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Dear Stephenie

Consultation Paper: Reporting Service Performance Information

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) Consultation Paper: *Reporting Service Performance Information* (the Consultation Paper).

The Auditor-General of New Zealand has a requirement to audit service performance information of certain entities in the New Zealand public sector, and has been doing so for over 20 years. The service performance information is contained in the entities' annual reports alongside (or as part of) their financial statements. As a consequence we have developed considerable experience in this area, although we acknowledge there is still room for improving the standard of service performance information.

The absence of reporting standards governing the reporting of service performance information has been a source of frustration for both the entities that are required to report such information, as well as for the Auditor-General. Therefore, the development of reporting standards by the IPSASB is welcomed.

We recognise that a standard on reporting service performance information must be capable of application by a wide range of jurisdictions. In our opinion, such a standard should be strongly influenced by principles rather than become overly technical.

The New Zealand experience is that there has been a lack of integration between the financial and service performance aspects of an entity's performance, with a consequence that the entity's overall performance "story" has not been consistently told. In addition, there has been a focus on terminology and technical requirements and this has in some ways clouded the effectiveness of service performance reporting. In our view, general purpose financial reporting by public sector entities should explain what has been done with the resources provided, what effect the entity has had, and whether it can continue to do so in the future. Such a view fits well with the objectives of general purpose financial reporting.

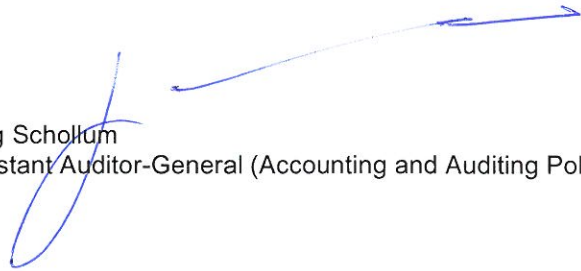
Therefore, in our view, a standard on service performance specifically needs to focus on the high level matters that enable the entity to tell users its performance "story". Such matters include:

- A clear articulation of the entity's purpose;
- The presentation of both financial and non-financial information on the same footing; and
- The use of service performance information that the entity uses on a day-to-day to manage its activities. In a well-managed entity such service performance information should align with the entity's purpose and should be readily available.

A further matter that we have observed is the very large size of the accountability documents, and the negative impact on their effectiveness for accountability purposes. For instance, many entities attempt to provide a detailed account of everything they do with the consequence that important matters become lost in the detail. This reduces the value of reported service performance information as a means of holding the entity to account.

We attach our comments on the matters that the IPSASB has identified in its Consultation Paper. If you have any questions or would like clarification about any of our comments, please contact me in the first instance. I can be contacted by email (greg.schollum@oag.govt.nz) or phone (+64 4 917 1603).

Yours sincerely



Greg Schollum
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Consultation Paper: Reporting Sector Performance Information

Our Comments

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 strongly agree that the reporting of service performance is necessary to meet the objectives of financial reporting.

In our view, general purpose financial reporting by public sector entities should explain what has been done with the resources provided, what effect the entity has had, and whether it can continue to do so in the future. Such a view fits well with the objectives of general purpose financial reporting.

In order for a public sector entity to explain these things, we believe it needs to tell users its performance “story”. The financial statements are a part of the story, but the financial statements alone cannot adequately tell the story. Knowing how much money has been spent by an entity tells the user little about what the money has been spent on and what has been achieved as a result. For accountability to be properly served, both financial and non-financial information (or service performance information) needs to work in conjunction with one another. For that reason, we think both types of information need to be put on the same footing.

We are not aware of the current status of the Conceptual Framework Exposure Draft (CF-ED 1). However, we repeat the comments included in our submission on CF-ED 1 that, in our view, it is important that the conceptual framework locks in the point that general purpose financial reporting is about conveying to users a story, regardless of whether or not most of the standard setting effort is likely to be directed to financial reporting standards in the meantime. Otherwise, any standards that are developed may not be appropriate to the broader context within which general purpose financial reporting should occur.

If the scope of the conceptual framework starts with the need for general purpose financial reporting to convey to users the story, financial statements will not be main focus of general purpose financial reporting. Rather, financial statements will support the telling of the story. This should help to ensure that in future financial reporting standards are developed in a manner consistent with public sector entities’ broader reporting responsibilities.

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.

In our opinion, it is essential that a standard on service performance reporting should be strongly influenced by principles rather than become encumbered by technical considerations. The New Zealand experience is that there has been a lack of integration between the financial and service performance aspects of an entity’s performance, with a consequence that the entity’s overall performance “story” has not been consistently told. In addition, there has been a focus on terminology and technical requirements that has reduced the effectiveness of service performance reporting.

An approach that reflects the purpose the entity, and how (or to what extent) the entity has achieved its purpose has considerable appeal because it specifically addresses the concerns of users from an

accountability perspective. A focus on the technical aspects of service performance reporting can be confusing and can hinder the clear presentation of the performance story.

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 broadly agree on the components of the service performance information to be reported. However, we would suggest that the public sector entity's objectives would come first in the hierarchy of presenting the entity's performance story.

Preliminary View 4

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.

We generally accept that the qualitative characteristics of information also apply to service performance information. The relationship between the qualitative characteristics, and their manner of application, will differ in some important respects in a financial reporting context as compared to a service performance reporting context simply because of the differing nature of the information. It is therefore important that the differences in the qualitative characteristics are acknowledged and that their application for service performance reporting is focused on the needs of users.

Specific Matter for Comment 1

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 would prefer the IPSASB to issue guidance over requirements – particularly in the early stages of reporting service performance information.

Specific Matter for Comment 2

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

We agree that this project should not identify specific indicators of service performance.

Specific Matter for Comment 3

Should service performance information included in GPFRs be prepared for the same reporting entity as for general purpose financial statements (GPFSSs)?

We agree that service performance information included in GPFRs be prepared for the same reporting entity as for general purpose financial statements (GPFSSs). Furthermore, we consider that the reporting entity should have the ability to report information relevant to its purposes (such as crime statistics in the case of an entity involved in law enforcement) to provide a context in which to assess its service performance.

Specific Matter for Comment 4

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 consider guidance on the dimensions of service performance should primarily focus on the needs of users. Therefore, the guidance needs to allow for flexibility in determining the appropriate indicator(s) for service performance. This approach recognises the wide differences in the types of activity carried out by an entity in the pursuit of its objectives, and the wide range of performance indicators that can be used to measure the entity's service performance. For example, service performance in certain areas of entity activity may be adequately measured by a single performance indicator.

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

The New Zealand experience is that there has been a lack of integration between the financial and service performance aspects of an entity's performance, with a consequence that the entity's overall performance "story" has not been consistently told. It is therefore essential, in our opinion, that the service performance information is contained in the entities' GPFRs alongside (or as part of) their GPFSSs.