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The Technical Director
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CANADA

11 APR 2012

Dear Sir/Madam

Consultation Paper: *Reporting Service Performance Information*

The Australian Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on its Consultation Paper: *Reporting Service Performance Information*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC supports the IPSASB's efforts in developing a framework for the reporting of service performance information. Attachment A to this letter sets out HoTARAC's detailed responses to each of the IPSASB's Preliminary Views and Specific Matters for Comment.

Any queries regarding HoTARAC's comments on this consultation paper should be directed to Ms Sue Highland from Queensland Treasury and Trade on +61 7 3035 1439 or email to sue.highland@treasury.qld.gov.au.

Yours sincerely

Grant Hehir

CHAIR

**HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY
COMMITTEE**

// April 2012
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HoTARAC RESPONSE TO IPSASB CONSULTATION PAPER “REPORTING SERVICE PERFORMANCE INFORMATION”

General comments

HoTARAC perceives that the focus of this Consultation Paper is on individual public sector entities. HoTARAC recommends that the IPSASB consider extending the scope of this project to include service performance reporting in whole-of-Government general purpose financial reports, as such reporting would be equally relevant at that level. However, for the reasons described in paragraph 1.7 of the Consultation Paper, HoTARAC prefers that such reporting only be encouraged, until such time that governments globally are capable of compiling and reporting on service performance information.

Preliminary View 1 (following paragraph 1.6):

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*.

HoTARAC agrees that the reporting of service performance information meets the objectives proposed in that exposure draft. However, HoTARAC reminds the IPSASB of the following concerns included in HoTARAC’s submission on CF-ED 1 –

- more analysis is needed regarding the nature of decisions made by users to determine the appropriate information (both nature and amount) to be included in GPFRs; and
- more clarity would be useful about the concept of “accountability”.

Preliminary View 2 (following paragraph 3.5):

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.

To facilitate consistency in interpretation across public sector entities in different jurisdictions, HoTARAC agrees that it is a worthwhile exercise to develop standard service performance information terminology. HoTARAC also agrees with the terms, working definitions, and most of the examples, in Table A.

ATTACHMENT A

Performance reporting has been adopted, to varying degrees, across jurisdictions globally, and the use of terminology is unlikely to be consistent universally. Hence, HoTARAC believes that, to overcome any preconceived ideas about intended meaning and to facilitate consistent interpretation, the examples and Exhibit A need to clearly demonstrate how the defined terms are distinguished from each other (including whether there is any hierarchy between particular terms).

However, HoTARAC notes some overlap between the examples for “objective” and “outcomes”, and strongly recommends that this overlap be removed. It would also be useful if guidance is provided about the selection of performance indicators to reliably measure an entity’s performance, and at the same time, avoid distortion by factors beyond the entity’s control.

Preliminary View 3 (following paragraph 5.23):

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.

Overall, HoTARAC questions the usefulness of separately articulating these components, in addition to the dimensions of service performance information in section 4 of the Consultation Paper, particularly as there is significant overlap between them. For example, component (b) is included in dimension (a), and components (c) and (d) would be covered by dimensions (b), (c) and (d) collectively. HoTARAC considers that the separate articulation of “components” and “dimensions” would over-complicate the proposed framework.

HoTARAC also believes that component (d) should be addressed by component (c), as references to “information” do not restrict such information to be only quantitative in nature. Further, HoTARAC suggests that such narrative information should ideally also address the entity’s future performance prospects, in relation to external influences and changes in the entity’s resources (whether they have already occurred or are anticipated to occur). This is also considered to be relevant information for users.

To address the above issues, HoTARAC strongly recommends that the “components” and “dimensions” be merged, and overlap thereby eliminated.

Preliminary View 4 (following paragraph 6.9):

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

HoTARAC agrees that the IPSASB's proposed qualitative characteristics of, and constraints on, information for general purpose financial reports are also applicable to service performance information – except for the proposed constraint of “materiality”.

As explained in HoTARAC's submission on the IPSASB's Conceptual Framework Exposure Draft 1, HoTARAC believes materiality is really an entity-specific component of relevance, consistent with the IASB's Conceptual Framework. The literal interpretation of “constraint” is a limitation or restriction. This is not the case with “materiality” – it relates instead to the relative usefulness of information. As explained in the IASB's Framework, “the relevance of information is affected by its nature and materiality”. Also, as explained in the AASB's standard AASB 1031 *Materiality*, “materiality is a matter of professional judgement influenced by the characteristics of the entity and the perceptions as to who are, or are likely to be, the users of the financial statements, and their information needs”. HoTARAC cannot identify any reason why these views are not applicable in a public sector context; hence, the concept of materiality is better classified as an entity-specific component of relevance.

Finally, HoTARAC recommends that the last sentence of paragraph 6.9 be expanded to more clearly explain the trade-offs involved and the “point beyond which some trade-offs ... would not be considered unacceptable”.

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?

In the medium-term, due to the circumstances described in paragraph 1.7, HoTARAC believes option (b) is the most appropriate. In light of the less-developed nature of service performance reporting globally, HoTARAC believes it is premature to require public sector entities to report service performance information where this is not currently occurring. For those public sector entities that do report such information, HoTARAC considers that issuing non-authoritative guidance would not be a reliable way to achieve consistent and comparable information across those entities.

However, in the long-term, HoTARAC supports option (c), provided there is a sufficiently long transitional period for entities to develop and implement appropriate and reliable service performance reporting processes.

Specific Matter for Comment 2 (following paragraph 2.3):

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

HoTARAC supports the development of a reporting framework that facilitates comprehensive and balanced reporting of service performance information. However, HoTARAC agrees that this project should not identify specific indicators, as the nature of activities undertaken by individual public sector entities globally would vary widely. The content of service performance information reported by an individual entity needs to be specific to that entity's activities and objectives.

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)?

HoTARAC believes it is most useful if the service performance information included in GPFRs is for the same reporting entity as for general purpose financial statements published. Further, HoTARAC recommends that the service performance information be linked to any associated disaggregated information contained in those general purpose financial statements.

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?

As mentioned in response to Preliminary View 3, HoTARAC questions the usefulness of separately articulating these dimensions in addition to the components of service performance information in section 5 of the Consultation Paper, particularly as there is significant overlap between them. HoTARAC considers that the separate articulation of "components" and "dimensions" would over-complicate the proposed framework. HoTARAC therefore strongly recommends that the "dimensions" and "components" be merged, and the overlap thereby eliminated.

Aside from that fundamental concern, HoTARAC recommends –

- that the linkages between dimensions (b), (c) and (d) be clearer, particularly as paragraph 4.13 points out that reporting of indicators on their own is not useful but, in conjunction with the projected/ targeted results, such indicators are useful;
- that service performance reporting at an entity level also include reporting of performance against associated whole-of-Government objectives and outcomes, not just objectives and outcomes of the entity itself;
- that the need for comprehensive and balanced performance information be emphasised, including consistency in the nature of indicators reported from year to year (unless there are legitimate reasons to vary the indicators, and those reasons are explained to users); and
- in relation to "dimension" (b), "service recipient perception or experience information" should only be non-mandatory subordinate information, consistent with some of the points in paragraph 4.12.

Further, the nature of some public sector entities' activities (e.g. as with tax collection entities or audit entities) is such that positive service recipient experience information is unlikely to be received, regardless of the entity's level of service.

Specific Matter for Comment 5 (following paragraph 7.9):

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 GPFSSs, (b) in a separately issued GPFR, or (c) in both a separately issued GPFR and as part of the currently issued GPFR?

HoTARAC does not support the inclusion of service performance information in GPFSSs, due to the impracticalities of auditing such information, and in light of the circumstances described in paragraph 1.7.

Aside from that concern, HoTARAC does not believe it is appropriate for the IPSASB to specify the specific location of service performance information that is reported within an entity's GPFRs. This is a judgement that is best made by an individual entity, bearing in mind the scope and nature of the information to be reported, linkages with the entity's GPFSSs, and the characteristics and interests of the users of the entity's information. It may be appropriate for different elements of service performance information to be reported in different parts of an entity's GPFRs.

Editorial suggestions

The Consultation Paper refers to "comparability" of service performance information in a number of places (refer to paragraphs 1.9, 1.10, 1.11 and B7). However, as the detailed content of such information reported would vary widely between public sector entities globally, HoTARAC believes that "comparability" can really only be achieved in respect of the broad presentation of the information. Therefore, HoTARAC strongly recommends that all references to "comparability" be clear about the extent to which comparability of information is achievable.

Paragraph 6.5 – towards the end of the last sentence, it is recommended that replacing the word "supersede" with "outweigh" would better convey the meaning of that sentence.

Paragraph 7.3 – to prevent confusion between annual general purpose financial statements (GPFSSs) and annual reports (the latter being included in GPFRs), it is recommended that the word "financial" be removed from the wording in the brackets.