

Perspective

This is one of a series of articles where experts in assurance, reporting and regulatory matters discuss recent technical and policy developments in these areas.



Service Performance Reporting – Closing the performance reporting gap for NFP entities

What are charity and NFP users missing?

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September 2015

Not-for-profit entities are on notice – financial information is not enough.

A recent study *Public trust and confidence in Australian charities*¹ has shown that charities were perceived as not providing enough information on how donations are used, the impact of a charity's work and the programs and services a charity delivers. This should be of concern for the 87% of Australians the study revealed to have contributed to charity in the last year.

Other not-for-profit (NFP) entities (e.g. government) are also facing increasing demands for performance reporting; for example, taxpayers/ratepayers should have access to information that shows how the resources provided have been used, the programs they have funded and the impact of those programs.

In the NFP sector, an entity's primary objective is providing goods and/or services for the community or social benefit, not the generation of profit. Accordingly, reporting on financial performance alone is not enough. Therefore, non-financial information about a NFP entity's achievement in delivery of those goods and/or services is essential for users to assess a NFP entity's performance. This concept is the crux of service performance reporting. Information about an entity's outputs and/or outcomes and relevant performance measures should assist users to evaluate how well a NFP entity has achieved its objectives.

So why is it that reporting on financial performance is mandatory, but there are no current

¹ *Public trust and confidence in Australian charities*, June 2015 available at <http://acnc.gov.au/trustandconfidence> (accessed 18 August 2015).

requirements to report on service performance?

What is the AASB doing?

The AASB has a mandate that includes formulating accounting standards for other purposes, such as service performance reporting proposals.² Therefore, in the interests of filling this NFP performance reporting gap the AASB issued in August 2015, for public comment, [Exposure Draft \(ED\) 270 Reporting Service Performance Information](#).

Similar to the IASB's Practice Statement *Management Commentary* that sets a framework for presentation, ED 270 proposes a framework, in the form of a draft Standard, for reporting service performance information.

The objective of the proposals is to establish principles and requirements for an entity to report service performance information that is useful for accountability and decision-making purposes. The proposals are also designed to help users assess whether a NFP entity has met its service performance objectives. This information should allow users to make good decisions about how to allocate their resources, for example, will they make a donation or a grant, and if so to which entity?

The benefits of undertaking this project are expected to include:

- (a) users would be provided with more relevant and understandable information about the financial and non-financial aspects of a NFP entity;
- (b) greater consistency of reporting by NFP entities; and
- (c) assisting NFP entities satisfy their accountability obligations.

The AASB is aware that some NFP entities may already be required to report service performance information in accordance with other regulations. For example, Commonwealth government entities, companies limited by guarantee and some local governments. Therefore, the proposals in ED 270 have been developed as high-level principles to help ensure they are not in conflict with other regulatory requirements.

Who will it apply to?

ED 270 proposals would apply to NFP entities within both the private and public sectors preparing general purpose financial statements. The proposed application does not extend beyond those NFP entities that are already required to apply Australian Accounting Standards.

What are the key proposals?

ED 270 proposes that an entity provides information on its service performance objectives and performance indicators that can be used to assess an entity's service performance.

Service performance objectives are a description of the planned result(s) that an entity is aiming to achieve through its service performance. Performance indicators are measures or descriptions of the nature and extent to which an entity is using resources, providing goods and/or services and achieving its service performance objectives.

The ED proposes five performance indicators that can be used to assess service

² *Australian Securities and Investments Commission Act (2001)* section 227(1)(c).

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performance:

- (a) the inputs used by the entity in delivering outputs;
- (b) the outputs delivered by the entity;
- (c) the outcomes sought to be influenced by the entity;
- (d) the efficiency of an entity in achieving its service performance objectives. That is, the relationship between inputs and outputs and/or outcomes; and
- (e) the effectiveness of the entity in achieving its service performance objectives. That is, the relationship between service performance objectives and outputs and/or outcomes.

The following diagram provides an illustration of these relationships:



Performance indicators may be expressed as quantitative measures, qualitative measures or as qualitative descriptions. It is the relationship between the performance indicators and/or an entity's service performance objective that should aid users in assessing an entity's service performance.

Example

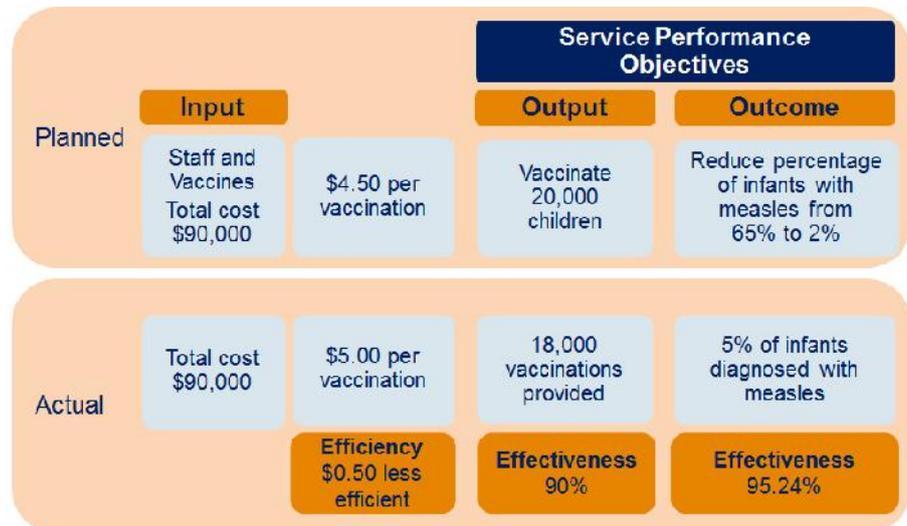
Entity X is a NFP entity with the following service performance objective.

To vaccinate 20,000 children with the aim of reducing the percentage of infants contracting measles from 65% to 2%. The program will be run with volunteer staff and the cost of vaccines are estimated at \$4.50 per unit.

At the end of the program, Entity X achieved 18,000 vaccinations at a cost of \$5.00 per unit and 5% of children contracted measles.

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The diagram below illustrates the performance of Entity X for its vaccination program.



A flexible approach

So as not to increase the reporting burden on NFP entities the proposals in ED 270 allow entities considerable flexibility when reporting service performance information. This includes:

- entities are only required to report on their *key* service performance objectives and *key* performance indicators; not all objectives and performance indicators;
- entities that are already reporting service performance information are permitted to cross-reference to that information;
- a different reporting period to the financial statements is permitted. For example, a NFP entity may run a program on a calendar year basis, but prepare its financial statements on a July-June financial year;
- service performance information is not required as a single report or as part of an annual report. Entities are permitted to provide information via a delivery method that best suits its users. Therefore, service performance information is not intended to form part of a general purpose financial report;
- there is no explicit requirement in the proposals for the information to be audited as the service performance information is not part of the financial statements. ED 270 states that auditing of service performance information is a matter for an entity's regulator. However, the AASB is working with the Auditing and Assurance Standards Board to identify any areas that may cause problems if the information is required to be audited.

Possible concerns

During the drafting process, constituents have already raised a number of issues. Two key issues are highlighted below.

Firstly, the proposals may be considered burdensome. As noted above, a number of NFP entities are already required to report similar information to that proposed in ED 270. Accordingly, for these entities the AASB does not expect there to be any extra effort required. However, for entities that are not providing service performance information, it is possible that there will be extra effort required. The AASB considered this in developing the proposals and concluded that consistency in reporting across NFP entities was sufficiently important to propose mandating service performance reporting for all relevant NFP entities. However, the AASB has noted that there are some similarities between the Australian Charities and Not-for-profits Commission's Annual Information Statement and the proposals in ED 270.

Secondly, because of the proposed mandatory status, constituents may be concerned that this will impose a higher level of reporting on NFP entities than that imposed on for-profit entities. On this point, it should be noted that the AASB is considering extending the proposals in ED 270 to for-profit entities at a future date. Given the move for entities to provide sustainability and/or integrated reporting the AASB considers that service performance information may also be relevant to for-profit reporting users. Accordingly, a specific question has been raised for comment in ED 270 asking constituents to comment on the applicability of the proposals to the for-profit sector.

What happens next?

The proposals in ED 270 are intended to close the performance reporting gap for NFP entities. The service performance information provided will inform users of a NFP entity's service performance objectives and allow them to make an assessment as to that entity's achievement of those objectives. It will also allow users to make an assessment as to whether those objectives have been achieved efficiently and effectively.

ED 270 is open for comment until 12 February 2016. During the comment period the AASB will be conducting an extensive outreach program to engage with, and obtain feedback from, constituents on the proposals in the ED. It is anticipated that this outreach will include education sessions, roundtables and webinars.

To keep up to date with all events being held by the AASB please subscribe for Alerts (www.aasb.gov.au/subscribe). In addition, all events are posted on the AASB's website 'Upcoming AASB events' page (www.aasb.gov.au/events) and the AASB's LinkedIn page.