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Swiss Comments to Exposure Draft 54 Service Performance Information

Dear Stephenie,

With reference to the request for comments on the proposed Exposure Draft, we are pleased to present the Swiss Comments to Exposure Draft 54 Service Performance Information. We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments to the Exposure Draft in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

SRS-CSPCP



Prof Nils Soguel, President



Evelyn Munier, Secretary

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1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the cantonal Ministers of Finance. One of its aims is to provide the IPSAS Board with a consolidated statement for all three Swiss levels of government (municipalities, cantons and Confederation).

The SRS-CSPSP has discussed *ED Reporting Service Performance Information* and comments as follows.

2. Comments to Consultation Paper

2.1 Specific Matter for Comment 1

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

The SRS-CSPCP is of the opinion that the general line of approach of this paper is correct. It is more comprehensible than its predecessor, the CP. However, it lacks a framework that would justify the requirements of service performance reporting. The Committee believes that in the ED too many details are dealt with, without discussing how this level of detail could be achieved. Not only is the ED too detailed but it is also too comprehensive and too ambitious.

Service performance reporting is a difficult undertaking, because the analyses are very complex. Performance analysis is a much more complex undertaking than drawing up financial reports. It demands skills and expertise that are different from those required by public bookkeeping and accounting. To treat them in an ED is an enormous challenge. There is a great deal of professional literature on this subject. It would be wrong and certainly counter-productive to want to make another manual out of this ED. For this reason the SRS-CSPCP is of the opinion that the ED should outline the main thrust of its concern and avoid getting lost in details, which do not provide the reader with a solution.

Although this ED is not an "IPSAS" Standard, but only an RPG, and although the SRS-CSPCP clearly understands that it is not an auditing standard, the question nonetheless arises how a performance report can be audited by a Supreme Audit Institution.

2.2 Specific Matter for Comment 2

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

The SRS-CSPCP is in agreement with the proposed discussions. It finds that only the definition of *outcomes* is inadequately developed. In this ED, no distinction is made between *impacts* and *outcomes*. The lack of distinction is somehow understandable since some consider outcomes to be impacts while others consider impacts to be outcomes. However, it is important to recognise openly that the expression *outcomes* can include various facts:

- Relatively direct impacts of public sector activity on individuals, organisations, the target group (in the measles inoculation example, it would be the positive (and possibly negative) impact on the health of the persons inoculated).
- Rather subsequent impacts on society as a whole as part of a public policy performed by the public sector (in the measles inoculation example it would be the impacts on the spread of the disease to the whole population, incl. persons not inoculated).

The SRS-CSPCP therefore would appreciate that the definition of *outcomes* is refined and extended.

Further, the question arises of the order of the definitions. They are arranged in alphabetical order (in the English language). However, this order is not consistent with the chronological order as one might have expected. If this were so, input would have to be first. From that perspective, the chosen order is rather counter-intuitive. The SRS-CSPCP therefore proposes that, in addition to the definitions, a diagram is offered, from which the relationship in which they stand to one another, is made clear.

In Paragraphs 18 (a) to (c) it is requested that in addition to individuals and institutions, *collectives* are also added to the list.

In Paragraph 18 (c) it is also requested that in addition to the above request the following addition is included „Transfers to individuals, institutions and *collectives*, for example, cash transfers and the provision of economic incentives such as tax incentives and grants; ..

2.3 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?

The SRS-CSPCP is in agreement with this statement.

2.4 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?

The SRS-CSPCP agrees that service performance information should be reported annually. Exceptions should however be permissible; above all for evaluations extending over a longer period.

The requirement of annual service performance reporting is relatively easy to implement for the *inputs* and the *outputs*, but incomparably more difficult to do for the *outcomes*. The reporting may become one-sided with respect to efficiency and effectiveness, for although a link between *input* and *output* can easily be constructed annually, in many areas it is almost impossible to establish a link, let alone a connection, between *inputs* and *outcomes*.

In general, it is scarcely possible to report on *outcomes* annually, because the necessary quantified results are not available, especially in the case of subsequent impacts (see above, definition of outcomes). In the best case the reporting would be limited to some description. However, it will be difficult to prove that any significant and causal link exists between the input and the outcomes. Therefore, the danger exists of putting forward a spurious correlation.

2.5 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?

Performance must be treated in its entirety, otherwise there is a risk of imbalance. The criterion of *materiality* must not be seen as an absolute or decisive criterion, as is suggested in the ED. As a matter of fact, this criterion is the only one to be designated as "a key issue". This criterion must be balanced with others from the beginning, because in practice the confrontation of gains and winners frequently results in only a limited measure of the performance being considered. This is even more the case when this ED indicates that the "benefits of reporting service performance information should justify the costs imposed by such reporting" and when it includes as a cost "the costs imposed by omission of useful information" and the costs stemming from the risk of a possibly wrong decision. The SRS-CSPCP can understand that the IPSASB would like to establish a kind of parallelism between the criteria for the GPFR and those for service performance reporting. However, one must be aware that these criteria are hardly applicable for performance analysis, especially if the reporting must take place annually and if it must include outcomes and effectiveness.

2.6 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?

The SRS-CSPCP is of the opinion that ideally the service performance reporting should be presented as part of the financial report and not issued separately. It is, however, conceivable that both forms be used: compressed reporting in the annual report, which provides information about the easily measurable aspects of the performance (*inputs* and *outputs*) and detailed reporting for selected topics in special reports, where this is possible (in particular for the *outcomes*). Although allowing for this would lead to some imbalance in the way the information is brought to the users, with the risk that users' attention concentrate on the easily measurable aspects of the performance because they are part of the GFFR. Therefore, the risk of oversimplification exists.

The SRS-CSPCP is in agreement with the requirements for separate reports in Paragraph 43.

2.7 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?

The SRS-CSPCP finds that Paragraphs 44 – 49 and above all Paragraph 46 require many details; but they are scarcely achievable. In Paragraph 45 in-depth analyses are required. But they require a great deal of time and highly-developed analysis methods, such as Data

Envelopment Analysis (DEA) or Free Disposal Hull (FDH) to obtain robust results. The SRS-CSPCP wonders if these methodological issues and obstacles were considered when drawing up the ED. The SRS-CSPCP is of the opinion that the requirements are described in less detail.

2.8 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?

The SRS-CSPCP is of the opinion that this part of the ED is far too comprehensive. The Committee was astounded at, according to this RPG, how much information the service performance reporting should contain. The result is that its application is too complicated. The entire chapter in this part should be shortened. Furthermore, the competent authorities should have enough scope in the design of the service performance reporting. For this reason the SRS-CSPCP is of the opinion that in this RPG, only minimum requirements should be set for service performance reporting.

Regarding Paragraph 50, the SRS-CSPCP suggests that Section (c) *Information of the cost of services* should be deleted. SRS-CSPCP can understand that the IPSASB would like to include this point in order to establish a link between the service performance reporting and the GPFRR. The *costs of services* are, however, part of the performance indicators and should *not* be mentioned separately. Furthermore, in contrast to the *performance indicators* and the *objectives* the *costs of services* were not defined (see Paragraph 8). Therefore, Paragraphs 64 and 65 should not form their own section. They should be included in the previous section. And subsequently, the title "costs of services" should be cancelled.

Following from that, Paragraph 51 should be changed as follows: "*With respect to performance indicators the entity should display...*;" the expression *service costs* should be deleted.

The SRS-CSPCP is of the opinion that Paragraph 69 goes too far with its demand for disclosure of discussions and analyses. The guidelines should contain only minimum requirements. Paragraphs 70 (b), 70 (c) and 70 (d) go too far and should be deleted without replacement.

Only a little information should be disclosed about service performance reporting. The following information is essential:

- The entity responsible for service performance reporting
- Clarity about the public control and the model applied (basic information about the definition, the control and the measurement of objectives, and about the evaluation of the results); but not for all areas.
- Scope of application (Scope of consolidation)
- Change in the reference period for specific objectives
- Information about the resources allocated (in broad terms or in detail)
- Law applied

It would, however, be an exaggeration to supply the following information:

- An explanation of the choice of what information is to be disclosed, because often this is a political decision

- The information sources. It must be indicated only so that the user can understand the quality of the disclosed information. It must be absolutely avoided that the public sector must cite a host of information sources. It seems logical that for internal figures or figures that derive from international or national statistics or figures that are captured regularly and in a standardised manner no source has to be cited. It is different for information that derives from external, non-official sources and selective, non-standardised analyses. These sources should be identified and mentioned accordingly.
- The basis for the cost determination, which explains the policy of the cost allocation including the treatment of direct and indirect service costs

2.9 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?

As already mentioned under Comment 8, the SRS-CSPCP finds the ED to be too comprehensive and too ambitious. Too many details are required without specific solutions proposed. Either the volume of this ED must be drastically reduced or examples must be provided in order to improve comprehensibility and enforceability of the requirements. This could be provided in an Appendix, or alternatively a reference could be made by means of a link to the internet portal of the IPSAS Board to already existing examples and good indicators.

Lausanne, May 21, 2014