

Reporting Update

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Service performance reporting requirements for not-for-profits

What is changing and who will be impacted?

Lately, there has been an increased focus on service performance reporting as a means of improving the accountability and transparency of Not-for-profit (NFP) entities. There is existing legislation that requires NFP public sector entities, such as federal, state and local governments and government departments to report on their service performance. However, currently there is no Australian Accounting Standard that requires service performance information to be reported by private sector NFP entities.

Exposure Draft 270 *Reporting Service Performance Information* (ED 270) was issued to establish principles and requirements for NFP entities in both public and private sectors to report service performance information.

Why is service performance information important?

A NFP's entity's primary objective is not the generation of profit but rather the provision of goods and/or services for the community or social benefit. Accordingly, reporting on service performance information is key to understanding whether a NFP entity has met its primary objective and to ensure the efficient and effective use of its resources to achieve those objectives.

KEY POINTS

- ED 270 proposes NFP entities disclose service performance information annually
- Impact likely to be more significant for private sector NFPs
- Disclosures can be in annual report or separate document
- No comparatives required for first year of application
- Submissions for comment letters are due on 12 February 2016

ACTION POINTS

- Identify additional information required
- Assess your capability to collect the relevant information
- Consider wider implications – changes to systems
- Consider submitting a comment letter

Existing practice

Public sector NFP entities are already subject to service performance reporting requirements of government and other regulators. Some private sector NFPs voluntarily disclose service performance information in their reports to member. However, there is no Australian Accounting Standard that requires or prescribes service performance information to be reported

There were concerns expressed by constituents that the disclosures required for NFP entities by existing standards are focussed more on financial aspects of performance, whereas non-financial aspects of NFP entities are often as important to users.

Overview of the proposed principles-based framework

What does ED 270 propose?

The ED proposes mandatory requirements for NFP entities in both the public and private sectors to report service performance information. The ED provides guidance to support the quality of service performance information already reported by NFP entities, for example in the public sector under existing legislation, and offers a useful framework for NFP entities that have not yet started to report service performance information. ED 270, therefore, promotes a consistent approach across public and private sector NFP entities. The ED is broadly consistent with *Recommended Practice Guideline (RPG) 3 Reporting Service Performance Information* issued by the International Public Sector Accounting Standard Board (IPSASB).

Is ED 270 mandatory for all NFP entities?

Yes. The disclosure principles set out in the draft standard applies to all NFP entities in both the private and public sectors that prepare general purpose financial statements. This includes entities regulated by Australian Charities and Not-for-Profits Commission (ACNC) that prepare general purpose financial statements.

What period should be covered by the service performance information?

It is anticipated that a NFP entity will have to prepare specified disclosures on service performance information, which will be made available at least annually. The reporting period should preferably be same as that covered by the financial statements. However, a different reporting period is allowed based on a consideration of users' needs and an assessment of cost and benefits.

Where service performance information should be presented?

The draft standard states that service performance information may be presented, either in the same report as the financial statements or in separate report(s), and identifies factors to consider when making that decision.

What are the principles for reporting service performance information?

The ED requires that the service performance information should be:

- useful for accountability and decision-making purposes;
- appropriate to the entity's service performance objectives;
- enable the users to determine the extent to which an entity has achieved these objectives; and
- understand how efficiently and effectively the objectives have been met.

What are the key elements of service performance that should be reported?

The draft standard identifies 'Service Performance Objectives' and 'Performance Indicators' as two key elements of recommended disclosures to meet the above principles.

Service Performance Objectives

The ED provides that an entity's service performance objective is a description of the planned results that an entity aimed to achieve through its service performance. A service performance objective may be expressed using performance indicators of inputs, outputs, outcomes, efficiency and effectiveness or through a combination of one or more of these performance indicators.

Performance Indicators

Performance indicators are the measures or narrative descriptions used by an entity to communicate its achievement of service performance objectives to users. Performance indicators may be expressed as:

- quantitative measures, for example, the quantity of outputs produced, the cost of goods and/or services, or the time taken to provide a service;
- qualitative measures, for example, descriptors such as poor/good/excellent or satisfactory/unsatisfactory; and/or
- qualitative descriptions, for example, a description of the nature of service performance achievement.

In the ED, five different types of performance indicators are defined and described – inputs, outputs, outcomes, efficiency and effectiveness.

What are the mandatory disclosures that are required to be reported?

The purpose of reporting service performance information is to assist users in assessing how well an entity has achieved its service performance objectives and to meet this purpose an entity should provide:

- an explanation of its service performance objectives, which describes;
 - how the objectives have been established;
 - why those objectives need to be achieved; and
 - the relationship(s) between the objectives and the chosen performance indicators;
- an entity's performance indicators relating to:
 - inputs: the resources used to provide outputs;
 - outputs: the goods/ services provided by an entity to external recipients;
 - the outcomes (if any) that an entity is seeking to influence;
 - the link between inputs and outputs and/or outcomes (efficiency); and
 - the link between outputs and/or outcomes and service performance objectives (effectiveness);
- the total costs of goods and/or services; and
- the assumptions and methodologies adopted in compiling the service performance information.

Issues for entities to consider under ED 270 proposals

Outlined below are some of the issues to be considered based on the draft standard.

Which entities are covered by ED 270?

The new standard is mandatory for all NFP entities in both the public and private sectors. The requirements will apply to NFP public sector entities, and many other NFP entities, including ACNC registered entities that prepare general purpose financial statements. It is proposed that the scope of the standard could be extended to include for-profit entities in the future.

Practical challenges for public sector NFP entities

Some public sector NFP entities are currently required by the *Public Governance, Performance and Accountability Act 2013* and other legislation to prepare annual performance statements that provide information about the entity's performance in achieving its purpose. Therefore, such entities may already be providing the service performance information which is mandated by the draft standard. However, the application of this ED is expected to lead to greater consistency of reporting by such entities.

There may also be instances where there is a conflict between the requirements of the draft standard and the existing reporting framework or legislations. In such a scenario, the entity should consider how different the requirements of the draft standard are to what they are reporting on and whether they are broader, and therefore, take precedence.

Practical challenges for private sector NFP entities

The impact of the draft standard is expected to be greater for NFP entities in the private sector, especially those that have never provided any form of reporting on service performance information. In these circumstances, the implementation of the draft standard will lead to additional disclosures, therefore internal processes and controls should be developed to ensure compliance with the new standard when issued.

Whilst the guidance in the draft standard is useful, it can be challenging to implement in practice. Decisions as to what and how much to disclose are some of the key considerations for entities reporting service performance for the first time.

Audit of service performance information

Although the draft standard does not require reported service performance information to be audited, the NFP entity's regulator may require that such information be audited. This may become a challenge as internal processes and controls could need to be developed to enable smooth collection and audit of the relevant information. The entity may need to make changes to its reporting and other systems to gather the relevant information.

Transition requirements

If an entity provides comparative information against prior periods, an entity need not present such comparative information in the first year of applying this draft standard.

Application date and comment period

It is proposed that this guidance would be applicable to annual reporting periods beginning on or after 1 July 2018. Earlier application is permitted.

The AASB has requested comments on the ED by 12 February 2016. The ED is available on the AASB website at http://www.aasb.gov.au/admin/file/content105/c9/ACCED270_08-15.pdf

Comments may be made directly to the AASB via their website <http://www.aasb.gov.au/Work-In-Progress/Submit-Comment-Letter.aspx?id=1897>

KPMG contacts

If you would like to discuss any of the points raised in this report, please contact your KPMG advisor.