

31 May 2014

The Board Members
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, New York 10017 USA

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Dear Board Members:

Re: Comments on Exposure Draft 54 (ED 54), Proposed
Recommended Practice Guideline 3 *Reporting Service Performance Information.*

We wish to place on record our sincere admiration for the hard work done by the Board and its staff for enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

We are also pleased to convey our impression of the proposed Recommended Practice Guideline (RPG3). RPGs provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSASs RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs.

Our comments are in two parts: responses to specific questions raised in the explanatory memorandum and recommended specific changes to wordings.

[Abbreviations: spi = service performance information; p. = para in the proposed RPG3 followed by number (capital "BC" with number refers to the para in the "Basis of Conclusion"), RPG = RPG3 = proposed Recommended Practice Guideline 3, Board =IPSAS International Public Sector Accounting Standards Board, IFAC= International Federation of Accountants].

Summary of our Comments:

Enlarge the RPG's scope to include public as well as non-public sector entities¹. Provide specific guidance on the selection and reporting of spi. Clearly designate the requirements in bold text². State consistently that the service performance information assists the users to assess the entity's service efficiency and effectiveness³. Define the term "entity" to include a single or multiple activity, program, project, etc. Identify the key personnel of the entity and those engaged in compiling spi. Recognise explicitly that the quality of spi is directly dependent on the system of processing transactions in place⁴. Define, identify, measure, record, and report - input and output. Take proper measures for maintaining the integrity of spi; perhaps its time now to acknowledge the natural tendency to present performance indicators that are biased towards reporting positive results⁵. Recognise access to information by the public as a qualitative characteristic of information; also, what's reported should be made user-friendly (e.g., visuals and simple/local non-technical language). Cross-reference the rpg with its basis of conclusion to facilitate readers. Include as specific matter for comments, feedback from commentators on the impact of the ED on the local practices.

¹ The entities in non-public sector known as non-governmental organizations (ngo) in many cases compliment, supplement or provide services similar to the public sector entities. The RPG may be equally be applicable to them.

² The RPG identifies no requirements but asserts in p.5: "Service performance information should not be described as complying with this RPG unless it complies with all the requirements of this RPG." Right next to the title page of this RPG, it asserts: "Unlike IPSASs RPGs do not establish requirements."

³ Whereas the statement in para 1 is tentative and perhaps inaccurate. "Service performance information can also assist users to assess the entity's service efficiency and effectiveness."

⁴ This is about making available human and material resources. See p.54: "Indicators that involve quantification should be able to be measured reliably. "

⁵ The assertion in p.57 is: "Entities should avoid any tendency to present performance indicators that are biased towards reporting positive results. " It is not entities but key personnel. Also in p.79 it permits the same: "Judgment will be involved in deciding what information needs to be disclosed. "

1. Specific Matter for Comments:

Q1: Do you generally agree with the proposals in the ED? If not, please provide reasons.

We compliment the Board for picking up an important topic for deliberation. We like the manner in which the contents of this RPG have been laid out alongwith Basis of Conclusion. We generally agree with the principle-based proposals⁶; it is certainly a step forward⁷.

We find the RPG to be light on two fundamentals principles: selection of performance indicators⁸ and reporting of spi⁹.

In the first instance, “the IPSASB considered whether the RPG should require entities to report all five types of performance indicators— inputs, outputs, outcomes, efficiency and effectiveness—for the services that they provide”¹⁰, but do not; instead it provides guidance on how an entity should choose the types of performance indicators that it reports. Furthermore, “the IPSASB also considered whether the RPG should require entities to report outcome indicators. Outcome information is important to users, because it focuses on the ultimate reason for service provision, which is the impact that services have on the community”¹¹. We do not agree with your approach on both. The Board should not leave the most critical matter of selecting of performance indicators at the discretion. It should not shy from requiring reporting of spi on these lines. Permit exceptions with supporting explanation.

⁶ See BC6: “this RPG sets out principles based guidance for the reporting of service performance information by public sector entities.”

⁷ We agree with BC9: “Service performance information is a developing area, which means that the RPG should not be overly prescriptive.”

⁸ See BC-37 & 38.

⁹ See BC-39 & 40.

¹⁰ BC-37

¹¹ BC-38

Similarly, there are two different approaches to the reporting of spi¹² (or a hybrid, combining the two). “A more outputs focused approach reports information about the services provided”¹³. A more outcome focused approach “explains how well the entity is doing in terms of achieving its objectives, where those objectives are described in terms of outcomes”¹⁴. “The IPSASB considered whether the RPG should include guidance specifically tailored for each approach, but decided against this”¹⁵.

We call upon the Board to reconsider its stand and provide specific guidance. Also, the Board should recognise two additional principles to enrich the RPG and link it to the point it all originates and ends: a reference to the quality of system of transaction processing in place and public access to the reported information, respectively.

The principle that the quality of information relates directly to the quality of transaction processing system (tps) in place in terms of human power, procedures, hardware and software, is well established. Those responsible for the spi should be made aware of this responsibility. Unless provided for specifically in a tps that is effective and functional, the spi is not possible.

Similarly, the end-point of spi in public sector entities is when a user is empowered to make use of such information. Hence, access to information by general public assumes the most important qualitative characteristic for public sector entities.

The strength of this RPG is its proper emphasis on non-financial indicator¹⁶.

¹² See BC-39: “In developing this RPG the IPSASB acknowledged that there are differing approaches to reporting service performance information, including approaches that are more output focused and approaches that are more outcome focused.”

¹³ BC-39

¹⁴ Ibid

¹⁵ BC-40

¹⁶ Our favourite statement is: “Reporting non-financial as well as financial information about service delivery activities, achievements and/or outcomes during the reporting period is necessary for a

Q2: Do you agree with the definitions in paragraph 8? If not, how would you modify them?

Yes, we do.

The concept of “materiality”¹⁷ is sufficiently important to be included as a definition.

Also, define an “entity”¹⁸ to mean a specific project, program or activity etc.

Related to above, define the terms “controlling entities”¹⁹ and “controlled entities”²⁰.

Q3: 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?

The situation appears to be more complicated as many critical matters have been left at the discretion of practitioners, as mentioned in our response to Q1.

We would consider entities to report all five types of performance indicators—inputs, outputs, outcomes, efficiency and effectiveness—for the services that they provide, alongwith the outcome indicators.

We would also consider providing reasonable guidance on when to use output or outcome focused method of reporting spi, or a combination.

What’s the point of this RPG if such critical matters are to be left at the discretion of the practitioners?

government or other public sector entity to discharge its obligation to be accountable—that is, to account for, and justify the use of, the resources raised from, or on behalf of, constituents.” See BC5

¹⁷P 38: “Materiality is a key issue to consider when selecting service performance information for presentation. Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity’s reported service performance information prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity”.

¹⁸ As in p.1, 2, 4, 8, 9, 10, 15, 17, 21, 23, 24, 25, 28, 29, 31, 32, 34, 36, 37, 38, 39, 40, 43, 46, 47, 48, 50,51,54,55, 57, 60, 68, 81.

¹⁹ As in p.29, 43, 48, 63.

²⁰ As in p.43, 63.

Q4: 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?

4a. As a minimum annual reporting of spi appears to be reasonable. This may also be true for inactive or dormant entities. However, as in commercial enterprises, monthly closure and reporting should be a norm. Where required for understanding, information aggregated for a number of accounting periods may be more appropriate.

4b. We also agree with the rationale of BC23. This should not be necessary. However, we rate timeliness to be on top of qualitative characteristics and would like to see some kind of limit. This may be upto a year at the most.

Q5: 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?

The principles stated appear to be incomplete without explicit recognition of importance of transaction processing system in place for compiling spi. This implies the responsibility on the part of stakeholders to make resources available. Furthermore, unless access is granted to the general public, the purpose of undertaking reporting of spi remains incomplete.

We find the materiality principle to be sufficiently important to recommend including its definition in p.8.

In addition to above, the practice of disclosing proper explanation for supporting each of the calculations of quantitative spi should be explicitly mentioned²¹.

²¹ See p.79: "There should be sufficient information for users to understand the basis of the displayed service performance information."

Q6: 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?

We completely agree with the wisdom in BC-30²² & 31²³.

Where something has been prescribed by the law, it should be followed in the spirit.

The spi should be disclosed separately even when bundled with the financial statements as a package as an annexure, if there's a choice. It will be appropriate to link the two documents through cross-referencing and reconciliation of amounts where necessary.

When there's a choice whether to make spi an integral part of the financial statements or to disclose it separately, the choice should be for the later. The financial statements are general in nature and should not distract the user.

The spi requires comparison with the planned results. Its main focus is on matters such as effectiveness, efficiency, input, output, and outcomes. Whereas the information in the financial statements is more general in nature. In our opinion, a user is likely to be distracted when spi is disclosed alongwith the GPFS. Also, a sense of proportion is lost.

²² "The IPSASB considered whether service performance information should be located in the same report as the financial statements or in a separate report. It noted that while many national jurisdictions treat service performance information as distinctly different and therefore separate from information provided with the financial statements..."

²³ "The IPSASB noted that there may be some implications for the audit of the financial statements, if service performance information is included in the same report as the financial statements".

For example, if an entity is managing a number of hospitals offering similar services in its jurisdiction, including spi on consolidated basis may be possible to a certain extent within the financial statements. However, where spi is to be provided with reference to each hospital, consolidated information may be even misleading.

We are not recommending total black out of spi from the financial statements. Indeed, consolidated information may be stated therein with cross-reference to the presence of a separate report which may or may not be a part of the financial statement.

What we are suggesting is that the spi should be released with the financial statements and should be placed separately.

We are also recommending that proper cross-references should link the two statements.

To para-phrase, the question is whether financial statements and spi be released and placed in the same document? If placed in the same document, should the spi be an integral part of the financial statements; or should spi be disclosed and designated as a separate document?

In our opinion, the spi and financial statements are mutually exclusive. They should not be bound with each other. Yes, at some level, there's a link between the two which should be highlighted. However, one should not be tied with the other. The two documents may be released separately.

Where the two are released together, our recommendation is for the spi to be designated separately,

6(b) The condition is that the user should be informed of the existence of the other through a proper disclosure.

Q7: 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?

7(a) No. We do not agree with ED's proposed approach which provides discretion to the practitioners to decide how to present the information.

7(b) We agree that the RPG should not specify a particular style of presentation. However, we believe that all disaggregated information should be enclosed separately in a statement titled "Statement of Service Performance".

Q8: 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 p. 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?

8(a) We agree.

8(b) We agree but do not find the contents of p.76. Also, we would like to see the example in p.77 replaced with a better one as in case of situations in a hospital or law enforcement.

8(c) We agree.

Q9: 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?

9(a) No, we don't. We would consider entities to report all five types of performance indicators— inputs, outputs, outcomes, efficiency and effectiveness—for the services that they provide, alongwith the outcome indicators.

9(b) To Apply only when there is an exception to our statement in 9(a).

*Q10. What impact would you expect of the proposed ED on the practices in your local environment?*²⁴

The public sector accounting practices at Federal and Provincial levels in Pakistan are completely outdated. An ambitious project of improving it was undertaken a few years ago with the assistance of an international development institution. Its impact is yet to be felt.

The one-step-forward-two-backwards pace of progress is because of discontinuity and unconstitutional interruptions in the democratic process of the country.

The public sector entities are accountable to the Federal and Provincial Public Accounts Committees of the Parliament. The Accounts Committees have a track record of being largely ineffective because of political considerations, lack of competence and expertise.

²⁴ This is not a part of questions from the Board; we made up this question on our own.

Only in the last Government, the Opposition headed the Accounts Committee at the Federal level but its task was made so difficult because of non-cooperative attitude that its Chairman resigned mid-term.

In the present Government, a fellow Chartered Accountant is the Finance Minister. However, improving the public accountability is not likely to one of his top priorities.

We humbly request the Institute of Chartered Accountants of Pakistan²⁵ to fully participate in supporting the present Government for improving its accounting and accountability processes of public sector entities that use trillions of rupees without making visible difference to the wellbeing of general public. We have so far completely ignored this aspect of social obligation and responsibility as professional accountants.

This ED is capable of changing so much but is not likely to have any positive impact in improving the working of our government at any level.

3. Proposed changes in wordings:

(Wording we suggest is in

italics)

p.1. Service performance information ~~can also~~ should assist users to assess the entity's service efficiency and effectiveness.

p.2 Compliance with this RPG is ~~not~~ required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSASs).

p.3 This RPG *contains principles and resultant practices* is applicable to all public sector entities ~~other than Government Business Enterprises (GBEs)~~ and non-public sector entities.

p.4 ~~Although this RPG does not apply directly to GBEs, the services related to a GBE controlled by the reporting entity are within the scope of this RPG.~~

p.6 This RPG requires ~~does not preclude the~~ presentation of additional information if where such information is necessary for ~~useful in~~ meeting the objectives of financial reporting and meets the qualitative characteristics of financial reporting.

²⁵ We dedicate these comments to our dear Institute.

Read with BC 13, it should be obvious that the regulatory requirements would prevail over RPG in every single instance. Therefore, a lengthy explanation on this appears unnecessary.

p.7 In some jurisdictions, the preparation and presentation of service performance information is a legislative or regulatory requirement. ~~Entities are encouraged to disclose information about the impact of such requirements on compliance with this RPG.~~

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p.9 Effectiveness describes the relationship between an entity's actual results and its service performance objectives, ~~where the results and the related service performance objective are consistently expressed in outputs or in outcomes.~~ An entity's service performance objectives may be both objectives expressed in terms of outputs and objectives expressed in terms of outcomes. ~~When reporting on its e-Effectiveness means the entity may report the extent to which each relevant service performance objective has been achieved.~~

p.10. ~~The more effectively an entity operates as a service provider, the better will be its actual results (outputs actually provided or outcomes actually attained), when measured against its planned results.~~ Effectiveness is measured by comparing the actual outputs or outcomes with planned results.

Bc13:

p.25 Service performance information ~~is a sub-set presented should be tailored to~~ of the entity's service performance objectives.

The contents of p.76 are difficult to understand. The example in p.77 was found to be of limited applicability. An example with more global presence as in case of hospital/judicial services is suggested.

End of Comments.

Sincerely,

Altaf Noor Ali
Chartered Accountant.