

Paper 2: (WORK IN PROGRESS as at 5 February 2010) 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

- 4.2.1 As it is intended that paper 1 will be periodically updated to report on the IPSASB's progress on its 'Reporting of Service Performance Information' project, the following focuses on the broad issues expected to be addressed in the project.
- 4.2.2 At the October 2008 IPSASB meeting, the draft project brief was discussed by the IPSASB. The following extracts from Agenda Paper 3 of the IPSASB October 2008 meeting indicates some issues pertinent to service performance reporting.

2. Project Rationale and Objectives

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

In addition to more traditional financial performance information, a large number of governments around the world are currently reporting performance information about the programs and services they provide (referred to in this brief as service performance). Practice is fairly diverse in various jurisdictions. In some countries, governments are required by law to report this information annually while in others, the reporting of service performance information is strictly a voluntary action by progressive governments striving to enhance accountability.

As reporting of service performance information is considered, the project will review and compare the existing national standards and guidance on service performance reporting (or its equivalent) in the public and private sectors, where standards, guidance, and regulatory requirements for performance reporting have a long history. The International Accounting Standards Board (IASB) does not currently address this form of reporting directly in its standards. However, the IASB may address this issue as part of its conceptual framework project.

...

3. Outline of the Project

...

b) Major Problems and Key Issues that Should be Addressed

Key Issue #1—**What are the objectives of reporting service performance information?**

...

Key Issue #2—**Who are the identified users of service performance information, what are their needs, and what type of service performance information is needed to meet those needs?**

...

Key Issue #3—**Does a standardized terminology exist?**

...

Key Issue #4—**Are there essential content elements of service performance information that should be reported?**

...

Key Issue #5—**Should the project identify specific service performance information that should be reported by governments? If so, should a comprehensive list of indicators be developed or should the focus on those critical to understanding all or certain programs?**

...

Key Issue #6—**Should service performance information be reported as a separate external document or within other traditional financial statements?**

...

Key Issue #7—**Should the guidance be standards or voluntary guidelines?**

...

Key Issue #8—**What level of assurance and verifiability is appropriate?**

...

4. Describe the Implications for any Specific Persons or Groups

a) Relationship to IASB

The IASB project on the Conceptual Framework, Phase G, *Application of the framework to not-for-profit entities*, will be followed closely for points of convergence where possible. This phase is currently inactive. The IASB directed its staff to focus on the first four phases of the project before beginning work on the applicability of the conceptual framework to not-for-profit entities.

b) Relationship to other projects in process or planned

There are close linkages with the Conceptual Framework Project, Long-Term Fiscal Sustainability, and the Narrative Reporting project.

c) Other

This project has implications for the assurance and verifiability (IAASB/INTOSAI)

4.2.3 In September 2008, IPSASB published a Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. In relation to service performance reporting by public sector entities, the executive summary on the topic ‘The Scope of Financial Reporting’ states that the scope of financial reporting should contain both financial and non-financial information, including information about future service delivery activities and objectives and the resources needed to support them. An extract from the summary (page 6) is as follows:

“The Scope of Financial Reporting

The scope of financial reporting establishes the boundary around the transactions, other events, and activities that may be reported in GPFs. The types of information that may be included within the scope of financial reporting, and presented in GPFs to achieve the objectives of financial reporting, are considered in detail.

The scope of financial reporting should be sufficiently broad to allow GPFs of an entity to report financial and non-financial information about the past, present, and the future, including prospective financial and other information about future service delivery activities and objectives, and the resources needed to support them.”

4.2.4 At the May 2009 IPSASB meeting at which IPSASB members reviewed the responses to the Consultation Paper on Phase 1 of the Conceptual Framework project, the broad view of members is that the scope of financial reporting should be developed in response to users’ information needs and that may entail the disclosure of financial and non-financial information for users to better understand the financial performance and position of the entity. The members expressed the following preliminary views, as extracted from the IPSASB Minutes for the May 2009 meeting:

- A broad scope for general purpose financial reporting as proposed in the Consultative paper appeared appropriate if GPFs were to provide information necessary for accountability purposes and useful as input for decision making purposes – a number of Members expressed the view that disclosure of non-financial and prospective financial information was likely to be necessary to better understand the financial position and performance of the entity as reflected in the financial statements;
- While not unlimited, the scope of financial reporting should be allowed to develop in response to users’ information needs. Members agreed that the further development of, and responses to, project briefs on narrative reporting and performance reporting and the project on long terms fiscal sustainability would effectively establish boundaries on the scope of financial reporting for the near term;
- The ED of the Framework when developed should make clear that the establishment of a broad scope for financial reporting does not mean that it is inevitable that an IPSAS will be developed to direct reporting on these matters. Some Members noted that certain disclosures may be encouraged rather than required and best practice guidance rather than requirements or IPSASs may also be developed;
- The Framework should be developed to initially focus on key aspects of financial statements, which reflected the current work on the elements and measurement components of the Framework. How the concepts may apply to other areas of financial reporting would be considered subsequently—for example in the context of projects dealing with the narrative reporting, performance reporting and long-term fiscal sustainability.

4.3 NZ

4.3.1 The Office of the Auditor-General New Zealand issued *The Auditor-General's Auditing Standard 4 (Revised) – The Audit of Service Performance Reports* in July 2009. The Standard provides information for auditors to perform the audit of service performance reports in order to form an audit opinion on whether the service performance report complies with GAAP and fairly reflects the service performance of the entity for the period (paragraph 1 of the Standard).

4.3.2 Paragraphs 12-15 of the Office of the Auditor-General New Zealand Standard provides some background information on the requirements for the preparation and evaluation of service performance reports under GAAP (extract provided below):

“12. High-level requirements for the preparation of service performance reports are specified in the entity’s relevant legislation, and some guidance is provided by central agencies. In addition, the main sources of GAAP relevant to service performance reports are:

- (a) The *New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements (NZ Framework)*;
- (b) NZ IAS-1: *Presentation of Financial Statements*; and
- (c) TPA-9: *Service Performance Reporting*.

13. The *NZ Framework* provides the conceptual underpinning for service performance reporting. NZ IAS-1 sets out the mandatory requirements for service performance reporting; it requires the description and disclosure of outputs and the disclosure of outcomes where practicable and appropriate. TPA-9 provides guidance on the specification, measurement, and reporting of service performance.

14. GAAP states that non-financial performance reports should have the qualities of relevance, reliability, understandability, and comparability. This Standard provides guidance on the meaning of these qualities as they apply to non-financial performance reports (see paragraphs A15 to A25). Important criteria for the preparation of service performance reports are provided at Appendix 1.

15. In forming an opinion on the service performance report, the Appointed Auditor will need to evaluate its appropriateness against the criteria outlined in legislation and GAAP. To do so, the Appointed Auditor is required to consider the (forecast and historical) non-financial performance reports as a whole, together with essential contextual information (e.g. legislative mandate; strategic and operational objectives; as well as the reported outcomes, impact, and output information).”

4.3.3 Appendix 1 of the Office of the Auditor-General New Zealand Standard provides a detailed explanation of the ‘Criteria for the Preparation and Evaluation of Service Performance Reports’, including comprehensive information on the relevant legislation, guidance from the New Zealand Treasury, GAAP and Technical Practice Aid 9 (extract provided below):

“Appendix 1 - Criteria for the Preparation of Service Performance Reports

- 1.1 This Appendix outlines important criteria prescribed by legislation and generally accepted accounting practice (GAAP) for the preparation of service performance reports.
- 1.2 Auditors are required to evaluate the appropriateness of service performance reports with regard to the recognition, measurement, and disclosure of output information. The evaluation of appropriateness should be made against the criteria for the preparation of service performance reports included in this Appendix.

Legislation

- 1.3 The legislative requirements for entities whose service performance reports are audited in accordance with AG-4 comprise:
- The Public Finance Act 1989;
 - The Crown Entities Act 2004; or
 - The Local Government Act 2002.
- 1.4 The annual report (which includes the service performance report) should enable users to make an informed assessment of entity performance:
- “The annual report must provide the information that is necessary to enable an informed assessment to be made of the [entity’s] performance during the financial year (including an assessment against the intentions, measures, and standards set out at the start of the financial year in the information on the [entity’s] future operating intentions...)”* [Section 45 (2) PFA. Consistent with s151 (2) CEA]
- 1.5 The requirements for the content of the service performance report are as follows:
- “A[n entity’s] statement of service performance must -*
- (a) be prepared in accordance with generally accepted accounting practice; and*
 - (b) describe each class of outputs supplied by the [entity] during the financial year; and*
 - (c) include, for each class of outputs, -*
 - (i) the standards of delivery performance achieved by the [entity], as compared with the forecast standards included in the [entity’s] statement of forecast service performance at the start of the financial year; and*
 - (ii) the actual revenue earned and output expenses incurred, as compared with the expected revenues and proposed output expenses included in the [entity’s] statement of forecast service performance at the start of the financial year.”*
- [Section 45A PFA. Consistent with s153 (1) CEA and s15 of Sched 10 Part 3 of the LGA]

Treasury guidance on the legislation

- 1.6 Elements reported as outputs in the service performance report should meet the statutory definition of outputs. However, links to impact and outcome information should be provided so that service performance information is presented within the wider context of what the service delivery is intended to achieve.
- “The statement of service performance should not report on internal departmental activities or intermediate products consumed in-house.”*
- “The PFA requires departments to provide output performance information in their statement of service performance. However, to provide context, departments are encouraged to include impact, outcome and information on the achievement of objectives in their statement of service performance.”*
- [Preparing the Annual Report: Guidance and Requirements for Departments, July 2009, pp 15-16]
- “The CEA requires Crown entities to provide output performance information in their statement of service performance. However, to provide a coherent account of achievement, entities are encouraged to include information on their contribution to achievement of impacts, outcomes and objectives in their statement of service performance.”*
- [Guidance and Requirements for Crown Entities: Preparing the Annual Report, 2008, pp 15-16]

Generally accepted accounting practice (GAAP)

- 1.7 The main sources of GAAP relevant to service performance reports are:
- *New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements*, June 2005;
- *NZ IAS 1: Presentation of Financial Statements*, November 2007; and
- *TPA-9: Service Performance Reporting*, revised November 2007.
- 1.8 The qualitative characteristics of non-financial performance reports are the same as those applying to financial reports.
- “The quality of the information presented in the non-financial and supplementary information should be considered with regard to the qualitative characteristics and constraints on those qualitative characteristics discussed in paragraphs 24 to 45 of this NZ Framework”*
[Paragraph NZ 101.3, *New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements*]
- 1.9 Paragraphs 24 to 45 of the *Framework* refer to the following four qualitative characteristics:
1. Understandability;
2. Relevance (including reference to materiality);
3. Reliability; and
4. Comparability.
- 1.10 Paragraphs 24 to 45 of the *Framework* identify the following constraints on relevant and reliable information:
1. Timeliness;
2. Balance between benefit and cost; and
3. Balance between qualitative characteristics.
- 1.11 The Auditor-General’s interpretation of, and guidance on, how these four qualitative characteristics (and constraints) apply to the non-financial performance reports of public entities is outlined in AG-4 paragraphs A15 to A25.
- 1.12 It is an expectation under GAAP that service performance reports will provide a true and fair view, or fairly present, the entity’s service performance.
- “...the application of the principal qualitative characteristics ... normally results in financial statements that convey what is generally understood as a true and fair view of, or as presenting fairly such information.”*
[Paragraph 47, *New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements*]
- 1.13 The mandatory (standard) requirements for service performance reporting, as required by NZ IAS 1, are as follows:
- “NZ 138.1 Where a statement of service performance is presented it shall describe and disclose the outputs of an entity. Similar individual outputs may be aggregated.**
- NZ 138.2 *This Standard refers to the statement in paragraph NZ 138.1 as a “statement of service performance”. The statement might, however, be differently named in legislation. The aim of such statements, by whatever name called, remains the providing of:*
(a) narrative and statistics on the entity’s performance in supplying goods and services; and
(b) information on the effects on the community of the entity’s existence and operations.
...

- NZ 138.4 *The elements of service performance are inputs, outputs and outcomes. Where relevant and appropriate for users of the entity's financial report, each output disclosed in the statement of service performance is to be described in terms of the output's:*
(a) quantity;
(b) quality;
(c) time; and
(d) location.
The cost of each output is to be described and disclosed.
- NZ 138.5 *The information used to describe service performance is to be selected so as to provide a complete description of delivery of each output (or aggregation of outputs) reported, but without undue emphasis on easily measured dimensions, and without resulting in an overload of only partially relevant statistics.*
- NZ 138.6 *For each output disclosed in a statement of service performance, where practical and appropriate, the outcome(s) to which the output is intended to contribute is to be disclosed.*
- NZ 138.7 *The statement of service performance shall present both projected service performance and actual service performance.***
- NZ 138.8 *Projected service performance is described by presenting projected outputs at the beginning of the period which an entity aimed to produce by the end of the period. These projected outputs will often be derived from the annual or corporate plan.*
- NZ 138.9 *To report the degree of success in achieving objectives, it is necessary to present both projected and actual results together with full disclosures of any changes in objectives during the period.*
- NZ 138.10 *Actual and projected service performance are to be reported consistently with one another. The information is to be sufficiently specific for performance to be assessed.*
[NZ IAS 1, Presentation of Financial Statements]

- 1.14 Service performance reports should focus on the reporting of outputs. Other elements should not be reported in the service performance report as if they were outputs.

“It is important to distinguish outputs from:

- (a) *Inputs;*
(b) *Outcomes;*
(c) *Management systems;*
(d) *Internal outputs; and*
(e) *Processes.*

None of the above items are final goods or services and should not be regarded as outputs. Except as contextual information, they should not be included in service performance reporting or described as outputs ...”

“None of the above items are outputs. They should therefore not be described as outputs. This does not imply that measurement of the above items is unimportant for internal management purposes, but rather that external users of service performance information need information about results rather than efforts.”

[TPA-9, paragraphs 4.6, 4.7, and 4.21]

- 4.3.4 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 *Concept 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 A summary comments submitted from this Request for Response were reviewed at the 5-7 January 2010 GASB meeting. The GASB discussed the summary of comments and substantially agreed with the staff recommendations pertaining to the Introduction, Applicability, and Essential Components of SEA Reports sections. For the February 2010 GASB meeting, GASB staff will prepare a summary of comments received on the Qualitative Characteristics of SEA Performance Information section as well as a marked up version of the suggested guidelines incorporating the recommendations tentatively agreed upon by GASB during the January meeting.
- 4.4.8 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

4.5.1 Her Majesty's Treasury, the Cabinet Office, National Audit Office, Audit Commission and Office for National Statistics jointly published *Choosing the Right Fabric: A Framework for Performance Information* in 2001. The Framework sets out the general principles behind producing high quality performance information and in particular the sort of information that is worth collecting and reporting.

4.5.2 Page 9 of the Framework provides background information on Public Service Agreements (PSAs) and their associated Service Delivery Agreements (SDAs) that outline targets against which Public Sector Departments report annually (extract from page 9 of the framework is provided below):

“The Government has published high level Public Service Agreements (PSAs). These are its priorities and strategic objectives with measurable targets – the vast majority of these measure outcomes.

The Government has also published Service Delivery Agreements (SDAs) for every government department. SDAs explain how the Government aims to deliver the high level targets in the PSAs, and how it will modernise and reform to get better value for money. The SDAs include measures of outputs, processes and inputs which deliver the outcomes which the Government is aiming for.

Each Government Department will have its own targets for internal management, linked to the PSA and SDA targets. Again these will measure a variety of outcomes, outputs, and inputs. Individual members of staff will have targets which link to the targets of government departments.”

4.5.3 Her Majesty's Treasury's website provides a list of the PSAs for 2008-2011 (extract provided below):¹

¹ http://www.hm-treasury.gov.uk/d/psa_2008-2011_200409.pdf (Accessed 10 February 2010).

Public Service Agreements 2008 - 2011

<u>Fairness and Opportunity for All</u>	<u>A better quality of life</u>	<u>Stronger communities</u>	<u>A more secure, fair and environmentally sustainable world</u>
<ul style="list-style-type: none"> • Halve the number of children in poverty by 2010-11, on the way to eradicating child poverty by 2020 • Raise the educational achievement of all children and young people • Narrow the gap in educational achievement between children from low income and disadvantaged backgrounds and their peers • Increase the number of children and young people on the path to success • Address the disadvantage that individuals experience because of their gender, race, disability, age, sexual orientation, religion or belief • Increase the proportion of socially excluded adults in settled accommodation and employment, education or training 	<ul style="list-style-type: none"> • Improve the health and wellbeing of children and young people • Improve children and young people's safety • Tackle poverty and promote greater independence and wellbeing in later life • Promote better health and well-being for all • Ensure better care for all • Deliver a successful Olympic Games and Paralympic Games with a sustainable legacy and get more children and young people taking part in high quality PE and sport 	<ul style="list-style-type: none"> • Build more cohesive, empowered and active communities • Make communities safer • Deliver a more effective, transparent and responsive Criminal Justice System for victims and the public • Reduce the harm caused by alcohol and drugs • Reduce the risk to the UK and its interests overseas from international terrorism 	<ul style="list-style-type: none"> • Lead the global effort to avoid dangerous climate change • Secure a healthy natural environment for today and the future • Reduce poverty in poorer countries through quicker progress towards the Millennium Development Goals • Reduce the impact of conflict through enhanced UK and international efforts

Help people and businesses come through the downturn sooner and stronger, supporting long-term economic growth and prosperity

Deliver commitments by the National Economic Council to help people and businesses come through the downturn sooner and stronger, including packages on repossessions, apprenticeships, business access to finance and help for the unemployed.

- Raise the productivity of the UK economy
- Improve the skills of the population, on the way to ensuring a world-class skills base by 2020
- Ensure controlled, fair migration that protects the public and contributes to economic growth Promote world class science and innovation in the UK
- Deliver reliable and efficient transport networks that support economic growth
- Deliver the conditions for business success in the UK
- Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions
- Maximise employment opportunity for all
- Improve long term housing supply and affordability

4.5.4 In addressing these PSAs each government department is required to develop a set of Departmental Strategic Objectives (DSOs). The DSOs set out a picture of what the department as a whole aims to achieve over the three years 2008-11, and provide an overarching framework for performance management and progress reporting. Each DSO is underpinned by a number of performance indicators that will be used to assess progress towards delivering these objectives. For example, in the *Spending Review*

2004: *Public Service Agreement* the Department for Culture, Media and Support outlined their DSOs and performance targets for the period (see extract below):

Objective I: Further enhance access to culture and sport for children and give them the opportunity to develop their talents to the full and enjoy the full benefits of participation.

1. *Enhance the take-up of sporting opportunities by 5 to 16 year olds so that the percentage of school children in England who spend a minimum of two hours each week on high quality PE and school sport within and beyond the curriculum increases from 25% in 2002 to 75% by 2006 and to 85% by 2008, and to at least 75% in each School Sport Partnership by 2008.*

Joint with the Department for Education and Skills.

2. *Halt the year-on-year rise in obesity among children under 11 by 2010, in the context of a broader strategy to tackle obesity in the population as a whole. Joint with the Department for Education and Skills and the Department of Health.*

Objective II: Increase and broaden the impact of culture and sport, to enrich individual lives, strengthen communities and improve the places where people live, now and for future generations.

3. *By 2008, increase the take-up of cultural and sporting opportunities by adults and young people aged 16 and above from priority groups by:*

- *increasing the number who participate in active sports at least twelve times a year, by 3%, and increasing the number who engage in at least 30 minutes of moderate intensity level sport at least three times a week, by 3%;*
- *increasing the number who participate in an arts activity at least twice a year by 2%, and increasing the number who attend arts events at least twice a year by 3%;*
- *increasing the number accessing museums and galleries collections by 2%; and*
- *increasing the number visiting designated historic environment sites by 3%.*

Objective III: Maximise the contribution which the tourism, creative and leisure industries can make to the economy.

4. *By 2008, improve the productivity of the tourism, creative and leisure industries.*

Objective IV: Modernise delivery by ensuring our sponsored bodies are efficient and work with others to meet the cultural and sporting needs of individuals and communities.”

4.5.5 Paper 2A contains an extract from the *2009 Department for Culture, Media and Sport Annual Report*. It provides details of the progress towards meeting the agreed performance targets. For each DSO or PSA target, the latest outturn data at March 2009, the performance indicators used to measure progress and an up-to-date report on performance against the target is provided.

4.5.6 At the Local Government level, to assist in reporting progress against these PSAs the Department for Communities and Local Government has produced *The New Performance Framework for Local Authorities and Local Authority Partnerships: A Single Set of National Indicators* (2007). From each PSA and SDA national indicators have been developed to assess performance. In each area, targets against the set of national indicators will be negotiated through new Local Area Agreements (LAAs). Each Agreement will include up to 35 targets from among the national indicators, complemented by 17 statutory targets on educational attainment and early years which will form the sole means of assessing local authority performance. The Framework sets out the headline definitions of the 198 indicators that will underpin the new performance framework (see extract below):

“Stronger communities

NI 1 % of people who believe people from different backgrounds get on well together in their local area PSA 21

NI 2	% of people who feel that they belong to their neighbourhood	PSA 21
NI 3	Civic participation in the local area	PSA 15
NI 4	% of people who feel they can influence decisions in their locality	PSA 21
NI 5	Overall/general satisfaction with local area	CLG DSO
NI 6	Participation in regular volunteering	CO DSO
NI 7	Environment for a thriving third sector	CO DSO
NI 8	Adult participation in sport	DCMS DSO
NI 9	Use of public libraries	DCMS DSO
NI 10	Visits to museums or galleries	DCMS DSO
NI 11	Engagement in the arts	DCMS DSO
NI 12	Refused and deferred Houses in Multiple Occupation (HMO) license applications leading to immigration enforcement activity	HO DSO
NI 13	Migrants English language skills and knowledge	HO DSO
NI 14	Avoidable contact: The average number, of customer contacts per received customer request”	

4.5.7 An extract from the annual report of Croydon Council is included in paper 2A. It provides a short summary of achievements and areas of key risks and mitigations, and also incorporates a ‘Croydon Counts’ section. Croydon Counts includes all relevant Local Area Agreement indicators that have been either nationally or locally set.

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 Not-for-profit – NZ

5.2.1 According to the official measure of the economic contribution of not-for-profit institutions published by Statistics New Zealand, *Non-profit Institutions Satellite Account*, it is estimated that the country's 75,000 not-for-profit organisations contributed \$6.95 billion to the Gross Domestic Product (GDP) in 2004.

5.2.2 Not-for-profit organisations within New Zealand preparing GAAP financial statements are required to comply with either New Zealand equivalents to

International Financial Reporting Standards (NZ IFRSs) or New Zealand Financial Reporting Standards depending on the organisations' size and structure. These standards are developed by the New Zealand Financial Reporting Standards Board (FRSB), with the *Not For Profit Financial Reporting Guide* published by the New Zealand Institute of Chartered Accountants providing additional guidance on the application of the NZ IFRSs in a not-for-profit context.

5.2.3 In addition to financial reporting, the FRSB has recognised the need for reporting performance in more than just financial terms as a result of the unique focus of not-for-profit organisations. (A focus on what has been achieved and how efficiently / effectively it has been achieved instead of profit). Whilst such nonfinancial disclosures are not compulsory for not-for-profit organisations, service performance reporting is encouraged. *Technical Practice Aid (TPA) 9: Service Performance Reporting* provides guidance on good reporting practices for such disclosures.

5.2.4 The following selected extracts of this guide highlight valuable information for inclusion in Statements of Service Performance (SSPs).

“1.14
Outputs are the principle focus of an SSP.”

“1.18
Developing performance measures and performance targets is part of the output specification process. Measures increase certainty about the expected level of service performance. They help both the purchaser and the delivery entity to know precisely what is expected.”

“1.19
Performance measures are the characteristics of outputs that are important to the purchaser. Performance measures establish how an entity's delivery of its outputs will be assessed. Performance measures usually identify the following dimensions of output performance:
(a) quantity – the quantity of output to be delivered;
(b) quality – the quality or standard of output expected;
(c) timeliness – the timeframe for delivery of the output;
(d) location – the physical location where the output will be delivered; and
(e) cost – the cost of output delivery.”

“1.20
Performance targets (sometimes called standards) describe the precise levels of performance that are to be delivered or achieved within the performance period (usually within the year). Performance targets can be expressed as absolute numbers, percentages or ratios and/ or as point estimates or as a range.”

5.2.5 The New Zealand Institute of Chartered Accountants (NZICA) recognises that annual reports of established leaders in not-for-profit reporting provide useful insights into producing service performance reports. One such example of a private sector not-for-profit entity in New Zealand whose reporting has been recognised on the NZICA website is the Royal New Zealand Foundation of the Blind, which is New Zealand's primary provider of vision-related habilitation and rehabilitation services to blind and partially sighted people.² In the New Zealand Institute of Chartered Accountants 2007 Annual Report Awards, it won the Best Annual Report by a Service Organisation/Volunteer Sector and the Best Governance Reporting by a Service Organisation. The Foundation makes available its full audited financial reports to the

² <http://www.rnzfb.org.nz/aboutus> (Accessed on 18 January 2010)

public on request with a summary annual report accessible on the internet. In the Summary Statement of Service Performance contained in the *Royal New Zealand Foundation for the Blind Summary Annual Report 2008-09*, the Foundation reports on its service performance in numerical form, providing a comparison of performance figures between 2008/09 Achieved, 2008/09 Planned and 2007/08 Actual. In addition to the numerical information on service performance, the summary annual report includes a narrative report on the Foundation's achievements based on its goals in the 2008-2009 Business Plan. An extract of the Summary Statement of Service Performance is provided in paper 2A.

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 Asutralia*, 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 The *Financial Accountability Act 2009* (as in force on 1 July 2009) sets out the principles to be observed by all Queensland public sector agencies in relation to their financial management. Section 10 ‘Community objectives of government’ of the Act requires that:

- (1) From time to time, the Premier must prepare and table in the Legislative Assembly a statement of the State government's broad objectives for the community.
- (2) The statement must include details of arrangements for regular reporting to the community about the outcomes the government has achieved against its objectives for the community.

6.6.2 The *Financial and Performance Management Standard 2009* (as in force on 1 July 2009) provides detailed governance policy to be observed by all public sector agencies. It relates to agencies' financial management, internal controls, risk management strategies, operational planning, user charging, resource management and annual reports. Section 50 ‘Contents of annual report—Act, s 63’ of the Standard states that:

“The annual report of a department or statutory body must contain a copy of the following for the department or statutory body—

...

- (d) the information, on the performance of the department or statutory body, required under the document called ‘Annual report requirements for Queensland Government agencies’ prepared by the Department of the Premier and Cabinet.”³

6.6.3 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 replaced ‘Managing for Outcomes’ with a new ‘Performance Management Framework’. Subsequently, *A Guide to the Queensland Government Performance Management Framework* was published in May 2009 by

3 AASB staff have been advised by Queensland Treasury staff that the ‘Annual report requirements for Queensland Government agencies’ referred to in this extract from the *Financial and Performance Management Standard 2009* are being developed for the 2009-10 financial year.

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)

6.6.4 The Guide identifies the key documents in the Performance Management Framework as follows:

- (a) strategic plan;
- (b) operational plan;
- (c) 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);
- (d) annual report which reports on actual performance (against same indicators and service standards). (Pages 42, 43)

6.7 Tasmania

6.7.1 *Appendix 1: The Tasmania Together Goals and Headline Indicators, of TASMANIA TOGETHER Annual Report 2007-08* identifies some goals of the Tasmanian Government to be as follows:

GOALS	HEADLINE INDICATORS
A reasonable lifestyle and standard of living for all Tasmanians.	Cost of living
...	...
Active, healthy Tasmanians with access to quality and affordable health care services.	Avoidable mortality
...	...
Increased work opportunities for all Tasmanians.	Workforce participation rate
...	...

6.7.2 *Treasury’s Instruction No. 201 Contents of Reports* requires the performance information of each agency to be disclosed in the Annual Report. In the *Auditor-General Special Report No.72 — Public sector performance information*, the Tasmanian Auditor-General states that “agencies should include in annual reports achievements against at least three areas of activity — budgeted outputs and

outcomes, initiatives announced as part of the budget process and other objectives included in annual strategic plans.” (Page i). He also concluded that, in the public sector, the effective and efficient achievement of objectives and efficient use of resources is generally more significant than profitability. (Page 18). He provides some examples of agencies’ outputs as follows:

- Department of Education: Pre-compulsory and compulsory education, Post-compulsory education and training, Public information services; (Page 28)
- Department of Health and Human Services: Community, population and rural health, Children and families, Hospital and ambulance service, Housing Tasmania, Independent children’s services review; (Page 34)
- Department of Infrastructure, Energy and Resources: Development of transport policy and advice and planning, Land transport safety programs, Provision of energy advisory and regulatory services, Workplace standards, Mineral resources management and administration, Support for the minister in infrastructure development and government business management, Support for racing industry, Transport subsidies and concessions; (Page 56)
- Department of Police and Emergency Management: Policing support to the community, Crime detection and investigation, Traffic law enforcement and road safety, Protection of primary industry and fisheries resources, Emergency management, Support to judicial services, Ministerial support and information services. (Page 68)

6.7.3 Page 5 of *Performance Information for Management and Accountability Purposes* issued by the Tasmanian Department of Treasury and Finance in October 1997 states that:

“Performance Information is information that has been collected systematically in order to make judgements about achievement in relation to objectives, plans or intentions. It is information about performance that is suitable for use as evidence in making decisions.”

The Glossary provides the following definitions:

“*Effectiveness* the extent to which objectives are being achieved. It is determined by the relationship between an organisation and its external environment.

Effectiveness indicators relate Outputs to impacts and to outcomes. They can measure the steps along the way to achieving an overall objective or *Outcome* (qv), and test whether Outputs have the characteristics required for achieving a desired objective or a *Government Outcome* (qv)”. (Page 54)

“*Efficiency* Efficiency is about producing more services or better quality services with the same or fewer resources. Efficiency is determined mainly by the internal structure and operations of an organisation. Efficiency indicators relate resource *inputs* (qv) to resulting *Outputs* (qv). They indicate how well an activity or operation is being performed. Measures of efficiency can focus on either operational or outcome efficiency”. (Page 54)

“*Inputs* Items such as labour, materials, office space and other non capital or non-balance sheet items purchased by the agency for use in producing an Output”. (Page 55)

“*Outputs* goods and services provided by an agency for clients outside the agency”. (Page 55)

“*Outcomes* 1. High level and long term policy objectives of the Government derived from the Government’s perception of community expectations....
2. The short to medium term results desired by Government that are expected to be achieved largely through the resourcing of Government agencies to produce specified Outputs....

3. Intended impact or effect on the community of the activities and policies of Government”. (Page 55)

6.7.4 The same document states that:

“indicators are used when assessing key aspects of output performance such as efficiency, effectiveness, appropriateness, responsiveness and equity or social justice”. (Page 10)

“Performance indicators should be sufficient to:

- cover the range of internal management needs;
- comply with external accountability requirements; and
- satisfy whole-of-Government management requirements.” (Page 31)

It goes on to say that, to ensure quality information can be obtained, measures must be: valid, reliable, relevant, accurate and timely (Page 8). It can be in the form of numbers (quantitative information) or words (qualitative information) and consists of four inter-related elements: the measure, a measurement procedure, the criteria to be used in judging success, and contextual and explanatory information (Page 5).

Page 13 states that, there are six key aspects of performance that can be measured:

- Economy (an input measure);
- Efficiency of the service;
- Effectiveness of the service;
- Appropriateness (results compared with intentions);
- Responsiveness, social justice and equity; and
- Quality.

6.7.5 Section (1) of *Treasury’s Instruction No.201 Contents of Reports* (which applies to agencies, effective as of 1 January 2004) requires the following information, which includes information about performance, to be disclosed in the annual report:

- (a) A narrative summary of significant financial outcomes for Agency programs or activities, and any Ministerial directives in relation to financing or investment activities;
- (b) Economic and other factors which have affected the achievement of operational objectives;
- (c) Pricing policies of goods or services provided, the last review date, and, where applicable, reference to the Gazette or other public document which contains pricing or rating information. Details of cost recovery policies and their application as appropriate;
- (d) Information on major capital projects or undertakings including:
 - (1) For each project that remains uncompleted at the end of the financial year:
 - the expected year of completion of the project;
 - the estimated cost to complete and the estimated total cost of the project; and
 - where the estimated total cost of the project varies significantly from the estimated total cost reported in the immediately preceding financial year, an explanation of that variation; and
 - (2) For projects that have been completed during the course of the financial year:
 - the total cost of the project; and
 - where the total cost of the project varies significantly from the estimated total cost reported in the immediately preceding financial year, an explanation of that variation.”

6.7.6 In 2008, the Auditor-General’s office audited the performance reporting of four departments (Department of Education, Department of Health and Human Services, Department of Infrastructure, Energy and Resources and Department of Police and Emergency Management). It found that all agencies had reasonable coverage of effectiveness, but no department reported efficiency measures despite the obvious importance of this information to the public (Page 2-3 of *Auditor-General Special*

Report No.72 — Public sector performance information). The following common problems were found in the four departments:

- Poorly defined business objectives that do not facilitate measurement of performance
- Overuse of indirect indicators where changes are mainly due to external factors rather than performance of the agency
- Performance targets usually absent from annual reports
- Almost universal lack of efficiency performance indicators
- Unclear or missing progress reporting of initiatives published in budget papers
- Lack of explanatory comments when there were large variations in numerical key performance indicators between reporting periods
- Substituting mandatory external reporting information (e.g. as required for Commonwealth-State funding agreements) for more user-friendly performance measures. (Page 26)

6.8 Northern Territory

6.8.1 Section 28(2) of Northern Territory's *Public Sector Employment and Management Act* requires an agency to present a report during a financial year and the report

"shall contain information about—

(a) the functions and objectives of the Agency

...

(d) the Agency's operations, initiatives and achievements (including those relating to planning, efficiency, effectiveness and performance and, where appropriate, delivery of services to the Community);

(e) the financial planning and performance of the Agency;

..."

6.8.2 Page 2 of Overview in *Northern Territory's 2009-10 Budget* states that:

"Performance estimates are specified for each measure in Budget Paper No. 3. During the year, actual performance is measured and assessed against the specified estimates by agencies. Agency annual reports will record actual performance against estimates published in Budget Paper No. 3 and will provide explanations of significant variations."

6.8.3 Section 38 of the *Financial Management Act* requires every Agency to comply with the *Treasurer's Directions* including *Treasurer's Directions Framework – Working for Outcomes*. And its F2.1.3(vi) states that, "performance targets are published in the Budget and actual performance measured and assessed against these targets".

6.8.4 Section F2.1.1 (iii) of *Treasurer's Directions Framework – Working for Outcomes* (updated on 31 March 2006) states that:

"the principal objective of *Working for Outcomes* is to provide a better basis for allocation of the Territory's resources through:

- a focus on outputs and performance;
- clearly defining links between outcomes and outputs; and
- provision of full cost information for outputs".

Section F2.1.3 states that,

"The performance of Agencies in delivery of outputs is the focus of the second core element of *Working for Outcomes*. Performance measures assist decision makers, both within and outside the Agency, in determining whether Territory resources are being applied in an efficient and effective manner to achieve Government outcomes. Performance measures are grouped into four categories: quantity, quality, timeliness and cost.

- Quantity measures relate to the number of units of output and are usually described in terms of 'how many'. Quantity is a volume measurement and, as such, shows the number or amount of services or goods provided.

- Quality measures relate to the calibre or excellence of an output and generally reflect service standards based on customer need. Dimensions of quality as an output performance measure include accuracy, completeness, accessibility, continuity and customer acceptability.
- Timeliness measures relate to the time taken to produce an output and provide an indication of the processing or service speed and efficiency. Measures of timeliness provide parameters for 'how often' or 'within what time frame' outputs are to be produced.
- Costs are recorded on an accrual basis, with greater attention given to combining the cost information with other performance measures, particularly the output quantity measure. Ideally, the outputs are uniform and the cost per unit of output provides an obvious benchmark for measuring performance both over time and between like service providers. However, such uniformity is not always possible.”

6.8.5 By way of example, Page 12 of *Financial Statements and Performance Reporting 2007-08*, Department of the Legislative Assembly presents its key objectives as follows:

- supporting Members of the Legislative Assembly, parliamentary committees and clients;
- facilitating the effective operation of the Chamber during sittings of the sittings of the Legislative Assembly;
- ...

6.9 *Western Australia*

6.9.1 Page 23 of *Outcome Based Management—Guidelines for use in the Western Australian Public Sector* (issued by Department of Treasury and Finance in November 2004) states that the government’s goals are:

- People and communities — To enhance the quality of life and wellbeing of all people throughout Western Australia;
- The economy — to develop a strong economy that delivers more jobs, more opportunities and greater wealth to Western Australia by creating the conditions required for investment and growth;
- The environment — to ensure that Western Australia has an environment in which resources are managed, developed and used sustainably, biological diversity is preserved and habitats protected;
- The regions — to ensure that regional Western Australia is strong and vibrant; and
- Governance — to govern for all Western Australians in an open, effective and efficient manner that also ensures a sustainable future.

6.9.2 Page iii of *Key Performance Indicators: Where are they now?* (Paper prepared for the Office of the Auditor General by Lesley van Schoubroeck, 19 September 2008) states that Western Australia’s management of government performance originated from the Financial Administration and Audit Act 1985, which required performance indicators to be reported. Now Section 61(1) of the *Financial Management Act (2006)* states that, after the end of each financial year, an agency is to prepare an annual report that contains —

- (a) financial statements for the financial year; and
- (b) key performance indicators; and

...

6.9.3 Page 1 of *TREASURER’S INSTRUCTIONS 904 Key Performance Indicators* states that, performance information:

“assists stakeholders and interested parties such as government, Parliament, the community and client groups to assess agency performance in achieving government desired outcomes and obtaining value for public funds from services delivered. In addition, it should assist agencies to understand their own performance: facilitating strategic planning, enhancing resource management and highlighting areas for improvement.”

These *INSTRUCTIONS* go on to say that, to fulfill the above purpose, key performance indicators should:

- (i) be relevant;
- (ii) be appropriate; and
- (iii) fairly represent indicated performance. (Page 5)

Page 1 also provides some related definitions as follows:

- ...
(ii) ‘Outcome’ means the effect, impact, result on or consequence for the community, environment or target clients of government services;
- ...
(iv) ‘Service’ means the supply of an activity or good to a user external to the agency providing the service. Services comprise programs and outputs.
- (v) ‘Key Performance Indicator’ provides an overview of the critical or material aspects of outcome achievement or service provision. Different types of key performance indicator are defined below:
 - (a) ‘Key Effectiveness Indicator’ provides information on the extent of, or progress in a reporting period towards, achievement of an agency level government desired outcome through the delivery of a service or services;
 - (b) ‘Key Efficiency Indicator’ relates a service to the level of resource input required to deliver it;
 - (c) ‘Key Cost Effectiveness Indicator’ relates achievement of an agency level government desired outcome to the cost of the service(s) that achieved it.

6.9.4 Page 8 of *Outcome Based Management—Guidelines for use in the Western Australian Public Sector* states that requirements of Western Australian agencies’ with respect to performance information in *TREASURER’S INSTRUCTIONS 904 Key Performance Indicators* should be “consistent with the annual advice to agencies by the Department of Treasury and Finance regarding the content of budget papers”. They include:

- (i) the relevant agency level government desired outcome(s);
- (ii) the agency’s services;
- (iii) the relationship between government goals, agency level government desired outcomes and the agency’s services;
- (iv) key effectiveness indicators for each agency level government desired outcome;
- (v) key efficiency indicators for each service (if applicable);
- (vi) key cost effectiveness indicators for each agency level government desired outcome (if applicable); and
- (vii) a comparison of actual results against budget targets for the key performance indicators, together with explanations of any material variations between actual results and budget targets.

These are to be disclosed in the Agency Performance section of the agency’s annual report.”
(Page 2 of *TREASURER’S INSTRUCTIONS 904 Key Performance Indicators*)

6.9.5 Examples of Outcomes, Services, and Key Performance Indicators that might be reported by various agencies in the context of each of the government’s goals are available in Pages 15-19 of *Outcome Based Management—Guidelines for use in the Western Australian Public Sector*.

PEOPLE AND COMMUNITIES				
To enhance the quality of life and wellbeing of all people throughout Western Australia				
Desired Outcome	Service	Effectiveness Indicators	Cost Effectiveness Indicators	Efficiency Indicators
Lawful road-use behaviour	<ul style="list-style-type: none"> Traffic law enforcement and management 	<ul style="list-style-type: none"> Percentage of drivers tested for drink-driving who are found to be within the lawful alcohol limit Percentage of vehicles monitored for speeding by speed cameras that are found to be within the lawful speed limit 	<ul style="list-style-type: none"> Estimated change in speed related crashes after expenditure on relevant safety campaigns¹ 	<ul style="list-style-type: none"> Average cost (\$) per hour of traffic law enforcement and management Average number of vehicles monitored per speed camera hour¹ (productivity)
...
THE ECONOMY				
To develop a strong economy that delivers more jobs, more opportunities and greater wealth to Western Australians by creating the conditions required for investment and growth				
Desired Outcome	Service	Effectiveness Indicators	Cost Effectiveness Indicators	Efficiency Indicators
Increase competitiveness and profitability of agriculture, food and fibre industries	<ul style="list-style-type: none"> Food and fibre industry development 	<ul style="list-style-type: none"> Total Factor Productivity Index Gross Value of Production % change in uptake of grain varieties 	<ul style="list-style-type: none"> Change in value of production per dollar of government spending¹ 	<ul style="list-style-type: none"> Average hourly cost per person involved in investment attraction and market development
...
THE ENVIRONMENT				
To ensure that Western Australia has an environment in which resources are managed, developed and used sustainably, biological diversity is preserved and habitats protected				
Desired Outcome	Service	Effectiveness Indicators	Cost Effectiveness Indicators	Efficiency Indicators
An increase in the adoption of renewable energy and energy efficiency	<ul style="list-style-type: none"> Development and implementation of sustainable energy policy and programs 	<ul style="list-style-type: none"> Use of renewable energy through incentive programs, indicated by the displacement of fossil fuel. Kilowatt hour of fossil fuel displaced by: <ul style="list-style-type: none"> Solar Hot Water Subsidy Scheme Renewable Remote Power Generation Program Renewable Energy Water Pumping Program 	<ul style="list-style-type: none"> Estimated cost of reducing fossil fuel usage by x% per Kilowatt hour¹ 	<ul style="list-style-type: none"> Average cost per incentive grant administered Average cost of meeting major policy and program implementation milestones
...

THE REGIONS				
To ensure that regional Western Australia is strong and vibrant				
Desired Outcome	Service	Effectiveness Indicators	Cost Effectiveness Indicators	Efficiency Indicators
...
Protection of the productive resource base	<ul style="list-style-type: none"> Agriculture resource protection 	<ul style="list-style-type: none"> Proportion of inspected properties with infestations of declared animal pests, plant pests and diseases 	<ul style="list-style-type: none"> Value of agricultural production impacted per successful eradication campaign¹ 	<ul style="list-style-type: none"> Average cost per property contact for agency control/eradication activities for animal pests, plant pests and diseases
GOVERNANCE				
To govern for all Western Australians in an open, effective and efficient manner that also ensures a sustainable future.				
Desired Outcome	Service	Effectiveness Indicators	Cost Effectiveness Indicators	Efficiency Indicators
...
All electors are able to participate in impartial, effective and democratic elections or referenda conducted by the Commission	<ul style="list-style-type: none"> Electoral services 	<ul style="list-style-type: none"> Average participation rate of eligible electors in elections 	<ul style="list-style-type: none"> Average cost per valid vote cast¹ 	<ul style="list-style-type: none"> Proportion of affected election that are aware of boundary changes¹ Average cost per elector of conducting elections
...

¹ These indicators are new suggestions, whereas all other information in this table is sourced from agency annual reports and the budget papers

6.9.6 Page 10 of *Key Performance Indicators: Where are they now?* states that:

“Timeliness indicators have not been required since 2005/06 when Output Based Management was replaced by Outcome Based Management although many agencies continue to provide this information as an efficiency measure. In 2004/05, the 48 largest agencies in Western Australian reported over 800 KPIs (source: OAG internal working papers). This suggests there is certainly no shortage of indicators but also suggests that it is very unlikely that external observers of government could use the information to make strategic decisions without another level of analysis.”

6.10 South Australia

6.10.1 The *Public Sector Act 2009* promotes a high performing public sector and establishes general principles to guide public sector operations. It also makes performance management and development a priority in the public sector. (Section 4)

6.10.2 By way of example, *South Australia’s Strategic Plan 2007* adopts a range of targets. In relation to its objective 1: Growing Prosperity, it includes the following:

T1.7 TARGET – Performance in the public sector –customer and client satisfaction with government services (new): increase the satisfaction of South Australians with government services by 10% by 2010, maintaining or exceeding that level of satisfaction thereafter.

KEY MEASURE: proportion satisfied with government services.

DATA SOURCE: household survey (data expected to be available in 2007).

T1.8 TARGET – Performance in the public sector –government decision-making (existing –modified): become, by 2010, the best-performing jurisdiction in

Australia in timeliness and transparency of decisions which impact the business community (and maintain that rating).

KEY MEASURE: Productivity Commission data.

DATA SOURCE: Productivity Commission (data expected to be available in 2007).www.pc.gov.au/ort/

T1.9 TARGET – Performance in the public sector –administrative efficiency (existing – modified): increase the ratio of operational to administrative expenditure in state government by 2010, and maintain or better that ratio thereafter.

KEY MEASURE: ratio of operational to administrative expenditure (baseline: 2005–06).

DATA SOURCE: Department of Treasury and Finance (DTF) www.treasury.sa.gov.au/homepage.jsp?xcid=1” (Pages 13, 14 footnote omitted)

6.10.3 Section 12(2) of the Act states that, each public sector agency must, once in each year, present a report on the agency’s operations within 3 months after the end of the financial year to which it relates. Section 12(6) specifies that:“ the public sector agency must ensure that the report is accurate, comprehensive, deals with all significant issues affecting the agency and is written and presented in a manner that aids ready comprehension”.

Section 8 of the Act states that:

- “(1) Each public sector agency must establish and administer effective performance management and development systems in respect of the employees of the agency.
- (2) Performance management and development must be directed towards advancement of the objects of this Act and observance of the public sector principles and code of conduct....”

6.10.4 The objectives of the *Public Sector Act 2009* are as follows:

- “(a) to promote a high performing public sector that—
 - focuses on the delivery of services to the public; and
 - is responsive to Government priorities;
- ...
- (d) to encourage public sector agencies and employees to apply a public sector-wide perspective in the performance of their functions;
- (e) to make performance management and development a priority in the public sector;
- (f) to ensure accountability in the public sector;
- ...”

6.10.5 The Department of Treasury and Finance has issued *MODEL FINANCIAL STATEMENTS* for South Australia Government Not-For-Profit Entities for the year ended 30 June 2009, to illustrate the performance reporting format. Note 1 ‘Objectives of the Department for SA Service Delivery’ (a fictitious department utilised for illustration purposes) in the MODEL states that:

“The Department for SA Service Delivery serves the Government and the people of South Australia by achieving excellence in the provision of financial management services to the State Government.

The department aims to increase awareness, development and application of accounting standards and good financial management practices in the South Australian public sector by providing research, guidance and support to government agency personnel.

The department is structured to contribute to three outcomes for which the portfolio is responsible:

- 1 To ensure South Australia is contributing to the development of public sector accounting standards and practices by having decision makers informed of developments in standards and their implication;
- 2 To facilitate improvement in financial management practices across the government; and
- 3 To ensure integration of policies and practices with developments in systems, legislation and financial reporting.” (Page 38)

Note 4 'Activities of the department' goes on to illustrate:

"In achieving its objective, the department provides a range of services classified into the following activities:

Activity A: Accounting Policy - ensuring that South Australia is contributing to the development of public sector accounting standards and practices by having decision makers informed of developments in standards and their implications.

Activity B: Taxation Policy - facilitate improvements in taxation management practices across the SA Government.

Activity C: Financial Management Advice - facilitate improvements in financial management practices across the SA Government.

General/not attributable: Certain items of the department are not allocated to programs.

The disaggregated disclosures schedules at pages 31 present expenses, income, assets and liabilities information attributable to each of the activities for the years ended 30 June 2008 and 30 June 2009." (Page 52)

However, this information is used to illustrate how a department might comply with particular requirements in existing accounting standards (AASB 101 and AASB 1052). The *MODEL FINANCIAL STATEMENTS* does not go on to illustrate more extensive disclosure about service performance.

6.10.6 Section 32 of *Public Finance and Audit Act 1987* (updated on 31 December 2007) requires the Auditor-General to:

- (a) examine the accounts of a publicly funded body and the efficiency and economy of its activities; or
- (b) examine accounts relating to a public funded project and the efficiency and cost-effectiveness of the project....

The South Australia's Auditor-General has reported on his findings of his audits in *Auditor-General Annual Report 2007-2008*, but his focus is on the conventional financial statements and notes rather than service performance reports.

7 Domestic not-for-profit private sector

7.1 PwC Annual Transparency Awards

7.1.1 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.

7.1.2 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. ...”

7.1.3 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. ..."

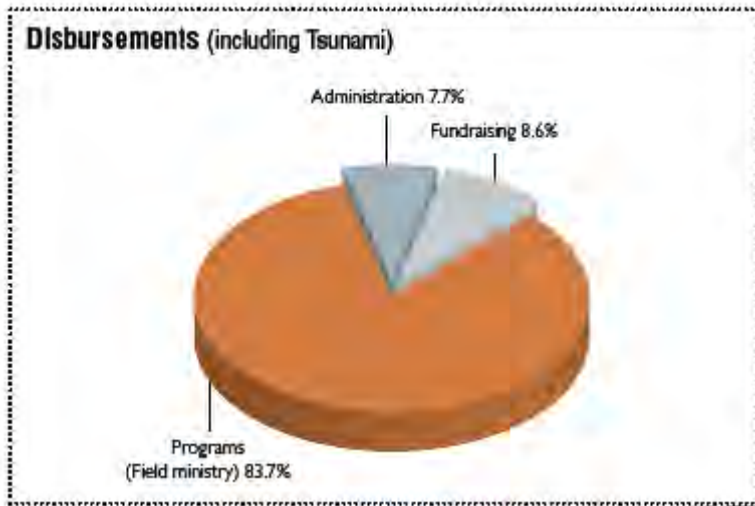
7.2 World Vision

- 7.2.1 World Vision Australia is part of the World Vision International Partnership, a Christian relief, development and advocacy organisation operating in more than 90 countries and is dedicated to working with children, families and communities to overcome poverty and injustice. As a winner of the 2009 Pricewaterhouse Coopers Transparency Award, World Vision Australia provides comprehensive and a vast range of publications in the area of accountability.
- 7.2.2 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 summaries of the program activities for each operational goal (an extract from pages 25-30 is provided in paper 2A).
- 7.2.3 The 2008 annual report also provides a high-level summary of the performance of World Vision Australia for year 2008, in both narrative form and in numbers. The narrative reporting on the work performed fall under four headings: Community development (extract from page 5 is provided below), Humanitarian and emergency relief, Policy change and advocacy and Engaging Australia,

COMMUNITY DEVELOPMENT

- Commenced 233 new community development projects.
- Made significant advances in initiatives against human trafficking, particularly in the Mekong Delta Region, and released our Trafficking in Persons Resource Package.
- Made progress in our Urban Programs Initiative by developing innovative approaches to respond to rapid urbanisation.
- Held the third annual Measuring Effectiveness Conference, which this year focused on how aid agencies express their accountability to communities and empower communities to hold development partners to account.

The figures reported in tables are comparative figures for 2007 and 2008 and an extract from page 6 is provided below.



	2008	2007
PROGRAMS		
Total number of people assisted	22.7 million	20.4 million
People assisted with emergency relief	3.4 million	2.8 million
Number of people we assisted with food aid	1.2 million	0.7 million
Number of countries we worked in	64	62
Total projects at home and overseas	891	735
Number of children sponsored	405,068	405,832
Number of Area Development Programs supported	256 (includes 46 Assessment and Design projects)	249 (includes 46 Assessment and Design projects)
FINANCES		
Total revenue	\$355.4 million	\$356.5 million
Total disbursements to international projects	\$293.1 million	\$308.8 million
Total revenue from child sponsorship	\$205.7 million	\$189.3 million
Value of goods donated by Australian companies	\$12.6 million	\$12.7 million
Value of medicines donated by international agencies	\$34.5 million	\$51.8 million
Value of food donated by international agencies	\$26.0 million	\$33.2 million
Value of work with AusAID	\$18.1 million	\$14.1 million

7.2.4 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*)

7.3 *Oxfam*

7.3.1 Oxfam Australia is an independent (not aligned to any religion or political party) not-for-profit organisation which works to overcome poverty and injustice around the world. Oxfam Australia works with communities, partners, staff and supporters to provide people with the skills, knowledge and resources to enable them to work their way out of poverty and exercise their basic social, economic, political and civil rights. (page 6 of *Oxfam Australia Annual Report 2008*)

7.3.2 As a winner of the 2009 Pricewaterhouse Coopers Transparency Award, Oxfam Australia is committed to transparency and honesty about its performance, and being accountable to its key stakeholders. To allow assessment of its performance, Oxfam Australia reports on its performance based on what it plans to achieve – as outlined in its strategic plan. *Strategic Plan for Oxfam Australia 2007-2013* reports on how it assesses its performance (an extract from page 14 is provided below).

“Assessing our performance

Assessing performance is one part of Oxfam Australia’s approach toward strengthening our learning and accountability.

The purpose of assessing our performance against the plan is to:

- capture lessons which can inform implementation or changes to the plan
- enhance our accountability to our stakeholders.

Oxfam Australia will adopt a pragmatic approach to performance assessment which combines:

- measurement where feasible and verification where more appropriate
- independent or external review or evaluation with internal self-assessment
- being open to feedback from others in order to hear what they think about progress made.”

7.3.3 The section on ‘External change goals: bringing about change’ in *Strategic plan for Oxfam Australia 2007-2013* lists its change goals (an extract from pages 10-11 is displayed below).

Change goal 1: economic justice

More women and men will realise their right to secure and sustainable livelihoods.

Working with communities, partners and allies, we will focus on sustainable livelihoods, particularly for women, girls and other marginalised groups.

In rural areas, we will support various programs including those that:

- strengthen access to and control over land, natural resources and other assets and increase agricultural production in environmentally sustainable ways
- reduce vulnerability to, and mitigate the impact of natural disasters, climate change and HIV and AIDS
- strengthen women's leadership and participation in livelihoods-related decision-making.

In urban areas, we will support a limited number of programs that:

- strengthen workers' organisations, improve labour rights and improve access to essential services
- reduce vulnerability to and mitigate the impact of disasters, environmental hazards, climate change and HIV and AIDS
- address gender inequality and create better opportunities for young people.

In both our rural and urban work, we will demonstrate the effectiveness of alternative models which are economically viable, environmentally sustainable and gender equitable and use these to inform our advocacy and campaigning work. We will focus on mitigating the impacts of climate change on vulnerable livelihoods, and promote trade policies and practices that are gender sensitive and environmentally sustainable.

Change goal 3: rights in crisis

All women and men in humanitarian crises will be assured both the protection and the assistance they require, regardless of whom or where they are or how they are affected, in a manner consistent with their human rights.

In collaboration with partners, allies and Oxfam International, we will continue to improve the performance, accountability and quality of our humanitarian work with an emphasis on human security.

This will include:

- enhancing investment in disaster risk reduction and mitigation, including better integration in our livelihoods programs
- increasing accountability to beneficiaries
- strengthening women's leadership and participation in humanitarian programs
- greater attention to mitigating the impact of HIV and AIDS
- capturing and sharing learning with a particular focus on partner-led responses and integrating disaster risk reduction into livelihoods programs.

We will increase our capacity and the capacity of others through:

- enhanced investment in capacity building for our field staff, partners and allies, local and national governments, especially in disaster management
- strengthening the Oxfam International Humanitarian Register, especially its capacity to respond to surges in demand for qualified humanitarian personnel.

We will increase our investment in humanitarian advocacy and use the lessons from our humanitarian work to better address the underlying causes of vulnerability and more effectively influence the performance of the international humanitarian system.

11

Change goal 2: essential services

The Millennium Development Goals and targets on essential services will be achieved and people living in poverty, especially women and girls, will realise their rights to accessible and affordable healthcare, education, water and sanitation.

Working with communities, partners and allies, we will focus on holding governments accountable for the provision of essential services, with particular attention to the rights of women, girls, people infected and affected by HIV and AIDS, and other marginalised groups. We will do this by supporting programs that strengthen the capacity of communities and civil society groups to hold their governments to account.

In addition, we will support programs that:

- deliver essential services where necessary, in ways which do not undermine the responsibilities of governments for essential service provision
- build the capacity of local essential service providers
- develop and promote innovative models for service delivery which address gender, diversity, HIV and AIDS and sustainability issues
- contribute to better health and wellbeing outcomes for Indigenous Australians
- enable internally displaced people and refugees to have access to services which meet internationally recognised standards
- increase access to medicines for people with HIV and AIDS.

We will advocate and campaign for more and better quality aid, a reduction in corruption and debt relief. At the same time, we will target the policies and practices of other development stakeholders involved in essential services at local, national and global levels.

10

Change goal 4: gender justice

Many more women will gain power over their lives and live free from violence through changes in attitudes, ideas and beliefs about gender relations; and increased levels of women's active engagement and critical leadership in institutions, decision-making and change processes.

Globally, gender is a key determinant of poverty and injustice, and it is women who are most often and most seriously disadvantaged.

Working with partners and allies, we will work to improve women's leadership and participation in decision-making, especially by:

- strengthening women's access to, and control over, land, natural resources and other economic assets
- delivering gender-equitable essential services
- improving outcomes for women and girls in the humanitarian system especially by enhancing the accountability of humanitarian agencies, including Oxfam, to women and girls affected by humanitarian crises.

We will support programs that:

- reduce gender violence, particularly against women and girls
- ensure women's sexual and reproductive rights are protected and enhanced
- address the differential impact of HIV and AIDS on women and girls.

We will, where appropriate, work with men to change gender relations, including changing their own attitudes and behaviours in order to achieve gender justice.

7.3.4 In *Oxfam Australia Annual Report 2008*, Oxfam Australia reports on its performance in the following ways:

- 'Our work around the world' which provides a high-level mapping of Oxfam's areas of work in each geographical location around the world (extract is provided in paper 2A);
- Reporting on its performance on the four change goals as outlined in its strategic plan through narrative reporting on its commitments, its performance in brief and

its programs in place (extract of Change goal 1: Economic justice is provided in paper 2A);

- ‘Learning from our work’ which reports on how it monitors and evaluates its work to assess the changes in people’s lives as a result of its work; and
- ‘Our volunteers’ which reports on the volunteer profile and roles, supported by pie-charts on volunteers diversity and age group, and tables on the volunteer hours.

7.3.5 In addition to the annual report and the strategic plan, Oxfam Australia provides information on the disbursements of donations received on its website⁴. An extract is provided below:

“Where the money goes

In the past year, our work reached 5.35 million people in 30 countries. This was made possible by the support of more than 347,000 donors and campaigners.

Their contribution has made a positive difference to the lives of poor people around the world. Yours will too.

For every \$1 you donate



75c is used to directly support our development, advocacy, and humanitarian programs around the world

15c is invested to generate future income

10c is spent on essential administration

Why your donation is so important

67% comes from the community (people like you!)

14% comes from the Australian Government's overseas aid program, AusAID

17% comes from grants

2% comes from other sources”

7.4 Juvenile Diabetes Research Foundation

7.4.1 The Juvenile Diabetes Research Foundation, one of the winners of the Pricewaterhouse Coopers Transparency Award, is the world’s largest charitable supporter of type 1 diabetes research, investing more than \$150 million per year into the search to find a cure for type 1 diabetes⁵. As illustrated in the *Juvenile Diabetes Research Foundation Annual Report 2008/09*, the focus of its research falls within five clearly defined and complementary research pathways. These pathways interlink to address the causes of type 1 diabetes whilst identifying methods of treating, managing and preventing the condition and are designed to guide the Juvenile Diabetes Research Foundation quickly and efficiently towards a better life and, ultimately, a cure for people with type 1 diabetes.

7.4.2 The Juvenile Diabetes Research Foundation reports on its recent research breakthroughs within each pathway in the *Juvenile Diabetes Research Foundation*

⁴ <http://www.oxfam.org.au/about-us/assessing-our-performance/where-the-money-goes> (Accessed on 18 January 2010)

⁵ <http://www.jdrf.org.au/about-jdrf-australia> (Accessed on 18 January 2010)

Annual Report 2008/09 on pages 8-12 (an extract is provided in paper 2A). In addition, the Juvenile Diabetes Research Foundation also provides a high-level summary of its research work in each geographical location around Australia under the section ‘Research in Profile’ (an extract is provided in paper 2A).

- 7.4.3 In addition to the annual report, the Juvenile Diabetes Research Foundation provides information on the how money is spent on type 1 research on its website. The following is extracted from the section ‘Where Your Money Goes’ on its website⁶:

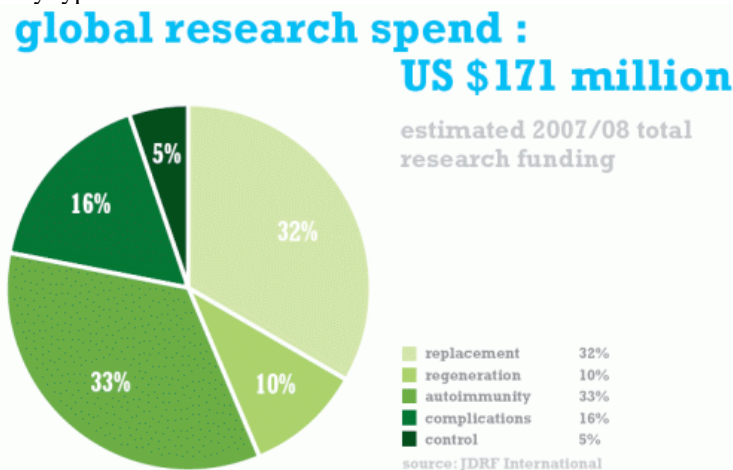
“JDRF respects the effort put into raising funds for type 1 research so fundraising costs are kept to a **sustainable** level with 70c of every dollar generated funding research.

JDRF was recognised in May 2008 as the winner of the **Australian PricewaterhouseCoopers Transparency Award**, designed to reward and encourage quality financial and operational reporting in the not-for-profit sector.

In addition to a professional approach to our fundraising, an international scientific and lay review process is used to ensure we identify, review and invest in the best diabetes research.

This ensures that all donations are earmarked for the research that families and scientists agree will make the biggest difference.

For the latest information on local and global diabetes research progress, sign up to our monthly type 1 diabetes newsletter.



7.5 Member-based organisations

7.5.1 The Institute of Chartered Accountants in Australia

- 7.5.1.1 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).

- 7.5.1.2 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.

⁶ <http://www.jdrf.org.au/about-jdrf-australia/where-your-money-goes> (Accessed on 18 January 2010)

“... ”

- **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.

...”

7.5.1.3 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?

- a) Gross profit margin?
- b) The commercial activity's cash contribution to our core activity?
- c) The cash contribution per person employed in the commercial activity?
- d) 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:

- a) Trends in revenues?
 - b) The effects of significant economic or other events on our operations?
 - c) The main influences on costs of our operations?
 - d) Appropriate measures of our financial performance?
 - e) Changes in the composition of our assets?
 - f) Significant movements in our assets, liabilities and reserves?
 - g) Changes in our cash flows?
 - h) The financing of our capital expenditure programs?
 - i) 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?"

7.5.2 CPA Australia

7.5.2.1 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.

7.5.2.2 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."

7.5.2.3 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.”

7.6 Schools

7.6.1 At the national level, the Department of Education, Employment and Workplace Relations (DEEWR) *Strategic Plan 2008-2011* outlines the Department's direction for the next three years. In the Plan, DEEWR states that performance indicators include:

- satisfaction levels of clients
- stakeholder satisfaction
- performance against international and national benchmarks
- participation and completion rates
- internal and external benchmarking of people management
- organisational performance benchmarks, including the Staff Survey.” (Page 7)

7.6.2 The *National Education Agreement* provides guidance on the specific indicators used to assess the performance of Australian schools, as applied from 1 January 2009. This agreement was made between the Commonwealth of Australia and the States and Territories to enable all Australian school students to acquire the knowledge and skills to participate effectively in society and employment in a globalised economy. The Agreement requires that an annual national report be published within twelve months of the end of the calendar year on the outcomes of

schooling in Australia with Section 24 listing the information to be reported (see extract below):

Reports on national progress towards achieving national outcomes, including COAG targets

Outcomes	Performance Indicators
All children are engaged in and benefiting from schooling	The proportion of children enrolled in and attending school.
Young people are meeting basic literacy and numeracy standards, and overall levels of literacy and numeracy achievement are improving.	Literacy and numeracy achievement of Year 3, 5, 7 and 9 students in national testing.
Schooling promotes the social inclusion and reduces the educational disadvantage of children, especially Indigenous children.	The proportion of Indigenous and low SES children enrolled in and attending school. Literacy and numeracy achievement of Year 3, 5, 7 and 9 Indigenous and low SES students in national testing. The proportion of the 19 year old Indigenous and low SES population having attained at least a Year 12 Certificate or equivalent or Australia Qualifications Framework (AQF) Certificate II. The proportion of Indigenous students completing Year 10.
Australian students excel by international standards.	The proportion of students in the bottom and top levels of performance in international testing (for example Program for International Student Assessment (PISA), Trends in International Mathematics and Science Study (TIMSS)).
Young people make a successful transition from school to work and further study.	The proportion of the 19 year old population having attained at least a Year 12 or equivalent or AQF Certificate II. The proportion of young people participating in post-school education or training six months after school. The proportion of 18 to 24 year olds engaged in full-time employment, education or training at or above Certificate III.

7.6.3 At the state level, a copy of *Tasmania's Education Performance Report 2008 – Government Schools* is included in paper 2A. This report provides a summary of the state's public education system focussing on the government's priority areas of the early years, literacy and numeracy, student retention, school improvement and equity. It also provides a comparison of the achievement and improvement since the previous year.

7.6.4 Australian Government legislation (specifically the Schools Assistance (Learning Together – Achievement through Choice and Opportunity) Act 2004) requires schools to make a commitment to ensure that School Performance Information is made available to the public within 6 months of the completion of the school year. The information required is stipulated by the government (see extract below):

Schedule 1 Performance measures

(regulations 2.1, 2.2, 2.5, 3.1, 3.2 and 3.5)

Part 1 Measures for English literacy

101 The percentage of students in Year 3 achieving the national benchmark for reading for Year 3.

102 The percentage of students in Year 3 achieving the national benchmark for writing for Year 3.

103 The percentage of students in Year 3 achieving the national benchmark for spelling for Year 3.

- 104 The percentage of students in Year 5 achieving the national benchmark for reading for Year 5.
- 105 The percentage of students in Year 5 achieving the national benchmark for writing for Year 5.
- 106 The percentage of students in Year 5 achieving the national benchmark for spelling for Year 5.
- 107 The percentage of students in Year 7 achieving the national benchmark for reading for Year 7.
- 108 The percentage of students in Year 7 achieving the national benchmark for writing for Year 7.
- 109 The percentage of students in Year 7 achieving the national benchmark for spelling for Year 7.
- 110 The percentage of students in Year 9 achieving the national benchmark for reading for Year 9.
- 111 The percentage of students in Year 9 achieving the national benchmark for writing for Year 9.
- 112 The percentage of students in Year 9 achieving the national benchmark for spelling for Year 9.
- 113 The percentage of students achieving at or above the standard in the OECD Programme for International Student Assessment (PISA) reading literacy assessment for 2006.

Part 2 Measures for numeracy and mathematics

- 201 The percentage of students in Year 3 achieving the national benchmark for numeracy for Year 3.
- 202 The percentage of students in Year 5 achieving the national benchmark for numeracy for Year 5.
- 203 The percentage of students in Year 7 achieving the national benchmark for numeracy for Year 7.
- 204 The percentage of students in Year 9 achieving the national benchmark for numeracy for Year 9.
- 205 The percentage of students achieving at or above the standard in the mathematical literacy assessment of the OECD Programme for International Student Assessment (PISA) for 2006.
- 206 The percentage of students achieving at or above the standard in the Year 4 mathematics assessment of the Trends in International Mathematics and Science Study (TIMSS) for 2006.
- 207 The percentage of students achieving at or above the standard in the Year 8 mathematics assessment of the Trends in International Mathematics and Science Study (TIMSS) for 2006.

Part 3 Measures for science

- 301 The percentage of students achieving at or above the standard in science literacy in the National Assessment Program— Science Literacy, 2006, Year 6.
- 302 The percentage of students achieving at or above the standard in the scientific literacy assessment of the OECD Programme for International Student Assessment (PISA) for 2006.
- 303 The percentage of students achieving at or above the standard in the Year 4 science assessment of the Trends in International Mathematics and Science Study (TIMSS) for 2006.
- 304 The percentage of students achieving at or above the standard in the Year 8 science assessment of the Trends in International Mathematics and Science Study (TIMSS) for 2006.

Part 4 Measures for civics and citizenship

- 401 The percentage of students achieving at or above the standard in civic knowledge and understanding in the National Assessment Program— Civics and Citizenship, 2007, Year 6.
- 402 The percentage of students achieving at or above the standard in citizenship participation skills and civic values in the National Assessment Program— Civics and Citizenship, 2007, Year 6.
- 403 The percentage of students achieving at or above the standard in civic knowledge and understanding in the National Assessment Program— Civics and Citizenship, 2007, Year 10.
- 404 The percentage of students achieving at or above the standard in citizenship participation skills and civic values in the National Assessment Program— Civics and Citizenship, 2007, Year 10.

Part 5 Measures for Information and Communications Technology (ICT) literacy

- 501 The percentage of students achieving at or above the standard in the National Assessment Program— Information and Communications Technology (ICT) Literacy, 2005 and 2008, Year 6.

502 The percentage of students achieving at or above the standard in the National Assessment Program— Information and Communications Technology (ICT) Literacy, 2005 and 2008, Year 10.

Part 6 Measures for Vocational Education and Training (VET) in schools

601 School students undertaking vocational education and training (with New Apprenticeships and Traineeships disaggregated) as part of their senior secondary school certificate in a calendar year as a proportion of all school students undertaking a senior secondary school certificate in that year.

602 School students enrolled in a senior secondary school certificate in a calendar year who have completed at least one vocational education and training unit of competency module as a proportion of all school students undertaking a senior secondary school certificate in that year.

7.6.5 Examples of both public and private schools compliance with these reporting requirements is in paper 2A. The Calliope State School *2008 Annual Report* and the *2008 School Performance Information* document prepared by the Hale School both address the regulatory information requirements. Research did not identify schools that provided performance information beyond the regulatory requirements, however, there was variation in the regulatory disclosures made by each school. In particular the level of detail and format of reporting varied greatly between schools.

7.7 Religious organisations

7.7.1 Religion based charities

7.7.1.1 Wesley Mission

In *Growing people Our annual review July 2007 - June 2008*, “Wesley Mission is a part of the Uniting Church in Australia Property Trust (NSW) which is a body constituted by the Uniting Church in Australia Act 1977. Wesley Mission is therefore part of a statutory corporation....” The “charitable status is acknowledged by the Australian Taxation Office as a Public Benevolent Institution” (page 7). With respect to the NSW Legislation relating to charities (the *Charitable Fundraising Act 1991*), Wesley Mission has not applied to become a registered charity. Under Section 7 of the Act all ‘religious organisations’ are exempt.

Against the Global Reporting Initiative (GRI⁷) indicators, Wesley Mission provides the following reporting indicators in Page 8 - 9 of the same paper:

GRI content index

Global Reporting Initiative Indicator

1.	Strategy and Analysis
1.1	Statement from the Superintendent
2.	Organisational Profile
2.1	Organisation name
...	...
4.	Governance, Commitments and Engagement
...	...
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to performance and the status of their implementation

⁷ The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world’s most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. (Source: <http://www.globalreporting.org/AboutGRI/>)

5. **Management Approach and Performance Indicators**

	Economic Performance Indicators
EC1	Direct economic value generated and distributed
...	...
	Environmental Performance Indicators
EN7	Initiatives to reduce indirect energy consumption and reductions achieved
...	...
	Labour Practices and Decent Work Performance Indicators
LA1	Total workforce by employment type
...	...
	Society Performance Indicators
SO1	Nature, scope, and effectiveness of programs that assess and manage the impacts of operations on communities

7.7.1.2 **Anglicare**

ANGLICARE is the urban mission and community care arm of the Sydney Anglican Church. As one of Australia’s largest Christian care organisations, it seeks to provide care for all people by addressing emotional, social and physical needs through the gospel message of Jesus.

In order to identify and move toward desired goals and objectives over the next three years, ANGLICARE developed its Strategic Directions and Operational Plan 2007-2009. Part 3 ‘Operational Plan’ states the organisations goals and key performance indicators for the period (extract provided below):

Objectives	Strategies ¹	Performance indicators	Timeframe ²	Responsibility	Resource ³
GOAL: To influence the national social policy agenda by having a strong advocacy voice informed by research and by engagement with the Anglicare member agencies and the Anglican Church					
1. Identify emerging social policy issues	1.1 Introduce a mechanism to identify emerging national issues and determine AA's role for proactive/reactive engagement (note: April 2006 CEOs forum recommended a proactive, medium-term social change agenda) 1.2 In consultation with members, prioritise identified issues.	1.1 Mechanism in place 1.2 Issues identified and supported as priorities by member agencies	1.1 Over next six months 1.2 Issues identified early 2007; reviewed annually	1.1 and 1.2 ED and policy/research staff, linking with policy advisory groups (see 4.2)	1.1 and 1.2 National office core budget
2. Respond to identified social policy issues: FIRST PRIORITY – CONTINUATION OF CURRENT ACTIVITY: 2.1 Impact of Welfare-to-Work and WorkChoices 2.2 Families and Children - child poverty; child protection; family relationships services 2.3 Aged and community care	2.1 Joint action with other church peaks, ACOSS and specific alliances; - Keep watching brief on effects of implementation of W2W and WorkChoices, through national office and members and regularly updated on Anglicare Online; - Measure impact of W2W and WorkChoices on clients of AA member agencies 2.2 Research and publish <i>State of the Family 2007</i> ; - Secure external funding and network support in order to reinvigorate Break the Cycle Stage 2 2.3 Joint action with National Aged Care Alliance and Community Care Coalition to develop coordinated submissions, position papers; AA submissions to other policy developments as relevant	2.1 Compilation and analysis of member agency information and research, both qualitative and quantitative 2.2 SOTF: Publication of <i>State of the Family 2007</i> ; BTC: Funding secured 2.3 Measurable impact on policy and program implementation	2.1 High priority, immediate and building over next 12 months in lead-up to next federal election 2.2 SOTF: launch at Sept. 2007 Conference BTC: next 12-18 months 2.3 Ongoing – within NACA & CCC timeframe	2.1 National office, with relevant advisory group (see 4.2) and network support) 2.2 National office 2.3 National office and aged care network	2.1 National office core budget 2.2 SOTF: External sponsorship BTC: external funds 2.3 National office core budget

Objective	Strategies	Performance indicators	Timeframe	Responsibility	Resource
Goal: To engage and strengthen the Anglicare Australia membership					
Strengthen network cooperation and relationships among members, to: ▪ Build capacity for service delivery and enable response to human need through loving service ▪ Foster existing and enable new partnerships, cooperation and networking ▪ Demonstrate respectful relationships and a culture of care	4.1 Ongoing and increased network support and facilitation. Immediate priority: research & business manager networks – 4.2 Establish and support advisory groups in key policy areas (these groups to link with relevant special interest networks) 4.3 Strengthen relationships among CEOs through CEOs forums 4.4 Further develop existing Code of Conduct to include a 'membership agreement' framework 4.5 Develop resource for member agencies to promote Anglicare Australia through their staff induction processes 4.6 Increase capacity by sharing expertise, policies, practices 4.7 Increase collaboration for state-wide & national service delivery 4.8 Recruit new members & encourage former members to rejoin 4.9 Work with marketing managers to further national branding and promotions – e.g. differentiating our brand: distinctiveness of Anglican care and social justice 4.10 Further develop ways for larger members to support small ones (including HR, marketing, IT, fundraising, governance, QA).	4.1 Functional networks, use of Anglicare Online 4.2 Functioning advisory groups 4.3 Annual CEOs Forum held 4.4 Revised Code and framework 4.5 Induction kit 4.6 Expansion of Anglicare Online 4.7 Mechanism for joint tenders etc in place 4.8 New members received; former members rejoined 4.9 Improved brand recognition 4.10 Positive member agency feedback	4.1 Over next three years & ongoing 4.2 Two groups by early 2007 – working toward federal election 4.3 First half of each year 4.4 By AGM 2007 4.5 By AGM 2007 4.6 Over next three years 4.7 Over next three years 4.8 Over next three years 4.9 Over next three years 4.10 Over next three years	4.1 National office & network facilitators 4.2 National office 4.3 Council 4.4 National office 4.5 National office with HR network National office National office 4.8 National office 4.9 National office; marketing network 4.10 National office & networks, notably HR & Business	National office core budget, supported by networks as relevant In kind support from members as relevant Additional project funds from external sources, as relevant

Progress made against these strategic goals is reported in the ANGLICARE annual report 2008-09 an extract from which is provided in paper 2A. The annual report addresses each strategic goal individually and provides narrative description of measures taken to meet each goal.

7.7.2 Churches

7.9.2.1 Anglican Church of Australia- Parish of Christ Church, Hawker

The Anglican Church of Australia is a community of Christians scattered across Australia, organised into 23 dioceses grouped into 5 provinces or regions. As well as dioceses and parishes there are many different organisations in areas such as education, health, mission, social welfare and communications which are part of the Anglican Church. The church holds the Christian faith as received from apostolic times and the scriptures of Old and New Testament as the ultimate rule and standard of life. Christ Church is a parish of the Anglican Diocese of Canberra-Goulburn, Australia. The 2008 Annual Report of the Parish of Christ Church addressed a number of items relating to the level of community involvement within the Church with an extract provided in paper 2A. In particular, reports were made on attendance and the popularity of various church events.

7.7.2.2 Catholic Parishes of St Clare and St Francis Xavier, Box Hill

The Catholic Parishes of St Clare and St Francis Xavier are situated in the eastern suburbs of Melbourne. The churches belong to the Catholic Church of Australia, with the people of St Francis Xavier's & St Clare's parishes seeking to live Christ-centred lives, celebrating God's presence & their faith values through worship, outreach, service, justice & hospitality⁸. The Parish Survey 2007 report in paper 2A provides feedback from parishioners on the current activities and practices of the church.

8 Domestic for-profit private sector

8.1 Broad Based Business Reporting

8.1.1 The Institute of Chartered Accountants in Australia (ICAA) published *Broad Based Business Reporting – the complete reporting tool* in October 2008, introducing Broad Based Business Reporting and providing a pro-forma on key performance indicator (KPI) reporting.

“Broad Based Business Reporting (BBBR) is an enhanced reporting mechanism increasingly used by business to better meet the information needs of their key stakeholders. Users require insight into a business' chosen strategy for business management and value enhancement. They also require properly aligned financial and non-financial performance information in order to build the models from which they make their varying decisions.” (page 7)

“While some businesses use the existing reporting model to effectively communicate all corporate activity, not just their financial performance, there is clear scope for the majority of businesses to supplement reporting on financial performance with greater explanation of corporate strategy and the value drivers, and key performance indicators (KPIs) critical to understanding business success and prospects.” (page 6)

“BBBR is achieved through closer alignment of external reporting with internal management reporting. Businesses have limited resources to manage, develop and grow within their chosen markets to achieve their stated strategy. Current internal management reporting is often a more effective tool than external reporting for communicating performance in executing the business strategy, managing business risks and providing a more complete and relevant information set.” (page 7)

⁸ <http://www.scsfx.org.au/> (Accessed 15 February 2010)

8.1.2 The main benefits of Broad Based Business Reporting as identified by The ICAA is that it addresses the limitations of current reporting, which is focused largely on financial outcomes. Accordingly, the paper particularly focuses on guidance on reporting non-financial KPIs.

“Current reporting is dominated by measures of financial outcomes but increasing societal expectations around environmental, social and governance (ESG) responsibilities are applying pressure on businesses to report clearer information on a wider range of business activities. Additionally, there are pressures to report leading indicators of financial performance, which enable capital markets to build more forward looking financial models.” (page 7)

“BBBR responds to these pressures, encouraging reporting of ESG as well as strategic, operational and financial matters. While ESG and operational efficiency measurements are often referred to as non-financial measures, potentially inferring they have no financial impacts, an increasing number of investment professionals recognise that both ESG, as well as economic and forward looking financial issues, can affect the long-term performance of business. Surveys have shown that strategic matters and non-financial aspects of a business’ operations such as their strategy to manage ESG factors can impact the business’ reputation and, ultimately, performance.” (page 7)

8.1.3 Broad Based Business Reporting recognises the importance and significance of appropriate and well-designed KPIs for businesses to communicate and report their performance (page 9).

“Appropriate KPIs help to provide clear and relevant information to users on the development, performance, position or prospects of the business.

Well designed KPIs also provide investors and analysts with relevant information from which they can build their decision-making models, assess comparable data on a business and enable benchmarking within an industry when the KPIs are used consistently.” (page 9)

For that reason, an important aspect of Broad Based Business Reporting is ascertaining whether businesses have a clear strategy in place for managing their limited resources and identifying key performance measures to track progress against their objectives (page 9).

An overview of the Broad Based Business Reporting process is extracted (page 10) and displayed below:

Figure one Overview of BBBR process



8.1.4 The ICAA has listed the following key principles for reporting non-financial KPIs (extracted from page 22):

“For each indicator, the reporting should include: background and purpose, definition and method of calculation, including assumptions and data sources; and the compilation method, as well as clear presentation

Background and purpose

For each segment indicator, we have provided some information on the purpose of reporting the specific indicator in Appendices five to seven. Where GRI indicators have been used, we have used their guidance on the relevance of each indicator. For example, EN16 – GHG emissions by weight of CO₂-e is relevant as many countries are introducing a cost for GHG emissions.

Definition and method of calculation

For each KPI or for a group of KPIs, the reporting needs to include definitions of exactly what is being measured, what the parameters are, and what the link to the strategy is. For example, EN16 – GHG emissions by weight of CO₂-e reporting should explain that it includes the six Kyoto gases (and detail the relevant gas) and that they have been converted into CO₂-e by using the global warming potential (GWP) provided by the Intergovernmental Panel on Climate Change (IPCC). We have provided standard accepted definitions and/ or methods of calculation for a KPI where possible in Appendices five to seven. However, we encourage clear explanation of the calculation methods and definitions as this will impact the comparability of data between businesses. Each indicator should be calculated on an annual basis in line with the financial reporting period.

Compilation method

For each KPI or a group of KPIs, it is important that the reporting explains how the data has been compiled. For example, when reporting information on employees, explain whether the numbers are an average for the year or at the reporting date. Do they include contractors and casual staff? How have employees in joint ventures (operations where joint control is exercised) and associates (operations where significant influence is exercised) been included?

The nature of some of these performance measures is such that the traditional financial consolidation principles may not be applicable. Businesses should report on operations they are responsible for and where there is reputational risk rather than solely those where they have legal ownership interest. As this may differ across industries and indicators, the report should clearly indicate the basis used and any variances to the financial reporting model. We have endeavoured to provide guidance on the standard compilation method for specific indicators where possible in Appendices five to seven. In some areas, the compilation method may be common across a number of indicators.

It is common when reporting on ESG areas to use an operational control basis. For example, the GRI recommends that, where a business has operational and financial control, they should incorporate the data into their reported KPIs. Where significant influence is exerted, the GRI recommends that the management approach should be reported, but performance need not be reported. Where a business exerts joint control, they should clearly indicate whether the performance of that business has been included at 100 per cent or the relevant proportion.

Presentation

Each KPI should be presented showing the baseline number as well as the prior year and current year’s information. The baseline number is the reference period that future performance is assessed against. For example, there may be a five year target to reduce carbon emissions by 20 per cent compared to the base year of 2004. Good practice is to also report the target for each indicator and discuss performance against that target.

If there has been a major restructure of the business such as a significant acquisition or disposal, the base line year and other previous periods should be restated/normalised to enable comparability with subsequent periods. Where this is necessary, the adjustments and calculation for the normalised number should be clearly reported.

The presentation may also include showing the total number split by business or geographical segments as appropriate. Presentation of the data in the form of ratios, graphs, and charts is also encouraged.” (page 22)

8.1.5 Key principles identified by the Global Reporting Initiative (GRI) (which is further explained in section 8.2 of this paper) for defining report content and quality of non-financial KPIs is displayed immediately below (extracted from page 21). The ICAA recognises the Global Reporting Initiative as the global best practice reporting of corporate social responsibility and have accordingly utilised the Global Reporting Initiative as the basis of referencing non-financial KPIs.

Appendix one – Key principles of non-financial KPIs

The following principles were identified by the GRI for defining report content and quality.

Materiality/relevance	The information should cover risks and indicators that would have a significant impact on the business or substantively influence the assessments and decisions of stakeholders.
Stakeholder inclusiveness	The business should identify its stakeholders and explain how it has responded to their reasonable expectations and interests.
Sustainability context	The reporting should present the wider sustainable development context as forms of progress that meet the needs of the present without compromising the ability of future generations to meet their needs.
Completeness	All material topics and indicators should be covered, within the defined boundary as well as ensuring completeness of the data collected.
Balance/neutrality	The information reported should provide a balanced assessment of performance, including presenting both positive and negative aspects.
Comparability	Information and issues should be selected, compiled and reported consistently. The reporting should enable users to analyse changes in the performance of the business over time. Where there has been a significant change to the business, such as an acquisition, historical data should be restated to enable comparability. The method of calculation and any changes to historical data should be clearly explained.
Accuracy/true and fair	The information presented should be sufficiently accurate and detailed to enable stakeholders to assess the performance of the business.
Timeliness	The information should be reported on a timely basis. Therefore, where the data is presented in the annual report it should reflect the same period as the financial data reported.
Clarity	The disclosures should be clear and understandable.
Reliability	The information and the process used to gather, record, compile, analyse and report should be in a manner which can be examined and tested in the same way as financial data.

The current Australian Accounting Standards Board (AASB) Framework defines the four principle qualitative characteristics of financial reports as understandability (refer clarity above), relevance, reliability (including completeness and neutrality) and comparability. The framework also covers constraints such as timeliness and true and fair presentation, demonstrating clear similarities between the principles for reporting financial information as well as non-financial KPIs.

As best practice, the non-financial KPIs reported should also refer back to GRI G3 guidelines where applicable. We have provided relevant references for these KPIs.

8.1.6 As mentioned in 8.1.2 of this paper, The ICAA identifies that the reporting of non-financial KPIs on strategy execution, operational, risk management and environmental, social and governance areas of performance is an area of increasing focus.

The ICAA has consequently provided some indicative environmental, social and governance KPIs and other non-financial indicators for some key industries. An extract listing the non-financial indicators for a general office based service business example is provided below.

6. Non-financial KPIs for a general office based service business

The following table includes non-financial KPIs which might be considered for a general office based service business. Businesses should consider which of these KPIs best reflect measurement of the critical areas within their operations.

Area	Measurement	GRI reference
Health and safety	1. Rates of injury, occupational disease, lost days and number of fatalities	LA7 – core
Customer	2. Customer satisfaction	PR5 – additional
Supply chain management	3. Initiatives to mitigate environmental impacts of products and services	EN26 – core
	4. Health and safety impacts assessed in life cycle of products and services	PR1 – core
Environment	5. Direct and indirect energy consumption by source and also amount per person or m ² (intensity)	EN3, 4 – core
	6. GHG emissions by weight of CO ₂ -e and also amount per person or m ² (intensity). Split by scope one, two and three.	EN16 – core
	7. Paper used in tonnes and also amount per person (intensity).	EN1 – core
	8. Total weight of waste by type – consider percentage of waste recycled or waste per person or m ² (intensity).	EN22 – core
Human capital management	9. Employees per category by major classification such as gender/age/minority interest groups – consider positive changes year on year	LA13 – core
	10. Pay differential between men and women at different levels	LA14 – core
	11. Number and rate of employee turnover	LA2 – core
	12. Average hours of training per year per employee by category	LA10 – core
	13. Percentage of employees returning to work after maternity leave	n/a
	14. Length of paid/unpaid parental leave provided	n/a
Social	15. Community donations, monetary and volunteers	EC1 – core

The reporting of non-financial KPIs should also include other KPIs relating to business efficiency and productivity which are relevant to the specific business and industry. For example, a retail store may report customer footfall in stores, and a manufacturing business may report length of operational downtime during the period.

Appendix five contains detailed guidance on the definitions, calculations, compilation methods and presentation of these KPIs.

Accompanying the above extract listing the non-financial KPIs for a general office based service business, The ICAA has also provided detailed KPI guidance on the definitions, calculations, compilation methods and presentation of those KPIs (extract displayed below). Where applicable, The ICAA has referenced the KPIs to the GRI G3 guidelines and industry supplements.

Appendix five – Detailed KPI guidance – general office based service business

Indicator	Background and purpose	Definition	Calculation method	Compilation method	Presentation
LA7 – Rates of injury, absenteeism and number of fatalities	Measure of a business' duty of care to employees. Low injury and absentee rates are generally linked to positive trends in staff morale and productivity.	Total employees plus supervised workers (for example, casual staff) and on-site independent contractors (where businesses are responsible for their safety). Injury rate – specify if minor first aid injuries are included. Lost time injuries are number of incidents resulting in at least one shift's absence. All injuries are all reportable incidents. Absentee days are those when an employee is absent because of incapacity of any kind, but excludes approved leaves such as annual, parental and compassionate.	Lost Time Injury Frequency Rate = number of lost time injuries/ total hours worked in millions. All Injury Frequency Rate = number injuries/ total hours worked in millions. Average number of absentee days per employee or as a rate per million hours worked.	Provide a regional breakdown of information, include all employees where business has operational control. Where control is shared, specify how those employees have been treated or show separately.	Report Lost Time Injury Frequency Rate (LTIFR) and All Injury Frequency Rate (injuries per one million hours worked). Report fatalities as an absolute number, not a rate. Report system of rules applied in recording and reporting accident statistics. Report absentee average/rate.
PR5 – Customer satisfaction	This is one measure of a business' sensitivity to its customer needs, which is essential for long-term success.	Customer satisfaction is normally measured via a surveyed sample of customers and would include those somewhat, mostly and very satisfied overall.	Results of surveys should be included, segregating major products/regions where relevant.	Results should be split by region and/or product group/service line.	Report on business wide practices in place to assess and maintain customer satisfaction, such as frequency of measuring, methodologies of surveys and mechanisms for feedback.
EN26 – Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Responsibility for product's life cycle, a more proactive approach to assessing and improving environmental impacts of products/services.	Materials – such as non-renewable/energy intensive/ toxic materials. Water – volumes used in production or during product use. Emissions in material manufacture or production. Effluents –water quality during production/ use. Noise of product. Waste – recycling/ toxic nature of product when finished in use.	Report on material use, water use, emissions, effluents, noise and waste. Report quantitatively on mitigation of environmental impacts and explain underlying assumptions.		Describe initiatives currently in progress for mitigating the impact on the environment and provide quantitative measures where possible.
PR1 – Health and safety impacts assessed in life cycle of products and services	May have direct impacts on business' reputation, legal and financial risk and market differentiation.	Cover all stages of product lifecycle including: concept development, research and development, certification, production, marketing, storage, supply, use and service, disposal, re-use and recycling.	Report percentage of significant product/ service categories which are assessed for compliance at each stage.		Report on life cycle stages and impacts at each stage by product. Also report where the impact has not been measured for a stage.

The ICAA also suggests an approach for businesses, which is to experiment with ‘blended’ KPIs linking financial and non-financial KPIs.

“For example, it may be interesting for capital markets to know a business’ past and planned financial investment in carbon pollution reduction activities, the benefits achieved (cost per tonne abated), and, potentially, benchmarks against other businesses.” (page 9)

The ICAA believes that there needs to be some level of standardisation within an industry and agreement on the appropriate indicators and methods of calculation, for reporting to be beneficial to users. Thus, The ICAA encourages industries to consider the suggested KPIs and modify them as required in order to achieve a consensus across their respective industry. The ICAA’s goal is for that industry to then collectively commit to reporting on their chosen KPIs. (page 9)

8.1.7 The *Broad Based Business Reporting — Supplementary paper* published by The ICAA in September 2009 identifies the perceived barriers to the “transparent and balanced reporting of non-financial measures demonstrating performance in achieving strategy” (page 10).

The perceived barriers identified in the paper (page 10) include:

- “Management can find it difficult to identify the right measures for their business. For the reporting to be effective, they need to report these same measures consistently over time to enable comparison between periods. Additionally, there is a need for comparable and consistently reported KPIs across businesses within the same sector, as noted in the previous paper”
- “The achievement of non-financial measures has not been fully embedded in the business. Businesses therefore risk reputation damage if targets reported are not met. Often reporting of non-financial data can become a public relations exercise for the business, sometimes known as ‘greenwashing’. Businesses may report on what they believe customers and other stakeholders wish to hear rather than truly reporting on what is strategically important to the business.”

8.2 *Global Reporting Initiative*

8.2.1 The Global Reporting Initiative is one of the world’s most widely used environmental, social and governance reporting frameworks and sets out the principles and indicators that businesses can use to measure and report their economic, environmental, and social performance.⁹ The Global Reporting Initiative, a collaborating centre of The United Nations Environment Programme, creates the Global Reporting Initiative framework through the collaboration of multi stakeholder groups in consensus-seeking consultations, which involved volunteers from business, non-governmental organisations, labour, accountancy, investment and academia areas (page 41 of G3 Guidelines). The Global Reporting Initiative framework includes 49 core and 30 additional indicators covering economic, environmental and social performance, as well as some industry supplements.

8.2.2 The G3 Guidelines (third version) published in 2006, are the cornerstone of the Global Reporting Initiative Sustainability Reporting Framework. The G3 Guidelines outline core content for reporting and are relevant to all organisations regardless of size, sector, or location, thus providing a disclosure framework that organisations can voluntarily, flexibly, and incrementally adopt. (page 3 of *G3 Guidelines – Sustainability Reporting Guidelines*, 2006)

⁹ <http://www.globalreporting.org/ReportingFramework/G3Guidelines/> (Accessed at 26 November 2009)

8.2.3 The G3 Guidelines provide Reporting Principles that are applicable to the information included in sustainability reports. They are defined as:

“Reporting Principles describe the outcomes a report should achieve and guide decisions throughout the reporting process, such as selecting which topics and Indicators to report on and how to report on them.” (page 6)

The reporting principles underlying the reporting content are: materiality, stakeholder inclusiveness, sustainability content and completeness. For reporting quality, the reporting principles are: balance, comparability, accuracy, timeliness, clarity and reliability. (pages 8-17)

8.2.4 The G3 Guidelines specify the base content that should appear in a sustainability report, which is made up of three different types of disclosures:

“There are three different types of disclosures contained in this section.

- **Strategy and Profile:** Disclosures that set the overall context for understanding organizational performance such as its strategy, profile, and governance.
- **Management Approach:** Disclosures that cover how an organization addresses a given set of topics in order to provide context for understanding performance in a specific area.
- **Performance Indicators:** Indicators that elicit comparable information on the economic, environmental, and social performance of the organization.

Reporting organizations are encouraged to follow this structure in compiling their reports, however, other formats may be chosen.” (page 19)

8.2.5 In particular, the G3 Guidelines provide the following guidance when reporting on performance indicators:

“In reporting on the Performance Indicators, the following guidance on data compilation applies:

- **Reporting on Trends:** Information should be presented for the current reporting period (e.g., one year) and at least two previous periods, as well as future targets, where they have been established, for the short- and medium-term.
- **Use of Protocols:** Organizations should use the Protocols that accompany the Indicators when reporting on the Indicators. These give basic guidance on interpreting and compiling information.
- **Presentation of Data:** In some cases, ratios or normalized data are useful and appropriate formats for data presentation. If ratios or normalized data are used, absolute data should also be provided.
- **Data aggregation:** Reporting organizations should determine the appropriate level of aggregation of information. See additional guidance in the General Reporting Notes section of the Guidelines.
- **Metrics:** Reported data should be presented using generally accepted international metrics (e.g., kilograms, tonnes, litres) and calculated using standard conversion factors. Where specific international conventions exist (e.g., GHG equivalents), these are typically specified in the Indicator Protocols.”

8.3 *Telstra*

8.3.1 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.