



Accounting Standards Board

P O Box 74129
Lynnwood Ridge
0040
Tel. 011 697 0660
Fax. 011 697 0666

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

11 April 2012

Dear Stephenie,

COMMENT ON THE CONSULTATION PAPER ON REPORTING SERVICE PERFORMANCE INFORMATION

We welcome the opportunity to comment on the Consultation Paper on *Reporting Service Performance Information*.

Our comment to you is set out in five parts: Part I outlines general comment on the Consultation Paper, Part II outlines comment on the preliminary views, Part III outlines comment on the specific matters for comment, Part IV outlines comment on the sections included in the Consultation Paper and Part V outlines editorial and other minor comment.

The comment is that 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.

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

Yours sincerely

A handwritten signature in blue ink that reads 'Erna Swart'.

Erna Swart

Chief Executive Officer

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

Chief Executive Officer: Ms E Swart



PART I – GENERAL COMMENTS

1. Overall support for the Consultation Paper

1.1 Overall, we are supportive of the proposal to report on service performance information. We agree that reporting service performance information will assist users in assessing how efficiently and effectively public sector entities are using resources to provide services and achieve their objectives as part of General Purpose Financial Reports (GPFRs).

2. Introduction to Service Performance Reporting (section 1)

2.1 Reporting service performance information is aimed at enhancing the public sector's accountability and decision-making. Though it is not stated specifically that the framework to be developed will only be applicable to entities that have adopted the accrual basis of accounting, paragraph 1.1 notes that the Conceptual Framework Exposure Draft issued in December 2010, proposes concepts that underpin general purpose financial reports (GPFRs) of public sector entities that adopt the accrual basis of accounting. We are of the view that reporting on service performance information will be as relevant to users of GPFRs prepared on the cash-basis of accounting. If the IPSASB agrees that the proposed framework should only be applied by entities that have adopted the accrual-basis of accounting, it could be useful to indicate that the principles in the proposed framework could be used by entities preparing financial statements on a cash-basis when reporting service performance information.

2.2 Furthermore, as stated in section 2 *Objective and Scope of the Service Performance Reporting Project*, the proposed framework will be developed to ensure consistency in reporting service performance information of public sector entities. The Consultation Paper does not explain whether these public sector entities include Government Business Enterprises (GBEs). While we accept that the current suite of IPSASs do not apply to GBEs as these entities apply IFRSs, we are of the view that reporting service performance information is applicable to many GBEs. We would therefore, as a broader issue, urge the IPSASB to consider the applicability of reporting outside of the GPFRs by GBEs as part of the GBE project recently added to the IPSASB's work programme.

As an interim measure, we suggest that the framework should indicate that, although it is not intended to apply to GBEs, the principles in the proposed framework could be used by GBEs in reporting service performance information.

PART II – PRELIMINARY VIEWS

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.

We agree that reporting service performance information is necessary to meet the objectives of financial reporting, ie accountability and decision-making. The proposed framework should however acknowledge that the different regulatory and legislative requirements in various jurisdictions could impact the extent to which entities adopt the framework to be issued by the IPSASB. In particular governments in each jurisdiction may need to determine and consider how best to address conflicts between the principles set out in the proposed framework and their specific regulatory and legislative requirements governing service performance information reports, if any.

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.

We support the development of standardised service performance information terminology.

We support the seven terms, but have some suggestions on the working definitions and additional terms that could be included in the proposed framework. These proposals are set out in Part IV of our comment letter (see paragraph 1.1 to 1.9).

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.

We are of the view that the matters discussed under part (c) and part (d) are very similar in nature. We suggest that these two sections are combined into a single section because entities will not be able to report on the one section without reporting or dealing with the issues required to be reported in the other section, without the resultant duplication.

Comment on other aspects in this section is set out in Part IV of our comment letter (see paragraph 1.21 to 1.33).

Preliminary View 4

The qualitative characteristics of information and pervasive constraints on the information that is currently included in GPFRRs of public sector entities also apply to service performance information.

We support the view that the qualitative characteristics of information and pervasive constraints on information, that is currently included in General Purpose Financial Reports of public sector entities, should also apply to service performance information.

However, we do suggest that the discussion of the qualitative characteristics and pervasive constraints on the information, and how these apply to service performance information reporting should be brought forward in the proposed framework. The qualitative characteristics form the basis of decisions about what to report to meet the needs of users.

“Relevance” is very critical but is often highly subjective. There is a risk that “relevance” may become the main driver in the selection of performance indicators and we suggest that the proposed framework should extend the discussion of “relevance” and its applicability to service performance information.

PART III – SPECIFIC MATTERS FOR COMMENT

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?

We support option (b), ie that the framework should be authoritative guidance that requires those public sector entities that choose to issue a service performance information report to apply the guidance. To ensure comparability of service performance information reports, we support the application of a consistent framework to be applied by all public sector entities as this will enhance users' understanding when entities report service performance information.

The regulatory and legislative requirements mandating entities within various jurisdictions could however prevent some entities from reporting service performance information. The framework should therefore be authoritative to the extent that regulatory and legislative requirements mandate entities to report service performance information or, to the extent that entities choose to report on service performance information in the absence of any regulatory and legislative requirements. If the IPSASB mandates reporting on service performance information, countries that consider adopting IPSASs may be discouraged from adoption, because reporting on service performance information may be seen as a barrier to claim compliance with IPSASs in preparing financial statements.

In order to issue the proposed framework on service performance information reports as authoritative guidance, the proposed framework should clearly explain that service performance information relates to financial and non-financial information to ensure that reporting service performance information falls within the scope of General Purpose Financial Reporting.

In determining whether the authoritative guidance should be issued as an IPSAS, we suggest that consideration should be given to whether reporting service performance information impacts on the fair presentation of financial statements or whether such information enhances, supplements and compliments the information presented in the financial statements. To the extent that reporting service performance information impacts on the fair presentation, we suggest that an IPSAS should be considered. If reporting service performance information only enhances, supplements and compliments the information presented in the financial statements, another type of pronouncement may be more appropriate.

Specific Matter for Comment 2 (following paragraph 2.3):

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

We support the view that the proposed framework should not identify specific indicators of service performance information.

During our consultation, it was indicated that illustrative examples of the various indicators in reporting service performance information would be useful, specifically for those jurisdictions that have a limited knowledge of reporting service performance information. We therefore suggest that the IPSASB should consider issuing supplementary guidance that illustrates selected indicators of service performance information, including information on how these were determined. As an alternative, the IPSASB could consider including references to reports that were issued by jurisdictions that were consulted during the development of the proposed framework so that entities can refer to these reports for more guidance.

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 (GPFSSs)?

We support the proposal that service performance information should be prepared for the same reporting entity as for general purpose financial statements.

However, we also see reporting on service performance information at a higher level to be useful for accountability and decision-making purposes. The link or relationship between the reporting entity's own service delivery objectives compared to that of government as a whole may not always be clear in the reporting entity's report. The reporting entity's report on service performance information normally provides more detailed information on the service delivery objectives at a lower level, whereas government's objectives are focused at a higher/overall level, or it may even include broader objectives not reported on by any individual reporting entity.

An integrated service performance information report of a specific sector will also provide users with information on how the sector is achieving, or not achieving its service delivery objectives in the sector. This information will provide useful information to governments in identifying if resources are, or are not, utilised in an economic, effective or efficient manner.

It is further suggested that the service performance information reports should also provide information on interrelationships with other public sector entities or service performance information across various sectors to provide a better overview to users on how government is achieving its overall agreed objectives.

Specific Matter for Comment 4 (following paragraph 4.18):

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?

We agree with the four dimensions of service performance information and are not aware of any other dimensions that should be added. We do however suggest that the information envisaged by reporting on these four dimensions could be illustrated in the proposed framework using the performance indicators discussed in section 3.

Comment on other aspects included in the section elaborating on these four dimensions is set out in Part IV of our comment letter (see paragraph 1.10 to 1.20).

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?

During our consultation process, stakeholders indicated that reporting on service performance information will be more useful if it accompanies the annual financial statements in a single report to give users an overall, holistic view of the entity. We therefore support option (a) which suggests that reporting on service performance information should form part of the General Purpose Financial Report, but not part of the general purpose financial statements.

From a South African perspective, the preparation of an annual General Purpose Financial Report is currently not required, but entities are required to prepare an annual report that to some extent, includes information that are currently not seen to be within the scope of General Purpose Financial Report.

PART IV – COMMENT ON SECTIONS INCLUDED IN THE CONSULTATION PAPER

Section 3 – Service Performance Terminology

As noted in our response to preliminary view 2, we support the seven terms but have the following suggestions relating to the terms and working definitions.

Additional performance indicators and concepts to be included in the proposed framework

- 1.1 We propose that *activities* and *impact* should also be included in the table of working definitions for service performance information as these concepts are important in reporting service performance information. *Activities* form part of the planning, budgeting and implementation activity while *impact* deals with the management aspect in achieving the results.

Government's interventions may have unintended consequences on service performance information, which is not always within an entity's control. The impact, however, still needs to be identified and monitored so that risks can be managed and corrective action can be taken by management. We therefore see "impact" as a core service performance information concept, and propose that it should be identified as a type of performance indicator in the proposed framework.

Proposed definitions for *activities* and *impact* are:

Activities – the processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes.

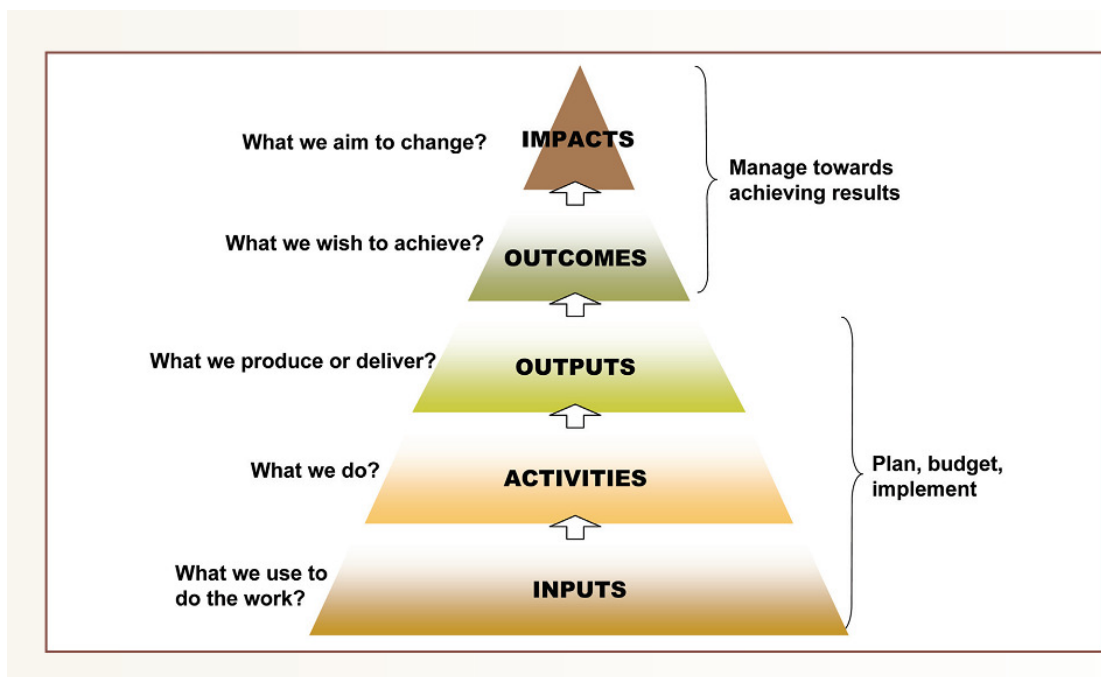
Impact – the results of achieving specific outcomes.

- 1.2 In addition, we propose that "economy" and "equity" should be added as specific performance information indicators. The *economy indicator* measures and explores whether specific inputs are acquired at the lowest cost, at the right time and whether the method of producing the requisite outputs is economical. The *equity indicator* explores whether services are being provided impartially, fairly and equitably, and reflects the extent to which an entity has achieved and has been able to maintain an equitable supply of comparable outputs across, for example, demographic groups, regions, urban and rural areas etc.

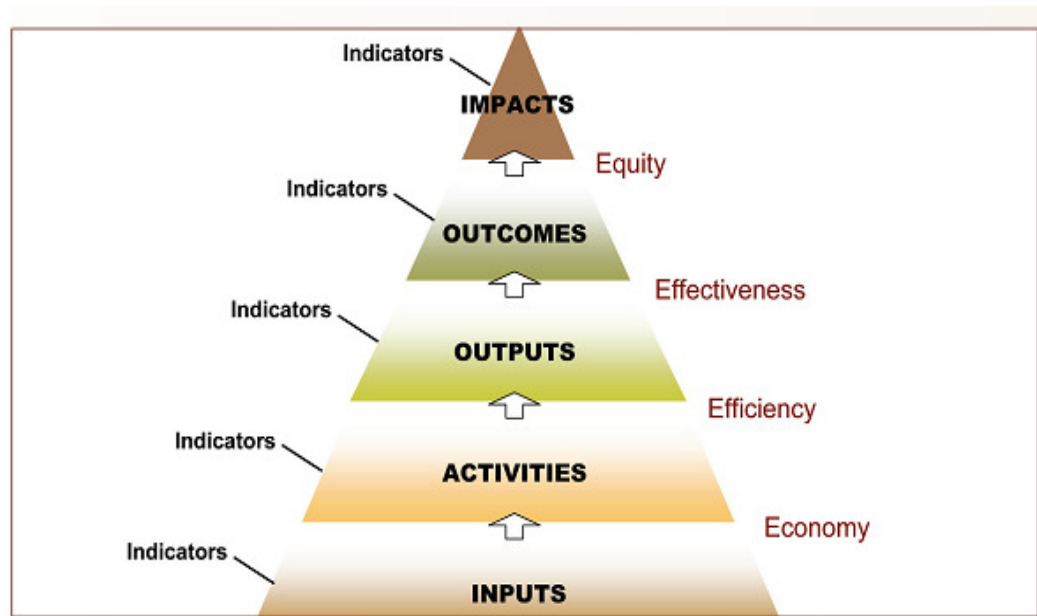
Both these indicators are important when reporting on service performance information.

The following diagram illustrates the relationship between the four performance indicators, ie efficiency, effectiveness, economy and equity, and the performance information concepts ie inputs, activities, outputs, outcomes and impacts:

Relationship between the proposed core performance information concepts



Proposed performance indicators and core performance information concepts



Proposals on working definitions and examples

- 1.3 The definition for “objective” should be elaborated to explain that “an objective” entails an entity meeting a specific service delivery target based on what was initially planned or set out for the entity. An entity’s objective should be aligned with what the user’s perception is with regards to its purpose and aim.

- 1.4 The term *result*, as currently used in the definition of “objective” impacts some of the other working definitions (ie impact and outcome), and we therefore propose that *result* should also be further explained in clarifying its meaning.
- 1.5 The examples used in table A, that illustrate the terms and working definitions, are mostly financial related. Because reporting on service performance information involves reporting on both financial and non-financial information, we suggest that the examples should be expanded to also illustrate how these indicators are linked to non-financial information in communicating how resources were used and what was achieved as a result of their usage.
- 1.6 During our consultation, it was suggested that the four dimensions discussed in section 4, could be illustrated in the proposed framework by applying the performance indicators discussed in this section, to those dimensions.
- 1.7 The working definition for ‘performance indicators’ states that indicators are qualitative **or** quantitative measures. It is suggested that the wording **and/or** is used instead, as certain measures can include both qualitative and quantitative aspects and will therefore be more meaningful. Using one or the other could impair the quality of information.
- 1.8 With reference to the example for ‘outputs’ it is suggested that percentages will be more meaningful where the full population is quantified, for instance where the infant population is 100 000 a 10% inoculation will create more tangible evidence of service performance than where the population is 10 000.
- 1.9 It is suggested that the definition for “outcomes” should include a reference to progress made. We propose that the following phrase should be added:

Outcomes are the impact of outcomes and progress made in delivering the reporting entity’s objectives.

Section 4 – Users of Service Performance Information, their Needs and Information Needed to Meet their Needs

As noted in our response to specific matter for comment 4, we agree with the four dimensions of service performance information and are not aware of any other dimensions. We do have the following comment concerning the four dimensions.

- 1.10 We suggest that the distinction between the four dimensions ie why, what, how and when should be further strengthened and explained in the proposed framework in clarifying how reporting service performance information meet users needs.

Dimension 1: Information on the public sector entity’s objectives, including the need or demand for these objectives to be achieved

- 1.11 We are of the view that requiring entities to explain the *need or demand of an objective* as required in paragraph 4.5(a) and explaining *why a service is provided* as required in paragraph 4.7 may be too onerous for inclusion in the service performance information report. We understand these requirements to be an explanation of why a specific objective was identified by the reporting entity, which is

different from explaining why the service objective was included in the service performance information report.

Identifying an entity's service objectives are part of another, more detailed process that is normally determined by government and agreed at a higher level before the detail is included in the entity's strategic or business plan. We therefore suggest that entities should be required to only report on those objectives set and agreed at this higher level, without explaining why the service objective falls within the entity's mandate, or what the need or demand for the specific service entails.

The requirement in paragraph 4.5(a) and paragraph 4.7 should be reconsidered to limit the reporting requirement to an explanation of why the service objective, that forms part of the entity's mandate, has been included in the service performance information report.

1.12 In meeting users' needs when determining what service objectives should be included and explained in the entity's report on service performance information, the entity should develop criteria to identify users' needs and to determine what users see as relevant and would like management to report on in its service performance information report.

We suggest that the discussion of the first dimension should be expanded to require the entity, as a first step, to consult or interact with its users in identifying what service objectives, as included in its agreed strategic or business plan, should be reported on in its service performance information report, based on user's needs. This will assist the preparers of the service performance information report to identify the scope of the service performance information report as discussed in section 5 of the Consultation Paper.

A well-known set of selection criteria that could be applied by entities is the "SMART" criteria:

- Specific: the nature and the required level of performance can be clearly identified
- Measurable: the required performance can be measured
- Achievable: the target is realistic given existing capacity
- Relevant: the required performance is linked to the achievement of a goal
- Time-bound: the time period or deadline for delivery is specified.

Dimension 2: Input, output, outcome, efficiency, and effectiveness indicators, including service recipient perception or experience information

1.13 Paragraph 4.11 states that output and outcome indicators may include service recipients' perceptions of, or experience with the quality of services. During our consultation, it was questioned how an entity will be able to determine such perception.

It is suggested that the proposed framework should rather indicate that the service recipients' perception is a measurement method to evaluate the quality of the service

(ie the effectiveness indicator), rather than to suggest that the output and outcome indicators may include such perceptions.

- 1.14 Furthermore, we are of the view that recipient perception or experience is rather an indication of *how well* a service was performed. We therefore suggest that the discussion should form part of the discussion of the “how” dimension in paragraphs 4.13 to 4.15.

Dimension 3: Comparisons of actual performance to projected (or targeted) results

- 1.15 This dimension requires a comparison of actual performance against projected or *targeted results*. It is not clear from the discussion in this section how the *projected or targeted results* link back to the service performance working definitions discussed in section 3 of the Consultation Paper.

We suggest that the IPSASB should explain the link or relationship between *projected or targeted* and *results* and the performance information concepts (ie objectives and outcome) as identified in section 2. Also see comment 1.4 in this regard.

- 1.16 The discussion in this dimension could also be elaborated with a requirement that management’s assumptions should be explained, along with a discussion on how these assumptions impacted the actual results.
- 1.17 Information on the deviation of initially planned activities and objectives, including the reasons and the impact of such deviations, could also be discussed as part of this dimension, because it impacts on “what”, and to “what extent” the entity’s service objectives were met. We suggest that an explanation on the deviation of planned objectives and the reasons therefore should also be discussed as part of this dimension.
- 1.18 During the consultation, it was suggested that this dimension should not only focus on a comparison between actual and projected (or targeted) results of the reporting entity, but that the requirement should be extended to allow comparisons between various jurisdictions concerning related services.
- 1.19 Paragraph 4.14 indicates that external and internal factors, other than the service delivery itself, may influence service performance. Even though we do not disagree with the statement, it should be highlighted that these external and internal factors can only impact an entity’s service performance to the extent that it is linked to the entity’s objectives. We suggest that this argument should be emphasised in the discussion of this dimension.
- 1.20 The discussion under this dimension seems to focus on “whether” an entity has achieved its projected or targeted results and does not explain “what” results are achieved. We propose that the proposed framework should strengthen the discussion on the “what” dimension.

Section 5 – Which Components of Service Performance Information should be included in GPFRs

As noted in our response to preliminary view 3, we propose that part(c) and part (d) should be combined into a single component. We also have the following additional comment on other aspects included and discussed in this section.

Information on the scope of the service performance information reported

- 1.21 We do not support the view in paragraph 5.3 that the information to be included in the service performance information report concerning the scope, has similarities with the statement of accounting policies. The information reported on under the scope of the service performance information report more articulate a basis of preparation than *specific principles, bases, conventions, rules and practices to be applied in preparing a service performance information report*. We are of the view that it is more accurate to state that the scope of the service performance information report has similarities with the basis of preparation outlined in the financial statements, as accounting policies are specific to financial statements. The analogy to the reporting of service performance information is inappropriate.
- 1.22 Paragraph 5.4 could be elaborated to require an entity to state, as a starting point, whether all services have been included in the service performance information report, and if not, then only an explanation should be included to explain which services have been included and the reasons for selecting those services.
- 1.23 The proposed framework could also require entities to report on any legal or other restrictions imposed on services that restrict the entity from reporting on these services as part of the service performance information report.
- 1.24 The difference between this component which requires information on what services have been included in the service performance information report (paragraph 5.4) and, information explaining how the objectives were established and how users' needs and demands were determined (paragraph 5.10) is not clear from the Consultation Paper. To avoid duplicating information in the service performance information report, we suggest that the different requirements in paragraph 5.4 and paragraph 5.10 should be clearly articulated in the proposed framework.
- 1.25 We suggest that the phrase "the level of detail of the service performance information reported" (paragraph 5.3(f)) should be amended to "approach taken to determine which services to report on", because it might be argued that a discussion on the *level of detail* rather forms part of the component that requires a narrative discussion of the achievement of objectives (paragraphs 5.19 to 5.23 of the Consultation Paper).

Information on the public sector entity's objectives

- 1.26 As mentioned previously, we do not support the requirement to explain *how* the entity's objectives were established as required in paragraph 5.10 (see our comment in paragraph 1.10). We are of the view that such a requirement is too onerous for inclusion in the service performance information report because identifying an entity's service objectives are part of another, more detailed process that is normally determined by government and agreed at a higher level. Entities should be required to report on their agreed service objectives as set out the strategic or business plan, without explaining why the service objective were determined or falls within their

mandate, or what the need for that specific objective was prior to its inclusion in the strategic or business plan.

- 1.27 It is not clear from the discussion in paragraphs 5.9 to 5.11 what is meant with “source of the objectives reported”. We suggest that the proposed framework elaborate on this requirement if information on the “source of reported objectives” is to be included in the service performance information report.
- 1.28 When reporting on service performance information, the entity should link its objectives to performance indicators to allow users to assess how efficiently and effectively the entity used its resources to provide services and achieve its objectives. We do not understand the rationale for providing a *description and explanation* of such a link as required by paragraph 5.8(c). We suggest that this requirement should be further clarified and explained in the proposed framework if such a description and explanation is required in the service performance information report.
- 1.29 We suggest that the last sentence in paragraph 5.10 “service performance indicators used as targets set user expectations of the level of accomplishment of those objectives” should be clarified.

Narrative discussion on the achievement of objectives

- 1.30 Paragraph 5.19 requires “balanced explanations” but what exactly “balanced” entails, is not clear from the discussion paragraphs included in this section.

We suggest that “balanced explanations” should be more clearly linked to the qualitative characteristics as included in the General Purpose Financial Reports for public sector entities, or as an alternative, that it should be linked to the concepts explained in paragraph 5.24.
- 1.31 We suggest that paragraph 5.22 should clarify that the narrative discussion of the factors that may have influenced the achievement, or lack of achievement, of the objectives within the reporting of service performance information, should not undermine the reason of why the services were not delivered. This is because entities would be inclined to give information that reduces the responsibility for the lack of performance by placing, or trying to place, some on the reasons and factors outside the entity’s control.
- 1.32 It is suggested that the explanation of “indirect consequences” (paragraph 5.22) be illustrated by the use of an example. The following example may be considered:

Where a programme is initiated to reduce the level of poverty and unemployment within a specific area, and it is noted that the pregnancy rate is reduced or that the spread of HIV/AIDS is lower in areas where the programme was initiated due to better access to information or health care and less idle time, such consequences would be considered as “indirect” to the original objective.

Challenges of reporting service performance information

- 1.33 Paragraph 5.24(g) identifies the possible consequences for the reporting entity as a result of the reported service performance information, as a challenge for reporting.

Even though we agree that this is a challenge for the reporting entity, we suggest that the service performance information report should communicate these consequences to the users as part of the service performance information report. We therefore suggest that paragraph 5.24(g) and the related explanation in paragraph 5.32 should be included in section 5.19 to 5.23 that requires a narrative discussion on the achievement of objectives. The narrative discussion could address how these consequences will be diverted into opportunities to improve the service delivery objectives.

PART V – EDITORIAL AND OTHER MINOR COMMENTS

The following editorial and other minor comments are proposed:

Paragraph	Comment
1.6 last sentence	<p>We suggest the following amendment:</p> <p>Providing service performance information also can <u>can also</u> influence decisions of users in their transactions with a public sector entity.</p>
5.12 bullet (a) and 5.13	<p>Reference is made to assessing the performance of the service provided.</p> <p>We suggest that it should be changed to “assessing the entity’s performance in meeting or achieving its service objectives”.</p>
5.12(b)	<p>We suggest the following amendment:</p> <p>The degree <u>extent</u> to which service performance objectives have been met</p>
5.15	<p>We suggest the following amendment for consistency between with section 3 where performance indicators were discussed:</p> <p>The five types of service performance indicators...”</p>
5.22	<p>The indirect consequences of services not provided should also be reflected in this part of the service performance information report.</p> <p>We suggest that “or not provided” should be added in the first sentence.</p>
5.24(a)	<p>We suggest the following amendment:</p> <p>Service performance expectations <u>objectives</u> are clearly specified and the degree to which those expectations <u>objectives</u> have been achieved is clearly reported.</p>