

# Chapter 7

## Review of Departmental Annual Reports

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# Review of Departmental Annual Reports

## Background, scope and approach

7.1 This year we reviewed a number of departmental annual reports. Instead of using the Province's annual report policy for our criteria (as we have done in a number of previous annual report evaluation exercises we have reported on over the years) we drew our criteria from the Canadian Institute of Chartered Accountants (CICA) 2006 *Statement of Recommended Practice SORP-2- Public Performance Reporting* (SORP-2) and the CICA's May 2007 companion document *Public Performance Reporting: Guide to Preparing Public Performance Reports* (Guide).

7.2 Our primary objective was to determine the degree to which departmental annual reports and our government's reporting on performance could be improved by applying the state-of-the-art principles of SORP-2. Our secondary objective was to determine what enhancements might be recommended for the Province's Annual Report Policy (this important government policy has remained essentially unchanged for about 20 years).

7.3 The Guide asks thirteen questions around the following recommended practices:

1. Is the report easily accessible and identifiable as the entity's Annual Performance Report?
2. Does the report provide information that appears reliable and valid?
3. Is the entity's performance information relevant?
4. Does the entity provide fair information in its performance report?

5. Is the entity's performance information comparable and consistent?
6. Is the report understandable?
7. Does the report focus on the few critical aspects of performance?
8. Does the report describe the entity's strategic direction?
9. Does the entity explain actual results for the reporting period and compare them with planned results, explaining any significant variances?
10. Does the report provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations?
11. Does the report describe lessons learned and key factors influencing performance and results?
12. Did the entity link its financial and non-financial performance information?
13. Was the basis for reporting disclosed?

**7.4** The Guide pulls together the advice in SORP-2 around these questions. Each of the thirteen questions has a number of sub-criteria or sub-questions which can be used to address the report guidance in more detail. We used these questions and the sub-questions to develop a scoresheet. Our staff then examined six reports from the fiscal year ended 31 March 2007, the most recent year available at the time of our work.

**7.5** Since SORP-2 is not meant to be evaluative at this point, we used it "anonymously". That is, we are not reporting results on a department by department basis. We are not judging the reports as we did in the three years when we tried to encourage improvement via the Auditor General's Achievement Award. As a result, our findings from this chapter cannot be used to evaluate and report on the quality of the performance reporting in any one department.

**7.6** Rather, our wish is that by pointing out to our readers the latest research from the CICA in this important accountability area, we might encourage all MLAs, and the government, to transform our

performance reporting process in the Province. Perhaps we might even prompt the citizens of our Province to begin asking questions around the same areas SORP-2 addresses.

**7.7** Questions in these thirteen important areas should be thought of as provocative; challenging, not evaluative. They are questions designed to broaden our existing reporting structures and methodologies while laying a solid groundwork of transformational reporting change.

## Findings

**7.8** In our opinion it is important to establish up front that SORP-2 is a document of substance, prepared with due process by a group well versed in the technical matters under its purview. It is an important document. It is current. It is a document that can help our Province improve its performance reporting. It is an excellent source for revising our Province's 1991 policy guidance that supports the performance reporting regime.

**7.9** SORP-2 comes from a recognized leader in developing standards. A task force consisting of experts in performance reporting from all levels of government in Canada, and an additional member from the Government Accounting Standards Board of the United States, developed the material for SORP-2. Following extensive public consultation and review with constituents, the CICA's Public Sector Accounting Board approved a Statement of Recommended Practice on public performance reporting (SORP-2) in June 2006.

**7.10** SORP-2 "provides guidance for reporting performance information in a public performance report of a government or a government organization" (Paragraph 1 of SORP-2). SORP-2 aims to help governments go beyond reporting on inputs and activities. It aims to help government reporting regimes respond to "an increased focus on what is actually being achieved with the resources being consumed, in relation to what was planned" (Paragraph 3 of SORP-2). Interestingly enough, this language is quite similar to the objective of our Province's own annual report policy. This policy states the annual report is to be "the key public link between the objectives and plans of a government entity and the results obtained."

**7.11** SORP-2 offers general guidance. It is not prescriptive. And it is not a template for a government performance report.

**7.12** Although it, too, carefully notes that it is not a template, the Guide does go a bit further along this road in that it “is intended to stimulate thought and provide a framework for preparing a public sector entity’s public performance report”(page 1, Guide). It begins by framing the recommended practices as the thirteen questions. Then, drawing on supporting material from SORP-2, it provides what we have called sub-criteria by listing a number of features which “suggest this recommended practice was applied.”

**7.13** For example, question one from the Guide states “Is the report easily accessible and identifiable as the entity’s Annual Performance Report?” One of the features suggesting the practice was applied is “the report is clearly identified as the entity’s performance report.” Another feature, speaking more directly to the “accessible” part of the question, says “electronic or paper copies are available.” Each of these features is referenced to a specific paragraph in SORP-2.

**7.14** For each recommended practice, the Guide also has a series of inset boxes with features that suggest a recommended practice has not been applied. For example, question #7 asks whether the report focuses on the few critical aspects of performance. The inset box shows that if “performance information does not convey whether or how the entity is making progress towards outcomes”, then the recommended practice has not been applied. If the narrative portion of the report is unclear or has few examples of tangible accomplishments, a reader might similarly conclude the report is not focused on a few critical aspects of performance.

**7.15** Using the information from the questions, and the accompanying features (or what we might call sub-criteria), we looked at our sample of reports. We wanted to compare these various examples of departmental annual reports to the SORP-2 guidance for public performance reports. Our comparisons are summarized in Exhibit 7.1 below.

Exhibit 7.1 - Examination of sample departmental annual reports

<b>SORP-2 Recommended Practice Questions</b>	<b>How Sample of Reports Compares with the Features of Recommended Practice</b>
1. Is the report easily accessible and identifiable as the entity's Annual Performance Report?	The reports we reviewed compare favourably in some aspects. These include providing direct links on the departmental websites and in making both paper and electronic copies available. The reports were less successful in identifying the intended audience and in clearly identifying that the departmental report is the entity's performance report.
2. Does the report provide information that appears reliable and valid?	A couple of the reports we reviewed had taken some steps on these important matters. For the most part though, the features of recommended practice were not evident. For instance, the reports rarely deal with what steps have been taken to verify and validate the performance measures and performance information.
3. Is the entity's performance information relevant?	Two departments did make noticeable efforts to link performance back to strategic plans. Most do not. Performance measures are few and far between. There is little discussion of how performance measures are used for internal decision making. And one of the most basic aspects of relevance – timeliness- is not well handled. Only one of the six we tested filed the report by the November 1 deadline. One was not filed until February 20, 2008 and another on March 31, 2008. (For the government as a whole, only two reports met the November 1 deadline.)

4. Does the entity provide fair information in its performance report?	<p>Reports could make major improvements by concentrating on at least two factors:</p> <ul style="list-style-type: none"> <li>• Presenting sufficient performance information to support reasonable evidence based assessment on progress towards outcomes; and</li> <li>• presenting unbiased information about performance.</li> </ul>
5. Is the entity's performance information comparable and consistent?	<p>There is a noticeable absence of trend information. In other words, there is nothing to compare to. As well, readers of most reports would have a very difficult time determining whether or not key performance targets were met.</p>
6. Is the report understandable?	<p>Our reviewers found this to be one area of strength, or at least of generally fair to good results. They felt the reports were written in a way that the general public could understand them. One feature or sub-question where our staff did find most reports were weak was that the reports did not seem to have clear references to planning documents (legislation, budget, speech from the throne) as the basis for assessing actual results against the plan.</p>
7. Does the report focus on the few critical aspects of performances?	<p>Our reviewers noted a couple of key features that the reports tested could greatly improve on. One was that the reports should focus on the entities' key strategies, goals and objectives. The other was to clearly show readers the public benefits from the work of the department. Departments can do this by illustrating "those benefits with concrete, outcome-oriented examples of the entity's accomplishments."</p>

<p>8. Does the report describe the entity's strategic direction?</p>	<p>Context is a big deficit here. The reports do not summarize information about the departments' high-level priorities and long-term goals. Reports lack clear references to the planning documents that set out the priorities and goals (legislation, budget, throne speech).</p>
<p>9. Does the entity explain actual results for the reporting period and compare them with planned results, explaining any significant variances?</p>	<p>A couple of the reports do have some output/outcome measures comparing actual results to planned results. But even here we believe there is plenty of room for growth. One big area for improvement ties in with the previous question, #8. In short, how do the results from this year fit into the big picture? Where departments have fallen short, readers need to see the reports explaining variances.</p>
<p>10. Does the report provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations?</p>	<p>There is little to no comparative information showing how actual results compare to similar organizations or benchmarks for the service. Similarly, although at least three of the reports show some trend information, the reports need to concentrate much more on providing good trend information.</p>

<p>11. Does the report describe lessons learned and key factors influencing performance and results?</p>	<p>Our staff rated this area consistently low. In looking at the nine features or sub-criteria for question #11, our staff rated no feature higher than a “somewhat agree.” And only one of the six departments had more than one “somewhat agree.” For a government to improve, it must identify its challenges. Where is it falling short? Then it must be identifying lessons learned in order to improve for the future. Based on “the major accountability document by departments”, their annual reports, we don’t know if this is happening.</p>
<p>12. Does the entity link its financial and non-financial performance information?</p>	<p>A big hurdle remains in linking all a department’s costs to individual performance measures. Good costing would allow report readers to analyze the level and type of resources required to produce the outcomes our government seeks on behalf of the citizens. Government has a long way to go in developing a cost accounting system that supports its plans. Government is weak in telling what its results cost.</p>
<p>13. Was the basis for reporting disclosed?</p>	<p>One positive is that the reports all have a description of the reporting department. On the flip side, only one report appears to make any effort towards describing what has been done to verify the reliability of performance information.</p>

**7.16** As a review of Exhibit 7.1 clearly shows, our government’s departmental annual reports need to be improved in order to fit within the current framework of SORP-2 and the Guide. Departmental annual reports cannot be said to be anywhere close to the framework offered by the latest research in performance reporting.

**7.17** This should probably not surprise us. In our audits looking at various annual reports over the years, and during our work associated with the annual report awards project, we have developed a long list of non-compliance with our Province’s own reporting policy. (And as

we will show in Exhibit 7.2, the policy is not as demanding as the SORP-2 framework.) Perhaps our years of observations of non-compliance in this regard can be best captured by a paragraph written by the previous Auditor General, just shortly before his retirement, writing his personal reflections about his efforts to try and improve the quality and use of departmental annual reports by an annual award process:

*While the reports were never of high quality, we were able to make an award for the best annual report in each of the first three years. However, in the fourth year none of the reports we reviewed were of acceptable quality and we decided not to recognize a winner. (2005 Report, volume 1, paragraph 2.21)*

**7.18** In short, the reports have got worse, not better.

**7.19** This non-compliance is troubling. The annual report policy has a number of positive aspects to commend it in terms of performance reporting. In fact, at the time the policy came out in 1991 it was regarded as quite a forward-thinking development. New Brunswick was seen as somewhat of a leader in performance reporting, if not in terms of actual reporting, at least in terms of its policy framework for such reporting. And when the Performance Indicators: Supplement to the Main Estimates began, starting with the budget process for 1996-97, it appeared that the government had taken the planning and performance reporting cycle seriously. Unfortunately, the Supplement disappeared after the 1999-2000 fiscal year. Report quality deteriorated as Exhibit 7.1 and paragraph 2.21 of our 2005 Report so vividly portray.

### ***Comparing government policy to SORP-2***

**7.20** It is probably becoming obvious that we are building towards a conclusion or recommendation that something be done towards improving the annual reports of government. In many ways, if we could encourage the government to merely comply with its own policy that would mean significant progress.

**7.21** But before we turn to recommendations, perhaps it is fruitful to also consider whether or not we should be recommending reporting against a revised policy framework, such as SORP-2, rather than against a policy approved in 1991. In order to determine what enhancements might be recommended, we developed Exhibit 7.2. This exhibit compares the recommended practices in SORP-2 against

government policy. In so doing, it offers suggestions on where our policy might be updated and strengthened.

*Exhibit 7.2 - Comparison of SORP-2 against government policy*

<b>SORP-2 Recommended Practice Questions</b>	<b>How Current Government Policy Compares with the Features of Recommended Practice</b>
1. Is the report easily accessible and identifiable as the entity's Annual Performance Report?	The policy is consistent with SORP-2 but silent on some matters. Paragraph 4 says the annual report is "to be the major accountability document by departments and agencies." It does not require though, that the departmental report identify itself as the entity's performance report. Neither does it direct the report to identify its intended audience and document links to websites or other sources of additional information.
2. Does the report provide information that appears reliable and valid?	The policy is silent on reliability and validity of the information in the annual report.
3. Is the entity's performance information relevant?	The policy addresses this by stating "departments and agencies should give a clear account of goals, objectives, and performance indicators. The report should show the extent to which a program continues to be relevant." The policy also looks at the timeliness aspect of relevance by saying reports are to be filed by November 1, seven months after year end. The SORP-2 Guide suggests 120 days ( four months) after year end.

4. Does the entity provide fair information in its performance report?	The policy is silent. When SORP-2 speaks of fair information, it means reports should be unbiased. They should present sufficient performance information to support reasonable evidence based assessment on progress towards outcomes. They should show some performance failures. Impacts should be supported by program evaluations.
5. Is the entity's performance information comparable and consistent?	The policy does not call for trend information.
6. Is the report understandable?	The policy says "annual reports should be written in clear and simple language." Further it notes "departments and agencies are encouraged to include tables, graphs and charts where their inclusion will aid the reader in better understanding the statistics that are being presented." One particular area where the policy is silent is that it has no requirement that reports have clear references to key planning documents (e.g. legislation, budget, speech from the throne) as the basis for assessing actual results against the plan.
7. Does the report focus on the few critical aspects of performances?	The policy does not seem to speak to this issue of identifying a few critical aspects of performance.
8. Does the report describe the entity's strategic direction?	The policy does say the entity "should give a clear account of goals, objectives and performance indicators."

<p>9. Does the entity explain actual results for the reporting period and compare them with planned results, explaining any significant variances?</p>	<p>The policy says the reports should show “how well the organization performed in achieving its plans.”</p> <p>The policy does <u>not</u> have any requirement to explain variances, other than providing brief explanations of financial variances from budget.</p>
<p>10. Does the report provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations?</p>	<p>The policy does not require comparative information showing how actual results compare to trends, similar organizations or benchmarks for the service.</p>
<p>11. Does the report describe lessons learned and key factors influencing performance and results?</p>	<p>The policy does not require reports to show lessons learned.</p>
<p>12. Does the entity link its financial and non-financial performance information?</p>	<p>The policy does not require reports to link financial and non-financial performance information.</p>
<p>13. Was the basis for reporting disclosed?</p>	<p>The policy does not require reports to show what efforts have been taken to verify the reliability of performance information. It does not require a statement of responsibility by the agency head.</p>

## Our conclusions

**7.22** Exhibit 7.1 shows that our sample of departmental annual reports do not have many of the features called for under a modern accountability framework. Exhibit 7.2 shows that our current policy

framework, while exhibiting some areas of strength, is somewhat light in terms of guidance in comparison to SORP-2. Government policy is nearly twenty years old. It needs an update.

**7.23** So, one might say, our entire performance reporting system is due for an overhaul. Departments are not following the Province's own reporting policy. And even if they were, the policy obviously needs updating.

**7.24** In looking at these conclusions, we found one of the government's change initiatives particularly intriguing. The recently released Action Plan to Transform Post-Secondary Education in New Brunswick seemed to have lots to say about accountability and performance reporting. And some of what was said appears to have engendered a certain degree of controversy in the university community about what form and direction that call for accountability and performance reporting might take.

**7.25** Action #29 in the action plan states:

*To ensure transparency and accountability in the use of public funds, and to ensure rapid progress on the necessary transformation of the system, each public institution will submit a five-year strategic plan, including an annual business plan, to government. These will be supported by performance-based contracts and indicators reflecting the strategic priorities of New Brunswick's Self-Sufficiency Action Plan.*

**7.26** Action #30 in the action plan states:

*As a further accountability measure, beginning in 2009 the government will require that each public university, the francophone and the anglophone community college appear annually before an appropriate committee of New Brunswick's Legislature to address their strategic plans and speak to the effective use of public funds.*

**7.27** In other words, Actions #29 and #30 are calling for the same things the CICA's SORP-2 is calling for. Tell us your plans. Then tell us how you did with the public money you used in pursuit of your plans. SORP-2, like the Actions #29 and #30, is all about accountability. SORP-2 is all about organizations reporting "on what

is actually being achieved with the resources consumed, in relation to what was planned.”

**7.28** We find it ironic that our government is pushing the universities and community colleges towards such an accountability regime when our government’s own accountability framework is itself badly broken.

**7.29** In our opinion, for change to happen, the Province needs a broader, more comprehensive, framework than its current policy. It needs something modeled on current research such as that of SORP-2 and the Guide.

**7.30** And the Province needs something stronger than an administrative policy. Administrative policy is too weak to secure the modern accountability framework the government appears to have envisioned in the Action Plan to Transform Post-Secondary Education in New Brunswick. Under current administrative policy, performance reporting seems to be an afterthought, and is often ignored.

**7.31** A good performance reporting framework requires legislation.

**7.32** Therefore, we recommend the Executive Council develop legislation for an enhanced performance reporting regime in New Brunswick. The legislation should reflect the principles of the Canadian Institute of Chartered Accountants’ Statement of Recommended Practice on Public Performance Reporting.