. This improves transparency by avoiding too much detail which may obscure the key messages.
7. We believe that a tiered approach is more appropriate whereby smaller bodies focus on a high level performance overview within a "management commentary" rather than a full General Purpose Financial Report (GPFR), or annual report. Larger organisations are more likely to need a separate GPFR (based on best practice principles) to meet their accountability requirements and provide a more comprehensive review.
8. We are not convinced that the focus of this consultation paper should be for service performance reporting in a separate General Purpose Financial Report (GPFR) as opposed to a high level management commentary within the financial statements. Not all public sector organisations have a requirement to prepare an annual report. Many organisations that provide financial statements, will not also provide a GPFR. Focusing on introducing a high level overview using a management commentary attached to the financial statements would be easier and less costly to implement.
9. In addition, summary performance reporting beside the accounts has the advantage of showing side by side how resources have been spent and how effective that has been. As an example, in the UK private sector, the business review is included within a Directors' Report which is reported in the same document as the financial statements. We would also stress that good quality cost information (e.g. comparable unit costs) is important for benchmarking to demonstrate efficiency.

10. National and sector service performance reporting can involve various documents/ publications for various stakeholders and different purposes. These may include external regulators reports covering different periods. It would be difficult to consolidate all this information into a GPFR without resulting in a large and unwieldy report. This does not promote transparent reporting of the key messages. Our preference is for a hierarchy of information which users can drill-down into as required.
11. We would welcome further clarity on the definition for the GPFR, for example is the GPFR essentially a management commentary? If so, it would be more understandable to call it “Management Commentary” for consistency with the IASB developments, using similar principles but with recommended content adapted to meet the needs of the public sector (in a framework as proposed by this consultation paper). The terms GPFR and GPFs are potentially confusing with their similarity and inconsistency with terminology used by the IASB.

**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.***

12. We agree that service performance reporting is an important tool to publicly demonstrate accountability and responsibility of the key decision makers for the entity’s performance and achievement of strategic objectives.
13. We also believe that:
  - Easy public access to service reporting is an important aspect of effectively demonstrating this responsibility so it is recommended that a framework should also include minimum steps for effective public access. As an example this could include publishing on the entity’s website and providing copies of the report in different languages which reflect the diversity of their service area.
  - In the public sector, outcomes can take many years to come to fruition so longer term performance reporting is needed to strengthen accountability of the key decision makers.
14. Performance reporting is a subjective area. There is a risk of incomplete and biased information which omits poor performance areas. To manage this we believe that:
  - Responsibility for performance outcomes and the accountability of those in charge of decision making is demonstrated more robustly if a service performance report / overview is signed off by a chief officer or chair. This would include a statement that the performance report represents a fair and balanced review of the entity’s performance. As an example the Responsibility Statement used in UK private companies is required by section 418(2) of the Companies Act 2006<sup>1</sup>.
  - Balance and accuracy of the reported information is essential to meet users’ needs so we suggest that a Framework also identifies audit and verification arrangements. As an example, this may involve auditors affirming consistency with their knowledge of the organisation and financial statements and/or include auditors verifying that the underlying arrangements for producing the information are adequate.
15. In addition, it is important for the entity to provide some context in their assessment of performance to explain results. For example, in a wider economic recession, it may be expected that some services experience a dip in performance.

---

<sup>1</sup> [UK Companies Act 2006 \(s418\)](#)

**Preliminary View 2 (following paragraph 3.5):**

***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.***

16. The standard terminology is appropriate.

17. In Table A for the working definition of performance indicators, we suggest the following amendment:

*“Performance indicators are quantitative or qualitative measures that ~~describe~~ “demonstrate” the extent to which a service is achieving its objectives and using resources.”*

**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.***

18. We agree with this view.

**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.***

19. We agree with this view. The following are key to maintain a high level focus:

- **Materiality** to ensure that attention is focused on what matters most (in financial terms and reflecting customer/user priorities); and
- **Cost/ benefit** of providing the information to minimise wasted effort.

**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?***

20. Our preference is (a) - a best practice framework issued as non-authoritative guidance based on the principle of “comply or explain” which is consistent with the approach taken by the UK Financial Reporting Council. This is to reflect that some countries already have performance reporting arrangements in place led by national jurisdictions and an additional layer from IPSASB would overlap rather than complement this. An over prescriptive approach for those countries developing an approach may discourage adoption. This approach is also consistent with the IFRS Practice Statement “Management Commentary” which is a non-binding framework.

**Specific Matter for Comment 2 (following paragraph 2.3):**

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

21. Yes, the wide variety of public sector bodies does not lend itself to a one-size fits all approach. We believe firmly that a principles based approach with guidance is the best approach to develop and implement best practice frameworks efficiently. Management are best placed to determine the most appropriate indicators to measure service performance and it is their responsibility to apply the principles effectively. It would however, be helpful to provide examples of key performance indicators to inform management seeking to develop their own.

**Specific Matter for Comment 3 (following paragraph 2.4):**

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

22. Yes, the same entity boundary and reporting period would complement the different types of information reported (see also paragraph 26 which explains the benefits of a forward looking view).
23. Some public sector entities contract out service provision; these may be arms-length companies who prepare separate accounts. They are likely to form part of consolidated group accounts for the entity who has overall responsibility for provision of these services. We believe that a framework should include a clarification that the performance report provides a complete picture of the services provided and resources required – at consolidated group level. This would reflect the overarching responsibility within the public sector entity to provide these services. It would also support comparability and benchmarking across other similar organisations, not all of whom may have chosen the same operating model for service delivery.
24. In our view, reporting performance at group level, rather than at a single entity level, offers greater transparency and completeness of all activities and resources.

**Specific Matter for Comment 4 (following paragraph 4.18):**

***This consultation paper (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?***

25. We agree with the “why”, “what”, “how” and “when” dimensions.
26. A new dimension “so what” would be more appropriate for the outcome indicators to show how the service has made a difference. This also serves to promote the “outcomes” dimension being a key driver of a performance management framework. For example, some bodies use outcome based budgeting to allocate scarce resources in line with (customer) priorities.
27. Another dimension “what if” for consideration of risks and uncertainties in the future and how this could impact on service performance would be helpful. This can be particularly relevant in the public sector due to periodic political changes which can impact on priorities. We believe the “what if” question would provide a more balanced view of performance and this is also in line with the IASB Management Commentary practice statement:  
*“The inclusion of forward-looking information within management commentary helps users of the financial reports assess whether past performance is indicative of future performance and whether the progress of the entity is in line with management’s stated objectives<sup>2</sup>.”*
28. A forward looking assessment can also go some way towards balancing the historic aspect of both financial and service reporting, given the time delay between the period reported and publication date.

---

<sup>2</sup> Source: Para B27 - [IASB Management Commentary practice statement](#)

**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?***

29. Option (a) is preferred however a distinction needs to be made between smaller and larger organisations. We do not agree with options (b) and (c) due to the additional cost and time to produce as well as the risk of duplication.

30. We believe that a summary high level performance overview (management commentary) is best placed within the financial statements, not a GPFR, as explained in paragraph 8.