

Paper 2: (WORK IN PROGRESS) Report on staff research into domestic and international requirements and practices relating to service performance reporting

1 Background

- 1.1 At its 29-30 July 2009 meeting the Board decided to undertake an active project 'Disclosures by Private Sector Not-for-Profit Entities'. Initially (phase 1), the project will focus on disclosures that Australian Accounting Standards do not currently require of private sector not-for-profit entities that should be required, having regard to the information needs of users of general purpose financial statements. In the first instance (part 1 of phase 1), consideration will be given to service performance reporting, including the work being undertaken by the International Public Sector Accounting Standards Board (IPSASB) and the New Zealand Financial Reporting Standards Board (FRSB) on that topic (see paper 1 *Status report on IPSASB and NZ FRSB work on service performance reporting* [as at 7 September 2009]). The intention is that this aspect of the project has a 12-month development timeframe.

2 Purpose of this paper

- 2.1 This paper is for information purposes only. It provides the Board with a summary of current reporting requirements and practices relating to service performance reporting in the private and public sectors in Australia and overseas.

3 AASB

3.1 Conceptual Framework

- 3.1.1 Paragraphs 29 and 30 of Statement of Accounting Concepts SAC 2 *Objective of General Purpose Financial Reporting* state:

29 Aspects of the performance of a reporting entity can be measured in financial and non-financial terms ...

30 Non-financial measures of performance may also be relevant to users for the purposes identified, particularly in relation to non-business entities. The absence of a profit or rate of return objective for these entities means that financial measures of performance are unlikely to be sufficient to assess fully the extent to which those entities have achieved their objectives, which typically include social as well as financial dimensions. The extent to which non-financial performance measures can be considered to fall within the scope of general purpose financial reporting will be the subject of a separate Statement of Accounting Concepts.

Initial work on the separate Statement of Accounting Concepts referred to in paragraph 30 of SAC 2, in particular on the scope of financial reporting, was commenced some time ago but did not proceed. It has since effectively been overtaken by work being undertaken by IPSASB and IASB on their respective *Conceptual Frameworks*.

- 3.1.2 Paragraphs 7 and Aus15.1 of the *Framework for the Preparation and Presentation of Financial Statements* state:

7 ... Financial statements and notes do not, however, include such items as reports by directors, statement by the chairman, discussion and analysis by management and similar items that may be included in an annual or interim report.

Aus15.1 In respect of not-for-profit entities, ownership groups and contributors of donations are generally not concerned with obtaining a financial return but are usually more interested in the ability of an entity to achieve its non-financial objectives, which in turn may depend upon the entity's financial position and financial performance.

3.2 Accounting Standards

3.2.1. Australian Accounting Standards do not make explicit reference to service performance reporting. However, it is relevant to note that:

- (a) paragraph 114(d)(ii) of AASB 101 *Presentation of Financial Statements* acknowledges that the notes as part of the complete set of financial statements might include non-financial disclosures. It gives the example of the entity's financial risk management objectives and policies per AASB 7 *Financial Instruments: Disclosures*;
- (b) paragraph 24 of AASB 1039 *Concise Financial Reports* requires the financial statements of the entities to which it applies to "be accompanied by discussion and analysis to assist the understanding of members"; and
- (c) although now superseded, paragraphs 98 and 99 of AAS 27 *Financial Reporting by Local Governments* stated:
 - 98 Where performance indicators are included in the general purpose financial report, such information shall satisfy the concepts of relevance and reliability, and be presented in a manner which satisfies the concepts of comparability and understandability.
 - 99 The primary objective of local governments is the provision of goods and services to members of the community, and not the generation of profits. Therefore, non-financial as well as financial measures of performance will be relevant to assessments of the economy, efficiency and effectiveness of local governments in achieving their objectives. This Standard does not require local governments to report non-financial measures of performance. However, local governments are encouraged to report non-financial performance indicators which assist users in assessing the local government's performance in meeting its government body's objectives.

Corresponding paragraphs were also contained in now superseded AAS 29 *Financial Reporting by Government Departments* (paragraphs 12.10 and 12.10.1) and AAS 31 *Financial Reporting by Governments* (paragraphs 16.1 and 16.1.1). At its July 2006 meeting, the Board concluded that those paragraphs in AASs 27, 29 and 31 effectively do not go beyond the *Framework*. It decided to consider issues relating to Performance Indicators more comprehensively in a separate project in due course.

4 International public sector

4.1 Overview of the international public sector

4.1.1 The following table provides an overview of the public sector performance framework in selected countries (Canada, New Zealand and United Kingdom). The table compares the objectives, performance measurement, performance reporting and performance review aspects of the selected countries' performance frameworks.

OVERVIEW OF SELECTED COUNTRIES

Country	Objectives and approaches	Performance measurement	Performance reporting	Performance review
New Zealand	<ul style="list-style-type: none"> • Management improvement. • Savings. 	<ul style="list-style-type: none"> • Combination of qualitative and quantitative measures used. Measures include service delivery quality and financial performance of government. • Focus on both the outputs and outcomes of governments. 	<ul style="list-style-type: none"> • Performance information made publicly available. • Annual Reports. • Budget Papers. • Performance contracts between ministers and agency heads. 	<ul style="list-style-type: none"> • Internal evaluation by Central Budget Agency. • Performance auditing by the Auditor-General. • Program evaluation by policy department.
United Kingdom	<ul style="list-style-type: none"> • Accountability and control. • Savings 	<ul style="list-style-type: none"> • Combination of qualitative and quantitative measures used. Measures include service delivery quality and financial performance of government. • Focus only on the outputs of government. 	<ul style="list-style-type: none"> • Performance information made publicly available. • Annual Reports. • Budget Papers. • Performance contracts between ministers and agency heads. 	<ul style="list-style-type: none"> • Internal evaluation by Central Budget Agency. • Performance auditing by the Auditor-General. • Program evaluation by policy department.
Canada	<ul style="list-style-type: none"> • Management improvement. • Accountability and control. • Savings. 	<ul style="list-style-type: none"> • Combination of qualitative and quantitative measures used. Measures include service delivery quality and financial performance of government. • Focus only on the outputs of government, but does outcomes too. 	<ul style="list-style-type: none"> • Performance information made publicly available. • Annual Reports. • Budget Papers. • Separate performance reports by individual agencies. • Canada Performs 	<ul style="list-style-type: none"> • Internal generic evaluation by Central Budget Agency. • Performance auditing by the Auditor-General. • Program evaluation by policy department.

Source: Extracted from a the report *Performance and Accountability in the ACT: Towards a New Framework*, Allen Consulting Group, 2009, pages 62-3 (commissioned by the ACT Chief Minister’s Department)

4.2 IPSASB

4.3 NZ

4.3.1 An extract from a statement of service performance prepared by the University of Canterbury in New Zealand is included in paper 2A. It provides a short summary of achievements and areas of key risks and mitigations, and reports performance against eight key strategic areas. For each key strategic area, the statement of service performance reports quantitative performance against key performance indicators (e.g. number of quality assured research publications) and further supplements the numerical details by providing qualitative commentary (e.g. manner of celebrating research excellence) to illustrate the approach taken for the achievement of performance.

4.4 US – GASB

- 4.4.1 An article issued by the Governmental Accounting Standards Board (GASB), *GASB Proposes Suggested Guidelines for Voluntary Reporting of Service Efforts and Accomplishments Performance Information*, page 1, June 2009, states:

“Traditional financial statements provide financial performance information about a government’s fiscal and operational accountability, but they do not provide all the information needed to determine the degree to which a government was successful in helping to maintain or improve the well-being of its citizens by providing services. Information about a government’s service efforts and accomplishments helps to fill this void...”

- 4.4.2 Service efforts and accomplishments (SEA) reporting is voluntary and provided to the governmental organisations as guidelines in their external reporting.

- 4.4.3 An article in the CPA Journal (*SEA Performance Reporting – GASB’s Focus on Accountability for Results Stirs Controversy*, pages 1-2, January 2008, Dean Michael Mead), states:

For nearly 40 years, the accounting profession and academia have recognized that SEA performance information is a key component of accounting and financial reporting by governments. In 1971, the American Accounting Association's Committee on Concepts of Accounting Applicable to the Public Sector divided accountability into four parts: a) financial resources; b) faithful compliance or adherence to legal requirements and administrative policies; c) efficiency and economy in operations; and d) the results of government programs and activities, as reflected in accomplishments, benefits, and effectiveness.

The article (page 2) also states that a committee, which was established by the AICPA to identify the objectives of financial reporting, recommended that:

“An objective of financial statements for governmental and not-for-profit organizations is to provide information useful for evaluating the effectiveness of the management of resources in achieving the organization's goals. Performance measures should be quantified in terms of identified goals.”

- 4.4.4 Initially, GASB established a project Service Efforts and Accomplishments Reporting (SEAR) that was meant to determine whether GASB will consider establishing SEA reporting guidelines for inclusion in general purpose external financial reporting (GPEFR). Subsequently, GASB staff research, as reported in GASB’s *News Release 07/31/08*, indicated that it is appropriate for the GASB to consider setting conceptually based suggested guidelines for voluntary reporting of SEA performance information. However, it is beyond the scope of GASB to establish the goals and objectives of state and local government services, to develop specific nonfinancial measures or indicators of service performance, or to set benchmarks for service performance. Accordingly, GASB issued Concepts Statement No. 5 *Service Efforts and Accomplishments Reporting*—an amendment to Concept Statement 2 *Service Efforts and Accomplishments Reporting* in November 2008—which clarified that SEA reporting was to be excluded from GPEFRs.
- 4.4.5 On 30 June 2009, GASB released a Request for Response on *Proposed Suggested Guidelines for Voluntary Reporting, SEA Performance Information* to seek public comments on the proposed guidelines for voluntary reporting of SEA performance information.
- 4.4.6 The Request for Response is based on the six qualitative characteristics of GASB Concept Statement No. 1 *Objectives of Financial Reporting*: relevance,

understandability, comparability, timeliness, consistency and reliability. An extract of the proposed essential components of SEA reports, paragraphs 5-26, states:

“5. The essential components that set forth the types of information an effective SEA report needs to contain in order to provide users with information that will assist them in assessing the efficiency and effectiveness of government services are as follows:

- a. Purpose and scope
- b. Major goals and objectives
- c. Key measures of SEA performance
- d. Discussion and analysis of results and challenges.

Purpose and Scope

Effective SEA reports state their purpose and scope.

...

Major Goals and Objectives

Effective SEA reports state the major goals and objectives of the programs and services being reported or what those programs or services are intended to accomplish. Effective SEA reports also state the sources of the major goals and objectives and explain the link between the major goals and objectives and the measures being reported.

...

Key Measures of SEA Performance

Effective SEA reports focus on key measures, providing a basis for assessing the performance of the programs and services being reported and the achievement of major goals and objectives.

...

Discussion and Analysis of Results and Challenges

Effective SEA reports include a discussion and analysis of results and identify the challenges facing the government in achieving its desired results.

...”

- 4.4.7 In August 2009, GASB produced its first *Technical Inquiry Activities: Service Efforts and Accomplishments Report for First Half of 2009* (SEA report) that provided performance information about the technical inquiry activities of the GASB staff, with comparatives for 2005 through 2008. The SEA report presented information about major goals and objectives, key measures of SEA performance, and discussed and analysed the results and challenges encountered in the six months. Information was also presented in non-financial, quantitative and qualitative form. A copy of the SEA report is provided in paper 2A.

4.5 UK

4.6 Canada

- 4.6.1 Paragraphs 5-7 of the *Transparency and Accountability Act* (the Act) 2004, requires the government and government entities to prepare a strategic, business or activity plan every three years, which sets out the goals and objectives to be met during the period covered by the plan, and identifies objective performance measures specific to the goals and objectives. Paragraph 9 of the Act requires the government and government entities to prepare and submit an annual report on its preceding fiscal year. The annual report compares actual results of the entity’s strategic plan (or business or activity plan) with the projected results of that plan for the applicable fiscal year, and provides explanation on the variance (paragraph 9(3)-(4) of the Act). To some extent, information that reflects the outcomes of an entity’s commitments in the preceding year are reported in the annual report as a reflection of its performance against its long-term business plan, as illustrated in the *Canadian Coast Guard Annual Report 2007-8*, pages 46-55 (see paper 2A).

- 4.6.2 The Statement of Recommended Practice (SORP) 2 *Public Performance Reporting*, issued by the Public Sector Accounting Board (PSAB) in September 2006, provides general guidance for reporting performance information in a public performance report of a government or a government organisation. The public performance report does not form part of a general purpose financial report, although it may be presented as part of the entity's annual report.
- 4.6.3 SORP 2 addresses the non-financial performance information of a public performance report, as well as the linkage of financial and non-financial performance information. In addition, SORP 2 encourages entities to provide information on governance practices and conduct of business information to present a complete and comprehensive picture of the entity's performance. SORP 2 does not report on information related to financial performance as this is addressed in SORP 1 *Financial Statement Discussion and Analysis* and elsewhere in the Public Sector Standards.
- 4.6.4 Paragraph 21 of SORP 2 states that "a public performance report should communicate information that is credible and that embodies the characteristics of reliability and validity, relevance, fairness, comparability and consistency, and understandability". Paragraph 23 of SORP 2 states that "when considering the characteristics of performance information, having a good understanding of the users' perspectives of performance reports will contribute to the usefulness of these reports".
- 4.6.5 When preparing a public performance report, paragraphs 34-81 of SORP 2 recommend that the report:
- (a) focuses on the few critical aspects of performance including the commitments of the entity and matters of concern raised in prior periods, the financial areas that are significant, the essentials to achieving goals and objectives and policies or strategies that impact other entities;
 - (b) describes the strategic direction of the entity including the entity's high-level priorities and long-term goals as stated in public policy announcements;
 - (c) describes the planned results (in terms of outputs and outcomes) for the reporting period and identifies the source of the commitments;
 - (d) describes actual results and compares them with planned results, explaining any significant variances;
 - (e) provides comparative information about trends, benchmarks, baseline data or the performance of other similar organisations where having these comparisons would be useful to users in interpreting and using the information provided;
 - (f) identifies significant lessons learned (as a result of significant variances) during the reporting period and the implications arising from them (i.e. how the issue is being addressed);
 - (g) includes information about key factors critical to understanding performance, including significant risks, capacity considerations and other factors that have had an impact on performance and results, and the nature of the impact;
 - (h) links financial and non-financial information to show how resources and strategies influence results; and
 - (i) discloses the basis on which it has been prepared.

- 4.6.6 Other available Canadian literature that provides guidance on public performance reporting includes:
- (a) *Public Performance Reporting guide*, which was developed by and contains the views of the PSAB staff, uses PSAB's SORP 2 as a foundation and therefore reflects similar recommendations noted above; and
 - (b) *Reporting Principles – Taking Public Performance Reporting to a New Level report* issued by the Canadian Comprehensive Auditing Foundation (CCAF), which is a national, non-profit research and education foundation. The Foundation's core interests centre on information and its role in a variety of public sector governance, accountability, management and audit settings. CCAF conducted a research program that developed principles to help guide governments in reporting publicly on their performance to Canadians and legislatures. On pages 29-31, the report echoes similar recommendations to SORP 2 and introduces an additional guideline – Principle 4 Explain key capacity considerations – by putting results in proper context by relating results achieved to ongoing capacity to meet or improve on current performance expectations by:
 - (i) explaining what the key risks are and how risk has influenced choices made in relation to policy, goals and performance expectations;
 - (ii) relating results achieved to the risks and level of risk accepted; and
 - (iii) describing other key performance factors that are central for users to understand why the entity is doing what it is doing and interpreting the meaning and significance of the performance information being reported.

4.7 Other

5 International private sector

5.1 For-profit – IASB

- 5.1.1 The IASB issued ED/2009/6 *Management Commentary* in June 2009 for comment by 1 March 2010. It proposes a non-binding framework which could be adapted to the legal and economic circumstances of individual jurisdictions. Paragraph 3 of the ED states:

3 Management commentary prepared in accordance with this framework is within the boundaries of financial reporting and, therefore, is within the scope of the conceptual framework for financial reporting ...

- 5.1.2 Specifically in relation to performance measures and indicators, paragraphs 36-38 of the ED states:

36 The disclosures of performance measures and indicators (both financial and non-financial) that are used by management to assess progress against its stated objectives can help users of the financial reports assess the degree to which goals and objectives are being achieved. Performance measures are quantified measurements that reflect the critical success factors of an entity. Indicators can be narrative evidence describing how the business is managed or quantified measures that provide indirect evidence of performance.

37 The performance measures and indicators that are most important to understanding an entity are those that management uses to manage that entity. The performance measures and

indicators will usually reflect the industry in which the entity operates. Comparability is enhanced if the performance measures and indicators are accepted and used widely, whether within an industry or more generally.

38 ... When management changes the performance measures and indicators used, the changes should be identified and explained.

5.2 NZ

5.3 US

5.4 Not-for-profit – UK

5.4.1 In June 2007 the UK Accounting Standards Board issued an Interpretation *Statement of Principles for Financial Reporting – Interpretation for Public Benefit Entities*. It states:

7.15 Financial statements are often accompanied and complemented by information that does not form part of the financial statements. Examples of such information include ... key performance indicators, such as information on waiting lists, cost of refuse collection per household, and other indicators of a charity's performance ...

7.16 The primary objective of public benefit entities is to provide goods or services for the general public or social benefit. Therefore, the accompanying information is often of high importance for users of such entities' financial statements in assessing the performance of the entity as a whole.

5.4.2 The Charity Commission for England and Wales issued a Statement of Recommended Practice (SORP) *Accounting And Reporting By Charities* (revised 2005). It includes, in the context of a Trustee's Annual Report, guidance on providing information about 'objectives and activities' (paragraphs 47-52) and 'achievements and performance' (paragraphs 53 and 54):

47 ... the report should provide:

- (a) A summary of the objects of the charity as set out in its governing document.
- (b) An explanation of the charity's aims including the changes or differences it seeks to make through its activities.
- (c) An explanation of the charity's main objectives for the year.
- (d) An explanation of the charity's strategies for achieving its stated objectives.
- (e) Details of significant activities (including its main programmes, projects, or services provided) that contribute to the achievement of the stated objectives. ...

48 ... the report should contain:

- (a) A review of charitable activities undertaken that explains the performance achieved against objectives set. Where qualitative or quantitative information is used to assess the outcome of activities, a summary of the measures or indicators used to assess achievement should be included.
- (b) Where material fundraising activities are undertaken, details of the performance achieved against fundraising objectives set ...
- (c) Where material investments are held, details of the investment performance achieved against the investment objectives set.
- (d) Comment on those factors within and outside the charity's control which are relevant to the achievement of its objectives; these might include relationship with employees, users, beneficiaries, funders and the charity's position in the wider community.

5.5 Canada

5.6 Other

6 Domestic public sector

6.1 Overview of the Australian Public Sector

- 6.1.1 In the 2001 report *Performance Management in the Australian Public Service: A Strategic Framework* by the Management Advisory Committee (a forum of Secretaries and Agency Heads established under the *Public Service Act 1999* to advise the Australian Government on matters relating to the management of the Australian Public Service), it was noted that through the 1980s, there has been a wave of reform in public administration which engaged the Australian public sector with trends in management thinking, including from the private sector. “Significant among these trends was an increasing focus on managing by outcomes and accountability of agencies for improving management and performance” (page 17).
- 6.1.2 The “reform philosophy has shifted performance focus from accountability for process and parliamentary appropriation, to accountability for results, in both financial and non-financial terms” (*Preparing Performance Information in the Public Sector: An Australian Perspective*, Journal of Financial Accountability and Management, Janet Lee, 2008, page 121). Lee observes that, in tandem with this greater focus on results rather than process, the use of outcomes and outputs as performance measures has been encouraged by governments, as noted below:
- (a) In the Australian Government:
 - (i) the Department of Finance & Deregulation has issued guidance that outlines the requirements for Australian Government agencies to provide performance information relating to the achievement of outcomes, outputs and administered items;
 - (ii) the Department of Prime Minister and Cabinet has issued regulation on annual report requirements on outputs and outcomes performance reporting for the Australian government agencies and prescribed agencies under *Financial Management and Accountability Act 1997*, which was approved by the Parliament by the Joint Committee of Public Accounts and Audit; and
 - (iii) the Australian National Audit Office (ANAO) has issued best practice guidelines for Australian government agencies on performance information, which specifies outputs and outcomes.
 - (b) For the State governments:
 - (i) the Victorian Department of Treasury and Finance has issued regulation (the Model Report) for Victorian Government departments on output performance reporting in the Report of Operations;
 - (ii) the Queensland Department of Premier and Cabinet has issued annual report guidelines for Queensland Government agencies on the reporting of agency outputs and output performance measures;
 - (iii) the Audit Office of NSW has issued best practice guidelines for NSW agencies on performance information focusing on outputs and outcomes; and
 - (iv) the Tasmanian Department of Treasury and Finance has issued guidelines for Tasmanian inner-Budget agencies on developing performance information for management and accountability purposes.

6.2 Australian Government (Commonwealth)

- 6.2.1 “The Outcomes and Outputs framework provides the basis of the Government’s approach to budgeting and reporting for public sector agencies and the means by which the Parliament appropriates funds in the annual budget context. The framework was introduced, together with accrual budgeting, in 1999–2000. At the time of its introduction, the framework represented a significant step in the evolution of the government’s management and budgeting reforms and was intended to provide an increased focus on outcomes and results” (ANAO Audit Report No. 23 2006-7 *Application of the Outcomes and Outputs Framework*, pg 15).
- 6.2.2 In June 2009, *Outcome Statements Policy and Approval Process* was published by the Department of Finance and Deregulation. It outlines the requirements for General Government Sector (GGS) agencies when preparing outcomes statements. Outcomes statements are reported in Portfolio Budget Statements which in turn provide input to the annual reports. All departments and agencies in the Australian Government are expected by the Department of Finance and Deregulation to identify their outcomes and outputs and are held accountable for them.
- 6.2.3 The *Outcome Statements Policy and Approval Process* (2009) provides some background information and basic requirements for outcome statements, as reflected in the following extracts.

“What are outcome statements?

Outcome statements articulate Government objectives and serve three main purposes within the financial framework:

- to explain the purposes for which annual appropriations are approved by the Parliament for use by agencies;
- to provide a basis for budgeting and reporting against the use of appropriated funds; and
- to measure and assess agency and program non-financial performance in contributing to Government policy objectives.

All agencies within the GGS must have at least one Outcome Statement.

What is the purpose of outcome statements?

Outcome statements help to address three questions:

1. What does government want to achieve? (Outcomes)
 2. What activities does government undertake to achieve this? (Programs and activities)
 3. How does government monitor its progress towards achieving this? (Performance reporting)”
- (page 2)

“Key Principles for outcome statements

An outcome statement should be specific, focused, and easily interpreted, and:

1. identify the intended result(s) of the agency, with the level of achievement against the intended result(s) capable of being measured;
2. specify the target group(s) where this group is narrower than ‘Australia’ or ‘Australians’; and
3. specify the activities undertaken by the agency that contribute to the achievement of the intended result(s).” (page 3)

- 6.2.4 All agencies within the GGS operating under the *Financial Management and Accountability Act* (1997) are required to produce an annual report by the *Public Service Act* (1999). In the *Requirements for Annual Reports* (17 June 2009) published by the Department of Prime Minister and Cabinet and approved by the Parliament by the Joint Committee of Public Accounts and Audit, the annual report requirements highlight the emphasis placed on outcomes and outputs in relation to performance reporting, as evident from the extract below.

“Part 3 – Annual Report Requirements

10 Departmental Overview

- (1) The annual report must provide a description of the department, including:
 - (a) Role and functions;
 - (b) Organisational structure; and
 - (c) **Outcome and output** structure.
- (2) The outcome and output structure must be consistent or reconcilable with information in the Portfolio Budget Statements and the Portfolio Additional Estimate Statements relating to the department for the year covered by the annual report. Where a department is reporting using a different structure, it must detail the variation and give the reasons for the change.
- (3) The annual report of a portfolio department must include an outline of the structure of the portfolio.

11 Report on Performance

The annual report must include:

- (1) a review of how the department has performed during the year in relation to the efficiency of the department’s outputs and their effectiveness in terms of achieving the planned outcomes. Descriptions of processes and activities should be avoided. Rather, reporting should be aimed at providing an assessment of how far the agency has progressed towards outcomes. The review must include:
 - (a) reporting of actual results against the specific performance standards for the outcomes and the outputs set out in the Portfolio Budget Statements/Portfolio Additional Estimate Statements. Relevant information should also be supplied for administered items. A tabular presentation of information, in landscape format, may be helpful. Reports should succinctly cover progress towards outcomes and the extent to which the agency is wholly or partly responsible for the outcome;
 - (b) if the department is appropriated funds to deliver outcomes through **purchaser/provider arrangements**, the review should also report on the performance of those arrangements against targets set in the Portfolio Budget Statements; and
 - (c) a concise narrative discussion and analysis of the detailed performance information at an appropriate level of reporting. Visual aids such as charts and graphs may assist the reader. While departments must address how they have performed in contributing to outcomes, departments have discretion as to the level of reporting below outcomes, having regard to **materiality**, parliamentary and public interest, and reader expectations...” (pages 5-6)

6.2.5 The ANAO published the *Better Practice Guide: Better Practice in Annual Performance Reporting* in 2004, which focuses specifically on performance information for annual reporting “to help Commonwealth agencies improve the: transparency; usefulness and quality of performance information; and readability of performance reporting in annual reports” (page v). In the guide, a good performance reporting framework is identified as having clear and precise specification of well-chosen indicators that are drawn from policies and plans for the agency. Such a framework contains a balanced set of measures, addressing all key aspects of agency performance, with accurate and reliable systems, methods and bases for reference or comparison of performance. The key features of a good performance reporting framework in the eyes of the ANAO are summarised below.

“Figure 3.1: Features of a good performance reporting framework:

- Specify desired outcomes (including any intermediate outcomes):
 - address any shared outcomes and provide information on the agency’s contribution;
 - and

- identify the contributing departmental outputs and administered items (usually programmes), and assess their contribution to the outcome(s).
- Identify measurable performance indicators for effectiveness at the outcome level, and, at the departmental output and administered item programme level:
 - use valid, accurate and reliable measures and maintain information on methodology and sources;
 - establish links between financial and non-financial performance information and assess the efficiency and cost effectiveness of the agency; and
 - use researched and realistic targets, standards and bases for comparison including multi-year targets where necessary.” (page 8)

6.2.6 The ANAO further recommends the Balanced Scorecard approach to enhance the performance reporting framework. This multidimensional approach covers four performance aspects of an organisation, namely financial, customer, internal operation processes, and learning and innovation. Agencies who have adopted this approach include Centrelink, the ANAO and the Department of Defence.

6.2.7 The ANAO Annual Report 2007-8 (Section 3: *Reporting on Performance*) is included in paper 2A, as an example of a best practice performance report.

6.3 *New South Wales*

6.3.1 Agencies are required by the *Annual Reports Acts* to report to Parliament annually on their operations and financial performance. Acts, Regulations, Treasury Circulars and Premier’s Memoranda provide further guidance and detail on what agencies must report.

6.3.2 Under annual reporting legislation agencies are required to publish:
(a) a statement of the manner and purpose for which the agency was established (the charter) and the principal legislation it administers; and
(b) aims and objectives, that is information on what the agency sets out to do, the range of services provided and the clients or community groups served.

6.3.3 The annual report also must disclose the vision and mission statements and corporate values as shown in the agency’s strategic plan.

6.3.4 The Audit Office of NSW provides a *Better Practice Guide: A guide to preparing performance information for annual reports* (November 2000) to assist agencies to prepare annual reports that provide performance information that demonstrates accountability for the expenditure of public monies. Better practice principles outlined in the better practice guide are summarised as follows (extracted from pages 4-16):

Better Practice Principles

1. Objectives are clear and measurable

Aims and objectives should reflect the enabling legislation and government policy. Objectives need to: be specific; define impacts on the community, environment or the economy; and be measurable.

2. Focussing on results and outcomes

An annual report should provide a clear discussion on what the agency planned to achieve, did achieve and plans to achieve in the future. This includes reporting on: outputs to be delivered; outcomes to be achieved; the efficiency of service delivery outputs; and the effectiveness of programs.

Reporting outcomes enables readers to judge the effectiveness of the agency.

Therefore in annual reports, agencies should:

- report results and outcomes not just activities and outputs
- relate outcomes directly to objectives
- express outcomes in terms of impacts on the community
- relate outcomes to goals and targets.

3. *Setting performance targets*

Targets set by an agency provide measures against which readers can assess the success or otherwise of the agency's performance. Agencies need to report: actual results against the target; the reasons for any significant variance from the target; actions taken or planned to be taken to address unfavourable variances

4. *Reporting is complete and informative*

Performance reporting is complete and informative if: it covers key functions and programs of the agency (using key performance indicators); reports on performance against targets identified in the previous annual report; it includes honest coverage of both successes and setbacks; it includes trend data (for example, multi-year comparative tables and/or graphs ideally over the last three years) and a discussion and analysis of changes over time

5. *Explaining changes over time*

Agencies should report performance information consistently from one year to the next. Consistency builds reader confidence that performance is not being selectively reported and allows results to be compared from one year to the next

6. *Providing evidence of value for money/benchmarking*

In reporting value for money agencies should: define the population or client base the program is designed for; identify the main outputs and outcomes provided to clients; disclose the costs involved in providing each of the main outputs (and where possible) outcomes; benchmark their operations against similar organisations in other jurisdictions or the private sector

7. *Discussing strategies, risks and external factors*

Often factors outside the control of the agency affect its performance. Best practice suggests agencies discuss these issues in their annual report and provide readers with information on: the agency's operating environment, that is external and internal factors that affect or constrain the agency's day to day activities; internal and external factors that might impact on success, both present and those likely in the future; the agency's response to issues of significant public interest; the future operating environment and developments.

- 6.3.5 In 2000, the Audit Office of NSW '*Performance Audit Report: Judging Performance from Annual Reports: Review of Eight Agencies' Annual Reports*' expressed concerns regarding the quality of performance information provided in annual reports falling short of best practice. This is attributable to government agencies reporting more on description of activities than outcomes and achievements, thus limiting any judgement of performance.
- 6.3.6 In the following report in 2003, the Audit Office of NSW noticed that some improvements had been made in the quality of annual reports, such as reporting of key outcomes and results; providing performance data and trends; and employing both qualitative and quantitative measures of performance. However, agencies still face major challenges in producing 'balanced' reports as few agencies use performance targets, declare or discuss setbacks, link costs to results or provide benchmark comparisons. 'Balanced' is explained as "The performance measures used by an agency should provide an overall picture of what the agency or program is doing. Performance measures should provide data on all elements of service delivery, that is inputs, outputs and results or effectiveness. Timeliness, quality and the cost of services should also be monitored." (Auditor-General's Report: Performance Audit Agency Use of Performance Information to Manage Services, June 2006, pg 17).
- 6.3.7 In June 2006, the NSW Audit Office published a performance audit report '*Auditor-General's Report: Performance Audit Agency Use of Performance Information to Manage Services* (June 2006)', which examined the agencies' collection and use of

performance information to manage services and achieve results. Overall, the audit found that results were mixed, with many examples of good practice but some variation in the quality and coverage of performance measures.

- 6.3.8 Agencies had made improvements on establishing targets for the comparison of performance, but the 2006 performance audits found that agencies were particularly reluctant to publish the results. Further, the audit found that agencies also shied away from using interstate performance information for performance comparison and the identification of areas of improvements on services.

6.4 Victoria

- 6.4.1 All Victorian public sector bodies operate under a prudent financial management framework comprising elements from the various Acts. In particular the *Financial Management Act 1994* (FMA) governs the use of public money, and the accountability processes and subordinate legislation with which the Victorian Government, departments and other public sector bodies are obliged to comply.
- 6.4.2 To enhance the consistency and quality of departmental reporting, Department of Treasury and Finance produces an annual *Model Financial Report for Victorian Government Departments* (the *Model Report*) to guide departments in applying the latest reporting pronouncements that are applicable under legislation and Australian Accounting Standards.
- 6.4.3 All Victorian Government departments are required, under Standing Direction 4.2 *Reporting Requirements in terms of Part 7 of the FMA*, to comply with the annual edition of the *Model Report* when preparing and tabling their annual reports in Parliament.
- 6.4.4 The *Model Report* contains “an example of a best practice non-technical analysis and explanation of significant aspects of the financial statements in the current year financial review within the Report of Operations”. The requirements under Standing Direction 4.2 *Reporting Requirements in terms of Part 7 of the FMA* for the Report of Operations are as follows:
- “Requirements under Standing Direction 4.2**
- a) The Report of Operations should include qualitative and quantitative information on the operations of the public sector agency and should be prepared on a basis consistent with the financial report prepared by the public sector agency pursuant to the FMA. This report should provide users with general information about the entity and its activities, operational highlights for the reporting period, future initiatives and other relevant information not included in the financial report.
 - b) The Report of Operations must be prepared in accordance with the requirements of the Financial Reporting Directions.
 - c) The Report of Operations for government departments must be presented in accordance with the guidelines contained within the *Model*.
 - d) The Report of Operations must be signed and dated by the Accountable Officer in the case of a government department or, in the case of any other public sector agency, a member of the Responsible Body.
 - e) Government departments must include a comparison of the output targets specified in the State Budget with actual performance against those targets.” (page 10 of the *Model Report*)

6.4.5 In relation to output performance reporting in the Report of Operations, the legislative requirements and documented references are as follows:

“Legislative and Documented References

Standing Direction 4.2 (k) requires entities to report on actual output performance for a Government department that includes a comparison of the output targets specified in the State Budget with actual performance against those targets.

Financial Reporting Direction 22B states that the report should include a ‘summary of the entity’s operational and budgetary objectives, including performance against the objectives and significant achievements’ for the current reporting period. This section also adds to a department’s fulfilment of the requirement in Financial Report Direction 22B to detail the ‘objectives, functions, powers and duties’ of the entity (which is fulfilled in the earlier ‘Year in Review’ section).” (page 17 of the *Model Report*)

6.4.6 The guidance provided by the Department of Treasury and Finance on output performance reporting in the Report of Operations is as follows:

“Guidance

An introduction to this section should include an overview of the key output areas, as articulated in the budget papers, plus any explanation of changes to the output structure that occurred during the year (covered above in ‘*Structural Changes to the Department during 2008-09*’).

Departmental output performance reporting should therefore include:

- An overview of the key output area for which a department is responsible (as set out in the *Budget Paper No. 3: Service Delivery*) for that financial year; and
- Detailed output performance delivery information, in particular:
 - the actual result on an output by output basis against the budget target (as per *Budget Paper No. 3*) and the actual result for each quantity, quality, timeliness and cost performance measure. The output performance measures should be presented as published in the department’s output statements in *Budget Paper No. 3*. If new output performance measures are introduced during the course of the financial year, these should also be included, explaining why they are new;
 - appropriate commentary to explain the cause of significant or material variances between the *Budget Paper No. 3* targets and actual results. The commentary provided should be sufficient to assist the reader in understanding variances between actual and targeted results; and
 - explanation of any changes to the output structure that have occurred during the financial year, such as changes arising from Machinery of Government administrative changes and any other changes (i.e. new output created due to government policy decision, output name change from the previous financial year, consolidation or disaggregation of outputs from the previous financial year).

This detail may be shown in table form with some commentary on those targets that were met or exceeded and an explanation of any targets not met, as noted below.

Significant or material variances in output performance reporting

The following criteria is intended as general guidance for entities in determining whether or not to provide commentary to explain variations between budget and actual results:

- 10 per cent increase or decrease from budget;
- a variance that arises from the implementation of new policy or existing policy, government decisions or actions;
- a variance that arises from other third party influences (i.e. Commonwealth, consumer trends, etc); and
- a variance that may be of public interest.” (page 18 of the *Model Report*)

6.4.7 In addition to the *Model Report* which is updated annually, the Department of Treasury and Finance had previously published two books in specific relation to outputs. The two books published in 1997 are *Output costing guide* and *Output specification and performance measurement guide*.

6.5 *Australian Capital Territory*

- 6.5.1 There are a number of pieces of legislation that are applicable to the accounting, financial management and financial reporting of ACT Government entities. The *Financial Management Act* was enacted in 1996 as part of the financial management reforms undertaken within the ACT. It sets the legislative basis for the financial framework under which the Territory now operates.
- 6.5.2 In the ACT government, departments and territory authorities have different legislative requirements. For ACT government departments, Sections 30A to 30E of the *Financial Management Act 1996* (FMA) provide the requirements relating to departmental Statement of Performance.
- 6.5.3 In summary the requirements are:
- (a) The statement must compare the department's actual performance in providing each class of outputs within the budget or a revised budget by section 19D of the FMA or a supplementary budget for the year, and state the extent to which the output performance criteria set out in the budget, were met. (*Section 30A of FMA 1996*)
 - (b) A department's Statement of Performance must have endorsed on, or attached to it, a Statement of Responsibility signed by the responsible chief executive. The Statement of Responsibility must state that, in the chief executive's opinion, the Statement of Performance fairly reflects the performance of the department in delivering each class of outputs during the financial year. (*Section 30B of FMA 1996*)
 - (c) A department's chief executive must give the Auditor-General the department's Statement of Performance for the financial year with a signed Statement of Responsibility, as soon as practicable after the statement is prepared. The Auditor-General must provide a report about the Statement of Performance to the chief executive as soon as practicable after the Auditor-General has received it. This report will be a "Report of Factual Findings". (*Section 30C of FMA 1996*)
 - (d) An Annual Report of a department must include or have attached to it:
 - (i) the department's Statement of Performance for the year; and
 - (ii) the Auditor-General's report regarding the Statement of Performance (*Section 30D of FMA 1996*).
- 6.5.4 For Territory authorities, legislative requirements differ depending on whether the Territory authority is prescribed for outputs. Territory authorities prescribed for outputs (example) have additional reporting requirements as compared to those not prescribed for outputs (example).
- 6.5.5 For all Territory authorities, sections 68 to 71 of the FMA provide the requirements relating to a Territory authority's Statement of Performance for financial years ending on or after 30 June 2008. Territory authorities are required to produce a Statement of Performance that addresses the performance measures included in its Statement of Intent for the year.
- 6.5.6 Territory authorities that are prescribed for outputs, in addition to reporting on their Statement of Intent performance measures, must also report against the accountability indicators presented in the Budget Papers and/or as revised by section 19D of the FMA or a supplementary budget.

6.5.7 In May 2008, the ACT Department of Treasury (Accounting Branch) issued a *Statement of Performance for Agencies: Better Practice Guideline* to provide assistance to agencies in the preparation of the annual Statement of Performance. This guideline applies to all ACT Government departments and Territory authorities.

6.5.8 Section 3 of the best practice guidelines applicable to departments and authorities prescribed for outputs are as follows:

“3.1 Departments and Territory Authorities Prescribed for Outputs

From 2007-08 the Statement of Performance will report against the following output indicator:

- *Accountability Indicators* - performance measures that measure a department’s effectiveness and efficiency in delivering outputs.

3.2.1 Output Information

The Statement of Performance should include the following information for each output:

- *Description of Output*
Output descriptions are included to provide users with more information in relation to the outputs and services being provided by agencies.
- *Output Cost*
The following information is required:
 - the original cost of the output as provided in the original budget papers;
 - the amended cost of the output, where the cost has been amended by either a Supplementary Appropriation Act (section 13A ‘Amendment of Budgets for Supplementary Appropriation’) or a section 19D instrument⁸ (‘Amendment of Performance Criteria’);
 - where a target has been amended, the reason for the amendment should be disclosed by way of note;
 - the actual cost of the output at the end of the financial year;
 - the percentage variance from the amended cost of the output; and
 - an explanation of material variances from the amended cost.
- *Government Payment for Outputs (GPO)*
The following information is required:
 - the original GPO as provided in the original budget papers;
 - the amended GPO, where GPO has been amended by either a Supplementary Appropriation Act (section 13A ‘Amendment of Budgets for Supplementary Appropriation’) or a section 19D instrument⁹ (‘Amendment of Performance Criteria’);
 - where a target has been amended, the reason for the amendment should be disclosed by way of note;
 - the actual GPO received for the output at the end of the financial year;
 - the percentage variance from the amended GPO; and
 - an explanation of material variances from the amended GPO.

3.2.2 Accountability Indicators

Accountability performance indicators measure a department’s effectiveness and efficiency in delivering its outputs, and may be measures of outcomes, outputs or inputs.

Accountability indicators should be presented in a table that is consistent with the format included in the budget papers.

Accountability indicators should report against the original target and the amended target for each output. Where actual performance differs materially from the amended target, an explanation of the reasons for, and nature of, that variance is to be included in the statement.”

6.5.9 The best practice guidelines applicable to Territory authorities not prescribed for outputs are as follows (extracted from Section 3):

“3.3 Territory Authorities Not Prescribed for Outputs

3.3.1 Territory Authority Statement of Intent Indicators

From the 2007-08 financial year, and for those Territory authorities that are NOT prescribed for outputs, the Statement of Performance should include the following for each Statement of Intent Indicator:

- *Description of Objectives for the Year*
- *Statement of Intent Measures*
- *Original Target*
- *% Variance from Original Target*
- *Explanation of Material Variances*
- *Explanation of Measures”*

6.5.10 In addition to providing best practice guidelines on Statement of Performance, the ACT Department of Treasury (Accounting Branch) has also published a *Management Discussion and Analysis: Better Practice Guideline* in June 2007 to assist agencies with improving the content and format of their MD&A. Departments and Territory authorities are required to prepare and include MD&A in their Annual Report, immediately prior to the audited financial report. The purpose of MD&A is to assist users of the financial report, including the Members of the ACT Legislative Assembly, to more completely understand the financial information presented.

6.5.11 More recently in 2009, the Chief Minister’s Department ACT commissioned a report produced by Allen Consulting Group *Performance and Accountability in the ACT: Towards a New Framework* to inform the development and implementation of a more mature performance and accountability framework for the ACT. The report examines the strengths and weaknesses of the current framework, presents the key principles of better practice, and outlines a possible framework as the basis for further development.

6.5.12 In Chapter 5 *Underpinning concepts of a performance and accountability framework*, the report identifies the following underlying principles of good performance information.

Section 5.7 The collection of useful performance information is crucial to inform public decision making

Plans must set the right targets and have access to the data and performance information needed to monitor performance. Typically the underlying principles of good performance information are:

- ‘start with a well-specified objective. It is hard to measure performance if the objective itself is vague, manifestly unachievable or contradictory
- consider the use being made of the performance information and collect only what is actually going to be used by boards or managers to improve performance
- collect both quantitative and qualitative information. Some government activities can only be measured in qualitative terms, through surveys or other techniques. This information is still useful keep the performance management task manageable. A small selection of well chosen measures should address the organisation’s efficiency and effectiveness’ (from Bartos, S 2004, *Public Sector Governance Asustralia*, CCH, Sydney, pp. 60-070).” (page 46)

6.5.13 Regarding the current system in the ACT government, the report identified the following areas that need to be addressed:

“Section 1.3 Towards a mature performance and accountability system for the ACT

The ACT government will be more effective in meeting the priorities and goals of the Canberra Plan and its related sub-plans if it implements a more contemporary set of institutional and procedural performance and accountability arrangements.

The areas of the current system that need to be addressed include:

- the disjuncture between the centralised planning process (under the Canberra Plan and its sub plans) and agency level planning
- misalignment between the performance information collected and reported on by individual agencies and the government's stated priorities through the Canberra Plan and its sub-plans
- the development of a budgetary or allocative framework that clearly reflects the priorities of the Canberra Plan and its related sub-plans
- the capacity of central and line agencies to generate information that informs the Legislative Assembly, the government, decision makers and the community on whole-of-government performance. In particular the:
 - level of consistency in the way performance is reported between individual agencies
 - linkages between output classes in the budget papers and the stated priorities of the Canberra Plan and its related sub-plans
 - clarity about what constitutes an accountability measure and a strategic indicator
 - timeliness and relevance of progress reporting on agency performance.” (page 2)

6.6 *Queensland*

6.6.1 Section 95 of the *Financial Management Standard 1997: Annual Report Guidelines* provides specific requirements for information that is to be disclosed in annual reports of Queensland agencies. The extract of Section 95: *Content of Annual Reports* which specifically relate to disclosure of performance information is displayed below (which was also utilised by Queensland Audit Office to assess compliance when performing performance audit)

*“Financial Management Standard 1997
Section 95 Content of Annual Reports*

- (1) The following information about an agency must be included in the agency's annual report—
- ...
- (e) a review of the progress in achieving the agency's statutory obligations;
- ...
- (g) a review of the agency's progress towards achieving its goals and delivering its outputs for the year, including details about the agency's actual performance in relation to its goals and outputs measured using the performance measures in the agency's strategic plan
- (h) a review of the proposed forward operations of the agency, including—
- (i) its forward plans, proposed changes to operations and the need to continue current operations; and
- (ii) the goals identified in the agency's strategic plan for the next financial year;
- (i) information about how efficiently and effectively the agency has carried out its operations, including a review of the agency's progress in; benchmarking and achieving best practice and cost-effectiveness in carrying out its operations.”

6.6.2 In 1999, the Queensland Government introduced a range of reforms on accrual output budgeting across the public sector, collectively labelled 'Managing for Outcomes', which is "aimed to better integrate management processes, focussing on strategic planning, resource allocation (budget) and performance management". In August 2008, the Queensland Government approved that 'Managing for Outcomes' be replaced with a new 'Performance Management Framework'. *A Guide to the Queensland Government Performance Management Framework* was published in May 2009 by the Queensland Department of Premier and Cabinet presenting a practical overview of the key concepts of the 'Performance Management Framework' to facilitate improved performance management, monitoring and reporting in the Queensland Government. Better practice reporting principles outlined in the guide are shown in the extract from *Performance Measurement Reporting Obstacles and*

Accountability – Recent Trends and Future Directions, Australia and New Zealand School of Government, 2006 below.

“Better practice reporting principles

- focus on the few critical aspects of performance
- look forward as well as back
- explain key risk considerations
- explain key capacity considerations
- explain other factors critical to performance
- integrate financial and non-financial performance information
- provide comparative information
- present credible information, fairly interpreted
- disclose the basis of reporting.” (page 41)

6.6.3 The guide identifies the key documents in the Performance Management Framework which includes: a strategic plan; an operational plan; Service Delivery Statements as part of the Budget papers, which discuss the resources that the agency applies to delivering objectives and services, including estimated actual performance (against performance indicators and service standards); and annual report which reports on actual performance (against same indicators and service standards).

6.6.4 In May 2009, the Department of Premier and Cabinet had also published *Annual Report Guidelines for Queensland Government Agencies: Guidelines for the 2008-9 reporting year*, which applies to Queensland Government agencies. In relation to output performance reporting, the guidelines outlined are as follows:

“Section 11.6 Agency outputs and output performance measures

- Agencies must disclose:
 - a brief outline of the outputs provided by the agency (required by section 95(1)(a) of the Financial Management Standard) including an appropriate output description for each output.
The output description should be a short statement of the service or product provided in no more than a few sentences and must include an output objective. The output objective should demonstrate how the output contributes to the achievement of agency objectives identified in its strategic plan, and in turn, the Government's objectives for the community (ambitions and if relevant, targets).
 - a description of how the outputs are measured (i.e. what performance measures are used to assess overall performance of the organisation in delivering its outputs), consistent with the agency's Service Delivery Statements and operational plan. Output performance measures should be relevant and meaningful for the general public to demonstrate the efficiency and effectiveness of the output.
 - actual performance of each output (which aligns with the output performance measures and targets contained in the Service Delivery Statements) including brief explanatory notes for any significant variations between the 2008-09 budgeted v 2008-09 actual non-financial performance (i.e. the Service Delivery Statements sets out output performance targets for departmental outputs and contributions to outcomes, and the annual report reports on achievements)
 - information about how efficiently and effectively the agency has carried out its operations, including a review of the agency's progress in benchmarking and achieving best practice and cost-effectiveness in carrying out its operations (required by section 95(1)(i) of the Financial Management Standard)
 - provide evidence of value for money.” (page 24)

6.6.5 The Queensland Audit Office published *Auditor-General of Queensland Report to Parliament No. 1 for 2008: Enhancing Accountability through Annual Reporting: A Performance Management Systems Audit* in 2008. The audit found that non-

compliance with legislative requirements was highest in reporting performance information. Particularly on compliance with performance information, the audit found that none of the ten agencies audited fully complied with prescribed requirements as set out by Parliament for the disclosure of performance information. Agencies were found to not consistently or sufficiently use benchmarks, standards and measures of cost effectiveness to report on their services and the outcomes for the Queensland community. The Queensland Audit Office outlined the following features of good performance reporting:

Section 3.1.2 Compliance with performance information

To better report performance information, agencies should show the linkages between their statutory obligations, strategic goals, and outputs. The reports should also include performance measures that:

- are relevant and appropriate
- are based on targets and benchmarks
- cover efficiency, effectiveness and economy for each of the Government outcomes and priorities
- cascade from the *Charter of Social and Fiscal Responsibility* to strategic plans and Ministerial Portfolio Statements
- are constant for the planning cycle of the agency or explain any changes
- guide the development of the strategic plans starting in 2008-09 and subsequent annual reports
- include sufficient years of data to show trends, typically five years.

6.6.6 In addition to audit on compliance with legislative requirements, the Queensland Audit Office further assessed a sample of the annual reports of ten departments against better practice for presenting performance information (*Disclosure and Transparency Frameworks – Standards Australia 2004*). Under Section 4.1 *A framework for disclosure and transparency* in the report, the audit findings concluded that agencies are better at reporting activities and outputs rather than their outcomes. The Queensland Audit Office acknowledged that reporting performance against planned outcomes presents a greater challenge but accountability is needed nonetheless. Further, the exclusion of trend data restricted performance comparison, thus weakening accountability.

6.7 Tasmania

6.8 Northern Territory

6.9 Western Australia

6.10 South Australia

7 Domestic not-for-profit private sector

7.1 The Institute of Chartered Accountants in Australia

7.1.1 The Institute released a best practice reporting guide, *Enhancing not-for-profit annual and financial reporting – The essential tool for transparent reporting*, March 2009, to assist not-for-profit entities in producing their annual and financial reports. The guide

(pages 1-5), provides recommendations in preparing annual and financial reports based on a charity and a sporting club, but are applicable to all private sector not-for-profit entities. The Institute is a sponsor of the PwC Transparency Awards and as such, the guide also reflects the findings from the PwC Transparency Awards (see section 7.3).

7.1.2 The guide (pages 7-9) provides the following extracted recommendations (that relate to service performance) to enhance not-for-profit entities' annual reporting, based on research carried out by the Institute and information gathered in the review of submissions to the 2007 PwC Transparency Awards.

“...

- **Funding**

Provide more detail about sources of funds as well as fundraising activities. Although the quantum of funds raised and used by NFPs can be determined from their financial statements, additional information on the sources of funds would enhance transparency. Consideration should be given to providing information regarding:

- the processes to secure government funding
- policies for public fundraising
- which costs are included in fundraising costs
- the revenue models and the NFP's approach to funding
- the use of websites to generate donations.

...

- **Reporting efficiency and effectiveness – charitable bodies**

Charitable NFPs should identify and include in their annual reports those process key performance indicators (KPIs) that are relevant to their mission, objectives and activities. At a minimum these should include, where applicable:

- the ratio of total costs of fundraising to gross income obtained from fundraising
- the ratio of net surplus from fundraising to gross income obtained from fundraising
- the ratio of total costs of services provided by the fundraiser to total expenditure
- the ratio of total costs of services provided by the fundraiser to gross income received.

For as long as fundraising ratios remain the generally accepted means of reporting process efficiency, the ratios should be separately disclosed.

Fluctuations in these ratios from reporting period to reporting period should be explained in the annual report, particularly where the NFP is investing in its funding coterie. Such transparency communicates to the broader community that this investment is required and necessary to support the ongoing operations of the charitable NFP.

- **Reporting efficiency and effectiveness – sporting bodies**

Sporting body NFPs demonstrate the efficiency of their operations by determining the process KPIs that are relevant to their mission, objectives and activities, and disclosing them in their annual report. Where these KPIs are expressed as numbers or ratios, fluctuations from reporting period to reporting period should be explained.

- **Outputs, outcomes and impacts**

NFPs enhance the effectiveness of their annual reports by portraying what the NFP has done (its outputs), what it has achieved (its outcomes), and what difference it has made (its impacts).

The inclusion of measures of output, outcome and impact will improve completeness of reporting by demonstrating to the reader of the annual report what the NFP funding achieves rather than how it is spent.

NFPs can improve their annual reports by including explanations of trends and movements in these measures. These explanations should not be limited to financial data. Where process KPIs and outputs, outcomes and impacts are presented in quantitative form, explanations of movements from year to year should be provided.

Many NFPs run programs and mount activities that are designed to deliver outputs and achieve outcomes over the long term. Information regarding trends and movements in quantitative data and explanations of year-to-year movements would be enhanced by the inclusion of long-term trend data. Reporting would also benefit from the inclusion of performance targets and explanations for variations of actual performance from those targets.

...”

7.1.3 The guide (pages 17-18) also provides a checklist with a series of questions to assess whether the annual report meets good reporting practices that explains the results of the not-for-profit entity’s performance and achievements (service performance information). The series of questions have been extracted as follows:

“6.1 How have we met our objectives?”

Does the annual report explain our actual performance against the objectives detailed in last year’s annual report? Have we:

- a) Detailed the output indicators we use to measure our performance and disclosed actual and planned performance, and explained any significant variances?
Output indicators are measures of the goods or services produced or provided by the NFP. Pages 24 – 25 provide some examples. Each NFP needs to define its own output measures.
- b) Detailed the outcome indicators we use to measure our performance and disclose actual and planned performance, and explained any significant variances?
Outcomes are the impacts on or the consequences for the community resulting from the NFP’s activities. Pages 26 – 27 provide some examples. Each NFP needs to define its own outcome indicators. The following question will assist you in this task: ‘How will the participant’s or community’s knowledge, attitude, value, skill, behaviour, condition or status change as a result of our activity?’
- c) Included examples to illustrate our outcomes?
- d) Used graphs, tables and photographs where necessary to summarise and highlight our performance and achievements?
- e) Commented on matters we are able to control and those that are outside our control?
Consider a commentary on relationships with employees, users or beneficiaries of services, significant funders, occupational health and safety, and training. Other commentary might include factors impacting on fundraising and government policy that affects or may in future impact the organisation’s operations.

6.2 Have we explained the results of our fundraising?

Does our annual report include and explain the following information:

- a) Actual fundraising against fundraising targets?
Consider separate disclosure of fundraising through public appeals, regular giving programs, legacies and bequests, philanthropic grants, government grants, and government funding for delivery of services.
- b) The costs of our fundraising efforts?
- c) The costs of our fundraising efforts as a percentage of funds raised?
- d) A commentary on our ‘investment in fundraising’?
Where the NFP has incurred significant expenditure relating to future fundraising, comment should be included. Commentary should include an explanation of the impact on the current year’s return from fundraising and future years’ fundraising income.

6.3 Do we show how efficiently we have used our resources?

6.3.1 Does our annual report include and explain the following information regarding the use of our funds:

- a) The ratio of funds spent on our primary purpose(s) to total expenditure?
- b) The ratio of funds spent on our primary purpose(s) to total funds received during the year?
- c) The performance of our investments during the year compared with the investment objectives that were set for the year?

6.3.2 Does our annual report detail and explain the following information regarding the services we provide?

- a) The ‘outputs’ we have delivered?
- b) The outputs delivered per employee or volunteer?
- c) The cost per unit of output?

- 6.3.3 Does our annual report detail and explain the following information regarding our commercial activity?
- Gross profit margin?
 - The commercial activity's cash contribution to our core activity?
 - The cash contribution per person employed in the commercial activity?
 - The hours of employment provided by the commercial activity to those served by our core activities?

6.4 Do we explain our financial performance and position?

6.4.1 Do we include a financial discussion and analysis?

Does our annual report include a discussion and analysis of the factors affecting our financial performance, financial position, and financing and investing activities? For example, does the annual report include commentary on:

- Trends in revenues?
- The effects of significant economic or other events on our operations?
- The main influences on costs of our operations?
- Appropriate measures of our financial performance?
- Changes in the composition of our assets?
- Significant movements in our assets, liabilities and reserves?
- Changes in our cash flows?
- The financing of our capital expenditure programs?
- The purpose of our reserves and any restrictions on the use of our assets?

6.4.2 Have we considered a five-year summary?

Have we included a summary depicting our financial and operational performance over the past five years?"

7.2 CPA Australia

7.2.1 CPA Australia issued a Policy Paper *Financial Reporting by Not-for-Profit Entities* (the Paper) in 2000 that examined the significance of the private not-for-profit sector and identified its financial reporting needs.

7.2.2 The objectives of the Paper and conclusions reached that relate to service performance information are extracted from the Executive Summary as follows:

"The specific objectives of the Policy Paper are to:

- ...
- Critically analyse SAC 2 to determine if it is adequate for developing accounting standards for the NFP sector, and to compare it with the equivalent US Statement of Accounting Concept SFAC 4 *Objectives of Financial Reporting by Nonbusiness Organizations* (SFAC 4)
- ...

The conclusions reached from this Policy Paper are:

- ...
- The analysis of SAC 2 raise serious questions on the standard-setters' understanding of who are the key users of financial reports by NFP entities and their specific information needs. It is the lack of detail within SAC 2 that is of particular concern. Given the large variety of entities comprising the NFP sector, it is necessary to determine whether NFP entities have homogeneous or heterogeneous needs. For example, are the information needs for charities the same as those for the university and college sector?
- ...
- A casual analysis of current reporting by NFP entities in Australia highlights the existence of divergent practice. Whether this can be attributed solely to an attempt to meet the individual needs of specific entities or to other causes has not been determined."

7.2.3 In relation to service performance information, section 3.6.2 (page 15 of chapter 3) of the Paper discusses the differences in concepts between SFAC 4 and SAC 2:

“... Where SFAC 4 differs from SAC 2 is that SFAC 4 not only takes into account the unique characteristics of the NFP sector in identifying the information necessary for users to assess NFPE performance, but also both accepts and promotes the need for non-financial information. In this regard, while paragraph 47 of SFAC 4 identifies the same information necessary for assessing performance as does SAC 2’s paragraph 29 it refers to service efforts and accomplishments rather than to revenues and expenses. This terminology is endorsed as more meaningful to the NFP sector as, given the nature of NFPEs and their economic activity, not all accomplishments are revenues and some accomplishments are simply not measurable in quantitative financial terms. As paragraph c(2) of Appendix B to SFAC 4 comments:

The goals of the two objectives are the same but, because of the distinguishing characteristics of nonbusiness organizations, somewhat different information is required to satisfy these goals. Both seek to measure the efforts and accomplishments of the entity but assessment of performance in nonbusiness lacks earnings as a focal measure. This creates the need for information on service efforts and accomplishments.

Paragraphs 51 to 53 of SFAC 4 discuss NFPE service accomplishments and efforts, commenting that users require information on these to assess performance and make resource allocation decisions because:

- a. The accomplishments of nonbusiness organizations generally cannot be measured in terms of sales, profit, or return on investment.
- b. Resource providers often are not in a position to have direct knowledge of the goods and services provided when they also are not users or beneficiaries of those goods and services.

Paragraph 52 asserts that information about service efforts should:

... focus on how the organization’s resources (inputs such as money, personnel, and materials) are used in providing different programs or services. Techniques for measuring the costs of significant programs or services are well developed and this information should be included in financial statements.

Paragraph 53 then considers service accomplishments, commenting that information about goods and services produced (outputs) and programme results (impact upon clients or problem situations) could significantly augment the value of information about efforts. The concession is made, however, that there may be problems in measuring accomplishments and that research is required to determine if appropriate measures can be developed. Nevertheless, paragraph 53 asserts that—measurement problems aside—accomplishments may at the very least be conveyed to users via management explanations and non-financial sources.

In view of the attention devoted by SFAC 4 to the unique features of the NFP sector, particularly in terms of focussing on service efforts and accomplishments, SFAC 4 is clearly superior to SAC 2 in identifying the type of information necessary to assess NFPE performance.”

7.3 PwC Annual Transparency Awards

- 7.3.1 The PwC Transparency Awards (*PwC Transparency Awards Jury report – Appendix 2, page 9, April 2009*) [(the Awards)] is an annual awards program that began in 2007, and recognises the quality and transparency of reporting in the private not-for-profit sector. The Awards encourage ongoing improvement in the quality and transparency of reporting by conducting a detailed review of not-for-profit annual reports and relevant supplementary information, and providing individual feedback as well as a detailed Jury Report noting trends identified. The Awards are offered in collaboration with the Institute of Chartered Accountants in Australia (the Institute) and the Centre for Social Impact.

7.3.2 The evaluation criteria (www.pwc.com.au: Foundation/Transparency Awards/Evaluation Criteria) have been developed based on PwC's Reporting Framework, the Institute's research *Enhancing not-for-profit annual and financial reporting* (see section 7.1) and the Global Reporting Initiative's reporting guidelines (work in progress). The evaluation criteria relating to reporting performance and achievements (service performance information) have been extracted from the PwC website as follows:

“... ”

- **Strategy and mission**
We considered the extent to which the organisation explains the strategy and structures that enable it to operate and looked for clear communication of how those strategy and structures enable the organisation to sustain and grow its activities. Ideally, management supports its strategy with targets and relevant milestones.
- **Structure and vision**
Inextricably linked to the strategy and mission is how well the organisation's underlying organisational and governance structures, systems, processes and risk-management frameworks are aligned and how information in regard to this is disclosed.
- **Performance**
Reporting by not-for-profits should not just focus on the financial measures but on outputs, outcomes and impacts. We measured the extent to which the organisation's reporting contained information on how they have delivered outputs, outcomes and impacts in line with the expectations of their stakeholders. Performance based information demonstrates how well the organisation understands the community need for their services, executed their strategy, and managed their resources and relationships.
- **Financial performance and position**
We assessed the extent of financial information provided to stakeholders and specific financial disclosures.
- **Scene setting**
In this section we determined the extent to which the organisation explains the environment in which it operates. Our assessment required us to consider the 'story' painted in the Annual Report and supporting information, including the history and relevance in the current environment.
- **Overall assessment**
Finally, we considered the information provided by the organisation as a whole against the Reporting Principles established by the Global Reporting Institute. Those reporting principles include: materiality; stakeholder inclusiveness; completeness; balance/neutrality; comparability; accuracy; timeliness; clarity; reliability and accessibility.
Where an organisation has supplementary information that supports the annual report and meets these criteria, they are entitled to include this information as part of their submission. ...”

7.3.3 In the *PwC Transparency Awards Jury report – Appendix 1: Detailed feedback*, pages 4-8, April 2009, specific comments were provided about the Jury's overall findings. Some significant findings relating to reporting performance and achievements (service performance information)—where the Awards participants fared poorly or less than adequate—are extracted as follows:

“... ”

Strategy

Consistent with last year, most organisations provide qualitative information about their overarching strategy; however, there is often insufficient information about specific goals and how performance against strategy is measured. In many cases the strategy spans three to five years, but the information does not include where the organisation believes it is in the overall timeframe, its plans to achieve objectives, and any challenges which may affect its ability to achieve all aspects of the plan.

Several organisations provide a detailed strategic plan on their website. It would be helpful to see all organisations include, in their written report, their mission and vision statements followed by at

least a summary of their strategy. This would provide a clear context for the review of their performance for the year. The addition of measurable strategic and reporting of progress against those targets would be considered best practice.

Financial and operational performance

A key component of NFP reporting is an overview of what the organisation is doing: that is, the activities undertaken throughout the year and the services provided. This is often supported by key statistics, but very few organisations disclose either financial or operational targets against which performance is measured. Nor is long-term trend information well reported, making assessment of performance over a period of time difficult.

Operational reporting

Because of the nature of NFP activities, most programs run over extended periods; measurable performance targets and trend information would therefore be a welcome enhancement to reporting. Where statistical data is provided, commentary which explains the trend demonstrated should also be included. Insufficient insight is provided as to the impact or outcome of activities undertaken. The organisations that scored well in this area consistently reported the outcomes of their efforts. Use of testimonials or case studies is often an effective way to communicate the broader outcomes which support the organisation's reason for being.

We encourage organisations to disclose how they incorporate lessons learnt over time to make them a better and more effective organisation. This enhances readers' understanding of the organisation's ability to adapt to changing environments and learn from mistakes.

Financial reporting

There were some instances where significant fluctuations in revenues and/or expenses had occurred, with inadequate explanation. A more comprehensive explanation would assist stakeholders in understanding the factors affecting operations during the year.

Several organisations have deficiencies in current assets to current liabilities and are suffering losses due to investment and asset impairments. In most cases, discussion of or reference to these items is confined to the financial report. It would be helpful to address such items in the written report as well, as this would provide valuable insight regarding the organisation's future capacity or viability. Moreover, given the current economic landscape, this will likely become a greater focal point for stakeholders.

...

Stakeholder reporting

Only a small number of organisations specifically disclosed each major stakeholder group and discussed their relationship with each group. Most organisations acknowledged the contribution of their larger stakeholders and supporters, and made mention of the business community generally and sometimes the media. However, two main groups of stakeholders, employees and volunteers, are given insufficient attention in all forms of reporting by a large number of organisations.

Employees

... more information would be helpful in respect of:

- number of employees and their deployment across the organisation
- employment policies, such as flexible working arrangements, employee benefits, equal opportunity, and OH&S policies (imperative for those organisations whose employees work in high risk environments)
- training and professional development strategy and programs
- measures of workforce stability, such as employee satisfaction and retention rates
- recognition and reward
- retention policies
- succession planning for key executives and management
- qualifications, experience and length of service of key executives and senior management
- remuneration incentive arrangements (if any) for management, with their key performance indicators and performance against these
- performance assessment processes and frequency for key executives and senior management.

Volunteers

... We believe minimum disclosures should include:

- number of volunteers
- details of policies regarding the involvement of volunteers, such as screening processes and the activities that volunteers are involved in

- procedures for preparing volunteers for the activities they will undertake, including any training provided
- deployment of volunteers
- recognition of volunteers.

An indication of the extent of volunteer involvement, either through number of volunteer hours or a \$ value of volunteer contributions, would add greater insight into an organisation's reliance on the voluntary support it receives.

...

Accountability for surplus funds

An area we noted for particular attention is the articulation of a policy for the management and protection of funds raised surplus to an organisation's stated or operational requirements. There needs to be clear accountability for the treatment of surplus funds and relevant, insightful disclosures in the financial statements regarding accounting for reserves and restricted assets. ..."

7.4 World Vision

7.4.1 World Vision Australia provides comprehensive and a vast range of publications in the area of accountability. In relation to service performance reporting, the 2008 annual report of World Vision Australia has a section *2008 in Review*, which reports on performance against five operational goals that work towards their 2008 mission. The section contains high level summaries of the program activities for each operational goal. In addition to the annual report, World Vision Australia also provides companion documents supplementing the report of performance. The documents include:

"Annual Program Review 2008

This review contains 15 detailed case studies of our relief, development and advocacy programs. These case studies provide transparent and critical reflection on our successes and failures. This annual publication is one of a range of measures we have instituted to improve transparency and accountability, monitor, review, improve and to illustrate our work.

...

Field Ministry Strategy 2008-2010

This document provides further information about how we work in the field and what we do, and explains the regional priorities and our intentions for our field programs.

...

Sustainability Report

This report explains our commitment to the principles of sustainability and to sustainable development. Released in September 2008, the data in our first Sustainability Report covers the 2007 financial year. The Annual Report updates for FY08 certain information included in the Sustainability Report.

..." (page 2 of *World Vision Australia Annual Report 2008*)

An extract from World Vision Australia's service performance reporting is provided in paper 2A.

7.5 Oxfam

7.6 Juvenile Diabetes Research Foundation

7.7 Member-based organisations

7.8 Schools

7.9 Religious organisations

8 Domestic for-profit private sector

8.1 An extract from a service performance report prepared by Telstra (*Telstra Service Performance Report for March 2009 Quarter*) is included in paper 2A. The Telecommunications (Customer Service Guarantee) Standard 2000 (No. 2) specifies certain requirements on performance standards with which carriage service providers, including Telstra, must adhere. The report includes Telstra's performance against the following Customer Service Guarantee performance indicators:

- provision of new telephone services;
- restoration of faulty telephone services; and
- Telstra's performance against a range of payphone performance indicators.

The report provides a summary detailing the performance achievements and reasons for failing performance, followed by the results against Customer Service Guarantee performance indicators. Apart from the narrative summary, the remainder of the report contains mostly quantitative information. Telstra's service performance report is heavily based on quantitative performance information, with little narrative analysis or explanation to accompany the disclosed numbers.