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Dear Ms. Fox

Exposure Draft 54: Reporting Service Performance Information

Ernst & Young Global Limited, the central coordinating entity of the global EY organization, welcomes the opportunity to offer its views on the above Exposure Draft (ED or proposal).

We generally agree and support the IPSASB's proposal on reporting service performance information support as this guidance fills a gap in this area of reporting by public sector entities.

Please find our responses to the specific matters for comments set out in the Appendix to this cover letter. Should you wish to discuss the contents of this letter with us, please contact Thomas Müller-Marques Berger at (+49) 711 9881 15844 or via email at thomas.mueller-marques.berger@de.ey.com or Serene Seah-Tan at (+65) 6309 6040 or via email at serene.seah-tan@sg.ey.com.

Yours sincerely,

Ernst + Young Global Limited

Appendix

IPSASB Specific Matter for Comment 1:

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

We generally agree and support the IPSASB's proposal on reporting service performance information as this guidance fills a gap in this area of reporting that has been lacking guidance. However, we note the following for the Board's consideration:

- ▶ We agree that this guidance be issued as an RPG for now, but we urge the Board to revisit this decision at a later stage, i.e. elevating this to a standard. Although service performance information is not part of financial reporting, as mentioned in BC 5, the primary function of governments and most public sector entities is to provide services to constituents; hence we believe that their financial results need to be assessed in the context of the achievement of service delivery objectives.
- ▶ The required information under paragraph 43 (information required when service performance is reported separately from financial statements) is based on the assumption that the entity reporting service performance information is required to prepare GPFS. Instances where an entity is not required to prepare GPFS, but elects to prepare a service performance report in accordance with this RPG, should be required to provide relevant financial data to help users understand the service performance report.
- ▶ The guidance in paragraph 55 seems contradictory to the objective in paragraph 31. Paragraph 31 states that
"An entity should report service performance information that is useful for accountability and decision making. It should enable users to assess the entity's:
(a) Service delivery activities and achievements during the reporting period ..."

In order to meet the objectives as described in paragraph 31, the information described in paragraph 55 should be required, and not just 'encouraged' to be displayed. Moreover, the last sentence of paragraph 55 rightly reinforces and justifies the importance of such disclosure - "By reporting outcomes in relation to inputs and outputs an entity most directly addresses the question of whether the entity's service provision is having the intended effect and whether the resources spent on services are producing the intended results."

- ▶ Paragraphs 45, 47 and 49 discuss the level of detail that is appropriate when displaying relevant service performance information without linking it back to meeting the users' needs as described in paragraph 31. We think the level of detail provided needs to meet the objectives in paragraph 31 as well.

IPSASB Specific Matter for Comment 2:

Do you agree with the definitions in paragraph 8? If not, please provide reasons.

The current definitions of effectiveness, efficiency and outcomes in paragraph 8 are as follows:

“Effectiveness is the relationship between actual results and service performance objectives in terms of outputs or outcomes.

Efficiency is the relationship between (a) inputs and outputs, or (b) inputs and outcomes.

Outcomes are the impacts on society, which occur as a result of the entity’s outputs, its existence and operations.”

Here are our comments on the definition of ‘outcomes’ (and the related description in paragraph 15):

- ▶ We believe it is important to establish causality between entities’ inputs / actions and the outcomes it reports on, with a view to providing quality performance information. Following on the example of crime reduction in paragraph 15, a piece of useful information for user would be how much of the reduction in crime can be directly attributed to the work of the entity and hence its “performance”? The user of the information needs to understand these causal relationships if the information is to be useful. Therefore we recommend including some additional guidance around how such context can and should be presented.
 - ▶ This could be partially achieved through amending the definition of ‘outcomes’, by adding the word ‘directly’ in the definition of outcomes.
- ▶ The effectiveness and efficiency of a public sector entity is measured with reference to outputs or outcomes. In relation to the definition of ‘outcomes’, it’s not clear how entities are supposed to assess effectiveness and efficiency with outcomes whose definition includes ‘existence’. To us, in order for an entity to make an impact, existence is a given, an entity has to exist to have outputs and operations. Hence the reference to existence seems superfluous.

Further, the illustrations in paragraph 15 appear to be too simplistic. Using the example in paragraph 15 - attributing falling crime rates in an area to the mere existence of a crime prevention agency - presumably there would be multiple factors that influence crime rates (e.g. extent of bribery/corruption and collusion between criminals and the police force).

- ▶ As the service performance report of an entity relates to its achievement of objectives and utilization of resources to realize those objectives for the recipients of its services, how would an entity track its impact beyond identifiable recipients/beneficiaries of its activities? We suggest that outcomes be defined more narrowly, and include only identifiable recipients and beneficiaries. If it is applicable and feasible for some agencies to measure its impact on the wider society, we suggest that the Board consider exploring that in an explanatory paragraph, instead of including ‘society’ in the definition.
- ▶ In summary, we suggest deleting paragraph 15, modifying the definition of outcomes as follows and adding an explanatory paragraph on possible impact that’s wider than identifiable recipients and beneficiaries:

- ▶ “Outcomes are the impacts on identifiable recipients and beneficiaries ~~society~~, which occur directly as a result of the entity’s outputs, ~~its existence~~ and operations.
- ▶ In circumstances where an entity is able to assess the outcomes of its outputs and operations wider than identifiable recipients and beneficiaries, it should assess its effectiveness and efficiency on that wider basis.”

IPSASB 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 this?

We believe that it is important to link service performance reporting different levels of entity within government, to the concepts and principles in IPSAS 24 *Presentation of Budget Information in Financial Statements* on reporting budget information. There is a logical connection between the resources that are reported on in IPSAS 24, and the activities those resources are used in and reported on in terms of this proposed RPG. Without the corresponding budget information as context, it may be difficult to adequately assess entity performance.

More specifically, we recommend that the principle of public availability / accountability be included as a guiding principle for determining when and what service performance information should be reported.

IPSASB 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?

We agree that service performance information should at least be reported annually, and use the same reporting period as that for the financial statements. In cases where the reports are not the same reporting period, there should be reconciliation disclosures and additional comparative cut-off disclosures to enhance users’ understanding of the service performance report.

IPSASB 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.

IPSASB 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 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?

- a) We suggest that Paragraph 41 include discussion of audit considerations as one of the factors when deciding whether to provide service performance information as part of a report that includes the financial statements or separately, i.e. if the information in the service performance report does not need to be audited, but the rest of the report containing the financial statements has to be audited, presenting the service performance report in that report might not be feasible.
- b) Paragraph 43: If the service performance report is prepared in accordance with this RPG and other legislative requirements, the name and other relevant details of the legislation should also be disclosed.

IPSASB 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 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?

We agree.

IPSASB 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?

- a) It is not apparent that the requirement in paragraphs 50 & 51 is drafted on the basis of communicating key messages in a GPFR. If that is the Board's intention, it needs to be spelt out in paragraphs 50 & 51. However, we are not sure how preparers would be able to display information on that basis, in particular, *planned* (emphasis added) information with respect to performance indicators and service costs (as required in para 51a).

Additionally, we believe it would be more useful to present performance information relating to inputs and outcomes in detail since these are directly attributable to the entity's performance, and to provide more high-level, narrative information about impacts which may have been partially influenced by the entity's performance, in a separate section.

IPSASB 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 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?

- (a) & (b): We agree.

Minor editorials:

- ▶ Para 42 made a reference to paragraph 44, but the reference should be to 41: '42. With respect to point (a) in paragraph 44- 41 above ...'