

## **GASB project – concepts statements – no. 2 (two)**

### **Developing standards**

The following text is adapted from Concepts Statement No. 2: *Service Efforts and Accomplishments Reporting*, Governmental Accounting Standards Board.

#### **DEVELOPING REPORTING STANDARDS FOR PERFORMANCE INFORMATION**

69. Including performance measures as part of GPEFR represents a significant modification in financial reporting practices for state and local governmental entities. Historically, GPEFR has been concerned primarily with information that is financial in nature. However, performance measures include not only financial measures, but also information about the inputs, outputs, and outcomes of a program or activity that may be measured in nonfinancial terms.
70. Performance measurement and reporting does not have a long history of use in external reporting for governmental entities. Therefore, performance measures that might be used to report on the results of many services often have not been tested to determine if they possess the necessary characteristics of accounting information. Moreover, not all performance measures have been subjected to the review and evaluation necessary to determine how useful they are in assessing accountability and in making economic, social, and political decisions.

#### **Need for Experimentation with Performance Measurement and Reporting**

71. Performance measures presently are being developed and used by an expanding number of governmental agencies, departments, programs, and services. Currently used performance measures are being modified and replaced as improved information becomes available. Although progress has been made, more needs to be done to improve the art of performance measurement and reporting.
72. Before the GASB considers establishing performance reporting standards for inclusion in GPEFR, it is important that there be extensive experimentation in measuring and reporting performance. This experimentation should consider whether performance measures are developed that are relevant, understandable, comparable, timely, consistent, and reliable. Further analysis should explore how externally reported performance information is used and the effects its use has on the quality, effectiveness, and efficiency of the agencies, departments, programs, and services being reported on.

## **Need for Involvement of Management, Professional Groups, Elected Officials, and Citizens**

73. The services provided by state and local governmental entities are diverse and often complex in nature. Specific technical knowledge often is needed to develop relevant performance measures for an agency, department, program, or service. The GASB cannot by itself determine the specific performance measures that should be reported. Therefore, in addition to accountants and others involved in financial management, it is essential that other management personnel (including program personnel, budget personnel, performance evaluators, and professional groups), internal auditors, and elected officials, citizens, and other users become active in developing and using performance measures. The performance measures developed, reported, tested, and analyzed by these groups and others would form a set of performance measures to be considered by the GASB in its process of establishing performance reporting requirements.

## **Criteria to Be Met before Establishing Reporting Standards for Performance Measures**

74. GPEFR is a means of communicating information to many types of users. Before performance measures are included in GPEFR, it is important that they be analyzed to ensure that they meet the requisite characteristics necessary for accounting information.
75. Because performance reporting will expand the amount and types of information being reported externally, it is also important that the benefits and costs of specific performance measures be carefully considered. The Board recognizes both the importance and the complexity of comparing the benefits and costs of reporting performance information. Benefits and costs are affected by many factors including circumstances surrounding the gathering, reporting, and use of the information.
76. It is anticipated that experimentation will result in the development of specific performance measures for different aspects of various services. If the GASB proposes to require reporting of specific performance measures, the benefits of those measures will need to be compared to the costs of gathering, verifying, and reporting the underlying data. In assessing the benefits and costs of a specific measure, consideration will be given to such factors as its particular value in measuring accomplishments, the extent to which it has gained general acceptance, its understandability to citizen and oversight groups, and the relative benefits of other, less costly measures.

## **Possible Approaches to Establishing Performance Reporting Standards**

77. The establishment of performance reporting requirements might take many different approaches. For example:
- a. Reporting standards could require performance reporting for major agencies, departments, programs, and services of a governmental entity without specifying the particular performance measures that should be reported. In this case, the requirement could be that performance measures, with adequate explanatory information, be reported for all major goals and objectives of the agency, department, program, or service; and that comparisons over time and with established targets be reported.
  - b. As an alternative, reporting standards could establish a minimum core set of performance measures for each major agency, department, program, or service, leaving the entity free to supplement that reporting with other measures as it deems appropriate. For this alternative, the GASB could draw on current practice to determine generally used measures for establishing the minimum set of performance measures.
  - c. As another alternative, reporting standards could focus on one or more significant agencies, departments, programs, or services where relatively widely used performance measures already exist. The GASB could require reporting of a specific set of performance measures for these entities, with the requirement that other performance measures be reported for major purposes or goals and objectives for which performance measures have not been specified.

### **Location**

78. The location of performance information in GPEFR is also an important topic for consideration when establishing requirements for performance reporting. This information will most likely be reported as a separate report. However, it may be reported as part of required supplementary information or in the statistical section of the comprehensive annual financial report.

### **Frequency of Reporting**

79. Reporting requirements might also cover the frequency of performance reporting. performance reporting could follow the pattern of annual reporting used for financial statements, or it could be decided that agencies, departments, programs, and services should be reported on a cyclical basis (for example, different services might be reported each year on a two or three-year cycle).