International public sector accounting standards board aims to enhance international accountability through reporting service performance information

Lisa R. Parker*

Governmental Accounting Standards Board,
401 Merritt 7, P.O. Box 5116, Norwalk,
Connecticut 06856-5116, USA
E-mail: lrparker@gasb.org
*Corresponding author

David R. Bean

International Federation of Accountants,
277 Wellington Street West,
Suite 802, Toronto, ON M5V3H2, Canada
E-mail: DavidBean@ifac.org

Abstract: General purpose financial reports (GPFRs) of public sector entities are developed primarily to respond to the information needs of service recipients, resource providers, and their representatives, who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. GPFRs can report information about the past, present and future that is useful to users – including financial and non-financial, quantitative and qualitative information about:

a the achievement of financial and service delivery objectives in the current reporting period
b anticipated future service delivery activities and resource needs.

The IPSASB is currently exploring how service performance information can assist users in assessing how efficiently and effectively public sector entities are using resources to provide services and achieve their objectives.

Keywords: service performance information; accountability; decision-making; users; objective; inputs; outputs; outcomes; efficiency indicators; effectiveness indicators.


Biographical notes: Lisa R. Parker is a Project Manager at the Governmental Accounting Standards Board (GASB) in the USA and was the lead staff member of the IPSASB service performance research project.

David R. Bean is the Deputy Chairman of the IPSASB and the Director of Research and Technical Activities at the GASB.
1 Introduction

The objectives of financial reporting by public sector entities are to provide information about the reporting entity that is useful to users of General Purpose Financial Reports (GPFRs) for accountability and decision-making purposes. GPFRs on the results of transactions, other events, and activities that have been entered into or have otherwise affected the governmental reporting entity and the achievement of its service delivery and other objectives.

The International Public Sector Accounting Standards Board (IPSASB) proposal, presented in its conceptual framework exposure draft, is that the scope of financial reporting should be sufficiently broad to allow GPFRs of an entity to report financial and non-financial information about the past, present, and the future, including prospective financial and other information about future service delivery activities and objectives, and the resources needed to support them. The IPSASB also notes that the scope of financial reporting will evolve in response to users' information needs, consistent with the objectives of financial reporting.

This proposal recognises that financial performance information currently being reported is not sufficient to meet the needs of the users of GPFRs. Recognising the importance of information on service delivery (referred to as service performance), a project was added to the IPSASB’s agenda to address this topic. To assist the IPSASB in determining what governments around the world are currently reporting performance information about the services they provide, research on the topic was commissioned on behalf of the IPSASB. This article highlights the results of this research effort and summarises the preliminary views and specific matters presented for comment in a Consultation Paper, Reporting Service Performance Information, that the IPSASB issued in October 2011.

2 IPSASB research findings

As part of the IPSASB’s initial research efforts, the reporting of service performance information by 26 different countries (Argentina, Australia, Brazil, Canada, Chile, China, France, Germany, India, Indonesia, Israel, Italy, Japan, Kenya, Korea, Mexico, Netherlands, New Zealand, Norway, Russia, South Africa, Spain, Switzerland, UK, USA, and Uruguay), the United Nations, and the Organization for Economic Cooperation and Development (OECD) were reviewed for commonalities. The reporting of service performance information at sub national levels, where applicable, also was studied.

The research noted that practice is fairly diverse in various jurisdictions. In some countries, governments are required by law to report this information annually while in others, the reporting of service performance information is strictly a voluntary action by progressive governments striving to enhance accountability. The research findings noted that many countries are focusing on performance management and the reporting of service performance information is a secondary objective. However, there are some countries where the reporting of service performance information is more prominently emphasised.

The research revealed that performance reporting frameworks sometimes exist, but often have had little impact on external performance reporting in the public sector, especially in the context of enhancing accountability to the general public. Rather,
common characteristics in these countries include a focus on the financial aspects of service performance, accountability to budgetary authorities, and difficulties experienced in implementing service performance reporting where significant capacity limitations existed or government support was lacking.

The research also noted that the 31 member countries of the OECD have begun using performance-based management, including budgeting and reporting, to assess service performance in the context of effectiveness, efficiency, and the achievement of objectives. Some countries and international organisations undertake performance reporting assessments targeted at other nations when donations of foreign aid have been made or are being considered. Although these assessments usually include information not solely related to public sector service performance (such as economic and financial data), this type of reporting can provide accountability information on the public sector if non-financial performance information is included.

Almost every country included in the scope of the research has divided its public sector into national, provincial (state) and local government units (for example, cities and towns). This is often because some service responsibilities are perceived as being better implemented at the regional or local level. Responsibilities for many services are often decentralised to better align service providers’ objectives with users’ needs. The establishment of service performance reporting standards for localities allows those governments to set objectives, targets, indicators, and reporting frameworks based on individual needs and priorities. However, decentralisation can result in inconsistencies. This makes comparability across regions particularly challenging.

Although most of the 26 countries included in the research scope and the United Nations have implemented various public sector service performance reporting frameworks or guidelines, comparability of service performance information (often through inputs, outputs, and outcomes) across countries is difficult to achieve. Complexities exist in comparing outputs and outcomes. Even within the same spending areas, the aims, and consequently the output and outcome indicators (often referred to as performance measures), are not the same. This factor, combined with different methods of gathering data, has led some to assert that cross-country comparisons for the public sector are more of an ideal than a possibility.

The research findings support the view that underlying the need for information to use in assessing accountability and for decision-making is the government’s relationship to its resource providers and service recipients. Accountability is the relationship between those who control or manage an entity and the public (citizens, taxpayers, residents, and service recipients) and other resource providers. It requires the accountable party to provide an explanation for their activities and the results of efforts to achieve the specified objectives. Government officials are accountable for financial resources, adherence to legal requirements, the efficiency and effectiveness of services, and the level of services provided and the resources used in doing so.

The research findings noted that decision-making activities where service performance information is relevant is quite varied. Providing service performance information may encourage consideration during decision-making processes of whether results are being achieved with the use of resources that are consistent with the objectives of the government. When considering policy decisions, providing service performance information may assist policy makers in selecting efficient and effective services. Taxpayers and citizens who compare the value of the services they are receiving from
their government to the taxes and fees that they pay for these same services, will utilise service performance information in making this cost efficiency assessment.

The research findings also support the IPSASB’s position, presented in its conceptual framework exposure draft, that there are two groups of identified users of service performance information. They include:

1 recipients of services or their representatives including citizens and their representatives, the legislature, and oversight or monitoring bodies
2 providers of resources or their representatives including ‘involuntary resource providers’ such as taxpayers and ratepayers and ‘voluntary resource providers’ such as lenders, donors, suppliers, fee-for-service consumers, and investors.

In addition, the research findings support the IPSASB’s conclusion that recipients of services or their representatives, which encompasses those users to whom the government is primarily accountable, need service performance information to assist in assessing whether the government:

1 has operated in an efficient and effective manner
2 has provided services that help maintain or improve their well-being
3 has been responsive in meeting their needs and demands.

Users of publicly-provided services are often taxpayers who insist on receiving an adequate ‘return on their investments’. Service performance information can provide much of the information needed to assist users in making this assessment. Additionally, users also may need this information to assist them in making decisions such as selection of a high-quality healthcare facility, whether or not to use public transportation, and what school to send their children to.

The research findings further support the IPSASB’s conclusion that providers of resources or their representatives, other than the taxpaying public, need service performance information to assist in:

1 assessing whether the funds provided have been used for their intended purpose and in an efficient and effective manner
2 assessing whether government funding should be continued
3 establishing the charge for funds being loaned to a government.

Donors of financial aid, including international organisations, use general service performance information to assess the stability and credibility of the government’s various reporting systems and results of services. Although this typically centres on financial reporting, public sector service performance reporting also may provide important information to assess the stability and credibility of a government’s services.

Creditors and bond rating agencies use service performance information, usually in conjunction with financial information, to evaluate the overall efficiency and effectiveness of governments with outstanding debt. They also use public sector performance information to assess the level of risk associated with providing funds to a government. This information can be used when setting bond ratings, or determining what rates are required for loans or other forms of government debt.
Based on the research findings, four different dimensions of service performance information relevant to meeting the needs of users were identified by the IPSASB. These are:

1. Information on the public sector entity’s objectives, including the need or demand for these objectives to be achieved (the ‘why’ dimension).

2. Input, output, outcome, efficiency, and effectiveness indicators, including service recipient perception or experience information (the ‘what’ dimension).

3. Comparisons of actual performance to projected (or targeted) results, including information on the factors that influence results (the ‘how’ dimension).

4. Time-oriented information, including the comparisons of actual results over time and to milestones (the ‘when’ dimension).

Information on the public sector entity’s objectives, including the need or demand for these objectives to be achieved was identified through the research findings as being important to the usefulness of service performance information. This was evident with some countries’ central governments requiring not only service performance reports, but also planning reports on the entities mission, and objectives, and how it will achieve them. The reporting of objectives provides a basis for assessing why a service is being provided and for comparing achievement against intended results. The reporting of need or demand for these objectives to be achieved provides an explanation of the reason for the establishment of the objectives. With this information, the level of resources committed to providing public services may be related to recipients’ needs so as to help users of the reports understand the level of service performance achieved and whether the level of services provided is appropriate to meet the demand for that particular service.

Input, output, and outcome indicators were the most common types of service performance information cited as relevant for meeting the needs of various users. Input, output, and outcome indicators are definitive and provide a clear and understandable means of communicating service performance information in an objective way. These indicators also link financial and non-financial information to communicate to users how resources were used and what was achieved as a result of their usage. Output and outcome indicators may include service recipient perceptions of or experience with the quality and satisfaction with the results of services. This information is often important for holding public sector entities accountable for improving the quality of services they provide.

Information on the relationships between input, output, and outcome indicators also was cited as being commonly used. These indicators are often expressed as ‘efficiency’ (input-to-output) indicators and ‘effectiveness’ (output-to-outcome) indicators. These types of indicators are even more valuable when tied back to the objectives established for that particular public sector service provider. However, many countries that are fairly new to the service performance reporting environment (or performance management reforms in general) focus mostly on input and output indicators.

The research findings also identified comparisons of actual performance to projected (or targeted) results, including information on the factors that influence results, as being useful in the public sector service performance reporting environment because they provide a frame of reference for users to assess how well services are delivered. Developing indicators and targets helps users to assess the degree of accomplishment of
the entities’ objectives. Service performance information indicators, if reported alone, do not provide a basis or context for assessing service performance. Because there may be external and internal factors that influence service performance other than the service delivery itself, it is necessary to supplement the reporting of variance between actual performance and projected or targeted results with a narrative discussion that assists users in understanding how actual results may be affected by these other factors.

Time-oriented service performance information, including the comparisons of actual results over time and to milestones, also was identified through the research findings as being emphasised by some countries. Time series comparisons assist users in assessing whether results are improving, deteriorating, or remaining the same over time. This is especially important if policy makers or government authorities wish to achieve certain objectives within a limited amount of time. Time series comparisons also assist users in assessing the reasonableness of targets.

The research findings noted that time-oriented service performance information is likely to be important to users who wish to make periodic assessments of the degree to which progress is being made in the achievement of certain objectives. To assist in time-oriented assessments outcome indicators may be divided into several types:

1. initial indicators – measures of results that occur soon after a service is provided versus those that occur later
2. intermediate indicators – measures of results that indicate progress toward desired end results but are not themselves final outcomes
3. ultimate indicators – measures of the level of achievement of desired end results.

In many cases, it takes a public sector entity many years to achieve the desired final results. Therefore, providing service performance indicators that measure whether progress is being made towards the end result may assist users in assessing whether a service is likely to achieve that desired end result.

3 IPSASB project

At its June 2010 meeting, the IPSASB formally began to deliberate the major issues surrounding its active project on the reporting of service performance information. This project was originally identified in the IPSASB Strategy and Operational Plan 2007–2009, as being a priority. It is consistent with IPSASB’s strategic priority of developing requirements and guidance on public sector specific issues. In the 2010–2012 plan, the strategic areas of focus continued to include the need to address public sector critical projects, of which this is an important project.

This project is expected to use a principles-based approach to develop a consistent framework for reporting service performance information of public sector entities that focuses on meeting the needs of intended users. This project will not focus on performance management in general, but rather the external reporting of service performance information, which represents only one aspect of a performance management system.

As reporting of service performance information is considered, the project will review and compare the existing national standards and guidance on service performance reporting (or its equivalent) in the public sector that have been identified in the research
findings. As noted earlier, the IPSASB released a Consultation Paper on Reporting Service Performance Information for public comment in October 2011.

The October 2011 consultation paper includes preliminary views reached to date by the IPSASB and specific matters that they have not reached consensus on. The IPSASB welcomed comments and feedback on both the preliminary views and the specific matters as part of its due process.

More specifically, the October 2011 consultation paper includes the following preliminary views of the IPSASB for comment:

1. the reporting of service performance information is necessary to meet the objectives of financial reporting as proposed in the conceptual framework project
2. developing a standardised service performance information terminology for the reporting of service performance information is appropriate and would include definitions for an objective, inputs, outputs, outcomes, efficiency indicators, effectiveness indicators, and performance indicators (preliminary views are also provided for the definitions)
3. the components of service performance information necessary to meet the needs of users include information on the scope of the service performance information reported, the public sector entity’s objectives, the achievement of objectives, and a narrative discussion of the achievement of objectives
4. the same qualitative characteristics of information and pervasive constraints on the information currently included in GPFRs of public sector reporting entities are applicable to service performance information.

The October 2011 consultation paper also includes the following specific matters for comment:

1. whether the IPSASB should consider issuing authoritative or non-authoritative guidance on the reporting of service performance information
2. whether specific indicators of service performance that are reported by public sector entities should be excluded from the scope of this project
3. whether service performance information included in GPFRs should be prepared for the same reporting entity as for GPFRs
4. whether respondents agree with the four dimensions of service performance information that have been identified as necessary to meet the needs of the identified users (discussed previously)
5. whether service performance information should be reported in a separately issued GPFR, as part of the GPFR that is currently issued but not part of the general purpose financial statements, or in both a separately issued GPFR and as part of the currently issued GPFR.
Acknowledgements

The views expressed in this paper are those of Ms. Parker and Mr. Bean. Official positions of the IPSASB and the GASB are determined only after extensive due process and deliberation.

Notes

1 International Public Sector Accounting Standards Board (IPSASB) Exposure Draft, Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity, issued in December 2010.