



Public Performance Reporting

Reporting Principles

Taking Public Performance Reporting to a New Level

Reporting Principles: Taking Public Performance Reporting to a New Level

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Foreword

CCAF is a national, non-profit research and education foundation. For more than twenty years it has researched public sector governance, accountability, management and audit, and provided capacity development support to governing body members, managers and auditors. The foundation's core interests centre on information and its role in a variety of public sector governance, accountability, management and audit settings.

CCAF is pleased to release *Reporting Principles: Taking Public Performance Reporting to a New Level*. This document aims to help governments advance the quality of their formal reporting on performance, in keeping with the results-oriented and values-based approaches they are taking. Better communication, understanding and transparency of performance are crucial to the success of government efforts to improve their operations and improve public confidence in them.

At the core of this document is a set of nine, related principles (see pages 15 to 51). They represent common ground among the many legislators, managers and auditors we have consulted. These are stated at a level that effectively captures the *what* of reporting while leaving flexibility to tailor the *how* to reflect differences in individual circumstances. Supporting each core principle and illustrating its application, a discussion of the continuum of reporting practice follows. Appendices provide a range of resource materials.

CCAF hopes that those who supply and those who use public performance reports will find this document useful in planning and acting to advance their public reporting to a new level.

As advances are made, experience gained and additional research completed, more refined expressions of these principles, and more precisely calibrated descriptions of the practice continuum, will no doubt emerge. *Reporting Principles: Taking Public Performance Reporting to a New Level* will have played its role if it encourages governments and other stakeholders to get started on the path to better reporting and helps them to advance on it.

The guidance that this report contains builds on, and goes beyond, current practice. It reflects, first and foremost, the influence of the many individuals recognized in Appendix 5. They contributed their time, sage advice and insights to our efforts through many different channels. CCAF acknowledges its deep appreciation to all of them.

KEY CONCEPTS

At its core, “**performance**” is about how well an entity or program is accomplishing what is intended as measured against defined goals, standards or criteria. More broadly, performance may also relate to efforts, capabilities and intent. Terms such as *organizational performance*, *program performance*, *financial performance*, *environmental performance*, or the *conduct of public business* are sometimes used to circumscribe the scope of performance matters being dealt with.

“**Public performance reporting**” refers to the formal mechanisms that a government uses to communicate with the public and legislatures in accordance with agreed guidelines. It is the formal response to a desire or need to report performance to those who have a legitimate interest in knowing, understanding and assessing performance, and then acting on this information.

Particular appreciation is reserved for the members of a special task force of leading legislators, managers and auditors who provided strategic advice and quality assurance in the closing stages of this project. Their advice and direction shaped the way in which CCAF combined the results of earlier work to produce the first draft of this report. Moreover, they oversaw its finalization to reflect suggestions received from a consultative network of knowledgeable and interested individuals who reviewed and commented on the draft.

The members of the Special Task Force on Public Performance Reporting Principles are: **Carolyn Bennett**, Member of Parliament, St Paul's; **Keith Coulter**, Chief, Communications Security Establishment (formerly Assistant Secretary, Planning, Performance and Reporting Sector, Treasury Board of Canada Secretariat); **Geoffrey Kelley**, Member of the National Assembly of Quebec, Jacques-Cartier; **Michael McLaughlin**, Deputy Auditor General of Canada; **Colin Potts**, Partner, Deloitte & Touche; **Roberta Santi**, Associate Deputy Comptroller General of Canada; **Gabriel Sékaly**, Assistant Deputy Minister of Finance of Ontario; **Jon Singleton**, Auditor General of Manitoba; **John Williams**, Member of Parliament, St. Albert. Special appreciation is also extended to **W. David Moynagh**, CCAF's Director of Research, for his advice and input over the course of the research, and **Michael S. Weir**, Research Associate for Public Performance Reporting and project leader for this research initiative. His professionalism, persistence and pragmatism contributed greatly to the success of this endeavour.



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Ottawa, September 2002

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Executive Summary

INTRODUCTION

This report recommends a set of principles to support thinking, discussion and action by:

- government ministers and senior managers who direct the performance of governments and their public reporting processes;
- legislators who provide input and oversight in relation to decisions about policy directions, priorities, resource allocations and performance;
- auditors and other professionals who audit or advise on matters of governance, accountability and reporting;
- professional bodies and other organizations that lead thinking, provide accreditation and set standards pertaining to public reporting of performance; and
- Canadians who want to influence the way their governments work.

The report casts light on three questions:

1. What should the next generation of performance reporting look like?
2. What principles—agreed to and understood by all the key stakeholders—should underpin judgments about what to report and how to report it?
3. How can these principles be best put into practice? What issues might be involved and what strategies might be deployed? What does the continuum of progress look like and what rate of advance is reasonable?

THE “NEXT GENERATION” OF REPORTING

Those consulted throughout the research stress that it is becoming more and more urgent for governments to take full advantage of their past investments in performance measurement and management and advance to a new level of performance reporting.

At this new level, public performance reporting will build on, but go far beyond, most current reporting. It will contribute to better performance and more meaningful accountability by:

- being more focused on, and penetrating in its discussion of, the aspects of government performance that add value for Canadians;
- helping to create a common language for discussing, inside and outside of government, performance choices, expectations and achievements; and
- deserving—and receiving—the attention and trust of citizens and their representatives.

Publicly reporting on performance is an established and integral element of governance and management responsibilities and formal public reporting often represents a

significant portion of the activities through which governments communicate with citizens and their representatives.

Getting more out of public reporting activities by advancing to a new level would be desirable for all governments. It is critical for those governments that are modernizing their approaches to governance and management in order to meet and master current challenges. In Canada and other countries the challenges that are driving governments to modernize their governance and management approaches, as well as their public performance reporting, include:

- bigger, better educated and increasingly diverse populations;
- the accelerating revolution in the way we obtain, use, store and communicate information;
- declining deference to authority and trust in institutions;
- the increasing speed at which governments are expected to function; and
- increasingly complex and interdependent public policy issues, organizations and relationships.

Governments that are modernizing need a new level of public reporting to give a public face and voice to the changes they are adopting. They need it to build understanding of and support for these changes and to build the capacity and desire of Canadians and their representatives to work within them. The integrity and sustainability of the new governance and management approaches they are making depends in some large degree upon advancing to a new level of public reporting.

Modernization is an evolving process. Typically, it has been advanced through successive initiatives with many names and over long time frames. In general, however, almost all governments have been moving away from approaches based on “command and control,” to what may be characterized as a “risk-reward” approach.

In risk-reward approaches, governments seek to combine high levels of performance with high standards of probity and due process in the conduct of public business. To foster higher levels of performance, they emphasize being client-centred and innovative, and giving more authority and flexibility to front-line employees to exercise their discretion. In so doing, governments accept the need to manage the risks inherent in greater flexibility in order to secure the reward of better results.

A risk-reward approach needs considerable discipline to manage the tensions involved in conducting public business with greater flexibility and a stronger results orientation. Two related sources of discipline are essential. One is a shared set of values. The other—the subject of this report—is clear and transparent information about performance.

Information about performance supports risk-reward governance and management approaches in several ways.

- Effectively gathered and circulated within governments, it nourishes better decision-making, fosters cohesion and a shared sense of purpose, and supports faster, surer organizational learning. It helps government perform better.

- Effectively reported to the public, robust information about performance helps to maintain and build confidence in government, and it supports Canadians and their representatives as active participants in healthy accountability relationships.

As the issues become more complex, as interest groups become more specialized and assertive, and as advances in technology open up new channels between citizens, legislators and managers, and increase the volume and velocity of information in them, there is more, not less, need for credible formal reporting. Governments, public servants, citizens and their representatives all need it to help them make sense of all the data and to get on the same page. Credible formal reporting provides context and support for other exchanges of information.

The context and structure furnished by credible formal reporting helps all stakeholders to:

- locate the ongoing discussion of performance and performance expectations in a meaningful context and provide key reference points;
- promote accountability as a substantive means for improving performance;
- provide a two-way street between those who report and those who use reports;
- provide entry points and signposts to other types and levels of information that governments make accessible to citizens; and
- develop the capacity of all participants to play their roles in governance, management and accountability processes.

REPORTING PRINCIPLES

Principles play a key role in public reporting. To a great extent, principles determine the extent to which reporting provides the necessary discipline to support and sustain risk-reward regimes.

Agreement of principles is an essential step toward confidence in reporting. Principles help reporters make good judgments and give them grounds for confidence that their judgments will be fairly received. They give users grounds for confidence that the judgments exercised in reporting are fair, neither arbitrary nor self-serving.

Principles also shape the evolution of reporting: they point the way to what reporting could and should be. They start out as ideals, the ceiling that reporting aspires to reach. Over time and with growing acceptance, they become standards, the floor below which reporting may not sink.

RECOMMENDED PRINCIPLES

CCAF recommends nine related principles to provide direction for future advances in public performance reporting in Canada. These principles reflect a unique integration of the differing perspectives of legislators, managers and auditors—three groups with an important stake in public performance reporting.

Taken as a set, these core principles provide a guide to judgment in the preparation of reports (but not a template for what they will say or deal with).

Underlying the specific recommendations is a belief that the first step in engaging Canadians and their representatives in a meaningful performance conversation is for governments to share with them the view from the driver's seat. This is analogous to the obligation that governments have imposed, through their regulators, on those who would raise money in capital markets. That is: *enable readers to view the past results and future prospects of the issuer through the eyes of management.*

The general principles recommended by CCAF are as follows:

**1. ...FOCUS ON THE FEW
CRITICAL ASPECTS OF
PERFORMANCE.**

1. Focus on the few critical aspects of performance. To be understandable public performance reporting needs to focus more selectively, and more meaningfully, on a smaller number of things. Reporting needs to centre on core objectives and commitments, things that are important to citizens, and those things that government itself considers most important. Greater selectivity poses many difficulties because the effects (or outcomes) of government activities and outputs are not always clear and because user interests and needs are so diverse. To warrant confidence, the selection process must be rigorous, and it must be transparent. Providing links to help users access unreported information can also build confidence in the appropriateness of the reporting focus selected.

**2. ...BE FORWARD-LOOKING
AS WELL AS RETROSPECTIVE.**

2. Look forward as well as back. Public performance reporting should be forward-looking as well as retrospective. It should inform Canadians about the goals their government is pursuing and how its activities contribute to those goals. It should track achievements against previously established expectations. And it should inform Canadians how short-term achievements affect longer-term prospects. Where separate documents are issued to deal with prospective and retrospective aspects of performance, it is critically important to maintain consistency between the two or explain changes.

**3. ...IDENTIFY KEY
STRATEGIC RISKS.**

3. Explain key risk considerations. Public sector choices always involve risk—a chance or probability that something will affect, positively or negatively, an organization's ability to achieve its objectives. Just as the reality and consequences of risk pervade governance and management, they need to be acknowledged in public performance reporting. Reporting should identify the key risks as viewed by management, explain the influence of risk on choices and directions and relate achievements to levels of risk accepted.

**4. ...DISCLOSE AND DISCUSS
KEY CONSIDERATIONS
AFFECTING CAPACITY.**

4. Explain key capacity considerations. Capacity considerations sometimes significantly influence choices about strategies, goals and resource allocations. Public performance reporting should inform Canadians about capacity factors that affect, at a strategic level, the ability to sustain or improve results or meet expectations, and apprise them of plans to bring expectations and capacity into alignment.

**5. ...DISCLOSE AND DISCUSS
ANY OTHER CRITICAL
FACTORS.**

5. Explain other factors critical to performance. Many factors (other than those discussed above) can affect performance and users' understanding of it. These might relate to or stem from general changes in the economic, social or demographic context for a program. Or they might reflect more specific factors, for example: standards of conduct, ethics and values; public reaction to the objectives of a program or the strategies adopted to realize it; the involvement or

performance of other organizations; or unintended impacts (whether positive or negative) of activities. Where such factors are critical to performance, public reporting should help users to understand them and their impacts.

- 6. Integrate financial and non-financial information.** Discussing results without reference to the financial resources used to achieve them (or vice versa) invites unrealistic expectations. Canadians trade their tax dollars for the achievement of public interest goals, and public reporting should address this relationship. It should explain how management views the link between activities and desired results, show how much is being spent on key strategies and explain how changes in spending affect results.
- 7. Provide comparative information.** Trend information shows whether performance is stable, improving or deteriorating, and can help relate current results to long-term goals. Information about the results of comparable organizations helps show the reasonableness of performance expectations and the potential for improvement. Public reporting should provide comparative information when it would significantly help Canadians understand or use the report, and when relevant, reliable and consistent information is or can be reasonably available.
- 8. Present credible information, fairly interpreted.** Useful public performance reporting is as credible as professionalism and due care can reasonably make it. It reflects senior management involvement and judgment, and demonstrates a sufficient and appropriate basis for management's interpretation of performance. It appropriately embodies the characteristics of consistency, fairness, relevance, reliability and, most especially, understandability. These characteristics are easier to enumerate than achieve and it takes judgment to resolve tensions among them appropriately.
- 9. Disclose the basis for reporting.** A public report on performance involves many judgments. To help build confidence that judgments have been appropriately exercised, public reports should briefly explain the key judgments that have shaped the report and the bases on which they rest. Judgments that should be explained include: the definition of the reporting unit; the selection of certain aspects of performance as critical; and decisions to change the way performance is measured or presented. Of particular interest to users is the basis on which those responsible for the report hold confidence in its reliability, including the extent of validation carried out.

As noted, these nine principles for public performance reporting comprise a set. Generally, the first five principles provide guidance about *what* governments should report, while the remaining four relate more to *how* governments report it. These distinctions are not rigid, however, as each element of the set interacts with the others; how something is reported will often influence what content gets reported and vice versa. There are particularly strong links between the principles dealing with reporting on expectations, risk and capacity, all of which should be interpreted in the context of the first principle, namely, focusing on the few critical aspects of performance.

6. ...INTEGRATE FINANCIAL AND NON-FINANCIAL INFORMATION.

7. ...PROVIDE COMPARATIVE INFORMATION.

8. ...BASE REPORTING ON CREDIBLE QUANTITATIVE AND QUALITATIVE INFORMATION FAIRLY INTERPRETED AND PRESENTED.

9. ...DISCLOSE THE BASIS ON WHICH REPORTING HAS BEEN PREPARED.

PUTTING PRINCIPLES INTO PRACTICE

As noted previously, the nine principles recommended in this document are based on, but go beyond, current reporting practice. Although one may see individual principles in play to a greater or lesser degree in current practice, what one does not see is engagement of the principles as a set and to their full extent. That level of application would, in the view of CCAF and those with whom the foundation has consulted, represent a new level of public performance reporting.

In the main body of the report, the discussion of each principle is followed by a brief overview of what it means to put it into practice. This overview also provides a clear view of the continuum of performance reporting practices—from the most rudimentary engagement to full realization of the principle—as current research permits. The continuum provides a general frame of reference to help think about and discuss the steps involved in significantly advancing performance reporting and setting reasonable expectations for improvement.

In considering the continuum of performance reporting practices, it is important to remember that there is some valuable experience to draw upon. At this time, however, “best practices” are few, far between and constantly evolving. Much experimentation remains to be done, more discussions need to be held, and learning needs to happen to calibrate our understanding and application of the continuum with greater precision.

Some principles take more intensive effort or time to apply fully than others. While every government’s past investment patterns and current circumstances are unique, even those governments that have advanced furthest in their public performance reporting will likely be challenged by the principles dealing with:

- reporting publicly on risk;
- integrating financial and non-financial information to show how resources and strategies influence results; and
- providing valid comparisons.

Advancing public reporting to a new level will require more than perfunctory attention from leaders.

Developments in information and communications technology are changing dramatically the nature, timing and extent of information flows, affecting relationships, expectations and decision-making processes. Within this context, public reporting arrangements and practices influence, and are influenced by, governance and management regimes. Advances in any one area affect the possibilities, requirements and evolution of the others.

It is imperative that advances in public reporting should be thought about and acted on within this broader context of change in governance and management arrangements. A holistic approach to accountability, governance and management—one that manages the linkages and coordinates advances—is critically important to purposeful and sustainable advances.

A holistic approach requires leadership at the top and throughout the organization. CCAF's consultations regarding the application of these principles confirms that leadership time and attention is required particularly in respect of:

- creating and sustaining relationships built on trust;
- aligning incentives;
- building individual and organizational capacity to create and use robust information;
- establishing reasonable expectations; and
- ensuring opportunities for continuous learning.

The most appropriate way for a particular government to advance will depend on its specific circumstances and on the perceptions and preoccupations of different stakeholders. An important step toward developing reasonable, and reasonably agreed, expectations for making advances would be to involve key stakeholders and invite their input and support. Ideally, this involvement would initiate a dialogue that would promote a measure of agreement around reasonable answers to some key questions.

These include:

- Where are we starting from? What are current strengths on which to build? And, which aspects of reporting most need to be improved?
- What changes will do most to bring about priority improvements?
- How long will it take to put fully into practice the changes agreed to?
- How much effort will be required, and from whom?
- What are the key indicators of progress?

The reporting principles and the supporting materials set out in *Reporting Principles: Taking Public Performance Reporting to a New Level* provide a basic framework within which to initiate such a dialogue and the resources with which to sustain it.