



Discussion paper

The Auditor-General's observations on the quality of performance reporting

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Part 1

Auditor-General's introduction

- 1.1 Overall, the poor quality of non-financial performance reporting¹ by public entities is disappointing. It needs to improve significantly to allow Parliament and the public to hold public entities accountable for their use of taxes and rates and for the effectiveness of their service delivery.
- 1.2 For nearly 20 years, there have been statutory requirements for a range of public entities to report on their non-financial performance. Most of the requirements for performance reporting were introduced during the late 1980s and refined in the early 2000s.
- 1.3 Between 2002 and 2004, many of the statutory provisions about performance reporting were reviewed, which resulted in:
 - greater emphasis on, and direction to entities about, the medium- to longer-term contextual and outcome information required; and
 - a broadening of the range of entities required to report on their performance.
- 1.4 Nevertheless, there remains much to be done to lift the quality of performance reporting in the public sector to a satisfactory level.

Purpose of this discussion paper

- 1.5 The purpose of this discussion paper is:
 - to set out my perspective about the purposes of performance reporting, its uses, why performance reporting is difficult, and possible future directions including my intentions for the work of my Office;
 - to tell Parliament my observations about the quality of performance reports produced by the public sector in the last two years; and
 - to set out my Office's conceptual framework for performance reporting. The framework is based on generally accepted accounting practice (GAAP) and statutory requirements. As such, it is based on principles that my staff will use in auditing performance reports.

Why reporting non-financial performance information is important

- 1.6 Performance reports are an essential component of accountability documents. Accountability documents ensure that government departments and other state sector entities can be held accountable to Parliament and the public, and that local authorities and their controlled entities can be held accountable to local communities. Parliament and the public rely on accountability documents to

¹ For ease of reading, we use the term "performance reporting" and "performance reports" when referring to non-financial performance reporting and reports in the rest of this discussion paper.

assess the performance of public entities and the effectiveness of public entities' use of taxes and rates.

- 1.7 As a result, there are legislative requirements for most public entities, including government departments, Crown entities (including district health boards, Crown research institutes, tertiary education institutions, and schools), and local authorities and their controlled subsidiaries to prepare information (in various forms) about their performance.
- 1.8 A core purpose of performance reporting is to provide for public accountability for the responsible use of public resources and regulatory powers, including demonstrating that public services are being delivered effectively and efficiently. Entities can be truly accountable only if they are transparent about both their financial and non-financial performance and the relationship between the two.
- 1.9 As well as their external accountability purpose, performance reports should reflect good management practice. Such practices involve clearly articulating strategy, linking strategy to operational and other business plans, monitoring the delivery of operational and business plans, and evaluating strategy effects and results.
- 1.10 Many public entities are required to produce forecast performance information, and to report against that forecast information in their annual report. For many entities, the information in the annual report (a statement of service performance, or SSP, which reports actual results against a forecast SSP) must be audited. For a smaller group of public entities (almost entirely local authorities), their forecast performance information must also be audited. Appendix 2 lists the performance reports that different types of entities are required to prepare, and the information that my Office is required to audit.

My Office's role in auditing non-financial performance information

- 1.11 My Office has worked to ensure that annual audits address whether entities have met statutory requirements and complied with generally accepted accounting practice (GAAP) in reporting their performance information.
- 1.12 Along with the central agencies and others, my Office has previously reported on the information required for Parliament to hold the Executive to account, and has also provided guidance and good practice advice.
- 1.13 Before the changes to the Public Finance Act 1989 in 2004, and the passing of the Local Government Act 2002 and the Crown Entities Act 2004, audit work would verify the information in the SSP. The audit would attest to the true and fair

disclosure of the results in the SSP against the measures and performance targets set in the forecast SSP. However, verifying actual results against forecast results does not address the quality of the service performance information (for example, the appropriateness of the choice of subject matter, performance measures used, or performance targets set).

- 1.14 The changes in 2004 to the Public Finance Act 1989, and the passing of the Crown Entities Act 2004 and the Local Government Act 2002, have put greater emphasis on medium- and longer-term contextual and strategic information in performance reporting. Well-considered and well-prepared reports about planned and actual progress should provide useful insights into an entity – its purposes, outcomes, and intentions, and the services it provides to achieve them. This sort of information provides the necessary context for my staff to judge the quality (and therefore the appropriateness) of non-financial performance information, as well as verify the information reported.
- 1.15 Gaining insight into the medium- and longer-term contextual and strategic information is critical to the audit process of making judgements about the risks an entity faces in achieving its purpose and intentions. It also forms the basis of, and sets the direction for, audit work, and in particular SSP audit work. My staff have therefore been placing more emphasis on the appropriateness (relevance, understandability, reliability, and comparability) of forecast and actual performance reports in the SSP audit work.

Scope of this discussion paper

- 1.16 My observations in this discussion paper are based on work during the past two years involving:
- in-depth reviews of most government department and Crown entity 2007–2010 Statements of Intent (SOIs) – see Part 3;
 - audits of the 2006–16 Long-Term Council Community Plans (LTCCPs) of local authorities – see Part 4; and
 - a performance audit looking at the Statements of Corporate Intent (SCIs) prepared by port and energy companies, State-owned enterprises, and Crown research institutes, as well as the SOIs prepared by council-controlled organisations and council-controlled trading organisations – see Part 5.
- 1.17 The audit work my observations are based on did not include performance reporting by tertiary education institutions or schools.
- 1.18 This discussion paper, and the audit work underlying it, focuses on outcome and output reporting. There are other elements of performance reporting (such as

measuring the cost-effectiveness of interventions, organisational health and capability, and current and future asset needs) that I do not discuss.

- 1.19 I do not explore the extent to which the legislative requirements for outcome and output reporting are relevant to different entities. Some entities, because of their nature or role, might find it difficult to frame their contribution in terms of outputs (that is, service delivery) and measure their performance in these terms. For these entities, other parts of a performance report may be more important to the reader than output information. Because of this, my Office and others – such as central agencies, entities with monitoring responsibilities, and others interested in public sector management – might need to consider these issues separately.

Part 2

Auditor-General's views on the quality of performance reports

- 2.1 The quality of performance reporting represents a significant weakness in the public sector's accountability to its stakeholders. Despite the sector having nearly 20 years' experience in preparing and using performance reports, performance reports are:
- not prepared as robustly as they should be to serve external readers' needs;
 - not used as well as they might be by external readers as part of the accountability process; and
 - not used as well as they might be by internal readers – managers and governors of public entities – to improve public service effectiveness.
- 2.2 In my view, many entities' performance reports:
- do not seem to set out coherent performance frameworks showing logical links from the medium-term¹ outcomes information and organisational strategies to the annual output information (or, for those entities required to prepare an SCI, showing logical links from objectives to the performance measures and targets); and
 - do not have well-specified, relevant, understandable, reliable, and comparable performance measures and targets. For local authorities, government departments, and Crown entities, this observation applies to both the medium-term outcomes-based information and the annual output-based SSP information.
- 2.3 For local authorities, government departments, and Crown entities, I am particularly concerned about:
- the weak links of the medium-term contextual and strategic information to the annual forecast SSP; and
 - the identification and specification of the elements (primarily outcomes and outputs), measures, and targets for both output information and medium-term outcomes achievement.
- 2.4 For entities required to prepare an SCI, I am particularly concerned about wide variations in the clarity and coverage of linking performance measures and targets to entities' stated objectives.
- 2.5 For all entities, I am also concerned at the lack, in many instances, of robust best estimate-based targets combined with historical or benchmark information that gives context to those performance targets.

¹ Forecast information is required to cover different periods across the public sector. For government departments and Crown entities, medium-term information must cover a three-year period. For local authorities, the LTCCP must cover at least a ten-year period.

- 2.6 Those preparing performance reports also need to better set out the elements of the reports by:
- applying the definitions of the elements (in particular, of outcomes and outputs) – if the underlying elements are not properly identified and presented, the basis of the reporting is undermined; and
 - considering how to meaningfully aggregate elements (in particular, outputs and output classes) with enough detail to communicate a comprehensive yet succinct and coherent account of the outputs they deliver.
- 2.7 Parliament and the public rely on these documents. If they report poor performance, entities should be held accountable for remedying it. If Parliament is unable to adequately assess the performance of entities because of the poor quality of their performance reporting, then I expect those entities, and their oversight agencies, to be held accountable.

My Office's work during the past two years

- 2.8 During the past two years, my staff have:
- reviewed most government department and Crown entity SOIs;
 - audited the 2006-16 LTCCPs of local authorities, which included meeting a requirement to attest to the extent to which the forecast information and performance measures provide an appropriate framework to meaningfully assess the actual levels of service provision; and
 - carried out a performance audit looking at the SCIs prepared by port and energy companies, State-owned enterprises, and Crown research institutes, as well as the SOIs prepared by council-controlled organisations and council-controlled trading organisations.
- 2.9 There is a summary of the results for each of these pieces of audit work in Parts 3 to 5. The full reports can be found on my website.²
- 2.10 This is not the first time that I have raised concerns about the quality and usefulness of the information prepared by various sectors.³ There needs to be a better understanding of why the public sector accountability framework⁴ does not promote quality public sector performance reporting – or at least appears to sanction inadequate reporting. To promote this understanding, I first outline the audiences for performance reporting, and the legislative requirements and

² *Central government: Results of the 2006/07 audits* (2007), Part 5; *Matters arising from the 2006-16 Long-Term Council Community Plans* (2007); and *Statements of corporate intent: Legislative compliance and performance reporting* (2007).

³ See, for example, my reports on the results of the 2004/05 and 2005/06 audits for central government and my report *Local Government: Results of the 2002/03 audits*.

⁴ This is the systems and processes used to prepare non-financial performance information and to hold public entities and their governors to account.

generally accepted accounting practice applying to performance reporting. I discuss why, in my view, performance reporting is difficult, and look forward to consider how improvements might be achieved. I also set out my intentions for the work of my Office.

The audiences for performance reporting

- 2.11 Stakeholders of public entities are interested in outcome and output performance because those entities' provide goods and services for community or social benefit. The need for performance reporting in the public sector has an added dimension. In providing these goods and services, public entities use public resources (for example, taxes and rates) and sometimes have coercive powers to regulate the behaviour of others.
- 2.12 However, in my view, the questions of who performance reporting information is for and how it is intended to be used have not been well debated.
- 2.13 It is clear for state sector entities that Ministers and their monitoring agents use performance reporting information. However, as part of the governance system for state sector entities, performance information for Ministers could equally be provided through "special purpose reporting".⁵
- 2.14 Parliament also needs performance reporting information, to hold Ministers and state sector entities to account. Parliament is required to make decisions about the funds to be voted through the annual Budget process, and to review the performance of the entities that have used those funds.
- 2.15 However, the needs of individual members of Parliament vary widely, depending on their individual views, their portfolio responsibilities, their political alignments, and the topical issues of the day.
- 2.16 The elected representatives of entities such as local authorities, which operate within statutory authority but independently from Parliament, also need information to hold the managers and staff of those entities to account. Local communities also need information about local authorities to allow them to participate in democratic decision-making about services and their level and cost, and to hold elected representatives and entities to account.
- 2.17 In a democratic society, openness and transparency are the foundations underpinning the use of taxing and regulatory powers. Therefore, the media, academics, political and financial analysts and commentators, and interested and concerned members of the public need this information too. My staff also need the information, to give my assurance to Parliament and the public about the performance of public entities.

⁵ Special purpose financial (and non-financial) reports are reports tailored to meet the specific information needs of users who are able to require, or contract for, their preparation and provision.

- 2.18 All of these audiences – and more – have an interest, if not in any single agency’s performance accountability, then in the quality and availability of this information collectively. Their reasons for wanting information will vary. However, generally, they use the information to bring issues to the attention of the wider community, perform research about the nature and state of society and how the services of public entities affect the community, and recommend investment and other decisions to those they advise.
- 2.19 Because there are so many users of, and uses for, performance information, there is unlikely to be a single or complete solution to the range of complex and varying information needs. Performance reporting is therefore premised on providing accurate information relevant to the needs of users to serve accountability purposes and to aid decision-making, with public accountability legislation requiring a common set of performance reporting information. As with all general purpose financial information, performance reporting might not be of equal relevance to all users, but it provides a starting point for more specific purposes.
- 2.20 This common set of information must be prepared subject to GAAP. Although the information is general purpose, it does not follow that any person should be able to use and understand it. There is an assumption that users of the information are already moderately informed and willing to make the effort to understand it. There is a range of means by which users can also access information for their special needs – for example, through the Official Information Act 1982 or through questions in the House of Representatives.

Legislative requirements and generally accepted accounting practice

- 2.21 Legislative requirements for the performance reporting of local authorities, government departments, and Crown entities are similar. The differences relate to the number of years required in the forecast information, process requirements, and the terminology used (although definitions are generally similar). Likewise, legislative requirements for council-controlled organisations, port and energy companies, State-owned enterprises, and Crown research institutes are similar. Appendix 2 sets out, for each type of entity, the legislative requirements for performance reporting, and the respective audit requirements.
- 2.22 The qualitative characteristics within the *Framework for the Preparation and Presentation of Financial Statements*⁶ applying to financial reports – relevance, understandability, reliability, and comparability – apply equally to performance reports in respect of selecting outcomes and outputs, selecting performance

⁶ New Zealand Institute of Chartered Accountants, *New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements*, June 2005.

measures, determining targets, and any other related information disclosed in performance reports.

- 2.23 Overall, therefore, I expect public entities to have a performance reporting framework that reflects the statutory requirements and GAAP. Figure 1 sets out what I consider this would comprise for government departments, Crown entities, and local authorities.

Figure 1
What a performance reporting framework should include

The **medium-term component** should include information on the reporting entity's objectives, outcomes, impacts, and operating intentions, together with related performance measures and targets and other information required by legislation and GAAP:

- clearly identified outcomes and supporting discussion on the entity's role, functions, strategic priorities, challenges, and risks to provide the context for the entity's role and functions; and
- main measures and targets for outcomes, objectives, or impacts, that are clearly specified, cover the required period, and provide baseline data that places measures and targets in a meaningful context and allows progress to be tracked.

The **annual forecast SSP component** should include information on the reporting entity's intended outputs, together with related performance measures and targets and other information required by legislation and GAAP:

- logically aggregated output classes/outputs with clearly specified outputs that focus on external impacts; and
- clearly specified performance measures and targets that are relevant and balanced and supported by baseline data that provide context for these measures and targets.

A coherent structure and integrated contextual information should make evident, through linking within and between the information in the two components:

- the reasons for the entity's outputs; and
- the focus of its reporting, including the rationale for, and the relationships among, the elements, performance measures, and targets.

And, of course, the SSP in the annual report should report and explain actual performance against the targets in the forecast SSP.

Throughout these reports, there should be links between financial and non-financial information that, together, provide a coherent and reasonably complete picture of overall entity forecast and actual performance.

Why performance reporting is difficult

- 2.24 In this section, I outline some of the issues that, in my view, contribute to the poor quality of performance reporting, and the reasons that the public accountability framework is not promoting improved reporting. Overall, I consider that those preparing performance reports have little incentive to prepare quality reports. Instead, they often:
- report what can be reported rather than what should be reported;
 - are reluctant to report information that may reflect poorly on the entity and its governors; and
 - do not adequately report the quality of output delivery and information to allow users to assess how outputs affect intended outcomes.

Lack of comprehensive standards

- 2.25 Compiling meaningful performance reports presents many more challenges than preparing conventional financial reports. For financial statements, their structure, composition, measurement, and disclosure are heavily prescribed by financial reporting standards.
- 2.26 There are no reporting standards in New Zealand for non-financial performance statements. Therefore, every entity needs to prepare and customise its own framework and the elements (primarily outcomes and outputs) within that framework to reflect its own nature.
- 2.27 Each reporting entity must judge which elements (outcomes and outputs) are most relevant and significant, and how they are best aggregated for the purpose of external reporting. These judgements, from my observations, appear to lie behind many of the quality concerns I have raised.
- 2.28 Financial reporting standards are generally silent on performance reporting issues. Accounting standard-setters helped address this by preparing Technical Practice Aid No. 9: *Service Performance Reporting* (TPA-9) in 2002. It contains a rich discussion that is still highly relevant. In my view, this discussion should be in a statement of greater authority than a technical practice aid.⁷ However, there has been no subsequent development of the 2002 TPA-9 initiative. Indeed, it has been some years since the question was raised of how standards should support service performance reporting (and reflect developments in practice) and help entities to make judgements about the presentation of information.
- 2.29 In my view, the decision to base New Zealand standards on International Financial Reporting Standards highlighted the different needs of the public sector and

⁷ Some of the definitions in TPA-9 are now reflected in legislation passed since 2002, and TPA-9 has recently been updated for consistency with NZ IFRS and legislative requirements. However, a technical practice aid has little authority compared with a financial reporting standard.

therefore the need for different treatment. Given that New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) are written to serve the needs of large, profit-oriented entities in the private sector, it is unlikely that they will cater for the public sector's specific need for performance reporting standards.

- 2.30 The Public Finance Act 1989 provides for the Minister of Finance to make recommendations to the Governor-General for regulations prescribing non-financial reporting standards for the state sector. During the consideration of the 2004 amendments to the Public Finance Act, I suggested that the Financial Reporting Act 1993 be amended to give the Accounting Standards Review Board the mandate and resources to develop and approve non-financial reporting standards.
- 2.31 I consider that, over time and as experience develops, the Treasury, in consultation with interested groups, should facilitate and ensure the preparation of such reporting standards. It should also consider how such standards are applied and maintained.

No clear responsibility for professional leadership and oversight

- 2.32 Accountancy as a profession provides, among other things, leadership and oversight of preparation of financial information. Members of the profession who prepare financial information are required to apply the profession's technical standards and, in doing so, to meet certain standards of professional competence. However, there is no professional body that provides equivalent leadership for preparing performance information. Just as there are no technical standards governing the preparation of performance information, there is no purpose-built set of professional competency standards or professional support for preparers of such information.
- 2.33 Because of this, most of the leadership for the quality and presentation of performance reports in the public sector in the past 20 years has had to be assumed by the Treasury and the State Services Commission, other sector agencies with leadership roles in the public sector (such as the Society of Local Government Managers), and my Office. Although performance reporting requirements have been supported by guidance materials and processes, these have not helped to significantly improve the quality of reported information. Central government entities often tell my staff they are confused by what they see as conflicting messages about the quality, and improvement needs, of their performance reporting. This confusion appears to arise because of their multiple interactions with a range of interested parties (primarily central agencies and my Office, but also other central government monitoring departments).

- 2.34 Initiatives that central agencies, other sector agencies with leadership roles in the public sector, and my Office have taken to help improve performance reporting have often lacked co-ordination, sustained effort, and focus. For example, initiatives often:
- are not co-ordinated in terms of overall priorities with other parties who have roles in preparing and using performance reports, or through collaborative work with these parties;
 - have not had ongoing support to sustain them; nor a constant set of messages about the elements of performance reporting and their application. Initiatives have tended to be associated with legislative or other change involving specific guidance products. For example, guidance material was produced to support the Managing for Outcomes/Results initiatives. However, the initiatives were regarded as “mainstreamed” after a short time without, in my view, enough work to ensure that entities had understood and responded appropriately. The 2004 changes to the Public Finance Act 1989 introduced requirements for measures around the cost-effectiveness of interventions (section 40D). Despite widespread confusion among entities about the intention of the provisions, there has been limited further development work by central agencies; and
 - have not focused on helping entities to apply general guidance to their own circumstances and on how to make incremental improvements and adjustments over time.
- 2.35 Part of the difficulty in ensuring co-ordinated and sustained effort is that there are many parties with an interest in preparing and using performance reporting. In my view, there is a need to consider the question of leadership, co-ordination, and accountability within the public sector for ensuring the application of standards and expectations for performance reporting, and for improving its quality.

Relationships between outcomes and outputs are often not predictable or understood

- 2.36 Relationships between outcomes and outputs are complex, relationships and expectations change over time, and performance can be influenced by a range of circumstances and events. In the past decade, there has been extensive interest and exploration in the public sector on how to better collaborate and co-ordinate government entities to provide more effective outputs and achieve desired outcomes. Increasingly, such efforts require many-to-many, rather than one-to-one, links. Some of these many-to-many links are:
- several entities working towards their own outcomes, where the outcomes together will also achieve a complex overall outcome;
 - multiple entities each contributing one part of a shared outcome;

- stakeholder interest in the collective performance of multiple entities, a sector, or multiple sectors; and
 - world-wide considerations, such as international group or global commitments.
- 2.37 It is important that entities base outcomes on societal or community factors they can reasonably expect to influence, and outputs on services they control and deliver to third parties. Where there is confusion about the degree of influence or control exerted by an entity, there can be confusion about the nature of intended effects on outcomes or about the nature of the service provided and how its quality can be assessed. However, the relationship between outcomes and outputs is not always understood or predictable, and these relationships can change over time or in response to other events. Therefore, in reporting on actual results, entities need to evaluate and assess these relationships and the effect of services on desired outcomes over time. Reports by my Office have previously discussed evaluation in the public sector.⁸
- 2.38 It is natural that there be public debate and sometimes disagreement about what policy objectives or services should be pursued and what the results are indicating. In this context, performance reporting is about making actions and decisions understandable, and explaining subsequent events. Good quality reporting, both non-financial and financial, allows informed consideration in Parliament and the public sector, and across communities, about what is happening and how the reporting can be done better.
- 2.39 The difficulties in attributing the effects of outputs on outcomes appear to have been compounded in central government by expectations that entities will demonstrate how their efforts contribute to the very high level outcomes of the Government. Every public entity is part of wider public sector efforts and the actions of groups and individuals within society as a whole. For each entity to demonstrate its contribution to very high level outcomes often requires additional layers of outcome, intermediate outcome, and impact information, with reductions in the likely influence of the entity at the higher layers.
- 2.40 I do not think entity-based reporting can be expected to deal with the question of whether the collective efforts of public entities have a reasonable likelihood of influencing very high-level outcomes. There may therefore need to be consideration of sectoral or whole-of-government performance reporting. Some recent reports show an encouraging evolution toward sector-based reporting that seeks to set out and understand high-level outcomes and the public sector's influence on them. Examples are the Ministry for the Environment's *Environment New Zealand 2007* (which builds on its 1997 report, *The State of New Zealand's*

⁸ For example, *First Report for 2000*, parliamentary paper B.29[00a], Part 6 "Impact Evaluation – Its Purpose and Use".

*Environment), and the Ministry of Social Development's *The Social Report*, published annually since 2001. I would like to see this kind of reporting continue, widen, and improve over time.*

Wider set of information needed for operational management

- 2.41 Creating and using performance information within an organisation is common-sense management practice. I am concerned when public entities tell my staff that external service performance information is not useful for the public entities' internal management.
- 2.42 In my view, performance reports should be a reflection of internal management – clearly articulating strategy, linking strategy to operational and other business plans, monitoring the delivery of operational and business plans, and evaluating strategy effects and results.
- 2.43 If external performance information is not prepared well, perhaps because of the issues discussed above, it may well be that the information is not useful for internal management. For example, if elements such as outcomes and outputs are not well identified or relevant, measures and targets of outcomes or outputs will not be well selected.
- 2.44 A range of other information is also needed for internal management, and this information might be equally, and sometimes more, important for governance and management decision-making than output and outcome information. Such information includes management of inputs (for example, finances, resources, and capability) and of risks.
- 2.45 I expect to see, within a public entity, a broad set of input, process, output, and outcome information being collected, and monitored at periods appropriate to the nature of the information. I also expect different sets of information to be relevant to different parts of an entity. External performance reporting information is highly aggregated information about an entity's wider environment, strategy, and planned service delivery. Like other highly aggregated information, it should be of greatest interest to senior managers and the governors of a public entity, allowing them to discharge their decision-making governance and accountability responsibilities.
- 2.46 However, I am concerned that senior managers and governors do not give external performance reports the attention they merit. The reports are not aligned to the information used to plan and monitor performance. I have found that the report preparation is often contracted out and is not connected with organisational strategy development and implementation, creating the risk that the reports become vehicles for public promotion rather than a basis for accountability and transparency.

- 2.47 Public entities should prepare internal information that meets day-to-day management needs and align this information to external reporting responsibilities. Accordingly, external reports should stem from information that is used to guide internal management of the entity.
- 2.48 In my view, if a public entity does not have a system for monitoring and aggregating the range of information used for internal day-to-day management and governance, governors and managers cannot be confident that they are fulfilling their responsibilities.

Weak incentives to improve

- 2.49 Performance reporting requirements for public entities have existed for nearly 20 years, but it is not clear how the accountability framework provides incentives for quality reporting or sanctions for poor reporting. I have found little use of both forecast and actual reported information to assess the performance of each entity and its future challenges and requirements. It raises the circular question of whether reports are of poor quality because they are not well used or whether they are not well used because they are of poor quality.
- 2.50 A state sector entity is expected to involve its responsible Minister in preparing its forecast performance report. Ministers are part of the governance of state sector entities. They therefore have ready access to a range of information about an entity and its performance that is much greater than that which should be presented in a general purpose report. They do not need to rely solely on the quality of external performance reporting to meet their own governance information needs. Nonetheless, they have a governance responsibility to ensure that the entity provides quality information for other external users.
- 2.51 Elected representatives also have a key role to play in creating demand for the use of performance reports. Those such as members of Parliament and local authority councillors need to consistently encourage general use of performance reports. In particular, elected representatives can insist on generally accepted (and expected) practice, such as requiring well-specified links between outputs and outcomes.
- 2.52 In audit work carried out by my staff over the past two years, similar issues have emerged across the public sector. However, discussions since then with local authorities suggest that they are finding LTCCPs to be a useful planning tool to assess achievements and decisions against. Independent review work commissioned by my Office has noted improvements in service performance information between the first LTCCPs prepared in 2003 and 2004 and those prepared and audited for the first time in 2006.

- 2.53 Under the Local Government Act 2002, the purpose and intended uses of the LTCCP are clearly articulated. Strategic planning is to be based on community engagement and is linked to organisational service delivery. Communication of a range of information (including financial and performance reports) is required in ways that take account of stakeholders' needs and preferences for receiving information.
- 2.54 In my view, there has not been enough debate about who information is for and how different audiences might obtain information relevant to their needs. Public entities need to explore the needs and interests of their different users, how these influence their use of performance reports, and how to provide reports to better meet different needs. For example, communities making choices about the costs and services provided by their local authority might require different information from that sought by the media to publicise information about the results of policy changes in government departments. Although public entities need to provide the minimum information required for accountability, they should also be responsible for adapting information to meet users' needs. By doing so, the entities will enable better use of both forecast and actual reported information to assess the performance of each entity and its future challenges and requirements.

Looking forward – improving the quality of performance reporting

- 2.55 Enduring improvements in performance information will require clear and consistent objectives, strong central co-ordination and direction, well-established good management practices, and an unwavering accountability focus on understanding performance results. In my view, the public sector accountability framework and those responsible for its operation have struggled to provide these conditions since the start of the performance reporting requirements.
- 2.56 It is also clear that, for performance information to be useful, it needs to be specific to, and owned by, the entity preparing it. Therefore, preparing extensive amounts of general high-level guidance and specific case study material is only part of the action required. I urge public entities, central agencies, and others with an interest in public sector management to pay attention to the quality and the substance of information that appears in both forecast and annual reports as well as to its presentation. In my view, improvement will require deeper, more sustained, and focused attention, and should include:
- the Treasury, in consultation with entities with monitoring responsibilities and others with an interest in public sector management, facilitating the preparation of public sector standards for reporting, including considering how such standards are applied and maintained;

- identifying clearer responsibilities among central agencies, entities with monitoring responsibilities, and others interested in public sector management on co-ordination, leadership, and accountability for preparing and improving performance reporting within the public sector;
- central agencies and those with monitoring responsibilities giving consistent messages about the elements of performance reporting and their application;
- considering whole-of-government and sector-level outcome information needs, and how these can be identified, co-ordinated, collected, and reported; and
- considering the identifiable users of external performance reports and their needs, so that public sector regimes can better accommodate both internal and external uses of reported information.

My intentions for the work of my Office

- 2.57 I intend to maintain my Office's focus on performance reporting and hope that, in tandem with the efforts of others such as central agencies and the Society of Local Government Managers, this will help bring about the improvement needed in public sector performance information.
- 2.58 I have recently decided that audit opinions should provide assurance that the audit has assessed whether the entity's performance framework will allow its actual output performance to be fairly presented. For the local government sector, this is already part of the assurance that the audit opinion on the LTCCP provides. My staff are revising my auditing standard AG-4 *The Audit of Service Performance Reports*, which I will issue later this year as a basis for consultation, and which is intended to take effect for future reporting periods.
- 2.59 My staff are also assessing the effects of the intended changes to standards and expectations of auditors on the hours and costs of audit work. Providing this greater and more useful assurance to Parliament, public entities, and the public will probably result in some increases in audit costs. I am not yet sure of the extent of such increases, and will discuss these with Parliament and others before I make any decisions. Nonetheless, I am committed to ensuring that the annual audits address my statutory mandate, to the fullest extent they reasonably can within efficiency constraints.
- 2.60 While there are some good examples of performance reports, these are, in my view, few and far between. My staff will more actively identify and highlight examples of good practice to help public entities improve their performance reporting. This will include looking at practices in other similar countries and the work of other Auditors-General.

- 2.61 At this stage, I have not focused specifically on audit work that should be carried out to report on the performance targets and other measures for entities such as energy companies and council-controlled organisations. These entities do not have requirements similar to those for government departments, most Crown entities, and local authorities to set out outcome and impact-based medium-term and annual output information. Instead, for these entities, performance measures are to be set to assess achievement of corporate objectives. I am required to report on the actual performance achievements against those measures. I will assess the appropriateness of performance reports for these entities after my staff complete the work outlined in paragraphs 2.57-2.60.

Conclusions

- 2.62 In my view, improving the quality of information about public entities' performance is critical, not just for demonstrating accountability, but also for achieving continuous improvement in public sector effectiveness. I note that this accountability through performance reporting is about making actions and decisions understandable, and explaining subsequent events.
- 2.63 Addressing the weaknesses identified in performance reporting requires greater clarity, persistence, and consistency throughout the public sector. As long as the weaknesses described in this report persist, parliamentarians and the public can have limited assurance that the performance information of public entities reflects the purpose, effects, and effectiveness of their endeavours.

Part 3

Central government statements of intent and service performance information

- 3.1 This Part summarises our work that looked at the quality of the 2007/08 SOIs and service performance information prepared by government departments and Crown entities.
- 3.2 We reviewed 104 (more than 80%) of the 2007/08 SOIs required to be prepared by government departments and Crown entities. We requested and reviewed many SOIs in draft form as part of our audit work to report on the SSPs within entities' annual reports. If we did not receive SOIs within enough time to provide feedback to entities on a draft, we reviewed the final SOI.

Service performance information in the statements of intent

- 3.3 Overall, we were disappointed that many entities' service performance information did not set out coherent performance frameworks showing logical links from the medium-term outcomes sought by the entity to the annual outputs (goods and services) delivered by the entity. Many SOIs did not have well-specified, relevant performance measures and targets for both the medium-term and SSP information.
- 3.4 The first year in which many Crown entities were required to prepare SOIs was 2006/07, and it is therefore likely that they are still going through a learning process. However, government departments have been required by the Public Finance Act 1989 to prepare this information since 2004/05. Before the 2004 amendments to the Public Finance Act, government departments had to prepare SOIs under Cabinet directions that had similar requirements.
- 3.5 Despite the greater experience of government departments, the quality of their 2007/08 SOIs was disappointing. Improvements in quality since the 2004/05 SOIs have still been only small and incremental.¹ We have also previously reported that, under our annual assessments for aspects of financial and service performance information systems and controls by government departments, the service performance information systems aspect² consistently had the lowest proportion of "Excellent" or "Good" ratings between 1993/94 and 2005/06 (compared with the other aspects rated).³
- 3.6 Figure 2 sets out our findings on the 2007/08 SOIs we reviewed.

¹ Our various reports on the results of audits for central government have reported observations on the quality of and issues with SOIs since the first year SOIs were required to be prepared in 2004/05.

² *Service performance information systems* are the systems to record service performance (non-financial) data, and the internal controls (manual and computer) to ensure that data is complete and accurate.

³ *Central Government: Results of the 2005/06 audits*, parliamentary paper B.29[07a], pages 20-24.

Figure 2
Our findings on the 2007/08 Statements of Intent we reviewed

Our expectations	Our findings
Medium-term component of the SOI	
Clearly identified outcomes, which provide the context for the entity's role and functions.	Over 15% of SOIs had shortcomings in the specification of outcomes.
Supporting discussion on the entity's role, functions, strategic priorities, challenges, and risks.	About half of SOIs were well presented and "readable". Over 40% included useful discussion and contextual information in the medium-term component of the SOI.
Main measures and standards for outcomes, objectives, or impacts are clearly specified, cover a period of three years, and provide baseline data that places measures and standards in a more meaningful context and allows progress to be tracked.	Nearly a third of the SOIs had missing or unclear main measures, and another third needed to improve their main measures. Many SOIs would benefit by adding baseline data about the current state of outcomes, objectives, or impacts, and their associated measures.
 Link A coherent structure and integrated contextual information that makes evident, through linking within and between the information in the two components: <ul style="list-style-type: none">• the reasons for the entity's outputs; and• the focus of its reporting, including the rationale for, and the relationships among, the elements, performance measures, and standards.	Over 50% of SOIs could improve the structure of the forecast SSP and its links to the medium-term component of the SOI. Weaknesses in the links ranged from minor to more significant – for example, from a lack of clarity in the layout or the use of diagrams to more significant issues that made links difficult to assess, such as a lack of discussion about how outputs contributed to outcomes.
Forecast SSP	
Logically aggregated output classes/outputs, with clearly specified outputs that focus on external impacts.	We had queries about the basis for the identification and aggregation of output classes, and noted that outputs were missing, incomplete, or not well specified, to a varying degree, for nearly 40% of SOIs.
Clearly specified performance measures and standards that are relevant and balanced, and provide baseline data that places measures and standards in a meaningful context and allows progress to be tracked.	About 60% of the forecast SSPs had shortcomings in the range and coverage of performance measures and the specification of standards. Measures of output quality, in particular, need enhancing. Many SOIs would benefit from the addition of baseline data about current and recent achievement for output delivery.

- 3.7 In 2007, the Treasury reviewed accountability documents. The review:
- has resulted in structural changes involving changes to the format of documents and relocation of information from departmental SOIs to the annual *Estimates of Appropriation*); and
 - over time, proposes to improve the quality of performance information, including through interdepartmental review, although the first year review was primarily focused on improving scope statements for the 2008 *Estimates of Appropriation*.

Part 4

Service-level and performance information in long-term council community plans

- 4.1 This Part summarises our work on local authorities' 2006-16 LTCCPs.
- 4.2 We looked at the extent to which the forecast information and performance measures in the 2006-16 local authority LTCCP Statements of Proposal and final LTCCPs provide an appropriate framework for the actual levels of service provision to be meaningfully assessed.
- 4.3 Overall, the analysis from our LTCCP audits suggests that, for many local authorities, the performance framework requires major development. The attributes of effective performance reporting that we anticipated were often not reflected in the LTCCP or in the underlying information and assumptions. During our LTCCP audits, we noted weaknesses and issues in the elements and processes local authorities used for their performance planning, reporting, and management frameworks.
- 4.4 Common weaknesses that we identified during our LTCCP audits related to:
 - lack of a logical flow in performance reporting;
 - levels of service, and performance measures and targets; and
 - outcomes monitoring.
- 4.5 We were particularly concerned that levels of service identified by local authorities appear to be poorly defined. Levels of service are vital in their own right, and they also underpin asset management and financial planning.
- 4.6 The performance framework and information should form a feedback loop to fulfil its intended function. Although only two councils received non-standard audit opinions for issues about performance frameworks and information, we considered the performance framework and the information that constitutes this feedback loop to be the areas needing greatest improvement in the 2006-16 LTCCPs.
- 4.7 Although we accept that best practice is developing as the local government sector learns more about preparing LTCCPs, a determined effort is needed to improve the ability of many local authorities to do planning that allows them to address the long-term needs of their communities.

Logical flow in performance reporting

- 4.8 The appropriateness of selected levels of service performance measures and targets can be assessed only if the local authority sets out the rationale for its activities clearly and logically. The rationale should describe how its assessment of well-being and the community's outcomes provide the basis for the selection

and direction of its activities. The selection of levels of service and performance measures and targets should reflect this rationale, the local authority's main strategies and objectives, and any associated risks and negative effects. Figure 3 shows the logical flow of the Local Government Act 2002 performance requirements.

Figure 3
Logical flow of the Local Government Act's performance requirements



- 4.9 Many local authorities struggled to demonstrate the overall alignment of the performance framework in their LTCCPs. In about 25% of LTCCPs, there was a weak link between the rationale for measures and levels of service information. This was because the reasons for providing certain services were not clearly stated. In more than 30% of LTCCPs, activities were only weakly linked to performance measures and outcomes, leading to confusion about how the activities would be measured and how they would contribute to furthering outcomes or well-being.

Levels of service and performance measures and targets

- 4.10 Information about levels of service and performance measures and targets is less meaningful when the logical flow of information is not complete or clear. The logical flow weaknesses noted in paragraph 4.9 compounded issues about levels of service and performance measures and targets.

- 4.11 Almost 25% of LTCCPs lacked clarity about definitions of levels of service within the information on each group of activities. We were surprised to find that about 20% of local authorities did not have clearly defined levels of service in their underlying asset management planning information.
- 4.12 Without sound asset information, it is difficult to assess and plan for the asset capacity needed to provide the intended levels of service and the associated financial costs. It is also difficult to measure whether those levels of service were achieved.
- 4.13 This lack of information about levels of service affected the extent to which local authorities were able to identify accurate, neutral, comparable, and reasonably based best-estimate performance targets.
- 4.14 More than 65% of local authorities had performance measure shortcomings to varying extents, which meant that the intentions of the groups of activities were unclear and that there was often no identifiable measure to assess achievement. These shortcomings most commonly related to:
- the relevance of measures to the rationale for the activity;
 - the context of the environment and risks within which the activity operated; and
 - the reasonableness of the 10-year performance targets (that is, whether these were reasonably based best estimates).
- 4.15 We expected that the intended achievements resulting from a service or activity and the associated risks and potential negative effects would influence the selection of relevant performance measures.
- 4.16 Clause 2(1)(c) of Schedule 10 of the Act requires the LTCCP to outline, for each group of activities of the local authority, any significant negative effects that any activity within the group of activities may have on the social, economic, environmental, or cultural well-being of the local community. This requires the local authority to consider potential significant negative effects on community well-being and to disclose crucial assumptions. We observed that about 30% of LTCCPs either did not include information on negative effects or had poor coverage of negative effects.
- 4.17 The risks and negative effects that were identified in contextual information for groups of activities did not appear to have resulted in performance measures and targets for managing such risks. For example, contextual information identified that resource consent requirements for taking water were being frequently breached or that there was not enough water available to meet demand at peak periods, but there was no discussion about how water supply issues were being managed.

- 4.18 A common approach used to measure the performance of levels of service was to state that the levels of service, and therefore their performance measures and targets, were assumed to be constant for the duration of the LTCCP. More than 30% of local authorities showed constant, or near constant, levels of service for the 10 years of their LTCCP. However, when considered with the information about other groups of activities, it often appeared that local authorities had failed to integrate the effect of asset or financial decisions with their associated effects on levels of service. This meant that, while asset and/or financial information indicated significant change, levels of service inconsistently remained constant.
- 4.19 In 2006, this issue arose particularly around activity areas such as water services and building consents. Local authorities had not included the intended improvements in drinking water quality or supply within their levels of service and had not provided for changes affecting building consent services.
- 4.20 Many local authorities are struggling to meet the new requirements of the Building Act 2004, which raises a concern that local authorities are in a “double jeopardy” situation. The Building Act (among others) requires local authorities to process applications within certain time constraints. However, in many instances, the annual reports of local authorities show that they are not meeting these deadlines. The dilemma arises, therefore, whether a local authority should show a reasonable estimate based on past performance in its LTCCP and impliedly plan to breach the Building Act, or whether the LTCCP should show a target that reflects the legislative obligations but which is unreasonable.
- 4.21 In our view, a sustained historical failure to meet statutory requirements indicates the need to invest greater effort into a service. A local authority should advise, within the activity information in the LTCCP, that it has not previously met its statutory obligations, and outline the steps it is taking to remedy this. In suggesting that local authorities outline such steps, we appreciate that reasons for failure to meet statutory requirements may have long-term resourcing effects (for example, to increase funding to deal with new statutory requirements) or may not be resolvable in the short term (for example, where there are skills and expertise shortages).

Outcomes monitoring

- 4.22 As well as inadequate performance measures and targets, supporting information on the achievement of outcomes was frequently incomplete. Our analysis of the LTCCP audits found that nearly 30% of local authorities did not have complete outcomes monitoring. Again, this shows the lack of a direct link to measuring specific community outcomes. These outcomes often did not have specific targets and measures. The monitoring arrangements for community outcomes that were included were often expressed very generally.

- 4.23 We are aware that the framework and measures for monitoring outcomes were in the very early stages of development because of the different ways local authorities could identify outcomes in their first LTCCP in 2003 or 2004. Local authorities were required to include the information for the first time in the 2006-16 LTCCP. As a result, we expect outcomes monitoring information to show improvement when local authorities publish their annual and community outcomes reports.
- 4.24 Monitoring outcomes is a critical component of the performance framework. It allows local authorities to demonstrate the extent to which their activities are furthering community outcomes and well-being. Information disclosed in the LTCCP needs to communicate how the identified outcome is being achieved, and the measures used to assess change in the outcome over time.
- 4.25 Every three years, local authorities are required to report on their monitoring of the achievement of community outcomes to show the attainment of community well-being and the planned community outcomes. To show how the local authority is contributing to community outcomes, it is required to report annually on how activities it carries out are furthering community outcomes.
- 4.26 The community outcomes and well-being identified by the local authority should flow into the intended levels of service and the performance measures and targets to allow for meaningful assessment. Annual reporting should explain any variance between intended and actual levels of service, and how the levels of service link to activities that help to advance community outcomes and well-being.

Part 5

Statements of corporate intent

- 5.1 This Part summarises the findings of a performance audit that assessed how well 54 public entities complied with their legislative requirement to produce an SCI and report against it in their annual reports. Our examination included Crown research institutes, energy companies, port companies, and State-owned enterprises required to produce an SCI. We also included council-controlled organisations and council-controlled trading organisations required to produce an SOI. The legislative requirements for SOIs are very similar to the legislative requirements for SCIs. We refer to both of these documents as SCIs for the purposes of this Part.
- 5.2 Overall, we found general compliance with most content requirements for the SCIs we examined. In total, 57% included all the content that we expected for their entity types, and a further 39% omitted only one or two requirements. Only 4% of the SCIs we examined omitted three or more requirements that we expected them to include. All but one of the SCIs we examined included performance measures or targets as required by legislation. However, we noted variations in the range of performance measures used, their ability to be usefully assessed and understood, and how clearly they linked to entities' stated objectives.
- 5.3 The content requirements for SCIs differ subtly, depending on the type of entity and its governing legislation. Common elements include a requirement to set out:
- the objectives of the entity, and the nature and scope of activities to be carried out;
 - performance targets and other measures by which the performance of the entity may be assessed; and
 - certain financial information that can help shareholders and other interested parties to assess the operation of the entity and its intended business success.
- 5.4 Performance targets are one of the most important ways an SCI provides public accountability. They enable a public entity to state how it intends to measure its success against its stated objectives. Performance targets and measures should therefore clearly link to the entity's stated objectives. The public entity should use a range of non-financial performance measures and targets, as well as financial ones, wide enough to enable a full assessment of its activities. Performance targets should be measurable, and their meaning and relevance should be easily understood by the readers of an SCI.
- 5.5 However, we acknowledge that, for many public entities operating in a competitive business environment, the information about their future intentions and objectives needs to be balanced against issues of commercial sensitivity.

Linking performance targets to stated objectives

- 5.6 To be useful, performance targets should be clearly linked to an entity's stated objectives. The link between targets and objectives is a legislative requirement for all the types of entity that we included in our sample. We examined how clearly performance targets in the SCI were linked to the entity's objectives.
- 5.7 A little more than one-third (19 out of 54) of the SCIs that we examined had performance targets that addressed all of the entity's stated objectives. The remainder mostly linked only some performance targets to objectives, while three council-controlled organisations did not link performance targets to their objectives at all.
- 5.8 In the good examples of linking of performance targets in SCIs – including all the Crown research institutes in our sample – all objectives were clearly covered by a range of both financial and non-financial performance targets. In these cases, it was easy to see how the entity would measure whether it was achieving its objectives during the three years covered by the SCI.
- 5.9 In several cases, the use of performance targets or other measures to assess how entities intended to meet their objectives was weak or non-existent. For example, council-controlled organisations, council-controlled trading organisations, and State-owned enterprises are all required under their governing legislation to be good employers and to exhibit a sense of social responsibility. However, we found several instances among these entity types where these objectives were not covered by performance targets or other measures.

Looking forward three years

- 5.10 All the types of entity we looked at are required to cover the next three financial years in their SCIs. The intention of this requirement is to provide shareholders and the wider public with information about the intentions and direction of a public entity for the medium term. In several cases public entities, especially smaller council-controlled organisations and council-controlled trading organisations, produced SCIs that covered only one year. This reduced their usefulness as forward-looking accountability documents.
- 5.11 Seventy-eight per cent of the SCIs we examined covered the required three financial years when setting out the entities' objectives, performance targets, and financial information.
- 5.12 The SCIs we examined that did not cover the next three financial years (22% of our sample) covered only one financial year.

- 5.13 Many council-controlled organisations are small trusts or incorporated societies that run on a non-profit basis, with substantial direct operational funding from their local authorities. These types of council-controlled organisations (and their shareholders) may consider the need to provide a multi-year statement of their intentions and direction to be less important for them than for entities that are required to be successful businesses. However, providing a three-year forecast of objectives or intentions can provide valuable accountability between council-controlled organisations and their shareholders. For example, a trust that operates a museum can advise shareholders of its longer-term intentions to change or expand its exhibitions that might require funding changes beyond the next financial year.

The use and quality of performance targets

- 5.14 Most entities in our sample provided a wide range of targets with which their performance could later be measured, including non-financial measures. The Crown research institutes, energy companies, and State-owned enterprises in our sample used the widest range of performance targets and measures. However, there were several examples among other entity types where only a narrow range of financial targets was used.
- 5.15 Only two-thirds of the SCIs we examined had performance targets that could all be measured. In several cases, the performance targets were so vague that no meaningful assessment could be made later about whether the targets had been met.
- 5.16 More than half of the SCIs (30 out of 54) used performance targets that were all easy to understand or explained any technical terms. However, among the remainder, we found financial variables or technical terms that might not be easily understood by readers.
- 5.17 The usefulness of some entity objectives in the SCIs (for example, being a good employer) was diminished when the entity failed to provide performance targets or other measures for those objectives.

Range of targets

- 5.18 Most of the SCIs in our sample (81%) presented a range of performance targets and measures, including a mix of financial and non-financial ones.
- 5.19 All the SCIs in our sample that were produced by Crown research institutes and energy companies, and most of those produced by State-owned enterprises, presented a wide range of financial and non-financial targets and measures to assess the entity's performance against. For example, Crown research institutes

routinely presented performance measures covering the full range of their activities, including measures for financial performance, research output, being a good employer, and customer satisfaction.

- 5.20 Where we found only a narrow range of performance targets (including among some council-controlled organisations and a couple of port companies), this was usually because only a few financial targets were set out. For one council-controlled trading organisation, the only performance target given was to achieve a specified profit level.

Measurable targets

- 5.21 Of the one-third of the SCIs that we examined that did not include quantifiable and measurable performance targets, many simply listed a number of financial variables, without specifying the target. For example, one entity stated that a couple of its financial targets would aim to be within an “agreed budget”, but included no information for readers about what the budget was or might be.
- 5.22 In several other cases, we found non-financial information presented in such a way that a reader would not be able to assess whether the targets had been achieved. For example, one entity gave as a performance target “To undertake an appropriate level of sponsorship”. In this example, the entity did not define what an “appropriate level” of sponsorship was.
- 5.23 We found several other similar cases where the performance targets provided were actually objectives. For example, two entities stated as performance targets that they would deliver, or put in place, business plans. In another case, a council-controlled organisation (an economic development agency) set a performance target for its region to grow faster than the national economy. As well as being an objective or vision, rather than a performance target, achieving this goal was largely outside the direct influence of the entity.

Technical terms

- 5.24 As noted in paragraph 5.17, more than half of the performance targets in our sample were easy to understand.
- 5.25 However, for the rest of the SCIs in our sample, only some of the performance targets were likely to be easily understood without specialist knowledge, or the entity did not explain the technical terms. Often, SCIs presented financial measures in abbreviated form or without explanations of their meaning or relevance – for example, EBITDA¹ and Acid Test². In our view, readers without financial or accounting knowledge would be unlikely to understand these measures.

¹ Earnings before interest, taxes, depreciation, and amortisation

² Also known as the Quick Ratio – the ratio of cash and readily realisable assets to current liabilities.

- 5.26 The tendency to abbreviate financial measures was more pronounced in the SCIs of council-controlled organisations and council-controlled trading organisations than in the corresponding annual reports. The annual reports were more likely to express financial measures in full and in plain language.
- 5.27 In some cases, the performance measures were so vague that we could not understand their meaning or significance as targets. For example, two council-controlled organisations simply stated as performance targets: “add value”, “cashflows”, or “balance sheet”.
- 5.28 Many of the entities in our sample are involved in technical activities (for example, energy companies and council-controlled organisations involved in utility or infrastructure businesses). They therefore use technical performance targets. We identified several instances where the lack of explanation of these technical targets made their meaning or significance difficult to understand. For example, energy companies typically and justifiably use several measures relating to interruptions to electricity supply as performance targets. Some of the companies in our sample clearly defined these targets, while others stated them as abbreviated technical terms that are unlikely to be readily understood by all readers.

Part 6

Conceptual framework for reporting non-financial performance information

6.1 In this Part, we set out our conceptual framework, based on GAAP and legislative requirements, that informs our approach to auditing performance reports. We expect public entities' performance reports to be consistent with our conceptual framework.

Purpose of the conceptual framework

- 6.2 During the past two years, our expectations in reviewing forecast information have been customised to the various sectors we audit. As a result of this work, we have prepared a conceptual framework that we intend to use in auditing performance reports. There are variations within different sets of legislation in wording and time requirements for different types of entities. Our reason for developing a conceptual framework is to capture the essence of the principles and underlying definitions that are common to all affected entities.
- 6.3 This conceptual framework therefore pulls together performance reporting concepts from GAAP, legislation, and other guidance into one unified and consistent framework. We have sourced concepts from material developed for the central government, local government, and not-for-profit sectors, and we intend the framework to be interpreted for, and applied equally to, those sectors.
- 6.4 The framework's primary function is to provide a consistent basis for describing the expectations placed on those responsible for preparing performance reports on which we are required to issue an audit opinion.

What best practice in accountability reporting would look like

- 6.5 This paper discusses outcome and output reporting. However, best practice in external accountability performance reporting would reflect:
- a comprehensive model of performance;
 - a properly set direction;
 - good measurement systems; and
 - accessible reporting of significant information while meeting cost-benefit tests.
- 6.6 Good performance reporting also takes a broader view than individual entities. New Zealand's current performance reporting framework is entity-based. An ideal framework would take account of and report not only entity performance, but also sectoral, cross-sectoral, and whole-of-government performance.

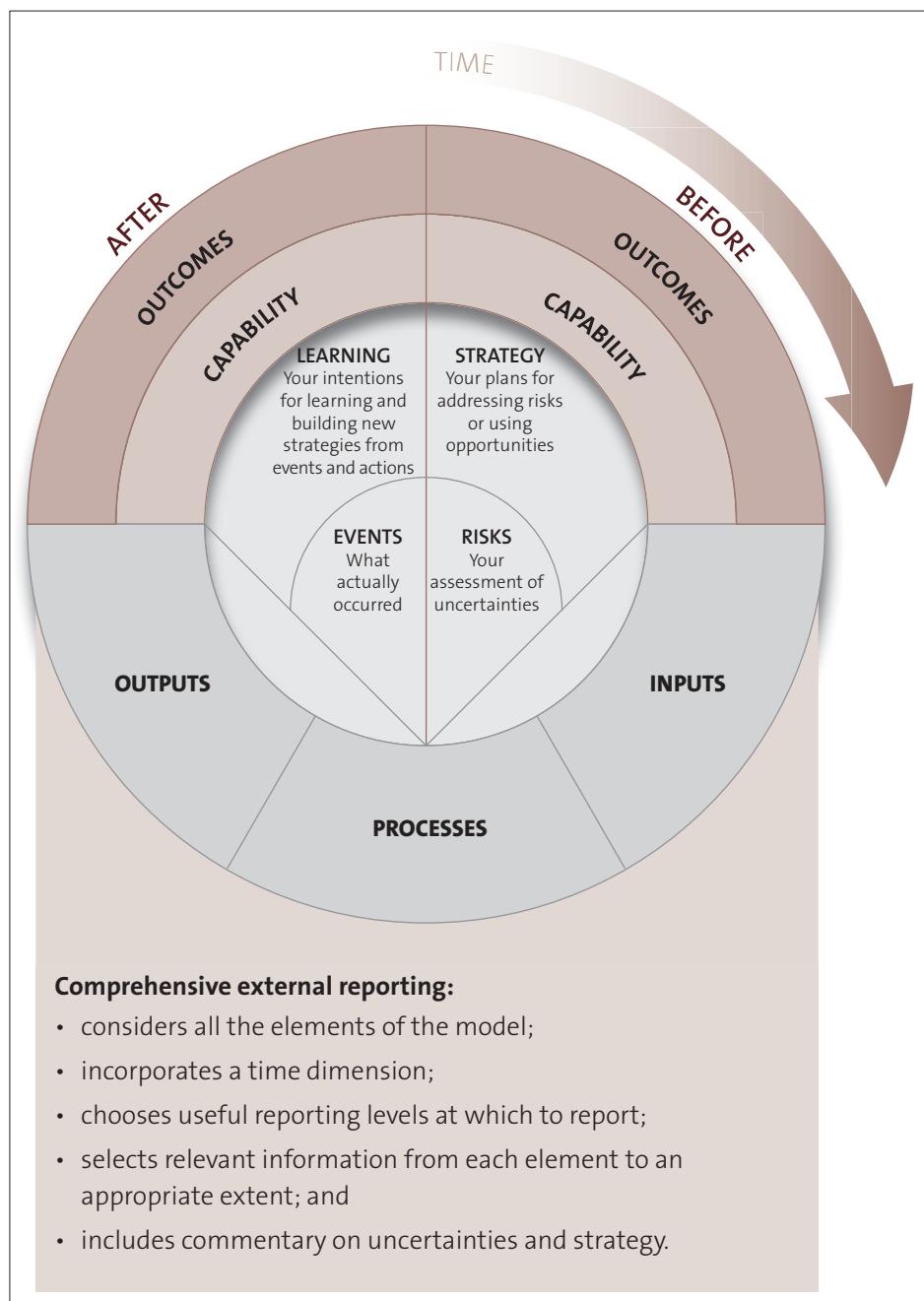
A comprehensive model

- 6.7 The best external accountability reporting draws selectively from a comprehensive set of performance elements to identify, measure, and report those performance elements of interest to stakeholders. Compliance with statutory performance reporting requirements is essential, but statutes do not limit or prohibit enhanced reporting. Figure 4 (from our 2001 report *Reporting Public Sector Performance*) illustrates the elements of a comprehensive model of performance.
- 6.8 Reflecting a comprehensive model in external accountability reporting also requires a range of specific capabilities. Organisational capability can involve:
- understanding operations and stakeholder information requirements, to identify which elements of performance should be reported and which performance indicators or measures will be relevant to report on those elements;
 - technical knowledge, to identify needed data or design data collection systems;
 - capacity (of people or systems), to collect the necessary data; and
 - data collection over a period of time, and specific retention of data during change (such as entity restructuring).
- 6.9 Building organisational capability in these ways has potential benefits for both external reporting and internal management. There is also potential benefit for government departments that have responsibilities for monitoring other agencies and for policy ministries that have lead roles in sector development.
- 6.10 Elected representatives have an important role to play in creating demand for the use of broader models. In our view, members of Parliament and local authority councillors should consistently encourage general use of comprehensive models of performance. In particular, elected representatives can insist on best practice in applying the models, such as requiring well-specified links between outputs and outcomes.

A properly set direction

- 6.11 Performance reporting needs to start from the direction set for the entity and, increasingly, for a sector or across sectors. Setting direction:
- requires inclusive consultation processes that cater for suitable communities of interest; and
 - provides guidance on what data to gather and what to ignore.

Figure 4
Elements of a comprehensive model of performance reporting



Good measurement systems

- 6.12 Performance reporting needs to be based on good performance measurement systems that collect relevant and reliable data. Good quality measurement and data collection provides an essential resource to generate performance information from. Good performance measurement needs:
- the capability to produce appropriate sets of information for a variety of stakeholders; and
 - an enhanced set of data to use to answer as yet unspecified future questions.

Objectives of performance reporting

- 6.13 Performance reports, including SSPs, help users to:
- assess a reporting entity's service performance and achievements;
 - assess the reporting entity's compliance with legislation, regulation, and contractual arrangements as they relate to the assessment of its service performance; and
 - make decisions about providing resources to, or doing business with, the reporting entity.
- 6.14 As with financial performance reports, non-financial statements fulfil an accountability role and a decision-making role. They can also be used as a framework to help public entities prepare policies about which outputs are likely to lead to which outcomes.

Presentation of performance reports

- 6.15 Performance reports contribute to the objectives of general purpose financial reporting by providing:
- narrative, data, and statistics on the reporting entity's performance in supplying goods and services; and
 - information on the effects on stakeholders, society, or the community of the entity's existence and operations.
- 6.16 Accountability requires that reports:
- identify objectives and targets normally established by formal processes; and
 - measure actual achievements against those objectives.
- 6.17 The SSP (or forecast SSP) may be supplemented by other non-financial statements containing contextual or background information, such as:
- aspects of the direction-setting process, assessment of risks, and trade-offs/choices made and why;

- forecast and actual outcomes, intermediate outcomes, or impacts;
- unintended outcomes;
- ways to address unintended costs or benefits;
- information on the resources used to achieve performance compared with the forecast resources;
- any changes to plans, and consequent effects on results; and
- whether performance measures need to be changed and how stakeholders will be consulted as part of re-setting direction.

Elements of non-financial performance

- 6.18 The elements of non-financial performance may be classified as:
- results – outcomes or achievements and consequences for the community;
 - interactions with the public – processes (including systems, operations, and behaviour) and outputs (delivery of goods and services); and
 - costs – inputs and decline in public entity capability.
- 6.19 The non-financial elements most commonly included in financial reports are those directly related to non-financial performance – inputs, outputs, and outcomes – which are defined in various current and historical statements of GAAP, legislation, and a wide range of published material on organisational goal setting, planning, and strategy. Although these sources vary in their degree of authority and in their nuances of definition, they are in broad agreement on the meaning of these terms (see the Glossary in Appendix 1).
- 6.20 Reporting entities often find it useful to introduce other reporting elements to help bridge the relationship between outputs and outcomes. This is particularly useful when the cause and effect relationship between outputs and outcomes is relatively loose or remote. These other elements are typically lower-level outcomes that describe or measure effects that are more directly attributable to output performance. They are usually described as immediate outcomes, intermediate outcomes, or impacts¹ and form part of an outcomes hierarchy that logically lays out the links between outputs, the intermediate-level elements (lower-level outcomes), and the higher-level outcomes.
- 6.21 The SSP is concerned with reporting on output (goods and services) performance and the cost of producing or delivering them. Other aspects often reported on – such as management systems, internal outputs, processes, activities,² efforts, and detailed information on inputs – should not be confused with outputs, should

¹ “Impacts” is separately defined in the Public Finance Act 1989 (see the Glossary in Appendix 1).

² The Local Government Act 2002 uses the term “activity” to refer to goods and services. However, to avoid confusion, we use only the term “output” to refer to goods and services, and we use the word “activity” according to its common and wider meaning.

not be described or reported as outputs, and generally should not be emphasised in the SSP. Their measurement may be important for internal management purposes, but, for general purpose reporting, the external users of SSPs need information about results rather than efforts. Hence, the SSP focuses on output delivery, with reporting against outcomes (that is, the effects of output delivery) being in a separate performance statement outside the SSP, as explained in the following section.

Content of performance reports

- 6.22 The objectives of performance reporting are more commonly achieved by publishing:
- a medium-term, outcome-oriented statement of intended achievements;
 - an annual, output-oriented forecast SSP; and
 - an annual report, incorporating the SSP.
- 6.23 The first two statements are forecasts, and the third statement is historical.
- 6.24 The SSP in the annual report should report actual results against the forecast performance measures and targets outlined in the forecast SSP for any one year. But an effective performance reporting framework is broader than the SSP (or forecast SSP).
- 6.25 The medium-term statement of intended achievements tends to focus on forecast information (that is, intended outcome achievement) for the prescribed number of years. Ideally, it will also provide historical actual results so that readers can track progress towards intended outcomes.
- 6.26 Both the outcome-oriented and the output-oriented statements should be supplemented by other non-financial information giving context to those statements. Explanations of the reporting entity's role and functions, legislative or constitutional mandates, objectives, and strategies for achieving those objectives will provide a necessary context for readers to make sense of the service statements. Information on resources, capability, and risks also provides valuable background information to help readers understand and assess how well the reporting entity is delivering its services and making progress towards achieving its outcomes.
- 6.27 The outcomes information and the broader contextual information are necessary for readers to draw conclusions about the rationale for, and the appropriateness of, the elements (outputs and output classes), performance measures, targets, and results reported in the SSP (or forecast SSP).

6.28 A sound performance reporting framework will present this information in such a way that the reader will be able to readily identify the links between the reporting entity's function, strategy, and performance goals. It will specifically identify the links between outputs and the outcomes they contribute to, making clear the rationale for doing the activities and producing the outputs.

Medium-term, outcome-oriented statement of intended achievements

6.29 The period covered by the medium-term, outcome-oriented statement will depend on the reporting entity's requirements – for example, requirements in keeping with legislation, its constitution, or the rules governing its accountability requirements. The statement will usually relate to a minimum of three future financial years. Although its content will also often be determined by specific legislation or other prescription, it will typically provide a succinct, strategically oriented description and explanation of:

- what the entity does (that is, its purpose, functions, and activities);
- the specific impacts, outcomes, and objectives the entity seeks to achieve;
- how the entity intends to achieve these, including its operating intentions;
- measures and targets that indicate the progress made;³
- the cost-effectiveness of the entity's interventions;
- the challenges the entity faces, including references to organisational health and capability, as well as to risks and how these are to be addressed; and
- any other matters necessary for the reader to understand the entity's operating intentions.

6.30 Entities should reconcile long-term outcomes specification with short-term performance reporting by reporting against intermediate outcomes or impacts.

6.31 The primary focus of the medium-term statement of intended achievements is outcomes. To identify and properly specify outcomes in non-financial statements, the following principles (or recognition criteria) should be applied to each outcome:

- Progress or achievement can be influenced by the outputs of the entity.
- The outcome describes a specific impact on society, the community, or a target group.
- The outcome is believed to be of value to society, the community, or the target group.
- The outcome provides a clear statement of what the “purchaser” of the outputs is seeking to achieve.

³ Progress can be demonstrated by measures of historical performance or achievement, trend information, future targets, baseline data, or other benchmark data.

- The outcome is part of a hierarchy of outcomes, and the hierarchy structure should be clear.
 - If the outcome is aimed at specific people, those people should be clearly identifiable or identified.
 - Progress or achievement of the outcome can be assessed within the specified time.
- 6.32 Information on the specific links between desired outcomes and outputs is vital, as is the continuing need to evaluate the extent to which current outputs are contributing to those outcomes. There should therefore be a clear and credible relationship between the medium-term, outcome-oriented statement of intended achievements and the forecast SSP. If the forecast SSP indicates significant resources are directed to a specific output class, then that output class should feature strongly within the medium-term, outcome-oriented statement of intended achievements.
- Annual, output-oriented statement of forecast service performance**
- 6.33 The content of the output-oriented forecast SSP will also often be determined by specific legislation or other prescription. It should provide detailed performance information on intended output delivery that the entity must report against as part of its annual report. Details will typically include:
- a description of each class of output the entity proposes to supply during the financial year;
 - the outcomes to which each output is intended to contribute (if practical and appropriate);
 - performance measures and forecast targets of output delivery for each class of output;
 - the expected revenue to be earned, and proposed output expenses to be incurred, for each output or class of outputs; and
 - any other matter necessary for the forecast SSP to be prepared in keeping with GAAP.
- 6.34 To be useful for accountability and decision-making, the basis for aggregating outputs must be specified in the forecast SSP.
- 6.35 Inputs, outcomes, management systems, internal outputs, processes, activities, and efforts are not outputs of the entity in this context. They should therefore not be described or reported in service performance reports as outputs. However, information on the links between desired outcomes and outputs is vital, as is the continuing need to evaluate the extent to which current outputs contribute to

those outcomes. Explanation of the rationale for a particular mix of outputs is useful contextual information for both forecast and historical reporting, and the links should be made as transparent as possible.

- 6.36 The focus of the forecast SSP is outputs. To identify and properly specify outputs in the forecast SSP, the following principles (or recognition criteria) apply:
- distinctiveness – they are distinct products or services;
 - externality – they have an external focus (that is, they are produced for third parties or persons or entities outside the reporting entity) and they reflect the purchaser's interests and priorities; and
 - controllability – they are controllable by the reporting entity and, as such, their specifications or performance dimensions reflect the reporting entity's extent of control.

Statement of service performance in the annual report

- 6.37 The function of the SSP in the annual report is to report actual results against the proposed levels of service delivery signalled in the forecast SSP. It should include:
- a description of each class of output that the entity has supplied during the financial year;
 - the outcomes to which each output was intended to contribute (if practical and appropriate);
 - the levels of delivery performance achieved, compared with the targets included in the forecast SSP, for each output or class of outputs;
 - the actual revenue earned and output expenses incurred, compared with the expected revenue and proposed output expenses included in the forecast SSP, for each output or class of outputs; and
 - any other matter necessary for the SSP to be prepared in keeping with GAAP, including any other measures and targets needed to assess the entity's performance for the year.
- 6.38 We recommend disclosing cost allocation policies and providing costing information below the aggregated output level.
- 6.39 If information on a particular variance between forecast and actual performance could affect the users' assessment, then that information should be reported, together with the reason for the variance. The following should also be reported:
- long-term output work-in-progress;
 - changes to specified output performance; and
 - full disclosure of changes in objectives during the year.

- 6.40 To provide context, the SSP should identify the outcomes that the outputs have contributed to. Explanation of the rationale for a particular mix of outputs is useful contextual information for both forecast and historical reporting. The output-to-outcome links should be made as transparent as possible.
- 6.41 It is also desirable to regularly report information on the achievement of outcomes (actual results against intended results). This information could be reported within the annual report, but outside the SSP. In most cases, the frequency and location of outcome reporting will be determined by specific legislative or constitutional requirements.⁴

Performance measures and performance targets

- 6.42 Performance measures are used to measure outcome or output achievement against performance targets or objectives. Performance measures specify one or more of the “dimensions” of performance.⁵
- 6.43 In selecting performance measures to report, entities should consider the characteristics of performance that:
- are of greatest importance to stakeholders;
 - reflect the financial significance of the activity; and
 - reflect both the objectives for carrying out the activity and any (external or internal) risks needed to be managed in achieving those objectives.
- 6.44 For dimensions to be relevant to the assessment of an entity’s performance, the entity must be able to control to a significant extent the dimension being measured. To the extent that there is uncertainty about an entity’s ability to control a dimension of its performance, the entity should provide enough information on the risks to its service delivery.
- 6.45 Performance targets describe the specific levels of performance to be delivered or achieved. They may be expressed as (but are not limited to) absolute numbers, percentages, ratios, point estimates, or ranges. Performance targets should be realistic and based on best estimates.

Qualitative characteristics

- 6.46 The quality of the information provided determines the usefulness of performance reports to users. The qualitative characteristics for financial reports are also important for performance reports.

⁴ For example, the Local Government Act 2002 (clause 15 of Schedule 10) requires the annual report to include the results of any measurement carried out during the year towards the achievement of outcomes, as well as any identified effects that any activity within the group of activities (that is, output classes) has had on the well-being of the community.

⁵ Including, but not limited to, quantity, quality, timeliness, location, cost, and reliability.

- 6.47 All of the important qualities that make performance reports meaningful and credible, and therefore useful, can be summed up under four qualitative characteristics:
- relevance;
 - reliability;
 - understandability; and
 - comparability.
- 6.48 These four qualities should apply, as appropriate, to:
- the reported elements (primarily the outcomes and outputs);
 - the performance measures selected; and
 - the performance targets set (and actual performance levels achieved).
- 6.49 Each concept includes several sub-concepts, which are derived either directly from the legislation and standards or from other guidance and work in the area of service performance information.

Relevance

- 6.50 To be relevant, the reports should:
- be presented within the context of the entity's strategic objectives, past performance, and current environment (including government themes, as appropriate, and other themes and considerations, such as sustainable development);
 - show clear and logical links between entity-level objectives (and themes), outcomes, outputs, performance measures, and performance targets (so that the rationale for the selection of elements, measures, and targets is evident);
 - meet the information requirements of stakeholders (including by reporting different levels and layers of information) and be useful for decision-making, as appropriate; and
 - be clearly linked to the financial information, including significant areas of planned expenditure.

Reliability

- 6.51 To be reliable, the reports should be faithfully represented and supportable, in that they:
- are measurable;
 - represent what they purport to, or are expected to, represent (that is, they represent the substance of transactions and events);

- include elements and performance measures that informed readers are likely to have chosen; and
 - are free from material error (that is, they are accurate or capable of having their accuracy determined within an acceptable range of precision or certainty).
- 6.52 To be reliable, the reports should be neutral – that is, free from bias in the selection, measurement, and disclosure of the elements, performance measures, and performance targets.
- 6.53 To be reliable, the reports should also be complete and balanced. They need to:
- be comprehensive enough, aggregated where appropriate, and reasonable (with the basis for aggregation clearly specified); and
 - cover the significant activities and all important aspects (including identifying the important dimensions of performance), and give them suitable emphasis, to fairly reflect their significance to the entity's performance.
- 6.54 Completeness is subject to considerations of economy, succinctness, materiality, feasibility, and the cost of reporting. An element or performance measure is material if its omission or mis-statement would affect users' perceptions or assessments of the reporting entity's performance or their decision-making.

Understandability

- 6.55 To be understandable, the reports should:
- have a clear format and layout;
 - be presented in a way that engages the reader – for example, by creating visual interest through the use of charts, tables, and symbols;
 - classify reported items clearly and logically;
 - be coherent, with easy-to-follow links between the different parts;
 - be presented within the context of the reporting entity's strategic objectives, past performance, and current environment (including government themes, as appropriate, and other themes and considerations, such as sustainable development);
 - show clear, logical, and easy-to-follow links between entity-level objectives, outcomes, outputs, performance measures, and performance targets;
 - be clear and concise in their content; and
 - be easy to read, expressed in plain English, and use words and terms suitable for users (with adequate explanations of acronyms, jargon, and technical terms).

Comparability

- 6.56 To be comparable, the reports should:
- be consistent in their format, layout, and in the way information is classified;
 - be consistent in the selection, measurement, and disclosure of elements and related information;
 - allow users to identify similarities and differences and to track progress:
 - most importantly, of actual performance against forecast performance, and
 - across different reporting periods, and to identify trends; and
 - allow users, where appropriate and practicable, to identify similarities and differences among different entities.

Constraints on qualitative characteristics

- 6.57 We acknowledge that there are some constraints on producing performance reports that have the required qualitative characteristics. These constraints include:
- Timeliness – To be useful, reports must be produced within a certain time frame, and the data must be timely for assessment and/or decision-making.
 - Balance between benefit and cost – There are limits to the extent to which more or better information justifies its cost in terms of benefits to the user.
 - Balance between qualitative characteristics (that is, trade-offs between qualitative characteristics) – Some qualities may need to be partially sacrificed to enhance other qualities (for example, sacrificing comparable data when introducing new more relevant data).
 - Materiality (that is, the extent to which omission or mis-statement would affect users' perceptions or assessments of the reporting entity's performance or their decision-making) – The identification of subject matter and the volume of information needs to be subject to decisions about its significance.

Appendix 1

Glossary

This glossary explains the technical terms used in this discussion paper, and provides definitions from other relevant sources (see the shaded text).

Dimensions of performance are the aspects or properties of performance that may be captured by a particular performance measure. They include, but are not limited to, quantity, quality, timeliness, location, cost, and reliability of delivery.

Elements of non-financial performance reporting are costs (including resources), outputs, and outcomes, which can be measured for the purpose of reporting and assessing the reporting entity's performance.

Impacts are the contributions made to an outcome by a specified set of outputs. They represent the relatively immediate or direct effect on stakeholders of the reporting entity's outputs. The relationship between outputs and impacts is therefore tighter and in closer proximity than the relationship between outputs and outcomes. This is because the reporting entity has more control or influence over impacts than over outcomes, the cause-effect relationship for the latter being looser and more remote. Impacts represent an intermediate step in the cause-and-effect chain between outputs and outcomes (that is, they are intervening factors).

Impacts are the contribution made to an outcome by a specified set of outputs, or actions, or both. [Public Finance Act 1989]

Inputs are the resources used by the reporting entity to produce its outputs.

Inputs are the resources used to produce the goods and services, which are the outputs of the reporting entity. [ICANZ, *Statement of Concepts of General Purpose Financial Reporting* (withdrawn); FRS-2: *Presentation of Financial Reports* (withdrawn); Technical Practice Aid No. 9: *Service Performance Reporting* (referenced in paragraph NZ 101.2 of the *New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements*, June 2005)]

Non-financial performance reports are reports to users that provide primarily non-financial information that records the performance of a public entity against specified objectives. They can encompass a comprehensive range of performance aspects (including outcomes, outputs, inputs, and capability), and the information can be presented in various statements (for example, Estimates, statements of intent or statements of corporate intent, LTCCPs, annual plans, statements of service performance, and other statements within annual reports).

Objectives are not defined for the purpose of this conceptual framework. In the context of non-financial performance reporting, we use the term in its common, wide-ranging meaning to refer to organisational aims or goals that relate to elements other than outcomes, impacts and outputs.

Unlike impacts and outcomes, **objectives** are not defined. Objectives apply where no impacts or outcomes are readily identifiable. This situation is most likely to arise with output expense appropriations for administrative and support services internal to the Crown (intra-government activities) and with some other appropriation types, particularly capital expenditure. [*Information Supporting the Estimates of Appropriations: Technical Guide 2008*]

Outcomes refer to the state, condition, impacts on, or consequences for the community, society, economy, or environment resulting from the existence and operations of the reporting entity.

Outcomes are the impacts on or consequences for, the community resulting from the existence and operations of the reporting entity. Desired outcomes provide the rationale for action and are the basis on which decisions should be made concerning the outputs as part of the range of possible interventions. [ICANZ, *Statement of Concepts of General Purpose Financial Reporting* (withdrawn); FRS-2: *Presentation of Financial Reports* (withdrawn); Technical Practice Aid No. 9: *Service Performance Reporting* (referenced in paragraph NZ 101.2 of the *New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements*, June 2005)]

Outcome means a state or condition of society, the economy, or the environment; and includes a change in that state or condition. [Public Finance Act 1989]

Output classes are groups of outputs of a similar nature.

Class of outputs or class means a grouping of similar outputs. [Public Finance Act 1989]

Output class or group: For external reporting and appropriation purposes, individual outputs are often aggregated into output classes or groups that are similar in nature. [ICANZ, Technical Practice Aid No. 9: *Service Performance Reporting*]

Outputs are the goods and services produced by the reporting entity. The term refers only to the goods and services produced for third parties – it excludes goods and services consumed within the reporting entity.

Outputs are the goods and services produced by the reporting entity. [ICANZ, *Statement of Concepts of General Purpose Financial Reporting* (withdrawn); FRS-2: *Presentation of Financial Reports* (withdrawn); Technical Practice Aid No. 9: *Service Performance Reporting*]

Outputs means goods or services that are supplied by a department, Crown entity, Office of Parliament, or other person or body; and includes goods and services that a department, Crown entity, Office of Parliament, or other person or body has agreed or contracted to supply on a contingent basis, but that have not been supplied. [Public Finance Act 1989]

Outputs means goods or services that are supplied by a Crown entity; and does not include goods and services that are produced for purchase or consumption solely within the Crown entity group. [Crown Entities Act 2004]

Activity* means a good or service provided by, or on behalf of, a local authority or council-controlled organisation. It includes the provision of facilities and amenities, the making of grants, and the performance of regulatory or other governmental functions. [Local Government Act 2002]

* The Local Government Act 2002 uses the term “activity” to refer to goods and services. In this discussion paper, we use only the term “output” to refer to goods and services, and we use the word “activity” according to its common and wider meaning.

Performance is a comprehensive concept and comprises outcomes, interactions with the public (including outputs and processes), inputs, and capability.

Performance measures are the specific criteria or means used to objectively measure performance (most commonly of output production and achievement of outcomes). They might be expressed as (but are not limited to) absolute numbers, percentages, ratios, point estimates, or ranges. They might also be qualitative in nature.

Performance reporting frameworks typically comprise the following components:

- the medium-term component (that is, the medium-term, outcome-oriented statement of intended achievements), which should include information on the reporting entity's objectives, outcomes, impacts, and operating intentions, together with related performance measures and targets and other information required by legislation and GAAP; and
- the forecast service performance report (that is, the annual, output-oriented statement of forecast service performance – or forecast SSP), which should include information on the reporting entity's intended outputs, together with related performance measures and targets and other information required by legislation and GAAP.

To constitute a “framework”, these components need to provide enough context and links (a) to strategic-level information and (b) within and between the information in the two components to provide a coherent structure for reporting. They need to clearly demonstrate the rationale for, and the relationships among, the contextual information, elements, performance measures, and targets. The components also need to provide enough context and links to the historical annual service performance report (that is, the annual, output-oriented statement of service performance – or SSP). The SSP is included in the annual report and should report actual service performance against the targets set in the forecast SSP, together with related performance measures and targets and other information required by legislation and GAAP.

Performance targets (also referred to as **performance standards**) set the specific levels of performance (the outputs produced or the outcomes achieved) that the entity aims to meet.

Service performance reports are reports to users that provide primarily non-financial information that records the output delivery performance of a public entity against specified objectives. This information is usually shown in statements of service performance (or equivalent reports) and is compared with information contained in forecast non-financial performance reports (for example, Estimates, statements of intent or statements of corporate intent, LTCCPs, and annual plans).

Users are those who rely on external general purpose reports as their major source of financial and non-financial information about the entity. For this purpose, users are assumed to have a reasonable knowledge and willingness to study the reported information with reasonable diligence. In relation to the public sector, specific users of external, general purpose performance reports include customers (that is, the recipients of public goods or services), funders and financial supporters (including taxpayers, ratepayers, and providers of grants and donations), elected or appointed representatives (for example, members of Parliament and select committees), and interested members of the public (for example, media commentators, academics and other analysts, and members of relevant professional or community groups). Although governors (for example, Ministers and local authority councillors), central agencies, other monitoring agencies, and entities' management are also users of external reports, they have access to, or are able to request, additional financial and non-financial performance information in carrying out their governance, monitoring, or management responsibilities.

Appendix 2

Requirements for preparing and auditing non-financial performance information

The tables below set out, for the types of entities covered by this discussion paper, the non-financial performance information they are required to report, and the Auditor-General's audit responsibilities for that reported information.

Crown entities' statements of intent

The purpose requirements are set out in section 138 of the Crown Entities Act 2004. The medium-term content requirements are in section 141, the annual content requirements are in section 142, and the audit requirements are in section 156.

Purpose
<p>Promote public accountability by:</p> <ul style="list-style-type: none"> • enabling the Crown to participate in setting the entity's medium-term intentions and undertakings; • setting out to Parliamentarians those intentions and undertakings; and • providing a base against which the entity's actual performance can later be assessed.
Medium-term content requirements
<p>For the three-year period:</p> <ul style="list-style-type: none"> • key background information about the entity and its operating environment; • the nature and scope of the entity's functions and intended operations; • the specific impacts, outcomes, or objectives that the entity seeks to achieve or contribute to (including any government policy directions the entity is directed to give effect to and how these relate to the outcomes or objectives of the direction); • how the entity intends to perform its functions and conduct its operations to achieve its impacts, outcomes, or objectives; • how the entity proposes to manage its organisational health and capability; • the main financial and non-financial measures and targets by which the future performance of the entity may be judged; • matters on which the entity will consult or notify or report to the Minister; • any process to be followed for the purpose of acquisition of shares or interests in companies, trusts, and partnerships; and • other matters the entity is required to include or are reasonably necessary to understand the entity's intentions and direction.
Annual content requirements
<p>For the first financial year, a statement of forecast service performance that complies with generally accepted accounting practice. The statement must:</p> <ul style="list-style-type: none"> • describe the classes of outputs the entity proposes to supply; • provide the measures and forecast targets of output delivery performance against which the entity's actual delivery of classes of outputs will be reported; and • identify the expected revenue to be earned and proposed expenses to be incurred, for each output class.

The statement must also include:

- any other measures and targets necessary to assess the entity's performance at the end of the financial year; and
- any additional information and explanations needed to fairly reflect the forecast financial operations and financial position of the entity.

Audit requirements

The Auditor-General must audit the entity's annual financial statements, statement of service performance, and any other information that the Auditor-General has agreed, or is required, to audit, within three months after the end of each financial year.

Information on future operating intentions of government departments and Offices of Parliament

The purpose requirements are set out in section 1A of the Public Finance Act 1989. The medium-term content requirements are in section 40, the annual content requirements are in sections 41 and 45A, and the audit requirements are in section 45D.

Purpose

Provide a framework for parliamentary scrutiny by (among other things) specifying the minimum financial and non-financial reporting obligations of Ministers, departments, Offices of Parliament, and organisations named or described in Schedule 4.

Medium-term content requirements

For the three-year period:

- the nature and scope of the entity's functions and intended operations;
- the specific impacts, outcomes, or objectives that the entity seeks to achieve or to contribute to through its operations;
- how the entity intends to perform its functions and conduct its operations to achieve those impacts, outcomes, or objectives; and to effectively manage those functions and operations within a changeable operating environment;
- the main measures and targets that the entity intends to use to assess and report on matters relating to its future performance, including the impacts, outcomes, or objectives achieved or contributed to by the entity (including possible unintended impacts or negative outcomes);
- the cost-effectiveness of the interventions that the entity delivers or administers;
- the entity's organisational health and capability to perform its functions and conduct its operations effectively; and
- any other matters that are reasonably necessary to achieve an understanding of the entity's operating intentions and direction; or may be specified by the Minister.

Annual content requirements

For the first financial year, a statement of forecast service performance that complies with generally accepted accounting practice. The statement must:

- describe the classes of outputs the entity proposes to supply ;
- the measures and forecast targets of output delivery performance against which the entity's actual delivery of classes of outputs will be reported;
- identify the expected revenue to be earned and proposed expenses to be incurred, for each output class.

The statement must also include:

- comparative budgeted and estimated actual figures for the previous financial year for the forecast financial statements;
- any other measures and targets necessary to assess the entity's performance at the end of the financial year; and
- any additional information and explanations needed to fairly reflect the forecast financial operations and financial position of the entity.

Audit requirements

The Auditor-General must audit the entity's annual financial statements, statement of service performance, and any other information that the Auditor-General has agreed, or is required, to audit, within three months after the end of each financial year.

Local authorities' long-term council community plans

The purpose requirements are set out in sections 3 and 93 of the Local Government Act 2002. The long-term content requirements are in clauses 1 and 2 of Schedule 10, the annual content requirements are in clause 2 of Schedule 10, and the audit requirements are in sections 84, 94, and 99 and Part 3 of Schedule 10.

Purpose

Provide for democratic, effective local government by:

- providing a framework and powers for local authorities to decide the activities they undertake;
- promoting accountability of local authorities to communities; and
- providing for local authorities to play a broad role in promoting their communities' social, economic, environmental, and cultural well-being, taking a sustainable development approach.

The purpose of a long-term council community plan is to:

- describe the activities of the local authority;
- describe the community outcomes of the district or region;
- provide integrated decision-making and co-ordination of local authority resources;
- provide a long-term focus for local authority decisions and activities;
- provide a basis for local authority accountability to the community; and
- provide an opportunity for public participation in decision-making on local authority activities.

Long-term content requirements

For at least 10 years, describe:

- the district/region's community outcomes; and
- how the entity will contribute to the community outcomes, including how it will work with others and how the community outcomes relate to other key strategic planning documents or processes.

The plan is required to state the measures to be used to assess progress towards the community outcomes and how the local authority will monitor and report on progress towards achieving the outcomes.

For each group of activities, the plan is to:

- identify the rationale for delivery of the group of activities (including the community outcomes to which the group contributes) and the activities within the group;
- outline the negative effects an activity may have on the community's social, economic, environmental, or cultural well-being; and
- set out information about the assets of the local authority and the implications and associated funding of demand or consumption and asset service provision levels and targets.

Annual content requirements set out for the medium term

Include in detail for each of the first three years and in outline for the subsequent seven, statements of:

- the intended levels of service provision for the group of activities, including the performance targets and other measures by which actual levels of service provision may be assessed meaningfully;
- the estimated expenses of achieving and maintaining the identified levels of service provision; and
- the estimated revenue levels, the other sources of funds, and the rationale for their selection.

Audit requirements

The Auditor-General must report on the statement of proposal, adopted plan, and any amendments, including:

- the compliance of the statement with the Act;
- the quality of the information and assumptions underlying the forecast information; and
- whether the forecast information performance measures provide an appropriate framework for meaningful assessment of actual levels of service provision.

The Auditor-General must report on the annual report's:

- financial statements;
- compliance with the Act's requirements;
- statement comparing actual and intended levels of service provision and giving reasons for significant variances between actual and expected service provision; and
- statement of significant asset acquisitions or replacements, and reasons for these and for significant variations from the plan.

The Auditor-General must also report on whether the summary annual report fairly and consistently represents the major matters in the annual report.

Council-controlled organisations', port and energy companies', Crown research institutes', and State-owned enterprises' statements of (corporate) intent

The content requirements for the various types of entities are set out in the Local Government Act 2002, the Port Companies Act 1988, the Energy Companies Act 1992, the Crown Research Companies Act 1992, and the State-Owned Enterprises Act 1986.

Content requirements over three years	Council-controlled organisations	Port companies	Energy companies	Crown research institutes	State-owned enterprises
Statement of intent	✓				
Statement of corporate intent		✓	✓	✓	✓
Coverage of 3 financial years, updated annually	✓	✓	✓	✓	✓
Content to be covered for the parent entity and its subsidiaries					
Objectives of the group	✓	✓	✓	✓	✓
A statement of the board's approach to governance	✓				
Key background information about the organisation and its operating environment		✓			
Nature and scope of activities to be undertaken	✓	✓	✓	✓	✓
Ratio of consolidated shareholder funds to total assets and definitions of those terms	✓	✓	✓	✓	✓
Accounting policies	✓	✓	✓	✓	✓
Performance targets and other measures by which the performance of the group may be judged in relation to its objectives	✓	✓	✓	✓	✓
An estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to the shareholders	✓	✓	✓		

Content requirements over three years	Council-controlled organisations	Port companies	Energy companies	Crown research institutes	State-owned enterprises
Statement of the principles adopted in determining the annual dividend, and an estimate of the amount or proportion of annual tax-paid earnings that is intended to be distributed to the Crown				✓	✓
The kind of information to be provided to the shareholders/shareholding Ministers	✓ (shareholders)	✓ (shareholders)	✓ (shareholders)	✓ (Ministers)	✓ (Ministers)
Procedures to be followed before any member of the group subscribes for, purchases, or otherwise acquires shares in any company or organisation	✓	✓	✓	✓	✓
Activities for which the board seeks compensation from any local authority, Harbour Board, or the Crown	✓ (local authority)	✓ (Harbour Board)		✓ (Crown)	✓ (Crown)
The board's estimate of the commercial value of the Crown/shareholders' investment in the group and the manner in which, and the times at which, that value is to be reassessed	✓ (shareholders)	✓ (shareholders)		✓ (Crown)	✓ (Crown)
Details of all transactions intended to be entered into between any member of the group and related parties as set out in the Energy Companies Act 1992			✓		
Other matters that are agreed by shareholders/shareholding Ministers and the board	✓ (shareholders)	✓ (shareholders)		✓ (Ministers)	✓ (Ministers)
Reporting against intended performance					
Annual report should contain information that is necessary to enable informed assessment of the operations of the parent entity and its subsidiaries	✓*	✓		✓	✓

* Plus an explanation of material variances.

Content requirements over three years	Council-controlled organisations	Port companies	Energy companies	Crown research institutes	State-owned enterprises
Audit requirements					
Financial statements	✓	✓	✓	✓	✓
Performance targets and other measures by which performance was judged in relation to the entity's objectives		✓		✓	

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Other publications issued by the Auditor-General recently have been:

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- Guardians of New Zealand Superannuation: Governance and management of the New Zealand Superannuation Fund
- Annual Plan 2008/09 – B.28AP(08)
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