

# Public plans and annual report assessments

# 14

<b>Main points</b> .....	<b>332</b>
<b>Introduction</b> .....	<b>333</b>
<b>Our objective</b> .....	<b>333</b>
<b>Our expectations for reports</b> .....	<b>334</b>
Detailed assessment .....	335
Principle 1—Focus on the few critical aspects of performance .....	336
Principle 2—Look forward as well as back .....	336
Principle 3—Explain key risks .....	337
Principle 4—Explain key capacity .....	337
Principle 5—Explain other factors critical to performance .....	338
Principle 6—Integrate financial and non-financial information .....	338
Principle 7—Provide comparative information .....	339
Principle 8—Present credible information, fairly interpreted .....	340
Principle 9—Disclose the basis for reporting .....	340
<b>Our conclusions and findings</b> .....	<b>341</b>

## Main points

In 2003, the Department of Finance established guidelines for preparing public plans and annual reports for all departments and certain other agencies. The guidelines contain a four-year implementation schedule that recognizes that improved public reporting takes time and resources.

The guidelines are based on sound performance reporting principles. These guidelines should enable government agencies to report effectively their progress in achieving their plans.

We assessed the public plans and annual reports of thirteen departments, and two Crown agencies for the year ended March 31, 2006. The plans and annual reports contain most of the current requirements of the Department's reporting guidelines. The plans and reports provide more performance information than they did previously and thus enhance public accountability.

## **Introduction**

For many years, our Office has encouraged improved performance reporting by the Government and its agencies. In 2003, the Department of Finance (Finance) set guidelines for preparing performance reports for departments and certain Crown corporations. Finance set out this guidance in its 2003 *Public Performance Reporting Guidelines* together with a four-year implementation schedule. Every year, Finance sets out modified guidance and an updated schedule in a new guideline.

The guidelines are based on public reporting principles developed by CCAF<sup>1</sup> and set out in a publication called *Reporting Principles—Taking Public Performance Reporting to a New Level*. CCAF's publication is the result of a multi-year project on public performance reporting.

Public plans and annual reports of government agencies are key accountability documents. These reports, prepared in accordance with Finance's guidelines, should help the Legislative Assembly and the public to assess the performance of government agencies.

In this chapter, we report our assessment of the 2005-06 public plans and annual reports prepared using Finance's guidelines.

## **Our objective**

The objective of this study was to determine whether the public plans and annual reports for the year ended March 31, 2006 of agencies listed in Exhibit 1 comply with Finance's reporting guidelines and CCAF's reporting principles.

We limited our study to examining the content of the agencies' public plans and annual reports (reports) subject to Finance's guideline. We did not assess the relevance or reliability of the information in the reports. For example, we did not assess whether agencies selected the performance measures that are the best indicators of a particular strategy, the accuracy, completeness, or validity of underlying information systems or data the agencies used to prepare the performance information.

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<sup>1</sup> CCAF-FCVI Inc. is a public-private partnership that "is a source of support, leading edge research and capacity for members of governing bodies, executive management, auditors, and assurance providers." For more information see [www.ccaf-fcvi.com](http://www.ccaf-fcvi.com).

Throughout the study, we followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants.

**Exhibit 1—Listing of agencies assessed**

Department of Agriculture and Food  
Department of Community Resources  
Department of Corrections and Public Safety  
Department of Environment  
Department of Finance  
Department of Health  
Department of Highways and Transportation  
Department of Industry and Resources  
Department of Justice  
Department of Learning  
Department of Property Management  
Information Technology Office  
Public Service Commission  
Saskatchewan Liquor and Gaming Authority  
Saskatchewan Watershed Authority

## **Our expectations for reports**

Criteria represent our expectations or the main elements we looked for in our study. The study criteria are based on the implementation of the Department of Finance's 2005-06 guidelines for public performance reports ([www.gov.sk.ca/finance/](http://www.gov.sk.ca/finance/)).

According to CCAF, an agency's performance reports must incorporate the following nine principles to adequately report on its performance:

1. Focus on the few critical aspects of performance
2. Look forward as well as back
3. Explain key risk considerations
4. Explain key capacity considerations
5. Explain other factors critical to performance
6. Integrate financial and non-financial information
7. Provide comparative information
8. Present credible information, fairly interpreted
9. Disclose the basis for reporting

These CCAF principles go beyond current reporting practice. While some principles may exist to some degree in current practice, it is not common to find them used in an integrated manner, or to their full extent. According to CCAF, that would represent a new level of public performance reporting. Some of the principles will challenge even governments that have made good advances in performance reporting.

Finance's reporting guidelines recognize that implementing performance reporting principles will take time and resources. Accordingly, the guidelines contain a multi-year implementation schedule that recognizes that some reporting principles are more difficult to implement than others. For example, the guidelines do not require reporting on key risks, costs of activities, and capacity until future years. As a result, the guidelines do not expect a comprehensive level of reporting requirements for each principle in 2005-06. Other elements from the performance reporting principles, such as reporting indicator targets, are not yet expected by Finance's reporting guidelines. Finance's guidelines will also need further enhancement following the four-year implementation schedule to meet all of CCAF's reporting principles.

## **Detailed assessment**

This section summarizes the results of our assessment of the public plans and annual reports organized by CCAF's nine reporting principles. For each principle, we describe the principle in italics, Finance's guideline requirements, and set out the results of our assessment of the 2005-06 public plans and annual reports.

We used an evaluation process similar to that suggested by CCAF to rate how well the agencies applied each of the required principles. We based our evaluation on the following four levels:

- ◆ start up—most elements of the reporting principle have not been addressed
- ◆ in process—many of the elements have not been addressed, but progress is being made
- ◆ fundamentals in place—most significant elements have been addressed, but further improvements are possible
- ◆ fully incorporated—all elements have been substantially addressed

***Principle 1—Focus on the few critical aspects of performance***

*To be understandable, public performance reports need to focus selectively and meaningfully on a small number of critical areas of performance. Reports need to explain the value created by key programs or business lines; show the relationship between short-term results (outputs) and long-term goals (outcomes); and organize the information that is important to stakeholders in a concise yet robust presentation.*

Finance's requirements currently meet the main CCAF requirements. Overall, the agencies have the *fundamentals in place* and are meeting most of Finance's requirements. In order to achieve a fully incorporated evaluation, some improvements are needed including:

- ◆ providing a clear link between the agencies goals and overall government objectives
- ◆ linking activities to goals and objectives
- ◆ linking expenditures to results
- ◆ discussing legislation and the authorities under which they operate

***Principle 2—Look forward as well as back***

*Clear expectations are important to a fair assessment of an agency's past performance. Therefore, reports need to identify the specific objectives through which goals are to be realized; track actual achievements against them; inform stakeholders how short-term achievements affect prospects for realizing long-term goals; and show what has been learned and what will change as a result.*

Finance wants departments to report achievements against expectations. Finance does not yet require targets to be set or show how short-term achievements affect long-term goals and objectives. Performance targets help define what successful achievement of an objective is, help measure progress towards achieving the objective, and aid in prioritizing objectives when an agency has limited resources and capacity.

Most agencies have the *fundamentals in place* covering off Finance's required elements in their plans and reports. In most cases, these agencies identify key objectives and corresponding results for the year under review. The agencies are outlining key objectives and current

year's actions in their plans. In most cases, the agencies reported trends over several years. Reporting on several years' performance results allows the reader to determine trends.

To improve, the reports should explain what management intends to do when results vary from the plan. In addition, most agencies do not adequately explain how their annual results affect their long-term goals.

***Principle 3—Explain key risks***

*Reports should identify key strategic risks, explain their influence on policy choices and performance expectations, and relate results achieved to the risks (and the level of risk) accepted. An agency should describe how it formally identifies risks, analyzes and manages risks, and measures its success in reducing risks.*

Finance's guidelines are limited to identifying the key risks that impact results. In the future, Finance intends to require reports to explain management's strategies to mitigate major risks.

In 2005-06, the agencies are *in the process* of identifying key risks in their public plans and reports. In most agencies, progress is being made but many elements have not been addressed. In most cases, the discussion of risk is insufficient. Risks are generally missing the link to performance results. Also, they are vaguely explained, hard to identify, and acceptable risk levels is not stated.

***Principle 4—Explain key capacity***

*Reports should disclose and discuss key considerations affecting capacity to sustain or improve results and meet expectations. Reports should focus on the dimensions of capacity of strategic significance and conclusions should be well supported by qualitative and quantitative information.*

Discussions of capacity should extend, where relevant, to an agency's infrastructure; computer and technological resources; human resources; and internal systems and processes. These discussions should be provided in the context of the agency's strategic goals and indicate whether it has the necessary capacity. Where the capacity to meet future

performance expectations is not in place, the report should discuss the agency's plans to build or acquire the needed capacity and address the risks associated with the imbalance.

Finance has not set any requirements pertaining to capacity for 2005-06. In future years, Finance told us it intends to include disclosure requirements concerning capacity considerations in the public plans.

None of the agencies are providing information on their capacity in their 2005-06 plans and reports.

***Principle 5—Explain other factors critical to performance***

*Often, there are key factors that affect an agency's performance such as economic, environmental, or demographic variables and the performance or actions of other organizations. Reports should identify and explain any of these other factors that are important to the agency's success. Also, reports should provide sufficient information to indicate how the agency is managing or responding to those factors.*

Finance's requirements are limited to identifying major factors that affected performance as well as reporting on how the agency is responding to critical factors. Agencies are also required to disclose relevant third parties in their reports and their involvement with the agency.

Overall, the agencies are *in the process* of addressing the required elements of this principle. Most of the agencies are describing the factors that will affect their ability to achieve their goals in their performance plans. The annual reports generally list third parties used. However, few of the agencies described how they are involved in achieving performance results. In addition, most agencies are not describing major external factors that impeded their performance in their annual report.

***Principle 6—Integrate financial and non-financial information***

*Performance reports need to describe the relationship between resources and results. Associating the cost of resources with results enables agencies to demonstrate how its activities add value. Reports should demonstrate how short-term results contribute to longer-term outcomes*



*for each business line or strategy. This is one of the most difficult principles to implement.*

Finance requires a comparison between actual and budget with explanations of major differences. Finance also made some enhancements to the requirements for performance plans this year. Finance now requires information on financial reallocations, causes of changing costs, and information on stakeholder consultations. Most agencies have not yet provided this information in their reports. Integration of financial and non-financial information is expected in future years.

All agencies have presented a comparison of actual to planned financial results for the current year. Two-thirds of the agencies have the required *fundamentals in place* for budget to actual comparisons and are providing adequate reasons for differences. The remaining agencies are in the process of addressing the required elements of this principle, and provide little explanations.

***Principle 7—Provide comparative information***

*Public performance reports should provide comparative information, about past performance and about the performance of similar organizations, when doing so would enhance readers' ability to understand and use the information. Benchmarking against similar processes in similar organizations is one method of providing comparative information about key aspects of performance.*

Finance expects the reports to show data for several years to allow readers to review and analyze trend information. Trends make it clear to readers whether performance is stable, improving, or deteriorating. Finance does not yet expect comparisons to similar agencies.

Most agencies have the required *fundamentals in place* for providing comparative information. However, the type and level of detail of comparative information provided by each agency varies. A few of the agencies provide no comparative data, while the majority provide trends over several years. Also, most agencies need to provide more explanation of the trend information included in the report. Five agencies

have incorporated some benchmarking data into their annual reports even though it is not yet a requirement.

***Principle 8—Present credible information, fairly interpreted***

*Performance reports should present relevant, unbiased, verifiable information that is understandable and balanced. This includes the characteristics of consistency, fairness, and reliability. Performance information that appears in more than one report (i.e., business plan and annual report) should be consistent. In addition, to demonstrate that performance reports are credible, the reports must include adequate qualitative and quantitative information to support management’s explanations, interpretations, and judgments.*

Finance’s requirements focus on consistency and understandability. The guidelines require report narratives to cover each area that the agency views as critical to its success in clear easily understood language. Finance expects the reports to provide adequate information about all critical areas of performance, regardless of the results achieved. Measured information is to be presented consistently from one year to the next.

Most agencies have the *fundamentals in place* to meet Finance’s requirements. All agencies we examined have presented information in a way that is easy to understand and not overly technical. Most agencies have provided some information on the credibility of the data they provide in their plans and reports. Most of the reports are presented in a neutral manner and describe favourable and unfavourable results. There was one instance where performance measures that were included in the plan were omitted from the annual report. In addition, a few reports did not discuss the factors influencing their results. Some agencies did not adequately identify measurement gaps or include discussion on how these gaps are going to be closed in the future.

***Principle 9—Disclose the basis for reporting***

*Performance reports should explain the basis for selecting the critical aspects of performance that the report focuses on. Management needs to describe the steps it has taken to validate the information presented in the report, and any limitations in its ability to do so. An independent audit and*

*report on the performance information is important to corroborate the information and judgments contained in the report.*

To help readers understand an agency's performance, CCAF requires reports to show, for each key area of performance, a clear link between each objective and the specific performance measures used to assess progress. It must explain how each selected measure is relevant to achieving the intended outputs or outcomes.

As well, CCAF expects management to clearly define each measure. This enables readers to critically assess the methodologies used and compare results to previous periods or to other agencies. To enhance confidence in its reports, management needs to describe how it is satisfied that the performance information is accurate. This may include systems of internal verification and the use of independent external parties such as auditors.

Finance limits its focus in this area to explaining the scope of the annual report as well as noting changes in plans from prior years.

Many of the agencies have the required *fundamentals in place* to meet Finance's expectations in explaining the scope of the report and noting changes from the prior year. Some agencies have not provided explanations for changes in performance measures. Some of the agencies could provide better descriptions of their reasons for choosing their measures and targets. In addition, half of the agencies discussed users' involvement in deciding on their performance measures.

## **Our conclusions and findings**

We found that the agencies' public plans and annual reports for the year ended March 31, 2006 contain most of the content requirements of Finance's reporting guidelines. The reports provide more performance information than they did previously and thus enhance public accountability.

The Board of Internal Economy and the Office of Executive Council do not publish performance plans and annual reports. To improve their accountability to the public, these agencies should publish performance plans and annual reports.

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