

# Finance—Learning culture for reporting results

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## Executive summary

A learning culture helps organizations to change. The Government of Saskatchewan initiated an accountability project in 1998 to change the way that departments manage and report to the public. The project requires departments to plan with specific objectives and to measure results against those objectives. These can be challenging skills that require significant learning.

The accountability project anticipates that departments will report both their plans and their results to the public in 'performance reports'. Making plans and results public will improve departments' accountability for public money. The project is expected to help departments improve their processes to plan, change the way they manage, and report their results to the public.

This audit focuses on the Department of Finance, which directs the accountability project. The objective of this audit was to assess whether the Department of Finance adequately supported a learning culture to improve public performance reporting by government departments.

We concluded that the Department of Finance is making good progress. The Department should continue to strengthen its support of a learning culture for performance management and reporting. We recommend that the Department should:

- ◆ give departments a multi-year timetable with targets for incremental improvement in performance plans and reports of results; and
- ◆ be proactive to establish a web site or intranet among departments to communicate best practices from research and innovations for improved performance management and reporting.

We plan to monitor the Government's progress in implementing its accountability framework and improving accountability to the public.

## Introduction

During the 1990s, the public sector in Canada began to improve accountability to the public by emphasizing results as well as managing and reporting governments' activities. This is commonly called a results-oriented approach. Australia and the United Kingdom moved in this direction during the 1980s and the United States passed the *Government Performance and Results Act* in 1993.

A results-oriented approach to management changes the way that governments plan, manage, and report their results. This approach can improve governments' ability to achieve their objectives. It also can improve accountability if governments report to the public in a way that compares actual results to what they planned to achieve.

To use this results-oriented approach effectively, managers must learn new skills. Exhibit 1 sets out some of the skills that managers need to learn. This chapter describes an audit of progress toward a learning culture that supports managing for results and helps managers learn to report those results to the public.

## Reporting performance in Saskatchewan

In response to the demands of citizens and changing management practices elsewhere, some parts of the Government of Saskatchewan have explored better ways to report their performance. For example, in 1994, the Department of Education began to report results through its Indicators Program and continues to produce a detailed report annually. In 1997, the Department of Health established a framework to help it select measures to explain results and made its first report to the public in 2000. We commended these initiatives.<sup>1, 2</sup>

In 1997, the Crown Investments Corporation (CIC) and its Crown agencies began to implement a balanced scorecard framework to help them report their results to the public. In January 2000, CIC established a timetable for incremental improvement in the annual reports of CIC and its Crown agencies. Some Crown agencies' annual reports now exceed

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<sup>1</sup> Provincial Auditor's Report 1998 Fall Report – Volume 2, Chapter 3 pp.37-46.

<sup>2</sup> Provincial Auditor's Report 1998 Fall Report – Volume 2, Chapter 5C pp.101-110.

these expectations (e.g., SaskEnergy, Saskatchewan Transportation Company).<sup>3</sup>

In 1998, the Government initiated the “Performance Management and Accountability Project” for all departments. The Government asked the Department of Finance to be responsible for this project and to:

- ◆ implement an accountability framework for departments;
- ◆ encourage departments to manage for results; and
- ◆ help build the capacity of departments to report their results to the public.

To achieve these objectives, the Department of Finance must work closely with all departments. The Department established a Performance Management Branch as the focus of this activity. In addition, the Department must work with the Department of Executive Council (i.e., Cabinet Planning Unit) and the Public Service Commission.

In the 1999 Speech from the Throne, the Government announced it would use this results-oriented approach to improve accountability to the public. The Government asked all departments to change how they plan, manage, and report their results. We support this important initiative to improve accountability.

## **Building capacity for reporting performance**

Performance reporting is the process that informs stakeholders of actual results compared to plans and other indicators of success. Historically, government departments reported their activities but not the results they achieved. The Government’s new accountability framework requires departments to:

- ◆ plan for specific results (e.g., 85% of 20 year olds will complete Grade 12);
- ◆ explain progress toward those results (e.g., current percentage completing Grade 12); and
- ◆ report related activities (e.g., number of students in Grade 12 and in related adult basic education programs).

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<sup>3</sup> Provincial Auditor’s Report 2000 Spring Report, Chapter 2 pp. 30-32.

Good planning is the foundation of sound accountability. The Department of Finance began its efforts to improve accountability with a focus on planning. Successful performance reporting is based on planning with specific objectives and targets for how much is to be achieved and by when.

In addition, reporting results to the public requires finding ways to measure results, collect accurate data, analyze progress toward each objective, and report results compared to planned performance. These are complex skills that may require significant learning.

In our 2000 Fall Report - Volume 3 (Chapter 1C, pp. 43-57), we highlighted four 'best practices' that would help the Department of Finance to increase departments' capacity to explain plans and report results to the public:

1. sustain commitment, at the highest leadership levels, to report the results of departments' performance;
2. promote a government-wide learning culture to improve public performance reporting;
3. establish processes and information systems that facilitate performance reporting; and
4. establish processes to ensure that public performance reports are credible.

This audit focuses on the second of these best practices for building capacity to report results. There are many skills to learn before managers can effectively report the results of public sector activities (see Exhibit 1). Creating a learning culture about a results-oriented approach to management is an important step toward reporting results to the public. A learning culture promotes education about reporting results. It also helps people adapt to results-oriented management and encourages continuous improvement.

## **Our audit**

The objective of this audit was to assess whether the Department of Finance adequately supported a learning culture to improve public performance reporting by government departments. We examined processes that the Department of Finance used from November 1, 1999

to December 30, 2001. Exhibit 1 sets out our audit criteria. The Department of Finance agreed with these criteria.

**Audit Criteria**

To support a learning culture that improves public performance reporting among government departments, the Department of Finance should:

1. promote and provide education about performance reporting
  - explain the importance of public performance reports for accountability
  - make available educational opportunities
  - encourage departments to establish processes to share useful information
  - monitor agency participation in learning activities
2. help managers adapt to managing for results and reporting performance to the public
  - encourage development of a supportive environment
  - communicate frequently
  - keep expectations realistic
  - identify and resolve barriers
3. encourage continuous improvement in performance reporting practices
  - communicate clear expectations
  - timely resolution and follow-up of complaints and problems
  - support innovation in performance reporting
  - encourage regular research on program outcomes and performance information
  - promote risk-taking and allow learning from mistakes

This audit did not examine systems for performance reporting by Treasury Board Crown agencies. We encourage the Government to require that these agencies also improve their reports to the public.

Our audit was guided by the Standards for Assurance Engagements established by The Canadian Institute of Chartered Accountants. To form our audit conclusion, we gathered sufficient appropriate audit evidence to support our findings. In addition to examining various documents, we interviewed senior officials from nine of the eighteen government departments.<sup>4</sup> The senior officials included deputy ministers, associate deputy ministers, executive directors of strategic planning, and other senior officials responsible for planning and reporting.

<sup>4</sup> During 1999-2001, there were eighteen government departments on the Performance Measurement Network including the Women’s Secretariat, the Office of Northern Affairs, and the Department of Finance

## Supporting a learning culture—key findings

### Promoting education about performance reporting

*We expected the Department of Finance to explain the importance of reporting results as part of the long-term strategic management that improves public sector effectiveness. We anticipated that the Department would work with others to promote and provide education about performance reporting. We expected that the Department would help managers to access a variety of learning opportunities including training and web sites about performance reporting.*

The Department of Finance adequately promoted education about performance reporting.

Managers require several specific skills to manage performance from a results perspective (see Exhibit 1). The Department of Finance promoted an environment that supports managers to learn these skills and adapt to new expectations. In meetings, educational sessions, and guidelines, the Department explained the importance of results-oriented management and reporting results to the public.

The Department of Finance arranged for experts to make presentations in Saskatchewan. The Department evaluated these events and monitored attendance to ensure that any absent departments could receive appropriate materials after these events. In addition, the Department provided learning tools such as a list of informative web sites and sample plans from departments in other jurisdictions.

The Department of Finance set up processes to help departments share useful information. The Department created an Implementation Working Group (November 1999 to April 2000) and later a Performance Measurement Network (April 2001 to 2002). These groups enabled departments to share information and discuss problems together.

The Department of Finance also created a Performance Management Branch to spearhead the Government's project to improve accountability. The Branch collected information about performance management for the Government. The Branch encouraged departments to contact them for assistance as required. The Department of Finance did not use

newsletters, a web site or an intranet system to help departments share useful information. We encourage the Department to find cost-effective ways to share information among departments.

## **Helping managers adapt to reporting results**

*We anticipated that a supportive environment and frequent communication would assist managers to learn new skills and adapt to a results orientation. We expected the Department to keep its expectations for change realistic and allow managers reasonable time to improve incrementally. We expected the Department to identify and help to resolve barriers to reporting results.*

The Department of Finance adequately helped managers adapt to reporting the results of their department's activities.

We found that written communication from the Department of Finance (i.e., the Deputy Minister and Performance Management Branch) consistently used a supportive and encouraging tone. Senior department officials told us that communication from the Department was sufficiently frequent and helpful. Progress was emphasized and new requirements highlighted. The Department also used the Performance Measurement Network as a forum to encourage department managers to discuss their progress and challenges.

Various department officials told us that the expectations of the Department of Finance were reasonable and realistic, except for very short timelines to accomplish tasks. Officials noted that some of the requirements were simply good management techniques that they were already doing. All the officials that we interviewed anticipated that the requirements for reporting results would continue to increase.

The Department of Finance identified barriers to results-oriented management and reporting in several ways. The Department assessed departments' plans, listened to departments present their plans to each other, and used an extensive annual evaluation process to document issues that required special resolution. Senior officials from six departments told us that many problems were resolved by departments working independently or with the Department of Finance.

Department officials told us that they need help to solve some of the more complex problems. For example, department officials told us that the development of a government-wide plan that sets out a clear long-term direction would help them to align their department priorities with the Government's direction. Department officials told us that it would help managers adapt if the budget process was better aligned with the process to approve priorities. Department officials also struggle with the complex challenge of reporting 'performance' when several departments and non-government organizations work together to achieve results.

These areas are complex and will take time to resolve. We encourage the Department of Finance and all government departments to resolve these challenges by using the experience of other provinces and countries that report their results to the public.

## **Encouraging continuous improvement in reporting**

*We anticipated that the Department of Finance would communicate clear expectations on managing for results and performance reporting. We expected the Department to resolve complaints and problems in a timely way and support innovation that makes performance reporting easier. Further, we anticipated that the Department would encourage research on program outcomes and performance information, promote risk-taking, and allow managers to learn from their mistakes.*

The Department of Finance made its expectations clear to managers. The Department should improve its practices to document problems and to promote their resolution through experimentation, research, or innovation for better performance reporting.

We found that the Department of Finance communicated clear expectations one year at a time in its Guidelines. The Guidelines are detailed and explicit. They provide good discussion of key issues and lessons learned. The Guidelines for 2001-02 required departments to report performance to senior department managers and to Cabinet at year-end. These Guidelines state that continuous improvement will be expected, but do not specify targets for what improvements the Department expected or by when.

Setting out expectations with a longer perspective would help departments to move forward at a steady pace. It takes time to train staff, gain agreement from partners to collect new information, and change reporting practices. It would also reinforce the Government's long-term commitment to move beyond reports of activities and enhance its capacity to report results.

The Department used its annual evaluation process and revisions to its annual Guidelines as the major way it resolved problems. This approach allowed careful consideration of solutions, but it was not timely and did not allow departments to plan ahead. The Department told us that it intended to use the Performance Measurement Network as an informal forum to help identify and resolve problems in a timely way. The Department did not take minutes or record barriers or solutions identified by the Performance Measurement Network. Written records assist in the timely sharing of new ideas for solving difficult problems.

An environment that invites experimentation and careful risk-taking supports change and learning. Senior officials stated they thought some limited experimentation was allowed. Giving managers recognition (e.g., in annual performance reviews) for their willingness to experiment could contribute to an atmosphere of continuous learning and greater acceptance of change.

Research and innovation are both important for growth and change. Research also could improve the efficiency with which departments' learn about measuring and reporting results in the public sector. The Department consulted other jurisdictions and revised its training and Guidelines. These are important steps.

Many challenges remain that could be resolved through experimentation and research. For example, in the public sector many departments give resources to others who are expected to provide services and report back what was accomplished. Setting service delivery targets and results requires consultation. Stakeholders must agree to provide data before results can be reported. Departments need flexibility to discover ways to consult and reach agreement with stakeholders in the government environment of very short timeframes and budget secrecy.

Departments also need research and innovation to discover effective ways to report annually on long-term objectives involving several agencies. Using short-term targets as suggested by the Department will help. However, measuring some results is not practical except at intervals (e.g., Statistics Canada census every four years). Other data may be collected regularly but is not available annually due to the time required to prepare it for analysis. Timely access to accurate and current data makes reporting results complex for both short and long-term results. This issue requires research to assess possible solutions in particular situations.

The Department of Finance needs a plan to research complex issues that make it difficult for departments to report their results. In particular, the Department needs to promote research by those departments able to explore performance planning and reporting problems. Such research could help departments to effectively measure their results and report their progress. Sharing research findings could stimulate further innovation and improvement.

## **Conclusion and recommendations**

We recognize that the accountability framework the Government has selected represents a significant change and change can be disruptive. The Department of Finance is making progress with its accountability project. A learning culture is evolving for improved performance management and reporting by government departments.

**We concluded that the Department of Finance adequately supports a learning culture to improve public performance reporting by departments except for the matters noted in the following recommendations.**

A multi-year timetable would give departments time to learn and prepare for future improvements in government planning and reporting. It would also enable some departments to move ahead at a faster pace and make it possible for others to learn from their experience. This approach has been effective for the CIC Crown agencies.

We encourage the Department of Finance to continue to strengthen its support of a learning culture.

- 1. We recommend that the Department of Finance give departments a multi-year timetable with targets for incremental improvement in performance plans and reports of results.**
- 2. We recommend that the Department of Finance be proactive to establish a web site or intranet among departments to communicate best practices from research and innovations for improved performance management and reporting.**

## **What is next?**

When governments report their results, they improve their accountability to the public. Effective reports tell the public how public money helped to achieve the intended results.

Ongoing learning is needed to sustain the Government's capacity to report results to the public. Knowledge about performance management and reporting among senior officials and legislators is critical to the future success of this accountability framework.

In future, we plan to audit the activities of the Department of Finance and other departments as they work to build their capacity to plan, take effective action, and report achieved results.

We appreciated the excellent co-operation of the Department of Finance and senior officials of other departments throughout this audit.

## Exhibit 1 – Learning skills to report performance

Performance management implies a results-oriented perspective. It requires managers to learn skills that will help government departments to develop:

1. **objectives** that state specifically
  - a. *what* is intended to be achieved
  - b. *targets* for how much (quantity or quality) should be achieved
  - c. *by when* targets should be achieved including short, intermediate and long-term
2. **priorities** that will
  - a. identify which objectives are essential to carry out the mandate and achieve key goals
  - b. influence resource allocation
  - c. lessen risks
  - d. guide the efforts of staff and partner organizations
3. **measures** to monitor and evaluate progress in a way that is agreed upon with those accountable for results and that help to show:
  - a. *trends* over time based on comparisons to previous time periods
  - b. *quantity* of outputs/outcomes compared to targets, benchmarks or standards
  - c. *quality* of outputs/outcomes
    - i. compared to targets, benchmarks or standards
    - ii. based on factors known to influence how effective a program or service is
    - iii. as identified in specific program evaluations that consider objectives
  - d. *cost* of outputs/outcomes
    - i. relative to planned costs, and
    - ii. reasonable benefit considering cost of alternatives or lost opportunities
  - e. *values/principles* that guide the processes used
4. **systems to collect information** about inputs, outputs, processes, and outcomes
  - a. decide what information is required to monitor progress on priority objectives
  - b. assess whether information or similar information is already collected (e.g., routine internal information or external surveys, research, Statistics Canada)
  - c. decide what to collect and from whom (e.g., clients, staff, partners, volunteers)
5. **reports** of performance results (at least of inputs & outputs, processes used and outcomes of a short-term nature, adding intermediate or long-term outcomes where possible) and provide the reports:
  - a. internally to program managers and/or senior management
  - b. to ministers or other accountable persons (e.g., boards)
  - c. externally to key stakeholders
  - d. externally to the public
6. **analysis** of the significance of results, especially in priority areas, so as to explain
  - a. what is the level of progress compared to planned objectives
  - b. how are results different than expected
  - c. what is the cause of the difference from the planned results
  - d. what is the effect of the difference from the plan
7. **plans to redirect** the organization based on outputs and outcomes achieved compared to resources used and original plans (operational and fiscal)
  - a. redirect staff, and
  - b. reallocate other resources to continue toward achievement of objectives.

## Glossary

**Goal** – a general statement of desired result to be achieved over an unspecified period of time.

**Objective** – a measurable, time-defined result to be achieved that leads to the achievement of each goal.

**Outcome** – the consequence or end result of activities.

**Output** – a numerical product of activities (e.g., number of clients served)

**Performance management** – a results-oriented approach to managing activities

**Performance measure** – a measurable factor used to assess progress toward an identified objective or outcome.

**Performance reporting** – the process that informs stakeholders of actual results. When using this type of reporting the Government will report its results compared to what it planned to achieve.

**Performance target** – quantifiable estimate of results that are expected over a specific time period.

**Risk** – the possibility that an entity will experience adverse consequences from events or circumstances.

## Selected resources

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