

28 May 2014

Ms Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox,

**Exposure Draft 54: Proposed Recommended Practice Guideline
Reporting Service Performance Information**

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the above Exposure Draft. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG supports the Recommended Practice Guideline (RPG) noting it provides a set of principles for a framework for the reporting of service performance information. ACAG notes that the RPG seeks to outline minimum requirements which need to be met for an entity to comply with these guidelines. However, when comparing the principles to more mature frameworks in Australia, ACAG believes that some changes to the RPG will benefit users. In consideration of this view, when addressing the specific matters for comment, ACAG provides additional comments and suggestions for improvement.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely



Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

Exposure Draft 54: Proposed Recommended Practice Guideline Reporting Service Performance Information

Specific Matter for Comment 1

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

ACAG generally agrees with the proposals in the ED. The reporting of service performance information is an important step in assisting users in assessing whether an entity is performing efficiently and effectively against its specified objectives.

Specific Matter for Comment 2

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

ACAG agrees with the proposed definitions in paragraph 8.

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?

ACAG generally agrees that the ED adequately addresses reporting of service performance information at different levels within government. However, it is noted that the ED's guidance on aggregation addresses controlled entities only and not situations where the delivery of programs involve multiple non-controlled entities. As noted in our submission to the IPSASB's CP on this subject, ACAG suggests that the ED should explicitly accommodate consistent measurement and reporting of service performance information for programs that involve multiple entities within the same jurisdiction.

ACAG also supports the proposal for entities to report against original and revised objectives where the accountability for services is transferred during the reporting period.

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 two matters?

ACAG agrees that service performance information should be reported annually using the same reporting period as the financial statements and be reported at the same time.

In addition, ACAG believes that where users require entities to prepare half-yearly financial statements, and the benefits outweigh the costs, the ED should encourage the half-yearly reporting of 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?

ACAG generally agrees with the proposed principles for the presentation of service performance information. However, ACAG considers that the ED could further emphasise the need for a well-defined balanced set of performance indicators. A full understanding of performance can only be obtained with a complete set of balanced performance measures. For example, an efficiency measure may show an entity has not achieved any productivity gain, however a complementary measure may show that the quality of the service has improved or the backlog has reduced. Similarly when looking at building projects, it is not sufficient to only track whether the project is on time and on budget. If approved quality standards are not adhered to, the entity could deliver (or accept) a sub-standard piece of infrastructure which will incur higher maintenance costs in the future and might not achieve the desired outcomes. There are inherent trade-offs in allocating resources and dangers in analysing only some aspects of outcomes.

Further, ACAG believes that the ED could more clearly articulate that externally reported performance information should be derived from the performance information an entity's executive uses on a regular basis to manage the business. Ideally, the external and internal performance measures should be aligned and cascaded down to business units or divisions.

ACAG believes that for service performance information to be relevant (paragraph 34), it is critical for performance indicators to link directly with the objective of the service. When considering the relevance of service performance information, performance indicators should also "measure the extent to which the entity has achieved objectives" for the purpose of "holding the entity accountable..." and "users' decision making". Relevant indicators should explain what is happening and why, and show whether performance is improving or declining over time.

ACAG believes the use of materiality in paragraph 36 to select service performance information for presentation conflicts with materiality's inclusion in paragraph 35 as a pervasive constraint. ACAG would like to repeat the view expressed in its submissions on CF-ED 1 and the CP that ACAG considers materiality to be an aspect of relevant and sufficient information instead of a reporting constraint.

ACAG notes paragraph 37 states that "Assessing whether the benefits of providing information justify the related costs is often a matter of judgment", which could be construed to allow an entity to not report service performance information. Costs should be considered when determining the extent and nature of the performance measures used, but should not cause information to not be reported.

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?

ACAG agrees with 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 separate report. However, ACAG's preference is for service performance information to be presented as part of a report that includes the financial statements, as this approach is considered more useful to users. ACAG also agrees with the additional information to be presented when issued in a separate report. In ACAG's experience in Australia, jurisdiction-specific guidance or legislation will also determine the reporting presentation format. However, authoritative guidance from the IPSASB will assist in ensuring jurisdictional guidance or legislation is based on a commonly accepted framework with minimal variation.

ACAG also recommends that where service performance information is presented as part of a report that includes the financial statements, an explicit statement be made that the information does not form part of the audited financial statements. While the service performance information may not be subject to audit, it would still fall within the scope of IAS 720 *The Auditor's Responsibility Relating to Other information in Documents Containing Audited Financial Statements*. ACAG believes that the placement of information is a decision for governments and parliaments and allows them the ability to elect to have the information audited, reviewed or not subject to specific assurance procedures.

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?

ACAG agrees with the proposed flexible approach to presenting service performance information. However, as discussed in Specific Matter for Comment (SMC) 5, ACAG believes it is important that a balanced set of measures is developed and reported on. Similarly, in relation to cross-entity programs or output delivery as noted under SMC 3, the need for consistency in presentation and evaluation is important for long-term trend analysis.

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?

ACAG generally agrees with the proposed service performance information that should be displayed and disclosed for reporting purposes. However, ACAG notes paragraph 55 states that "An entity is encouraged to display information" about its intended outcomes and achievement of its outcomes. ACAG believes that outcome measurement is very important to public sector entities and their stakeholders and is not convinced by the explanation in BC38 that because outcome information is difficult the decision was only to "encourage" its reporting. Therefore, ACAG suggests a change in the wording to require outcome reporting unless there are valid reasons for not doing so.

Similarly, paragraph 80 requires certain information to be "considered" for disclosure. ACAG believes that as the information assists users to better understand and interpret service performance information it should be disclosed. ACAG also believes that the disclosures should include an explanation about an entity's outcomes, the relationships between services and outcomes, and how outcome performance indicators measure the extent to which outcomes have been achieved.

As outlined in SMC 3, cross-entity disclosures should also be encompassed within the guidance for Presentation of Service Performance Information.

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?

ACAG agrees with the approach of providing a principles based framework as guidance for good practice. However, ACAG believes that to achieve this, the guidance and principles require further refinement as reflected in earlier comments such as requiring a balanced set of measures (SMC3) and requiring, rather than just encouraging, certain disclosures (SMC8).

Other Comments

ACAG would encourage the IPSASB to consider the development of standards level guidance at a later stage. ACAG believes that the inclusion of an appendix with illustrative examples will help preparers' better understand how to apply the content and concepts within the ED.

Finally, ACAG notes that the ED is silent in relation to IPSAS 24 *Presentation of Budget Information in Financial Statements*. IPSAS 24 requires public sector entities to disclose within financial statements, explanations for material differences arising between actual and publically available budget information. Budget information may, or may not, be utilised in certain aspects of measurement and reporting of service performance information. Whilst the ED at paragraph 66 encourages reporting consistent service performance information wherever possible, guidance in relation to any potential interaction with IPSAS 24 may well prove beneficial to some preparers.

Other Cosmetic Changes

- Section 18 (d) has (d) twice.
- Section 42 refers to paragraph 44, it should be 41.