



The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2 Canada  
Per e-mail

02 June 2014

Dear Stephenie,

**COMMENT ON EXPOSURE DRAFT 54 ON REPORTING SERVICE PERFORMANCE INFORMATION**

We welcome the opportunity to comment on Exposure Draft 54 on *Reporting Service Performance Information*.

Our comment to you is set out in three parts: Part I outlines comment to the specific matters for comment, Part II outlines general comment and Part III outlines editorial and minor comment on the Exposure Draft.

Overall, we are supportive of the proposal to introduce a principle-based approach to develop a consistent framework for reporting service performance information that will meet user needs. Reporting of information about service delivery activities, achievements and outcomes during the reporting period is necessary for governments to achieve public accountability. We are of the view that this type of reporting is critical to governments and to address users' needs with respect to particular services. Given the importance of this information, we would like to see the IPSASB developing mandatory requirements on reporting service performance information in the future.

The views expressed in this letter are those of the Secretariat and not the Accounting Standards Board (Board). In formulating the comment, the Secretariat consulted with a range of stakeholders including auditors, preparers, consultants, professional bodies and other interested parties.

Board Members: Mr V Jack (Chairperson), Mr B Colyvas, Ms T Coetzer, Ms CJ Kujenga, Mr K Kumar,  
Mr K Makwetu, Mr G Paul, Ms N Ranchod, Ms R Rasikhinya, Mr M Sass

Alternates: Ms L Bodewig, Mr J Van Schalkwyk

Chief Executive Officer: Ms E Swart



Please feel free to contact me should you have any queries relating to this letter.

Yours sincerely

A handwritten signature in dark ink, appearing to read "Stuart". The signature is written in a cursive style with a large, stylized initial 'S'.

Chief Executive Officer

## **PART I – SPECIFIC MATTERS FOR COMMENT**

### **Specific Matter for Comment 1:**

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

We support the proposals outlined in the Recommended Practice Guideline (RPG). The reporting of service performance information is topical and relevant and will provide jurisdictions, especially those in developing countries, with a good base to report their service performance information.

### **Specific Matter for Comment 2:**

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

We support the proposed definitions in paragraph 8, but have suggestions to refine the definitions, which are set out below.

#### **Performance indicators**

During the consultation process, stakeholders noted that qualitative discussions cannot be an indicator as this might result in vague discussions about the entity's achievements, which may not be measureable. It was suggested that qualitative discussions could be seen as a pre-cursor to qualitative measures. As performance indicators should be measurable, we suggest that qualitative discussions be deleted from the definition of performance indicators. If qualitative discussions are deleted from the definition, then the same comment applies to the discussion provided in paragraph 59.

If this is retained in the final definition, the explanation of what is meant by a qualitative discussion will need to be explained more clearly and precisely in the text supporting the definition.

#### **Outputs**

From a South African perspective, it is common for public sector entities to provide services to internal recipients under administration programmes for which specific service performance objectives are established, for example a corporate office. We question whether such services would be considered outputs in the RPG as they have not been provided to recipients external to the entity. We suggest that the definition of an output should be changed to include these types of scenarios as follows: ~~Outputs are services provided by an entity in accordance with its mandate to recipients external to the entity.~~ The discussion provided in paragraph 18 should also be modified to explain when services to internal recipients would be reported and when they would not.

#### **Outcomes**

During the consultation process, stakeholders indicated that, in practice, it is easier to measure outputs and inputs but few entities can measure outcomes because outcomes represent more than just an individual entity's actions, but includes actions of other entities along with other external factors beyond an entity's control. To ensure that only those outcomes that an entity can affect directly are reported, we suggest that the definition of outcomes should be amended as follows: ~~Impacts on society which occur directly as a result of entity's outputs, its existence and operations.~~

The reference to *impacts* in the definition of outcomes may be confusing for those jurisdictions where *impact* is identified as a type of performance indicator. We suggest that the definition should be amended and propose the use of *results* rather than impacts in this instance.

#### Additional definitions that should be considered for inclusion in the RPG

##### *Performance targets*

During our consultation process, stakeholders questioned why the IPSASB has not identified *performance targets* in the RPG. As entities will establish periodic targets to support and measure the achievement of their objectives, we are of the view that reporting should be both against targets and objectives. As a result, we propose that performance targets should also be included in the working definitions for service performance information.

The proposed definition is:

*Performance targets express a specific level of performance that the entity is aiming to achieve within a given time period.*

##### *Service*

We question why the term *services*, as envisaged in the Conceptual Framework, has not been defined or explained in the RPG. We are concerned that not all jurisdictions are aware that *services* encompass goods and services. We suggest that the term be clearly explained for those jurisdictions that may be not be well versed with the IPSASB's terminology.

#### **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 these?*

We agree that the RPG has addressed the reporting of service performance information by entities at different levels within government.

However, the discussion in paragraphs 27 and 28 does not clearly indicate that the entity that is accountable for the service performance objectives should ultimately be responsible for reporting service performance information.

From a South African perspective, there is currently no requirement for the provision of consolidated service performance information. We are of the view that it may not be appropriate for the controlling entities to report service performance information for the following reasons:

- It would not be necessary to report performance information of controlled entities as this information would be reported by these individual entities.
- It may not be appropriate to report performance information for the economic entity unless specific performance indicators have been established for the economic entity as a whole.

We suggest that a principle be established, much like the principle applied in IPSAS 24 on *Presentation of Budget Information in Financial Statements*, which requires entities to present a comparison of actual to budget information only if budgets are made publicly available. If such a requirement is included in the RPG, then economic entities will only report performance information when that information and those specific indicators have been made publicly available.

We question why the term reporting boundary has not been defined or explained. We suggest that the term be clearly explained for those jurisdictions that may be not be well versed with the IPSASB terminology.

#### **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 matters?*

We support the proposal for service performance information to be reported annually using the same reporting period as that for the financial statements. We are of the view that this will enable users to link budget information to the cost of services delivered with the financial statements and service performance information.

#### **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?*

We agree with the proposed principles for presentation of service performance information.

We are of the view that it is ~~%appropriate information+~~ and not ~~%useful information+~~ that enables users to make the assessments listed in paragraph 31, as ~~%useful+~~ is highly subjective. We suggest the use of the ~~%appropriate+~~ rather than ~~%useful+~~ in this paragraph, and in other sections of the RPG, where necessary.

We are concerned how adherence to the proposed principles will be assessed or measured. As it is the qualitative characteristics that are likely to assist in applying these principles, we suggest that the discussion on the qualitative characteristics be enhanced to include more specific discussions about how these should be applied in the context of service performance information. These suggestions are set out below:

##### **Relevance**

We suggest that the relevance of service performance information be measured against, or in relation to, the mandate of the entity, i.e. the services for which the entity is accountable.

##### **Faithful representation**

We suggest that the principle be explained fully that, in addition to being unbiased, service performance information should be complete, neutral and free from material error for it to

be faithfully represented. All three of these aspects should be explained in their application to service performance information.

### Comparability

During our consultations, stakeholders indicated that it may be difficult to demonstrate this principle for both inter-entity and inter-period comparability, in all instances. To make provision for this limitation, we suggest the following amendment: ~~%~~service performance should provide users with a basis and context to compare an entity's service performance over time, against targets, and to other entities, where possible.+

We also suggest that the explanation of comparability be extended to emphasise that consistent reporting of service performance information will assist and provide users with a basis to compare an entity's service performance over time and to other entities.

### Timeliness

We understand that this qualitative characteristic is important especially when the IPSASB considered whether to stipulate that service performance information should be issued at the same time as the financial statements. We are concerned about the IPSASB's decision not to stipulate this in the RPG. We suggest that the discussion on timeliness should be linked with the considerations provided in paragraphs 41 and 42. If, for example, the service performance information is used to inform assessments of resource allocation decisions (as outlined in paragraph 42), then the timeliness of the information should be linked to the publication of the financial statements and comparison with budget information. Similarly, if the information is used to inform the assessment of policy and strategy decisions, then the entity should consider timeliness in this context.

### Pervasive constraints

We agree that the pervasive constraints should be applied to service performance information.

During our consultation process, stakeholders indicated their reservations with paragraphs 36 and 37 dealing with materiality that require entities to consider materiality when selecting service performance information for presentation. It was noted that in the absence of guidance, this requirement will be difficult to apply as materiality depends on both the nature and amount of the information to be presented in relation to the entity's specific circumstances. We suggest that IPSASB considers providing more guidance on how materiality is applied to reporting service performance information.

### **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 f/s 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?*

We agree with the considerations provided in paragraphs 41 to 43. We are of the view that reporting service performance information is more useful when included with the financial statements in a single report to provide the users with a holistic view of the entity's objectives. One of the factors which our constituents highlighted was the potential cost of preparing separate reports. This might be useful in making the decision as to whether to publish a single or multiple reports.

During the consultation process, stakeholders indicated that consideration should be made to the proximity of service performance information to actual and budget comparisons as this will enable the users to link the service performance information to the budget and cost of services delivered in the financial statements.

From a South African perspective, entities prepare an annual report which includes the financial statements, service performance information and various others reports which are required by our Code on Corporate Governance.

**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 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?*

We agree with the RPG's proposed approach that acknowledges that in some jurisdictions presentation requirements may be legislated and thus the guidance should not specify a particular style of presentation.

The discussion in paragraph 46 points out that service performance information should identify an entity's important services which is likely to be found in the entity's planning documents. As important may be subjective to apply without context, we suggest the following amendment to this paragraph: "Service performance information should identify an entity's important services that are core to an entity's mandate, relevant performance indicators and other information relevant to those services" +

Considering that there may be entities applying this RPG with no or limited knowledge of reporting service performance information, we suggest that the IPSASB considers issuing supplementary guidance that illustrates various presentation styles applied in different jurisdictions. As an alternative, the IPSASB could consider including references to reports issued by jurisdictions that were consulted during the development of the RPG for more guidance.

**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?*

We generally agree with the proposals set out in the RPG.

During the consultation process, stakeholders indicated the difficulty that may be experienced in providing information on the cost of services in accordance with paragraph 50(c). In practice, entities may only be able to link the cost of the services to inputs rather than outputs. It was also noted that it may not be possible to provide the comparison of services to costs as this information is dependent on how the entities’ cost structures have been established. For instance, if costs are not structured per programme then it may be not be possible to extract the relevant information for these comparisons.

From a South African perspective, activity based costing is not widely applied and it therefore may not be possible to provide a comparison of costs at an activity-level. As similar countries may be in a similar position, we suggest deleting paragraph 50(c) from the information required for display. This will require rewording to the later paragraphs that discuss the provision of cost information.

We agree with the disclosures to be provided for narrative discussion and analysis. We are of the view that there should be stronger emphasis on the fact that narrative discussion and analysis should be concise and focus on issues that are critical to the users’ understanding of service performance information reported. We suggest the following amendment to paragraph 69: Narrative discussion and analysis should be concise and focus on issues that are critical to support users’ assessments of the efficiency and effectiveness of services +

We are of the view that the matters discussed in paragraph 79 and 81 are closely linked. We suggest the two paragraphs should follow each other and precede the disclosures in paragraph 80.

During the consultation process, stakeholders indicated that paragraph 80 (d) and (g) may be problematic to apply in practice. For paragraph 80(d), it may not be possible to explain the relationship to different performance indicators as they may relate to different objectives. We suggest that the relationship should rather be expressed in terms service performance objectives and not performance indicators. Consistent with the comment made above about the difficulty of providing cost information, entities are likely to find the requirement in paragraph 80 (g) equally challenging due to unavailability of information.

If the definition of performance targets is accepted, we suggest that these targets should be displayed for each relevant service reported in accordance with paragraph 50. For service performance objectives that span more than one reporting period, entities are likely to have set performance targets on which they report results at each reporting period.



**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 a 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?*

We agree with the RPG's proposed approach not to identify specific indicators to be reported for service performance information. The guidance and principles on the selection of performance indicators is not definitive and can be broadly applied in practice.

## **PART II – GENERAL COMMENTS**

### **Minimum information requirements**

We support the IPSASB's decision to adopt an approach to provide principles and guidance, and recommend minimum requirements for reporting service performance information. During our consultations, there was significant uncertainty about what these minimum requirements are. These minimum requirements have not been clearly set out in the RPG and we are concerned that entities planning to report service performance information in the future, or those with limited knowledge of reporting service performance information, may not be able to make a distinction between the minimum requirements and additional requirements. Also, if the minimum requirements are not clear, then compliance with the RPG is difficult to assess. As an example the reference to the words "should be considered for disclosure" in paragraph 80 does not clearly suggest whether these disclosures are minimum requirements or additional requirements. We suggest that the IPSASB revisits the wording used throughout the RPG to clarify this issue.

### **Establishing service performance objectives**

Given the diverse service performance objectives and service delivery contexts, we understand the IPSASB's challenge in developing guidance that would be useful to all public sector entities that elect to apply the RPG. Considering that the RPG will be used by public sector entities, including some with no or limited knowledge on reporting service performance information, we are concerned that the RPG is silent on the importance of implementing a robust performance management framework to assist in setting service delivery objectives. We are of the view that reporting service performance information cannot be separated from the process of performance management. We suggest that the IPSASB considers including a brief discussion on the importance of a credible performance management process to identify service performance objectives which should then be included in the entity's strategic or operational plan.

### PART III – EDITORIAL AND OTHER MINOR COMMENTS

The following editorial and other minor comments are proposed:

Paragraph	Comment
10.	We suggest that the last example in this paragraph should be reconsidered, as we are of the view that it demonstrates efficiency rather than effectiveness.
18. bullet (d)	Delete the second (d) in the bullet.
31. bullet (b)	It is not clear what is meant by <del>financial results</del> in this paragraph, and we suggest the following amendment: <del>financial statements results</del> in the context of its achievement of service delivery objectives+
42.	Reference to paragraph 44 should be paragraph 41.
57.	This section is silent on how qualitative indicators should be measured. We suggest that the discussion be expanded to include a discussion on measurement of qualitative indicators.
66.	We are of the view that this should be a requirement. We suggest the deletion of <del>wherever possible</del> in the second sentence.
81.	Reference to paragraph 79 should be paragraph 80.