



PARLIAMENT OF NEW SOUTH WALES

**REPORT OF THE
PUBLIC BODIES REVIEW COMMITTEE**

**TOWARDS BETTER PERFORMANCE
REPORTING**

*Findings of an Annual Reporting
Workshop Pilot Project*

November 2000

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Functions Of The Committee

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

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

Committee Membership

Mr Milton Orkopoulos MP, Chairman

Mr John Bartlett MP

Mr Alan Ashton MP

Mr Daryl Maguire MP

Mr Michael J. Richardson MP



**Milton Orkopoulos MP
Chairman**



John Bartlett MP



Michael Richardson MP



Alan Ashton MP



Daryl Maguire MP

Secretariat:

Ms Catherine Watson – Committee Manager

Ms Susan Want – Committee Officer

Ms Glendora Magno – Asst. Committee Officer

Consultants:

Mr. Alan Bridges

Mr. John Chan-Sew

Chairman's Foreword

Prior to my appointment as Chairman following the 1999 State election, the Public Bodies Review Committee had already established a role for itself in reviewing the annual reports of the New South Wales public sector. This was in no small part due to the Committee's previous Chairman Stan Neilly and I would like to pay tribute to him for this. The Annual Reporting Workshops and this subsequent report could have never come about but for the strong foundations laid down by Stan and the rest of the previous Committee membership.

I believe that the Workshops have served to crystallise many of the issues that the previous Committee grappled with. The most important one being: why isn't performance reporting by agencies really getting any better? The answers to that question are probably all contained in this report.

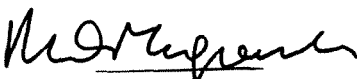
Clearly the crucial problem is lack of senior executive involvement at the outset of the annual reporting process. Annual report writers are too far down the hierarchy in government agencies to prepare overarching frameworks for annual reports and then make more senior colleagues comply with their requests for information.

Accountability for agencies does not end with their Strategic and Corporate Plans. These Plans must be translated into key performance indicators and ultimately outcomes which are reported frankly and fully through the annual reporting process.

Another problem is lack of appropriate feedback to agencies concerning the contents of their annual reports. There is clearly scope for Treasury and the Audit Office to take a greater role in this regard.

The Committee see these Workshops as the beginning of a co-operative approach between itself and government to facilitate change in performance reporting in the future. There are various options for achieving this which are discussed within the Report.

I would like to thank all the agencies which participated in the Workshops. They have taught us as much about the public sector annual reporting process as we have taught them. I would also like to thank the guest speakers from the Audit Office and Treasury who graciously gave us their valuable time and expertise. Lastly, I wish to thank the Committee Secretariat for the organisation of the Workshops and the preparation of this report, in particular, our two expert consultants, John Chan-Sew and Alan Bridges.


Milton Orkopoulos MP
Chairman

Executive Summary

Between 4 May and 26 July 2000 the Committee ran a series of annual reporting workshops which were attended by eight New South Wales government agencies. A key component of these workshops was to provide direct feedback on the performance reporting elements of the agencies' 1998/1999 Annual Reports and to assist with the preparation of future reports. A number of guest speakers from Treasury and the Audit Office also addressed the participants.

The following general comments were made following the review of the agencies' eight 1998/99 Annual Reports:

- The "Highlights" Section often presented only a list of completed major initiatives and projects with an undue emphasis on internal processes rather than performance and outcomes. Usually only "good" news was included and no setbacks and problems;
- Key elements of the Corporate Plan were not fully reflected in the Annual Report;
- Goals/objectives were expressed in vague terms and had not been translated down to the operational level. Objectives were not supported by quantitative/qualitative key performance indicators showing achievement of outcomes;
- Some of the Key Performance Indicators used could not be directly attributed to the core activities of the agency;
- For budget dependent agencies, the output and outcome measures adopted in the Budget Papers were not used as part of the planned targets in the reporting of performance achieved;
- Little explanation was given in the Corporate Plan on how some of the KPIs were to be measured and also changes to KPIs were not adequately explained in the Annual Report;
- Statistics and KPIs were usually given just for the current year together with last year's comparatives. Generally, no trend data and analysis was provided;
- No Executive Summary was included at the beginning of the Annual Report;
- No reference was made to plans and targets nor industry benchmarks in the "Review of Operations" Section;
- "Review of Operations" Section contained vast amounts of minor details which were not necessary for the purpose of accountability reporting;

- The Section on future outlook and developments usually lacked a strategic focus and often only contained a list of major projects and initiatives planned for the following year;
- Limited commentaries on surveys of stakeholders;
- Absence of a "Discussion and Analysis" Section on the annual financial statements;
- Organisational structure was not adequately explained;
- Tables, charts, graphs and pictures were included without adequate explanations.

During discussions with the participants at the Workshops the following key obstacles emerged as a hindrance to good annual report preparation:

- There is a reluctance at management level to publish performance information which is not entirely positive;
- Annual Report preparation is normally an "add on" to the preparer's normal duties;
- There is a lack of internal and external training in Annual Report preparation;
- The Annual Report preparer is really a compiler with no true authority;
- There is no link between the Corporate Plan and performance reporting;
- Annual Reports have to be multi purpose documents that please everyone.

Recommendations to address the above issues have been made by the Committee and are contained overleaf.

Findings and Recommendations

RECOMMENDATION 1:

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

RECOMMENDATION 2:

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

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

RECOMMENDATION 3:

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

- key elements of the Strategic and Corporate Plans are reflected in the Annual Report;*
- targets and external benchmarks (where available) are used to assess performance;*

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

RECOMMENDATION 4:

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

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

RECOMMENDATION 5:

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

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

RECOMMENDATION 6:

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

RECOMMENDATION 7:

That more guidance and training be provided to agencies by the Treasury through:

- *the publication of educational materials on the “best practice” approach and on new reporting requirements; and*
- *the conducting of regular training seminars and workshops as well as an annual Discussion Forum.*

RECOMMENDATION 8:

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

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

RECOMMENDATION 9:

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

RECOMMENDATION 10:

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

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

RECOMMENDATION 11:

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

RECOMMENDATION 12:

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

Chapter One: Background

1.1 Role of the Public Bodies Review Committee

The Public Bodies Review Committee was established on 31 May 1995 with a specific role in reviewing the annual reports of the New South Wales state and local government public sector agencies, particularly in relation to the adequacy and accuracy of all financial and operational information and the efficient and effective achievement of each agency's objectives.

On 9 August 1995, at a seminar on annual reporting, the Treasurer the Honorable Michael Egan MLC outlined the role he envisaged that the Committee would perform:

I thought that it was important that the Committee has one task, and one task alone, and that was to review each and every annual report produced by every department or statutory authority.

Given the vast number of agencies, clearly no single parliamentary committee would be able to review to any degree of satisfaction every annual report. But what will happen is that every department, every statutory authority, will know each year that its report will be going off to a parliamentary committee which will be charged with the job of determining whether the financial and operational information in that report is valid for the purposes of performance evaluation, whether it is accurate and whether it is adequate.....So even though it will be impossible for a detailed review of each annual report, at least every authority, every agency, will know that at some stage in the next four or five years it will be subject to that detailed review and will therefore always have to be on guard.

(PAC Report No.92 p.8)

The Committee believed that before it commenced its task of reviewing annual reports it should formulate and circulate *Guidelines for Reporting Performance* following consultation with certain key stakeholders such as the New South Wales Audit Office, the then Council on the Cost of Government and New South Wales Treasury. These Guidelines were published in November 1996 and forwarded to all New South Wales government agencies.

1.2 Previous Reviews of Annual Reports

Throughout its lifetime the Committee has regularly reviewed the annual reports of the public sector in accordance with the legislative requirements and Treasury guidelines as well as its own *Guidelines for Reporting Performance*. From time to time the Committee has requested agencies to appear before it to answer questions relating to issues arising

from their reports following a review. The results of these reviews have been published in the Committee's second and fourth reports.

The Committee's second report in June 1997 outlined its findings regarding five agencies 1995/96 annual reports. These agencies were: Ageing and Disability Department; Community Services Commission; Department of School Education; Historic Houses Trust; and Integral Energy.

Of these five reports, the Committee considered that both Integral Energy and the Community Services Commission had done outstanding work in the preparation of their annual reports. In particular, these agencies outlined specific objectives for the year for both the agency as a whole and for each program or division. There was also clear evidence of outcome for each objective stated.

However, the Committee found that the other three agencies did not measure up to expectations. It was found that these agencies framed their objectives in very general terms which were suggestive of activity rather than outcome. Similarly the performance reported related more to general "busyness" than to outcomes linked directly to stated objectives.

In its fourth report the Committee published the reviews it had done of the 1996/97 annual reports of ten government agencies. These agencies were: Art Gallery of New South Wales; Central Coast Area Health Service; Department of Community Services; Department of State and Regional Development; Health Care Complaints Commission; Historic Houses Trust; Legal Aid Commission; Police Service; Sustainable Energy Development Authority; and Waste Service of New South Wales.

Only four of these ten reports were assessed as meeting the relevant criteria for performance reporting. Three organisations: Central Coast Area Health Service; Legal Aid Commission; and the Waste Service of New South Wales were commended for their full and forthright disclosure of objectives and achievements and the explicit identification of exactly what was, and was not, achieved in relation to each objective.

1.3 Need for Greater Focus and Scrutiny of Performance Reporting

Public accountability is essential for the efficient and effective operation of public sector agencies. Annual reports are considered to be the primary mechanism by which agencies account to stakeholders. There is a public expectation that public sector annual reports should address major issues for which agencies are responsible both in a financial and non-financial context.

However, while we have seen the introduction of a consistent and more rigorous financial reporting regime in the New South Wales public sector over recent years, we are yet to see agencies adopt a similar approach in relation to the reporting of their non-financial information.

All New South Wales public sector agencies have been required to produce a three yearly or five yearly strategic plan and an annual corporate plan in agreement with their Minister for many years. The annual corporate plan is essentially a subset of the longer term strategic plan.

In order to ensure that the performance information an agency provides is relevant it is essential that agencies link their performance indicators to specific objectives included within their corporate plans. In other words, the agency must show that it actually set out to achieve what it said it would. Further, there needs to be a yardstick by which a reader can assess whether an agency has either been above, below, or on target with its operational performance. Comparisons of actual results with targets and past years' results, as well as targets and strategies for the following year, must be adequately disclosed. Explanations should accompany the performance indicators, particularly below target performance, citing the reasons. As the Public Bodies Review Committee has commented upon in its previous reports, there has been an inadequate coverage of performance indicators which are relevant to the goals of the agency in most New South Wales public sector annual reports which it has reviewed.

Similarly, in March 1996 the New South Wales Public Accounts Committee in its report *The truth, the whole truth and nothing but the truth? Annual reporting in the NSW Public Sector* noted that one of the key criticisms of public sector annual reports was that they do not adequately report on the performance of the agency being reviewed:

The PAC is disappointed with the continued high levels of non-compliance with particular reporting requirements such as measures of performance..... Most importantly many public sector annual reports continue to fail to properly address the key areas of an agency's responsibilities which are of concern to readers. This involves a failure to comply with the legislative requirement to address "major problems and issues". It also involves a failure to report relevant information which may be in any way regarded as controversial. Once again, this is unacceptable.

PAC Report no.95 pp. 35-36

1.4 Proposed Annual Reporting Amendments

In 1992 the New South Wales Treasury foreshadowed a comprehensive review of the *Public Finance and Audit Act and the Annual Reports*. The intended purpose of the rewrite was enunciated in the Treasury 1993/94 Annual Report. Treasury indicated that the new legislation would:

- *bring all current provisions into line with contemporary public finance, accountability, financial reporting and auditing standards;*
- *re-orient the existing Acts from their somewhat prescriptive and detailed approach to one written, wherever possible, in broad terms with statements of principles that are supported by statements of best practice issued by the Treasurer; and*

- *adopt a plain English approach.*

In July 1998 a Working Paper entitled *Fundamental Review of NSW Financial and Annual Reporting Legislation* was produced and circulated to all stakeholders. One part of the Working Paper outlined in detail the proposed changes to the annual reporting requirements.

In particular, Chapter Six of the Paper discussed the proposed new annual reporting framework for the New South Wales public sector. It noted that the existing reporting approach is quite detailed and prescriptive and lacks a clear focus on the key performance issues that are of relevance and interest to the major stakeholders, particularly the Parliament. The stated aim of the new Act is to simplify and strengthen the system of accountability by establishing a reporting framework based on broad principles supported by detailed core disclosure requirements. There was a recognition of the need for an enhancement in transparency and accountability of agencies' operations following a gradual devolution of much greater responsibilities to the managers at the agency level.

The basis of the new framework is a two-tiered approach comprising both general and specific reporting obligations. The new Act will set out certain general reporting obligations with respect to performance which will be supported by other detailed specific reporting obligations to be prescribed by Regulations. Each agency will have a general reporting obligation to provide comments and information on:

- The charter, objectives and major strategies and activities of the organisation;
- Major features of corporate governance operating within the organisation;
- The existence and effectiveness of the system of risk management and internal control;
- Whether, in the opinion of the chief executive (or governing board), the agency has achieved its plans, objectives and targets as indicated in the corporate plan and, if not, the reasons for non-achievement;
- Qualitative and quantitative measures of actual performance together with a commentary on significant trends (indicating a clear linkage between inputs, outputs and outcomes);
- A comparison of actual performance with past and planned performance as well as the performance of equivalent agencies in other jurisdictions, both locally and overseas (where practicable);
- Highlights of major achievements as well as significant setbacks, problems and issues;

- Significant internal and external factors to be taken into account in assessing the financial and non-financial performance;
- The agency's response to issues of significant public interest about major aspect's of its activities;
- The future operating environment and developments as well as future plans and major projects including those which are designed to further improve performance; and
- Such other matters as are relevant to an informed assessment of performance.

In essence, agencies will be required to explain clearly to readers what they had planned to achieve, what they have actually achieved and what they expect to achieve in the future. General government sector budget dependent agencies will report specifically on outputs and outcomes as well as achievements. Apart from the performance indicators in the corporate plans, Government Trading Enterprises will also report on achievement of targets as set out in the Statement of Financial Performance or the Statement of Corporate Intent for the current year as well as the results achieved in the medium term.

The second tier of the new framework will be based upon detailed specific reporting obligations which will essentially be an update of the existing Regulations with all non-essential provisions deleted. These requirements will be the same for all agencies. It is expected that these disclosures will be made at the end of an agency's report so the report structure is turned around to focus primarily on performance.

The Public Bodies Review Committee and the Public Accounts Committee have in the past expressed concerns regarding the relevance of some of the key performance indicators of agencies and, in particular, the lack of objectivity in having agencies developing their own indicators. In response to these concerns, the new Act will specify that the indicators must be:

- directly linked to the charter, objectives, strategies and activities;
- approved by the responsible Ministers;
- developed with external advice, where considered appropriate; and
- aligned with comparable indicators of similar bodies (both locally and interstate) as well as with nationally agreed indicators (where available).

In order to provide an external scrutiny of the performance information presented by agencies in their annual reports, the new Act will also provide the Auditor-General with an additional power to select a sample of agencies each year and to conduct a review of, and to report on, the accuracy of the compilation and description of publicly reported performance indicators.

Following the legislation's enactment, New South Wales will be placed well ahead of the other Australian jurisdictions with regard to public sector performance reporting. The Committee fully supports the introduction of a new and innovative approach to performance reporting.

1.5 Best Practice

To complement the new legislation, Treasury intends to continue to issue best practice guidelines to assist agencies in improving the quality of their annual reports. The guidelines, which almost add a third tier to the new reporting framework, will attempt to keep the new reporting framework relevant to future operating changes within the public sector.

Chapter Two: The Workshop Pilot Project

2.1 Purpose of the Project

Following its previous reviews of New South Wales public sector annual reports, the Committee had real concerns about the way the majority of the agencies seemed to be structuring their annual reports, particularly in relation to their performance reporting. Further, the Committee from time to time revisited subsequent annual reports of agencies which it had previously reviewed and put on notice concerning their disappointing performance and could discern no real improvement.

In its fourth report *Results of the Committee's Review of Ten Annual Reports*, the Committee had acknowledged that smaller agencies, in particular, may need remedial training in the preparation of their reports. It was noted by the Committee in its conclusions that there was obviously an urgent need for assistance for those agencies unable to meet at least the minimum requirements of annual reporting legislation which had, after all, been in place for over ten years at that point.

This report therefore contained the following specific recommendation by the Committee:

That assistance be provided for organisations experiencing difficulty in setting objectives to put their mission and/or goals into operation; finding, using and reporting measures and indicators of performance; and preparing an annual report that at least meets the legislative requirements.

PBRC Report no.4 June 1998 p.9

This recommendation has yet to be taken up by the government.

Acknowledging that there was currently a real lack of resourcing within the public sector to assist agencies with the preparation of their annual reports, the Committee decided to attempt the task itself on a limited basis and see whether it could effect some positive change in subsequent agency reports. It has been the view of the Committee since its inception that once an agency constructs a good reporting framework that framework should continue to form the basis of sound annual reporting for the future. In other words, agencies largely only have to get it right once. After that, relatively minor reviews and appropriate adjustments for reasons of relevancy should generally suffice.

It was further anticipated that the training workshops would provide an informal forum in which agencies could identify and discuss the key obstacles and issues the report preparers face in producing an optimal report. A further projected outcome of the project was to put report preparers, who are often isolated within their organisations, in touch with peers should future support and advice be needed.

A decision was made to concentrate on a range of smaller agencies, some of which had previously had their reports examined by the Committee, some which had not. Consultation also took place with NSW Treasury and the NSW Audit Office about likely participants. To keep the group manageable and productive it was decided to settle on a number of about six participants. Ultimately, eight agencies were included as two additional agencies heard about the project and expressed interest in participating. Officers who had the actual day-to-day responsibility for preparing the annual report were targeted. No cost was charged to the participating agencies.

All six of the agencies initially invited to participate in the project were chosen not because their annual reports were considered to be below the standard of the rest of the public sector. The Committee had examined their 1997/98 annual reports before the project began and certainly identified that there was room for improvement. However, it would be impossible to say on a comparative basis whether those agencies' reports were any better or worse than their counterparts for that year.

Participants for the project were selected in order to draw in a reasonable cross section of smaller agencies. The end result was a mixture of arts based and service organisations as the Committee had previously recognised the special difficulties these agencies faced in regard to performance reporting. There was also an attempt to bring together agencies which shared some similar characteristics while still offering the necessary level of diversity.

The principal aims of the project were to encourage improvements by assisting participants to understand what the requirements of a good annual report are: provide one-on-one feedback on both individual reports and common problems from experts in the field, and offer the participants an opportunity to draw on the expertise and service-wide knowledge of key players in the public sector annual reporting process such as the Audit Office and Treasury.

2.2 Structure of the Workshops

It was initially decided that each workshop should encompass both a practical participative component and an instructional segment conducted by leading experts in the field. There was also flexibility built into the program for the participants themselves to identify areas of perceived deficiency in their own knowledge for which they would like to receive training.

For relevancy reasons, the project was timed to occur as participants started to prepare their 1999/2000 annual reports. In reality, due to competing priorities for the Committee's time and resources, the sessions actually started after each agency was well into the preparation of their reports. As the project took a longer term vision than just effecting change in each agency's next report, this was not considered to be a huge problem.

There was also a recognition that participants had other competing duties and there was a need to limit the sessions to the minimum needed to be useful. Further, workshops were planned as close together as possible for relevancy reasons and to ensure that each agency received feedback on their previous annual report while the 1999/2000 report was still in production.

Throughout the project each participating agency had its 1998/99 annual report evaluated in detail by the two expert Committee Consultants and individual written and oral feedback was provided. During each workshop session issues relating to two to three reports which had been evaluated were discussed among the group with a view to identifying possible solutions to the problems highlighted.

The first workshop was held on 4 May 2000. It was opened by the Speaker of the Legislative Assembly the Hon John Murray MP who spoke on the importance of good annual reporting. This was followed by a meeting with Committee Members where the specific information requirements of Members of Parliament were discussed.

The Program for the six workshops was as follows:

<p>Session 1</p> <p>Thursday 4 May 2000</p>	<p>9am: Hon John Murray MP, Speaker, Legislative Assembly</p> <p>10am: Milton Orkopoulos MP, PBRC Chairman</p> <p>10.30am: Committee Members</p>	<p>Topic: Importance of good public sector annual reporting</p> <p>Topic: Role of the Committee and purpose of the pilot project</p> <p>Discussion: What Members of Parliament look for in public sector agency annual reports</p>
<p>Session Two</p> <p>Thursday 15 May 2000</p>	<p>2pm: John Chan-Sew, Committee Consultant</p> <p>3pm: Alan Bridges, Committee Consultant</p>	<p>Topic: Proposed new changes to NSW Annual Reporting legislation</p> <p>Topic: Annual Reporting Awards</p>

<p>Session Three</p> <p>Wednesday 31 May 2000</p>	<p>2pm: Bob Sendt, NSW Auditor General</p> <p>2.30pm: Jane Tebbatt, Principal Auditor, Performance Audit Branch, NSW Audit Office</p> <p>3pm: John Chan-Sew & Alan Bridges</p>	<p>Topic: Role of key performance indicators in the public sector</p> <p>Topic: The Audit Office's current review of the KPI's of six NSW government agencies</p> <p>Topic: Discussion of the 1998/99 Annual Reports of the Office of the Protective Commissioner, Environment Protection Authority & Sustainable Energy Development Authority</p>
<p>Session Four</p> <p>Wednesday 14 June 2000</p>	<p>2pm: Dianne McHugh & Martin Smith, NSW Treasury</p> <p>3pm: John Chan-Sew & Alan Bridges</p>	<p>Topic: Annual reporting requirements in the NSW public sector</p> <p>Topic: Discussion of the 1998/99 Annual Reports of the Royal Botanic Gardens, Historic Houses Trust & Tourism NSW</p>
<p>Session Five</p> <p>Wednesday 28 June 2000</p>	<p>2pm: Alan Bridges</p> <p>3pm: John Chan-Sew & Alan Bridges</p>	<p>Topic: Presentation: graphs, charts, tables & other illustrations.</p> <p>Topic: Discussion of the 1998/99 Annual Reports of NSW Art Gallery & Sydney Opera House</p>
<p>Session Six</p> <p>Wednesday 26 July 2000</p>	<p>2pm: Stephen Horne, Director, Performance Audit Branch, NSW Audit Office</p>	<p>Topic: Audit Office's Performance Audit of the NSW Legal Aid Commission's KPIs</p>

2.3 Workshop Participants

As previously mentioned, eight agencies participated in the pilot project. Six of these were specifically invited by the Committee to participate. Two more volunteered themselves after hearing about the project from other sources. Invited participants were selected by the relevant Ministers.

The participants were as follows:

Art Gallery of New South Wales	<i>Trish Kernohan</i> , Administrative Manager
Environment Protection Authority	<i>Kendy McLean</i> , Corporate Planning & Performance
Historic Houses Trust	<i>Charmaine Moldrich</i> , Manager Marketing & Business Development
Office of the Protective Commissioner	<i>Jane Floyd</i> , Media & Communications
Royal Botanic Gardens	<i>Gary Bridle</i> , Manager Design & Editorial Services
Sustainable Energy Development Authority	<i>Suzanne Dunford</i> , Media Officer
Sydney Opera House	<i>Carolyn Stewart-Smith</i> , Sr. Project Officer, Corporate Affairs Department
Tourism NSW	<i>Nadine Emmerton</i> , Manager Board & Executive Support

2.4 Consultants

The Committee employed two consultants to work on the project. Both of these have a strong background in annual reporting and regularly work with the Committee in evaluating annual reports.

Alan Bridges MA M.Ec FCPA

Alan has been engaged as an expert consultant to the Public Bodies Review Committee since 1995. Alan is also a lecturer at the School of Accounting at the University of Technology, Sydney. He was seconded to the Public Accounts Committee between 1982

and 1984 as part of its inquiry into the need for standardised annual reporting legislation in the New South Wales public sector. This inquiry resulted in the enactment of the current annual reporting legislation.

Alan is also a Director and Adjudicator on the Australian Annual Reporting Awards. He has been involved with the Awards since 1975.

John Chan-Sew B.Ec (Comm) FCA FCPA, FCIS

John has been engaged as an expert consultant to the Public Bodies Review Committee since 1999. Between 1991 and 1999 John held a variety of senior positions at New South Wales Treasury. His responsibilities at Treasury included: provision of advice on accounting, auditing, annual reporting and legislative policies; administration of the State's financial management and accountability legislation; contribution to the development of public sector accounting standards and conduct of training program for agencies on accounting and reporting issues.

While at Treasury John played a leading role in the implementation of the following Government Financial Management Reform Initiatives: accrual accounting and budgeting systems for government departments; whole-of-government financial reporting; risk management and internal control framework; comprehensive asset valuation and maintenance policy; and fundamental review of the State's Financial Management and Accountability legislation.

2.5 Speakers

Five Speakers gave presentations during the workshops. Two of these were from New South Wales Treasury and three were from the New South Wales Audit Office.

A synopsis of their presentations has been included.

Speaker No. 1

Bob Sendt, New South Wales Auditor General

Presentation: Accountability Issues in the Public Sector

It is indeed a golden age for consumers. Or at least for the 80 per cent of goods and services provided by the private sector.

If the consumer wants to obtain information on the 20 per cent of goods and services provided by the public sector, what is available?

In the public sector, shopping around for services is not generally possible. Limited functions - particularly in the budget-funded sector - are subject to competition. Most services are provided free or with limited user contribution, so private sector providers can only exist where it is possible for them to substantially differentiate their services through quality, access or status (eg private schools) - in effect operate in a separate market.

In the private sector inefficiencies translate into higher prices - leading to market share loss - or reduced profits - leading to shareholder action. For goods supplied by the public sector, market signals are generally weaker.

Equally, simple bottom-line measures (such as profit/loss) are not that meaningful for much of what government does. Despite this, taxpayers have a right to be able to find out if their financial contributions to the State are being used effectively and in a value-for-money manner.

In Australia, various attempts to address this issue have been made from time to time. The 1970s were a period when reform became quite active in this area of public administration. In 1974 the Royal Commission on Australian Government Administration was established at Commonwealth level to inquire into concerns about the size of government, its administrative inefficiencies, and the lack of accountability of public entities.

In New South Wales, watershed machinery of government inquiries such as the Wilenski *Review of New South Wales Government Administration* had immense impact on the reform agenda during the early 1980s. Most States have had similar episodes of fundamental reform, during which program budgeting was generally introduced, accompanied by program evaluation and use of performance indicators.

The concept of accountability now firmly and overtly encompasses the notion of accountability for results or performance.

Accountability operates on a number of levels. The large numbers of stakeholders in the public sector results in numerous lines of accountability and it is difficult to develop a set of indicators which cover all these needs.

There are therefore a number of key aspects to performance. It is a multidimensional issue. Since different stakeholders or commentators may focus on different aspects, performance accountability requires accountability mechanisms appropriate to such a task.

Four common deficiencies can be observed in many public sector performance accountability systems:

1. There are multiple approaches to performance measurement, even within jurisdictions, which can be confusing and may be wasteful of effort;

2. Some approaches do not make performance information publicly available;
3. Resourcing arrangements for agencies are not closely linked to results;
4. Most systems lack sufficient independent validation - ie auditing - with regard to performance indicators and performance information.

There are a variety of approaches to measuring and benchmarking public sector performance. There are efforts at the national level, and each jurisdiction is experimenting with approaches of their own design.

Leaving aside the question of which approach to performance assessment may be considered superior, and acknowledging that much effort is being put into the generation of performance information, in most jurisdictions not enough of this internal activity reaches the outside world. Hence *public accountability* is limited. This is a serious matter, and one where reform must be vigorously pushed.

Whatever system of performance reporting is adopted, to achieve the goal of performance accountability it is vital that reported information is useful and reliable. What most Australian public sector review and reporting systems lack is sufficient independent assessment and validation (ie auditing) with regard to performance information. External users of performance information are often left to their own best efforts to analyse and interpret published data, which can be a difficult and daunting task. Just as insufficient information can avoid effective accountability, so too can information overload.

This is not an argument for less information. However, the users of the information - being Parliament and the community - need an ally in coming to grips with the material. An ally who can sort out and analyse key performance information. An ally who is independent, and who fully appreciates the issue of public sector performance accountability. The single most obvious choice for such an ally is the Auditor General.

In New South Wales, although the matter has been examined, to date the Auditor-General has been given no legislated role in this area.

A lot of groundwork has been done in New South Wales to move towards improved performance accountability. However, this work has not yet been concluded. An integrated whole-of-government framework does not yet exist. To establish an effective regime of public accountability, performance indicators need to be authoritative and regulated (as financial statements are). Three significant, and fundamental, issues must now be addressed:

- what indicators will be used?
- where will they be published?
- how will they be validated?

Speaker No.2

***Jane Tebbatt, Principal Auditor, Performance Audit Branch,
New South Wales Audit Office***

Presentation: Judging Performance from Agency Annual Reports

The Performance Audit Branch of the New South Wales Audit Office has been examining the performance information in eight agencies' Annual Reports. The sample agencies are: New South Wales Police Service; Department of Transport; Department of Community Services; State Library of New South Wales; Department of Education and Training; Department of Land and Water Conservation; Central Sydney Area Health Service; and Illawarra Area Health Service.

The audit was used as a case study approach and included agencies with responsibility for regulatory, policy and/or service delivery functions. The aim of the audit is to determine if the annual reports of these agencies provide sufficient information to allow Parliamentarians and citizens to judge if the organisation is operating efficiently and effectively. Audit criteria based on the principles of good performance reporting were used to assess the quality of the reports. The final report of this audit is due out in late November 2000.

Better Practice Principles:

To fully meet accountability requirements, annual reports should:

- focus on results and achievements;
- discuss results against expectations;
- be complete and unbiased;
- explain the linkages between agency objectives, achievements and activities;
- relate costs to results;
- describe strategies, risks and the external operating environment.

Criteria for Assessment

Access to performance information

Information on agency performance is available for readers to access. The use of internet technologies to facilitate and maximise access to information should be examined.

Reporting relevant and appropriate objectives

Key objectives and desirable outcomes (planned achievements) are readily available to Parliament, MPs, citizens, lobby groups and the media (the stakeholders). The annual report should provide an explicit link between these elements (a logical framework) and performance indicators to assist readers to judge the extent to which objectives have been achieved.

Reporting performance against objectives

Agencies have identified key performance indicators (KPIs) that are appropriate and relevant to their purpose. Indicators should relate to core functions and corporate objectives and focus on measuring outcomes. The audit also examines the use of benchmarks (against other jurisdictions such as those used in the Report on Government Services) best practice providers or internal targets.

Consistency of indicators across periods

Performance indicators should be consistent across reporting periods to enable readers to compare agency results over time. Changes in indicators or performance trends are fully explained.

Speakers Nos. 3 & 4

Dianne McHugh & Martin Smith, Financial Management Division, New South Wales Treasury

Annual Reports Review Program

The general objectives of the program are two-fold:

- To monitor compliance with annual reporting legislation;
- To promote best practice in public sector annual reporting.

Common Problems Areas

- Performance Reporting
- Risk Management
- Guarantee of Service
- Consumer Response
- Human Resource disclosures

Performance Reporting

Key performance disclosures which should be presented in the annual report include:

- the charter, objectives and major strategies and activities of the organisation;
- major features of corporate governance operating within the organisation;
- quantitative and qualitative measures and indicators of performance showing the level of efficiency and effectiveness together with a commentary on significant trends;
- an explanation of the linkage between inputs, outputs and outcomes;
- comparison of actual performance with the previous period's performance as well as performances of similar agencies in other jurisdictions;

- whether, in the opinion of the chief executive (or the governing board), the agency has achieved its plans, objectives and targets as indicated in the corporate plan and, if not, the reasons for non-achievement;
- highlights of major achievements as well as significant setbacks, problems and issues;
- significant internal and external factors to be taken into account in assessing the financial and non-financial performance;
- the agency's response to issues of significant public interest about major aspects of its activities; and
- the future operating environment and developments as well as future plans and major projects including those which are designed to further improve performance.

Recent Requirements/Changes

- Extensions of Time to submit annual report – Year 2000 only;
- Removal of requirement to submit disk version of the annual report;
- NSW Government Action Plan for Women;
- Occupational Health and Safety;
- Year 2000 (Millennium Bug)
- Government Energy Management Policy
- Production Costs of Annual Reports

List of Relevant Treasury Circulars

(Available from Treasury Web Site: www.treasury.nsw.gov.au)

99/12 “Guidelines on Reporting of Investment and Liability Management Performance”

99/10 “Annual Reporting Update”

97/7 “Annual Reporting Update”

97/1 “Equal Employment Opportunity Disclosure Requirements”

96/10 “Results of Annual Reports Review Program”

95/13 “Annual Reporting: Additional Requirements”

95/7 “Annual Reporting – GTE Social Programs”

Numbers of Copies to be submitted to Parliament

- 6 copies to the Minister for tabling in both Houses of Parliament.
- 10 copies to the Legislative Assembly Office
- 5 copies to the Legislative Council Office
- 80 copies to the contractor for Parliamentary distribution:

The Future : "Fundamental Review of NSW Financial and Annual Reporting Legislation"

Proposals contained in the Treasury Working Paper included:

- Three tier approach comprising general and specific reporting requirements to be supported by statements of best practice;
- The specific reporting obligations will be spelt out in the Regulations and will be based on the existing requirements in the Annual Report (Departments) Regulations and Annual Reports (Statutory Bodies) Regulations;
- An Executive Summary is to be included;
- A short form annual report can be sent to users provided that the long form report is available on request;
- The chief executive officer of an agency is to be required to comply with all annual reporting requirements and to sign a Statement of Compliance;
- A statement of Responsibility (unaudited) is to be included in the report indicating whether a system of risk management and internal control was in place and operated satisfactorily during the year as well as highlighting areas for further improvement;
- Auditor-General be given an additional power to conduct a review of and to report in the audit opinion on the accuracy and description of publicly reported KPIs.