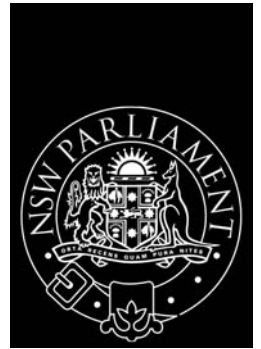


LEGISLATIVE ASSEMBLY



Public Bodies Review Committee

REPORT ON THE PREMIER'S ANNUAL REPORTS AWARD

An overview of the inaugural Premier's Annual Reports Award

New South Wales Parliamentary Library cataloguing-in-publication data:

New South Wales. Parliament. Legislative Assembly. Public Bodies Review Committee
Report On The Premier's Annual Reports Award : an overview of the inaugural Premier's annual reports
award / NSW Parliament, Legislative Assembly, Public Bodies Review Committee. [Sydney, N.S.W.] :
the Committee, 2006. p.80 ; 30 cm. (Report / Public Bodies Review Committee ; no. 8/53)

"November 2006".

Chair: Matthew Morris.

ISBN 1921012498

1. Government report writing—Awards—New South Wales.
- I. Morris, Matthew.
- II. Title: Report On The Premier's Annual Reports Award
- III. Series: New South Wales. Parliament. Legislative Assembly. Public Bodies Review Committee.
Report ; no. 53/8)

DDC 651.78

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Terms of Reference

To examine the annual reports of all public bodies and to enquire into and report on:

1. the adequacy and accuracy of all financial and operational information;
2. any matter arising from the annual report concerning the efficient and effective achievement of the agency's objectives;
3. any other matter referred to it by a minister or the Legislative Assembly.

Chairman's Foreword

Examining annual reporting, in particular, performance reporting, is a key function of the Public Bodies Review Committee. I am therefore extremely proud of the Committee's establishment and coordination of the 2006 NSW Premier's Public Sector Annual Reports Award.

The NSW Premier's Public Sector Awards for Showcasing Excellence in New South Wales is a fantastic program and the Committee was honoured that the former NSW Premier, the Hon Bob Carr, invited the Committee to add its proposed Public Sector Annual Reports Award as a category to these Awards.

It was pleasing to receive 31 entries from a broad cross section of NSW public sector agencies. This amount of entries was a perfect number in our first year as we were feeling our way with our procedures and staffing needs. It was a small enough number not to overwhelm us but a large enough field to create a good comparative and competitive environment.

I would like to thank all the agencies which submitted to the inaugural Award and I hope that the feedback that you have all received from our markers has proved constructive in preparing your 2005-06 Annual Reports. This was our intention in finalising the judging process by the end of April 2006 in time for the start of preparation of agencies' current annual reports. I hope that we will also be receiving your entries again this year.

Congratulations to our winners, NSW Health, NSW Fire Brigades and the Audit Office of NSW. All of these agencies did a terrific job of showing how to produce a good Annual Report, particularly in relation to performance reporting.

The sheer size of NSW Health and the availability of data may make the process of reporting look easier from the outside. However, the Judging Panel considered that NSW Health should be commended on the very fact that such an enormous department could produce a report which was so informative and easy to read.

For smaller agencies which may find the NSW Health Annual Report a little overwhelming in its scope, I commend our Gold and Silver Award Winners, the NSW Fire Brigade and the Audit Office of NSW as examples of good reporting by smaller agencies.

In this report we have tried to bring together useful information on the Awards process as well as general information about best practice in annual reporting to assist agencies in their understanding of what makes a good annual report.

The report also includes past observations and recommendations about the standard of NSW public sector annual reporting which are still extremely pertinent.

I would like to thank all our Technical and Judging Panel members who gave so generously of their time to be part of the Annual Reports Awards process. In particular, Professor Percy Allan, who Chaired the Final Judging Panel. The Committee was honoured to have someone of Professor Allan's experience and stature as our first Chair.

I would also like to thank my colleague Noreen Hay, Member for Wollongong and Chair of the NSW Public Accounts Committee, for the time she gave to the Awards process. I would also like to thank my fellow Committee Members for their involvement. This has been a very educational experience for all of us and a good example of two Parliamentary Committees working efficiently and effectively together on the one project.

Lastly, I would like to thank the secretariats of both the Public Accounts Committee and the Public Bodies Review Committee for all the administrative work they did on the Awards. Also, a special thanks to the Public Bodies Review Committee secretariat for their preparation of this report.



Matthew Morris MP
Chairman

List of Recommendations

RECOMMENDATION 1: The Annual Reporting Legislation specify that the annual report must disclose:

- the charter, objectives, major strategies and operational activities of the agency;
- an outline of the strategic and corporate plans;
- a comprehensive set of key performance indicators that are related to the major aspects of the agency's operation and are clearly explained;
- key performance indicators that are used consistently from year to year (with any changes being highlighted and explained);
- the performance targets for the financial year as stated in the strategic and corporate plans, the Service and Resource Allocation Agreements, the Statements of Corporate Intent and the Budget Papers;
- a comparison of the actual performance achieved during the financial year with the targets set;
- adequate explanations for instances of major under and over-performance and, in the case of under-performance, also details of lessons learned and actions taken to improve services;
- performance results for the last five years (i.e. trend data);
- a benchmarking comparison with the performance results achieved by similar agencies in the State and in other Australian jurisdictions;
- an outline of the major planned initiatives and projects for the financial year and details of the results achieved (together with explanations for any delay and the revised target date for completion);
- a detailed discussion and analysis on:
 - the performance results achieved during the financial year including the linkage of the outputs to the whole-of-government desired outcomes and the extent to which the agency was wholly or partly responsible for the outcomes;
 - the performance trends over the past five years; and
 - shared responsibilities for cross-agency performance issues and the agency's contribution to the outcomes.
- a balanced view of the performance results with highlights of major achievements as well as significant shortcomings, setbacks and problems;
- factors, events or trends that may have an influence on the agency's performance and the future and how the agency plans to deal with the issues; and
- the agency's responses to reports tabled in Parliament by a Parliamentary Committee and the Auditor-General and also to issues of public interest raised by the media in relation to the activities of the agency.

RECOMMENDATION 2: The Chief Executive Officer and top management of each agency demonstrate to the organisation a strong commitment to excellence in performance reporting that is marked by a high degree of transparency and disclosure.

RECOMMENDATION 3: The Chief Executive Officer and the Board Members (where applicable) of an agency be closely involved in the annual report project each year to ensure:

- a performance reporting framework is agreed at the outset;
- staff members' contributions to the report are clearly specified;
- and adequate resources are provided to the process.

RECOMMENDATION 4: A process be established within each agency to continuously review and refine the key performance indicators and the underlying systems that produce the data

RECOMMENDATION 5: A senior person (with direct access to senior management) be appointed within each agency to be responsible for:

- co-ordinating the preparation of annual reports and educating the relevant staff members on the report preparation process; and
- co-ordinating all other forms of communication with stakeholders during the year.

RECOMMENDATION 6: That the senior person collaborate closely with the strategic planners during both the planning process and the annual reporting process to ensure that:

- the key elements of the Strategic Plan and Business Plan “flow through” to the reports; and
- the issue of how performance is to be measured and reported is adequately considered at the time of the drafting of the Plans.

RECOMMENDATION 7: The annual reports of agencies provide electronic links to more detailed sources of information (particularly on performance results).

RECOMMENDATION 8: Treasury expedite the introduction of the proposed new legislation to replace the existing Public Finance and Audit Act, Annual Reports Acts and other associated legislation.

RECOMMENDATION 9: Treasury (in conjunction with other central agencies) introduce a government-wide framework to guide the reporting of performance by agencies in their annual reports to ensure consistency of standards across the public sector.

RECOMMENDATION 10: The “Annual Report Review Program” of the Treasury be maintained and properly resourced to ensure that:

- agencies' annual reports are subject to ongoing external scrutiny; and
- agencies themselves receive regular feedback on the quality of their reports (particularly on the standard of performance reporting).

RECOMMENDATION 11: More practical guidance and training be provided to agencies by the Treasury through:

- publication of educational materials on the “best practice” approach to performance reporting; and
- the conduct of regular training seminars, workshops and discussion forums.

RECOMMENDATION 12: An Annual Reporting Manual be developed and issued by Treasury to provide practical guidance on:

- how the intent of the legislative and policy requirements should be complied with;
- the “best practice” approach to performance reporting (including illustrative examples of “good” and “bad” reporting practices);
- and how the internal organisational and administrative issues can be resolved based on the experience of, and lessons learned by, other agencies.

RECOMMENDATION 13: The Treasury maintain arrangements to allow ongoing liaison between annual report preparers of agencies so as to facilitate the exchange of information, experience and knowledge.

RECOMMENDATION 14: The Auditor-General conduct an annual assessment of the performance reporting of a selected sample of agencies to be followed by the tabling of a report in Parliament giving comments on the results of the review.

RECOMMENDATION 15: The Auditor-General be provided with a legislative power to audit the appropriateness, relevance, comprehensiveness and reliability of the key performance indicators published by agencies in their annual reports.

Chapter One - Background

- 1.1 In 2004 the Committee resolved (in partnership with the Public Accounts Committee) to undertake an awards program in public sector annual reporting to be integrated into the NSW Premier's Public Sector Awards.
- 1.2 The awards program was considered to be entirely appropriate to the Committee given the contents of the terms of reference establishing the Committee:
- “That a Standing Committee be appointed to inquire and report from time to time with the following terms of reference:
- To examine the annual reports of all public bodies and to enquire into and report on:
- a) The adequacy and accuracy of all financial and operational information;
- b) Any matter arising from the annual report concerning the efficient and effective achievement of the agency's objectives
- c) Any other matter referred to it by a Minister or the Legislative Assembly”
- 1.3 The purpose of a public sector specific awards program was to:
- Reward public sector agency achievements in annual reporting;
 - Provide incentives for the provision of high quality annual reports;
 - Give individual feedback to a wide cross section of agencies on the quality of their annual report;
 - Acknowledge the aspects of quality annual reporting which are particular to the public sector through a public sector specific scheme.

Other Annual Reporting Award Programs

Institute of Public Administration Australia - Australian Capital Territory

- 1.4 The Institute of Administration Australia, ACT Division has conducted the Annual Reports Awards for Commonwealth Departments and Agencies for 20 years. The long-term outcomes achieved by the awards program are of particular interest to the Committee as the program is in its infancy in this state. The long term outcomes are said to include:¹

“Throughout the history of the Awards, the judging panels have observed continuing improvement in the quality of annual reporting. At the same time they have invariably looked for better standards and performance and have been cognisant of the expense in time, staff and money involved in annual reporting.”

Institute of Public Administration Australia – Tasmania

- 1.5 The criteria used in the Tasmanian awards program is understood by the Committee to be largely based on the criteria employed in the ACT. The criteria includes:

¹ Institute for Public Administration Australia – ACT Division website
http://www.act.ipaa.org.au/awards/annual_report_awards/index.php date accessed 4 October 2006

Criterion	Some questions to consider
C Coherent	Does the report provide a clear picture of the purpose, operations and achievements of the organisation, addressing all mandatory reporting requirements?
	Does the report put the agency's performance into context of past performance and key aspects of the agency's environment and policy context?
	Does the report tie together all key aspects of the agency's mission including operational, financial and non-financial performance, service delivery and regulatory/legal obligations?
	Does the report provide an integrated, concise and clear presentation of the nature and purpose of the organisation and its parts in the context of policy, strategy and operating environment, including challenges, risks and opportunities?
	Does it identify interrelationships with other organisations, provide benchmarks and reference points to explain achievements including in terms of economic, social and environmental sustainability?
A Accessible	Is the report written in plain language and available in a form that is readily available to major stakeholders and report users?
	Does the report provide information on where to obtain more explanation or details relating to information in the report or additional information of significance to the agency's achievements or accountability?
	Does the report provide full disclosure of the information, processes and assumptions underlying the report content?
	Is the report easy to read and understand?
	<p>Is it available in a range of formats and channels (eg paper, electronic etc) ie available to all stakeholders, including people with disabilities eg sight impaired, multiple languages where appropriate (eg where main client groups are ESL or non-English speakers?)</p> <p>Is there a readily accessible means for people to provide feedback, comment or obtain further information on the material in the report and on the operations and achievements of the agency?</p>
P Presented Well	Is the presentation good to look at while giving meaningful information?
	Is it easily navigable, is information easy to find and does it lend itself to non-experts being able to find their way through the document with minimal fuss?
	<p>Are tables, graphics etc in a format that is easy to read and understand?</p> <p>Do graphics, photos etc add to the document or are they there to take up space? Are they relevant and can you see the relevance as a reader?</p>

Criterion	Some questions to consider
	Does this document show the organisation in a good light in terms of the public “persona” demonstrated by its annual report (ie is it friendly, informative, good to look at etc)?
A Accurate	<p>Is the information contained in the report precise, reliable and timely?</p> <p>Is the information easily understood by non-expert users (ie even if it’s complex, does it have sufficient explanation to make it usable)?</p> <hr/> <p>Does performance information demonstrate the organisation’s performance in a useful way?</p> <p>Are there time-series tables and year on year data?</p> <p>Is data in a format that you would expect to be understood by the public?</p> <hr/> <p>Are there any qualifications or restrictions on the data provided?</p> <p>Are there any issues you know of that while impacting on the organisation, have not been included in the report (eg media issues, political issues etc)?</p> <hr/> <p>Is the text clear and does it present information accurately without clouding issues? Does it match the tables and other numerical information?</p>
B Balanced	<p>Does it present successes & disappointments without bias?</p> <p>Does it compare budget and actual, addresses financial and non-financial results?</p> <hr/> <p>Is the report consistent with information in previous years containing trend information where possible?</p> <p>Does it provide information on all important aspects of the agency and its performance, including operations, outputs, outcomes and administered items, personnel management and governance?</p> <hr/> <p>Does it provide comparative information with other organisations using valid and relevant indicators or benchmarks or other reference points, particularly in relation to matters of importance to stakeholders and sustainability in terms economic, social and environmental performance?</p> <hr/> <p>Does it put performance in context of the operating environment, risks and opportunities, recognising the extent of the agency's contribution to results and the nature and extent of contributions or influences?</p> <p>Is it consistent with GRI principles and guidelines or other principles for good practice in annual reporting?</p>
L	Does it demonstrate where and why improvements are being, or will be, made?

Criterion	Some questions to consider
Learning	Does it demonstrate that improvements in policy, operations or performance have been made, including an explanation of the reasons for the changes and their likely implications for sustainability (economic, social and environmental), stakeholders, organisational goals and mission?
	Does it demonstrate clear evidence that improvements have been made based on learning from experience, from stakeholders, other organisations and consideration of the future, adapting to the environment and/or innovation?
	Does it provide evidence of a robust, systematic approach to learning built into management and accountability arrangements in the agency?
E Engaging	Is there evidence of consultation of main stakeholders (eg Ministers, parliament, client groups, staff)?
	Is there evidence that their interests, preferences and priorities for information have been considered in preparing the annual report format and content?
	Is there evidence in the report that stakeholder interests, preferences and priorities for information have been considered and have influenced preparation of the annual report format and content?
	Is there evidence of a broadly based, and systematic approach to consulting and involving staff, clients and other stakeholders in setting and refining the organisation's strategic direction and annual report content?
	Does the report demonstrate the effective use of the document to achieve openness, relevance and responsiveness to stakeholders and to achieving intended results, including improvements in sustainability (in economic, social and environmental terms)?

Institute of Public Administration – South Australia

1.6 The Institute of Public Administration Australia in South Australia run an annual reporting awards program. The following categories are contained within the awards program:

- Best Overall Annual Report;
- Strategic and Performance Reporting;
- Financial Reporting;
- Human Resource Management Reporting;
- Design and Communication.

1.7 In addition to the categories previously listed there is also a sustainability reporting category which is sponsored by the Division of Sustainability and Climate Change of the South Australian Government.

- 1.8 Significantly the awards (excluding the sustainability reporting award which is for local, state or federal bodies only) are open to public or community organisations operating at local, state or federal levels.
- 1.9 The criteria for the awards include:
- Strategic and Performance Reporting;
 - Financial Reporting;
 - Human Resource Management Reporting;
 - Design and Communication.
- 1.10 The sustainability reporting award is judged by three criteria: Completeness, Credibility and Communication. Completeness attracts a weighting of 40%. Credibility is worth 35% and Communication accounts for the remaining 25%.

The Institute of Public Administration Australia – Western Australia

- 1.11 The Institute of Public Administration in Western Australia runs the W.S Lonnie Awards for excellence in Annual Reporting. The entries are assessed against the following criteria:
- Use of Plain English;
 - Consistency with Government Policy;
 - Accessibility to Stakeholders.

The Institute of Internal Auditors –Queensland Public Sector Annual Reports Awards

- 1.12 The Institute of Internal Auditors runs the Queensland Public Sector Annual Reports Awards. The awards have five main categories: best overall annual report, best government department annual report, best government owned corporation/statutory authority annual report, best local government annual report, best other public sector entity annual report. Other special categories include: best financial disclosure annual report, best corporate governance annual report, best internal audit annual report, most readable annual report.

The Australasian Annual Reporting Award

- 1.13 The Australasian Annual Reporting Award has the longest history of all the awards programs and has been operating for more than 50 years. The criteria employed in the judging process are adapted from the Global Reporting Initiative. The principles include:
- Transparency;
 - Inclusiveness;
 - Auditability;
 - Completeness;
 - Relevance;
 - Sustainability Context;
 - Accuracy;
 - Reliability;
 - Comparability;

- Clarity;
- Timeliness.

1.14 Additional criteria relevant to specific industry and activity groups include:²

Criteria
<p><i>International Financial Reporting Standards</i></p> <p>Australian reporting entities are required under AASB 1047 to disclose the effects of adopting IFRS in their financial statements. It is anticipated that organisations affected by IFRS will provide commentary on the effects of IFRS adoption in their reports, particularly in the key areas of intangible assets, goodwill, share-based payments and financial instruments.</p>
<p><i>Listed companies and continuous disclosure requirements</i></p> <p>Listed companies are also required under stock exchange listing rules, to report on an ongoing basis as part of ‘Continuous Disclosure’ requirements to prevent a ‘false market’ in information. The annual report of a listed company should refer prominently to key events and announcements made by the organisation throughout the reporting period in response to the ‘Continuous Disclosure’ rules.</p>
<p><i>Sustainability Reporting - the Triple Bottom Line</i></p> <p>The ARA supports and endorses the measurement and reporting of an organisations economic, social and environmental performance throughout the reporting period. Reports should discuss how organisational activities are economically viable, environmentally sound and socially responsible, and should include information relating to both positive and negative impacts in each of the three categories.</p>
<p><i>Corporate Social Responsibility</i></p> <p>Current trends in CSR reporting are for CSR results to be included in Sustainability Reports, either in a separate volume or a defined section within the Annual Report/Annual Review. Regardless of which approach is taken, to be effective, CSR reports must address policies, objectives, strategies and outcomes in the areas of:</p> <ul style="list-style-type: none"> - The workplace (employees, clients, suppliers, associated organisations) - Social and community activities - Environmental performance <p>The inclusion of a Sustainability Index identifying the elements of Triple Bottom Line Reporting throughout the report is highly recommended.</p>
<p><i>Concise Reporting</i></p> <p>The ARA is concerned with disclosure of sufficient quality and quantity of information to allow for informed decisions by stakeholders.</p> <p>Many concise reports submitted for adjudication omit some essential elements of the ARA criteria. These omissions can include references to outlook, information on executives and staff, financial analysis and review, and other important issues.</p>

² Australasian Annual Reporting Award website http://www.arawards.com.au/Intro_Criteria.html date accessed 5 October 2006

- 1.15 Specific industries also have other additional criteria depending on which of the ten divisions they are classified as being in. Special awards categories carry their own criteria.
- 1.16 Annual reporting seminars are held to discuss trends in annual reporting. Individual feedback sessions are also available for entrants to gain in-depth feedback on their annual report.

Past Inquiries

NSW Audit Office – Performance Audit, School Annual Reports

- 1.17 In 2004 the NSW Audit Office reviewed the annual reports of schools in NSW. Key findings included:
- Policies, legislation and regulations prohibit the release of comparative information on the effectiveness and performance of schools in terms of student achievement; although every school compares its academic performance and attendance against the state average, schools are given significant scope to ‘pick and choose’ indicators of their achievement, thereby allowing them to choose not to report adverse information;
 - School annual reports seldom provide a complete and informative picture of achievements in key learning areas. Schools tend to report student achievement selectively, focusing on the most positive results, with relatively unbalanced reporting across a range of areas. Schools generally do not include details of why they did not achieve as well as expected;
 - Where schools have selected a specific educational management or curriculum area for evaluation, they may report the genuine findings of the evaluation, but over emphasise the positives and understate performance issues needing attention;
 - School annual reports offer little, if any, information on teacher credentials, secondary class sizes, actual parental involvement and participation and whether the schools are properly resourced for staff, special needs, facilities and equipment.

NSW Audit Office 2003 Performance Review

- 1.18 In 2003 the NSW Audit Office selected eight of the following agencies: Department of Corrective Services, Department of Mineral Resources, Department of Sport and Recreation, NSW Fire Brigades, NSW Police, State Electoral Office, Central Sydney Area Health Service, and South Western Sydney Area Health Service to conduct a review of annual reports.
- 1.19 The audit opinion of the NSW Audit Office outlined in the report referred to improvements since previous reviews and stated that:³

“Overall, we found there have been some improvements in the quality of annual reports since 2000.

³ NSW Audit Office, 2003, Judging Performance from Annual Reports - Performance Audit of Eight Agencies Annual Reports

Most agencies now report key outcomes and results, provide performance data and trends and employ both qualitative and quantitative measures of performance.

However, there was considerable variation in the quality of performance information in annual reports. Some agencies still focus on reporting activities and projects rather than outcomes and results.

And agencies still face major challenges in producing a balanced report. Few agencies used performance targets, declared or discussed setbacks, linked costs to results or provided benchmark comparisons.

Three factors seem to contribute to the current state of annual reports:

- the reluctance to report any setbacks or problems in performance
- that performance reporting takes place in a political environment
- there are few incentives for good reporting and few sanctions for poor reporting”

1.20 The lack of incentives for quality annual reporting made in this report was significant to the decision of the Committee to undertake an awards program.

NSW Audit Office 2000 Performance Review

1.21 The performance audit from the same agency which preceded the aforementioned review examined the annual reports of the following agencies: Department of Community Services, Department of Education and Training, Department of Land and Water Conservation, Department of Transport, NSW Police Service, State Library of NSW, Central Sydney Area Health Service, and Illawarra Area Health Service.

1.22 This report delivered in 2000 indicates the problematic nature of the annual reporting framework and the distance between the reports reviewed and world’s best practice. The audit opinion referred to the following:⁴

“Agencies have made some notable attempts to nominate objectives and define measures of performance and report against them each year. However, the quality of the performance information varies and in most cases falls short of what is accepted as best practice. The result is diminished accountability, transparency and openness.

Agencies still have problems reporting outcomes and results and frequently regress to reporting activities and plans.

Few annual reports discussed setbacks and failures (particularly in the same detail as successes) or compared performance to goals or targets.

And none of the agencies benchmarked their achievements against the results of operators in other jurisdictions or the private sector.

Without the influence of market forces, the requirements for reporting on accountability in the public sector need to be more stringent and wider ranging than in the private sector.

In the absence of benchmarking, it is doubtful if citizens would have sufficient information to be able to judge operational performance or whether they are receiving value for money.

As is, using only information published in the annual report, it is very difficult, if not impossible, to judge if an agency is operating efficiently and effectively.

⁴ NSW Audit Office, 2000, Judging Performance from Annual Reports – Performance Audit of Eight Agencies Annual Reports

The Audit Office also concluded that annual reporting requirements in NSW do not reflect best practice. Although agencies generally complied with the legislation, the requirements for reporting performance information are too general and do not support the assessment of accountability and performance.”

Treasury Circulars

- 1.23 In August 2006 the Treasury Circular TC06/21 included the results of the annual reports review program, which examined the annual report of twenty three agencies. The review noted the progress made towards benchmarking in the performance reporting of several agencies. The level of disclosure in the risk management reporting was said to fall short of expectations. Details on complaints made were absent from several of the reports reviewed. Disclosure of human resource statistics was said to be lacking. The distinction between audited and non-audited financial information was not clear in all of the reviewed reports.
- 1.24 The 2003-2004 annual reports review program contained in Treasury Circular TC04/05 resulted in the following observations. The summary review of operations included financial and qualitative information of various standards. Not all agencies included information on the economic and other factors impacting on performance. Performance and risk management reporting was said to be weak in some reports.
- 1.25 Treasury Circular TC01/19 released in July 2001 contained the following results from the annual reports review program. Management and activities disclosure needed enhancement. Other findings identified areas in need of improvement as:
- Consumer response: The Annual Reports legislation requires agencies to disclose the extent and main features of consumer complaints, indicating any services improved or changed as a result of complaints or consumer suggestions made. “Consumers” include all clients of the agency as well as the general public;
 - Human resources: Agencies are required to include disclosure of the number of employees by category, compared to each of not less than 3 years before the reporting year;
 - Guarantee of Service: Agencies must disclose, the standard for providing services, together with comment on any variance from the standard or changes made to the standard;
 - Controlled entities: The Annual Reports legislation requires statutory bodies to include in their annual report the audited financial statements of any controlled entities in terms of section 39(1A) of the *Public Finance and Audit Act 1983*. (Section 7(1)(ia) of the *Annual Reports (Statutory Bodies) Act 1984*). In addition, departments and statutory bodies are required to disclose a detailed statement of the name, objectives, operations, activities, performance targets and actual performance measures of each entity controlled by the agency;
 - Code of Conduct: For the first reporting year, agencies must include a copy of the code of conduct in the annual report and in subsequent reporting years, a copy of any amendments to the code or any new code.
- 1.26 Other Treasury Circulars identified specific areas of non-compliance and outlined the nature of the legislative obligations.

Public Bodies Review Committee Inquiries

Findings of an Annual Reporting Workshop Pilot Project

1.27 In 2000 the Public Bodies Review Committee held a series of workshops with several public sector agencies participating. The workshops were focussed on performance reporting. A review was conducted of the annual reports of eight agencies.

1.28 Recommendations made following the workshop included:

RECOMMENDATION 1:

That action be taken by Treasury to expedite the introduction of the proposed new legislation to replace the existing Public Finance and Audit Act, Annual Reports Acts and associated legislation.

RECOMMENDATION 2:

That agencies conduct a comprehensive review of their Strategic and Corporate Plans to ensure that:

- the objectives are clear, specific and expressed in measurable terms (where appropriate);
- the key performance indicators are valid, focussed on results and outcomes and related to the core functions of the organisation;
- the measurement of key performance indicators is clearly explained; and
- targets are set to provide benchmarks against which performance can be assessed.

RECOMMENDATION 3:

That agencies review their existing approach to annual reporting to ensure that:

- key elements of the Strategic and Corporate Plans are reflected in the Annual Report;
- targets and external benchmarks (where available) are used to assess performance;
- key performance indicators are included not only for the current year but also past years so as to provide the data for a discussion and analysis of trends;
- all changes to key performance indicators are adequately explained;
- a discussion and analysis is provided on both the internal and external factors that affected the operations as well as on the annual financial statements;
- a commentary is provided on the major features of corporate governance operating within the organisation;
- a separate Section is included commenting on the agency's future operating environment and developments; and
- an Executive Summary and a "Highlights" Section are included at the beginning of the report.

RECOMMENDATION 4:

That the Strategic Planners (or their equivalents) and preparers of annual reports collaborate during both the corporate planning process and the annual reporting process to ensure that:

- the key elements of the Plan "flow through" to the reports; and
- the issue of how performance is to be reported is adequately considered at the time of the drafting of the Plan.

RECOMMENDATION 5:

That Chief Executive Officers be more closely involved in the planning process of each annual report to ensure that:

- a reporting framework is agreed at the outset;
- staff members' contributions to the report are clearly specified; and
- adequate resources are provided to the process.

RECOMMENDATION 6:

That consideration be given by agencies to the publication of separate short form annual reports in line with the proposed new annual reporting legislation. As well brochures and information booklets for different special interest groups and for public relations purposes should be considered.

RECOMMENDATION 7:

That more guidance and training be provided to agencies by the Treasury through: the publication of educational materials on the "best practice" approach and on new reporting requirements and the conducting of regular training seminars and workshops as well as an annual Discussion Forum.

RECOMMENDATION 8:

That an Annual Reporting Manual be prepared and issued to NSW public sector agencies to provide practical guidance on:

- how the intent of the legislative requirements should be complied with; and
- the "best practice" approach to performance reporting (including illustrative examples of "good" reporting practices).

RECOMMENDATION 9:

That the Treasury assume responsibility for the maintenance of arrangements to facilitate on-going liaison groups of Annual Report preparers of agencies.

RECOMMENDATION 10:

That the "Annual Report Review Program" of the Treasury be maintained and properly resourced to ensure that:

- agencies' annual reports are subject to on-going external scrutiny; and
- agencies themselves receive regular feedback on the quality of their reports.

RECOMMENDATION 11:

That the Audit Office consider repeating the performance audit "Judging Performance from Annual Reports" as an annual exercise to complement the Treasury's "Annual Reports Review Program"

RECOMMENDATION 12:

That a special Premier's Award be established to recognise achievement of excellence in annual reporting within the NSW Public Sector.

- 1.29 The Public Bodies Review Committee reviewed and reported on the quality of public sector annual reports in both 1997 and 1998. The reports contain recommendations for best practice and offer agencies guidelines to assist in the preparation of annual reports.

Chapter Two - The Inaugural Premier's Annual Reports Award

- 2.1 In 2005 the Public Bodies Review Committee, in conjunction with the Public Accounts Committee, sent an invitation to all public sector agencies to enter their annual report in the inaugural Premier's annual reports award. A total of 31 entries were received.
- 2.2 The Committee were pleased that entrants varied considerably in size from large state owned corporations to small boards and committees and that entries came from a comprehensive range of portfolio areas including:
- Utilities;
 - The Arts;
 - Emergency Services;
 - Health;
 - Justice.

The Process

- 2.3 A three stage review process was utilised. The first stage involved the Committee secretariat reviewing each entry and completing a Treasury Annual Reporting Review Compliance Checklist for each entry. The purpose of this review was to ensure that entries, which progressed through to the next rounds complied with core legislative requirements. The second stage involved culling panel members reviewing each entry to decide on a short list which would then be recommended to the judging panel for consideration for an award. At the final stage of review the judging panel members reviewed each entry and considered the recommendations of the culling panel in order to allocate a Gold, Silver and Bronze award.

Culling and Judging Panel Members

- 2.4 Culling and judging panel members were appointed to their honorary positions in recognition of their expertise in public sector annual reporting. Culling panel members included:

Mr John Chan Sew	Former Chief Accountant, NSW Treasury, and current Financial and Public Sector Reform Consultant
Ms Jackie Ohlin	Senior Committee Officer, Public Accounts Committee
Mr Sean Crumlin	Director, Performance Audit Services, NSW Audit Office
Mr Peter Walker	Corporate Communications Manager, NSW Fire Brigade
Ms Catherine Watson	Committee Manager, Public Bodies Review Committee
Dr Laurie Young	Director, Performance Measurement, NSW Premier's Department

- 2.5 Judging panel members included:

Professor Percy Allan	Chair, Council on the Cost and Quality of Government and Principal of Percy Allan & Associates Pty Ltd
Mr Peter Connelly	Executive Director, Performance Management and Review, NSW Premier's Department
Mr Stephen Horne	(Then) Assistant Auditor-General, Performance Audit, NSW Audit Office
Mr George Maltabarrow	Acting Managing Director, EnergyAustralia
Mr Mark Ronsisvalle	Executive Director, Resources and Budget Directorate, NSW Treasury

Criteria

2.6 Each entry was judged by both general and specific criteria. The general criteria included adequate information on:

- The organisation;
- The context/environment in which it operates;
- What it sets out to achieve;
- What it does/services it provides;
- What it actually achieved;
- Those factors and drivers which made it happen; and
- Where the organisation is heading.

2.7 Specific criteria included:

- Achievements (performance reporting)- 30%
- Financial and asset management- 20%
- Directions/Challenges- 10%
- Overview of the Agency - 10%
- Presentation- 30%

2.8 Panel members gave special consideration to those entries which were inclusive of the following:

2.9 Executive Summary

The early pages of the report should present a high-level summary of the performance for the year at a glance including:

- Progress towards achievement of the agency's desired outcomes and objectives and the Government's policy priorities;
- Key performance indicators and targets and a brief review of achievement;
- Extent of achievement of major initiatives planned for the current year;

- Highlights and successes during the year as well as problems and setbacks in performance; and
- Plans and outlook for the following year.

2.10 Overview of the Agency

The report should present a profile and description of the agency so as to provide a background context for its discussion and analysis of performance. The following is a list of matters that are expected to be included:

- Statements relating to the vision, mission, desired outcomes, objectives, corporate values and broad strategies of the agency as well as details of the major functions or services performed. (The statements should also include details of any significant changes from the previous year. The outcomes and objectives adopted need to be relevant, specific and measurable (where possible);
- Explanation of the linkages between the outputs, objectives, desired outcomes and policy priorities of the Government;
- Context/environment in which the agency operates and also the key challenges it faces and the planned responses to those challenges;
- Organisation structure, management processes and stakeholder engagement systems;
- Outcome and output structure (in the case of budget dependent General Government Sector agencies);
- Enabling legislation (where applicable); and
- A summary of key stakeholder information.

2.11 Report on Performance

In order to provide a comprehensive discussion and analysis of the performance results of an agency, the report needs to disclose the following matters:

- A set of key performance indicators that are linked to the desired outcomes and objectives of all aspects of the agency's operations and are used consistently from year to year;
- Brief explanation of the significance of the key performance indicators including details of any changes from the previous year;
- Performance targets for the year as stated in the strategic and annual business plans, the Results and Services Plans, the Statements of Corporate or Business Intent and the Budget Papers;
- A comparison of the actual performance achieved during the year with the targets and objectives set;
- Adequate explanations for instances of major under and over-performance and, in the case of under-performance, also details of lessons learned and actions taken to improve services;

- A review of performance results for the last five years (i.e. trend data and a discussion and analysis of changes over time);
- Financial and non-financial information to show how resources and strategies influenced the results for the year (including the costs involved in providing the major outputs);
- A benchmarking comparison with the performance results achieved by similar agencies in the State and in other Australian jurisdictions (including data, where available, on cost efficiency and cost effectiveness for outputs and outcomes);
- An outline of the major initiatives and projects planned for the year and details of the results achieved (together with explanations for any delay and the revised target date for completion);
- The detailed discussion and analysis on performance should also cover:
 - The extent to which the agency was wholly or partly responsible for the outcomes achieved;
 - Shared responsibilities for cross-agency performance issues and the agency's contribution to the joint outcomes;
 - Highlights of major achievements as well as significant shortcomings, setbacks and problems in performance;
 - Major factors, events and trends that affected the agency's performance during the year; and
 - Responsiveness to client concerns about service problems (including references to the effectiveness of the complaints handling system and the use of complaints information as feedback mechanism to improve services);
- The future operating environment and developments as well as future plans and major projects (including those that are designed to further improve performance). This section of the report is expected to contain pertinent forward-looking information and comments such as:
 - A discussion of the future outlook for the agency (including issues and events that are likely to have a significant impact on the following year's performance or position);
 - Details of expected future changes and trends within the operating environment; and
 - An outline of what the agency aims to achieve in the coming periods (particularly in the next year) and objective measures of performance;
- The effect of the agency's actions on the environment; measures taken to minimise the impact of the agency's actions on the environment; and the mechanisms (if any) for reviewing and increasing the effectiveness of those measures;

- The agency's responses to the reports tabled in Parliament by Parliamentary Committees and the Auditor-General and also to issues of public interest raised in the media about the activities of the agency; and
- If applicable, details of any matter or circumstance that has arisen since the end of the year and has significantly affected or may significantly affect the agency's operations or financial results in future years and how the agency plans to deal with those issues.

2.12 Management and Accountability

a) Corporate Governance

The report should provide coverage of the main corporate governance issues (where applicable) such as:

- Role and composition of the board or governing body as well as details of the qualifications, experience and expertise of members and the balance of non-executive and executive members;
- Independence of members including policies on disclosure of relationships between members and the agency and on dealing with potential and actual conflicts of interest;
- Process of appointment of members including identifying the parties involved in the decision, appointed term and procedures at the end of the appointed term;
- Terms and conditions of membership including criteria for remuneration and retirement benefits;
- Process and criteria for review of board performance;
- Frequency of board meetings, attendance details and nature and amount of work undertaken by members;
- Delegation of functions by the board including the roles, objectives and memberships of board committees;
- Procedures for chief executive appointment and performance review;
- Board's access to management and mechanisms for developing knowledge of the agency;
- Board's access to independent professional advice including the existence of written guidelines;
- Mechanisms adopted by the board for providing leadership to, and interaction with, management;
- Details of the names, qualifications, experience and remuneration of the senior executive officers and their responsibilities and performance;
- Senior management committees and their roles;
- Approach to risk management and internal control;
- Ethical standards including the existence of written codes or guidelines for board members, management and staff; and

- Freedom of information disclosures.

2.13 Where applicable, a commentary should also be provided on actions taken during the year to address weaknesses in corporate governance as well as on any significant changes in practices since the previous report.

(b) Management of Human Resources

2.14 The report is expected to provide an assessment of the agency's effectiveness in managing and developing its staff to achieve its objectives. This would include consideration of:

- Workforce planning, staff retention and turnover;
- Workforce profile and numbers (including categories and numbers of full-time equivalent employees);
- Industrial relations policies and initiatives;
- Relevant industrial awards and enterprise agreements;
- Key training and development strategies as well as the results of evaluation of their effectiveness;
- Occupational health and safety objectives, targets and performance; and
- Equal employment opportunity initiatives and outcomes.

(c) Purchasing and Asset Management

2.15 The report should provide a brief assessment of the agency's performance in the purchasing of inputs (excluding human resources) and also in asset management. Summarised information on the use of consultants, competitive tendering and contracting is expected to form part of the overall assessment.

2.16 Financial Commentary and Analysis

An excellent report is one that:

- Presents financial information in a way that assists readers in understanding the information;
- Provides comparative data over a number of years;
- Integrates financial and other resources management information into the main body of the report and not simply presents financial statements at the end of the report; and
- Provides a discussion and analysis of the financial activities and management of the agency as well as a commentary on those material factors that affected or will affect financial performance or position.

2.17 Other Prescribed Information

The report must also include, either in the main body of the report or in the appendices, all other matters that are required to be disclosed by the annual reporting and other legislation as well as by specific policy directives.

- 2.18 The legislation which governs annual reporting is the *Annual Reports (Departments) Act and Regulations* and the *Annual Reports (Statutory Bodies) Act and Regulations*.
- 2.19 The following are other disclosure requirements in the annual reporting legislation that have not been referred to in the specific assessment criteria stated above:
- Details of internal and external reviews of performance conducted during the year and the benefits achieved as a result of those reviews;
 - Funds granted to non-government community organisations;
 - Particulars of research and development activities;
 - Progress in implementing the Government's disability plan;
 - Number and total value of properties disposed of during the year;
 - Types of publications and other information available to the public;
 - Accounts payment performance;
 - Progress in implementing the agency's Ethnic Affairs Priority Statement and Ethnic Affairs Agreement;
 - Details of Action Plan for Women;
 - Implementation of the Government's Waste Reduction and Purchasing Policy; and
 - Additional performance information on controlled entities (e.g. subsidiary companies).
- 2.20 Apart from the above, there are three additional annual reporting requirements for statutory bodies:
- A detailed budget;
 - Reports on investment performance and liability management performance; and
 - Details of social programs provided by the agency.

Guiding Principles

- 2.21 Panel members were guided by the following principles to assist them in their task:
- Relevance-** Information is meaningful and relevant to the decision-making needs of the user groups.
- Reliability-** information is valid and complete and is also fair and free from bias and material errors.
- Comparability-** report allows comparisons with the performance targets set and also past results achieved as well as with the achievements of other comparable organisations.
- Clarity-** information is presented in plain English, free of jargons and complex technical language and can be easily understood by the readers.
- 2.22 Each entrant indicated the pages of their annual report which best respond to the assessment criteria to assist panel members in assessing their entry.

Award Winners

2.23 The award winners were:

- Gold – NSW Health
- Silver – NSW Fire Brigades
- Bronze – NSW Audit Office

2.24 The rationale for the decision is explained in the comments made by panel members in relation to each report:

Gold Award- NSW Health

- The Annual Report of NSW Health won the Gold Award on the strength of its performance reporting;
 - The choice of indicators provides a clear summary of significant achievements and outcomes in a complex field;
 - Lots of data is provided, and a good link between outcomes and objectives;
 - NSW Health provided benchmarks of many of their performance indicators against other Australian jurisdictions;
 - The inclusion of trend data is also to be commended;
 - NSW Health provided an especially strong coverage of strategies in place to achieve outcomes and targets;
- The report provided clearly presented and informative descriptions of the organisation, its operating context, aims, services, achievements, direction and contributing factors;
- Given the complexity of the Health portfolio, the Annual Report of NSW Health reported strategically and concisely, using case studies to assist the reader in understanding sometimes difficult processes.

Silver Award- NSW Fire Brigades

- The Annual Report of the NSW Fire Brigades was clear and focussed, enabling easy access to information by stakeholders and members of the public in general;
- Overall, the report had a strong focus on people, providing a good sense of the impact the Department is having on the community;
- Visually, the best report received. Good use of photos and easy to read;
- The report was also strong on performance reporting, employing a good mix of narrative and tables with which to convey performance information;
- NSW Fire Brigades performed particularly well on management and human resources.

Bronze Award- Audit Office of NSW

- The use of and reporting on client and stakeholder surveys by the NSW Audit Office was excellent;

- The report was clear and concise, with good links provided between objectives, achievements and future directions. Information was well laid out, making it easy to navigate through the report;
- There was excellent information on governance, and the report addressed strategic issues affecting the Audit Office well;

2.25 A press conference was held on Wednesday 10 May 2006. Award winners were announced at the press conference. The actual presentation of the awards will take place at the Premier's awards later in the year.

2.26 Both culling and judging panel members completed feedback sheets to assist entrants in improving their annual reports.

2006 Workshop

2.27 To assist in the improvement of public sector awards as a whole, expert speakers addressed key topic areas at a workshop held in June 2006. Speakers included:

Name	Position	Agency	Topic Area
Dr Laurie Young	Director – Service Development	NSW Premier's Department	Key Performance Indicators and Performance Reporting
Mr Tony Dunn	Director – Demand and Performance Evaluation	NSW Health	KPIs, Benchmarking, Dashboard Indicators and Quantitative Performance Reporting
Mr Stephen Payne	Chief Financial Officer	Wollongong City Council	Performance Reporting and Stakeholder Satisfaction
Mr Stephen Horne	Assistant Auditor-General, Performance Audit	Audit Office of NSW	Corporate Governance Reporting
Mr Phil Thomas	Assistant Auditor-General, Financial Audit	Audit Office of NSW	Financial and Asset Management

2.28 A survey was conducted to test the success of the workshop. Feedback received indicated that overall the workshop was well received. The session that respondents found the most helpful was the session on corporate governance reporting. A total of 57% of respondents to the evaluation survey said that they intended to enter next year's awards.

2.29 A CD ROM based largely on the topics covered in the workshop was produced and distributed in August 2006. The CD ROM contained audio files of the speeches given at the workshop along with the powerpoint presentations. Additional resources were included along with details of the awards program.

Chapter Three - Review of 2005 Entrants

Review by the CEO

- 3.1 Depending upon the structure of the organisation, these comprised not only the Chief Executive Officer's or Director General's Foreword but also the President or Chairman of the Board.
- 3.2 The function of these sections seemed highly variable. However, as very few reports examined contained a separate Executive Summary it would be expected that the review should contain a good overview of the agency, discuss major achievements and setbacks, contain some quantitative performance information in line with targets, and discuss future challenges and directions.
- 3.3 While all CEO reviews made mention of highlights and major achievements for the year, very few made any mention of challenges and setbacks.
- 3.4 Some agencies did include comparisons to targets and benchmarks, though these were usually extremely selective.
- 3.5 Some, like the Department of Tourism, Sport and Recreation also contained informative sections on the year ahead and future directions for the organisation. However, this was not the norm.
- 3.6 These sections of the report should be used for more than "positive spin". They should provide an overview of the operating context and performance of the agency from a senior management perspective. This should be balanced with both good and bad news and contain at least some details of performance linked to key measures, targets and results.

Executive Summary

- 3.7 As mentioned in the previous section, many reports (18 out of 31) did not contain these, allowing the CEO's Foreword to stand in their place.
- 3.8 Those reports that did provide a separate overview of performance section called them by a wide variety of differing names such as: "Snapshot of the Year"; "Year in Brief"; "At a Glance"; "Highlights"; "Key Results at a Glance"; "Performance Highlights" and "Our Results". These performance sections often only performed part of the function of a good Executive Summary.
- 3.9 Some reports contained as many as three "Snapshots", creating confusion for the reader. All these would be better combined into the one summary.
- 3.10 Some agencies such as the Audit Office of NSW provided a good summary of objectives, achievements and future directions linked to key measures, targets and results in their Executive Summaries.
- 3.11 However, the majority of agencies, while presenting the results sought, objectives and major achievements, did not provide clear outcome measures linked to high level results. Further, there was little sense of trends or targets given.
- 3.12 A typical comment was:

Good overview of agency but output-outcome links not clearly articulated and summary indicators are not explicitly linked to objectives.

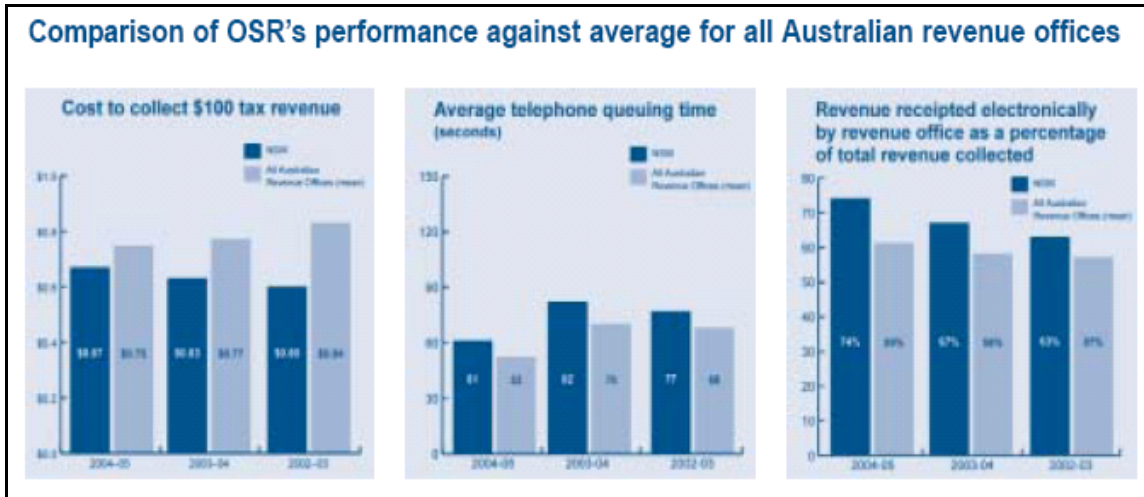
- 3.13 The Committee believes that all agency Annual Reports should contain an Executive Summary. This Summary should focus on providing a good overview of the agency. It should include the vision and objectives of the organisation, major achievements, and quantitative performance information linked clearly to objectives.

Overview of the Agency

- 3.14 This was an area of reporting where agencies generally performed better. Most agencies comprehensively articulated their mission, aims, values, operating environment and structure.
- 3.15 The Road and Transport Authority, for example, gave a good coverage of its corporate framework – identifying vision, results, intermediate results and strategies, manner of establishment, key responsibilities, customers and stakeholders, assets under management and funding and staffing levels.
- 3.16 However, some agencies were too succinct, only providing very basic information about the organisation and its vision.

Report on Performance

- 3.17 This is obviously a key focus of the Awards and the 2006 finalists won their awards primarily on the strength of their performance reporting.
- 3.18 Markers were looking for key performance measures which were linked to objectives and the appropriate use of trends, benchmarks and targets.
- 3.19 While some agencies had obviously strived to improve their performance reporting there was still a prevalent failure to develop a comprehensive set of indicators, link these indicators with targets and to benchmark performance.
- 3.20 NSW Health which won the Gold Award was very strong on both linking performance to targets and benchmarking both with itself and against other jurisdictions.
- 3.21 The following observations were made by the Judging Panel about the NSW Health 2004-2005 Report:
- There is a very strong focus on performance reporting;
 - Measures are linked to objectives and there is appropriate use of trend information;
 - There was good use of longitudinal data (up to 10 years);
 - The review by the CEO points out challenges for the Department;
 - Good performance measures are used;
 - This report had the best focus on outcome reporting;
 - There was a good display of Key Performance Indicators in tables and diagrams.
- 3.22 Benchmarking of performance was something most agencies struggled with. Some agencies are benchmarking with their counterparts in other jurisdictions.
- 3.23 Some of this information is published within an agency's annual report. The report of the NSW Office of State Revenue, for example, included the following benchmarking information in its 2004-2005 Annual Report:



3.24 Peter Achterstraat, the then Chief Commissioner of State Revenue, wrote to the Committee on 15 May 2006 and outlined the process which was used:

The State Revenue Offices began benchmarking many years ago and have progressively refined the process in the past five years.

The benchmarking process is outsourced to the Hay Group who collect data annually and produce the collated material. A committee of representatives for each jurisdiction oversight the process, review draft reports, and make recommendations for improvements. The group agreed the definitions of each measure to ensure that there was consistency in what was being measured and concluded.

The jurisdictions have agreed on 27 measures which are important to benchmark and they range from core revenue collection activities to service level measures and staffing measures, (e.g. sick leave and training days). These include organisational KPIs.

The annual Benchmarking Report comprises measures over time, showing the minimum, mean and maximum value for each measure and the individual revenue office for each measure.

The representatives find the process simple and useful although there are limitations. However, it does provide objective data to allow any revenue office to compare itself to like organisations and compare its progress over time.

- 3.25 The Committee would like to see more comparative benchmarking used between Australian jurisdictions. It is appreciated that it may be difficult to get agreement between all agencies for this information to be published in an annual report. However, as with the Offices of State Revenue, agreement may be reached over some key areas.
- 3.26 The Australian Productivity Commission also provides information in key areas such as Health, Justice, Education, Emergency Management, Housing and Community Services in its annual "Report on Government Services" which can be used for benchmarking by the relevant agencies.
- 3.27 However, a good start is for agencies to benchmark against themselves. Many agencies who entered the award did provide five year trends. These should be included in clear tables or diagrams with the percentage changes.

Management and Accountability

3.28 Most agencies which submitted to the Award did a reasonable task of covering corporate governance issues.

- 3.29 Generally, senior management structures were well detailed as well as the relationship with any boards or committees.
- 3.30 Where agencies had managing boards, members' biographies, lists of sub-committees and their functions, numbers of meetings attended etc were included. However, better descriptions of member responsibilities and remuneration, pecuniary interests and terms of board members could have been added.
- 3.31 There was also limited emphasis on Codes of Conduct and ethical standards in many reports.
- 3.32 Risk management and internal issues were generally well covered.

Human Resources

- 3.33 Most agencies covered this area fairly comprehensively. The only real deficiency in some reports was including figures on staff retention and turnover. Some agencies also did not score their staffing figures to the standardised workforce profile coordinated through the NSW Premier's Department.
- 3.34 Reporting on five year staffing trends and future challenges in workforce planning would have improved most reports in this area.

Purchasing and Asset Management

- 3.35 This section clearly is far more important in some organisations than others. Museums, for instance, would have far more to report here than an agency such as the NSW Audit Office.
- 3.36 Overall, this section was well covered in all the reports looked at. Agencies which were particularly strong included the NSW Department of Housing, the Historic Houses Trust of NSW and Sydney Catchment Authority.

Financial Commentary and Analysis

- 3.37 Deficiencies here were principally regarding discussion of financial information and lack of trend data. Once again, the use of five year trends would be desirable.
- 3.38 Stand out agency reports in relation to this section included the Public Trustee of NSW, NSW Health and the Sydney Foreshore Authority.

Cost of Production

- 3.39 Clause 5 of the *Annual Reports (Departments) Regulation 2000* and Clause 8 of the *Annual Reports (Statutory Bodies) Regulation 2000* outline the requirement on agencies to disclose "the number of copies printed of the annual report and the average cost of producing each copy, if known, or if not, the estimated average cost of producing each copy, based on the external costs (such as fees for consultants or printing costs) incurred in the production of the report".
- 3.40 The New South Wales Auditor-General's Report to Parliament 2002 Volume Three reviewed 25 NSW agencies' annual reports. Based on the sampled reports the most expensive cost per copy was \$44, the cheapest cost per copy was \$7.41, the largest report was 328 pages and most copies printed of any report was 10,000.

- 3.41 A review of the 31 agencies that entered the 2006 Annual Reporting Award found that the most expensive cost per copy was \$80, the cheapest cost per copy was \$4.09 and the largest number of copies printed was 1200. The average price per copy of the 31 agency reports was \$34.86 and the average number printed across the agencies was 640 copies.
- 3.42 Clearly, the large reduction in printing runs is attributable to the fact that all NSW public sector agencies are now placing their annual reports on their websites. Agencies are clearly paring down their printing runs finely and many agencies found it difficult to spare the 20 printed copies needed to enter the 2006 Award.
- 3.43 Agencies appear to be making assessments about the amount of copies which are printed based upon the key stakeholders to whom they directly distribute their report and past demand. Many agencies, for instance, would not be printing enough to distribute to each Member of NSW Parliament.
- 3.44 Although it was common that agencies which used their annual reports as marketing documents to attract clients and donors such the Art Gallery of New South Wales, the Sydney Olympic Park and the State Library of New South Wales tended to print more reports this was not always the case. It was therefore difficult to ascertain a pattern in print runs.
- 3.45 Approximately one third of agencies were choosing to use CD ROMs in conjunction with printed copies. Provided that interactivity is kept to a minimum, production costs of CD ROMs are much lower, as are postage and storage costs.
- 3.46 Agencies that are producing CD ROMs told the Committee that they are finding that the majority of stakeholders requesting annual reports prefer the CD ROM version.
- 3.47 While there will probably always be some demand for hard copy, the trend does seem to be moving away from this and substantial savings can obviously be made by doing this. Paper prices can vary quite dramatically from year to year depending upon supply. Paper quality also has a large impact on cost. However, as a large proportion of the printing price involves set-up costs, agencies are probably paying more now per copy due to losing the financial advantage of larger print runs.
- 3.48 It is clear that, as the Auditor General recommended in his 2002 Annual Report, the requirement to disclose the external costs of printing annual reports needs to be reviewed. With agencies now producing reports in a variety of different formats such as hard copy, PDF and CD ROM there is a need to specify more clearly what those actual external costs are to make any figure given meaningful. The three basic potential external costs associated with the production of a report: design; written work and reproduction should be clearly spelt out in figure terms. The NSW Fire Brigades, for example, estimate approximately 40% of their printing costs would be spent on external design.
- 3.49 Agencies should therefore be required to disclose how much of their annual report production is done externally by specifying where the external costs have been spent.

Chapter Four - Comparison with other Jurisdictions

Introduction

- 4.1 The Committee has previously examined the performance reporting requirements of other jurisdictions to identify specific areas that need to be further improved within the existing performance reporting framework of the New South Wales Public Sector.

Reporting Practices of Other Australian Jurisdictions

Commonwealth

- 4.2 In the Commonwealth, agencies' key accountability documents their Portfolio Budget Statement (PBS) supplemented by the Portfolio Additional Estimates Statement (PAES) and their Annual Report. PBS and PAES provide information on the proposed allocation of resources to Government outcomes.
- 4.3 Annual Reports provide information on agencies' actual performance in delivering outputs and achieving Government outcomes. The PBS, PAES and Annual Reports are integrated documents that align structures for reporting of planned and actual performance. They are designed to provide Parliament and the public with a picture of agency performance.
- 4.4 Commonwealth agencies are required to report on how well they have contributed to achieving their outcomes during the year, including the use of effectiveness indicators as well as performance and efficiency information. The performance reporting requirements are prescribed in the Department of Prime Minister & Cabinet's guidelines on Annual Reports. The guidelines state that:
- 4.5 "The annual report must include:
- A review of how the department has performed during the year in relation to the department's outputs and contribution to 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.
- 4.6 The review must include:
- Reporting of actual results against outcomes and outputs and the specific performance information (i.e. performance measures, indicators and targets) set out in the PBS and PAES. 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; and
 - A concise narrative discussion and analysis of the detailed performance information. (p.5)
- 4.7 The guidelines suggest that:
- "Trend information be drawn upon where appropriate;

- There be reference to any significant change in the nature of the department's principal functions or services that has occurred during the year, and has impacted on performance;
- There be reference to factors, events or trends influencing the department's performance over the year and in the future and how the department plans to deal with these issues;
- For departments whose outputs may impact on social justice and equity outcomes in the community, there be reference to the social justice impacts. (p.6)"

4.8 On the presentation of performance information, the guidelines have provided some further clarification:

"Evidence about ... the extent to which an outcome can be attributed to an intervention. Performance information may be quantitative (numerical) or qualitative (descriptive), however it should be verifiable. Performance measures are more precise than indicators, and are used when there is a causal link between an intervention and a measurable change in performance. (p.14)"

4.9 Agencies are required to maximise the contribution of their outputs to the specified outcomes. The guidance document on the outcomes and outputs framework states that where there are extraneous factors impinging on the capacity of the agency to contribute to the specified outcome, these should be identified in relevant documentation such as PBS and Annual Reports.

4.10 The requirements of the PBS, the outcomes and outputs framework and annual reporting all encourage agencies to be candid in the way they report on their results

Victoria

4.11 The Directions issued by the Minister for Finance under the *Financial Management Act* (1994) prescribe a comprehensive regime for performance reporting in Victoria. Under the Directions, agencies are required to include in their annual reports:

- The operational and budgetary objectives for the financial year and performance against those objectives including significant activities and achievements during the year;
- A summary of major changes or factors which have affected the achievement of the operational objectives for the year;
- A comparison of output targets specified in the State Budget with actual performance against those targets;
- A "Budget Portfolio Outcomes Statement" setting out a comparative analysis between the actual financial performance within the Portfolio and the forecasts published in Budget Paper No. 3 "Budget Estimates"; and
- a summary of significant changes in financial position during the year.

Queensland

4.12 Queensland's principal reporting legislation is the *Financial Administration and Audit Act* (1996). The Act includes a requirement that the Government prepares a Charter of

Social and Fiscal Responsibility outlining the social and fiscal objectives of the Government as well as establishing a framework for assessing the government's performance in achieving its objectives.

- 4.13 The Act and the Financial Management Standards prescribe certain requirements for reporting and the minimum standards and disclosures that must be applied.
- 4.14 The *Financial Administration and Audit Act* sets out the principles on which the Government's Charter of Social and Fiscal Responsibility must be based. The Charter is a key document that establishes performance objectives and targets in terms of the broad outcomes that the Government is committed to deliver.
- 4.15 The Government prepares the State Budget according to the principles provided in the Charter. The budget is the State's financial plan for the funding of the outputs of budget dependent agencies, namely, departments. It contains specific information about the detailed objectives the Government plans to put in place to achieve its Whole-of-Government outcomes.
- 4.16 Under Section 37B of the *Financial Administration and Audit Act* agencies annual reports must include such information as the appropriate Minister directs to enable that Minister to assess the efficiency, effectiveness and economy of the agency.
- 4.17 Apart from the annual reports, departments are required to prepare Minister Portfolio Statements (MPS) for each financial year as part of the Budget Papers. The MPS documents describe departmental outputs and demonstrate how these outputs are linked to the Whole-of-Government outcomes specified in the government's Charter. In addition, MPS documents also contain budgeted information (i.e. budgeted financial statements for each output and for the department as a whole). They also present a review of departmental achievements in output delivery.
- 4.18 As part of the overall reporting framework, the *Financial Administration and Audit Act* requires the Government to report regularly to the community regarding the achievement of its objectives. To meet this requirement, the Government produces an annual Priorities in Progress Report.
- 4.19 The report focuses on outcomes and provides information to the community through a series of key performance indicators. These performance indicators highlight where the State is performing well and identify areas and opportunities for improvement. By this mechanism, the actions that the Government takes to improve areas of performance regarded as unsatisfactory are assessed in the public domain.

South Australia

- 4.20 In South Australia, the Department of Premier and Cabinet Circular No. 13 (May 2000) provides guidance to agencies on the preparation and content of annual reports. The Circular states that all agencies must produce an annual report containing information specified in the *Public Sector Management Act* (1995) and the *Public Finance and Audit Act* (1987). The document also indicates that annual reports are critical accountability documents from the chief executive of an agency to the responsible Minister who is required to table them in Parliament. Therefore, the reports are not to be viewed as promotional publications but should complement the Budget Statement and Estimates and Portfolio Statements both of which are key elements of the Government's financial reporting cycle.

- 4.21 Specifically, Circular No. 13 states that the “focus of annual reports is on communicating the success or otherwise of agency activities in achieving government policy outcomes in the previous financial year and to document the resources used in this process”. The Circular also notes that a characteristic of high quality annual reports is that they report good and bad news associated with an agency’s performance.
- 4.22 Regulation 18 of the *Public Sector Management Regulations* specifies the following matters that must be included in an annual report:
- The agency’s operations and initiatives (including assessment of the effectiveness and efficiency).
 - The agency’s strategic plans and the relationship of the plans to Government objectives.
- 4.23 In South Australia, the Government Management Framework provides the basis for the evaluation of the delivery of outputs by agencies. To assess performance, indicators have been developed for each output covering the quantity, quality, cost and timeliness of service delivery.
- 4.24 An assessment of performance against these parameters is required to be published each year in agencies’ annual reports, and also in the Estimates and Portfolio Statements which form part of the State’s Budget Papers.

Western Australia

- 4.25 The annual reports of agencies are required by section 66 of the *Financial Administration and Audit Act* to provide information on performance indicators.
- 4.26 Treasurer’s Instructions TI 904 “Performance Indicators”, issued under the *Financial Administration and Audit Act* specifically directs agencies to report on performance indicators within the Report on Operations or by reproducing them in a separate segment of the annual report. In particular, TI 904 requires the disclosure of details relating to performance objectives and targets as well as actual results achieved. The information is to be accompanied by a brief explanation of the reasons for any significant variation between actual and target output production.

Northern Territory

- 4.27 The *Public Sector Employment and Management Act* (2001) (section 28) requires the Chief Executive Officer of each agency to present a report to the appropriate Minister on the operations during the financial year. The report is to contain information about the agency’s operations, initiatives and achievements, including those relating to planning, efficiency, effectiveness, performance and, where appropriate, delivery of services to the community.
- 4.28 The *Financial Management Act* (2002) reinforces the need for agencies to provide annual reports of their operations.
- 4.29 The Northern Territory Government has implemented a major reform initiative titled “Working for Outcomes” (WFO). WFO is a comprehensive financial and performance management framework comprising three elements – outputs, performance and accruals.

- 4.30 As part of these reforms, a new budgeting, consolidation and reporting system (known as Apex) was implemented. The Apex System is able to record, collate and report on budget and actual financial information, as well as output information and performance measures.
- 4.31 The Northern Territory's Fiscal Integrity and Transparency Act 2001 also requires greater detail on whole-of-government reporting. Initially, the Government was required to publish a half-yearly report on performance at a global level, then reporting of outcomes at an agency level.

Reporting Practices of Governments in Other Major Overseas Countries

- 4.32 As part of the review of public sector performance reporting practices, the Committee also undertook a detailed examination of the approaches adopted in the United States of America, Canada, the United Kingdom and New Zealand.

United States of America

- 4.33 In the USA, developments in performance measurement and reporting have been taking place at all levels of government, from Federal agencies and departments down through State to Local Government.
- 4.34 Under the *Government Performance and Results Act* (GPRA) each Federal government department and agency is required to produce strategic plans, annual performance plans and performance reports.
- 4.35 Together, these elements are intended to provide a recurring cycle of planning, program execution and reporting.
- 4.36 Each year the Office of Management and Budget (OMB) issues an annual guidance document which prescribes the content of these elements. The OMB is also required to produce a government-wide performance plan that is submitted as part of the Budget.
- 4.37 Performance plans, along with the strategic plans and annual reports and performance reports, are submitted to Congressional appropriation committees responsible for individual departmental budgets as well as the appropriate Congressional authorisation committees.
- 4.38 The responsibility for performance target setting is divided between the agencies themselves (which initially propose their own targets), the OMB (which consults over them) and the Congress.
- 4.39 The GPRA system implies a type of quasi-contractual arrangement, in so far as it links the allocation of resources by the Executive/Congressional appropriations process clearly to performance targets and agencies are held accountable for their actual performance. The key aim of GPRA is to shift the focus in service delivery from processes and outputs to outcomes.
- 4.40 Even though GPRA was passed in 1993, the implementation process has been slow. The first set of performance reports for the 1999 fiscal year was published in March 2000. Both the performance plans and reports are subject to scrutiny by the Congress.
- 4.41 As part of the scrutiny process of the draft performance plans, the General Accounting Office (GAO) undertakes an audit of each individual plan and issues an overall commentary and analysis on the quality and validity of the plans. The analysis focuses

on whether or not the plans for measuring performance reflect the agencies' strategic plans; whether they made an improvement over previous years' plans; and whether there can be confidence in the performance information that will result. The GAO also comments on individual performance reports produced by agencies.

- 4.42 According to GAO analysis, measurement of cross-cutting (or cross-agency) performance is improving but a great deal remains to be done. In most cases agencies have addressed, in their GPRA performance plans, the problem of identifying cross-cutting performance issues and shared responsibilities and have begun to adopt strategies to improve reporting.
- 4.43 The *Sarbanes Oxley Act 2002* has also established new or enhanced standards for all U.S public company Boards, Management, and public accounting firms. The Act contains 11 titles, or sections, ranging from additional Corporate Board responsibilities to criminal penalties, and requires the Securities and Exchange Commission to implement rulings on requirements to comply with the new law.

Canada

- 4.44 The Canadian Government has significantly reformed the Budget Estimates process over the past few years. Departmental Performance Reports and Reports on Plans and Priorities are required to be produced by agencies and presented to Parliament each year.
- 4.45 Both the Treasury Board Secretariat and the Office of the Auditor-General have taken a strong interest in improving agencies' performance reports to Parliament and, in particular, the reporting of performance outcomes that fail to meet expectations.
- 4.46 Members of Parliament and the Office of the Auditor-General have, on a number of occasions, been critical of departmental performance reports as only providing "good news stories".
- 4.47 There have been a number of recent developments in Canada that have had an impact on how Parliamentarians review Departmental Performance Reports and other related documents.
- 4.48 Firstly, in response to a request from the Public Accounts Standing Committee, the Office of the Auditor-General is now conducting reviews of selected Departmental Performance Reports and publishing the results each year.
- 4.49 Secondly Parliament has created a Government Operations and Estimates Committee to oversee public spending and focus on accountability. This Committee looks closely at Estimates documents, including Reports on Plans and Priorities and Departmental Performance Reports.
- 4.50 The Treasury Board Secretariat has taken the view that the Departmental Performance Reports and the Reports on Plans and Priorities should be the primary instruments of accountability to Parliament. Therefore the Secretariat believes that those reports need to provide the Parliamentarians with reliable, balanced information about what the government is achieving with the resources entrusted to it.
- 4.51 The reports are also seen as important in helping to engage parliamentarians and Canadians in a constructive dialogue about the future directions of the government.

- 4.52 The policy of the Treasury Board Secretariat is that each agency should present to Parliament a coherent and effective picture of its performance, without being constrained by overly prescriptive reporting requirements. However at the same time, Departmental Performance Reports must meet certain principles for effective public performance reporting.
- 4.53 In 2001, the Secretariat introduced the following six principles to be met by all agencies when preparing their performance reports:
- Provide a coherent and balanced picture of performance that is brief and to the point;
 - Focus on outcomes, not outputs;
 - Associate performance with earlier commitments, and explain any changes;
 - Set performance in context;
 - Link resources to outcomes;
 - Explain why the public can have confidence in the methodology and data used to substantiate performance.
- 4.54 Under the six principles the performance reports are required to focus on strategic outcomes indicating a clear link to the Report on Plans and Priorities. It is the fundamental role of agencies to provide leadership and strive for the planned outcomes. Also, implicit in the principles is the public's right to review, from time to time, the effectiveness of an agency's leadership in working towards strategic outcomes.
- 4.55 The "Guide to Preparing the 2002 Departmental Performance Report" issued by the Treasury Board Secretariat contains a number of pertinent commentaries on the presentation of a balanced and honest picture of performance and some of those are set out below:
- "Perfect performance is rarely achieved or expected. A report that implies perfection loses credibility in the eyes of the readers. Emerging or new issues cannot be dealt with instantaneously, except on exceedingly rare or urgent occasions. Some pressing issues may have high public visibility, be controversial, or be seen by a department as encouraging a negative, unfair or biased assessment of its performance. The natural tendency is to avoid full reporting on those issues and to concentrate on areas where performance is stronger or perceived as more positive".
- "... the report is an opportunity to explain difficulties and demonstrate how the department is dealing with complex, thorny problems in a responsible manner. Readiness to acknowledge performance that did not meet expectations shows an ability to adapt. It is an indicator of organisational health and a predictor of ultimate effectiveness".
- "... do not dwell only on good news. Performance reports are not meant to be marketing tools. Attention should be given to choices and circumstances that are altering plans, performance or practices".
- "In some cases, planned results will have changed because of emerging pressures, external factors or new responsibilities. Explaining these changes will make a performance report understandable and credible as readers may wish to compare the report with previous plans

to determine the fate of promised outcomes. If these are not easily identified, readers may conclude that the outcomes have not been accomplished and that the report focuses only on good news”.

“Continuous learning is critical to effective management. It is about using performance information to learn what has worked and what hasn’t to adjust plans and improve performance. ... Such information helps build readers’ confidence in your department’s ongoing capacity to deliver outcomes. Further, you demonstrate sound management by explaining adjustments and actions taken based on lessons learned”.

“Discussing risks and their impact on outcomes helps provide for more balanced reporting. It will give readers a better appreciation of the challenges faced by the organisation and a better understanding of why things may not have gone exactly as planned. A straightforward discussion of risks and challenges encourages more realistic expectations. Your report is an opportunity to explain and demonstrate how risks may have affected the organisation’s performance and how they were managed”.

4.56 The Secretariat has also set out the following six principles to be met by departments and agencies when preparing their Reports on Plans and Priorities covering a three year period.

- Focus on benefits/results for Canadians;
- Identify plans and priorities that will be used to deliver the benefits/results to Canadians;
- Draw on lessons learned from previous experiences and explain any changes to the plans and priorities;
- Identify challenges and risks and explain the rationale for the choices made;
- Identify total planned spending by strategic outcome and allocate resources to departmental priorities;
- Provide a basis for assessing performance.

4.57 Under one of the six principles, agencies are expected to report on significant changes or adjustments to the plans in the light of lessons learned from past performance assessments. The “Guide to the Preparation of the 2002-2003 Report on Plans and Priorities” has highlighted the following key points in relation to difficult issues which may not produce favourable results:

“Pressing issues, or issues that are controversial, always make an organisational feel vulnerable. The natural tendency is to avoid addressing them and to concentrate on clear-cut, easily monitored priorities that will produce favourable results. Nevertheless, your report is an opportunity to explain and demonstrate how the organisation plans to deal responsibly with complex problems. By acknowledging problems, risks and the rationale for the choices made, the report shows an ability to adapt and lends credibility to an organisation’s management skills”.

United Kingdom

- 4.58 In the United Kingdom agencies are required to develop and publicly report on specific, measurable service standards as part of the public sector reforms.
- 4.59 At the local government level (which in the United Kingdom runs a vast range of public services including hospitals, schools and police), a regime of detailed, published performance indicators has been instituted, with compilation being oversighted by the Audit Commission. In the United Kingdom, the Audit Commission audits local authorities and the health service, whilst the National Audit Office audits central government bodies.
- 4.60 Government departments and agencies are required to execute a Public Service Agreement which in essence is a strategic plan which guides the operations for the next three years.
- 4.61 The Agreement sets out the aims of the organisation, the supporting objectives and related performance targets which underlie the resources allocated to it. In addition, there is a new requirement for departments and agencies to develop a Service Delivery Agreement specifying how the performance targets will be achieved and how they plan to modernise and reform government to help deliver the targets. The targets cover both financial and non-financial performance and are focussed on the desired outcomes of the Government.
- 4.62 Each year, departments and agencies are required to include in their annual reports to Parliament details of actual performance against the targets specified in the Public Service Agreements together with other supplementary performance information. The reports must also explain the reasons for any significant variation between performance achieved and the targets set.
- 4.63 The Treasury monitors the actual performance of departments and agencies against the Public Service Agreement targets and provides quarterly reports to the Ministerial Committee on Public Services and Public Expenditure. The Committee itself also periodically examines the progress that individual departments and agencies have made towards achieving their targets.

New Zealand

- 4.64 In New Zealand individual departments and Crown Entities are responsible for publishing their performance results. Departments have to publish a Statement of Service Performance in the Annual Reports against the Estimates and their Departmental Forecast Reports.
- 4.65 Departments are made accountable for their performance through the performance contracting and reporting system between Ministers and Chief Executives.
- 4.66 Departments and Ministers both are called to account by Parliament through Estimates Examinations (ex ante) and Financial Reviews (ex post) conducted by Select Committees, as well as general Ministerial accountability through Parliamentary debate in the House.
- 4.67 The focus of the New Zealand reforms of 1989 was on the strategic purchasing of outputs by Ministers from their Departments (including policy advice outputs). The

overall objective of the reforms was to improve the economy, efficiency and effectiveness (at least as far as outputs are concerned) of public agencies.

- 4.68 Despite the focus on outputs, the 1989 reforms also required that the Estimates (budget) must contain some information about the outcomes to be achieved and the links between the outputs being purchased and their contribution to the planned outcomes.
- 4.69 In 1994, the government refined the outputs system by adopting “strategic result areas” (SRAs) which covered a three year period (1994-97) and SRAs were also promulgated for the period 1997-2000. These SRAs covered whole policy areas, regardless of organisational boundaries and provided a potential coordinating mechanism for departments’ activities.
- 4.70 Departments themselves were encouraged to develop their own “key results areas” (KRAs) that were to be incorporated (and still are) into the performance agreements between Ministers and Chief Executives. In 1998, SRAs were superseded by “strategic priorities and overarching goals” (SPOGs). Although specific reporting against “cross-cutting” targets has been experimented with, most reporting at present is still restricted to within departmental boundaries and their outputs.
- 4.71 The Audit Office is responsible for auditing the performance information disclosed in annual reports. Specifically, the Auditor-General is required to express an opinion on the “fairness of service performance reporting” and on the disclosure of “specific additional matters in relation to the organisation’s performance based on the assessment of the particular risks in the organisation.

Chapter Five - Overview

- 5.1 NSW Treasury outline the nature of an overview in an annual reporting circular as:

“A narrative summary of the significant operations for the reporting year” and “selected financial and other quantitative information associated with the administration of programs or the operations of the department/body”.

- 5.2 The inclusion of a high quality overview is an essential part of annual reporting. One of the key purposes of an overview should be to ensure that readers with little or any previous exposure and or knowledge of the agency can quickly gain an impression of the position and performance of the agency and identify potential issues to pursue further in the body of the report.

Examples of Good Practice

- 5.3 Contained within this chapter are examples of what constitutes a high quality overview:

2002/03 Department of Corrective Services Annual Report:

STRATEGY

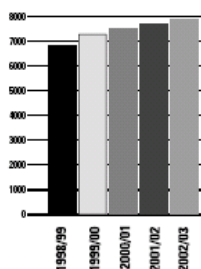
Involve inmates and a multi disciplinary Case Team in planning and monitoring inmate progress along a designated program pathway.

Case Management

In 2002/03, over 22,000 Case Management Team Meetings were held to develop and monitor case plans for each inmate. The plans, which address criminogenic needs identified in an LSI-R assessment, are negotiated with inmates who are active participants in the meetings. Meetings are also attended by staff from Custodial Services and Programs, Corrections Health, Corrective Services Industries, and Probation and Parole, linking the roles of these staff into team structures that best support each inmate's needs.

◆◆◆ During the year, the Department continued implementing electronic recording of case file information and inmates' risk and needs assessments. This is a key component in the Department's move towards evidence-based programs that meet defined criminogenic needs. An integrated electronic case management system will facilitate the delivery of complementary programs and services to achieve the best possible results in reducing recidivism.

Daily average bed demand



- 5.4 The 2002/03 Annual Report of Integral Energy was particularly effective in clearly distinguishing between and reporting on various components of a high quality overview, starting with who is Integral Energy:

Integral Energy is one of NSW's largest state-owned energy corporations, incorporated under the *Energy Services Act, 1995*.

We conduct our business with a sharp commercial and customer focus, within the terms of the *Electricity Supply Act, 199* on behalf of our shareholder, the NSW Government.

We operate in the National Electricity Market, retailing energy services and electrical contracting, and providing metering and data services to industrial and commercial customers. We also distribute and retail electricity and value added services to more than 800,000 customers, or 2.1 million people, in households and businesses across a network franchise spanning 24,500 square kilometres in Greater Western Sydney, the Illawarra, and the Southern Highlands.

We are a forward looking, financially disciplined business, intent on achieving our vision: to be Australia’s leading energy business.

In pursuit of this vision, we intend to build sustainable success into all facets of our operations, and have set ourselves the following mission: to be a successful energy corporation with a long-term focus on being a best practice asset manager and competing in profitable energy markets.

Our corporate values drive an ethical and responsible culture and underpin the way we work at Integral Energy. Our values are safety excellence; integrity; customer commitment; sustainability and commercial success; respect for people; accountability and responsibility; and, management by fact.

5.5 The overview goes on to outline the three areas of triple bottom line reporting and the performance of the organisation in each area for the year:

What we did well, and where we need to improve.	
Economic performance	
✓	Returned \$76.9m to our shareholder, the NSW Government.
✓	Spent a total of \$118m on network capital programs, 10% more than in 2001-2002.
✓	Reviewed and tightened policies and procedures designed to minimise the likelihood of fraud following an ICAC investigation into the corrupt conduct of a former employee.
×	Network reliability, at a total of 155.1 minutes lost per customer, was above target.
Environmental performance	
✓	Completed environmental training for more than 80% of staff.
✓	Environment expenditure topped \$3m, including a program to install bunds to all transformers to contain potentially leaked oil.
✓	Recycled a total of 354,616 litres of spent transformer oil, an increase of 100,000 litres on 2001-2002.
Social performance	
✓	Reduced the lost time injury frequency rate (incidents per million hours worked) to 7.2 from 13.3 in June 2002.
✓	Took action on key issues raised in a staff attitude survey, conducted in November 2002.
✓	Established a compensation task force to manage claims from people directly affected by the 2001 Appin Bushfire.
✓	Achieved a customer service satisfaction rating of 56%, against a target of 56%.

5.6 The overview concludes with a summary of costs in each of the areas listed above and compares the percentage change from the previous year.

Chapter Six - Performance Reporting

Legislative Requirements

- 6.1 The requirements of the Annual Reports (Departments) Regulation 2005, Schedule 1 are best summarised in the Treasury Annual Reporting Review – Compliance Checklist (see Appendix 1).

Treasury Circulars

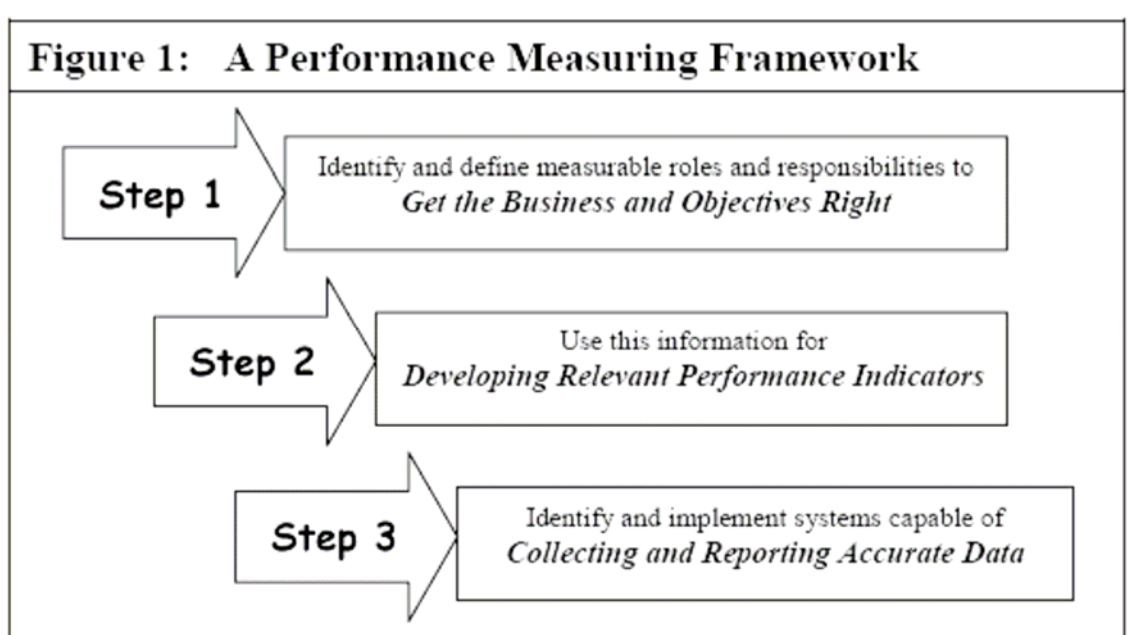
- 6.2 Treasury circulars relevant to performance reporting include the following content:
- A description of the summary review of operations:
“A narrative summary of the significant operations for the reporting year and selected financial and other quantitative information associated with the administration of programs or the operations of the department/body”
 - Commentary on performance indicators:
“Although all agencies provided descriptive and quantitative information about their activities, not all agencies provided qualitative measures and performance indicators measuring efficiency and effectiveness. Some agencies provide numerous statistics but, without targets, benchmarks or other comparisons, the data does not aid an assessment of performance. In addition, without any interpretation of the information, the data is not very meaningful to the reader.”
 - An example of good reporting on risk management:
“... Sydney Harbour Foreshore Authority provides a good example of best practice in this area. The annual report included details of its approach to managing business and financial risks such as:
 - Crisis Management Plan;
 - Business Continuity Plan; and
 - insurance coverage through the Treasury Managed Fund.”
 - Details on management and structure including:
 - “- Names, title and qualification of principal officers.
 - The names of significant committees.
 - An organisational chart indicating functional responsibilities.”
 - Disclosures regarding management and activities:
 - “- The nature and extent of performance review practices and of improvements in organizational achievements as assessed by both internal and external performance reviews.
 - Benefits achieved as a result of management and strategy reviews.
 - A description of management improvement plans adopted by the agency and achievements in reaching previous targets.”
 - Performance reporting requirements:
 - “• Mission or charter – a high level, overarching statement of the agency's “reason for being”.
 - Strategic objectives – drawn from the corporate plan and describing the changes in the community, environment or economy the agency is seeking to achieve or promote

via program and service delivery. These are medium to long term objectives which are generally subject to influences beyond the agency's control such as the activities of other Government agencies, the economy and demographic trends.

- Major strategies – how is the agency going to achieve these objectives?
- Key performance indicators (KPIs) – of effectiveness (How will the agency know it is delivering the “right” programs and services?) and output efficiency and quality (How will the agency know it is delivering its programs and services in the “right” way?).”

NSW Audit Office Performance Audit Report on Key Performance Indicators

6.3 The 1999 report on Key Performance Indicators offers the following diagram on the establishment of a performance measurement framework:⁵



NSW Audit Office Report – Agency Use of Performance Information to Manage Services

6.4 Feedback on the barriers to good performance reporting was offered by participants in the focus group conducted by the NSW Audit Office:⁶

- “- a shortage of skills in the public sector in the use and interpretation of performance information
- political sensitivities associated with the use of performance information publicly
- no overarching framework for whole-of-government performance reporting
- no minimum requirements that dictate the type of performance information agencies should collect and report on
- methodological problems in developing indicators for some programs where the impacts are long term.”

⁵ NSW Audit Office, August 1999, Key Performance Indicators, page 13

⁶ NSW Audit Office, June 2006, Agency Use of Performance Information to Manage Services, page 20

The Results and Services Plan Logic

6.5 The results and services plan logic should guide the performance reporting of the agency. Key elements of the logic to be used include:

- The broad government policy goals which the agency is contributing to;
- Budget areas with a break down of projects for each budget area;
- Indicators and measures by expenses;
- Areas of assumed responsibility and devolved responsibility;
- Result indicators by key result areas including actual performance against estimates;
- Service measures;
- Emerging and strategic issues with the potential impact of the issue on the results;
- Improvements to value for money;
- Policy and regulatory constraints;
- Risks and risk management strategies including the potential impact on results;
- Organisational capability.

Guidelines from the Public Sector Management Office in Western Australia

6.6 The development of performance indicators to assist in the reporting of performance is guided by principles contained in a resource from Public Sector Management Office in Western Australia:

Write the objective clearly. This is the key to developing good performance indicators.

- Clarify and identify the linkages between desired outcomes and agency outputs;
- Ensure that key performance indicators are determined and endorsed by the organisation's executive;
- Promote an organisational culture that emphasises the achievement of objectives, self-evaluation, staff participation and consultation;
- Use people with the appropriate skills to develop satisfactory indicators.
- Make sure that your objectives focus on customer needs and desired outcomes
- Use performance indicators for agency planning and management at both strategic and operational levels
- Remember PIs, by definition, provide indicative rather than absolute and all-embracing information. The information acquired from statistically sound sampling techniques may be as valid as that acquired from massive data collection.

6.7 Once performance indicators have been developed it is recommended that:

Decide what information is needed to support the Performance Indicators:

- Establish if the information is available;

- If necessary, establish the management information systems to collect the data required and the necessary controls to ensure the integrity of the data collected, stored and analysed;
- Collect, collate and analyse the data;
- Decide an appropriate reporting format;
- Report the information in a manner which helps users (both external and internal) to make judgements about the program.

NSW Audit Office Guide to Preparing Performance Reporting Information for Annual Reports

6.8 In 2000 the NSW Audit Office reviewed the performance reporting of eight public sector agencies to find that they often fell short of best practice in this area:⁷

“Agencies tend to focus on reporting activities rather than outcomes and achievements. Few annual reports discuss setbacks and failures or compare performance to goals, targets and benchmarks.”

6.9 Recommendations contained within the report include:

- 1) Objectives are Clear and Measureable
- 2) Focussing on Results and Outcomes
- 3) Discussing Results Against Expectations
- 4) Reporting is Complete and Informative
- 5) Explaining Changes Over Time
- 6) Providing Evidence of Value for Money/Benchmarking
- 7) Discussing Strategies, Risks and External Factors

6.10 The checklist provided at the rear of the guide is contained as an attachment (see Attachment 2).

The Australian National Audit Office

6.11 In a speech entitled “Accountability for Performance in a More Contractually Oriented Public Sector” the Auditor General remarks that performance information should be sufficient to enable the reader to gauge:⁸

“How effective is the program in achieving the desired outcomes?
How efficient is it in using inputs to produce the required outputs?
What is the quality of the program’s outputs and outcomes?
Are clients receiving a satisfactory level of service?
Is the program meeting access and equity requirements?”

6.12 Key considerations in the development of performance information are said in the same speech to assist performance reporting:

- The inclusion of both quantitative and qualitative performance information;
- Reporting on whole of program performance information;

⁷ NSW Audit Office, November 2000, A Guide to Preparing Performance Information for Annual Reports, page 1

⁸ Speech given by Mr P.J Barrett – Auditor General Australia, 27/10/1997 at the National Public Sector Accountants Conference, Sydney

- Ensuring that data used is valid, accurate and reliable;
- Ensuring an appropriate amount of information is included to suit a wide range of readers;
- A cost benefit analysis of data collection;
- Consideration of the continuity of performance information.

Benchmarking

6.13 Important reference is made in the speech referred to previously to the basis for performance assessment – comparative analysis:⁹

“Actual assessment of performance, whether for ongoing program monitoring or evaluation, is based on comparisons. Standards, targets, benchmarks and milestones all provide a basis for comparisons.”

6.14 While several types of benchmarking exist – standards, process and results it is results benchmarking that has particular relevance to performance reporting. One source describes the efficiency incentives provided by results benchmarking:¹⁰

“Results benchmarking - comparing the performance of a number of organisations providing a similar service. In the public sector, this technique can serve to allow the public to judge whether their local provider makes effective use of its resources, compared to other similar providers. In the absence of the competitive pressures which operate in the private sector, this can provide a significant incentive to improve efficiency.”

Notes from the Presentation on Performance Reporting by Dr Laurie Young

6.15 Dr Laurie Young, Director of Service Development at the NSW Premier’s Department addressed the topic of performance reporting at the workshop. His presentation included the following points:

⁹ Speech given by Mr P.J Barrett – Auditor General Australia, 27/10/1997 at the National Public Sector Accountants Conference, Sydney

¹⁰ Jeremy Cowper and Dr Martin Samuels, Next Steps Team, Office of Public Services, Cabinet Office, United Kingdom, January 2001, Performance Benchmarking in the Public Sector: the United Kingdom Experience, page 2

ANNUAL REPORTS: BEST PRACTICE PERFORMANCE REPORTING

1. SATISFIES KEY REPORTING REQUIREMENTS

- ▶ Annual Reports (Departments) Regulation 2005, Schedule 1: Report of Operations
- ▶ Regular Treasury circulars, including NSW TC 05/07, 16 August 2005.

2. BASED ON A CLEAR CONCEPTUAL FRAMEWORK

- ▶ Measures linked to results and services logic

3. PROVIDES A FAIR ANALYSIS OF PERFORMANCE

- ▶ Balanced assessment of success and failure

4. COMMUNICATES RESULTS EFFECTIVELY

- ▶ Graphs and charts
- ▶ Interprets measures in terms of results and services

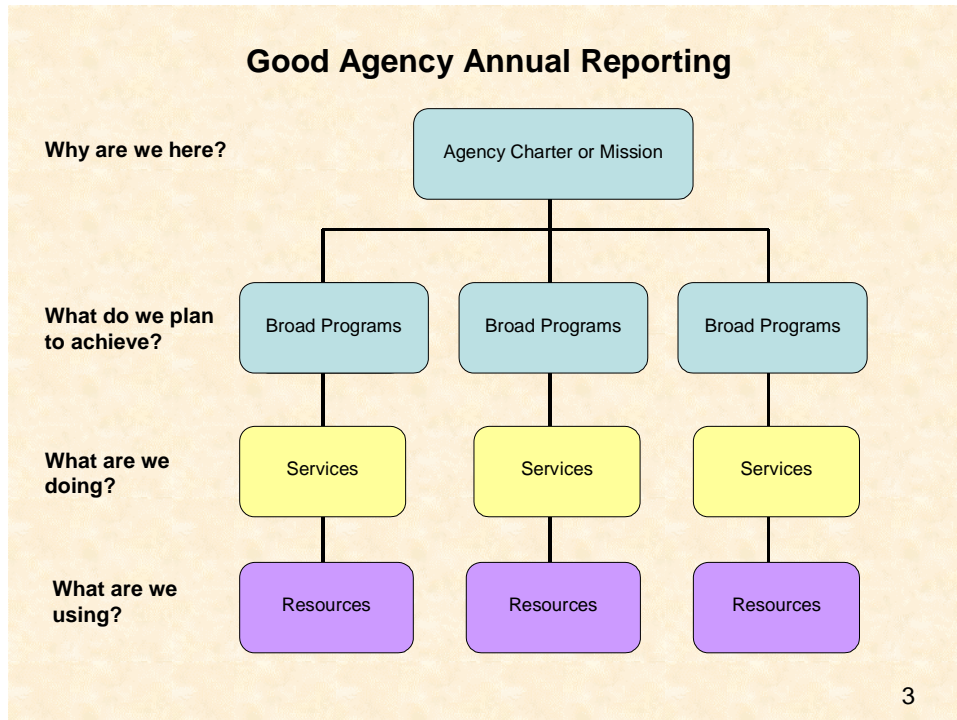
1

6.16 Acknowledgement of when targets were not met, reasons for not meeting targets, identification of internal and external factors impacting on performance, and benchmarking performance all contribute to a balanced assessment of performance.

1. KEY REPORTING REQUIREMENTS

Charter	<ul style="list-style-type: none">▪ A concise statement of purpose
Aims and objectives	<ul style="list-style-type: none">▪ What the agency sets out to do▪ The range of services provided▪ The clientele or section of the community served
Summary view of operations	<ul style="list-style-type: none">▪ A narrative summary of significant operations▪ Financial and other quantitative information
Economic or other factors	<ul style="list-style-type: none">▪ Factors that have affected the achievement of operational objectives
Guarantee of Service	<ul style="list-style-type: none">▪ If appropriate, the standard for providing services
Management and activities	<ul style="list-style-type: none">▪ The nature and range of activities undertaken.▪ An organisational chart indicating functional responsibilities and structures▪ Indicators of performance showing the level of efficiency and effectiveness▪ Performance measures and indicators that are aligned to results and services set out in the results logic charts of the agency's Results and Services Plan
Human and financial resources	<ul style="list-style-type: none">▪ The number of staff, by category▪ Audited financial statements

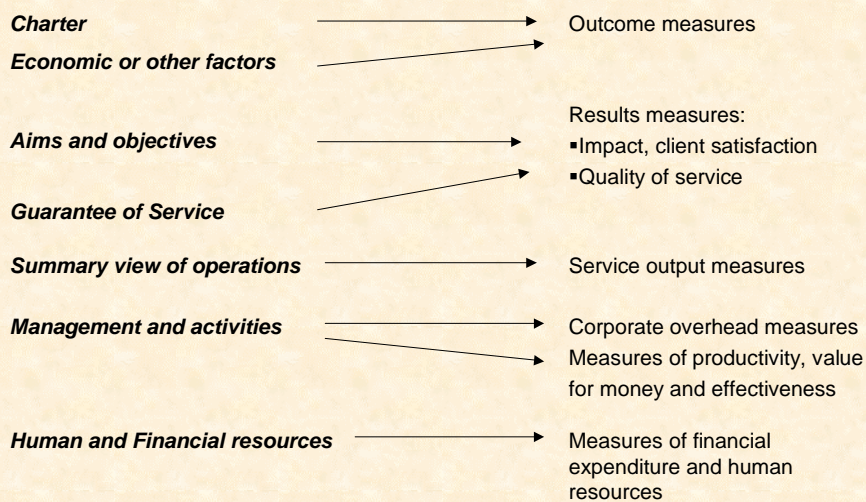
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2. A CLEAR CONCEPTUAL FRAMEWORK FOR PERFORMANCE MEASURES

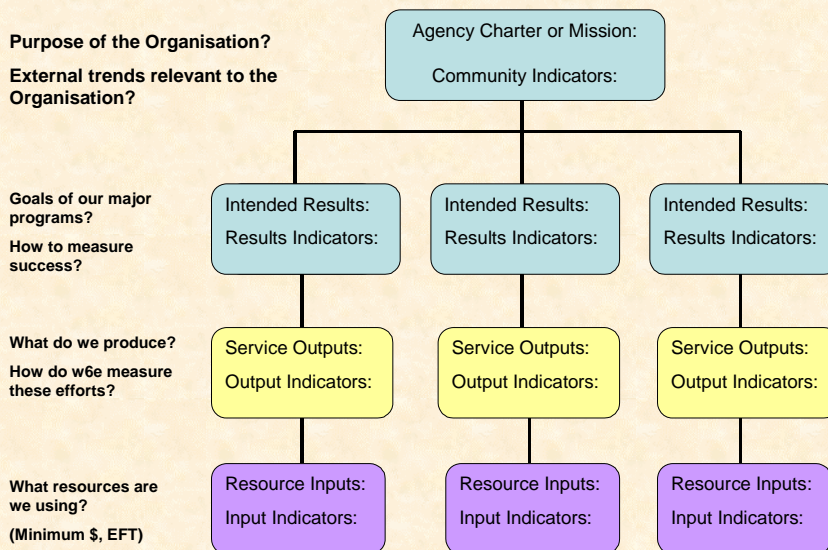
- | | |
|------------------------------|---|
| Outcomes | <ul style="list-style-type: none"> ▪ Indicators of social, economic and/or environmental outcomes that the agency wants to influence |
| Results | <ul style="list-style-type: none"> ▪ Impact measures of results that the agency has achieved in order to contribute to the specified outcomes ▪ Client satisfaction measures ▪ Quality of service measures |
| Services (Outputs) | <ul style="list-style-type: none"> ▪ Measures of the key service outputs provided to external parties |
| Resources (Inputs) | <ul style="list-style-type: none"> ▪ Expenditure, human resources (FTE) |
| Linking them together | <ul style="list-style-type: none"> ▪ Corporate overheads ▪ Productivity (outputs per input) ▪ Value for money (outcomes per input) ▪ Effectiveness (outcomes per output) |

LINKING REPORTING REQUIREMENTS TO THE PERFORMANCE MEASUREMENT FRAMEWORK



5

Good Agency Annual Reporting



6

3. A FAIR ANALYSIS OF PERFORMANCE

- Economic, social and environmental context***
 - Aspects of the external environment relevant to the delivery of services
 - Pressures, demands and expectations
 - Challenges for service provision
 - Factors which affected results achieved
- Data collection and reporting***
 - S.M.A.R.T. performance measures
 - Reliable data collection and reporting
 - Standard data definitions and measures to allow internal and external comparisons
- Description and explanation of results***
 - Interpretation of performance measures in terms of aims and objectives of the agency.
 - Discussion includes both positive and negative results
 - Discussion of reasons for the results.
- Meaningful comparisons***
 - Trends
 - Benchmarking
- Strategic outlook***
 - Strategies for improving/maintaining performance
 - Targets

7

4. EFFECTIVE COMMUNICATION

- Performance summary***
 - Integrated section to summarise performance measures
- Design and layout***
 - Simple, uncluttered look
 - Easy to quickly see major measures and the way they are organized
 - Photos to add atmosphere and context
- Presentation of data***
 - Use of graphs charts and diagrams
 - Simple labels with clear measures
 - Footnotes which explain technical issues
 - Tables giving the precise values for all measures
- Discussion of performance results***
 - How the measures relate to results and services
 - What the measures show in relation to expectations (based on past trends, targets or benchmarks)
 - Discussion of factors affecting the results
- Case studies***
 - Snap shot insets using a personal or local example to illustrate program results

8

Chapter Seven - Financial Reporting

- 7.1 The Victorian Auditor General's speech to the Australasian Annual Reporting Awards Annual Seminar in 2005 the following comments were made about financial reporting:

"We must remember that the objective of the financial report is to provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making decisions about the future. Quality, comprehensive, accurate and readable financial reporting information goes a long way to making a good annual report."

Australian Accounting Standards

- 7.2 Arguably the most significant development in the area of financial reporting has been the standardisation achieved through the implementation of the Australian Accounting Standards in NSW.
- 7.3 The Public Accounts Committee succinctly detailed the implementation of the Australian Accounting Standards in NSW:¹¹

"The Australian Accounting Standards Board (AASB) issues Australia's national accounting standards. For reporting periods beginning on or after 1 January 2005 the AASB is adopting the Standards of the International Accounting Standards Board (IASB). These standard are sector neutral in that they are applicable to both for-profit and not-for-profit entities, including public sector entities.

The use of Australian Accounting Standards is mandated in the private sector through the *Corporations Act 2001*. There is no similar single piece of legislation mandating their use in state public sectors: rather it is a matter for relevant state governments to mandate their use. The application of Australian Accounting Standards to NSW public sector agencies is mandated:

- For statutory bodies, through section 41B(1) of the PFAA, and
- For government departments, through the Financial Reporting Code, which Treasury issues under section 45E(1)(b) and 9(2)(n) of the PFAA.

In 2001, Treasury issued a circular advising agencies of a withdrawal of all exemptions from reporting requirements where these would result in a conflict with the Accounting Standards. As a result, since 2001 onwards, all NSW Government agencies have been required to comply fully with Australian Accounting Standards.

The application of Australian Accounting Standards is also mandatory for members of the professional accounting bodies, the Institute of Chartered Accountants in Australia and CPA Australia."

Treasury Circulars

- 7.4 One of the most significant comments made in an annual reporting Treasury circular on the topic of financial reporting related to the clarity of the distinction between unaudited and audited information and the overall inclusion of financial reports in an annual report:

"Inclusion of audited financial reports within the annual report

Per the annual reports legislation, annual reports comprise:

¹¹ NSW Public Accounts Committee Report on Reporting and Auditing Requirements for Small Agencies, 2004, Page 7

- a financial report prepared in accordance with the *Public Finance and Audit Act 1983* and the regulations under that Act;
- the financial reports of each controlled entity;
- the opinion of the auditor as to the financial report;
- a response to any issue which the Auditor-General or an authorised person raises in a report as being a significant issue;
- a report of operations prepared in accordance with the Acts and regulations; and
- such other matters as may be prescribed.

The financial report (financial statements) is an integral part of the annual report and the independent audit opinion is also part of the annual report. During our review we found that some agencies are not making that clear to users. This is true especially on agencies' websites where there may be headings "Annual Report" and a separate heading "Financial Statements" or "Other Information" that includes the financial report. This is misleading because it implies the annual report excludes the financial report.

Distinguishing audited financial information and non-audited financial information

The Annual Reports Regulations specify that, for unaudited financial information included in an agency annual report, the fact that the information has not been audited is to be clearly indicated by note or otherwise. Unaudited data can provide useful information; however, readers need to know that the information has not been verified by the independent auditor.

During our review, we found that two agencies did not comply with this important requirement.

One agency had the final note of the financial statements followed by budget information on the same page and the words "End of Audited Financial Statements" did not appear after the final note. The reader could assume that the budget information had been audited. Another agency had the words "End of Audited Financial Statements" at the bottom of the page followed by budget performance financial tables on the next page. The heading at the top of the budget performance page was "Financial Statements". Again, the reader could assume, incorrectly, that the information had been audited."

- 7.5 The key Treasury circular relevant to financial reporting is TC06/13 which summarised the reporting requirements related to employee matters. A copy of the circular is found over the page:

Section / Clause Name	Departments		Statutory Bodies	
Management & structure	ARDR Sch.1	<ul style="list-style-type: none"> Names & positions of officers as members of other significant statutory bodies & significant inter-departmental committees Names, offices & qualifications of principal officers Names of significant committees of the agency & names of committee members List of significant committees established/abolished, and functions of such committees Organisation chart indicating functional responsibilities 	ARSBR Sch.1	<ul style="list-style-type: none"> Names of members & their qualifications Method & term of appointment of board members Frequency of meetings & members' attendance at meetings Names, offices & qualifications of senior officers Names of significant committees of the agency & names of committee members List of significant committees established/abolished, and functions of such committees Organisation chart indicating functional responsibilities
Management & activities	ARDR Sch.1	<ul style="list-style-type: none"> Benefits from mgt. & strategy reviews Management improvement plans & achievements reaching previous targets 	ARSBR Sch.1	<ul style="list-style-type: none"> Benefits from mgt. & strategy reviews Management improvement plans & achievements reaching previous targets
Human resources	ARDR Sch.1	<ul style="list-style-type: none"> Number of officers and employees by category & compare to prior three years Exceptional movements in wages, salaries or allowances Personnel policies & practices Industrial relations policies & practices 	ARSBR Sch.1	<ul style="list-style-type: none"> Number of officers and employees by category & compare to prior three years Exceptional movements in wages, salaries or allowances Personnel policies & practices Industrial relations policies & practices
Equal Employment Opportunity	TC 02/17 ARDR Sch.1	<ul style="list-style-type: none"> Major EEO outcomes during the reporting period accounting for planned outcomes set the previous year. Major planned EEO outcomes for the following year, which reflect the agency's corporate priorities identified in planning documentation. Table of trends in (A) representation and (B) distribution of EEO groups. Refer tables A and B Treasury Circular 02/17. 	TC 02/17 ARSBR Sch.1	<ul style="list-style-type: none"> Major EEO outcomes during the reporting period accounting for planned outcomes set the previous year. Major planned EEO outcomes for the following year, which reflect the agency's corporate priorities identified in planning documentation. Table of trends in (A) representation and (B) distribution of EEO groups. Refer tables A and B Treasury Circular 02/17.
Disability Plans	PSEMA Sch. 1-2, DSA s9 ARDR Sch.1	<ul style="list-style-type: none"> Statement setting out the progress in implementing disability plan if required under the Disability Services Act 1993 (only for those required per PSEMA) 	PSEMA Sch. 1 DSA s9, ARSBR Sch.1	<ul style="list-style-type: none"> Statement setting out the progress in implementing disability plan if required under the Disability Services Act 1993 (only for those required per PSEMA)

Promotion	ARDR Sch.1	<ul style="list-style-type: none"> • Overseas visits by employees and officers with main purposes highlighted 	ARSBR Sch.1	<ul style="list-style-type: none"> • Overseas visits by employees and officers with main purposes highlighted
Ethnic affairs priorities statements and any agreement	ARDR Sch.1	<ul style="list-style-type: none"> • Statement setting out progress in implementing EAPS and key strategies for the following year • Information as to the EAPS of any bodies reporting to the agency • Description of any agreement entered into with Community Relations Commission and statement setting out progress in implementing any agreement 	ARSBR Sch.1	<ul style="list-style-type: none"> • Statement setting out progress in implementing EAPS and key strategies for the following year • Information as to the EAPS of any bodies reporting to the agency • Description of any agreement entered into with Community Relations Commission and statement setting out progress in implementing any agreement
NSW Government Action Plan for Women	APFW ARDR Sch.1	<ul style="list-style-type: none"> • If agency is affected by Action Plan: <ul style="list-style-type: none"> -Brief description of Government philosophy in relation to women -Government policy orientations in relation to women's interests in specific areas in which agency operates -Key objectives in Action Plan under which body took action -Specific goals and strategies that body committed to and outcomes achieved -References to sources of further information on agency's strategies 	APFW ARSBR Sch.1	<ul style="list-style-type: none"> • If agency is affected by Action Plan: <ul style="list-style-type: none"> -Brief description of Government philosophy in relation to women -Government policy orientations in relation to women's interests in specific areas in which agency operates -Key objectives in Action Plan under which body took action -Specific goals and strategies that body committed to and outcomes achieved -References to sources of further information on agency's strategies
Occupational Health and Safety	ARDR Sch.1	<ul style="list-style-type: none"> • Statement setting out OHS performance • Details of injuries and prosecutions under Occupational Health and Safety Act 2000 	ARSBR Sch.1	<ul style="list-style-type: none"> • Statement setting out OHS performance • Details of injuries and prosecutions under Occupational Health and Safety Act 2000
Additional matters for inclusion in annual reports	ARDR c5	<ul style="list-style-type: none"> • First reporting year, copy of code of conduct for officers and employees • Second and subsequent years, amendments or replacement code 		
Per formance and numbers of executive officers	ARDR c7,8; PC 92/04	<ul style="list-style-type: none"> • Number of executive positions at each level for current & prior year • Number of female executive officers for current & previous reporting years • For each executive officer >= level 5 and a chief executive officer not holding an executive position: <ul style="list-style-type: none"> -A statement of performance by person responsible for their 	ARSBR c11,14; PC 92/04	<ul style="list-style-type: none"> • Number of female executive officers for current & previous reporting years • Number of executive positions at each level for current & prior year (or total number at equivalent to SES 1 pay or higher for SOCs) • For each executive officer >= level 5 (or equivalent pay for SOCs) and a chief executive officer not holding an executive

	<p>review, with regard to agreed performance criteria</p> <ul style="list-style-type: none"> -Details of performance pay, and summary of criteria determining this -Name, title and remuneration package -Level 	<p>position:</p> <ul style="list-style-type: none"> -A statement of performance by person responsible for their review, with regard to agreed performance criteria -Details of performance pay, and summary of criteria determining this -Name, title and remuneration package -Level (except SOCs)
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7.6 The other Treasury Circular related to financial reporting outlined the implications of restructures for financial reporting.

Chapter Eight - Corporate Governance Reporting

Treasury Circulars

8.1 Treasury Circulars require that:

“Management and structure

Agencies are required to make a number of “management and structure” disclosures, including:

✍ The names of the principal/senior officers of the agency and the offices they occupy, and

particulars of any appropriate qualifications of those officers.

✍ The names of the members of the statutory body, particulars of any appropriate qualifications of

those members, the method and term of appointment of those members, the frequency of meetings

of the body, the attendance at those meetings (Statutory Bodies only).

✍ The names of significant committees of the agency, the names of the members of those

committees.

✍ A list of all significant committees established or abolished during the reporting year and a list of

the functions of all such committees established during the reporting year.

✍ The names of officers and offices held by those officers as members of significant statutory

bodies and significant inter-Departmental committees (Departments only).

✍ An organisation chart indicating functional responsibilities within the agency.

8.2 These governance disclosures provide information on the discharge of the board’s / executive’s responsibilities and the accountability chain between the chief executive, the board and the Minister and their respective roles. The disclosures provide the context and framework to ensure a meaningful discussion of an agency’s performance.

Boards and Committees

8.3 The Committee’s inquiry into Corporate Governance recommended the publicising of the following aspects of board and committee activities:

- Current membership;
- Date of establishment;
- Classification (governing or advisory);
- Purpose;
- Frequency of meetings;
- Contact Details.

8.4 The Committee recommends the inclusion of the information listed above in the annual reports of all agencies.

Public Bodies Review Committee Report on Corporate Governance

8.5 Tabled in 2006 the report contains the following recommendation which is relevant to annual reporting:

Recommendation Eight

That agencies be required to include in their annual reports:

- Achievement of key performance indicators;
- A section on corporate governance including: policies and processes, improvements and planned initiatives for the coming year;
- Compliance with public sector values, ethical standards and codes of conduct;
- Details of the performance review of the CEO and governing boards (where applicable);
- Overview of the internal audit program including details of the results and remedial action undertaken;
- Reporting of the nature and success of communication and consultation with stakeholders;
- Justification for the existence of all boards and committees.

The NSW Audit Office 2005 Annual Report

8.6 The culling and judging panel members of the Premier's Annual Reports Award viewed the Good Governance section of the Audit Office report as an example of best practice in the area. The section covered the following topic areas:

- Governance Structure;
- The Executive Management Team;
- Setting Direction;
- Monitoring Performance;
- Quality Assurance;
- Reporting;
- Future Directions.

8.7 The section opened with a statement on the values that informed the governance structure and also outlined what the governance structure does.

8.8 Basic details on the structure of the organisation were given. The frequency of meetings of the executive and the purpose of the meetings was outlined.

8.9 The performance statements of the two most senior positions were contained as attachments. Details of committees are given including: the role, frequency of meetings, goals, chairmanship, and membership. Profiles are offered of each member of the executive management team.

8.10 The background to the corporate plan is offered in the context of the mission and vision of the organisation. The process for the review of the plan is outlined. There is a clearly explained distinction between the corporate and business plans and the contribution that the business plan makes is described. Business unit budgets and whole of office budgets are introduced. The purpose of risk management is offered

along with the identified key risks. The compliance of the risk management practices with international standards precedes the description of the actions taken to address risk management. The contents of the fraud control policy are discussed. The code of conduct is contained as an appendix and the process for the review that took place in that reporting year is described.

- 8.11 The quarterly performance review process is discussed as is the monthly and quarterly financial reports.
- 8.12 Mechanisms aimed at ensuring quality assurance are described including both the internal and external committees and review programs. Committee details include: frequency of meetings, membership profiles, role, meeting attendance, and future direction. The review process is outlined including: focus, outcomes, reporting, adoption of recommendations, findings, and compliance with international standards. The nature of benchmarking activities undertaken is given.
- 8.13 The level of disclosure in the annual report is discussed along with the reporting requirements of the agency. The applicability of Freedom of Information provisions to the organisation is also outlined.
- 8.14 The section ends with a statement on the future direction of governance in the agency.

Chapter Nine - Presentation

Visual Elements

9.1 The Style Guide Part 3 Designing and Illustrating includes a useful evaluation of design:

Attraction and separation

- Will the cover or initial design distinguish the publication from its competition and attract the desired readership?
- Is the overall design sufficiently interesting to retain readers' attention long enough for the information to be delivered?
- Is the design suitable for the type of information?
- Does it appropriately:
 - Identify its source?
 - Represent the sponsoring organisation?
 - Enhance that organisation's corporate image?

Navigation

- Are there enough contextual aids to orient readers properly?
- Have all the navigation aids been used consistently?
- Does the labelling use terms that will be familiar to readers or that they will be able to interpret readily?
- Will readers be able to develop accurate expectations of the information to be found at linked pages?
- Do the navigation elements leave sufficient page area for content?

Layout

- Does the publication look like a cohesive whole?
- Has the grid provided alignment, consistency and balance?
- Does the layout support the hierarchy of information?
- Will the design promote readability and, in the case of on-screen documents, scannability?
- Is there enough variety, particularly in a long document?
- Are the design features well integrated or are some too intrusive?
- Do the graphic imagery and typography provide enough tonal variations?
- In a print publication, is there enough space to enhance readability and interest, and provide sufficient quiet areas?
- In an on-screen publication, does the allocation of space encourage easy reading while not unduly extending the time spent scrolling?
- Is there a logical flow of images and text?
- Are the graphics logically grouped?

- Are any of the graphics likely to interrupt or distract readers unnecessarily from the text?

9.2 It is relevant to future entrants to note that the third place award winner in the inaugural Premier's Annual Reports Award, the NSW Audit Office 2005 Annual Report was predominantly printed in maroon colours, the culling and judging panel members felt that this detracted from the contents and made the report difficult to read.

Plain English

9.3 Especially relevant to the annual report summaries that accompany annual reports the use of plain English is essential to the fulfilment of an organisation's obligation to communicate their performance to their stakeholders.

9.4 The Plain English Foundation outline the benefits of plain English as:¹²

- boosts efficiency;
- reduces costs;
- improves relationships between organisations and clients;
- enhances accountability;
- strengthens democratic processes.

9.5 The U.S Securities and Exchange Commission offer a guide to plain English:¹³

Plain English means creating a document that is:

- Visually inviting;
- Logically organised;
- Understandable on the first reading.

You create a plain English document by:

- Knowing your readers, and
- Presenting information your readers need in an order they'll understand

9.6 The Commission goes on to suggest that presenting in plain English will mean using:

- Active voice with strong verbs;
- Short sentences;
- Personal pronouns;
- Concrete, familiar words;
- No surplus words;
- No legal jargon;
- Tabular presentation of complex information; and
- Use a design and layout that increase comprehension.

9.7 The NSW Department of Commerce give a plain English checklist based on the publication *Writing in Plain English*:

¹² The Plain English Foundation website <http://www.plainenglishfoundation.com/> date accessed 6 October 2006

¹³ Office of Investor Education and Assistance – U.S Securities and Exchange Commission, A Plain English Handbook – How to create clear SEC disclosure documents, page 65

Principles

Is the language used targeting the audience/users?

Is the content and context of the document easily understood?

Are simple words and short sentences used?

Is the meaning/the intention of the document easily understood?

Is the language used in the document consistent in style?

Strategies

Is the document structured in a logical order?

Is the document divided into manageable sections?

Does the document cover the issues? (identify, prioritise, order, focus)

Has the document been distributed to the parties for feedback?

Has the document been checked, tested and reviewed?

Layout

Are the headings used consistent in style?

Are the clauses/paragraphs numbered?

Is the text size consistent in size, font, colour etc

Is the layout consistent?

Remember.....

- the audience the document is targeting.
- to get feedback on the draft document.
- to test the document (check and revise).
- that technical terms can be used, provided that they are explained.
- plain English may not mean fewer words.

9.8 The Plain Language and Information Network make useful suggestions for the testing of the degree of readability of documents. These tools are summarised in the table below:¹⁴

Method of Testing	When to Use It	What You will Get
Protocol Test (qualitative)	After completing a final draft of your document	<ul style="list-style-type: none"> • Specific information about what the reader thinks your document means. • Information about what they will do with the document when they receive it. • Observations about how they read your document and how well they can follow the format. <p>This should be the basis of any revisions needed to the document.</p>

¹⁴ The Plain Language and Information Network website
<http://www.plainlanguage.gov/usingPL/government/testing.cfm> date accessed 6 October 2006

Focus Groups (qualitative)	Before rewriting an old, usually lengthy, document	<ul style="list-style-type: none"> Information about how readers feel about the old document; what they like and don't like. What information they need that they don't have. <p>This can be a basis for how you rewrite the new document.</p>
	After rewriting to compare the format of different versions of a document	When used to decide on format, the content should already be protocol tested. And the content should be the same for each version.
Control Group (quantitative)	After protocol testing and revising a document	<ul style="list-style-type: none"> Data about how many people did what you wanted. A comparison between the old document and the new document <p>This information can help demonstrate the success of the rewrite.</p>

9.9 Vision Australia state that a plain English document should be easier to read for the following groups of people:¹⁵

- A learning difficulty eg dyslexia;
- Difficulty with visual processing;
- English as a second language;
- Age-related reading difficulty eg early dementia;
- Minimal formal education;
- A mild intellectual disability;
- Personal preference for a shorter/simpler document.

Accessibility for People with Disabilities

9.10 The disability sector is a broad one that represents people with an intellectual, sensory, physical or psychiatric disability.

9.11 Evidence to the Committee from Vision Australia puts the number of people with a print disability at one in nine people. People with a print disability includes those who are vision impaired, people who speak but do not read English, people with a physical disability that prevents them from reading and people with a visual processing impairment.

9.12 Report Number 26 from the Australian National Audit Office outlines how accessible documents are important for a wide range of groups of people and what some of the consequences of inaccessible documents are:¹⁶

For forms and information about government programmes and services to be accessible to the public, they need to be provided in a range of styles or formats that take account of the particular needs people may have as a result of their cultural background, language, literacy constraints, physical or mental disability, or geographic location. Inadequate

¹⁵ Vision Australia Website <http://www.visionaustralia.org.au/info.aspx?page=783> date accessed 6 October 2006

¹⁶ Australian National Audit Office, 2005-06, Performance Audit Report Number 26, Forms for Individual Service Delivery, page 64

consideration of these factors in the design of forms may limit access to information that is critical to enable the accurate and independent completion of a form.

9.13 The above report goes on to say that the obligations of agencies providing information includes:

... translation into other languages; telephone-assisted form completion; online access; and provision in various alternative formats, such as large print, Braille, audio and Easy English. As a minimum, where agencies' websites contain forms and related information packages in only one format, such as PDF, there should be an easily located notification that alternative formats are available. Details of how members of the public can access the alternative formats, such as by telephone call or email to a nominated contact officer, should also be shown.

Legislation and Policy

9.14 Significant legislative and policy grounds exist for the publication of accessible and inclusive information.

9.15 The NSW Attorney General's Department 2006-2008 Disability Strategic Plan has outlined the legislative and policy framework for the provision of accessible programs for people with disabilities:

The Department's obligations to address equity of access for people with disabilities are mandated by three pieces of legislation:

- *Disability Discrimination Act* (Cth) 1992;
- *Anti-Discrimination Act* (NSW) 1977; and
- *Disability Services Act* (NSW) 1993 (including the *NSW Government's Disability Policy Framework 1998*).

The *Disability Discrimination Act* (Cth) 1992 and the *Anti-Discrimination Act* (NSW) 1977 make it unlawful to discriminate against people with disabilities in certain areas of public life (such as employment, premises and access to goods and services).

This legislation requires, for example, an employer to reasonably accommodate a person's disability, unless the employer can demonstrate that the removal of the discriminatory practice or circumstance would cause an 'unjustifiable hardship'.

While the *Disability Discrimination Act* (Cth) 1992 promotes the development of action plans to eliminate unlawful discrimination against people with disabilities, the *Disability Services Act* (NSW) 1993 actually mandates the development of such a plans by NSW government departments and agencies. In 1998, the NSW Government endorsed the *Disability Policy Framework* which provides advice on how these plans should be developed.

9.16 The NSW Disability Policy Framework developed in 1998 is supported by the aforementioned legislation. The framework contains the following principles:

- People with disabilities are full and valued members of the community;
- People with disabilities will have access to services provided to the general community;
- In the provision of services to people with disabilities the focus will be on the whole of life needs of individuals in their own communities;

- Better outcomes for people with disabilities will result from cooperation among service providers, with the active participation of people with disabilities;
- Services will support and be sensitive to the diversity of people with disabilities;
- The unique needs of people with disabilities of Aboriginal and Torres Strait Islander background will be recognised;
- The legal rights of people with disabilities will be recognised and protected.

9.17 The Disability Framework promotes action to address accessibility in part through requiring agencies to develop and report on progress towards goals outlined in their disability action plan.

9.18 Given the inclusion of the progress towards the Disability Action Plan in annual reports the contents of annual reports are particularly relevant to people with disabilities.

Guidelines

9.19 The then NSW Ageing and Disability Department published a Communication Handbook as part of the NSW Government Disability Policy Framework which outlines the various approaches taken to communicating in an accessible way with a range of disability groups.

9.20 The disability services commission in Western Australia offers the following guidelines for the generation of accessible printed information:¹⁷

- Is made clear and easy to understand through the use of plain English, short sentences, clear headings, no jargon and through the use of pictures or diagrams where appropriate;
- Is made clear and easy to read by using a minimum font size of 12 point, and where possible 14 point or larger on brochures and advertising. The use of photocopiers for enlarging text may be an acceptable solution in some situations, however reformatting is preferred to photocopying as this can result in unwieldy A3 sheets, truncated copy and copies of poor quality;
- Is produced in a plain and, where possible, sans serif font such as Arial or Helvetica;
- Uses text of a dark colour that significantly contrasts with the background;
- Is printed on matt, non-reflective paper;
- Displays important information in bold and larger print;
- Avoids using upper case only, as this is more difficult to read;
- Avoids underlining;
- Uses a minimum of italics and hyphenation; and
- Avoids combining red and green colours in lettering, as this provides poor contrast and is difficult for people who are colour blind to read.

¹⁷ Disability Services Commission, 2004, State Government Access Guidelines for Information, Services and Facilities, page 2-3

- 9.21 Vision Australia discuss a wide range of print alternatives for inclusive information presentation on their website www.visionaustralia.org.au They include: audio, large print, braille, plain English and e text. To ensure consistency and quality in the production of accessible information the print disability roundtable generated a set of Australian Standards which are available on the website previously mentioned.

Chapter Ten - The Way Forward

Introduction

- 10.1 The comments and recommendations expressed in this Chapter do not expressly pertain to the standard of entries in the 2006 Premier's Annual Reports Award. They are amalgam of comments and recommendations made by the Committee over the years as a result of examining annual reports.
- 10.2 While the standard of many reports has improved greatly over the years, it is clear that many agencies are still struggling with aspects of reporting, particularly performance reporting.
- 10.3 Good performance reporting is achieved through both legislative and organisational change, with good guidance from lead agencies such as Treasury.
- 10.4 Both this Committee and the NSW Auditor General have been calling for legislative change in annual reporting for many years.
- 10.5 In the 2005 Annual Report of the Audit Office of NSW the then Auditor General, Bob Sendt, said:

Externally, 2004-05 was disappointing in that we have still been unable to convince the Government to improve the standard of public sector reporting and accountability in New South Wales.

A key aspect of the improvements needed is an update of the legislation governing the State's financial management and annual reporting.¹⁸

Legislative Change

Existing Annual Reporting Requirements

- 10.6 The New South Wales Public Sector annual reporting requirements are set out in the *Annual Reports (Statutory Bodies) Act*, *Annual Reports (Departments) Act* and the associated Regulations. The existing legislation was enacted in the mid 1980's.
- 10.7 Since that time, extensive financial and resource management reforms have been implemented by successive governments particularly over the last ten years. The reforms have significantly changed the roles and functions of government agencies and also their accountability relationships with the key stakeholders.
- 10.8 Despite previous recommendations by the Committee in several reports, the annual reporting framework still has not been updated by the Government to reflect the changes to the accountability requirements and reporting standards brought about by the recent public sector reforms. In particular the Committee is concerned that the present framework lacks a clear focus on the key issues that are relevant to a proper assessment of performance and accountability.
- 10.9 At present the *Annual Reports (Statutory Bodies) Regulations* and *Annual Reports (Departments) Regulations* only prescribe the following three disclosure requirements for the reporting of performance outcomes:
- Qualitative and quantitative measures and indicators of performance showing the level of efficiency and effectiveness.

¹⁸ Audit Office of New South Wales Annual Report 2005 p10

- Factors that have affected the achievement of the operational objectives during the year.
- A description of the major problems and issues that have arisen.

Deficiencies of Existing Legislative Framework

- 10.10 The existing legislative framework for performance reporting is too general in its prescription. There are a number of major omissions when compared to best practice standards such as the absence of a specific requirement for agencies:
- To include an outline of the strategic and corporate plans in the annual report;
 - To report the performance achieved against the targets set out in the plans and the budget papers; and
 - To provide a discussion and analysis on the performance outcomes (including a demonstration of the linkage of the outputs to the whole-of-government desired outcomes).
- 10.11 As a result, the Committee has found that a large number of agencies, in particular, have chosen to interpret the Annual Reporting Legislation as not requiring the inclusion of explanations on:
- The reasons for major variances from performance plans and targets; and
 - Actions taken to address performance shortfalls and to improve service standards.

Major Issues of Concern in Performance Reporting

- 10.12 Previous to the Premier's Award the Committee has, on occasion, selected samples of agencies' annual reports for examination. The focus of these reviews was on performance reporting and in particular on how agencies reported on what they planned to achieve and what they had in fact achieved.
- 10.13 From these reviews the Committee noted that generally agencies have made some improvement in reporting on their performance over recent years but the Committee is disappointed at the rate of progress.
- 10.14 Similarly during the Awards judging process, it became clear that most agencies still struggle with effective performance reporting.
- 10.15 Four factors stand out as contributing to the current problems with performance reporting:
- The existing legislative framework does not prescribe the key elements that are essential for effective performance reporting;
 - Principles of good reporting are not clearly understood or applied by agencies;
 - There is a general absence of an organisational philosophy and culture founded on the use of comprehensive performance information to monitor progress towards achievement of goals and a spirit of open accountability for outcomes;
 - Performance reporting has political dimensions;
 - There are few incentives for good reporting or sanctions for poor reporting.

10.16 The Committee's reviews identified a number of common deficiencies in agencies' performance reporting which are outlined below:

- Few agencies set out concrete statements of what they had planned to achieve (including planned initiatives and performance targets) and then reported back specifically against the plans and targets;
- In reporting what they had achieved agencies focussed too much on listing activities, outputs and initiatives and too little on linking them to, and reporting on, intended performance outcomes;
- The key performance indicators shown in reports are often not sufficiently comprehensive to adequately account for all the major aspects of an agency's operations.

10.17 The performance information presented in reports are also often inadequate in a number of other respects in that they do not incorporate one or more of the following important elements:

- Key performance indicators for the previous years (i.e. trend data) as well as the following year;
- A benchmarking comparison with the performance results achieved by similar agencies in New South Wales and other Australian jurisdictions;
- Adequate explanations for instances of under and over-performance (including details of actions taken to improve future performance in the light of the lessons learned);
- Adequate explanations to assist readers' interpretation and understanding of the key performance indicators;
- Discussions and analyses on setbacks, problems and issues;
- Agency's responses to adverse performance outcomes reported by the Media and the Press during the year.
- Many reports do not give a balanced presentation in that the agencies report only the "good news" and make few references to performance outcomes that did not meet expectations and how they had used the information to improve services.
- There is often little use of evaluation findings (e.g. results of program reviews) to demonstrate what the activities and programs were achieving and how they are contributing to performance outcomes.

Proposed Changes to the Legislative Reporting Framework to Promote Better Performance Reporting

10.18 One of the major problems that the Committee has continually commented on is the inadequacy of the current legislative framework towards performance reporting. The existing reporting requirements have not been updated since the Annual Reporting Legislation was first introduced in the mid 1980's.

10.19 The statutory provisions are quite general in nature and there are a number of major omissions when compared with "best practice" performance reporting standards.

- 10.20 In addition, the Committee has noted that the legislative frameworks of a number of other jurisdictions are also more comprehensive than the one currently used in New South Wales.
- 10.21 To achieve an overall improvement in the standard of performance reporting in New South Wales the Committee believes that one of the key prerequisites is to establish a robust legislative framework that sets out clearly the policy aims of the Government in terms of the ways in which the performance of each agency is to be accounted for. Legislative prescription also will ensure that a “disciplined” and consistent approach is applied across the public sector.
- 10.22 Accordingly the Committee recommends that:

RECOMMENDATION 1: The Annual Reporting Legislation specify that the annual report must disclose:

- the charter, objectives, major strategies and operational activities of the agency;
- an outline of the strategic and corporate plans;
- a comprehensive set of key performance indicators that are related to the major aspects of the agency’s operation and are clearly explained;
- key performance indicators that are used consistently from year to year (with any changes being highlighted and explained);
- the performance targets for the financial year as stated in the strategic and corporate plans, the Service and Resource Allocation Agreements, the Statements of Corporate Intent and the Budget Papers;
- a comparison of the actual performance achieved during the financial year with the targets set;
- adequate explanations for instances of major under and over-performance and, in the case of under-performance, also details of lessons learned and actions taken to improve services;
- performance results for the last five years (i.e. trend data);
- a benchmarking comparison with the performance results achieved by similar agencies in the State and in other Australian jurisdictions;
- an outline of the major planned initiatives and projects for the financial year and details of the results achieved (together with explanations for any delay and the revised target date for completion);
- a detailed discussion and analysis on:
 - the performance results achieved during the financial year including the linkage of the outputs to the whole-of-government desired outcomes and the extent to which the agency was wholly or partly responsible for the outcomes;
 - the performance trends over the past five years; and
 - shared responsibilities for cross-agency performance issues and the agency’s contribution to the outcomes.
- a balanced view of the performance results with highlights of major achievements as well as significant shortcomings, setbacks and problems;

- factors, events or trends that may have an influence on the agency's performance and the future and how the agency plans to deal with the issues; and
- the agency's responses to reports tabled in Parliament by a Parliamentary Committee and the Auditor-General and also to issues of public interest raised by the media in relation to the activities of the agency.

- 10.23 The Committee has noted that many of the legislative prescriptions for performance reporting proposed above have already been adopted by the governments in some of the other Australia jurisdictions and major overseas countries. As each agency is required to produce strategic and corporate plans, the proposed reporting regime is intended to strengthen the current cycle of planning, program execution and reporting.
- 10.24 In the Committee's view, the best way to implement the above performance reporting framework is to incorporate the key requirements in the Annual Reports Acts and to prescribe the other more detailed elements by Treasurer's Directions under the Act.
- 10.25 The recommended changes to the legislation are consistent with one of the major intents of the Government's Financial Management Framework, that is to enhance the accountability reporting of General Government Sector Agencies (e.g. departments) through improvements in the information provided in the budget papers, in agency annual reports and in *ad hoc* agency performance reports.
- 10.26 The Financial Management Framework is a consolidation and advancement on financial management reforms. Under the framework initiative, an integrated suite of policies, guidelines and toolkits is currently being developed to foster better value for money in program and service delivery through improvements to both resource allocation and resource management.

Proposed Organisational Changes to Promote Better Performance Reporting

- 10.27 The Committee's has previously voiced its concerns about the inadequacies of the existing legislative framework for performance reporting in a number of its reports.
- 10.28 In its November 2002 Report: *Report on Accountability for Unforeseen Performance Outcomes*, the Committee developed a comprehensive Strategy to assist agencies in moving to the "best practice" position over time with four key elements covering:
- Changes to the internal organisational and administrative arrangements of agencies;
 - The role of the Treasury in providing policy leadership, practical guidance and support to agencies;
 - The role of the Auditor-General in undertaking external assessment and validation of the performance information published by agencies; and
 - The role of the Parliament in scrutinising the strategic/business plans and annual reports of agencies.

Change Process for Agencies

- 10.29 In that inquiry the Committee concluded that, apart from having a robust legislative framework, a strong culture of openness and transparency is an essential prerequisite for agencies to produce a good performance report.

10.30 Moreover, senior management needs to own, support and promote the reporting process. Apart from some exceptions, the Committee's view is that agencies' reporting generally is driven more by legislative imperatives than a genuine desire to be transparent and be held accountable.

10.31 Accordingly, the Committee recommends that:

RECOMMENDATION 2: The Chief Executive Officer and top management of each agency demonstrate to the organisation a strong commitment to excellence in performance reporting that is marked by a high degree of transparency and disclosure.

RECOMMENDATION 3: The Chief Executive Officer and the Board Members (where applicable) of an agency be closely involved in the annual report project each year to ensure:

- a performance reporting framework is agreed at the outset;
- staff members' contributions to the report are clearly specified; and
- adequate resources are provided to the process.

10.32 From the past reviews of agencies' annual reports, the Committee has noted the following common deficiencies with the key performance indicators disclosed:

- Indicators not sufficiently comprehensive to cover all major aspects of the operations;
- Indicators tend to focus on workload and efficiency with inadequate emphasis on outcomes and effectiveness
- Indicators not relevant to the task of measuring performance.

10.33 If performance reporting is to be credible, indicators need to be appropriate, relevant and reliable and the underlying systems that generate the data must also be robust.

10.34 Accordingly, the Committee recommends that:

RECOMMENDATION 4: A process be established within each agency to continuously review and refine the key performance indicators and the underlying systems that produce the data

10.35 In the private sector, the Australian Stock Exchange Listing Rules have recently introduced a new provision requiring all listed companies to appoint a person (commonly referred to "investor relations manager") to be responsible for co-ordinating all notifications to the ASX as well as communication with investors generally. This person is also required to educate relevant members of the organisation on issues relating to investor communication. This ASX initiative recognises the importance of having an established process in place to co-ordinate all forms of communication with investors throughout the year.

10.36 The Committee can see considerable benefit in public sector agencies adopting a similar approach their communication with the wide range of stakeholders.

10.37 Accordingly, the Committee recommends that:

RECOMMENDATION 5: A senior person (with direct access to senior management) be appointed within each agency to be responsible for:

- co-ordinating the preparation of annual reports and educating the relevant staff members on the report preparation process; and

- co-ordinating all other forms of communication with stakeholders during the year.

RECOMMENDATION 6: That the senior person collaborate closely with the strategic planners during both the planning process and the annual reporting process to ensure that:

- the key elements of the Strategic Plan and Business Plan “flow through” to the reports; and
- the issue of how performance is to be measured and reported is adequately considered at the time of the drafting of the Plans.

10.38 One of the common weaknesses of the annual reports produced by agencies is that often they contain far too much low-level details which may be of interest to some stakeholders but are not of relevance to the general body of readers. In other words, the reports try to be “all things to all people”.

10.39 The Committee acknowledges that there are difficulties inherent in trying to be both complete and concise in preparing annual reports. In the Committee’s view, this problem can be overcome by providing electronic links to more detailed sources of information.

10.40 The annual report should be viewed as a high-level summary that gives information on the most important aspects of performance and also steers interested readers toward more detailed follow-up information.

10.41 The adoption of this approach will ensure that the needs of various audiences for differing levels of information are met. The Committee believes that the twin objectives of transparency and completeness can be achieved by noting that information exists and providing the relevant link. The “electronic footnotes” can offer extensive information without breaking the flow of the performance story.

10.42 Accordingly, the Committee recommends that:

RECOMMENDATION 7: The annual reports of agencies provide electronic links to more detailed sources of information (particularly on performance results).

Listed companies in the private sector are required, under the ASX continuous disclosure regime to keep the market informed as soon as they become aware

A lot of groundwork has been done in New South Wales in moving towards improved performance accountability through the use of key performance indicators. Recent initiatives include:

- Service and Resource Allocation Agreements between Treasury and budget funded agencies, with statements of government policy as it relates to agency activities, agency objectives and performance indicators;
- Statements of Financial Performance and Statements of Corporate Intent agreed between Government Business and Treasury;
- Service Efforts and Accomplishments reporting, an initiative of the NSW Council on the Cost and Quality of Government which provides performance information in major policy areas such as Health, Transport and Justice; and

- The Council of Australian Governments' National Benchmarking project which enables comparison of efficiency and effectiveness in the provision of government services across the Commonwealth, States and Territories.
- 10.43 At present agencies have a wide array of performance information available for inclusion in the annual reports. However, what individual agencies report, and how they measure what they choose to report, varies across the NSW Public Sector.
- 10.44 Although there are efforts towards establishing a Government-wide approach, no overall guiding principles and framework have yet been introduced to ensure consistency in the types of key performance indicators reported by agencies and in the methods used to produce the information.
- 10.45 The Committee firmly believes that it is crucial for such a framework to be developed by Treasury (in conjunction with other central agencies) as a matter of high priority.
- 10.46 The Treasury has a practice of conducting an "Annual Reports Review Program" each year under which a small sample of agencies' annual reports are examined mainly to review compliance with the legislative requirements. Written comments on the reports reviewed are provided to the affected agencies.
- 10.47 A Treasury Circular is usually issued after the review drawing agencies' attention to the common deficiencies noted as well as giving examples of "good" reporting practices. The Committee believes that the Review Program has achieved a useful purpose in terms of providing practical guidance and support to agencies and therefore more resources ought to be allocated to it than is presently the case.
- 10.48 Apart from the Review Program it is the Committee's view that Treasury should also conduct regular training seminars and workshops for agencies particularly on performance reporting. This can be done in partnership with the Audit Office and the Institute of Public Administration.
- 10.49 In addition, an annual Discussion Forum on Annual Reporting would be helpful in addressing common issues identified by agencies. These initiatives should be complemented by other ongoing liaison and peer support arrangements to be co-ordinated by Treasury.
- 10.50 An example of such arrangements is the establishment of a special website at Treasury to allow agencies to share knowledge, experience and information with each other.
- 10.51 The Committee can see considerable benefits in developing an Annual Reporting Manual (with a special focus on performance reporting) for use by all agencies. The Manual should contain:
- a consolidation of all annual reporting requirements;
 - a detailed explanation of the legislative and policy intent of those requirements;
 - a guide to "Best Practice Performance Reporting" accompanied by a checklist for self-assessment by agencies;
 - illustrative examples of "good" and "bad" reporting practices; and
 - suggested solutions to the common organisational and administrative problems faced by annual report preparers.

10.52 The Manual should be placed on the Treasury website to be regularly updated with input from agencies. The Manual should be viewed as a “living” document thus ensuring that the corporate memories and wisdom of annual reporting are shared across the public sector.

10.53 Accordingly, the Committee recommends that:

RECOMMENDATION 8: Treasury expedite the introduction of the proposed new legislation to replace the existing Public Finance and Audit Act, Annual Reports Acts and other associated legislation.

RECOMMENDATION 9: Treasury (in conjunction with other central agencies) introduce a government-wide framework to guide the reporting of performance by agencies in their annual reports to ensure consistency of standards across the public sector.

RECOMMENDATION 10: The “Annual Report Review Program” of the Treasury be maintained and properly resourced to ensure that:

- agencies’ annual reports are subject to ongoing external scrutiny; and
- agencies themselves receive regular feedback on the quality of their reports (particularly on the standard of performance reporting).

RECOMMENDATION 11: More practical guidance and training be provided to agencies by the Treasury through:

- the publication of educational materials on the “best practice” approach to performance reporting; and
- the conduct of regular training seminars, workshops and discussion forums.

RECOMMENDATION 12: An Annual Reporting Manual be developed and issued by Treasury to provide practical guidance on:

- how the intent of the legislative and policy requirements should be complied with;
- the “best practice” approach to performance reporting (including illustrative examples of “good” and “bad” reporting practices);
- and how the internal organisational and administrative issues can be resolved based on the experience of, and lessons learned by, other agencies.

RECOMMENDATION 13: The Treasury maintain arrangements to allow ongoing liaison between annual report preparers of agencies so as to facilitate the exchange of information, experience and knowledge.

Role of the Audit Office

10.54 In November 2000, the Audit Office tabled a report in Parliament presenting the findings of an audit on the performance information published in the annual reports of eight agencies. This was the first time such an audit was undertaken.

10.55 The purpose of the audit was to determine if readers could judge the operational performance (efficiency and effectiveness) of an agency from the information published in the annual report. The audit report also included a better practice guide to assist agencies in preparing performance information that meets the needs of readers.

- 10.56 To increase external scrutiny, the Committee believes that the Audit Office should conduct annually an assessment of the performance reporting of a selected sample of agencies. This should be followed by the tabling of an audit report in Parliament providing comments (both favourable and unfavourable) on the reports reviewed. Such an audit will complement the “Annual Reports Review Program” of the Treasury.
- 10.57 At present, the performance information published by agencies in the annual reports is not subject to any independent assessment and validation.
- 10.58 Past reviews of annual reports by the Audit Office found that some performance indicators were wrong; some were misleading; some were in conflict with other indicators; some seemed not relevant to the task of assessing performance; and some were changed from year to year – perhaps to improve reporting.
- 10.59 The end result was that the readers of those reports could have been misled and misdirected as they endeavoured to analyse the performance results and outcomes of agencies.
- 10.60 The annual financial statements of agencies are required to be subject to a rigorous process of independent review under the *Public Finance and Audit Act* and the Committee’s view is that it is anomalous that performance information goes unvalidated.
- 10.61 The Committee has been informed that the Auditors-General of Victoria, Western Australia, Tasmania and the Australian Capital Territory have all been given a legislative power to audit the key performance indicators published by agencies.
- 10.62 In the United States, the Government Accounting Office (the equivalent of the Audit Office) provides public comments on the individual performance reports produced by agencies.
- 10.63 The Canadian Office of the Auditor-General conducts reviews of selected Departmental Performance Reports and publishes the results each year.
- 10.64 In New Zealand the Audit Office is responsible for auditing the performance information disclosed in agencies’ annual reports.
- 10.65 It seems clear to the Committee that there is an increasing trend, not only in Australia, but also among other major countries, for key performance indicators to be audited.
- 10.66 Accordingly, the Committee recommends that:

RECOMMENDATION 14: The Auditor-General conduct an annual assessment of the performance reporting of a selected sample of agencies to be followed by the tabling of a report in Parliament giving comments on the results of the review.

RECOMMENDATION 15: The Auditor-General be provided with a legislative power to audit the appropriateness, relevance, comprehensiveness and reliability of the key performance indicators published by agencies in their annual reports.

Role of Parliament

- 10.67 From the review of the arrangements for Parliamentary scrutiny of agencies’ performance reporting in the other jurisdictions, the Committee has identified a number of situations where the nature and extent of examination are more extensive than New South Wales.

- 10.68 In Victoria, the Public Accounts and Estimates Committee has, since the year 2000, adopted a new approach to the review of the budget outcomes of individual Departments. This is aimed at making the Government more accountability for the financial and performance results. The key questions asked by the Committee of all Departments are:
- What were the major areas where the Department did not achieve its objectives, goals and targets in the last financial year for each output group?
 - What were the reasons for the non-achievement in each instance and what remedial action did the Department take?
 - What was the actual expenditure for the Department, on an output group basis, compared to budgeted expenditure and what was the explanation for any variances?
- 10.69 Agencies' responses to the above and other related questions are included in a report that is tabled in Parliament. Departments' corporate and business plans and annual reports are used in the review process.
- 10.70 In addition, the Committee also has a practice of reviewing Departments' budget estimates before they are submitted to Parliament for approval each year.
- 10.71 Departments' planning documents (i.e. corporate and business plans) are scrutinised during the Inquiry and results of the review are incorporated in the Report on Budget Estimates.
- 10.72 In the United States, Federal government agencies are required to submit their strategic and performance plans, annual reports and performance reports to Congressional appropriation committees for review.
- 10.73 In Canada, the Government Operations and Estimates Committee has the responsibility of examining Estimates documents including Reports on Plans and Priorities and Departmental Performance Reports.
- 10.74 There is a similar institutional arrangement in the United Kingdom where the Committee on Public Services and Public Expenditure periodically examines the progress of individual Departments in achieving their performance targets.
- 10.75 In the case of New South Wales, the Committee's current practice is to review a sample of agencies' annual reports each year and a Committee report is then tabled in Parliament. In the past, the Committee has conducted occasional hearings as part of the review process.
- 10.76 The Committee plans to expand its current practice in the future to focus not only on agencies' performance reporting but also their planning processes by reviewing the strategic and corporate plans. To increase the degree of external scrutiny, more hearings will be conducted to solicit further detailed explanations from agencies on their performance outcomes (in addition to what has already been disclosed in the annual reports).

Conclusions

- 10.77 All of the Recommendations set out in this Chapter have previously be advanced in some of the Committee's earlier reports dealing with performance reporting *Towards Better Performance Reporting – Findings of an Annual Reporting Workshop Pilot*

Project – November 2000) and Report on Accountability for Unforeseen Performance Outcomes and Use of Budget Supplementations – November 2002.

- 10.78 The Committee has decided to reiterate the Recommendations again as they form an integral part of the overall Strategy proposed by the Committee.
- 10.79 The Committee firmly believes that the adoption of the proposed Strategy will lay the foundations for a consistent and effective performance reporting approach across the NSW Public Sector. The Strategy is also designed to provide a sign-post for the future direction in performance reporting. In addition, the Committee is confident that it will create an impetus for agencies to continuously strive for excellence in reporting as part of the organisational culture and good corporate governance.