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Main points

Reporting of results is evolving both within agencies and publicly. Meaningful information about results helps management, boards of directors, and legislators carry out their oversight responsibilities.

Users also want to know if they can rely on the information included in annual reports. Auditing performance information fosters accurate, complete, and credible reports and helps agencies improve the processes used to prepare these reports.

Saskatchewan Transportation Company (STC), in common with other Saskatchewan agencies, continues to provide better information on its performance to legislators and the public in its annual reports.

In this chapter, we report on the results of our audit of STC's performance information (called the 2006 Balanced Scorecard) included in its 2006 Annual Report. We are pleased to report that STC's 2006 Balanced Scorecard is prepared in accordance with the reporting principles of reliability, understandability, and consistency. STC's 2006 Annual Report includes our unqualified audit opinion on its Balanced Scorecard.

Also, we make two recommendations to help STC improve the processes it uses to prepare information presented in its balanced scorecard reports.

Introduction

Saskatchewan Transportation Company (STC) provides Saskatchewan communities with bus passenger and freight services. It operates 28 bus routes and three passenger and express depots.

Our audit conclusions and findings

Meyers Norris Penny LLP is the appointed auditor for STC. Our Office and the appointed auditor worked together using the framework recommended by the *Report of the Task Force on the Roles, Responsibilities, and Duties of Auditors*.¹ The appointed auditor and our Office formed the following opinions.

In our opinion, for the year ended December 31, 2006:

- ◆ **STC had adequate rules and procedures to safeguard public resources**
- ◆ **STC complied with authorities governing its activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**
- ◆ **the financial statements of STC are reliable**

In the next section, we report the results of our audit of the balanced scorecard information that STC reported in its 2006 Annual Report.

STC makes its annual reports publicly available as corporate information on its website at www.stcbus.com. The 2006 Annual Report includes our audit opinion on the 2006 Balanced Scorecard.

Balanced scorecard—background

In 1997, some of Saskatchewan's Crown corporations began to use the "balanced scorecard" approach to report progress in achieving their goals.² STC adopted this approach in 1998.

¹ To view this report, see our website at www.auditor.sk.ca/rrd.html.

² Provincial Auditor Saskatchewan 1999 Spring Report, Chapter 1, p.4.

The balanced scorecard approach³ helps agencies to plan and monitor their results to achieve their vision. The balanced scorecard usually contains four perspectives:

1. financial
2. customer
3. business process
4. learning and growth

Saskatchewan's Crown corporations have slightly modified this approach.

STC develops its plans (strategic and business) in consultation with Crown Investments Corporation of Saskatchewan (CIC). It develops a set of financial and non-financial measures of performance, setting a target for each measure. It tracks its actual results against its targets. STC provides its senior management and board with quarterly reports on its performance, referring to these reports as its "balanced scorecard." Further, since 1998, STC has presented its performance information in its annual report using the balanced scorecard.⁴

STC organizes the information presented in its balanced scorecard into the following five broad goal areas:

1. We meet the needs of our customers (customer perspective)
2. We are a good corporate citizen (public policy perspective)
3. We are a fiscally responsible and accountable company (financial perspective)
4. We are a high-quality employer (learning and growth perspective)
5. We are improving and innovating (business perspective)

Since 2005, STC has used a generally consistent set of measures to evaluate its performance. In 2006, STC tracked and reported on 42 measures in its balanced scorecard report. In late 2006, as a part of its planning process, STC adopted five new measures and discontinued use of 28 measures. In 2007, it plans to track and report publicly on 19 measures.

Our audit objective and approach

The objective of this audit was to conclude whether the Saskatchewan Transportation Company's Balanced Scorecard, as reported in its 2006

³ Robert S. Kaplan, David P. Norton, *The BSC: Translating Strategy into Action*.

⁴ Provincial Auditor Saskatchewan 1999 Spring Report, Chapter 5, p.81.

Annual Report, was prepared in accordance with the reporting principles of reliability, understandability, and consistency.⁵ We did not assess the fairness or relevancy of the measures (that is, whether the measures were the best measures to objectively assess performance).

We based our criteria on practices recommended by The Canadian Institute of Chartered Accountants for public performance reporting (Exhibit 1). STC agreed with the criteria.

Exhibit 1—audit criteria

Performance information reported in the Balanced Scorecard:

1. Is reasonably reliable
 - 1.1. is free from significant error
 - 1.2. is free from significant omissions
 - 1.3. is produced by systems that control quality
 - 1.4. represents what it claims to represent (e.g., calculation methods reflect defined measures)
2. Is reasonably understandable
 - 2.1. is appropriately explained
 - 2.2. provides the source of key data (e.g., information system or agency)
 - 2.3. discloses data limitations, if any
 - 2.4. discloses unusual events or circumstances impacting results
3. Is reasonably consistent
 - 3.1. is prepared using consistent policies or practices
 - 3.2. compares results to prior or expected results
 - 3.3. explains if results are comparable to prior period

Source: The Canadian Institute of Chartered Accountants, Public sector statement of recommended practice, SORP-2, Public Performance Reporting, September 2006

To do our audit, we followed Standards for Assurance Engagements of The Canadian Institute of Chartered Accountants.

The information in annual reports is the responsibility of management (see Exhibit 2). Management is responsible for the integrity and objectivity of the performance information reported in the balanced scorecard. We expected STC to maintain appropriate systems of internal controls and procedures.

⁵ CICA, Statement of recommended practice – public performance reporting, SORP-2 (September 2006)

We examined the systems that STC uses to present reliable, understandable, and consistent information in its balanced scorecard reports. We obtained an understanding of these systems and evaluated whether they operated as STC intended. In addition, we tested the completeness and accuracy of the information in STC's Balanced Scorecard (reported in its 2006 Annual Report) and whether the information was understandable.

Conclusion

We concluded that the information presented in Saskatchewan Transportation Company's Balanced Scorecard, as reported in its 2006 Annual Report, is prepared in accordance with the reporting principles of reliability, understandability, and consistency.

Exhibit 2 at the end of this chapter is a copy of our auditor's report and management's report of responsibility for reporting on performance.

The following describes our significant findings with respect to the systems STC used to prepare information presented in its 2006 quarterly and annual balanced scorecard reports. It also sets out, in italics, what we expected.

Findings by criterion

Reasonably reliable balanced scorecard results

To produce reliable results, we expected STC to use systems that ensure its balanced scorecard information is reasonably accurate and complete (i.e., has no major errors or omissions). We anticipated STC would collect and protect related data in a way that would control the quality of the data. We expected STC to take steps to ensure reported results fairly represent the related objective and measure.

Each quarter, STC prepared balanced scorecard reports for its senior management and board. STC prepared these reports using processes that produce reliable results for most measures. STC calculated its results to properly represent what they claimed to measure. For example, to represent the measure for safety training, STC counted employees who took safety-related courses including first aid, back care/lifting, working

with hostile customers, safe driving, and transporting dangerous goods. It also used reasonable processes to secure its data about results.

However, for some measures, STC needs better processes to control the quality of the information it collects and to make sure it analyzes the information accurately and consistently. In its third quarter balanced scorecard, STC reported results for 81% of its measures accurately and completely; the results for the remaining measures contained small differences. These differences occurred because STC did not clearly document the definitions and/or methods used to calculate the measures. In addition, STC did not always expect staff to review the accuracy of the calculated results prior to finalizing its report. In a few cases, the results reported in the third quarter were not correct. For its 2006 Annual Report, management reviewed the accuracy of the data when preparing the balanced scorecard information for its 2006 annual report.

STC's balanced scorecard information, as reported in its 2006 annual report, is reliable and represents fairly its stated objectives and measures. The methods that STC used to calculate its results were reasonable.

- 1. We recommend the Saskatchewan Transportation Company set out, in detailed procedures, how it defines and calculates each measure presented in its balanced scorecard reports.**
- 2. We recommend the Saskatchewan Transportation Company require staff to review the accuracy of balanced scorecard results before reporting them.**

Management is developing a policy that will improve its balanced scorecard processes.

Reasonably understandable balanced scorecard results

To help ensure the information reported is understandable, we expected STC to report its balanced scorecard information in a way that reasonably informed readers could understand. We expected STC to state the source of the data (e.g., survey, internal information system, external source) and disclose significant limitations (e.g., data based on very small surveys, gaps in data). We also expected STC to explain major events or situations that influenced the results.

STC provided information in its balanced scorecard reports in an understandable manner. Over half of its 42 measures were relatively simple (e.g., number of agents, subsidy per mile, minimum miles travelled). STC described its measures using clear language and usually disclosed major factors that would influence the results.

In its 2006 third quarter report, STC adequately explained its results for most of its 42 measures. It did not clearly explain results for two measures, making it difficult to understand these results. For example, STC did not explain that its count for the equity target group “persons with disabilities” includes only employees who signed a self-declaration form and excludes two employees receiving long-term disability benefits. STC improved the explanations for these measures in its 2006 annual report.

STC adequately explained key terms and the reasons for key differences between actual and planned results. It also disclosed changes in measures from the prior year. For most measures, it disclosed the source of the data (e.g., a summer survey of passengers). STC disclosed limitations to the balanced scorecard information when, in its judgment, the information did not fully conform to the reporting principles.

Reasonably consistent balanced scorecard results

We expected STC to use processes to provide balanced scorecard information on a consistent basis. For each measure, we expected STC to compare its reported result to a planned result or target. We expected that for each measure, STC would calculate the target and the reported result in the same way. We also expected STC to calculate its results in the same way as in prior years (or, if not, explain the change).

In its quarterly and annual reports, STC compared results for each measure to a planned goal or target using reasonably consistent methods to calculate the target and the result. It advised readers of significant changes (e.g., changes in how it defined a measure or calculated the result) except in one instance. For its 2006 third quarter report, STC calculated third quarter results for its customer satisfaction measure using different survey questions than used previously. It did not explain the change in the third quarter report. STC advised readers of this change in its 2006 annual report (e.g., “a change in the survey instrument in 2006

meant this was scored using the percentage of those who said their satisfaction with the service was increasing”).

Management responsibility and audit report for 2006

In Exhibit 2, we provide a copy of management’s report entitled “Management Responsibility for Reporting on Performance.” We also provide a copy of our “Auditor’s Report on STC’s Balanced Scorecard for 2006.” STC presented both of these reports in its 2006 Annual Report.

Exhibit 2

Management Responsibility for Reporting on Performance

Management has presented the performance information in the Balanced Scorecard so that it is, to the best of our ability, reliable (that is, reasonably free of errors or omissions and represents what it claims), consistent (that is, prepared using consistent policies and methods, explains significant variances, and reports results against previously approved targets), and understandable. To provide a better understanding of the information, management defined terms and calculations, and disclosed limitations.

Management has the primary responsibility for the integrity and objectivity of the performance information reported in the Balanced Scorecard. To fulfil this responsibility, the Company maintains appropriate systems of internal controls and procedures. These systems provide reasonable assurance that information presented is reliable and consistent.

On behalf of the Company, on March 22, 2007

[signature]

Ray Clayton, President & CEO

Auditor's Report on STC's Balanced Scorecard for 2006

To the Members of the Legislative Assembly of Saskatchewan

I have audited the information in STC's Balanced Scorecard for 2006. The information is prepared in accordance with the reporting principles of reliability, understandability, and consistency as described in Management Responsibility for Reporting on Performance.

The information is the responsibility of STC's management. My responsibility is to express an opinion on the reliability, understandability, and consistency of the information based on my audit. My audit was not designed to provide assurance on the relevance of the measures used or the appropriateness or fairness of information reported in the Balanced Scorecard.

I conducted my examination in accordance with standards for assurance engagements established by The Canadian Institute of Chartered Accountants. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the Balanced Scorecard information and related disclosures. An audit also includes assessing the principles used and the significant judgments made by management, as well as evaluating the overall presentation of the information reported in the Balanced Scorecard.

In my opinion, the Balanced Scorecard information STC has reported presents fairly, in all material respects, STC's results for 2006 in accordance with the reporting principles of reliability, understandability, and consistency as described in Management Responsibility for Reporting on Performance.

Public reporting of results is evolving and situations can arise that prevent full compliance with the reporting principles. Management has disclosed limitations to the Balanced Scorecard information when, in their judgment, it does not fully conform to the reporting principles. Management has fairly stated the limitations and why they exist. Readers are encouraged to use the Balanced Scorecard information to evaluate STC's results, keeping in mind the information's limitations.

[signature]

Fred Wendel, CMA, CA
Provincial Auditor

March 22, 2007 Regina, Saskatchewan

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