



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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President, CCAF-FCVI

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.

Introduction

WHY MEASURE?

- What gets measured gets done.
- If you don't measure results, you can't tell success from failure.
- If you can't see success, you can't reward it.
- If you can't reward success, you're probably rewarding failure.
- If you can't recognize failure, you can't learn from it.
- If you can demonstrate results, you can win public support.

Osborne & Gaebler, Reinventing Government

Robust and respected performance reporting is one of the most powerful tools available to help governments work better. (See **Why Measure?**) Within governments, and increasingly between them, reliable performance information is crucial to effective governance and management and to the achievement of better results. Reported to Canadians, credible information helps to build understanding among citizens and their representatives, and to frame the ongoing “performance conversation” with them about expectations, investments and achievements.

THE CASE FOR ADVANCING TO A NEW LEVEL OF PUBLIC PERFORMANCE REPORTING

Traditional approaches to governance and management, founded in the theories and practices of the late-nineteenth and early-twentieth centuries, served governments well as societies grew in size and complexity and as the role of governments expanded. Increasingly, however, governments have realized that they need to modernize their approaches to governance and management to meet and master current challenges. These challenges stem from such factors as:

- bigger, better educated and more 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.

As mentioned earlier, modernizing government has meant attempting to move away from approaches based on “command and control” to what may be characterized as a “risk-reward” approach.

A *command and control* approach to governance and management aims to avoid the risk of errors. To minimize the scope for error, central agencies prescribe detailed procedural rules and discourage individual discretion. Acceptable performance becomes, in practice, following the rules.

A *risk-reward* approach places greater emphasis on achieving the reward of higher levels of achievement. To that end, it accepts some risk of error. It encourages individuals to use their initiative and judgment within a framework of explicit and shared values. It too has rules—though generally fewer in number and (usually) more rigorously enforced—to protect core values and key functions.

To manage risks and realize rewards, however, it also calls, for:

- leadership, initiative and smart decision-making at all levels in the organization;
- coordination through a sustained focus on shared goals and high levels of achievement;
- openness to innovate and learn from experience;
- courage to recognize, reward and invest in excellence; and
- readiness to share, rather than guard, information.

Sharing of information—about successes as well as failures—is vital to keeping the risk-reward organization on track, supporting effective decision-making and promoting learning and improvement.

This document focuses on the sharing of information between governments and citizens. It focuses particularly on the principles necessary to promote public reporting of results in a way that is relevant and useful to Canadians and worthy of their belief.

Almost all Canadian governments have made some movement toward risk-reward approaches and the attendant emphasis on results and results information. Some of them have invested significantly in the methodologies and technologies that support their ability to define the goals of public policy, track progress toward their achievement and communicate with those whose activities affect the realization of agreed goals so that they understand what government is doing, why, and how short-term activities contribute to the long-term public good.

These past investments have given almost all governments at least basic mechanisms for measuring, managing and reporting results. It is becoming increasingly urgent for governments to take full advantage of their past investments and accelerate their progress toward a new level of reporting.

The main factors fueling this sense of urgency can be characterized under four needs:

1. matching reporting advances to progress in the introduction of risk-reward approaches;
2. improving performance and being able to demonstrate achievements;
3. adjusting to the informatics explosion; and
4. shaping the performance conversation.

Each of these factors is discussed below.

MATCHING REPORTING ADVANCES TO THE INTRODUCTION OF RISK-REWARD GOVERNANCE AND MANAGEMENT

As noted earlier, robust information about performance plays a key role in risk-reward governance and management regimes. It defines the rewards of higher performance and helps governments steer toward their achievement. Together with shared values, the discipline of reporting provides the mechanisms to manage the risks inherent in such regimes.

Recent business collapses and scandals have shown only too clearly the extent to which risk-reward systems depend on robust reporting of performance and the possible consequences of reporting that is murky, unreliable or misleading.

Many governments have gone a long way toward converting from a command and control approach to one based on risk–reward principles. Advances in their reporting have not necessarily kept pace, however. Government leaders are recognizing the urgency of making sure that their performance reporting is up to the challenge of helping them manage the risks inherent in achieving the rewards.

IMPROVING PERFORMANCE AND DEMONSTRATING ACHIEVEMENTS

Public service is about adding value for citizens and society, and about continuously increasing that value. To focus on the value that government adds, public performance reporting should be about the outcomes that benefit citizens and society and to which government activities contribute. It should also help all stakeholders play their part in continuously improving the value that governments add.

Many leaders are concerned about promoting accountability as a substantive means for improving performance and as a dialogue between those who report and those who scrutinize them. They recognize and accept that public reporting serves accountability and is a good governance practice even when the reports are not explicitly used. Leaders wish to build on that minimum formal function of reporting to provide:

- greater and more meaningful visibility and recognition for high achievers; and
- a spur for underachievers to move and improve.

They recognize, however, that current reporting has not yet reached a level at which it contributes significantly by either criterion.

ADJUSTING TO THE INFORMATICS EXPLOSION

Advances in technology continue to open new channels between citizens, legislators and managers. They also vastly increase the volume and velocity of information that flows between these groups. More, faster data is not necessarily better information, however. Too much of the wrong sort of information can easily mask the important, overwhelm the intended users or turn them off altogether.

In this context, credible formal performance reporting plays a pivotal role in:

- providing a framework for organizing and thinking about the ongoing flow of information;
- providing reliable reference points and context to put data into perspective; and
- promoting fair access to information by providing all users with entry points and signposts to other types and layers of information that they can access for specific purposes.

SHAPING THE PERFORMANCE CONVERSATION—DEVELOPING THE UNDERSTANDING OF ALL PARTICIPANTS AND THEIR CAPACITY TO PLAY THEIR ROLES

The imperative to communicate performance does not end at the reporting unit's boundaries or restrict itself to insiders or special interest groups. Governance, management and accountability arrangements link to one another. The better Canadian citizens and their representatives understand government performance, the better they are equipped to participate in democratic processes, including:

- exercising their electoral franchises;
- influencing priorities, resource allocations, policy directions and choices;
- putting into context the claims and positions of interest groups; or
- changing their individual behaviours.

Public policy choices involve trade-offs between competing values, and there are clearly limits to what a government will be willing or able to make explicit, particularly where reductions are involved or where there are substantial value disagreements. Formal reporting is one tool available to governments to promote understanding of the tensions involved in managing performance and to put the narrow or single-issue interests and pressures into context.

INTRODUCTION TO THE RECOMMENDED REPORTING PRINCIPLES

Principles play an essential role in shaping reporting judgments, building confidence in reporting and shaping the evolution of reporting. But first there needs to be agreement on what the principles should be. In contrast, lack of agreement on and understanding of reporting principles has been cited as a powerful deterrent to effective reporting and use of information about performance. (See **Obstacles to Good Performance Reporting**.)

To develop its recommendations on reporting principles, CCAF engaged and consulted extensively with legislative auditors, senior public sector managers and legislators across Canada.

OBSTACLES TO GOOD PERFORMANCE REPORTING

Three factors contribute to the current weak state of reporting:

1. basic principles of good reporting are not understood or applied;
2. performance reporting takes place in a political environment; and
3. there are few incentives for good reporting and few sanctions for poor reporting.

2002 Report of the Auditor General of Canada

DEVELOPMENT OF THE RECOMMENDED REPORTING PRINCIPLES

As a first step toward agreement on these reporting principles, CCAF worked with Canada's federal and provincial legislative auditors to develop a discussion paper reflecting their consensus view. A tri-government task force with senior representatives from the provincial governments of Alberta and Ontario and the federal government then worked with CCAF to develop a management analogue. To obtain and reflect the views of legislators, CCAF developed a briefing paper that synthesized the auditor and management viewpoints and filled gaps. This briefing paper, together with an invitation to comment, was circulated to all Canadian legislatures through the chairs and vice-chairs of their Public Accounts Committees (or equivalent). Through group meetings and interviews, legislators from Canada and six provinces provided input to CCAF.

With the advice and assistance of a special task force, CCAF developed a preliminary draft of this document to reflect legislative input and the advice of the task force thereon. This draft was reviewed and commented on by members of a consultative network of individuals who shared an interest in the matter of reporting principles and had agreed to assist CCAF finalize its recommendations.

CCAF does not intend that its recommendations be seen as the last word on performance reporting. However, these recommendations do integrate differing perspectives into a cohesive framework in a unique way and in a manner representing common ground among all those who have a stake in public performance reporting. As such, the publication of *Reporting Principles: Taking Public Performance Reporting to a New Level* marks an important step by CCAF and one that should be useful to governments intending to advance to a new level in performance reporting to their citizens. Appendix 5 provides further information about the individuals whose perspectives have shaped these recommendations.

The recommended principles address the core issues involved in the public reporting of performance. As might be expected, some additional issues have been identified for follow-on work once the core set has attained a measure of acceptance. These issues include:

- continuous disclosure (and how it relates to formal, periodic reporting);
- reporting on governance processes and their impact on results;
- reporting on the government's approach to matters of values and ethics in the conduct of public business; and
- reporting at early stages of programs and before there are tangible results to indicate the value being created for Canadians.

APPLICABILITY OF THESE RECOMMENDATIONS

These recommendations have been developed for the formal public performance reporting of Canadian governments in a wide range of applications. Reporting units to which these recommendations would apply include multi-government ventures, the "whole of government" or multi-departmental initiatives. The reporting unit could also be an individual ministry or department, a segment of a department such as a main line of business or, perhaps, an allied special operating agency.

The recommended principles apply not only to documents labelled as performance reports, but also to other instruments used by governments as elements of their formal reporting of performance. Such other instruments include, for example, budget documents, business plans or outlook documents.

Finally, although the recommendations in this report are directed to governments, other public sector organizations will find that these guidelines provide a useful point of reference for their public performance reporting.

STRUCTURE OF THE REPORT

The main body of this document addresses, in turn, each of the recommended principles (see pages 15–51). Broadly speaking, the first five recommendations address *what* governments should report, while the remaining four recommendations relate more to *how* governments report it. These distinctions are not, however, rigid. The principles interact with one another, and important interactions are noted in the text.

The discussion of each principle follows a similar line.

- A statement of principle, followed by a brief discussion of what the principle means and, as applicable, how that principle interacts with others.
- A brief overview of issues involved in putting the principle into practice. As appropriate, this section notes key challenges involved and strategies that might be deployed to meet them. The overview also suggests a continuum of performance reporting practices that highlights major progress steps or levels of application. Rather than imposing a uniform number of steps for all nine principles, the discussion reflects the number of levels suggested by underlying patterns of practice. The purpose of describing this continuum of reporting practice is to provide a general frame of reference to help think about and agree upon the steps required to significantly advance performance reporting and reasonable expectations for the rate of improvement.

The report concludes with an agenda for action, including a general perspective of the level of effort and time it may take governments to put fully into practice the recommended reporting principles.

Appendices provide resource and reference materials to assist those who wish to take action in relation to the principles, as well as background information on the development of these principles. These include:

1. a Public Performance Reporting Check-Up designed to support development of a realistic agenda for action;
2. four papers that explore the application of certain principles for which CCAF's consultations had suggested a particular need or interest. CCAF asked leading providers of advisory services to explore in greater depth the issues involved in putting these principles into practice. Their work is reflected in the development of the continuum for related principles in the main body of the report and is reproduced here in its entirety.

3. a listing of resource and reference materials including publications and Web sites;
4. key terms used in this document; and
5. acknowledgments to the many individuals who contributed their energy and advice to bring this project to fruition.

Recommended Principles

I. FOCUS ON THE FEW CRITICAL ASPECTS OF PERFORMANCE

CCAF recommends that public performance reporting should focus on the few critical aspects of performance.

Canadians have diverse interests, priorities and perspectives and use performance information for different purposes. Governments have a capacity to measure and report on myriad aspects of performance at many different levels. These, however, can easily exceed the public's capacity to absorb information in ways that are genuinely useful. Excessive detail, jargon and overly technical descriptions obscure rather than illuminate the performance of governments. To be understandable, public performance reporting needs to focus more selectively, and more meaningfully, on a smaller number of critical aspects or areas of performance.

The issue then becomes how to determine what these few aspects should be and how to engender confidence that selections are made to illuminate performance. To engender confidence, the selection process must be rigorous, and it must be transparent.

Three considerations are central to determining the appropriate focus for public reporting:

1. What's important to the intended user—an understanding of what Canadians feel they need to know, what they want to do with the information and what they can do with it. The focus of reporting should be driven by the likely use of the information as much as by the government's obligation to report what it thinks is important for the public to know.
2. Core objectives of the organization and key results governments have committed to achieve for Canadians.
3. Aspects of performance that government judges as critical to the success of its strategies for achieving its core objectives and meeting its performance commitments.

A WORD ABOUT ACCESS TO INFORMATION

There is a difference between reporting to Canadians and their representatives and making information accessible to them. Both are important. The former reflects an obligation to report on responsibilities conferred—serving accountability relationships. The latter stems from the values that Canadians associate with open and transparent government.

More focused and selective performance reporting does not suggest or infer any restriction in access to information.

On the contrary, good public performance reporting provides an entry point to more detailed layers of information and analysis. It identifies additional or more detailed information that is available and tells Canadians how it can be obtained.

It is insufficient to exercise rigorous judgment without also explaining the basis for focusing on the few critical aspects of performance. Principle 9 (see page 48) addresses the need for transparency about this and other important reporting judgments.

PUTTING THE PRINCIPLE INTO PRACTICE

As one federal legislator noted, “Reporting shouldn’t be about ‘the organization.’ It’s about the value that it adds for Canadians.” When choosing aspects of performance on which to focus, a government or public sector organization opens a window on what its leaders care about and how they perceive activities and outputs of the organization to add value for Canadians.

This poses a dilemma. The government’s choice of focus may upset some users who have different views of what is important. Given the diversity of the public’s interests and perspectives, this is a real issue to be anticipated and managed. Further, making visible the government’s understanding of the value chain that links activities and outputs to outcomes that benefit Canadians may also pose a risk where attributions of cause and effect are particularly complex or controversial. Accordingly, governments can neither make arbitrary selections nor simply ask users what they would like; it takes a deliberative approach to achieve focused reporting.

Focusing reporting in this way involves four sets of issues that deal with:

1. achieving clarity of direction;
2. choosing what to report and what to leave out of the report;
3. aligning systems and measurement efforts to support the directions chosen and to provide credible, relevant information about the selected aspects of performance (see also the discussion of principles 6, pages 36–39 and 8, pages 43–47); and
4. dealing with apprehensions or suspicions that choices produce a report that focuses on the wrong areas of performance or, worse, that they are self-serving.

Despite the challenges inherent in these issues, governments have taken up the task of reporting more selectively, and robustly, on critical aspects of their performance, as indicated in **Guidance on Focused Reporting**, page 17.

Meeting these challenges typically requires leadership. A variety of relevant planning and analytical tools and techniques like business planning or value chain analysis may be used. Only the elected and appointed leaders of a reporting unit, however, have the perspective and authority to make the choices involved, and to make them stick. They set the unit’s directions and priorities, shape the discussion of performance and determine the extent to which reporting will carry forward the message of these choices. Leaders may delegate many important reporting responsibilities, but not the choice of its focus.

In developing a rigorous and sustainable focus, it is also important to build understanding and support, both inside and outside the organization. Many governments reach out to engage stakeholders, directly or through their representatives, in discussion of goals and the selection of measures. Consulting stakeholders not only provides assurance that reporting focuses on things they consider important; done well, it also creates a dialogue that builds understanding of and trust in the reporting, thus contributing to the health of

the relationship between government and stakeholders.

Information technology opens up important options for addressing concerns that focused reporting will not meet the needs of some users, or that greater selectivity might be used to hide poor performance. A selective and concise formal report can be layered and linked through references and Web links in such a way that users can work their way down through progressively more detailed levels of supporting information, obtain access to information about aspects of performance outside the chosen focus, or view reported information from a different perspective.

As discussed above, selecting the areas or aspects of performance on which reporting will focus is a judgment. What is an appropriate focus for reporting will depend on circumstances and on the perceptions and values of key stakeholders as well as on the level of the reporting unit and the view of management.

Even within the scope of discussion of an aspect of performance that is agreed to be critical, the focus of reporting will shift, and the kind of information presented will change as interventions or programs are introduced, mature and get renewed or concluded. On start-up, one would expect the information would particularly address needs, desired outcomes, the potential to add value and affordability and sustainability. As things get up and running, information about the speed, quality of service and efficiency of operations would likely assume greater prominence in reporting. From time to time, either on a cyclical basis or in response to events, one would expect to see a re-examination of the continued relevance and appropriateness of programs and a consequent emphasis on needs, desired outcomes, the potential to add value and affordability and sustainability

Figure 1, **Focusing on the Few Critical Things—A Continuum**, illustrates the range of reporting practices. At the foot of the continuum staircase, public reports tend to be developed from the bottom up. They lack a clear overall focus. They tend to be long and to describe activities. The content provides little insight into the public purposes served, the rationale for activities or the benefit they provide to Canadians. There is often discontinuity between parts of the report—which describe the activities and resources of different parts of the reporting unit—and an inward orientation or feel to the content.

GUIDANCE ON FOCUSED REPORTING

Guidance to Government Departments—Canada

Rather than provide a myriad of details, focus on a few key characteristic aspects of performance, and provide the information and context required to interpret the significance of the outcomes being sought and achieved. You should choose the focus carefully and explain the rationale for that choice in your report.

TBS Canada, Departmental Performance Reporting Guide 2001

Guidance to Government Executives—USA

If everything is a priority, nothing is. Concentrate on a few strategic goals—five at most. Pick goals that are conceptually simple. Express them in plain English. Build your performance measurement and management system to support them.

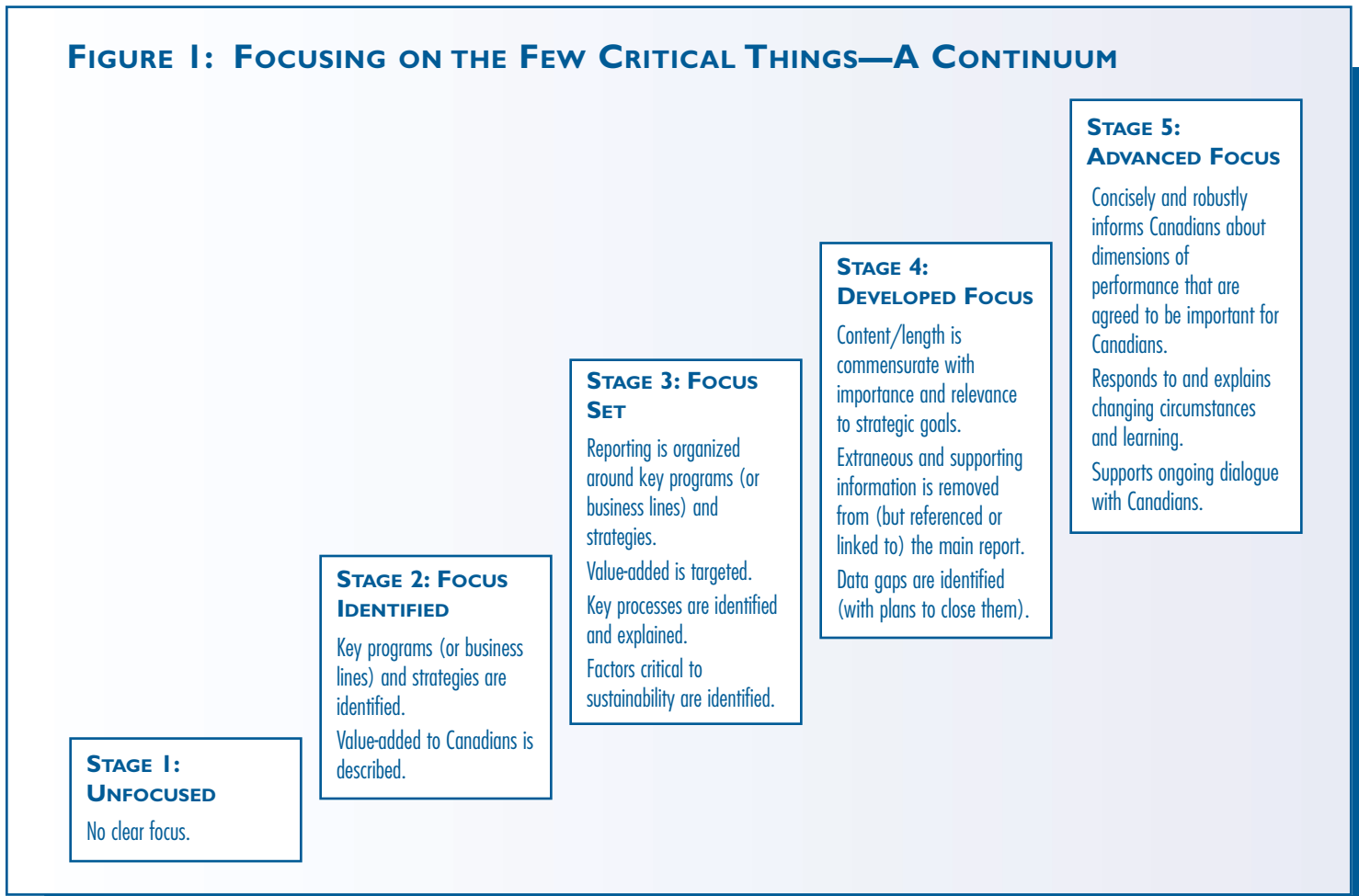
Harvard University, Kennedy School of Government

Guidance to Government Departments—UK

Systems of performance measurement should be focused around the top objectives of the organization, reflecting both the on-going 'core business' of the organization and priority areas for improvement.

UK Cabinet Office, Performance Measurement As A Tool For Modernizing Government, 1999

FIGURE 1: FOCUSING ON THE FEW CRITICAL THINGS—A CONTINUUM



The net result is a mass of detail that neither connects to the priorities and objectives of the organization’s leaders nor addresses the issues that concern Canadians. One legislator expressed his frustration with this kind of reporting in the following terms: “The more important the topic, the less likely the report will deal with it.”

Mainstream reporting practices have at least begun to move beyond this stage and project a sharper focus. As they move up the continuum, leaders progressively adjust reporting so that business plans and performance reports:

- identify and explain how the reporting unit’s leaders view its programs (or business lines), the strategic directions they are pursuing and how these add value for Canadians;
- focus on programs and the value that they create for Canada and for Canadians;
- show how important processes and short-term results (outputs) contribute to outcomes and long-term goals that benefit Canadians and explain the factors like risk and capacity that are critical to success;
- organize and connect information about activities and resources to provide concise, robust and credible information about those aspects of performance identified as important, and to provide context for and access to other, more detailed or supporting information; and
- reflect changing circumstances, the lessons learned from experience and the results of ongoing discussions of performance with Canadians and their representatives.

Initiatives to clarify goals and improve reporting are a feature of many governments. These are reflected in many examples of “transitional” reporting. For example, the following extract is taken from a report that is being restructured to reflect leadership decisions and choices.

To focus on benefits to Canadians, this document has been structured by strategic outcomes rather than by business lines. The financial systems in place do not support a precise allocation of resources to strategic outcomes....

Department of Fisheries and Oceans, Report on Plans and Priorities 2002–2003

BRINGING PERFORMANCE REPORTING INTO FOCUS

“Few” does not mean one or two, or any arbitrarily derived number. In the context of this principle, what constitutes the “few critical” aspects of performance and the way that these are linked to specific indicators depends on the circumstances, level and nature of the report. For example:

At the Whole-of-Government Level

The business plan of the government of Alberta focuses the government’s efforts on three core businesses: People, Prosperity and Preservation. It sets out nineteen goals in respect of the core businesses with key strategies for achieving each goal, and it specifies twenty-seven core measures or indicators to track performance of government as a whole.

Its *Measuring Up* report presents and discusses actual results in relation to these indicators. A five-page summary provides the top layer of, and structure for, a report on the whole of government that links ultimately to the business plans and reports of its individual departments.

Similarly at a government level, *Canada’s Performance 2001* creates a context for governance backed up with data on a set of nineteen societal indicators related to four themes: Economic Opportunities and Innovation; Health of Canadians; Canadian Environment; and Strength of Canadian Communities.

At the Individual Departmental Level

Leading practices at the level of individual departments focus internal management attention and external reporting alike on a few key aspects of performance that relate to value-added for Canadians. The federal Department of the Environment focuses on the “strategic outcomes” of each of its three “business lines” (Clean Environment; Nature; and Weather and Environmental Predictions).

Alberta’s Ministry of Learning established four goals in consultation with stakeholders—high-quality learning opportunities; excellence in learner achievement; well-prepared learners for lifelong learning, world of work and citizenship; and effective working relationships with partners. The Ministry tracks and reports thirteen core indicators of performance in respect of these goals.

(Note: Both of these departments also report on a “business line” related to their internal management and administration. These have been excluded from the above discussion on the basis that they exist to support the programs and business lines rather than add value directly to citizens or the country. Accordingly, it is usually inappropriate to report them at the same level as programs, business lines or result-areas that aim to provide outcomes of benefit to Canadians.)

Much of current reporting—at around stages 2 and 3 on the continuum—remains lengthy, detailed and “inward-looking.” It attracts little user involvement or attention. Further up the continuum, however, some business planning and performance reporting documents are beginning to show a considerably sharper focus (see **Bringing Performance Reporting into Focus**, page 19). They clearly identify core aims of ongoing operations and priority initiatives, and make appreciable efforts to describe how these add value to Canadians. At this level, reporting focuses on achievements relative to important aspects of performance using a mix of internal, external and comparative information to support interpretations and conclusions. These documents also provide links and references that allow users to access supporting information and details, and acknowledge information gaps and uncertainties.

Reporting with an advanced focus illuminates the value that the reporting unit adds for Canadians, and the choices entailed. It is clear about which aspects of performance truly matter. Fully focused reporting informs Canadians, concisely and robustly, about past achievements and future prospects in respect of those few critical aspects of performance. And it possesses one additional feature—Canadians agree that the reporting unit focuses on the right things.

Indicators that Canadians and their representatives accept the validity of a reporting focus would include demand for, reference to and use of publicly reported information, and use of the reporting framework to structure discussions of policy goals and choices.

2. LOOK FORWARD AS WELL AS BACK

CCAF recommends that public performance reporting should be forward-looking as well as retrospective. At a minimum, it should identify and explain goals and expectations, and relate results achieved to previously established expectations.

Past, present and future dimensions of performance connect inextricably with one another. Public reporting should, therefore, inform Canadians about what their governments are trying to do, and why. Once a reporting unit of government has committed itself to goals, reporting should: identify the specific objectives through which goals are to be realized; track actual achievements against them; inform Canadians how short-term achievements affect prospects for long-term realization of goals; and make visible what has been learned and what will change as a result.

Where separate planning and reporting documents are issued to deal with prospective and retrospective dimensions of performance, they should provide enough continuity and consistency of structure and content that users can connect past, present and future.

Canadians are more likely to have confidence in their governments, support the goals they are pursuing and appreciate the results they actually achieve if they understand what governments are trying to do, and why. Governments have, therefore, a clear interest in:

- explaining their key strategies and long-term goals for creating value for Canadians;
- communicating their specific short-term targets, explaining how they contribute to long-term goals, and securing acceptance and support for them; and
- identifying future events, decisions or circumstances that may significantly affect the prospects of the reporting unit or the Canadians it serves.

A valid understanding of these matters provides the foundation for a constructive discussion leading to acceptance of reasonable and openly developed expectations. Users may of course disagree with the choices and judgments of management on how best to achieve public policy goals. Ideally, all stakeholders would agree on both long-term goals and short-term targets or expectations. Realistically, such unanimity is rare.

Even with less than unanimous agreement, the fact that expectations have been openly developed and are well understood goes some way to reduce the risk of unfair, after-the-fact evaluations of achievements. Criticism may still follow when achievements fall short of expectations, but clear expectations are not only essential to a fair assessment of past performance, they connect Canadians to their governments.

The need to continuously improve performance is another important reason to stress a forward-looking orientation for the next generation of performance reporting. The public visibility of performance expectations, in itself, provides a strong incentive for performance. A public statement commits management and the whole organization to meet expectations. Achieving or surpassing challenging expectations also provides a basis for recognizing and rewarding superior performance, whether or not financial incentives or sanctions are appropriate or available.

Relating achievements to expectations and to longer-term goals also makes it possible to learn from instances where achievements fall short of expectations, or where the realization of expectations is not achieving the goals.



PUTTING THE PRINCIPLE INTO PRACTICE

Looking forward always involves uncertainty, which compounds the technical and behavioural difficulties involved in all performance reporting. Generally, uncertainty increases as reporting:

- looks further into the future;
- concerns itself not only with inputs, activities and outputs, but also with the value that these will create for Canadians—their projected effects and impacts; and
- deals with programs and activities in which the reporting organization is one participant among many.

Uncertainty, coupled with the nature of the political process, tends to constrain the extent to which governments express their goals clearly and precisely as measurable targets. Broadly speaking, the extent to which governments disclose meaningful, clear performance expectations requires a pragmatic balance between three related sets of considerations:

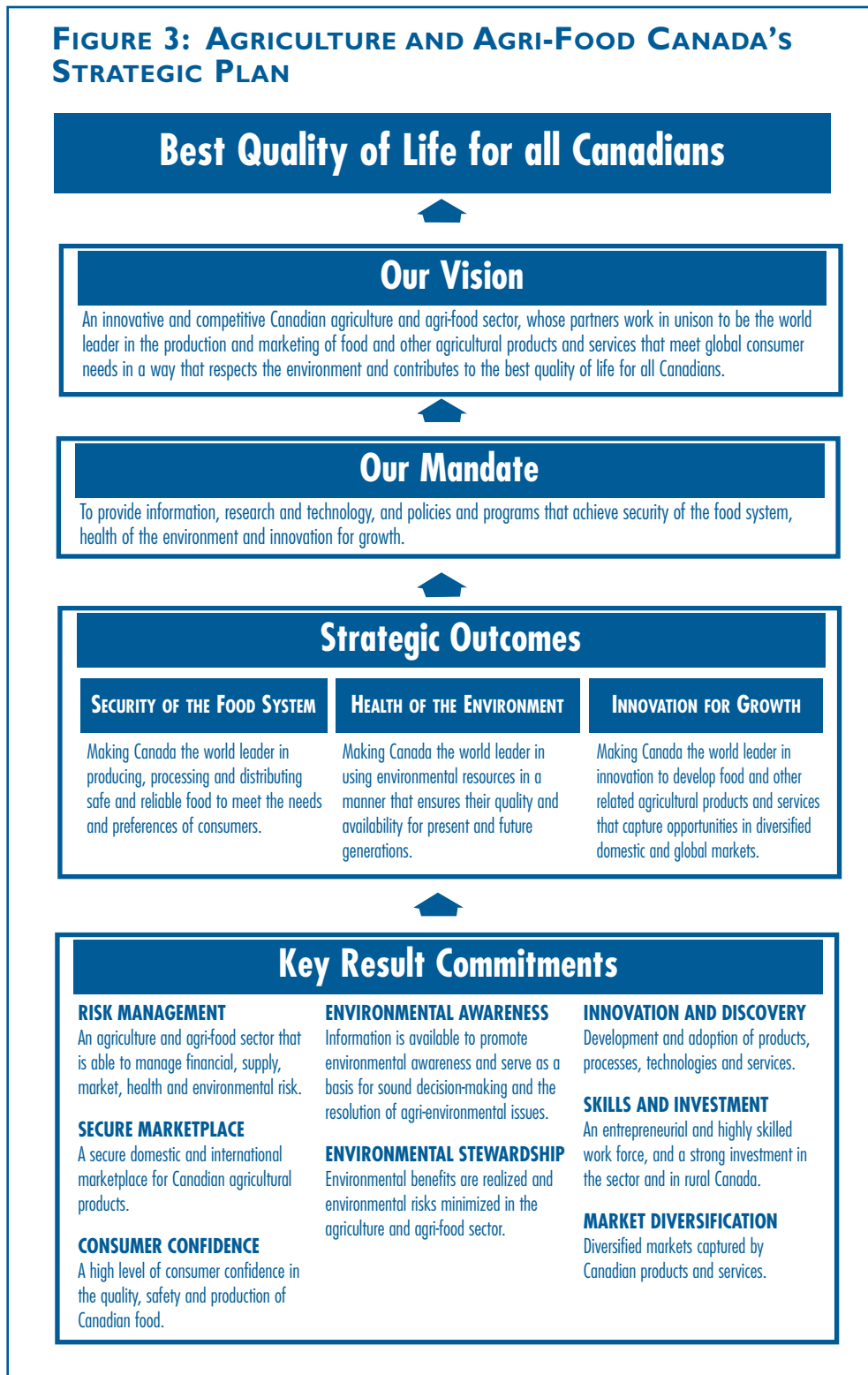
1. ***management issues***—including internal clarity and cohesion, the maturity and integration of financial and non-financial systems, and internal culture and incentives;
2. ***user issues***—including the nature and extent of users’ interest in the program, their understanding of the program and its inherent risks, and the arrangements and processes for engaging them; and
3. ***third-party issues***—including the possibility of loss or injury caused by third-party anticipation of government action, security and privacy considerations and the possible misuse of advance knowledge of government intent.

Sometimes these considerations may militate against a reporting unit of government committing itself to a clear, unambiguous and quantified statement of the objectives it is working to achieve. A number of organizational and informational approaches are

available to governments to help them work toward clearer and more realistic objectives in such cases. A reporting unit can, for example:

- express its objectives as a range rather than specific-point targets;
- set an objective in terms of a comparative ranking rather than an absolute quantitative target; or
- establish performance expectations in terms of improving from the status quo (with or without a measure of the amount of improvement).

FIGURE 3: AGRICULTURE AND AGRI-FOOD CANADA’S STRATEGIC PLAN

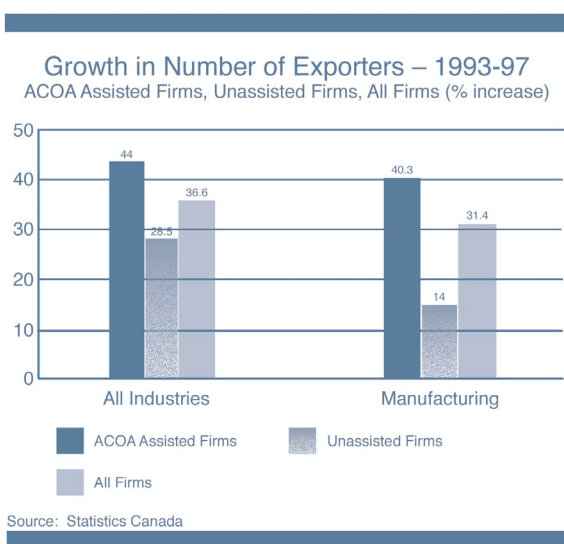


Although these approaches may not be ideal, they can help governments clarify their goals, improving the probability that governments will reach them, and improve their reporting. Figure 2 illustrates the continuum of reporting practice that is involved.

Figure 3 illustrates the hierarchy of information that an organization would disclose to achieve good Stage 1 reporting.

Figures 4A and 4B reproduce extracts taken from the Atlantic Canada Opportunities Agency, *Performance Report 2001*, and its *Report on Plans and Priorities 2002–2003*, respectively. They illustrate reporting that has gone a step beyond strictly reporting on inputs to provide greater detail and specificity about outcomes, and about plans to improve them.

FIGURE 4A



The total value of exports from the Atlantic region increased by 54.4% between 1993 and 1997, comparable to the growth of 58.1% for Canada as a whole. However, this performance is due to the success of existing exporters in increasing sales as the growth in the number of Atlantic exporters did not match the growth in Canada as a whole.

However, without ACOA programming, the growth in the number of exporters in Atlantic Canada would have been lower still. The growth in the number of exporters on an all firms basis compared to the growth on an unassisted firm basis provides an indication of ACOA's contribution. On an all firms basis, the growth in the number of exporters exceeded the growth for unassisted firms by almost 30% on an all industry basis, and by 125% in the manufacturing sector.

Source: Atlantic Canada Opportunities Agency
Performance Report 2001

FIGURE 4B

Trade	Resources (\$ millions)		
	2002–2003	2003–2004	2004–2005
	17.3	22.4	22.4
Strategic Outcome: More SMEs exporting, more export-ready SMEs, existing exporters selling more and to diversified markets.			
Some Planned Results: Increased number of potential exporters committed to exporting and meeting basic export readiness/skills requirements—300 per year. To be achieved by providing regional trade information and support awareness of exporting as a growth option. Increased number of new (first-time) exporters—80 per year. Develop and implement two sector export strategies per year. 100 existing exporters per year equipped with necessary information and skills. ¹ 40 existing exporters per year successfully securing new export markets.			

Source: Atlantic Canada Opportunities Agency
Report on Plans and Priorities 2002–2003

This example also illustrates the importance of the connection between looking back at past performance and looking forward to learn from experience and plan actions that will deliver better performance in future. Looking forward as well as back in respect of each of the few critical aspects of performance selected as the focus of public reporting will inevitably involve consideration of the risks (and opportunities) involved and of the capacity to achieve objectives. The next two principles address the public reporting of these two related considerations.

3. EXPLAIN KEY RISK CONSIDERATIONS

CCAF recommends that public performance reporting should identify key strategic risks, explain their influence on policy choices and performance expectations, and relate results achieved to the risks, and level of risk, accepted.

Risks—and risk-taking—pervade all aspects of public sector governance and management. Government is about choosing collective goals, and the strategies for achieving them. Making or avoiding these choices always involves risk—a chance or probability that something undesirable will happen, or that an opportunity will be missed. Moreover, making or avoiding decisions about priorities, resource allocations and the maintenance of capacity always involves risk—uncertainty as to whether future events or outcomes will negatively or positively influence achievement of goals.

In programs that directly affect the security, safety or health of Canadians, assessments or apprehensions of risks and the decisions based on them influence:

- the probability of desirable and undesirable consequences for Canadians or groups of Canadians;
- the extent of those consequences if or when something should happen; and
- who bears the consequences or reaps the benefit when something does happen.

Further, in all areas of its programming (whether or not directly concerned with security, safety or health issues) government choices about directions, strategy and targets will affect the nature of the internal or external risks that could affect performance and the degree to which operations are exposed to them. For example, a decision to deliver service through contractors rather than directly will eliminate some risks and introduce different ones. Significant changes in the risk profile usually require changes in the related area of the methods and procedures used to manage operations.

Just as the reality and consequences of risk pervade governance and management, they need to be acknowledged in public performance reporting. This is not to suggest that every report needs an exhaustive section devoted to the minutiae of risk management at the transaction level. How much discussion of risk is appropriate depends on the circumstances and on the degree to which it is essential to make the reporting about key aspects of performance meaningful. Reported information about risk may be presented as a separate topic or it may be better woven into the presentation of key aspects of performance, combined with the discussion of another topic like capacity or presented in some combination of the foregoing.

PUTTING THE PRINCIPLE INTO PRACTICE

Precisely because risk is so pervasive, application of this principle is closely bound up with many others and particularly the one dealing with discussion of capacity. An important risk consideration is the development or maintenance of capacity to respond appropriately to opportunities and threats.

In government as in business, substantial changes have been and are being made in the way risks are viewed and managed. Issues of risk and related matters of control considered in a more integrated manner, are becoming more explicit elements of the management discussions that take place within government. Primarily subjective, reactive and cross-the-board approaches are giving way to more forward-looking, strategic and targeted approaches in which data and analysis provide greater support to decision-making.

To date, however, there has not been a strong tradition of reflecting risk in public discussion—or reporting—of government performance.

Explicit recognition and discussion of risk takes all stakeholders into new territory. It will require time to learn how best to deal with this issue, and to build the basis of trust and shared responsibility that fosters forthright discussion about the subject of risk. **Risk—Ten Key Questions**, below, provides useful questions to consider when assessing readiness to engage a discussion about risk, and advance toward more meaningful reporting.

RISK—TEN KEY QUESTIONS

Recent parliamentary hearings into the control exercised by Human Resources and Development Canada over grants and contributions provided an opportunity to consider the interplay of risk and control. The hearings also provided an occasion to reflect on the conditions that enable and support a mature discussion of risk.

Among the questions identified as bearing on the level of readiness to address risk in a constructive manner and provide a context for better reporting of it were these:

1. Do we recognize and accept the inherent risks that attend worthwhile and important programs?
2. Do we have a way of agreeing what constitutes acceptable risk levels before the event (as opposed to applying zero tolerance after the fact)?
3. Do we factor into our decisions to undertake programs the availability of adequate human and financial resources (capacity)?
4. Do we define reasonable expectations about the balance of responsiveness and control, and reflect them in program goals?
5. Do we encourage continuous improvement by balancing sanctions and criticisms with learning from failures and improving?
6. Do we recognize the difference between “control” and “controls” and focus on controlling what is important?
7. Do we recognize different controls for different risks?
8. Are all key players committed to and providing persistent and informed leadership for the “control system”?
9. Are the means in place to bridge the interests and imperatives of different players and foster understanding and agreement among them around these issues?
10. Is reporting transparent about the basis for judgments and residual uncertainties?

The challenges to robust risk management and reporting involve both technical and behavioural dimensions. The technical challenges alone are considerable. They include those associated with:

- consistently identifying and categorizing different types of risk;
- estimating or measuring both the probability and the impact of occurrence;
- devising and implementing an appropriately balanced control framework in which procedures, processes, constraints and incentives encourage and take advantage of positive events and prevent and mitigate the damage from negative events; and
- maintaining and adjusting the control framework to reflect experience, changing circumstances and evolving priorities and directions.

As well as the technical challenges above, reporting advances also requires sensitivity to the ways information may be used (and misused) in the public domain. Depending on the circumstances of a particular accountability relationship, it may be appropriate or essential to build organizational and individual capacity and strengthen organizational arrangements as preliminary steps in a strategy to advance appropriate discussion and use of sensitive risk information.

To build the understanding and trust of Canadians, it is important that government not only informs Canadians about the risks its leaders recognize, but also discusses how it is responding to risks in its key decisions and choices. To neglect doing so is more likely to undermine confidence in government rather than build it.

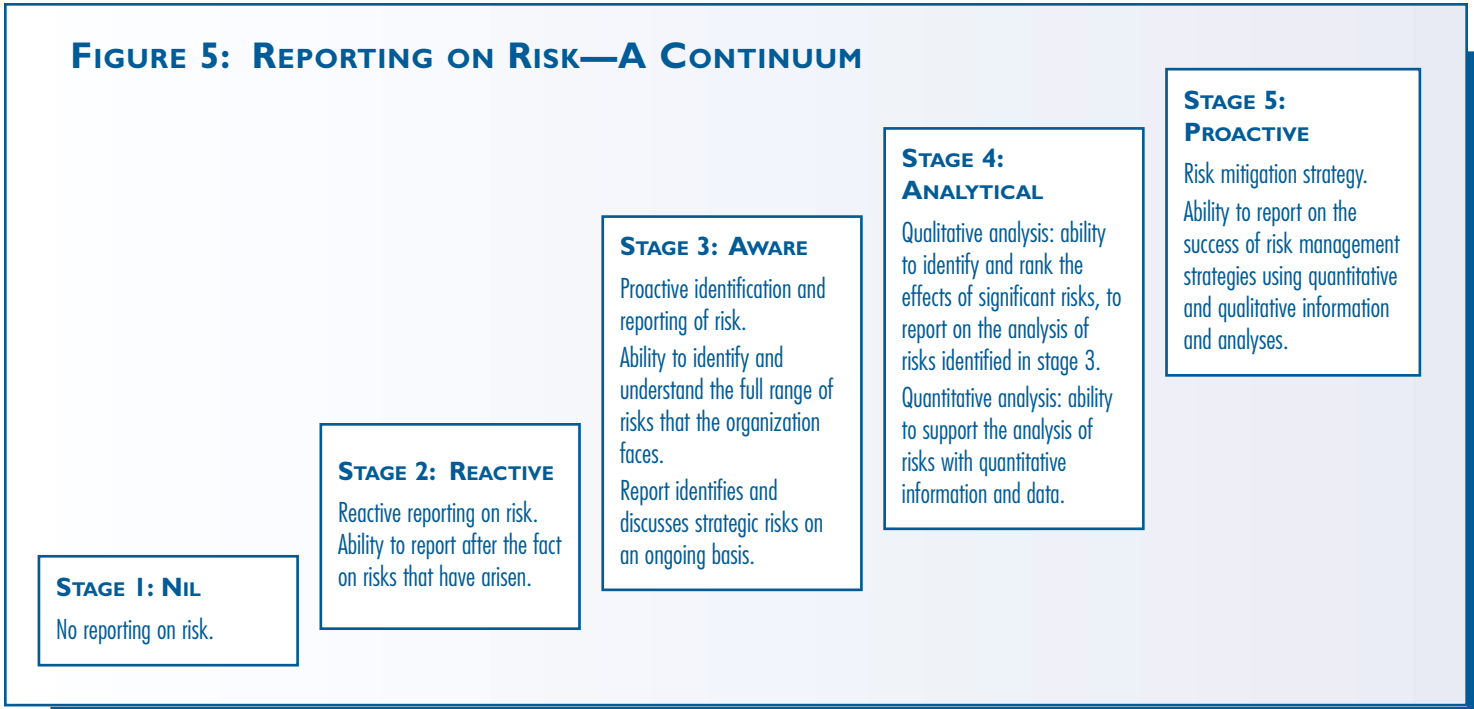
It is to be expected that at least some Canadians will recognize different risks, attach different weights to identified risks or advocate different responses to them. But it is surely preferable to engage in the discussion, to the extent that there is an appetite and a capacity to do so, before rather than after risked events occur or opportunities are irretrievably missed. Arguably, the creation of a capacity for mature discussion of risk is one aspect of a government's responsibility to lead.

Advances in managing risk provide the basis for advances in reporting it and for providing leadership. Figure 5, **Reporting on Risk—A Continuum**, illustrates five stages, or levels, of managing and reporting on risk. Key progressions in the continuum include:

- introducing formal processes for identifying and classifying risks and developing a risk profile;
- engaging qualitative and quantitative analytical techniques in the assessment and management of risk; and
- developing the ability to gauge the success of risk-mitigation strategies.

Underpinning these specific signs of progress is an attitude toward, and a way of thinking about, risk as an essential reality that needs to be recognized both when expectations are being established and when achievements are being reported.

FIGURE 5: REPORTING ON RISK—A CONTINUUM



Current practices are mixed: many otherwise quite advanced reports and business plans provide no explicit recognition or discussion of risk. Except in the financial and banking sectors, reporting at the highest levels, which provides quantitative and qualitative support for estimates of risk exposure or the success of mitigation strategies, represents the exception rather than the rule.

4. EXPLAIN KEY CAPACITY CONSIDERATIONS

CCAF recommends that public performance reporting should disclose and discuss key considerations affecting capacity to sustain or improve results and meet expectations.

Capacity refers to the capability of an organization to achieve results at a given level. Where a reporting unit does not have the capability to sustain results or meet expectations, realistic public reporting would explain how it intends to develop the needed capacity or adjust expectations.

Capacity has many dimensions, and managing capacity is an important part of stewardship performance. An organization's ability to produce results may be constrained or expanded by the quantity and quality of human, financial, intellectual, technological or physical resources available to it. Moreover, leadership is almost always a critical determinant of capacity and, depending on the circumstances, relationships, structures, internal processes and authorities may become critical or limiting dimensions of capacity.

Capacity considerations often significantly influence choices about strategic directions, goals or resource allocations. Public performance reporting should provide information about capacity considerations that would likely influence readers' understanding or interpretation of such choices or the results actually achieved.

Disclosure and discussion of capacity become particularly important to meaningful public reporting when, for example:

- starting up a program (or strategy), at which time the development of capacity may be the single most significant aspect of performance;
- changing strategic direction or adopting new delivery approaches that introduce new risks, require new techniques or processes, or that call for different skill sets;
- extending the planned life of critical equipment or infrastructure, deferring significant maintenance or renewal costs or depleting capacity to accomplish a short-term goal at the possible expense of performance further downstream; or
- the success or viability of programs depends on being able to use or respond to scientific, technical or marketplace advances.

Where capacity considerations are material, the reporting would identify the specific dimensions of capacity involved, explain their importance to the reporting unit's mission, goals or achievements, and describe the steps being taken to adjust either or both of capacity and expectations. Where there are no capacity considerations that readers should understand to properly appreciate achievements (or goals), management might simply provide a representation to that effect referencing the supporting information on which it is based.

PRIVATE SECTOR GUIDANCE

The...report should describe the capability of the company as a whole and each core business and segment to execute its strategy, manage its critical success factors and deliver results. Capability includes capital and other resources and internal systems and processes. The discussion about capability should include, but not be limited to, analysis of past financial condition and liquidity and future outlook in these areas.

*CICA CPRI
Management's Discussion & Analysis
Review Draft, 2001*

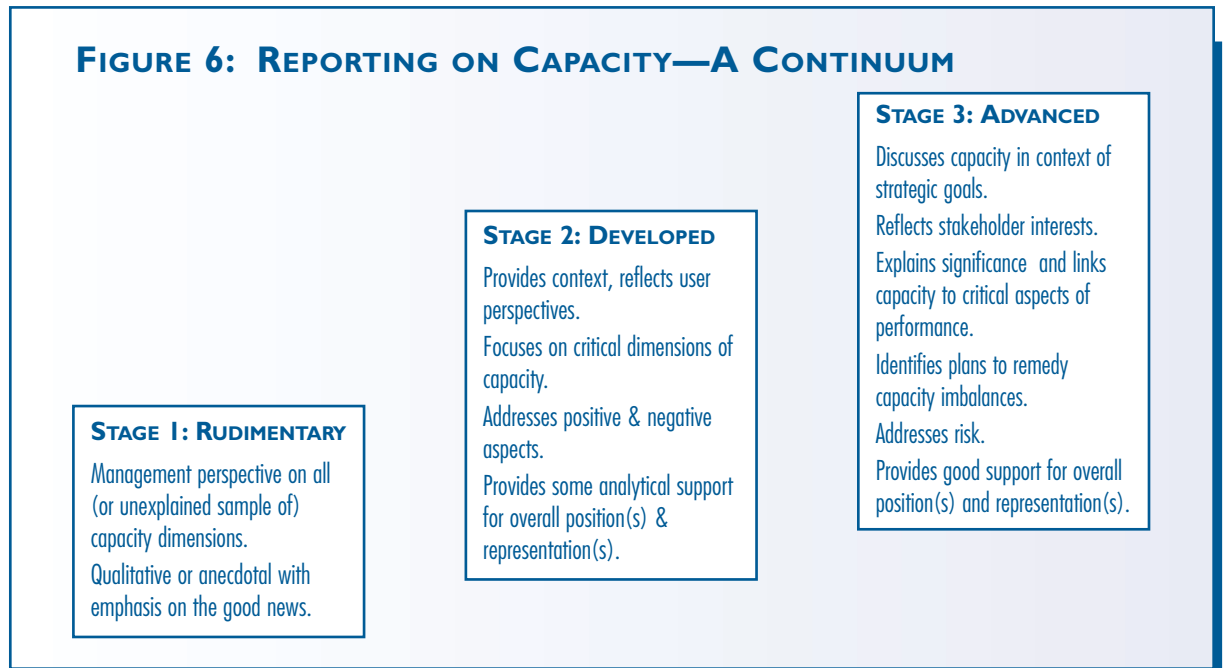
PUTTING THE PRINCIPLE INTO PRACTICE

Reporting on capacity requires consideration of a number of issues, including:

- a basis for deciding which of the many capacity dimensions to talk about and the extent of analytical support—quantitative and qualitative—available to “measure” them; and
- behavioural effects and perceptions, such as the apprehension that discussion of capacity issues will be dismissed as self-serving justifications for more resources, or that it may adversely affect morale within the reporting unit.

In respect of the first of these considerations, application of principle 4 is closely bound up with approaches to a number of other principles. There are particularly strong connections between principle 4 and those dealing with: reporting on goals and objectives (principle 2, page 21); relating resources to results (principle 6, page 36); and explaining risk (principle 3, page 25). There are also a number of quantification and measurement issues, such as those involved in gauging the returns from investments in training and development, or in measuring attributes of capacity like innovation.

FIGURE 6: REPORTING ON CAPACITY—A CONTINUUM



Most organizations appear to go through the stages described in Figure 6, **Reporting on Capacity—A Continuum**. The rate at which they advance in their reporting of capacity reflects:

- the needs and understanding of those who will be reading the reports;
- management’s view of what is important; and
- the development of performance measurement and management approaches in the reporting unit.

For these reasons, it makes good sense for strategies for advancing disclosure of capacity to include efforts to develop the understanding of key stakeholders so that they can better relate capacity issues to overall strategies, risks and resource allocations, and appreciate both positive and negative aspects of stewardship performance.

Currently, most public reporting on capacity is at a relatively rudimentary level. Narrative descriptions are the norm, with little selection or focus. The links between aspects of capacity and the potential to create value for Canadians (or expose them to risk) may be implicit or obscure. At worst, indiscriminate reporting on capacity may divert attention from results and focus attention on inputs.

More developed reporting practices are emerging. These are starting to focus reporting on dimensions of capacity that are critical to the achievement of the reporting unit's mission or strategic objectives and provide more quantitative support for conclusions reached, as well as trend data and pertinent comparisons with other organizations. There is a willingness to outline the action that will be taken to develop requisite capacity where there is a mismatch between performance expectations and the capacity to meet them.

Advanced reporting on capacity would reflect a corporate-wide perspective to identify and explain the strategic significance of critical dimensions of capacity. The presentation would provide a forward-looking perspective—supported by both qualitative and quantitative information—on the impact of capacity on planned achievements and risks, and vice versa.

5. EXPLAIN OTHER FACTORS CRITICAL TO PERFORMANCE

CCAF recommends that public performance reporting should disclose and discuss any other factors critical to successful implementation of strategies or to understanding of performance.

Public performance reporting that applies principles 1 through 4 will have gone a long way toward helping users to understand the full range of factors that are critical to successful performance. Such reporting will have focused users on the critical aspects or areas of performance (principle 1) and furnished them with management's view of: goals, objectives, achievements and lessons learned (principle 2); risks and opportunities (principle 3); and capacity (principle 4) in relation to those areas of performance. Factors other than those identified and discussed through the application of these principles may also be critical to successful performance, and hence to users' understanding of performance.

Other critical factors might relate to or stem from changing economic, social or demographic conditions in the planning context of the reporting unit, for example. They might be identified through environmental scanning that forms the front end of strategic planning or enterprise risk management exercises. Or the factors might relate to aspects of performance such as:

- standards of conduct, ethics and values;
- public perception of performance or acceptance of objectives, or the strategies adopted to realize them;
- the involvement or performance of other organizations; or
- unintended impacts, whether positive or negative, of government programming.

The more that performance depends on or is influenced by such factors, the more important it becomes for reporting to inform Canadians about them.

PUTTING THE PRINCIPLE INTO PRACTICE

Putting this principle into practice, without swamping users in "contextual information," involves consideration of:

- the level of understanding of key users of the report and the arrangements for using it;
- the nature of these other critical success factors and the reasons they are important. The more that they concern the leadership of the reporting unit, or the more that stakeholders express interest in them, the more likely that Canadians need to understand them to put performance issues in an appropriate context; and
- what the reporting unit is doing in respect of these factors and how it is managing its approach to them.

The shape of the reporting continuum will depend on the nature of the specific factors that are significant for a particular reporting unit. As a general framework for thinking about progress, however, one might expect reporting of critical factors to progress through at least three levels.

At the first, or **basic** level, reporting identifies one or more issues or factors as critical and explains their significance to performance. As reporting progresses to the next, or **developed** level, it offers assurance that all such factors have been considered and identified, and explains the importance of any considered important enough to report on specifically. It is usual also to explain what the reporting unit is doing to manage, or anticipate and respond to, factors critical to the success of the reporting unit. At the **advanced** level, reporting also provides quantitative and qualitative information to help users appreciate how well the reporting unit is managing critical factors.

These disclosures may form separate sections or headings of the report or they may be woven through the discussion of other elements of the report. If the reporting unit is also required to report specifically on a particular factor, its public performance report might refer to the overall conclusions of the special-purpose report and provide users with the links to it rather than adding significant volume to report on the factor.

The following provides examples of disclosures of factors that were judged significant in specific circumstances.

Standards of conduct, ethics and values

Governments are expected not only to achieve results but also to apply and manifest core values such as equity, due process and probity in every aspect of their operations. Traditional performance reporting approaches tended to be silent about standards of conduct in both the public and private sector.

A MULTI-NATIONAL CORPORATION REPORTS ON ITS STANDARDS OF CONDUCT

How we conduct our business

The principles and values which guide [our] corporate behavior are set out for all employees in our Corporate Purpose and Code of Business Principles.

To frame this corporate behavior we have worldwide operational standards which are central to the way we do business. These standards are set to ensure the quality and safety of [our] products and services, the health and safety of [our] people at work and to minimise the environmental impact of our operations, wherever they are in the world.

Every company chairman is required to give positive assurance on an annual basis of their company's adherence to these policies and to the broader principles set out in the Code of Business Principles.

Company performance is regularly audited.

1998 Annual Report, Unilever

Practice is constantly developing, however. In response to public discussion and debate, many larger corporations are beginning to publish their internal codes of business practice and ethics and to report how they implement them at an operational level. (See **A Multi-National Corporation Reports on its Standards of Conduct**, page 33.)

Similarly, leading governments are beginning to report on their standards and on the steps they are taking to inculcate and reinforce appropriate values in the everyday conduct of public business. The Clerk of the Privy Council of Canada, for example, recently reported:

Our values shape our actions every day, both when we have time to reflect and when ... we do not. (W)e have a strong foundation of values, but ... it is time to develop a statement of principles that would provide a shared direction for all public servants.

From the consultations to date, we know that many public servants feel that the draft statement describes the kind of public service they want, rather than the one they see today. ... It will take commitment on the part of every public service manager and employee to ensure the Public Service of Canada lives up to our principles.

In recent months, public debate of these matters has moved to centre stage, likely foreshadowing a further shift in expectations that will affect the evolution of reporting.

Public reactions

For a program such as taxation, the importance of voluntary compliance is such that “acceptance” would likely be considered as one of the few critical aspects of performance on which reporting would focus.

REPORTING ON ACCEPTANCE

The vast majority of Canadians believe it is a key responsibility of government to protect them from crime and abuse. Although crime is decreasing, Canadians still believe that the crime rate is up and the criminal justice system is too lenient. (They) have little confidence in parole and overestimate recidivism, and rate government performance as ‘bad.’

Criminal justice experts believe media reports of sensational crimes distort public perceptions and inflate the level of concern.

[T]he public at large needs to be educated about the role [that prevention, community action and corrections, respectively] play to ensure long term public safety. While government policies and strategies should never be merely reactionary, awareness of the public mood is a factor that can influence Correctional Service Canada’s corporate direction.

2000–2001 Report on Plans & Priorities of Correctional Service Canada

There may be other cases where public acceptance (or resistance) is not a critical aspect of performance as such. Nevertheless, it can become an important consideration in planning for, and therefore reporting on, performance. **Reporting on Acceptance**, above, provides an example of reporting such a case at the basic identification level.

Involvement with, or performance of, other organizations

A government's performance almost always depends—sometimes considerably—on third parties. Increasingly, collaborative and cooperative arrangements are being adopted for the conduct of public business. A reporting unit may lead or participate in a larger collaboration, the results of which may be significantly influenced, or even determined, by the actions of its “partners.” Or, a reporting unit may work in a specific contractual arrangement in which its results, and those of other organizations, contribute to a shared purpose. In these circumstances, reporting should help Canadians understand whose activities achieved what results, and which results might have been achieved without any intervention.

At the most basic level, many reports now identify other organizations whose activities intersect with their own. Some reports are moving toward a more developed level and are beginning to provide information that bears on collaborative performance. For example, reports of the Alberta Department of Education provide survey data about how its partners—school boards, teachers, employers and advanced education institutions—perceive its flexibility, responsiveness and collaboration.

More advanced reporting would not only identify collaborating organizations but also describe roles in areas of shared interest and responsibility where these are crucial to success. It would also provide information about the performance of specific joint initiatives, or the contribution of other organizations, to the key goals of the reporting unit.

6. INTEGRATE FINANCIAL AND NON-FINANCIAL INFORMATION

CCAF recommends that public performance reporting should integrate financial and non-financial information to show how resources and strategies influence results.

Canadians effectively trade their tax dollars for the achievement of public interest goals. Relevant public reporting should address this relationship. Discussing results without reference to the financial resources used to achieve them, or vice versa, invites unrealistic expectations. Public performance reporting needs to help people understand how the nature and level of spending influences results.

A meaningful discussion about resources and results also extends to the choice of strategies that have been, or might be, adopted. Describing strategies and relating results to them can help to explain how governments intend to achieve goals. Describing strategies also makes visible the assumptions on which programs operate and the logic that underpins their design. Especially where the links between government strategies and intended benefits to Canadians are weak, counterintuitive or controversial, it may be appropriate or necessary to discuss or refer to the evidence on which management has relied in attributing results to its actions and use of resources.

Relating resources to strategies and, through them, to results is essential if Canadians are to understand the value that government gets for its money. While there is no single or simple way to put this guideline into practice, the integration of financial and non-financial performance information is central to meaningful reporting. It is too important an issue to shy away from.

PUTTING THE PRINCIPLE INTO PRACTICE

There are many reasons why effective integration of financial and non-financial information is probably one of the most challenging of all nine principles to put fully into practice. Fully applying principle 6 requires a considerable measure of progress in respect of many of the other principles and brings into focus a number of issues and questions about, for example:

- the logic model that links what governments do, and the value that they create for Canadians;
- the most appropriate level at which to report;
- what to do about aspects of performance that take place outside the boundaries of the reporting unit;
- the structures, definitions and processes that classify financial and non-financial information from within the organization and from external sources into patterns that reflect the logic model and support other displays and aggregations of information;
- the capacity of systems—hardware, software, people and processes—to capture, store, analyze and use information on an ongoing basis, cyclically and as needed; and
- the balance that is struck between promoting consistency and comparability with flexibility to respect the uniqueness of each reporting unit.

The basic building blocks for integrated reporting include the reporting standards of a government, its program structures, charts of accounts and its data definitions/dictionaries. There is a plethora of techniques, such as activity-based costing or value chain analysis, that can be deployed. There are also a number of industry associations, professional bodies and certification agencies that provide processes and guidelines for improving the alignment of measurement systems.

In addition to, and more important than these more technical matters, is the imperative to engage managers and staff in the development and integration of the measurement structures and systems so that they will accept the validity of the information and use it to manage and improve performance. Above all, there is also a need to provide leadership to create the conditions for success, to stimulate an appetite for integrated information and to develop a capacity and willingness to use it.

There may be a need for leadership to overcome resistance to real accountability for results or visibility for the costs associated with the provision of benefits to specific stakeholders. And there is always a need to create and sustain the conditions that give managers an incentive to relate resources and resource requests to results. **The Importance of Leadership** addresses U.S. experience in this regard.

THE IMPORTANCE OF LEADERSHIP

The US Council for Excellence in Government and the Committee for Economic Development recently issued a discussion paper on progress in linking resources to results in the US federal government. The following extracts illustrate the importance of leadership in creating demand for and incentives to use integrated information:

A central goal of [President Bush's new Management Agenda] is to allocate scarce federal resources to programs and managers that deliver results. ... Congress has similarly expressed its commitment to this idea in the Government Performance and Results Act of 1993 (GPRA) ... the first major statutory effort to attempt to link resources to results in 80 years.

Currently, however, linking resources to results remains largely an unrealized goal. ... Though all observers acknowledge that progress has been made, here are two recent assessments indicating how far the system has yet to go:

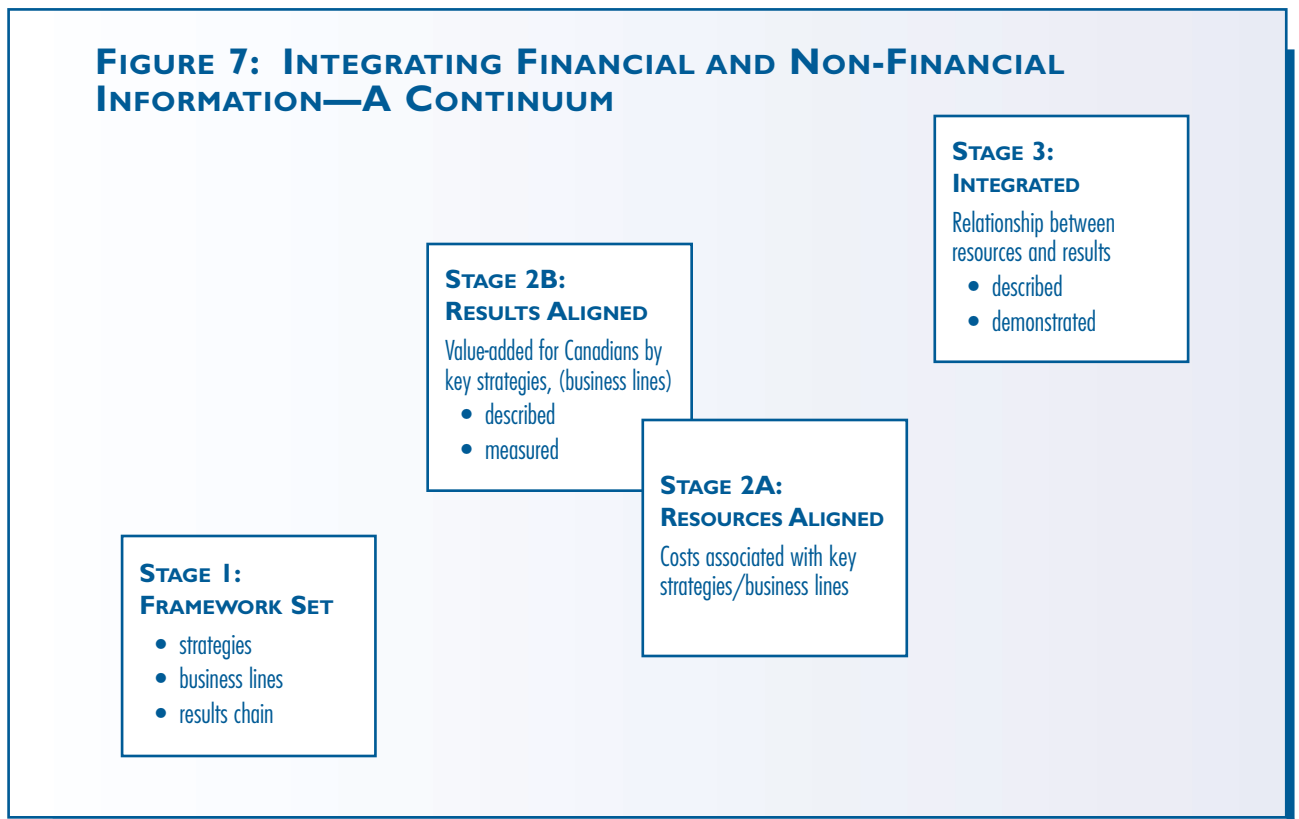
“Unless the results information agencies produce is used to make future management and resource allocation decisions, then GPRA becomes a paper exercise.... Congress and the Administration must demonstrate that results information will be a major influence in future decision-making.”

“Based on the results of [A General Accounting Office] ... survey of managers at 28 federal agencies, ... At 11 agencies, less than half of the managers perceived to at least a great extent, that a strong top leadership commitment to achieving results existed.... At no more than 7 of the 28 agencies did 50 percent or more of the managers respond that they used performance information to a great extent for any of the key management activities.”

In sum, ... there are few practical incentives in the current system to generate and use high-quality impact evaluation to inform resource allocation and program design decisions.

www.excelgov.org/performance/evidence/LinkingResourcesToResults.htm

FIGURE 7: INTEGRATING FINANCIAL AND NON-FINANCIAL INFORMATION—A CONTINUUM



The first level shown in Figure 7, **Integrating Financial and Non-Financial Information—A Continuum**, is the identification and communication of a results framework. The framework reflects the application of the first two principles. While other views are possible, many frameworks use a strategy or business line approach to describe how their activities add value (value chain).

The next two steps relate to the alignment of financial information and non-financial information, respectively, within the framework selected.

STARTING OUT

We can't even tell if we are spending more, or less, on education than we used to.

Consultations with a provincial legislator

The association of costs (inputs) with the key strategies or business lines of the reporting unit often occurs before the association of results because accounting systems have been set up to track costs. As **Starting Out** indicates, however, not all reporting units have reached this level.

At the next level, the reporting unit obtains and aligns non-financial information about the results (its outputs or outcomes) of its key strategies or business lines into a reporting structure or logic model common to its reporting of financial information. The most basic reporting would describe the nature of the results sought or achieved. More advanced reporting would provide some measurement of them; explaining how short-term results contribute to longer-term outcomes.

At this time, there has been relatively little success in providing cost and result information in a common structure—one that allows users to associate resources with results. **Extracts from the 2002–2005 Business Plan of the Alberta Ministry of Community Development**, page 39, provides an example of reporting that is starting to get costs and results into the same basic structure. Simply aligning the information in this way makes visible a number of relationships that invite discussion of performance.

EXTRACTS FROM THE 2002–2005 BUSINESS PLAN OF THE ALBERTA MINISTRY OF COMMUNITY DEVELOPMENT

Core Business: 5. PRESERVING, PROTECTING AND PRESENTING ALBERTA'S PROVINCIAL PARKS AND PROTECTED AREAS

GOAL	ACTIVITIES TO ACHIEVE OUR GOAL
To manage and maintain Alberta's provincial parks and protected areas to preserve the province's natural heritage and provide opportunities for heritage appreciation, outdoor recreation and heritage tourism.	Alberta's parks and protected areas will be preserved, protected and presented through: <ol style="list-style-type: none"> 1. Preserving a network of provincial parks and protected areas that represents the diversity of the province's natural heritage and related cultural heritage 2. Providing opportunities for all Albertans and visitors to explore, understand and appreciate the province's natural heritage 3. Providing a variety of natural landscape dependent outdoor recreation opportunities and related facilities and services 4. Encouraging ... nature-based outdoor recreation and tourism opportunities, facilities and services

STRATEGIES

- Develop new ... legislation to consolidate and streamline ... and to provide a sound basis for the management and protection of ... parks and protected areas
- Participate in overall government planning for ... G8 Summit in Kananaskis Country
- Develop a provincial strategy for managing an expanded parks and protected areas system with reduced funding
- Develop a "Re-investment Strategy" for recapitalizing and sustaining basic facilities and services in provincial parks and major recreation areas
- ... (*eight additional strategies*)
- Expand opportunities for involvement of volunteers to enhance research and monitoring of provincial parks and protected areas
- Review fees and charges for land use, facilities and services in provincial parks and protected areas.

The Plan presents information about achievements and targets related to its five core businesses under the headings of Participation, Satisfaction, Quality of life and Economic impact.

	98–99	99–00	00–01	Target, 02–05
Visitation	8,661,985	8,581,843	Not available	8,000,000
Satisfaction of visitors	New measure 02–03	New measure 02–03	New measure 02–03	To be established
Total area of parks and protected areas (km ²)	68,153	70,211	76,056	81,000

The concluding section of the Plan provides information about overall financial resource levels for the business line as follows:

	98–99	99–00	00–01	01–02	02–03	03–04
Actual (<i>Forecast</i>) Expense	Not provided	Not provided	39,528	39,891	N/A	N/A
Budget (<i>Estimate</i>)	Not provided	Not provided	Not provided	45,275	45,246	45,004

Fully integrated reporting would be reached when reporting not only puts cost information and results information into the same overall structure, but also when it relates one to the other. Fully integrated reporting would show or explain:

- how management bridges between periodic (annual) costs and outcomes achieved over longer time frames;
- how funding levels were derived from decisions about goals, (or how resource availability influenced the selection or achievement of goals); and
- the return on investment expected, and achieved.

This level of integration is sometimes seen in internal reporting, but rarely in public reporting.

7. PROVIDE COMPARATIVE INFORMATION

CCAF recommends that public performance reporting should provide comparative information about past performance and about the performance of similar organizations when doing so would significantly enhance a reader's ability to understand and use the information being reported.

As discussed under principle 2 (page 21), public performance reporting should inform Canadians how achievements compare with previously established expectations. Presenting expectations and achievements in the context of other comparative information may further help Canadians to appreciate the appropriateness of performance expectations and the significance of achievements and to use reported information effectively.

Information about past performance shows readers whether performance is stable, improving or deteriorating. Trend information can also help them relate current achievements to long-term goals.

Information about the performance of comparable organizations can also help Canadians appreciate the reasonableness of the reporting unit's objectives and how much room there may be to improve performance. It is interesting to note that, where third parties such as media have stepped in to fill perceived voids in public information, they often adopt a comparative approach.

Public performance reporting should provide comparative information when relevant, reliable and consistent information is reasonably available that would significantly enhance a reader's ability to use the information being reported.

PUTTING THE PRINCIPLE INTO PRACTICE

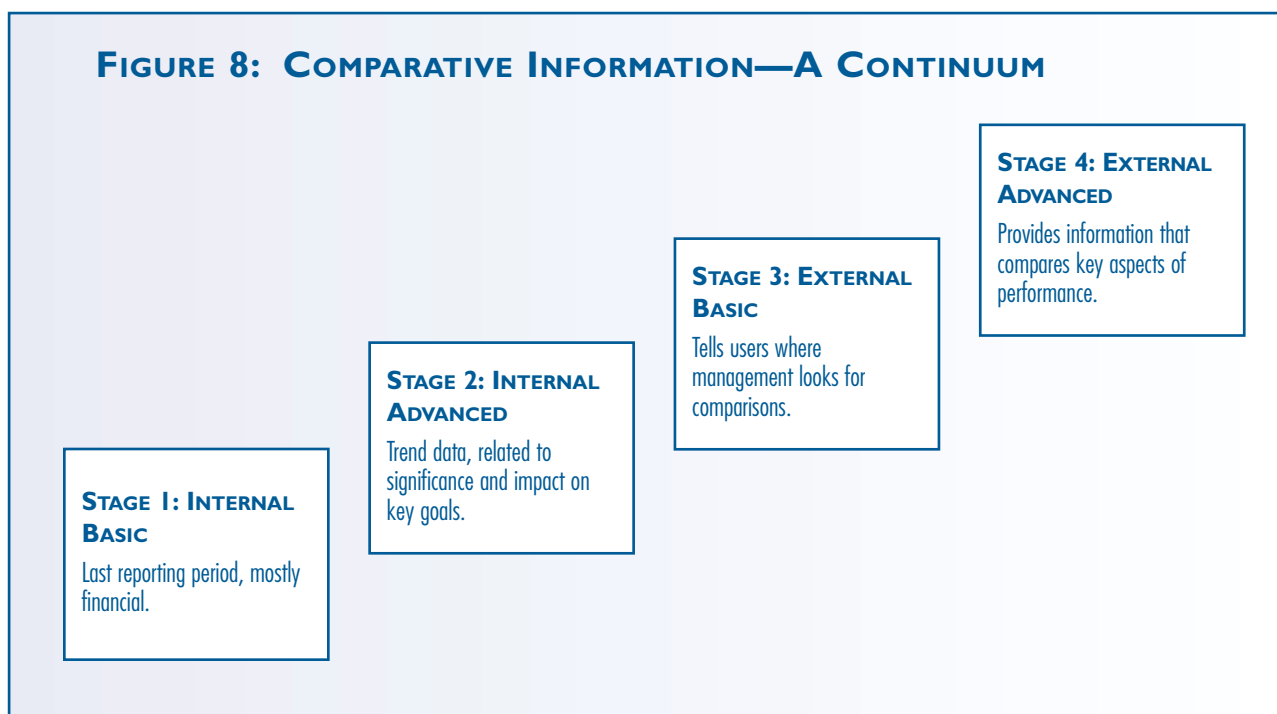
Comparative information has the potential to provide a powerful incentive for better performance and to support claims of superior performance. At the same time, inappropriate comparisons can do great harm. Realizing its benefits while mitigating its downsides involves consideration of:

- the availability of consistent, credible information on which to base valid comparisons;
- the internal culture of the reporting unit;
- sensitivity about publishing information concerning the performance of other organizations or programs; and
- the interests of users.

At the foot of the practice continuum (see Figure 8, **Comparative Information—A Continuum**) is the provision of (mostly financial) comparative information for the previous reporting period.

Most reporting provides at least some comparative information, although that is often limited to financial results for the previous year. More advanced trend information covers periods that make sense in relation to the specific key aspect of performance under discussion. Trend information shows Canadians whether performance is getting better or worse and facilitates, or even invites, projection of the trend into the future.

FIGURE 8: COMPARATIVE INFORMATION—A CONTINUUM



Strategies for moving to higher levels involve upfront recognition of sensitivities and the level of effort and time frames involved in addressing them. Strategies usually have short- and long-term elements. In the shorter term the emphasis is likely still internal. The most likely emphasis will be on presenting current achievements in the context of trend lines that help to make visible their impact on long-term goals. There may also be, perhaps, comparisons within or across a reporting unit. These may be important, for example, to address equity issues involved in quality-of-service comparisons between geographic areas or stakeholder groups.

Advancing to the next level, which involves affecting comparability with other reporting units in a government, or with reporting units in other governments, raises a number of issues. In addition to issues bearing on the validity of comparing one reporting unit with another, there are issues of information consistency and quality control. Addressing these issues requires cooperation and coordination beyond an individual reporting unit and is usually addressed over longer terms.

Specific tactics and approaches that have been used include:

- Sharing information and approaches among a group of genuinely comparable similar organizations or programs and using the shared information as a basis for comparisons. The performance reports of the city of Portland, for example, compare its service efforts and accomplishments with information from a group of five similar U.S. cities.
- Formally creating or mandating another body to define, gather and publish comparative information that all participating governments can use as a basis for comparisons. The Commonwealth and states governments of Australia mandated the Productivity Commission to serve this role and publish comparative information on the services provided by the states.

- Comparing key processes within a program against similar processes in an organization that operates in a completely different field, and reporting the improvements achieved as a result. One of the earliest and most influential benchmarking exercises involved an office equipment manufacturer comparing its inventory and warehousing operations with a leading mail order retailer.

PUBLIC SECTOR GUIDANCE

To ensure that comparisons are valid, see that information is accurate and well-presented. Explain any differences between organizations and time periods as well as limitations on the comparison.

*Treasury Board Secretariat of Canada
Guide to Preparing the 2001 Departmental
Performance Report*

Public performance reporting that shows Canadians how the goals or results of the reporting unit compare with performance in other jurisdictions is somewhat rarer. Reports on the performance of government by third parties such as international institutions, media, academics and professional bodies, by contrast, often adopt a comparative approach.

Judging from the media and public reactions to these reports, more extensive use of comparisons might well contribute to greater public interest in and understanding of performance issues.

A first step would be to identify the sources to which the reporting unit's leaders look to satisfy themselves that key results commitments represent challenging but realistic levels of performance. Then, as strategies to resolve underlying measurement issues and sensitivities bear fruit, it might be reasonable to see more comparative information being published.

Another possibility is for governments to take advantage of and report using the work done by international institutions and other bodies to establish meaningful comparisons. *Canada's Performance 2001*, issued by the President of the Treasury Board of Canada, makes extensive use of comparative information, as illustrated in Figure 9.

FIGURE 9: AN EXTRACT FROM CANADA'S PERFORMANCE 2001

Connectedness Index Results for 2000*		
Country	Rank	Index
United States	1	130
Canada	2	126
Sweden	3	121
Finland	4	117
United Kingdom	5	115
Australia	6	113
Germany	7	108
Japan	8	104
France	9	104
Italy	10	99

* The connectedness index is a weighted assessment of indicators in the areas of availability, price, reach and use. Availability is measured using 10 indicators at a weighting of 20 per cent. Price is measured using seven indicators at a weighting of 5 per cent. Reach is measured using nine indicators at a weighting of 25 per cent. Use is measured using seven indicators at a weighting of 50 per cent.

Source: Conference Board of Canada, January 2001

Economic growth is not simply a matter of achieving efficiency in a static environment; it is the result of changes in technology, allowing the production of new goods and services in new ways. Studies carried out by the Organisation for Economic Co-operation and Development (OECD) suggest that an "innovation gap" separates Canada from leading OECD countries; in other words, Canada lags behind these countries in innovation. Canada ranks 15th in R&D expenditures as a percentage of GDP among OECD nations.

The federal government is committed to closing this gap by making regular investments, working with partners, and providing an environment conducive to the creation and diffusion of new knowledge and new technologies. For example, according to the Conference Board of Canada, Canada ranks second behind the United States in connectedness. Canada has made tremendous progress toward the goal of being the most connected country in the world.

Source: *Canada's Performance 2001*
(<http://www.tbs-sct.gc.ca/rmal/communic/communie.asp>)

8. PRESENT CREDIBLE INFORMATION, FAIRLY INTERPRETED

CCAF recommends that public performance reporting should be based on credible quantitative and qualitative information fairly interpreted and presented.

Reporting on performance means developing and presenting a blend of observable facts, interpretations, assumptions and projections. To be useful, that blend has to be robust—as free from material error or bias as professionalism, reasonable care and due diligence can make it, and stated clearly enough that it can be readily understood and acted upon. Robust reporting on performance does not imply absolute precision or certainty, as uncertainties are inherent in what is being measured and in measurement itself.

Crucial considerations influencing the extent to which public performance reporting is robust, and is accepted as such, include:

- The quantity and quality of the performance information provided in support of management’s interpretation and evaluation. Robust reporting demonstrates a sufficient and appropriate basis for management’s assessment of its performance.
- The extent to which reporting reflects the best judgment of management. Governance and management decisions and assessments of performance typically involve assumptions, projections and uncertainties. Trust in reporting depends on a justifiable confidence that reporting reflects management’s best judgment in these matters—the most probable, not the most convenient—point on the range of the possible. Similarly, users deserve assurance that management has applied its best judgment in resolving tensions between desirable characteristics of information to be reported.

There is no one-size-fits-all standard of sufficiency for the performance information that should be reported publicly (or used for managing the organization). Many characteristics are desirable. (See **Desirable Characteristics of Performance Information**, page 44.)

There are tensions between these characteristics, and it is often necessary to trade off one characteristic against another. For example, the demand for reporting that is timely

PRIVATE SECTOR GUIDANCE

The fundamental, “first principle” of general disclosure is that a ... report should enable readers to view the past results and future prospects of an issuer “*through the eyes of management.*”

*CICA CPRI
Management’s Discussion & Analysis, Review Draft, 2001*

PUBLIC SECTOR GUIDANCE—USA

Measures have to be firmly rooted in reality and seen as such within and beyond your agency. Treat measurement accuracy as an essential and integral component of your performance measurement system.

Harvard University, Kennedy School of Government

PUBLIC SECTOR GUIDANCE—CANADA

Your report need not be restricted to information that can be proven with absolute certainty, nor should it be a mere collection of statistical data. [It] should give readers the means to make informed decisions about the reliability of performance information.

*Treasury Board Secretariat of Canada
Guide to Preparing the 2001 Departmental Performance Report*

enough to be relevant often requires the use of estimated or indicative information rather than precise measurements. Robust reporting achieves an appropriate balance among the attributes discussed as follows:

DESIRABLE CHARACTERISTICS OF PERFORMANCE INFORMATION

Many terms are used to define and describe the characteristics of good information. Among the most often cited are those listed below. These are subsumed in the five characteristics discussed in the text, namely, consistency, fairness, relevance, reliability and understandability.

- | | |
|--|---|
| <input type="checkbox"/> accurate | <input type="checkbox"/> predictable |
| <input type="checkbox"/> auditable | <input type="checkbox"/> relevant |
| <input type="checkbox"/> balanced | <input type="checkbox"/> reliable |
| <input type="checkbox"/> comparable | <input type="checkbox"/> replicable |
| <input type="checkbox"/> complete | <input type="checkbox"/> sensitive |
| <input type="checkbox"/> comprehensive | <input type="checkbox"/> timely |
| <input type="checkbox"/> consistent | <input type="checkbox"/> unbiased |
| <input type="checkbox"/> credible | <input type="checkbox"/> understandable |
| <input type="checkbox"/> fair | <input type="checkbox"/> valid |
| <input type="checkbox"/> neutral | <input type="checkbox"/> verifiable |
| <input type="checkbox"/> objective | |

Consistency. Measuring performance and presenting information consistently from one period to the next, and from one reporting organization to the next, contributes to robust reporting in a number of ways. It helps users to understand the indicators employed and to appreciate their significance and limitations. It also gives users a basis for tracking performance over time and projecting expectations into the future. For this reason, significant performance information, once disclosed in a public report, should be updated on a continuing and consistent basis. Similarly, there should be consistency in the way that performance is discussed in planning and reporting documents, where these are issued separately. When priorities and activities are identified in planning documents, they should be addressed in reporting documents.

Trying to maintain or impose consistent measurement and reporting when it is not warranted can cause perverse effects, however. Changing circumstances or shifts in program strategy can make established reporting patterns irrelevant, for example. Moreover, advances in measurement capabilities or conventions may open up significantly better ways for a reporting unit to report its performance. Consequently, there will be times when it is appropriate to change the selection, computation or presentation of performance information. The reasons for any breaks in the consistency of reported information should be clearly explained, management should neither avoid reporting or discussing a previously reported aspect of performance by simply leaving it out of subsequent reports nor change the basis on which it is reported without explanation.

Fairness. Robust performance reporting presents information in a reasonably fair and unbiased manner. Performance reporting necessarily involves subjective judgments. Appropriately robust processes for developing public performance reports provide checks and balances against the possibility that subjectivity might, inadvertently or intentionally, cause reporting to obscure or distort the significance of results or mislead the user. Fair reporting presents the best interpretation of management, avoiding:

- deliberate or systemic bias;
- excessive language or hyperbole;
- misleading graphical distortions;

- unbalanced emphasis on “good news” or suppression of “bad news”;
- unsupported claims;
- excessive detail that clouds the main issues;
- glossing over of significant uncertainties or measurement limitations; or
- presenting what is remotely possible as if it were most probable.

Relevance. Relevant performance information relates to the aspects of performance being reported on. It helps users to appreciate, on a timely basis, what has happened, or is likely to happen, with respect to those aspects of performance that are seen as key and on which public reporting is focused. It explains what happened and why it happened. It shows whether performance is improving or declining over time and helps predict what will happen in the future.

Reliability. Reliable performance information is not only fair, it is also:

- valid—responding to and reflecting changes in the event, results or situation it is being used to gauge; and
- reasonably accurate and complete—that is, free from material error or omissions and capable of being replicated or verified by independent and knowledgeable observers.

Understandability. Understandable performance information is presented in a format and using language that helps legislators and Canadians appreciate its significance. Robust information avoids excessive detail, jargon and vague or overly technical descriptions that may put off, confuse or frustrate readers. It provides and explains the significance of a suite of key performance indicators that is small enough to be understood and large enough to illuminate all the key aspects of performance.

PUTTING THE PRINCIPLE INTO PRACTICE

This principle is easier to state than to achieve. It permeates all the other principles and the way it is applied influences the extent to which the others are met.

Particularly important linkages exist between this principle and:

- the extent to which there is agreement about the appropriate focus of reporting—and measurement (principle 1);
- the extent to which goals are clearly specified (principle 2);
- the integration of financial and non-financial information (principle 6); and
- the disclosure of the basis for reporting and the grounds on which readers can have confidence in it (principle 9).

Most advice about strategies for making reporting more robust does not dwell exclusively on technical issues or on systems. Rather, it emphasizes the need to learn from experience and to manage the human dimensions of reporting. See **Lessons Learned**, page 46 and **Twelve Steps to More Robust Reporting**, page 47. Both sets of advice start from being clear about what to measure. They are driven by realism and acceptance that what is needed is less a fixed “solution” than a continuous improvement.

LESSONS LEARNED

While performance measurement is a very complex science, it is based on a few simple principles:

1. Measure the right stuff

If you want to find out how healthy people are, you might measure hospital visits. But then, you'd only find out how many are sick rather than healthy. To measure how healthy people are, it's best to ask them how they feel.

2. Find the most accurate measures and use them consistently

It's important to maintain consistency in what and how you measure. This is what gives us the ability to track trends and see the results of programs and services that are operated over the long term. We haven't yet figured out all the best ways to measure our performance, but we're working on it. In the six years we've been producing Measuring Up [report], the quality of information in it has improved steadily.

3. Report the results

Good information is of no value if no one knows about it. Albertans are encouraged to examine the results for themselves in our Measuring Up report and in our ministry annual reports.

Alberta Treasury Web site

www.finance.gov.ab.ca/measuring/aboutperfmeas.html

Of key importance to the application of this principle is the involvement of senior management. Senior management support and involvement is critical in creating a culture in which credible information is expected, valued and, most importantly, used to support sound decision-making. Equally, senior management sets the tone from the top when it comes to a concern with the integrity of reported information, and in striking appropriate balances between relevance and precision.

In respect of the practice continuum, at one extreme is reporting with little or no apparent connection between what is reported and the views of the reporting unit's leaders and the grounds on which they base their views of performance. It may contain a great mass of detail, unconnected to overall strategic directions or the outcomes expected. Or it may provide boilerplate or rhetoric without apparent connection to supporting metrics.

At the other extreme is a concise, clear, and clearly supported, report on performance as seen through the eyes of those responsible for achieving it. Such reporting warrants and receives respect.

Between the two extremes, advances in the application of principle 8 are marked less by predictable "step" increments between clearly distinguishable levels than for the other reporting principles. This is because of the interplay between quantity, quality, cost and time considerations and the different kinds of information that may be relevant in specific situations.

Some of the most important indicators of progress are discussed under the heading of principle 9 “Disclosing the Basis for Reporting,” page 48. These include the steps being taken by management to:

- affirm that management accepts prime responsibility for the performance report;
- disclose the steps management has taken to ensure that the information being reported is robust and deserving of confidence;
- describe the quality of the reported information and disclose any significant limitations in, or uncertainties about, the information; and
- inform readers about the results of management’s validation or audit of the information in the report.

The results of independent external audits or reviews would, where such have been carried out, provide perhaps the strongest indicator of the extent to which this principle has been put into practice.

TWELVE STEPS TO MORE ROBUST REPORTING

The following summarizes the advice of the UK National Audit Office to the heads of Executive (Next Steps) Agencies about providing more robust reports.

1. Align measures with aims and objectives.
2. Define data quality requirements in advance—consider e.g., trade-offs between cost, speed and accuracy.
3. Seek advice from specialists—on behavioral and incentive effects as well as technical and methodological issues.
4. Clearly define performance measures—and identify sources and collection/analysis processes.
5. Assign responsibility for data quality.
6. Get managers to monitor performance information.
7. Put in effective data collection procedures.
8. Establish and implement clear guidelines for validating performance data.
9. Present information clearly—bring key information together and use graphs and charts to help readers understand complex data.
10. Enable readers to make informed comparisons of performance achieved in different years.
11. Explain the activity being reported—help readers to understand the factors which have influenced the level of performance achieved.
12. Describe the quality of the reported information—describe how the agency has collected and validated its performance information.

*Good Practice In Performance Reporting In Executive Agencies
and Non-Departmental Public Bodies
National Audit Office, 2000*

9. DISCLOSE THE BASIS FOR REPORTING

CCAF recommends that public performance reporting should disclose the basis on which it has been prepared. In particular, public performance reports should explain:

- *the basis for selecting the few critical aspects of performance on which to focus;*
- *changes in the way performance is measured or presented; and*
- *the basis on which those responsible for the report hold confidence in the reliability of the information being reported.*

Even with the best data reasonably available, some aspects of performance and performance reporting will involve more judgment and uncertainty than others.

Explaining judgments that have shaped reporting, and the bases upon which these judgments rest, is key to user confidence that judgments have been appropriately exercised and that reported information deserves their attention. Circumstances will determine the full range of choices and judgments that should be made visible to help readers appreciate the basis on which performance reporting has been prepared and the extent to which it warrants their attention. Three things, each of which is discussed in more detail below, should be particularly explained in almost all circumstances:

1. the choice of reporting focus;
2. changes in the way performance is measured or presented; and
3. the basis on which those responsible for the report hold confidence in its reliability.

Choice of reporting focus. As noted previously, it is not sufficient that reporting focus on the few critical aspects of performance. It should also explain the basis on which the planning and reporting focus has been developed. Especially where the reporting unit is something other than a legally defined entity, it may be appropriate to start by explaining what the reporting unit is; explain what activities are included and excluded from the scope of the report; and explain the users and uses for which it is intended. In all cases, it will be appropriate to explain the basis on which it has been decided to focus planning and reporting on particular aspects or areas of performance and to disclose the extent to which users have been involved in the choice of focus or the selection of measures.

Where the focus that has been selected reflects established conventions for reporting on specific types of programs, reporting should inform Canadians that they have been followed, or explain why the conventions are not being followed. Understanding and explaining the basis for selecting the reporting focus at a point in time is important. When circumstances require a significant change in focus, reporting should explain the changes.

Changes in measurement or presentation. Users can better appreciate trends and understand performance when it is reported consistently from one period to the next. Particularly when organizations are developing their reporting approaches, or when they redirect their strategy, however, it may be necessary to change the way performance is reported. For example, priorities may change between the issue of planning and

retrospective reporting documents. Robust reporting explains the reasons for any such changes.

Basis for having confidence in the reliability of information. Some aspects of performance can be gauged or measured with greater certainty than others. Some uncertainties will be resolved over time, because of, for example, improvements in measurement capacity. Other uncertainties will always be there, however.

A first step is to take ownership of the reliability issue. To this end, the report might include a brief statement acknowledging management's responsibility for the preparation of the report and confirming that it reflects all circumstances and decisions that might affect it.

To further build the confidence of users, reporting should:

- briefly describe the steps management has taken to develop confidence in the reliability of reported information;
- identify any significant caveats or limitations in the supporting information (such as limitations of proxy indicators being used until better measures become available) that might reasonably influence the judgments of readers;
- describe strategies to remedy limitations (where appropriate to do so); and
- affirm that the interpretations embedded in reporting reflect the best judgments of the reporting unit's leaders.

PUBLIC SECTOR GUIDANCE

...it is prudent to frankly acknowledge ... problems in directly attributing outcomes to the actions of the department.

*Treasury Board Secretariat of Canada
Guide to Preparing the 2001 Departmental
Performance Report*

PUTTING THE PRINCIPLE INTO PRACTICE

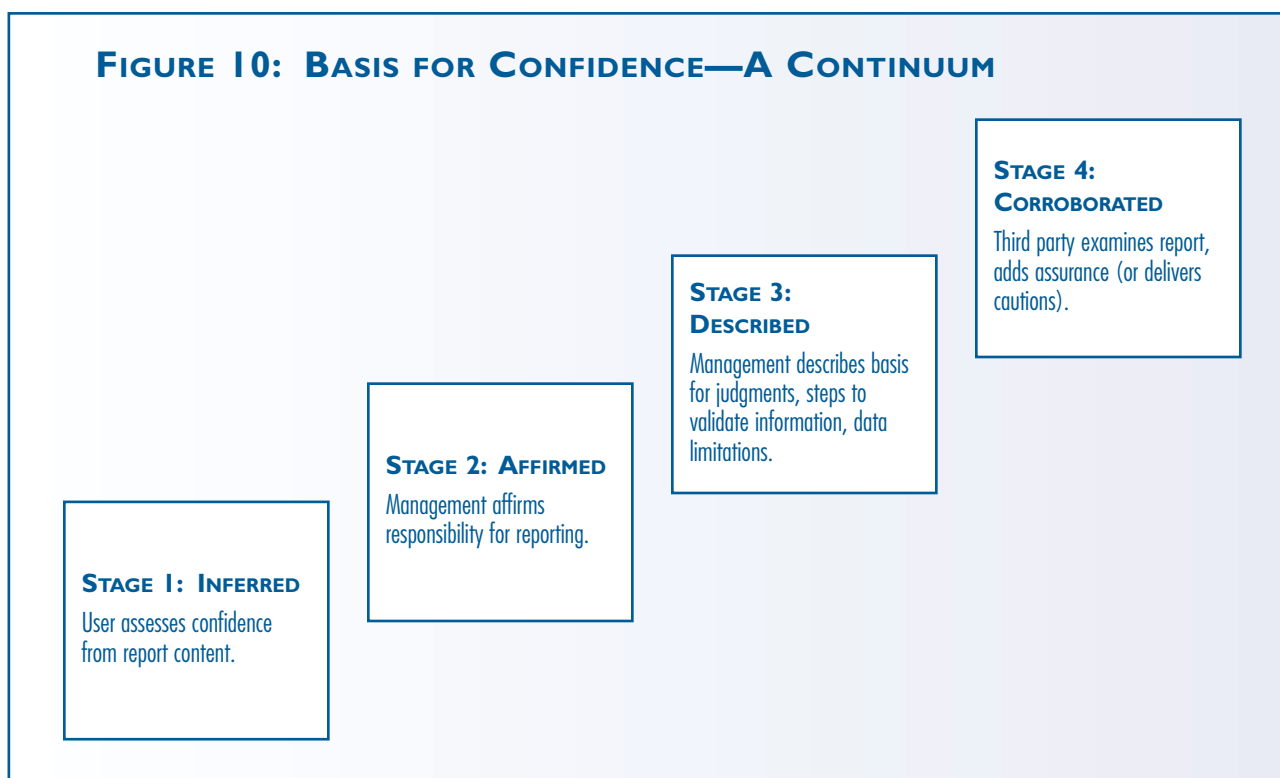
Disclosing the basis for judgments is important to the development of trust in reporting and should be done clearly and as simply as possible. Special care may be needed to explain technical measurement issues in plain language. The way principle 9 is put into practice depends on many factors. These include the approach taken to implementing the other eight principles and:

- the extent to which leaders—within and beyond the reporting unit—have accepted their responsibility for public performance reporting; and
- the steps taken by the reporting unit to promote the quality of reported information and confidence in it.

The first and key step forward in applying this principle is for management to accept responsibility for reporting and to affirm publicly that it has done so. **Taking Ownership**, page 50, shows a statement in which management explicitly affirms its responsibility for reporting.

The next step moves reporting to a level where it describes what the reporting unit's leaders have done to satisfy themselves about the validity of the information for which they are responsible. Often this comprises a brief statement about investments in systems, mandating of internal audit, evaluation and review functions and self-assessments of data quality.

FIGURE 10: BASIS FOR CONFIDENCE—A CONTINUUM



More expansive approaches at this “descriptive” level, public reporting would include or refer to, for example:

- relevant audit and evaluation findings under the discussion of key aspects of performance;
- a discussion of limitations or gaps in the information base;
- plans for improving the information base; and
- suggestions for interpreting or using the data.

TAKING OWNERSHIP

Accountability Statement

Forming part of the Annual Report

The government’s Annual Report for the year ended March 31, 2001 was prepared under my direction on behalf of the government in accordance with the Government Accountability Act and the government’s accounting policies. All of the government’s policy decisions as at June 20, 2001 with material economic or fiscal implications have been considered in the preparation of the Annual Report.

[Original signed]

Patricia L. Nelson
Minister of Finance, Alberta

One of the things that management may do at this level is to engage outside support and advice from experts or citizens to improve their reporting and build their own confidence in the appropriateness of judgments and trade-offs. To the extent that these outsiders carry respect or lead opinions within stakeholder groups, just the knowledge of their involvement can help to build confidence in reporting.

Such outside advice may acquire a degree of formality or of publicity. A formal external assessment or peer review of a government’s reporting may be issued. As they get more formal, or more widely known, external support and advice shade into independent, third party corroboration of the information and judgments in the report, which is the hallmark of the next and top level of application of principle 9.

An important step in this regard is to engage the objectivity, expertise and credibility of the external auditor. Three basic approaches have been used:

1. The auditor informs legislators (and through them, Canadians) about the systems and processes used to support public reporting. The audit report stands apart from the report on performance itself, which may be issued at a different time or in a different document.
2. Especially as a transitional arrangement, auditors and management may agree on an approach that progressively increases the involvement of the auditor and the scope and rigour of the auditor's work as reporting becomes more robust. The auditor issues a report on the specific work undertaken (which is issued with and attached to the performance report itself.) **An Auditor Adds to the Credibility of a Performance Report** shows one report issued under such an engagement. In another transitional arrangement recently reported in British Columbia, the auditor reported on the extent to which the performance report of that province's Public Guardian and Trustee reflected appropriate reporting principles.
3. Other approaches address directly the credibility of the report on performance and can be tailored to examine all aspects of the performance report to a greater or lesser degree. A review or audit-level report would then be issued to provide (or withhold) assurance about the credibility of the report.

Principle 9 calls for reporting to be transparent about what is actually known about the few critical aspects or areas of performance upon which principle 1 directs reporting to focus. If any of these principles could be described as more important than the others, it would be the first and the last with their message to report on the right things and to be open about how well it is possible to report on them.

AN AUDITOR ADDS TO THE CREDIBILITY OF A PERFORMANCE REPORT

TO THE MEMBERS OF THE LEGISLATIVE ASSEMBLY

In connection with the Province of Alberta's core measures and supplemental information included in the Government of Alberta Annual Report for the year ended March 31, 2001, I have:

Core measures

1. Agreed information from an external organization, such as Statistics Canada, to reports from the organization
2. Agreed information from reports that originated within the Government of Alberta to source reports. In addition, I tested the procedures used to compile the underlying data into the source reports.
3. Checked that the presentation of results is consistent with the methodology stated in Appendix 1.
4. Checked that the results presented are comparable to stated targets, and information presented in prior years.
5. Checked that the core measures, as well as targets, agree to and include results for all of the measures presented in Budget 2000.

Supplemental information

6. Agreed the information to source reports. In addition, I checked that the supporting narrative is consistent with the information.

As a result of applying the above procedures, I found no exceptions. These procedures, however, do not constitute an audit and therefore I express no opinion on the core measures and supplemental information included in the Government of Alberta Annual Report for the year ended March 31, 2001.

Peter Valentine, FCA, Auditor General of Alberta

From Principles to Practice

An Agenda for Action

This document recommends principles to guide the next generation of public performance reporting. These reporting principles are informed by and build on existing thinking and practice, in Canada and elsewhere. They draw from the experience and advice of a wide range of leaders and practitioners in the governance, management and audit communities. They are separate in their focus, but they are closely linked. They comprise a framework and support for exercising judgment about what to report and how to report it. They are the nexus point of the public reporting agenda, but they are not a panacea.

Taken together, these reporting principles represent a significant step forward, and they offer a considerable challenge in implementing them. This is matched, however, by a virtually unanimous conviction among those consulted over the course of the research that these challenges are worth pursuing and that, with time, effort and diligence, they can be met.

CHOICE WORDS

You face a critical choice. You can treat [legislated requirements to report performance] as just another bureaucratic requirement to delegate to a subordinate, with at best perfunctory attention from you. If you do that, however, you will squander what is probably the most powerful tool available to you as a government executive.

Harvard University, Kennedy School of Government

This sentiment is tempered by the practical realization that progress—and ultimately success—requires strong leadership, capacity to learn and flexibility to adapt and renew. From these flow the strategic investments, reasonable expectations, innovative practices, persistent action and, over time, earned trust necessary to success. Advisers counsel that the agenda for action that seeks to advance public reporting, and maximize and sustain the benefits of such advance, must incorporate these qualities. They do not, it should be stressed, regard these qualities as preconditions for taking action. Rather, they see them as “assisters,” “accelerators” and “sustainers” of actions taken.

This section discusses the scope and focus of an agenda for applying the reporting principles recommended in this publication, taking into account the broader governance and management context and the need to foster and support continued evolution in thinking and practice. As such, it speaks to a wide array of jurisdictions, public sector entities, professional bodies and “thought-leader” organizations, each of which has an important stake in, and can make an important contribution to, the next generation of public performance reporting.

SCOPE AND CONTEXT OF THE AGENDA

The agenda for action must be holistic in its orientation, focused in its aims, inclusive in its reach to direct stakeholders and intermediaries, and learning-based in its implementation. It starts by understanding that success in applying the reporting

principles is rooted within the broader context of governance and management. It continues by providing advice and tools that will help organizations begin to put the principles into practice. It is completed by providing opportunities and mechanisms for “implementers” and other interested parties to discuss experience in working with the principles, to learn from each other, to share their perspectives with others and to build the foundation for further evolution, in practice and in the principles themselves.

Public reporting arrangements and practices influence, and are influenced by, the governance and management regimes of which they are a part. Actions and advances in any one area affect the possibilities, requirements and evolution of the others.

An amalgam of issues need to be considered in developing the agenda. These relate to policy, structure, process, instruments, technology, capacity, values and relationships as well as technical matters (see **Five Key Considerations in Developing an Agenda for Better Reporting**).

FIVE KEY CONSIDERATIONS IN DEVELOPING AN AGENDA FOR BETTER REPORTING

1. How might the importance of and expectations for public reporting be reflected in legislation and policy instruments?
2. What structures and processes might be needed to help key stakeholders participate in and contribute to the development of more robust performance reporting? Might changes in parliamentary or committee procedure, for example, be needed to make effective use of such reporting? What changes might be required to keep performance information flowing?
3. How are developments in information and communications technology changing the nature, timing and extent of information flows, and affecting relationships, expectations and decision-making processes?
4. What implications do such developments hold for the content, form and periodicity of public reporting on performance and, what implications does the strategy for public reporting have for the conceptualization and design of information and communications technology?
5. What role does leadership play in addressing these issues, and where does this leadership need to come from?

FOCUS OF THE LEADERSHIP AGENDA

CCAF’s research and consultations regarding public performance reporting and the application of the reporting principles recommended in this document confirm that leadership time and attention, and action, are particularly required in:

- creating and sustaining relationships built on trust;
- aligning incentives with results and reporting on results;
- building individual and organizational capacity to generate and use performance information;
- establishing reasonable expectations about how performance reporting should advance; and
- ensuring opportunities for continuous learning and improvement and, ultimately, renewal.

Each of these is discussed in greater detail below.

Creating and sustaining relationships built on trust

Achieving good results and reporting them robustly demands a culture where comfort with, and commitment to, good public performance reporting is both natural and nurtured.

Legislators, ministers of the Crown, public servants, unions, auditors, intermediary groups, the media and the Canadian public are all part of this culture. So too are their structures and processes, their views of one another and their interrelationships, and the values and standards of conduct to which they hold themselves and others. And so too are their behaviours.

Recent legislation- or policy-based accountability initiatives have been introduced in Alberta, the federal government, Quebec, Ontario, Nova Scotia and British Columbia. The shift to more transparent, results-oriented and accountable government that these initiatives presage involves all the individuals and groups identified in the preceding paragraph. The shift is consistently described as a change in culture and a team effort. In that context, perceptions of role and responsibilities influence behaviours and thus figure prominently in an agenda for progress.

“Reporting Responsibilities: An Illustrative Framework” has been adapted from the *Report of the Independent Review Panel on the Modernization of Comptrollership in the Government of Canada*. It identifies a series of interlocking responsibilities for several key players in the governance and management process. These responsibilities and their assignment to specific officials are intended as illustrative, not exhaustive. Specific responsibilities will vary according to the circumstances of individual governments. Nonetheless, this illustration may serve as a useful departure point for discussion by jurisdictions in relation to their own structures and arrangements.

The issue of timing and opportunity for making advances in reporting arose at several points in CCAF’s research. Generally, it was thought easier and more productive to discuss roles, responsibilities and relationships before attitudes harden or patterns establish themselves. In this context, a number of legislators emphasized the importance of setting (or changing) the accountability ground rules early in the mandate of a government, while key players on all sides are most open to consider options.

Aligning incentives to results and reporting on results

It would be naive to expect substantially better performance reporting without connecting the respect, rewards and recognition given to the people responsible, to the results they achieve and report.

The views expressed by those consulted over the course of CCAF’s research on public performance reporting point, particularly, to two strategies:

1. Building on public service professionalism and pride; and
2. Providing a portfolio of incentives—financial and non-financial—tailored to the values, culture and operating environment of the organization

REPORTING RESPONSIBILITIES: AN ILLUSTRATIVE FRAMEWORK

DEPARTMENTAL ROLES AND RESPONSIBILITIES

Deputy heads: These officers should:

- accept their prime responsibility for reporting publicly their best judgment of performance, together with supporting rationales and information;
- create a culture and environment that values public accountability, transparency, achievement of results, robust information about performance, learning and continuous improvement;
- put in place the right people, structures and investments to create and sustain departmental capacity to develop, integrate and use robust performance information;
- work with central agencies to determine a cycle for public reporting that appropriately encompasses the performance of all significant aspects of a department's businesses;
- engage appropriate mechanisms to satisfy themselves about the reliability of the information they use, and report; and
- produce an integrated report on performance that is capable of standing the test of third-party verification.

Senior managers, senior financial officers, departmental comptrollers: Deputy heads should rely on these officials to:

- set, communicate and refresh departmental policies and standards consistent with those of central agencies;
- manage departmental capacity to develop, report and use robust performance information;
- ensure that departmental staff is appropriately engaged in the public reporting process;
- integrate financial and non-financial information, budgets and performance reports; and
- provide interpretation, analysis and advice.

Head of internal audit: This official should provide assurance to deputy heads and others in relation to the performance information they use and report.

CENTRAL AGENCY ROLES AND RESPONSIBILITIES

Cabinet, Treasury/Management Board: Cabinet, Treasury/Management Board should:

- approve government-wide policy and standards for performance reporting; and
- provide leadership and incentives, and support efforts, to advance and pursue excellence in performance reporting.

Clerk/Secretary to Cabinet: In the context of providing leadership in matters of the overall organization of the public service, its values and its priorities, this official should maintain a consistent and appropriate emphasis on values and priorities—including the value and priority of accountability to ministers and through them to Canadians—in the selection, mandating and development processes for the government's most senior executives.

Central agency deputy heads (Treasury/Management Board, Finance, Public Service Commission): These officials should, as applicable:

- establish and maintain appropriate policy, standards and frameworks for performance reporting for government as a whole;
- ensure alignment with related government policies, standards and frameworks (e.g., comptrollership, financial information management, information management and technology, human resources management, evaluation, internal audit, etc.);
- support and provide counsel to deputy heads in terms of the latter's efforts to advance and pursue excellence in performance reporting;
- receive annual consolidated and integrated reports from departments on their performance and ensure that such reports are subjected to periodic audit;
- act to preserve reporting standards government-wide when there is evidence of deterioration; and
- supply Treasury/Management Board, other central agencies and the legislature with government-wide performance information appropriate to their responsibilities.

LEGISLATURE ROLES AND RESPONSIBILITIES

Elected Representatives: Elected representatives are in a key position to promote an environment that supports advances in public reporting through their participation in oversight processes and committee work, and particularly through their:

- knowledge of programs;
- leadership in recognizing the need for, demanding and reacting to robust performance information;
- agreement of the appropriate basis for reporting; and
- fair use of reported information.

Legislative Auditor: As the legislature's auditor, this official should:

- champion robust reporting;
- monitor consistency and the realization of advances over time; and
- report to the legislature about the reliability and completeness of public performance reporting.

Adapted from the Report of the Independent Review Panel on the Modernization of Comptrollership in the Government of Canada

Building on public service professionalism and pride. Many of those consulted commented on the strong tradition of professionalism and public service residing inside government and the connection they saw between this and efforts to advance public performance reporting. They pointed to several factors that motivate and foster public servants to perform well and to report on what has been achieved, among them the following:

- employees' sense of belonging to an organization that takes pride in achieving results for Canadians;
- employees' sense that they have a stake in these results, and their individual pride in contributing to these results;
- employees' understanding that public reporting is an integral part of the drive to achieve better results; and
- employees' perception that superiors, peers and the public recognize efforts to report well.

Providing a portfolio of incentives—rewards and recognition. Building on public service values is essential but insufficient to provide the encouragement required to achieve results and advance public reporting generally. Additional rewards and recognition are also essential. Among the range of things that might comprise an incentives portfolio are:

- increased authority or latitude;
- a competitive advantage in obtaining resources;
- career progression;
- capacity development opportunities;
- peer recognition; and
- financial compensation.

Thought also needs to be given to ensuring that appropriate consequences follow for any who issue misleading reports.

Building individual and organizational capacity to generate and use performance information

Capacity building is critical to successfully advancing public performance reporting and applying the nine recommended reporting principles. There are many interrelated dimensions to capacity building: technical and human, individual and organizational, producer and user. Technical capacity challenges associated with applying the reporting principles—more so for some than for others—have been discussed elsewhere in this report, together with ideas on how to begin to put these principles into practice.

Another dimension to advancing public performance reporting is human capacity. This involves the mindset with which one engages the public reporting process; that is, stakeholders' values and expectations of public reporting and each other. It also involves building knowledge of the “business” of government and an understanding of its programs and governance and management processes.

Yet another dimension is organizational capacity. This involves issues of development, alignment and engagement. Appropriate policy, standards, frameworks, investment and

strategies need to be put in place to sustain performance reporting. It is also important that there be alignment between these and other related policies and standards that influence the capacity of the organization to report on performance, or that are influenced by the objectives, structure and content of the performance reporting to which the organization has committed itself. Creating organizational capacity also involves engaging a wide variety of people across and down through the entity—managers, specialists and staff. Such engagement enriches the quality and value of the performance information being generated, enabling its integration, promoting its understanding and assisting its use in managing and improving performance.

Broad-reaching engagement is crucial because performance reporting is not merely about producing and publishing information. Sustainable advances in reporting depend upon the information being demanded and used at all stages of governance, management and citizen interaction.

Understandably, most initial efforts were invested on the technical, “producer” (supply) side of the performance information equation. Rather less time and thought was invested on the “user” (demand) side—building capacity to receive and use information. As more and better information becomes attainable, however, it will become increasingly important to consider the needs and interests of users, as well, and the key arrangements and processes that channel the flow of information and influence its use. The capacity of users to understand and use robust performance information in support of their roles in Canadian democratic processes is yet a further consideration.

Building capacity on both supply and demand sides of the information equation is one way of giving meaning to the notion that a healthy accountability relationship is a two-way street.

Establishing reasonable expectations about how performance reporting should advance

As noted earlier, performance reporting practice can be expected to advance step-wise for most of the reporting principles: there are discernible stages, or levels, of application. Reaching the most advanced levels would represent significant progress.

While the nine principles relate to one another, some will require more intense effort or more time to apply fully than others. While every government’s past investment patterns and current circumstances are unique, it will likely take longer and require more political and technical leadership to apply those principles that represent the greatest advance on current practice. In that regard, 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 benchmark comparisons.

Given that better public reporting is a long-term undertaking influenced by many stakeholders, it will also be important to engage them in a discussion of what needs to be

done and to agree on a timetable for progress. This process should seek to establish reasonable, and reasonably agreed, expectations around answers to such questions as:

1. From where are we starting? What are current strengths on which to build? Which aspects of reporting most need to be improved?
2. What changes will do the most to bring about priority improvements?
3. How long will it take to put fully into practice the agreed changes?
4. How much effort will be required, and from whom?
5. What are the key indicators of progress and success?

Realistic answers to these questions will depend on the specific circumstances of individual governments and organizations, including the perceptions and preoccupations of different stakeholders. A necessary step toward developing reasonable, and reasonably agreed, expectations would be to tell key stakeholders about them and invite their input. Desirably, this would initiate a dialogue that would promote a measure of agreement around the above questions.

The nine reporting principles recommended in this document provide a basic framework within which to conduct such a dialogue. Overall, and for individual principles, the dialogue should draw out the perceptions and judgments of different stakeholders, identifying different views and exploring the reasoning behind them.

FIGURE 11: A FRAMEWORK FOR TALKING ABOUT EXPECTATIONS OF REPORTING

1. How well does current reporting focus on the few critical aspects of performance?

	Poorly	Somewhat	Adequately	Very well
	Extent to which current reporting reflects principle of focus			
What change(s) would most improve the focus of current reporting?				
How long do you think it would take to effect this/these change(s) and apply the principle fully?	<input type="checkbox"/> One or two reporting cycles <input type="checkbox"/> Three or four reporting cycles <input type="checkbox"/> Five or more reporting cycles			
What level of political or technical effort do you think it would take to effect this/these changes?	<input type="checkbox"/> Modest <input type="checkbox"/> Significant <input type="checkbox"/> Intense			

Figure 11, **A Framework for Talking About Expectations of Reporting**, suggests a structure for organizing thinking in preparation for such a dialogue. It could be used to capture and compare going-in perceptions and, with suitable expansion, to probe the underlying reasons for these perceptions.

Appendix 1, **A Performance Reporting Check-Up**, expands on this framework and provides subsidiary questions to help foster a constructive and comprehensive consideration of the issues, and the development of reasonable expectations around implementation of the full set of recommended principles.

Figure 12, the **Illustrative Expectations Map**, illustrates a format for reflecting the kind of time frames and levels of effort that might be agreed as reasonable following a discussion of expectations in relation to specific reporting principles or aspects of reporting principles. It needs to be stressed that the mapping results shown in Figure 12 are provided simply as an illustration and reference point, not as a predictor of the outcome of a specific dialogue that would take place in an individual situation.

FIGURE 12: ILLUSTRATIVE EXPECTATIONS MAP

Level of political / technical effort required to address meaningfully	Intense	<ul style="list-style-type: none"> • Focus on few critical aspects 		<ul style="list-style-type: none"> • Risks • Integration \$/non-\$
	Significant	<ul style="list-style-type: none"> • Goals and achievement 	<ul style="list-style-type: none"> • Capacity • Other critical factors • Reliable data, best judgment 	<ul style="list-style-type: none"> • Comparatives (bench-marked)
	Modest	<ul style="list-style-type: none"> • Comparatives (time based) 	<ul style="list-style-type: none"> • Disclosed basis for judgments 	
		1 or 2 reporting cycles	3–4 reporting cycles	5+ reporting cycles
Length of time required to approach or get into the zone of full implementation				

Ensuring opportunities for continuous learning and improvement and, ultimately, renewal

The ideas and advice presented in this publication provide a basis for taking public performance reporting to a new level. However, this document is not the last word on the subject. There is a significant “post-issuance” plan of action to be put into effect.

First, this plan needs to focus on how best, and in what context, to convey the key points in this document to the wide variety of stakeholders concerned. It is hoped that communication will also establish a basis for continuing interaction and discussion with key stakeholder communities including:

- legislatures and legislators, governments and executive managers, and the key practitioners who provide advice and assistance to governance and management leaders;
- standard-setting, accrediting and representational professional bodies, and other organizations that lead thinking and action in respect of the public reporting process; and
- the media and the Canadian public.

This agenda for action also needs to incorporate processes to encourage, capture, study and disseminate good practice as this relates to the application of the nine reporting principles. This could entail a wide variety of mechanisms and players involving:

- applied research/joint ventures;
- exchange events and programs;

- capacity building in the form of orientation programs, workshops and Internet-based learning;
- benchmark databases and services; and
- reporting standards development.

The action plan also needs to make provision for ongoing, high-level discussion in relation to public performance reporting strategy, progress and renewal. Creating opportunities for leaders to interact and dialogue in non-partisan settings is an important element of this approach.

Renewal might involve some refinement to existing principles as experience in working with them builds. It could involve consideration of other issues that, as noted earlier, have been identified for follow-on work or discussion. These include: e-government developments; implications of continuous disclosure; reporting on governments' approach to matters of values, ethics and conduct of business; the period to be covered in a performance report; and assurance. Further study and consideration of these issues could also lead to refinement or augmentation of the reporting principles.

Reporting Principles

*Taking Public Performance Reporting
to a New Level*

Appendices

A Public Performance Reporting Check-Up

This Check-Up provides a resource for those who develop, approve, issue, audit or use public performance reports. It is meant to help them stand back from day-to-day considerations to take stock of current reporting practices and agree on:

- priorities for advancing public performance reporting; and
- some reasonable expectations of the time and effort needed to realize desired advances.

The Check-Up provides a start point and a frame of reference for discussing how public performance reporting should evolve in a particular setting. Looking at reporting overall, and then at key indicators for each individual principle, provides a level of rigour to the discussion. By using relative rankings that reflect stakeholder perceptions and that do not require mastery of an “objective” rating scale, the Check-Up remains accessible to non-specialist participants and respects the dynamic and subjective nature of reporting.

One person or group can derive some value from the Check-Up by using it at one point in time. It will give more value, however, if stakeholders use it to compare and discuss their responses with those given by other stakeholder groups, or at different times. Understanding where—and why—perceptions differ, agreeing how—and how fast—reporting practices should advance, and considering how these advances might affect governance and accountability processes are all key steps in developing a realistic agenda for action, accepted by divergent stakeholders.

The value of the Check-Up increases then to the extent that it is used:

- to engage other individuals and groups in a discussion of public performance reporting and, especially, to understand the reasons behind different perceptions;
- to set priorities and directions for improvements in reporting;
- to establish reasonable and reasonably shared expectations of the time and effort required to realize priority improvements; and (once action has been undertaken)
- to gauge progress over time.

The Check-Up can be completed at two levels—

- Level 1 An overall assessment of reporting
- Level 2 An assessment of the application of individual principles

At each of these levels, the Check-Up asks participants to rate their perceptions of how well current reporting applies CCAF’s recommended principles.

1	Poorly (or not at all)	Reporting stands out as significantly worse than expected in this respect. It is difficult to see any real effort to apply the principle—likely to be a priority for improvement
2	Somewhat	Reporting reflects this principle to some degree while not advancing very far along the continuum—neither exceptionally good nor bad
3	Adequately	Reporting applies this principle to an appreciable extent—an area of strength on which to build
4	Very well	Reporting applies this principle at a level or to a degree that fully meets or exceeds perceived needs and expectations of rater

In preparing to use the Check-Up, it will be important to consider—and in the case of group applications, for facilitators or coordinators to agree and communicate—the following:

The specific reporting unit, and the specific reporting instrument(s), being considered. Governments report at many different levels. In some cases they use different instruments to report on their plans and achievements. Accordingly, it is important that all participants are clear about the focus of the exercise.

The basis for rating current practice. As noted above, the Check-Up uses a subjective and relative ranking scale. This is considered appropriate to its intended use—starting and sustaining a dialogue to help stakeholders agree where and how to advance.

Where a different and more specific purpose is intended—precisely locating an organization’s reporting on a continuum, for example, or effecting a public comparison with other organizations—appropriate arrangements should be made to provide participants with appropriate information and training upon which to base such an evaluation. Experience suggests that the construction and application of such a scale demands investment of significant time and expertise.


The sequence for completing the Check-Up. CCAF recommends starting with the overall (level 1) assessment before proceeding to level 2—the principle-by-principle assessment. The principle-by-principle results should then be used to confirm or modify the initial level 1 responses and support a more informed overall assessment. In the case of group applications, it may be useful to compare responses at each stage.

Arrangements for learning from and applying the results of using the Check-Up. Achieving significant advances is much more than a question of filling out a template or complying with a checklist. It is a long-term process that involves sustained leadership, judgment, innovation, compromise and pragmatism. It also requires respect for and participation from a broad range of stakeholders. Clarity about the arrangements for using the results of the Check-Up will help to engage broad-based participation and allay unwarranted concerns.

PUBLIC PERFORMANCE REPORTING CHECK-UP—LEVEL I

1. Overall, how well do you think current reporting informs Canadians about the right things?

POORLY SOMEWHAT ADEQUATELY VERY WELL



Extent to which current reporting focuses on right things

What change(s) would most improve the relevance of current reporting?

How long do you think it would take to effect this/these change(s) and achieve or approach really relevant reporting?

- One or two reporting cycles
- Three or four reporting cycles
- Five or more reporting cycles

What level of effort (political or technical) do you think it would take to effect this/these change(s)?

- Modest
- Significant
- Intense

2. Overall, how well does current reporting report things in a robust fashion that Canadians can understand, believe and use?

POORLY SOMEWHAT ADEQUATELY VERY WELL



Extent to which current reporting is robust

What change(s) would most improve the clarity, credibility and utility of current reporting?

How long do you think it would take to effect this/these change(s) and achieve or approach really clear, credible and useful reporting?

- One or two reporting cycles
- Three or four reporting cycles
- Five or more reporting cycles

What level of effort (political or technical) do you think it would take to effect this/these change(s)?

- Modest
- Significant
- Intense

EXPECTATIONS “MAP”

Use the grid below to “map” your expectations regarding the length of time and the level of effort required to effect the changes that would, in your view, most improve public reporting.

(See “Agenda for Action” on page 59 for an illustration.)

Level of political / technical effort required to address meaningfully	Intense			
	Significant			
	Modest			
		1 or 2 reporting cycles	3–4 reporting cycles	5+ reporting cycles
Length of time required to approach or get into the zone of full implementation				

If your expectations differ significantly from those of other stakeholders, it may be useful to explore with them the underlying reasons for the differences. Do they reflect a different assessment of current reporting or a different view of what reporting should become and the level at which principles should be applied? Do different perceptions reflect different understandings of the barriers to be overcome or those who have to overcome them? With better understanding of respective views, is it possible to agree a set of expectations regarding the way ahead?

If expectations are reasonably agreed, are plans in place to coordinate the participation of all those whose efforts are required to realize advances?

PUBLIC PERFORMANCE REPORTING CHECK-UP—LEVEL 2

1. How well does current reporting focus on the few critical aspects of performance?

POORLY SOMEWHAT ADEQUATELY VERY WELL

Current focus of reporting on critical aspects

What change(s) would most improve the focus of current reporting?

How long do you think it would take to effect this/these change(s) and focus reporting on the few critical aspects of performance?

- One or two reporting cycles
- Three or four reporting cycles
- Five or more reporting cycles

What level of effort (political or technical) do you think it would take to effect this/these change(s)?

- Modest
- Significant
- Intense

As additional considerations bearing on how current reporting focuses attention on the few critical aspects of performance, check the appropriate box (1 = Poorly, 2 = Somewhat, 3 = Adequately, and 4 = Very well) to record your sense of the extent to which it does the following. Leave a blank if you think a consideration is “not applicable.”

Current reporting

1. concentrates on a limited number of key result areas that matter to Canadians
2. informs Canadians well about those key result areas
3. explains how Canadians benefit from achievements in these results areas
4. links to other levels of reporting that provide access to detailed and supporting information without obscuring the focus of the formal report
5. explains the process by which the government selects the aspects of performance on which its reporting concentrates (See also #9)

	1	2	3	4

2. How well does current reporting explain the goals and objectives of government and report on their achievement?

POORLY SOMEWHAT ADEQUATELY VERY WELL

Current disclosure of goals and achievements

What change(s) would most improve the disclosure of goals and achievements?

How long do you think it would take to effect this/these change(s) and report robustly on goals and achievements?

- One or two reporting cycles
- Three or four reporting cycles
- Five or more reporting cycles

What level of effort (political or technical) do you think it would take to effect this/these change(s)?

- Modest
- Significant
- Intense

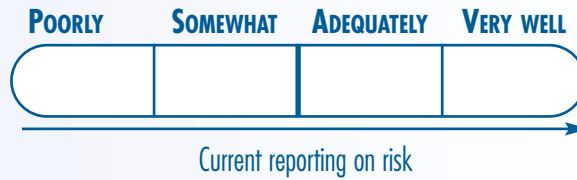
As additional considerations bearing on how current reporting makes visible its goals and achievements in respect of key aspects of performance, check the appropriate box (1 = Poorly, 2 = Somewhat, 3 = Adequately, and 4 = Very well) to record your sense of the extent to which it does the following. Leave a blank if you think a consideration is “not applicable.”

Current reporting

1. identifies key priorities and goals
2. establishes the direction of change expected compared with past results (maintain, improve, reduce)
3. provides an indicator of the level of performance expected
4. indicates the expected time frame within which it expects to achieve results
5. explains the factors—risks, resources, comparisons—influencing the choice of goals
6. compares goals with performance trends or achievements elsewhere

	1	2	3	4

3. How well does current reporting inform Canadians about risks and how risk considerations influence performance?



What change(s) would most improve the reporting of risk and risk considerations?

How long do you think it would take to effect this/these change(s) and achieve or approach robust reporting of risk?

- One or two reporting cycles
- Three or four reporting cycles
- Five or more reporting cycles

What level of effort (political or technical) do you think it would take to effect this/these change(s)?

- Modest
- Significant
- Intense

As additional considerations bearing on how current reporting informs Canadians about risk and its effects on performance, check the appropriate box (1 = Poorly, 2 = Somewhat, 3 = Adequately, and 4 = Very well) to record your sense of the extent to which it does the following. Leave a blank if you think a consideration is "not applicable."

Current reporting in respect of programs set up to address risks to health, safety or security of Canadians

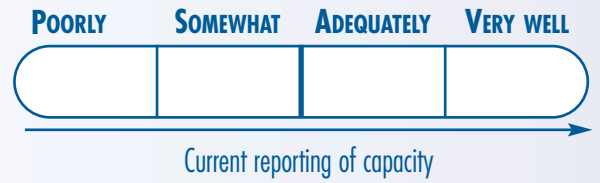
1. identifies the risks that programs have been designed to manage and describes the strategies adopted in respect of them
2. relates resource allocations and goals to risk levels

1	2	3	4

Current reporting in respect of all programs

3. identifies and explains significant inherent risks that might threaten the achievement of expected results or standards of conduct
4. describes the strategies and approaches to manage inherent risks and to respond to and learn from instances when they arise
5. provides indicators of the level of risk judged acceptable in relation to results

4. How well does reporting explain significant issues affecting capacity to sustain performance and meet expectations?



What change(s) would most improve current reporting of capacity issues?

How long do you think it would take to effect this/these change(s) and achieve or approach robust disclosure of capacity?

- One or two reporting cycles
- Three or four reporting cycles
- Five or more reporting cycles

What level of effort (political or technical) do you think it would take to effect this/these change(s)?

- Modest
- Significant
- Intense

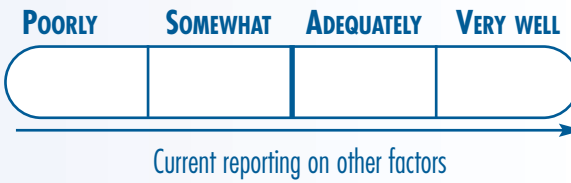
As additional considerations bearing on how well current reporting informs Canadians about capacity to meet performance expectations, check the appropriate box (1 = Poorly, 2 = Somewhat, 3 = Adequately, and 4 = Very well) to record your sense of the extent to which it does the following. Leave a blank if you think a consideration is "not applicable."

Current reporting

1. identifies the capacity factors that are critical to achievement of key results
2. provides assurance that critical aspects of capacity are commensurate with strategy, or identifies critical shortfalls
3. provides indicators that show whether critical aspects of capacity are shrinking, stable or growing (stewardship)
4. informs Canadians about strategies to align critical aspects of capacity with goals and strategy

	1	2	3	4

5. How well does current reporting explain other factors critical to success or to a balanced understanding of performance?



What change(s) would most improve current reporting of other factors and context?

How long do you think it would take to effect this/these change(s) and achieve or approach robust disclosure of other factors?

- One or two reporting cycles
- Three or four reporting cycles
- Five or more reporting cycles

What level of effort (political or technical) do you think it would take to effect this/these change(s)?

- Modest
- Significant
- Intense

As additional considerations bearing on how current reporting explains other factors critical to success or to a balanced understanding of performance, check the appropriate box (1 = Poorly, 2 = Somewhat, 3 = Adequately, and 4 = Very well) to record your sense of the extent to which it does the following. Leave a blank if you think a consideration is "not applicable."

Current reporting

1. provides a context for the understanding of performance
2. identifies areas of cooperation with other organizations making clear who is doing what, and how each contributes to shared goals
3. explains unintended effects
4. describes the values and ethics considered appropriate and the steps taken to implement them at an operational level

	1	2	3	4

6. How well does current reporting integrate financial and non-financial information to relate resources and strategies to results?

POORLY SOMEWHAT ADEQUATELY VERY WELL

Extent to which current reporting relates resources and strategies to results

What change(s) would most improve the integration of current reporting?

How long do you think it would take to effect this/these change(s) and achieve or approach meaningful integration?

- One or two reporting cycles
- Three or four reporting cycles
- Five or more reporting cycles

What level of effort (political or technical) do you think it would take to effect this/these change(s)?

- Modest
- Significant
- Intense

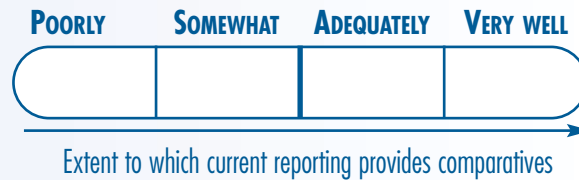
As additional considerations bearing on how current reporting integrates financial and non-financial information to relate resources and strategies to results, check the appropriate box (1 = Poorly, 2 = Somewhat, 3 = Adequately, and 4 = Very well) to record your sense of the extent to which it does the following. Leave a blank if you think a consideration is "not applicable."

Current reporting

1. identifies the key strategies through which results are being sought
2. assigns costs to strategies and or key result areas
3. attributes results to strategies and or key result areas
4. draws out and describes the perceived relationship between investments and results
5. makes visible the performance implications of different resource levels

	1	2	3	4

7. How well does current reporting provide comparative information against which to assess the reasonableness of goals and achievements?



What change(s) would most improve the comparability of current reporting?

How long do you think it would take to effect this/these change(s) and achieve or approach meaningful comparisons?

- One or two reporting cycles
- Three or four reporting cycles
- Five or more reporting cycles

What level of effort (political or technical) do you think it would take to effect this/these change(s)?

- Modest
- Significant
- Intense

As additional considerations bearing on how current reporting provides comparative information as a basis for assessing the reasonableness of goals and achievements, check the appropriate box (1 = Poorly, 2 = Somewhat, 3 = Adequately, and 4 = Very well) to record your sense of the extent to which it does the following. Leave a blank if you think a consideration is "not applicable."

Current reporting

1. compares current performance to performance in prior periods
2. identifies the external benchmarks against which the executive compares goals and achievements
3. provides hard information about the goals and achievements of comparable organizations

	1	2	3	4

8. To what extent is current reporting based on credible information fairly presented and interpreted?

POORLY SOMEWHAT ADEQUATELY VERY WELL

Extent to which current reporting is robust

What change(s) would most improve the robustness of current reporting?

How long do you think it would take to effect this/these change(s) and achieve or approach fully robust reporting?

- One or two reporting cycles
- Three or four reporting cycles
- Five or more reporting cycles

What level of effort (political or technical) do you think it would take to effect this/these change(s)?

- Modest
- Significant
- Intense

As additional considerations bearing on how robustly current reporting is based on credible information, fairly interpreted and presented, check the appropriate box (1 = Poorly, 2 = Somewhat, 3 = Adequately, and 4 = Very well) to record your sense of the extent to which it does the following. Leave a blank if you think a consideration is "not applicable."

Current reporting

1. provides relevant quantitative and qualitative information and analyses to support the executive's interpretation
2. provides links to supporting information (more detail) and to alternative displays or analyses of information
3. tells a candid story, avoiding exaggeration, hyperbole or unwarranted optimism
4. gives grounds for believing that information is factual (see also question #9)

	1	2	3	4

9. How well does current reporting inform Canadians about the basis upon which it has been prepared?

POORLY	SOMEWHAT	ADEQUATELY	VERY WELL
○	○	○	○

Extent to which current reporting discloses its basis

What change(s) would most improve the transparency of current reporting?

How long would it take to effect this/these change(s) and achieve or approach meaningful transparency for reporting judgments?

- One or two reporting cycles
- Three or four reporting cycles
- Five or more reporting cycles

What level of effort (political or technical) do you think it would take to effect this/these change(s)?

- Modest
- Significant
- Intense

As additional considerations bearing on how current reporting informs Canadians about the basis for key reporting judgments, check the appropriate box (1 = Poorly, 2 = Somewhat, 3 = Adequately, and 4 = Very well) to record your sense of the extent to which it does the following. Leave a blank if you think a consideration is "not applicable."

Current reporting

1. explains how particular aspects of performance reported on were chosen
2. explains changes in the way performance is measured or presented
3. explains steps taken to assure management of the reliability of the information being reported
4. identifies significant limitations in the reported information and explains how it ought to be interpreted or used
5. has been subjected to independent validation

	1	2	3	4
1. explains how particular aspects of performance reported on were chosen				
2. explains changes in the way performance is measured or presented				
3. explains steps taken to assure management of the reliability of the information being reported				
4. identifies significant limitations in the reported information and explains how it ought to be interpreted or used				
5. has been subjected to independent validation				

The Reporting Practice Continuum

Recognizing the challenges involved in applying its emerging principles, and mindful of the advice from many of those consulted about the need for practical support, CCAF sought advice from leading professional advisers. In respect of each of four topics central to the emerging reporting principles, CCAF asked a different practitioner to share his or her experience and provide advice about three questions:

1. What are the major issues that need to be managed in order to make advances with respect to this facet of the principles?
2. What strategies have been or are being used to manage these issues?
3. What are the key milestones of progress and levels of achievement on the continuum of reporting practice, from the most basic to the most advanced implementation?

Given the quality of the papers received and the strength of the demand for practical support, the full text of their advice is reproduced below. The topics and authors are as follows.

Each paper relates primarily to one principle. Because the principles are inter-related, however, there are numerous secondary linkages to other principles. Both primary and secondary linkages are identified in the right-hand column.

TOPIC	AUTHOR(S)	RELEVANT PRINCIPLE(S)
<i>Forward-Looking Disclosure</i>	J. Colin Potts & Nathalie Robertson, Deloitte & Touche LLP	Primary # 2—Goals and Achievements (Also #s: 1—Focus; 3—Risk; 4—Capacity; 5—Other Critical Factors; 6—Integration; 9—Disclosure of Basis for Reporting)
<i>Publicly Reporting on Risk and Risk Management</i>	Brenda Eprile & Barbara Elliott, PricewaterhouseCoopers LLP	Primary # 3—Risk (Also #s: 1—Focus; 2—Goals and Achievements; 4—Capacity)
<i>Reporting on Capacity</i>	Marilyn Dolenko, M. Dolenko Consulting	Primary # 4—Capacity (Also #s: 1—Focus; 3—Risk; 5—Other Critical Factors)
<i>Integrating Financial and Non-Financial Information to the Business Model</i>	Patrick D. Lafferty, PricewaterhouseCoopers LLP	Primary # 6—Integrating Financial and Non-Financial Information (Also #s: 1—Focus; 2—Goals and Achievements; 4—Capacity; 5—Other Critical Factors; 7—Comparatives; 9—Disclosure of Basis for Reporting)

The authors draw on both public sector and private sector examples. While the two sectors are different, there is substantial comparability in the principles that apply and the challenges that both sectors face when it comes to performance reporting.

These papers represent a first reconnaissance of the practice continuum and are intended to be illustrative rather than prescriptive or a statement of preferred practice. They are intended to help those who want to understand what these principles will mean and what it will take to put them into practice. They are not, however, suitable for those who wish to determine where exactly on a line an organization's reporting fits. Time, experience and learning will be needed to support more precise calibration and description of the continuum.

CCAF extends its appreciation to the authors for the significant contribution they have made to this document and to the development of agreed public performance reporting principles.

Forward-Looking Disclosure

J. Colin Potts & Nathalie Robertson, Deloitte & Touche LLP

The public sector is facing increasing levels of scrutiny, from parliamentarians to the general public. The need to account for the use of public funds and to demonstrate that these monies are being well managed is prompting public sector organizations to publish guidelines and frameworks that outline requirements for reporting on results. However, to effectively provide Canadians, the stakeholders of public sector organizations, with valuable and decision-making information, reporting must go beyond the purely historical; the focus must extend to the reporting of forward-looking information.

Presenting forward-looking information by public sector organizations is a critical element of the reporting process. Forward-looking information helps Canadians to understand an organization's intentions and strategies for the future; it also provides information to permit stakeholders' understanding of the organization and its resource allocation processes. Moreover, it establishes a starting point from which the organization's performance can be measured, with a comparison of actual and intended results.

While all public sector organizations have an obligation to disclose their reason for being, such as their mandate and associated goals or objectives, this rudimentary information might be considered the starting point of a continuum leading to more robust reporting of forward-looking information in the future. Moving beyond reporting of base information is linked to an organization's maturity; as an organization matures, it develops historical and trend data, providing a base for predicting the future. It also applies analytical techniques to help it clarify and quantify its goals, define and manage uncertainties (risks) and to align its capacity with its goals.

Disclosure of forward-looking information creates some risks to the organization and its management. This paper seeks to discuss the various issues, considerations and risks that surround forward-looking disclosure. These are all factors that need to be managed.

WHAT IS FORWARD-LOOKING INFORMATION?

Forward-looking information goes beyond statements of mandate, objectives, and even historical information. Forward-looking information provides stakeholders with key information to allow them to make decisions as to how efficiently and effectively the organization is achieving its goals. Generally, forward-looking information may be described as: *Any information that purports to describe what might happen in the future.*

The Canadian Institute of Chartered Accountants defines forward-looking information as:

Information, quantitative or qualitative, about existing issues, known risks, and currently known and/or expected events that are likely to have a material impact on future businesses, strategy, critical success factors, resources, liquidity, and/or results.
(Source CICA—MD&A)

BENEFITS TO FORWARD-LOOKING DISCLOSURE

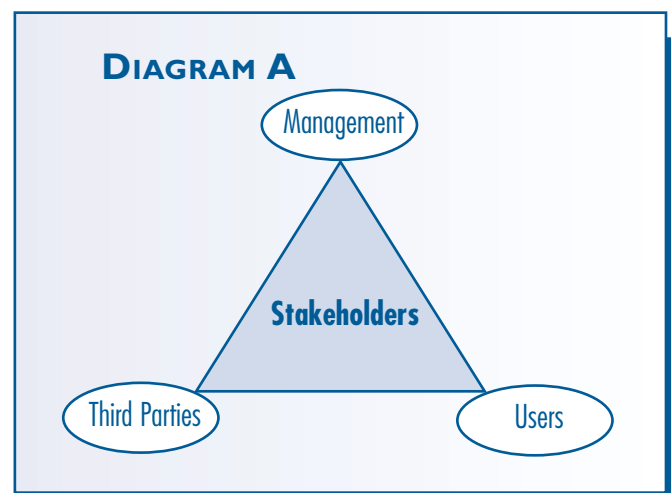
Public sector organizations answer to a number of masters, and reporting is a strategic way in which to respond to these requirements. By introducing forward-looking information, organizations, and, as a result, stakeholders, share a number of benefits. These include:

- better focus on the results that need to be achieved;
- shared vision of “end-game” by all involved;
- more meaningful dialogue between management of the organization and its key stakeholders;
- increased levels of credibility by stakeholders and the general public;
- effective challenge mechanisms to ensure that the organization is going in the right direction;
- more active involvement and interest by stakeholders;
- increased ability to obtain additional funds;
- increased tolerance for innovation and risk-taking;
- increased public profile; and
- attraction of motivated and talented employees.

It could be argued that some of the above are not, in fact, benefits. For this reason it is critical for an organization to understand the dynamics associated with the disclosure of forward-looking information.

A BALANCING ACT

Disclosure of forward-looking information necessitates that organizations balance the needs of three key stakeholders: management, users and third parties (see Diagram A). Associated with each of these communities are key issues, considerations, and in some cases, risks, that need to be taken into account when determining the appropriate level of disclosure of forward-looking information for an organization. As a result, a constant tension exists that must be managed by the organization. The following describes each of the stakeholders.



MANAGEMENT

Management stakeholders are those individuals who are responsible for the operations of the organization. These individuals have intimate knowledge of the organization, including its capabilities, strategies, opportunities and risks. Management is responsible for responding to users, while balancing the requirements of third parties. The key considerations faced by management are described below:

- Are the systems robust enough to generate and support the information to be disclosed? An organization must have the ability to internally generate the information to be used in its forward-looking disclosure.

While we are well on our way, from a managerial perspective, we still have a significant obstacle in the form of our financial reporting. Our information systems are not yet fully capable of linking resources to strategic outcomes. We are still unable to rigorously account for the “value” of every budget dollar in terms of measurable program and service delivery results.

Royal Canadian Mounted Police, Report on Plans and Priorities 2002–2003

- Is the organization mature enough with respect to its internal operations? For example, internal cohesion and goal clarity, operational performance measurement/management, financial management and integration of financial and non-financial information.

To focus on benefits to Canadians, this document has been structured by strategic outcomes rather than by business lines. The financial systems in place do not support a precise allocation of resources to strategic outcomes....

Department of Fisheries and Oceans, Report on Plans and Priorities 2002–2003

As we continue on our multi-year journey to organizational excellence, we are now focussing on Performance Management. We want to ensure that, as we realize our Strategic Priorities/Objectives, our resources deliver value and are used in the best possible way. Next year’s report will complete our transition. It will be results-based using the Balanced Scorecard—our chosen “tool” for implementing the principles of Performance Management.

Royal Canadian Mounted Police, Report on Plans and Priorities 2002–2003

- Is the organization mature enough to provide detailed and precise future plans? A mature organization may well feel more comfortable providing detailed future plans than a relatively young organization without a track record of past performance on which to base future results. Whatever the level of reporting, the management of the organization must be willing to be held accountable, and questioned, as to the reasonableness of their plan and their eventual performance against the expectations established by it.
- How does the organization plan to manage uncertainty? It is a well-known fact that actual results will vary from those projected due to changing economic and

social conditions. The degree of volatility and risk inherent in an organization's environment and operational approach, and the extent to which goals challenge or stretch the organization, will affect its ability to set and achieve precise goals. A first response is to context the discussion of expectations by telling readers about key assumptions on which planned outcomes are predicated and about key risks and opportunities as perceived by management. To support these efforts, ranges of possible results rather than absolute targets could be used to clearly indicate to the reader that statements about future outcomes and results are not being stated in precise terms. Setting expectations in terms of improvements or using cautious language are other options to be considered. An example where an organization has communicated this uncertainty is shown in the box below; the uncertainty is denoted by the use of the words "we estimate."

In 2002–2003, we estimate that we will assist over 30,000 clients. In total, some 12,000 clients will find employment or become self-employed and 500 youth will decide to return to school. There will be \$7 million in EI benefits that will not need to be paid.

Human Resources Development Canada, Report on Plans and Priorities 2002–2003

USERS

User stakeholders are those individuals who have a requirement for organizational reporting information. Users come in various shapes and sizes; however, regardless of the type of user, the requirement of value-added information is the same. Some of the considerations associated with users are described below:

- What are the specific information requirements of the individual users? Forward-looking information that is reported should be relevant to the needs of users. Information needs to be presented in a way that enables users to form an opinion on the desirability/correctness of the plans that management has established for the organization. To provide value, the level at which forward-looking information is reported should mirror material that is reported in the historical context so that the reader can make his/her own comparisons.
- What are the expectations of users in relation to organizational performance? Users of public sector reports have varying degrees of knowledge of the inherent limitations and risks when assessing forward-looking information. Hence, the disclosing organization must ensure that the information is in context so that unwarranted expectations are not set, particularly to ensure that the "floor" of minimum acceptable expectations does not become a "ceiling" that people within the organization will strive for.
- Will the information provide sufficient "food for thought"? Information will need to be sufficiently robust to allow for a meaningful dialogue between stakeholders and management about their priorities, choices and directions for the future and the achievement of the organizations mandate and goals. Mechanisms to permit this dialogue will need to be established.

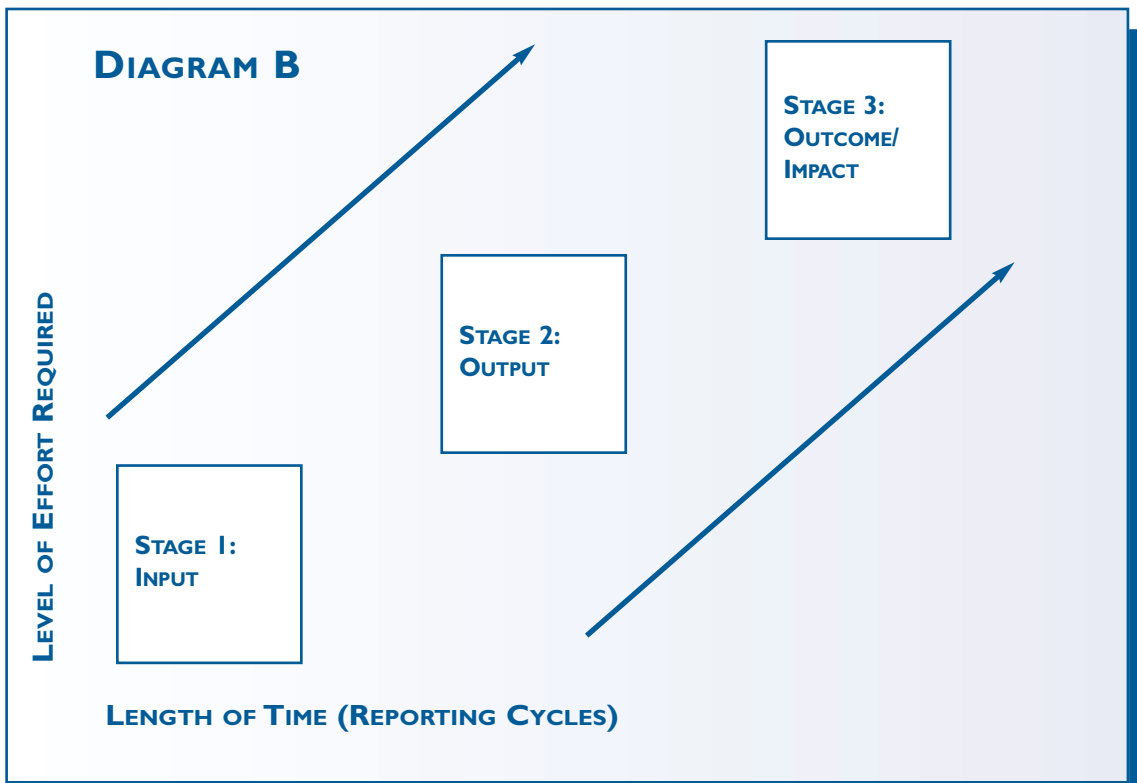
THIRD PARTIES

Third party stakeholders are those individuals and/or groups that have a vested interest in ensuring that information that is disclosed is within acceptable limitations. Reporting information should be at a level that is meaningful to readers while not disclosing information that would be harmful to the organization and achievement of its objectives or to its relationships with third parties. Examples of possible imperatives for confidentiality stem from:

- desire to protect effectiveness of negotiating strategies;
- possible injury or loss through public reaction to or anticipation of expected government actions;
- intellectual property rights;
- security and privacy considerations;
- possible undermining of the effectiveness of initiatives through responses or counter-moves; and
- desire to find answers to apprehended problems (risks) before acknowledging them publicly.

THE REPORTING CONTINUUM

Based on the above information, organizations will report on forward-looking information to varying degrees. A more conceptual approach to understanding the degree of reporting of forward-looking information is along a continuum, as outlined in Diagram B.



- Stage 1 Input** *Organizations are focusing on inputs, usually in the form of dollars and people. Stage 1 is typically demonstrated by a statement of the organization's mandate, including an interpretation of the mandate in terms of goals and/or objectives for the coming period.*
- Stage 2 Output** *Building on the input data provided in Stage 1, the organization begins to show linkages to output data (e.g., number of claims processed, cases heard, etc.). The reader is provided with more context and understanding about the direction in which the organization is heading. Quantitative information, both financial and non-financial, is also introduced.*
- Stage 3 Outcome / Impact** *The organization has developed the ability to report on outcomes achieved, along with the associated impacts. Integration is complete so that linkages are made between inputs, outputs and outcomes; discussions are included that demonstrate how the outcomes are value added for Canadians. Readers have a clear understanding of organization's strategy, key assumptions, past trends, risk and uncertainties.*

Each of the three stages is associated with an increasing level of maturity. As an organization matures, it begins to better understand and address the required balance between the various stakeholders. Addressing the associated considerations furthers the efforts of the organization in achieving the eventual goal of reporting against outcomes and impacts—Stage 3 of the reporting continuum.

Figure 3 on page 23 shows the hierarchy of information that an organization would disclose to achieve good Stage 1 reporting.

Figure A–1 shows how an organization is moving to Stage 2 of the continuum by providing status information on the projects presented rather than focusing strictly on the associated inputs.

FIGURE A–1: EXAMPLES OF MAJOR CAPITAL EXPENDITURES, WITH SOME LEVEL OF DETAIL

(\$ million)	Current Estimated Total Cost	Forecast Expenditures to March 31, 2002	Planned Spending 2002-2003	Planned Spending 2003-2004	Planned Spending 2004-2005	Future Year Spending Requirements
A Federal Policing Services						
1 Cornwall Detachment, Cornwall ON (seeking PPA)	8.5	0.1	0.9	4.5	1.1	0.0
2 Telecoms Equipment/Systems Replacement and Upgrades (DA)	48.7	4.3	5.3	6.5	7.1	25.5
B Contract Policing Services						
1 Prince George, BC – Northern District (project completion)	7.7	0.1	0.0	0.0	00.0	0.0
2 Saskatoon, SK – Sub-Division (PPA)	13.0	2.3	4.0	6.6	1.0	0.0
3 Calgary A. – Southern District Office (seeking PPA)	25.0	0.1	1.0	2.7	10.0	10.4
4 Inuvik Nunavut – V Division HQ and Detachment (seeking PPA)	12.3	0.0	4.0	4.3	3.0	0.0
5 Selkirk Ma. – Detachment (under construction)	4.3	2.7	0.5	0.0	0.0	0.0
6 Peace River Al – Detachment (under construction)	4.2	1.0	2.8	0.0	0.0	0.0
7 Cross Lake – Detachment & Married Quarters (DA)	3.1	1.4	1.0	0.0	0.0	0.0
8 Newfoundland Modernization Telecom System (DA)	23.3	3.9	10.0	5.4	4.0	0.0
9 Telecommunications System Replacement and Upgrades (DA)	87.3	~	~	11.8	13.0	17.0

Royal Canadian Mounted Police, Report on Plans and Priorities 2002–2003

Figure A–2 shows how an organization is going beyond reporting on inputs, to include an analysis as to the variances, providing the additional context required by the reader to better assess the organization’s operations.

FIGURE A–2: DETAILS RELATING TO ONE OF THREE STRATEGIC OUTCOMES—HEALTH OF THE ENVIRONMENT

OPERATING ENVIRONMENT

In 2002–2003, the Department plans on spending \$172.4 million to achieve its Health of the Environment Strategic Outcome. Planned spending and human resource requirements for fiscal years 2002–2003 to 2004–2005 are summarized in the following table. Detailed financial estimates are found later in this report under “Departmental Planned Spending.”

PLANNED SPENDING AND FULL-TIME EQUIVALENTS: HEALTH OF THE ENVIRONMENT

Forecast Spending 2001–2002		Planned Spending 2002–2003		Planned Spending 2003–2004		Planned Spending 2004–2005	
\$ millions	FTE	\$ millions	FTE	\$ millions	FTE	\$ millions	FTE
178.3*	1,426	172.4	1,441	160.7	1,439	161.0	1,439

* Reflects the best forecast to the end of the fiscal year, with adjustments totalling \$34.9 million, including Supplementary Estimates.

The decrease in funding levels over time is attributed to: supplementary funding in Fiscal Year 2001–2002; realignment of resources against business lines and fiscal years; as well as reductions for the sunsetting of programs.

The agriculture and agri-food sector faces risk from erosion of biological resources

Agriculture & Agri-Food Canada, Report on Plans and Priorities 2002–2003

Figures 4A and 4B on page 24 reflect an organization that has gone a step beyond strictly reporting on inputs to provide the reader with greater detail and specificity. This is demonstrated by the statement of planned results.

CONCLUSION

Disclosure of forward-looking information benefits all stakeholders of an organization. However, as with all activities, key considerations need to be taken into account before being able to immediately serve these requirements. Balancing the requirements of all stakeholders is critical; however, once these requirements are understood and managed, an organization can successfully move through the forward-looking reporting continuum.

Publicly Reporting on Risk and Risk Management

Brenda Eprile & Barbara Elliott, PricewaterhouseCoopers LLP

SCOPE OF PUBLIC REPORTING ON RISK AND RISK MANAGEMENT

Every entity faces a variety of risks from external and internal sources that must be assessed before they can be managed or reported. Risk assessment is the identification and analysis of relevant risks to achievement of objectives, forming a basis for how the risks should be managed and then reported.

Government objectives, which drive risk assessment, may differ from those of public companies, which are generally to increase shareholder value. The objectives of governments may be expressed in financial terms (e.g., budgets) and in non-financial terms (e.g., expected outputs, outcomes and impacts). The characteristics of government programs, operations and activities include the source, nature and amount of resources used in program delivery, the method of program delivery and the pricing or fee structures. Outputs, such as the provision of goods or services, may be defined by the objectives set out in the entity's governing legislation and by government priorities. Outputs may be subject to constraints imposed by funding or by regulations regarding service or pricing levels.

Stakeholders are asking more and more questions about risk and risk management. Organizations should make sufficient public disclosures to allow stakeholders to assess their risk exposure and the quality of their risk management. Risk information will allow stakeholders to make better comparisons between government bodies. In the public sector, risk disclosure is not yet well established, primarily because organizations are still in the process of developing risk management techniques.

Where an organization has a sound risk management framework that identifies, measures, monitors and controls risk in an effective manner, disclosure of such a framework will prove beneficial. Risk management and risk management disclosure help to enhance stakeholder value and confidence by reducing the adverse impact of covering downside risk and maximizing upside potential. Organizations may ultimately consolidate and enhance current risk management structures to deliver end-to-end risk management and reporting. The advantages of good risk reporting include the ability to make informed decisions, to keep all stakeholders aware of risk status and risk activities and to assess the effectiveness of controls and processes.

Information on risks should allow stakeholders to assess a government's accountability by assisting them in determining how the organization is managing risks related to items such as compliance with budgets, financial laws, rules and regulations. Budgetary compliance is likely a risk area for all government organizations. Therefore, government

organizations should describe facts, decisions and conditions that are expected to have an impact on results (e.g., changes in tax rates, change in employment base, change in credit rating). In addition, they should show whether resources were obtained and used in accordance with legally adopted budgets.

OVERVIEW OF CATEGORIES OF RISK APPLICABLE TO THE PUBLIC SECTOR

Although government objectives, and therefore risks, may be different from those in the private sector, the types of risks to which they are exposed are similar, and are outlined below.

Operational risk

DEFINITION: the risk of failing to meet objectives due to inadequate or failed internal processes, human performance and technology or from external events.	
Information on risks and risk management that could be used for reporting on risks	
Qualitative	Quantitative
<ul style="list-style-type: none"> • Consideration of natural disasters • Data security • Nature of customer complaints • Discussion of information systems • Segregation of duties • Business recovery planning • Internal audit • Competency of staff • Service or product quality 	<ul style="list-style-type: none"> • Number of systems failures • Property destruction • Increase in contract staff • Loss of data • Training budget versus plan • Budget overruns • Number of customer complaints • Fines, penalties or litigation • System downtime • Employee turnover

The measurement of operational risk can be difficult. The practice of reporting and measuring operational risk is still relatively new and can be very complex. With the exception of large multinational financial institutions that are starting to develop statistical methods of measuring operational risk, there are no established tools and techniques, little historical data as to operational-loss events and difficulties in the consistency of classification. As a result, there is little reporting on operational risk measures, rather, organizations are reporting on the nature of operational risk and how it is managed.

Reputational risk

Unlike revenues or profits, which can be measured and quantified at a point in time, reputation is a dynamic (versus “static,” unchanging) subjective attribute. The Internet has created a fundamental shift in the way companies must interact with critics. Rumour mongering and consumer activism are not new, but a decade ago, a dissatisfied customer

might have complained to 10–20 people—today, that same individual can set up a Web site and reach millions.

DEFINITION: the risk of attracting adverse consequences due to adverse publicity. The adverse publicity may arise from the political environment, environmental risk, health and safety issues, discrimination or other human resource issues.	
Information on risks and risk management that could be used for reporting	
Qualitative	Quantitative
<ul style="list-style-type: none"> • Quality of products or services • Social responsibility • Eco efficiency • Impact of products on the environment • Emissions • Waste • Climatic change • Ethnic and gender diversity • Child labour • Human rights issues • Changes in political environment • Changes in tax rates • Other legislative changes 	<ul style="list-style-type: none"> • Working hours • Social investment • Waste disposal costs • Environmental cleanup costs • Lawsuits • Legal fees

Strategic risk

DEFINITION: the risk of failing to meet objectives due to a failure to meet internal strategies.	
Information on risks and risk management that could be used for reporting	
Qualitative	Quantitative
<ul style="list-style-type: none"> • Failure to make a strategic acquisition • Contingency plans • Changes in market conditions • Ability to deliver services • Cost control • Business plans • Technological developments • Product or service accessibility 	<ul style="list-style-type: none"> • Efficiency ratios • Budget to actual comparisons • Key performance indicators • Comparison to similar organizations • Meeting timelines

Partnership risk

DEFINITION: the risk of failing to meet objectives due to the inability or unwillingness of a service partner to fulfill its obligations.	
Information on risks and risk management that could be used for reporting	
Qualitative	Quantitative
<ul style="list-style-type: none"> • External debt rating • Failure to complete projects on deadline • Failure to complete projects without assistance from other service partners 	<ul style="list-style-type: none"> • Continued trend of overspending • Length of time past deadlines • Number of projects with cost overruns

Governments often deliver programs through collaborative or contractual arrangements. Such arrangements provide opportunities to extend the reach of government. They also make the government dependent on the continued viability and performance of its “partners.”

Market risk

Although banks have been reporting on market risk in detail for several years, this has not been the case for other industries. Rather, disclosure of market risks may simply include statements such as “The company is exposed to the risk of interest rate fluctuations, which from time to time may affect its cash flow.” Other companies in the private sector are now starting to provide more quantitative disclosure of market risk.

DEFINITION: the risk of failing to meet objectives due to changes in interest rates, foreign exchange rates and equity and commodity prices.	
Information on risks and risk management that could be used for reporting	
Qualitative	Quantitative
<ul style="list-style-type: none"> • Hedging strategies • Limits • Valuation processes and controls • Approvals of products 	<ul style="list-style-type: none"> • Value at Risk (VAR) • Stress testing • Sensitivity analysis and simulation modeling • Gap analysis

GUIDANCE ON HOW ORGANIZATIONS MAY REPORT ON RISK

First, reporting approaches reflect the way in which risk is defined for a particular organization. There are several stages in being able to identify, control and report on risk, as follows:

STAGE	ACTIVITIES	METHODS
Identify and prioritize key risks	Identify key risks of all types based upon: <ul style="list-style-type: none"> • Likelihood • Impact / significance • Consider risk from perspective of opportunity, uncertainty or hazard: <ul style="list-style-type: none"> • Opportunity—Is there any way I can create an opportunity from analyzing this risk? • Uncertainty—How can I prevent this negative event from happening? • Hazard—What is my contingency plan should the negative event actually occur? 	Review organization's structure and objectives Discuss widely and ensure all stakeholders are involved or considered Group based on broad categories Rank importance (perhaps using risk map) Compare to similar organizations
Describe actions taken to manage each risk	Understand actions taken on identified risks, such as: <ul style="list-style-type: none"> • Risk sharing • Risk transfer • Implementation of controls 	Consider outsourcing Consider use of derivatives Review insurance policies Compare controls in place against risk identified
Identify how risk is measured	Clarify process for measuring and monitoring risks	Accounting information Non-financial performance measures Market research Sensitivity analysis Value at risk analysis
Reporting	Determine content of report, and confirm that there are no sensitive or commercial and legal issues	Formal approval at board level Market research
Maintenance	Develop ongoing process for identifying, managing, measuring and reporting on risk	Regular risk identification sessions Updates to controls Buildup historical data

Considerations that may assist in prioritizing risks:

- Financial magnitude or impact—generally, areas with larger dollar amounts may be more significant
- Importance—programs, operations or activities that are essential to achieving objectives
- Economic, social and environmental impact—while a project may have a small budget, it may affect a large segment of the population or the environment
- Interest expressed in the matters—interest may be shown by the legislature or other governing body or the public
- The diversity of objectives and goals—if there are diverse or inconsistent objectives, the risk of programs not operating efficiently increases

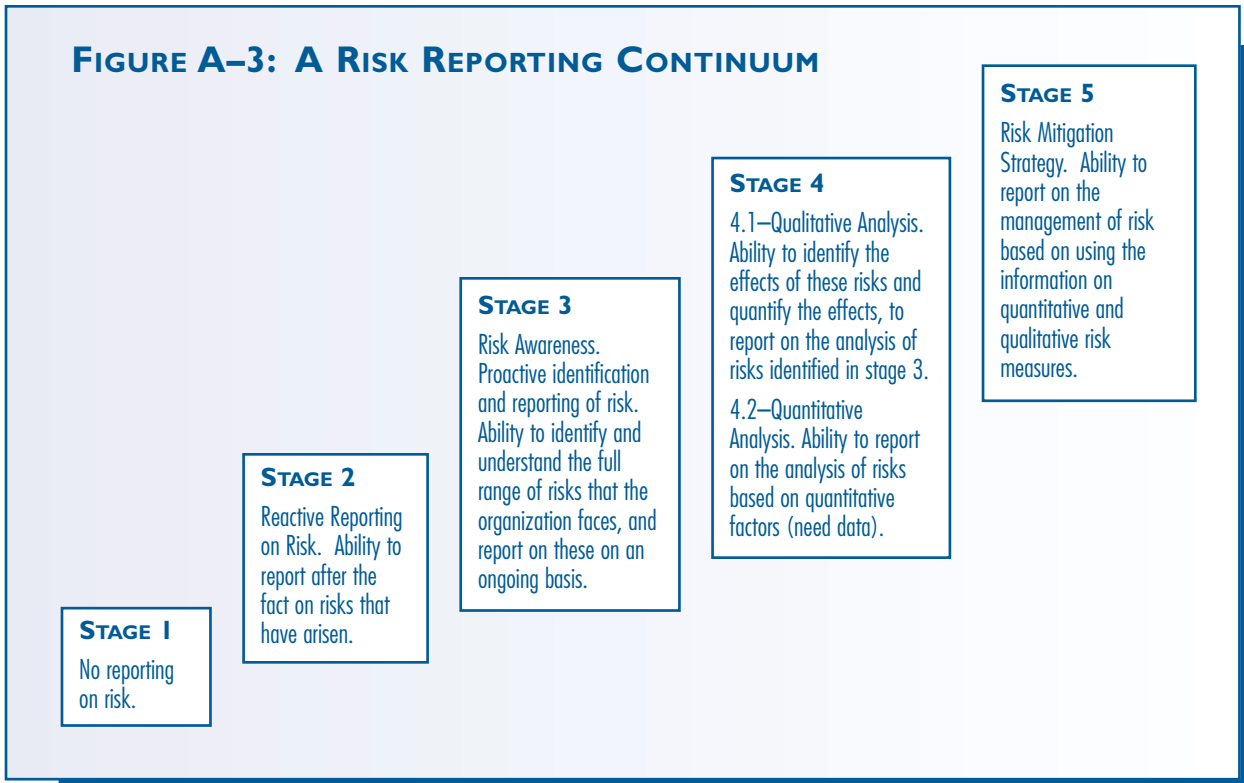
- Complexity of operations—more complex and varied programs, functions and activities imply more decentralized decision-making and therefore more risk
- Nature and degree of change in the environment or within the entity—new public needs, budget cuts, changes to legislation, high turnover of staff or new initiatives may increase risk
- Likelihood—developing a scale to rank as, for example, “extremely remote,” “unlikely,” “possibly,” “quite likely” or “very likely”

USER NEEDS	SUGGESTED RESPONSE
Users want to know about the organization’s most significant risk exposures, the way in which the organization ranks its risks and who is involved in assessing risks	<p>Significant risks should be reported for the organization and the major business units, including consolidated and summarized data</p> <p>The risks should be ranked</p> <p>A description of the process for identifying risks should be provided</p>
Users want to ensure that the business risk identification process is operating effectively	Emerging risks and balanced reporting of risks (opportunity, uncertainty, hazard)
Users want to gain an understanding of the value at risk, and what is within the control of management	Impact measured in quantitative terms, with an indication of what is controllable through management action (for example, allowance for loan losses)
Users want to see how exposures are developing over time	<p>Provide year-to-year comparisons, with explanation of significant changes (for example, removal or addition of risks)</p> <p>Provide short- and long-term analysis of risks</p>
Users want to be assured that an appropriate, effective management response is implemented	Provide narrative as to how the risk management framework is designed and the processes in place to identify and control risk (e.g., hedging contracts, insurance policies, other management controls)

It is also important to analyze stakeholder interests and needs in order to determine what information to report. The first step is to identify key stakeholders. These may include, for example, regulators, competitors, third parties, public, legislative and oversight bodies, investors or creditors. Although user needs may differ across organizations, there are some needs that would likely be common among all organizations, as set out above.

If an organization is reporting on risk for the first time, it may be difficult to achieve all of the above responses. However, an organization can move toward comprehensive risk disclosures as is illustrated in Figure A–3: **A Risk Reporting Continuum**.

FIGURE A-3: A RISK REPORTING CONTINUUM



Key questions/considerations in determining what to report and how fast to move along the continuum include:

- What risks do we face if we do/do not disclose risks and risk management?
- Are we willing to deal with sensitive issues openly?
- If not, will we be seen to be hiding something?
- How will we recover from an unexpected or expected blow?

EXAMPLES OF REPORTING ALONG THE CONTINUUM

Stage 1. No reporting on risk

There are numerous examples of annual reports in the private sector and information published in the public sector for which there is no disclosure of risk.

Stage 2. Reactive reporting on risk

Companies have historically been reactive in their reporting of environmental issues. This is due to the fact that environmental problems were created prior to gaining attention, and therefore, the reporting on such matters tends to focus on problems created in the past. One such example, from the Domtar 2000 Annual Report, is outlined in the following box.

RISKS AND UNCERTAINTIES—ENVIRONMENT

Under its Care and Control Program, Domtar is continuing to take remedial action at a number of former operating sites relative to possible soil, sediment or groundwater contamination.

As at December 31, 2000, Domtar had a provision of \$41 million for known and determinable site remediation costs primarily in connection with its former wood preservation business. Further, Domtar is party to some environmental claims, actions and lawsuits that are being contested.

Stage 3. Risk awareness

Several companies in the private sector have disclosed the risks that they are exposed to have, but have not quantified them, provided a qualitative analysis or provided further information on risk management strategies. One example of this type of disclosure comes from Canadex, a school and charter bus company.

CREDIT RISK

The Company [Canadex] is exposed to credit risk to the extent that customers fail to meet their contractual obligations.

INTEREST RATE RISK

The Company is subject to risk of interest rate fluctuations. As a result, the profitability and cash flow of the Company are affected by interest rate fluctuations.

COMMODITY PRICE RISK

The profitability of the Company is directly related to the market prices of oil and gas, which are subject to fluctuations.

The Company does not manage its exposure to fluctuations in interest rates, foreign exchange rates and commodity prices through the use of financial instruments.

Stage 4.1 Qualitative analysis

Reporting on the qualitative aspects of risk is illustrated in the following example from Big Rock Brewery Ltd.'s 2001 Annual Report.

GOVERNMENT REGULATION AND TAXATION

The brewery business is highly regulated. The Company's business is dependent on obtaining and maintaining all required permits, licenses and approvals necessary to the brewery operation and to permit the sale of alcoholic beverages. Production is subject to excise taxes payable to the government of Canada. Since pricing of the Company's products includes these taxes, any increase in taxes could have an adverse impact on the Company's sales and profit. There can be no assurance that, in the future, new or increased regulations or taxes will not be adopted at city, country, state, provincial or federal levels in the Company's markets. Such measures could include proposals for higher taxes on alcoholic beverages, or efforts to further regulate to limit producers, distributors or retailers of alcoholic beverages. The adoption of any such measures could have a material adverse effect on the Company's business.

Stage 4.2 Quantitative analysis

An example of how an organization might report on the quantitative aspects of operational risk is as follows.

Lost Time indicates the accidents which result in an employee being unable to work for a day or more. Safety targets are reflected in terms of 'safe time' worked. The target safe time before a Lost Time Incident is one million hours worked. Currently, the safe time period is 500,000 hours. This represents an improvement of 200,000 hours from last year.

Stage 5. Risk mitigation strategy

Perhaps one of the best-developed examples of reporting on reputational related matters comes from Shell, which has developed “People, Planet & Profits—The Shell Report.” This report describes how Shell is contributing to sustainable development. Shell has provided several “at a glance” measures of how the company deals with issues such as the environment and social issues. They have been frank in their disclosures and have not tried to hide negative issues, as is illustrated below in their disclosure on safety matters.

As discussed earlier, historically, there have been few examples of comprehensive reporting on market risk by institutions other than banks. The following is a good example of reporting of market risk from Oxford Health Plans, Inc. and Subsidiaries in its annual report. This level of detail serves as another example of Stage 5 reporting.

SAFETY

Principle 6 Health, safety and environment

We deeply regret that in 2000 60 people (55 contractors and five Shell employees) lost their lives during work activity compared to 47 in 1999. This is unacceptable and we continue to promote local and global initiatives to address the issues involved. It is frustrating for us that the enormous amount of time and energy that is being invested to prevent such incidents is not yet showing returns. As last year, the majority of the deaths occurred in road accidents in developing and emerging countries where driving conditions are particularly difficult.

We continue the road safety training and awareness programmes, which we reported last year. The initiatives are aimed mainly at drivers, but in some countries we also run road safety education programmes to help children and the general public to avoid road accidents. We also actively support the Global Road Safety Partnership in its objectives to improve driving standards and conditions in the highest risk countries. To further build awareness and improve performance we carry out regular HSE [Health, Safety and Environment] audits and investigate all fatal accidents to make sure we learn from incidents.

Based on the broader measure of safety (total reportable case frequency 26, 27), which also includes minor accidents and incidents, our performance improved a further 14% in 2000 to a best ever rate of 3.2 cases per million worked hours. This is equivalent to a workforce of 500 people working for a year with only three incidents.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's consolidated balance sheet as of December 31, 1999 includes a significant amount of assets whose fair value is subject to market risk. Since a substantial portion of the Company's investments is in fixed income securities, interest rate fluctuations represent the largest market risk factor affecting the Company's financial position. Interest rates are managed within a tight duration bank, 2.25 to 2.5 years, and credit risk is managed by investing in U.S. government obligations and in corporate debt securities with high average quality ratings and maintaining a diversified sector exposure within the debt securities portfolio. The Company's investment in equity securities as of December 31, 1999 was not significant.

In order to determine the sensitivity of the Company's investment portfolio to changes in market risk, valuation estimates were made on each security in the portfolio using a duration model that measures the expected change in security market prices arising from hypothetical movements in market interest rates. Convexity further adjusts the estimated price change by mathematically "correcting" the model used industry standard calculations of security duration and convexity as provided by third party vendors such as Bloomberg and Yield Book. For certain structured notes, callable corporate notes, and callable agency bonds, the duration calculation utilized an option-adjusted approach, which helps to ensure that hypothetical interest rate movements are applied in a consistent way to securities that have embedded call and put features. The model assumed that changes in interest rates were the result of parallel shifts in the yield curve. Therefore, the same basis point change was applied to all maturities in the portfolio. The change in valuation was tested using positive and negative adjustments in yield of 100 and 200 basis points. Hypothetical immediate increases of 100 and 200 basis points in market interest rates would decrease the fair value of the Company's investments in debt securities as of December 31, 1999 by approximately \$20.6 million and \$40.5 million, respectively (compared to \$23.3 million and \$45.9 million, as of December 31, 1998, respectively). Hypothetical immediate decreases of 100 and 200 basis points in market interest rates would increase the fair value of the Company's investment in debt securities as December 31, 1999 by approximately \$21.2 million and \$42.3 million, respectively (compared to \$22.4 million and \$45.7 million as of December 31, 1998, respectively). Because duration and convexity are estimated rather than known quantities for certain securities, there can be no assurance that the Company's portfolio would perform in line with the estimated values.

Reporting on Capacity

Marilyn Dolenko, M. Dolenko Consulting

Good performance reporting should not only provide information on how well an organization has performed in the past, but also on its capacity to sustain performance in the future. Good performance reporting should inform Canadians of any critical aspects of the organization's capacity to meet expectations with respect to priorities, strategies or resource expectations.

Reporting on organizational capacity is not a simple undertaking. Capacity can be measured in terms of human, financial, intellectual, technological and physical resources. It can encompass the policy or regulatory framework in which the organization operates. Current and future capacity can be affected by the existence of efficient processes, by relationships with key customers or partners, and by the ability of the organization to attract and retain leadership that is visionary, charismatic and capable of dealing with a rapidly changing environment.

KEY CONSIDERATIONS

Understanding the various dimensions of capacity in relation to key programs or specific business lines may be a reasonable starting point. As an organization becomes more comfortable with reporting on future capacity, performance reports may address only those dimensions of capacity that are critical to the achievement of its mission or strategic objectives. The various dimensions of capacity are explored later, and questions that organizations may wish to consider when preparing disclosures about each dimension are posed. These may help senior managers make decisions about which dimensions are critical and why.

Although reports will always present only summary information, they should not raise as many questions as they answer. Context, examples, an explanation of the analysis undertaken, as well as quantitative support for narrative all contribute to the reader's understanding. Narrative descriptions are often the norm in rudimentary reports, but more sophisticated reports begin to provide more quantitative support for conclusions reached, as well as trend data and pertinent comparisons with other organizations.

Integration of financial and non-financial information helps to improve the understanding of readers of performance reports. If a particular strategy is key to the organization's capacity to deliver services in the future, it is important to know the costs associated with the strategy, what that amount represents in terms of total budget and the implications for other programs and services. While there is recognition on the part of many readers that public sector organizations are just now implementing systems that generate the type of information required for full performance reporting, their expectations for integration of financial and non-financial data, qualitative and quantitative information will increase over time.

When performance reporting is first introduced, it is easiest and most common to deal with the positive aspects of past performance. As organizations become aware of the importance and value of full disclosure, examples in the public domain suggest that there is a willingness to identify shortcomings and to outline the action that will be taken to improve future capacity. Fully mature public sector performance reporting recognizes the risks associated with not reporting on significant capacity shortfalls. For example, it would appear that bureaucrats examining the capacity of small towns such as Walkerton, Ontario, to provide safe water did not consider all factors related to capacity. Although the water treatment plant may have had adequate numbers of employees, it did not have workers who were appropriately skilled. Nor did it have adequate procedures to deal with problems, or adequate partnerships with external laboratories and health officials. Hopefully, these significant shortcomings would be acknowledged today in the expectation that resources to address the problem would be forthcoming.

Reporting fully on a dimension is important, but so is considering the full spectrum of dimensions. For example, a hospital recently announced funding for new operating rooms. A newspaper report revealed that the hospital was underutilizing its existing operating rooms because of a shortage of staff and the physical capacity to care for postoperative patients. New operating rooms would simply aggravate the situation. In other words, the relationship between the financial, human resource and capital asset dimensions of capacity all need to be addressed.

When preparing reports, managers should try to consider the needs and understanding of those who will be reading the reports. Do the stakeholders understand the mission and business of the enterprise? Have they developed a reasonable expectation of performance? Until parliamentarians and stakeholders have that understanding, disclosures may need to be limited. However, efforts to develop the understanding of key stakeholders so that they can appreciate both the negative and positive aspects of performance need to be made.

Even when there is understanding, there may be circumstances when public sector senior management cannot report openly. For example, regulatory and enforcement agencies may be ill advised to report publicly on shortcomings as doing so may allow certain elements of the population to take advantage of the situation. For example, if a police force reported that it did not have the human resources or technology to track white-collar criminals, more people might be inclined to “take their chances” on not being caught. In other words, the risk of providing information may be greater than the risk of withholding information. On the other hand, the risks associated with withholding information may be more serious than full disclosure, as the Walkerton case illustrates.

In summary, reporting on capacity requires a corporate-wide perspective, the examination and selection of those dimensions of capacity that are key to the achievement of key objectives and strategies, context, the inclusion of both qualitative and quantitative information and a forward-looking perspective. Perfection comes with practice, trial and error. Figure A-4, **Characteristics of Performance Reporting on Capacity**, summarizes the characteristics of performance reports on a continuum from rudimentary to advanced reporting.

FIGURE A-4: CHARACTERISTICS OF PERFORMANCE REPORTING ON CAPACITY

CHARACTERISTIC	RUDIMENTARY REPORTING	DEVELOPED REPORTING	ADVANCED REPORTING
Focus	Covers programs and business lines	Explanation for selection of programs or business lines provided	Focus on mission and strategic objectives; corporate orientation
Context	Management perspective	Takes readers' likely understanding into account and provides context	Works with stakeholders to develop understanding; provides information they need
Scope	Report on all dimensions of capacity	Greater attention to critical dimensions	Explains why dimensions selected; explains relationship between dimensions and performance
Orientation	Positive aspects of past performance	Positive and negative aspects of past and current performance	Future-oriented: identifies critical limitations and describes steps taken to address them
Data	Basically qualitative	Some quantitative such as costs of programs	Integrated qualitative and quantitative, financial and non-financial; trend data; comparisons with other organizations
Risk	Consideration of risk—withholding of any potentially negative information even if public safety is at issue	Weighing of risk: where public safety is concerned, information is divulged even if negative	

DIMENSIONS OF CAPACITY

I. Human resources

Disclosures about human resources would answer questions such as:

- Does the organization have the right number of employees to deliver programs, analyze ideas and deal with problems?
- Do employees have the right skills to meet future requirements?
- Does the organization have the necessary intellectual assets to achieve planned results?
- Are there any constraints on the availability of appropriately skilled workers?

The following examples, which appear in boxed-text form, were selected from the Royal Canadian Mounted Police 2000–2001 Performance Report, and Natural Resources Canada Performance Report for the period ending March 31, 2000. Both disclosures demonstrate that a need for more employees or employees with different skill sets is often revealed through comments about how the problem is being addressed, rather than statements about the size or impact of the problem. Both disclosures are fairly simplistic and do not provide enough information about the problems faced.

UNDERCOVER OPERATIONS—RCMP

Challenges were also identified with the program's ability to meet increasing operational requirements for undercover resources from a more diverse range of linguistic, cultural and operational backgrounds. As a result of the review ...the operations have been enhanced through continuing improvements to the program's human resource management, technical support, recruitment and training processes.

NRCAN

The Department will also take steps to renew, retain and recruit an adaptable workforce, well-equipped and knowledgeable in science and technology and policy capacity to address the economic, social and environmental challenges it faces.

2. Financial resources

Disclosures about financial matters would respond to questions such as:

- What are the costs associated with specific initiatives or strategies?
- Will there be sufficient funding to make the investments in people, training, technology or research and development that will be needed?
- Are non-financial issues (such as those related to human resources, the environment or research and development) likely to have a materiel impact on the economic condition of the organization?
- Will current funding levels allow the organization to maintain or enhance performance?

In fall 2000, the federal government announced its Action Plan 2000 on Climate Change. This plan provides \$500 million for investment in initiatives to reduce emissions ...[etc.]. When fully implemented, the Action Plan will take Canada one third of the way to achieving the target under the Kyoto Protocol. This investment is in addition to the related measures announced earlier, totaling over \$625 million.

*Canada's Performance 2001
President of the Treasury Board
Annual Report to Parliament*

3. Capital assets

Disclosures about capital assets would respond to questions such as:

- Does the organization have the necessary capital assets, including facilities, to achieve planned results?
- Does the organization obtain best value for its money for the procurement and use of physical/capital assets?
- Can the organization account for its fixed assets?

The following example connects strategy, objectives and investments, and provides financial and non-financial information. It represents a more advanced form of disclosure.

Investing in equipment and buildings is an essential component of NRC's strategy to stay at the leading edge of Canadian science and technology needs. In 2000–2001, the organization spent about \$61M on equipment, capital acquisitions and building improvements.

*National Research Council Canada
Performance Report, March, 2001*

4. Computer technology

Disclosures about computer technology would respond to questions such as:

- Does the organization have the computer technology needed to receive, store and analyze information?
- Is the necessary technology available to support program or service delivery?

The following quote was extracted from a brief case study provided in the RCMP Performance Report and is an effective means of disclosing information and demonstrating the impact of efforts at the same time. Comments in brackets are summaries of statements found in the report.

In 1987, the bodies of two young girls were discovered in the area of Thunder Bay, Ontario. ... In 1989, an individual was arrested for impaired driving and ... his fingerprints were filed, but not searched due to technology restrictions. The fingerprint system was upgraded in 1999. In early 2000, the Latent Fingerprint Section reviewed all unsolved murder files (and connected the impaired driver fingerprints to the murder file). A Thunder Bay area man has since been arrested for these murders and is awaiting trial.

RCMP 2000–2001 Performance Report

5. Policies, processes and procedures

Disclosures about policies, procedures and processes would respond to questions such as:

- Do policies and processes support the achievement of stated objectives?
- Do policies and procedures support sustainable development?
- Is executive compensation related to the achievement of performance objectives?

The following example is fairly advanced because it combines goals, achievements and provides quantified information.

The RCMP established a goal to adopt contracting, procurement and fleet management policies and procedures that minimize environment impact. Their achievement: An aggressive alternate fuel vehicles program was pursued. The RCMP fleet currently has 75 natural gas; 43 propane; 20 dual-fuel propane/gasoline; 16 E-85; and 14 hybrid gas/electric vehicles.

RCMP 2000–2001 Performance Report

6. Information/Knowledge

Disclosures about information/knowledge would respond to questions such as:

- Does the organization have access to the information required to service its clientele in an effective manner?
- Has the organization taken the necessary steps to protect and retain its intellectual resources/its knowledge workers?

The audit/review also identified the need for an improved IP management policy addressing the development, ownership, protection and exploitation of RCMP IP, as well as the establishment of an RCMP Intellectual Property Office. It also called for the implementation of an inventors/innovators award program and the acquisition of an IP inventory management system.

RCMP 2000–2001 Performance Report

7. Relationships

Disclosures about relationships would help readers of the report appreciate whether the organization has the relationships with its key stakeholders—customers, partners and politicians—to move its agenda forward?

The following quote from the Solicitor General provides both historical and forward-looking perspectives. If the amount of the investment or examples were provided, this disclosure would be considered quite advanced.

The RCMP has been at the forefront in ensuring that public safety partners at home and abroad continue to work together in an effective and integrated approach to keeping Canadians safe and secure. As a government, we have continued to invest in strong, ongoing alliances with the United States, the United Nations and G-8 partner countries to further our shared goal of combating transnational crime.

RCMP 2000–2001 Performance Report

8. Leadership

Disclosures about leadership would respond to questions such as:

- Is there the right kind of leadership available at various levels within the organization?
 - visionary, charismatic
 - self-confident
 - willing to seek new challenges
 - willing to reflect honestly on successes and failures
 - capable of dealing with an increasingly competitive and fast moving environment.
- Does the organization provide training and support for its leadership cadre?
- Are there succession plans in place?

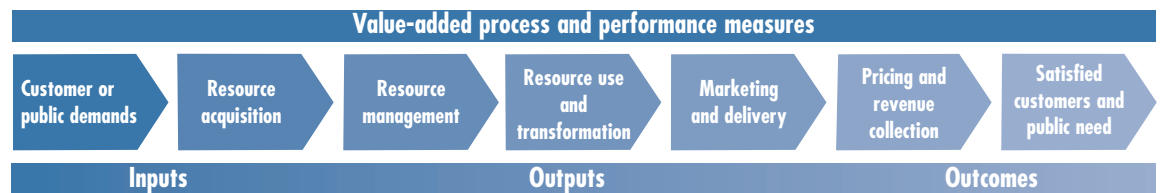
The following quotation is from Commissioner G. Zaccardelli's introduction to the RCMP's 2000–2001 Performance Report.

For 128 years, the RCMP aspired to provide exemplary policing service, but the challenges we now face are considerable. We must take extraordinary strides to improve our capacity to better provide strategic, proactive—as well as reactive—policing programs and services. The focus of this past year has been to modernize our management and build an organization of excellence with a culture of empowerment, responsiveness and collaboration.

Integrating Financial and Non-Financial Information to the Business Model

Patrick D. Lafferty, PricewaterhouseCoopers LLP

The essence of any business or government program is to add value for the customer or public in the acquisition and conversion of goods and services from “inputs” to “outcomes.”



In a very simplistic business model, customer requests for goods and services, and resource acquisitions—human, physical and intellectual—are frequently referred to as “inputs.” The tasks of managing, and transforming, resources into products and services, and marketing and delivering them to customers, are usually identified as “business processes” that result in higher-value “outputs.” The extent to which that value is ultimately received back by the organization and delivered to the customers or publics served is usually referred to as “outcomes,” either positive or negative. For example, it is easy to visualize a tobacco company in terms of its inputs, outputs and outcomes—positive and negative. This linkage of inputs to outcomes, using financial and non-financial information, can have many intermediate stages. When each of the inputs, processes, outputs and outcomes is measured and reported, with consistent methods and over time, an organization will be well positioned to meet any needs to report performance and use the information to make continuous performance improvements.

The reason for integrating financial and non-financial information is to show how strategies and decisions around inputs, processes and outputs influence outcomes. Governing bodies are more likely to be interested in shaping inputs and outcomes when approving plans and explaining results, without worrying about all the intermediate processes and outputs. In a business context, outcomes will frequently include growth or declines in financial results, margins, market share, customer satisfaction, brand recognition, competitive positioning and capacity, as well as the social, economic or environmental consequences and risks of the products or services being offered.

In a public sector context, outcomes will frequently include growth or declines in the capacity of the program, success at meeting the direct needs of target customers, as well as a broader range of social, fairness, economic and public policy intentions at the community, provincial or national level. Outcome measures tend to be of value only when they are compared over time or relative to the results of other strategies or other service providers. The most important outcomes are often the most difficult to measure,

to measure consistently over time and to explain. Measurement of the most important outcomes may take specialized research and analysis that goes well beyond the information generated by normal business processes by drawing on competitive, market, economic, engineering and social science data sources or periodic studies.

When it is too difficult or costly to measure and explain outcomes, governing bodies may have to rely on understanding trends affecting each process, input, output and outcome for which they are responsible. This can quickly draw governing bodies into too many details that are hard to interpret and may be better left to the responsible managers and management teams. From the perspective of governing bodies, each organization is likely to have a declining hierarchy of information needs. If the highest level is met, the governing body may have minimal need to access the lower levels in the hierarchy. Some organizations may have to systematically work their way up the hierarchy and their capacity for performance reporting improves. In declining order of importance, the needs are likely to be:

- clearly linking inputs to the highest level of outcomes—in terms of both financial and non-financial information;
- clearly linking inputs to outputs—in terms of financial and non-financial information;
- clearly linking inputs to processes—in terms of financial and non-financial information; and
- clearly identifying inputs—in terms of financial and non-financial information.

In the public sector, the management processes tend to place such great emphasis on the competition and accountability for short-term resources that higher levels of measuring and reporting financial and non-financial information have been difficult to sustain. Many years of experience with thoughtful initiatives in planning, programming, budgeting, results-based management, program evaluation and performance reporting have not had the desired effect. One factor is the complexity of business models in large, diverse organizations.

Complexity often prevents results-based initiatives from moderating short-term and short-sighted patterns.

DIMENSIONS OF THE COMPLEXITY ISSUE

A very simple business model tends to be an organization providing, from one location, one homogeneous product or service to a specialized customer base. The linkages from inputs to outcomes are not likely to be complex. The business or program will usually break down into some fairly simple processes, functions or activities focusing on:

- efficiently understanding and capturing the customer demands for goods and services;
- the economic and timely acquisition of resource inputs (physical, intellectual and human) of the quantity and quality required, and at the best price;
- the efficient design and transformation of these inputs into the goods or services outputs to be offered of the appropriate quality and cost;
- the marketing and delivery of outputs and, if applicable, pricing and recovery of gross margins and revenues; and
- the periodic researching or tracking, from the perspective of the organization and the customers, of the value, impacts, outcomes or effectiveness of the goods or services compared to whatever alternatives may be available.

Each of these types of business process, functions or activities can provide a basis for developing plans and decisions, capturing information, complying with regulatory or contractual terms and analyzing results and trends. Most of the financial and performance information can be captured directly from the primary accounting, human resource transactions and asset use or activity records. Other information from external sources will be captured by evaluative and market research and other intelligence-gathering systems. Information can be assembled and analyzed to explain:

- results in terms of the business as a whole, the product or service, the business processes or the resource inputs;
- how well the organization has been performing compared to general economic conditions, other service providers or commitments; and
- how the organization has protected or built its capacity for the future.

In this simple business model, the challenge of linking inputs to outputs, financial and non-financial, may be relatively straightforward. Some key elements for success include:

- A clearly understood and accepted logic model of how each resource and process contributes value to the outputs and ultimately to the outcomes. This logic model may be implicit to an experienced management team and governing body, or it may have been actually flowcharted, documented or engineered by persons responsible for designing, improving or maintaining the business processes. The logic model will provide a hierarchy of information needs, some agreed terminology and a road map for assembling financial and non-financial information.
- A system of classifying financial and non-financial information, or codes of accounts and database dictionaries, to identify and capture transactional and operational information from within the organization and from external sources into a pattern that mirrors the logic model. Information captured from primary sources can later be extracted and summarized in terms of the components of the logic model.
- Accounting and information systems and software that will extract and summarize the financial and non-financial information in terms of the components of the logic model. At the highest level of summation—inputs will be aligned to outputs and outcomes—with many intermediate levels of summation to meet the needs of managers and analysts trying to understand and explain variations in performance.
- A data capture and research capability that will ensure that all the key information requirements from internal and external sources are being captured with the frequency, reliability and accuracy appropriate for the purposes intended. Some manufacturing, health care, nuclear, aviation and other quality- and safety-oriented environments may be capturing input, process, output or outcome information with great precision. Others may be capturing this information on an as-required or cyclical basis. Surrounding all of these data capture and research needs are issues of: data capture and collection; elimination of timing differences; accuracy of record keeping; analysis of trends and variances between planned and actual results; summarizing the information in ways that are useful to each manager and user; and consistency of methods used. A sophisticated market, social science or engineering research and measurement capacity will likely be required to capture and explain outcome information or to periodically compare outcomes to other organizations. The art and science of measuring outcomes and attributing them appropriately can

become a major and expensive research and analytical undertaking when many organizations are all working to achieve the same or allied objectives. Clinical trials in health care, educational evaluation and customer satisfaction research are examples of some of the more sophisticated types of non-financial information to be assembled.

- A risk management approach, method or focus that helps managers reduce to the essential the potential range and frequency of financial and non-financial information to be reported at each level of management up to the governing body.
- A culture and structure that tends to emphasize objective measurement, analysis, checks and balances in the sharing of responsibilities, incentives for taking constructive actions based on the financial and non-financial information produced, and incentives for comprehensive reporting to the governing body.
- A governing body that has a history of thinking and acting comprehensively in the interests of the organization and the public as a whole rather than the special interests of individuals or stakeholder groups.

Even in relatively simple organizations, the requirements take thoughtful planning and self-discipline.

Larger, more complex matrix models than described above are common in both the private and public sectors.

A large complex organization is typically providing a broad range of goods or services from many locations to a broad range of customers through a complex network of suppliers and partners. The challenges of integrating financial and non-financial information become complex very quickly. It is only necessary to think of modern global consumer product corporations, large universities and hospitals, and large municipal and senior governments to quickly realize how complex these models for integrating financial and non-financial information may become.

The public sector is further complicated by the emphasis on setting objectives only to the vague level of precision where political consensus can be achieved, and the task of measuring and attributing outcomes by any one program to these broad economic and social policy objectives.

Most of these large modern organizations can capture and assemble the same basic financial and non-financial information in four to six important ways at the same time (see Figure A-5, **Alternative Views of Performance**).

Depending on their circumstances such organizations may array information:

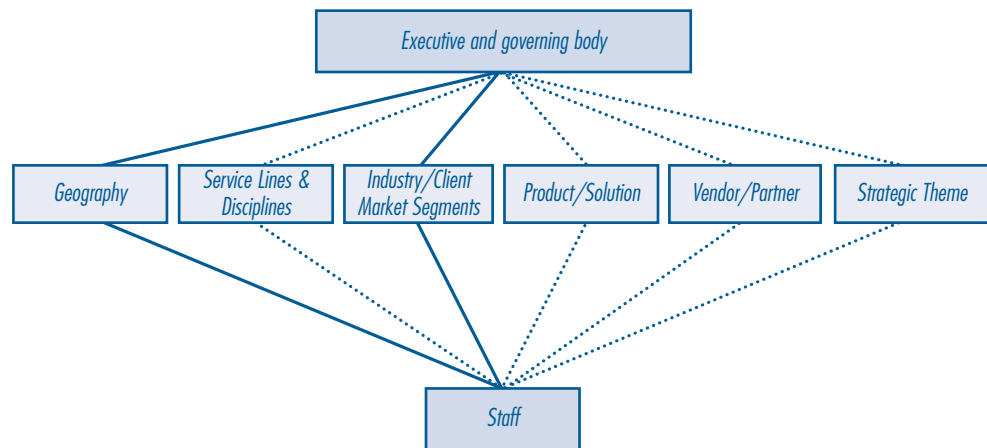
1. by product, service or project grouping—where the emphasis may be on achieving extra value through economies of scope, scale and specialization;
2. by customer or market segment grouping—where the emphasis is on achieving extra value by tailoring services to respond to the specialized needs of each customer or market segment;
3. by geography or location—where fairness, access and relevance to each community are important to perceptions of value-added;

4. by business process—where extra value comes from a few well-designed, cohesively managed core processes that meet many needs;
5. by partner, vendor or supplier network—where added value comes from some key partners providing an important component of the service offering, as in the case of a software vendor supporting e-business processes, a courier supporting consumer products distribution, a provincial government supporting the delivery of national programs or a teaching hospital supported by a university; or
6. by change management or policy theme—where managers or a governing body are trying to drive certain priorities through an organization (such as e-business or sustainable development policies), or central agencies of governments want to report against a set of government-wide priorities.

FIGURE A-5: ALTERNATIVE VIEWS OF PERFORMANCE

One or two views of performance should dominate reporting of financial and performance information in complex organizations

An Example with six possible views of performance information



DRAFT

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In addition, some complex organizations see that added-value comes from having specialized professional and technical groups maintain their own traditions, cultures and methods and operating within their own organizational silos. Such organizations may also display information by discipline or function.

There is no one preferred method of assembling financial and non-financial information. Each of the above methods of doing so has a purpose in helping organizations provide value to direct service recipients and the general public. Each provides a logic model and classification system for capturing information at the transactional level and summarizing it up to the level of outcomes.

Large organizations have different ways of managing through these choices, by:

- breaking up the business into separate business units, each with its own logical business model;
- adopting one business model for as long as extra value is being maintained, but remaining ready and flexible to reorganize to adopt other models as rapidly and frequently as necessary;
- adopting one model as the primary focus, line of reporting and accountability for financial and non-financial information, with other models used as a basis for analysis; or
- adopting two or more models simultaneously in a “matrix management model” that enables financial and non-financial information to be assembled in multiple ways.

Matrix management approaches are more common in the public sector. Each chosen dimension of the matrix tends to be reflected in the management structures, and key decisions have to involve managers in each dimension of the matrix. Successful matrix management demands an intense commitment to financial and non-financial performance reporting, process management, cooperation, committee decision-making and the associated overhead costs.

Policy planners, budget planners, accountants and functional heads may have a bias for different dimensions of the matrix—and it is not uncommon for matrix management organizations to plan one way and track performance another, or to organize financial information one way and non-financial information another. Parent companies may impose reporting structures on business units that do not necessarily reflect the way the business is being managed. Central agencies, or ministries supervising municipalities, universities, school boards and hospitals may similarly impose reporting structures that do not reflect the way in which the business is being managed.

Successful reporting of financial and non-financial information in larger, more complex organizations requires more than the elements identified as critical for simple organizations (see pages 104–105). Supplementary keys include:

- ***A clear commitment to one business and reporting logic model***, for the use of planners, decision-makers and analysts with other possible models being used for supplementary analysis of how each resource and process contributes value to the outputs and, ultimately, to the outcomes.
- ***Flexibility in coding systems and software***. The code of accounts and databases should allow for information to be identified to align to several different reporting models, so that the organization will have the flexibility to adapt to change and prepare comparative information in different formats for different users. Moreover, the accounting and information systems and software should have sufficient flexibility to capture information so that it can be assembled into any predictable business model.
- ***A clear understanding of the reporting entity*** and the extent that supplier, vendor and partnership networks are included or excluded from the reporting of financial and non-financial information.

PRACTICAL STRATEGIES FOR COPING WITH COMPLEXITY AND INTEGRATING FINANCIAL AND NON-FINANCIAL INFORMATION

A large, complex organization embarking on the process of effectively integrating financial and non-financial reports is likely to have to follow some technical steps along the following lines:

- develop at least one model for logically linking the range of potential outcomes of the business or program to each other and to the objectives of the organization;
- assess the feasibility of measuring and reporting on the outcomes, decide which level of outcomes can best be used as a basis for reporting results and introduce the measures or measurement systems to capture the information as often as required;
- develop the useful business models linking inputs, processes and outputs to the level of outcomes to be used as a basis for reporting results;
- ensure that the code of accounts and other database dictionaries are capturing financial and non-financial information about inputs, processes and outcomes in a way that resource use can be allocated to outcomes;
- align the incentives, accountability, decision-making structures to the business model;
- ensure that the analytical and reporting capabilities are in place to sustain objective, reliable reporting of performance;
- ensure that reports on performance to governing bodies and stakeholders should include, or refer to, some simple definitions or diagrams introducing the terms and models being used; and
- ensure that the collaborative mechanisms and structures are in place to ensure continuous improvement in the capture, analysis and reporting of financial and non-financial information.

BUILDING ON INNOVATION AND BEST PRACTICES

Most private and public sector organizations are under constant pressure to continuously improve the alignment of financial and non-financial information. They want to build and sustain high levels of confidence of arm's length investors, customers, taxpayers or business partners. Reporting guidance may be offered by:

- domestic and international industry associations, stock exchanges, corporate regulators and professions;
- central agencies of government and ministries providing funding in such areas as education, health care and municipal affairs;
- certification agencies and quality programs such as, ISO 9000, Six Sigma, and hospital accreditation);
- regulatory agencies dealing with health, safety, environmental protection, fair competition, allowed rates of return, employment equity and sustainable management of natural resources;
- academics and business writers who have tried to advocate particular reporting models, (such as the “Balanced scorecard”); and
- accountants and auditors providing advice and assurance on the information being reported.

Users of non-financial information deserve a brief explanation of the extent that the organization has been an innovator or follower in performance reporting, the reference sources that are being used to guide developments and the degree to which the governing body has been involved in agreeing on the principles of performance reporting being followed.

Reports on performance to governing bodies and stakeholders should provide an indication of the extent that the organization is attempting to be a leader or follower in reporting performance, and make reference to the key sources of guidance or direction it has chosen to apply.

COMPARABILITY AND HORIZONTALITY

One of the principal roles of governing bodies is to understand how their organization and businesses or programs are performing relative to others. They want to allocate resources where the best results will be achieved. To make these comparisons, governing bodies and stakeholders will want to look horizontally across the organization and among other organizations to form judgments about performance. These comparisons can occur at many levels. For example:

- Businesses often organize and measure their activities in highly comparable branch networks, where each branch is grouped for reporting purposes with those of comparable size and scope of activity. This approach clearly helps establish brand identity for the consumers, and it also greatly facilitates the measurement and reporting of performance with comparable data among the branches and within the industry.
- As shown in Figure A-5 and the discussion on pages 105 to 107, businesses are often expected to present performance information in multiple ways. Investors and analysts will discount the share valuation of a business that does not go to some effort to segment the reporting in accordance with norms and conventions for that industry.
- Governments often have complementary programs serving shared objectives. For example, objectives dealing with security, health, social and economic development can typically be served by multiple programs: within a government department; among many government departments; and among levels of government.
- Public sector objectives can also be served by differing types of interventions: by providing financial incentives to cause the public to respond; by providing and enforcing regulations; by providing research, new knowledge and public education; by partnering for service delivery; or by direct operational delivery of goods and services by government.

Governing bodies trying to understand performance among these types of complementary businesses or programs are better served if there is some vertical and horizontal consistency in how objectives are defined and performance is measured. Only then can they begin to make investment reallocations and desired program refinements across organizations and programs to optimize performance.

Too much comparability can obscure the uniqueness of each organization and weaken accountability. For example, a provincial government that requires all educational, health

or municipal organizations to report performance in the same format will find it a lot easier to compare one organization to another. However, such a presentation may obscure the uniqueness of how each organization is actually delivering services and holding itself and managers accountable to best serve customers. Requiring a small, rural community hospital to report in the same format as a large, urban teaching hospital might, for example, be perceived as representing a victory of form over substance.

Governing bodies will best be served if they are involved in selecting the format for reporting performance relative to the kinds of decisions they need to take about: customers; service design and delivery choices; and the best organization to delivery the services.

Reports on performance to governing bodies and stakeholders should be presented in comparable formats to support horizontal analysis across business units, programs and organizations where agreement can be reached with or among governing bodies that such an approach will help them form optimum judgments about relative levels of performance.

INTERNAL AND EXTERNAL MEASURES AND RESEARCH

Performance reports may be drawing on quantitative measures, as well as qualitative indicators of performance and the analysis of cause and effect relationships and the variance between actual performance and planned or normative performance. Both qualitative and quantitative measures may come from many sources, including:

- internal measurement systems and processes or exception reports that may be captured as work is being performed by any number of operational, financial, risk management and human resource systems and feedback mechanisms;
- periodic surveys and samplings of internal inputs, processes, outputs or outcomes, such as evaluations, studies, peer review processes or exception reports that captures internal information as a special initiative;
- third party studies, customer satisfaction or performance monitoring processes usually conducted by market, economic or policy research, independent appraisers, certification agencies, sector associations, academics or governments; and
- audit, review and evaluation functions designed to periodically assess performance relative in terms of compliance with qualitative criteria.

Evidence to support performance reporting will frequently consist of corroborative evidence from multiple sources, and be based on rigorous sampling, analysis and control techniques. All the internal and external measures and research used in performance reports to governing bodies and external stakeholders should be assembled and prepared with appropriate professional care, objectivity and independence to be relied on for the purpose of the performance report.

Some measures only lend themselves to infrequent measurement at time intervals that do not respond to regular performance data. For example, the national census is only captured every four years, and some program evaluation studies may only make sense every five to ten years.

Performance reports should reflect a broad variety of internal and external measures and research sources capturing information either concurrently with the activity or by periodic study and sampling.

COMPREHENSIVENESS AND BALANCE

Performance reports should be designed to help governing bodies deal with the responsibilities they have been assigned. In a few cases, governing bodies may have very narrowly focused responsibilities established in a corporate mandate or legislation. A short list of performance indicators and suitable qualitative descriptions may provide an effective performance report. However, in most cases, governing bodies have a wide range of choices in customers served, goods and services offered, delivery methods and resource management decisions. They also have to navigate a world of fiscal, societal and other constraints on their choices. The challenge of a performance report to, or by, a governing body is to present a true, balanced and fair description of the results of these choices.

The introduction to a performance report should make it clear either that:

- the performance report that does not attempt to be comprehensive and balanced, and the report is clearly identified as a special purpose report; or
- the performance report is intended to be comprehensive and balanced for the purposes of demonstrating management accountability to the governing body and, through the governing body, to stakeholders.

Achieving comprehensiveness and balance is not always easy. There may be competitive strategies, commercial confidential information, intellectual property, privacy and security issues to be protected. Only the strongest and most secure management and governing bodies may be willing to report unsatisfactory performance. Organizations may be reluctant to report unsatisfactory performance until they have had time to develop or implement corrective actions. The desire to report only positive performance may severely inhibit the value of any performance report and may mislead the governing body and other stakeholders for whom the report is intended.

The volume of positive reporting can overwhelm the form and content of a performance report to the point that poor performance is unnoticed except to the most inquiring user. In contrast, superficial comments about positive performance with an excessive focus on reporting underperformance can be just as problematic: it can erode confidence or promote cynicism and, at worst, focus the organization on the wrong goals.

Achieving comprehensiveness and balance is at the heart of management's accountability to its governing body and through to stakeholders. Nothing can replace the best possible professional judgment, integrity and value systems based on openness, visibility and trust in the preparation of performance reports.

Performance reports to governing bodies through to stakeholders should indicate the extent to which the report is intended to be comprehensive and balanced. If that is not the intention, the report should be identified as a special purpose performance report.

A balanced report of financial and non-financial information will include at least four perspectives of performance:

- the intentions of governing bodies and managers;
- customer and citizen satisfaction and demands;
- organizational health, innovation and sustainability; and
- management of core business processes, partnerships and risks.

ANALYZING FINANCIAL AND NON-FINANCIAL INFORMATION

Information analysts range from health, social and physical scientists; military strategists and security risk managers; to engineers, statisticians and market researchers; to economists, accountants, auditors and actuaries. All have developed methods, terminology, expertise and conventions to help them understand information and ensure the integrity of analysis for the purposes intended. They may all tend to examine inputs, processes, outputs and outcomes within their own frames of reference. Even subject matter experts from the same discipline will sometimes disagree on how to analyze information. Their explanations of why planned results differ from actual results are likely to consider different factors unique to their discipline. In addition, some of the most useful sources of benchmarking and comparative information will be obtained from third parties and reference sources that follow different information-gathering conventions that may not be easily comparable to internal sources of information. Governing bodies may not be looking for as precise a set of assumptions about materiality, risks and accuracy as may experts and responsible managers. All of these factors suggest that it can be a substantive task to understand the different conventions being used in integrating financial and non-financial information into a performance report for a governing body.

As a minimum, the analysis of financial and non-financial information should:

- recognize that descriptive, qualitative and subjective information from a CEO or subject matter specialist may be every bit as useful a component of a performance report as any quantitative measures;
- recognize that precision and accuracy are different for each situation and are not normally as important to governing bodies as objectivity, fairness and relevance in disclosing trends in results;
- be based on due care in ensuring that the quality of information and analysis from multiple sources is appropriate for the purposes of understanding and explaining trends in results;
- identify and describe key assumptions or judgments underlying projections, estimates, allocations, attributions or causal relationships that could have a material impact on the performance report; and
- ensure that there is no material item that has not been disclosed that, if disclosed, may portray a different trend in performance.

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OTHER PUBLICATIONS AND WEB SITES OF INTEREST

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In addition, it has flagged with a "♣" a short list of entries as suggested essential "first stops" for all those who wish to broaden or deepen their understanding of the issues. A more complete bibliography on issues of governance, accountability, performance reporting and comprehensive audit is also available from CCAF.

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1. Perspectives on Performance Measurement (October 13, 1999)
2. Challenges of Data: Collection, Verification and Use (November 3, 1999)
3. Addressing Achievements and Goals as Agencies Implement the Government Performance and Results Act (November 16, 1999)
4. Preparing Effective Annual Performance Reports (December 1, 1999)
5. Communicating to Congress about Data (March 1, 2000)

6. The Results Act Anchor—The Annual Performance Report (APR) (April 5, 2000)
7. An Overview: Results of the FY 2000 Annual Performance Reports and Round Two Strategic Plans—Higher Expectations (May 3, 2000)
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APPENDIX 4

Key Terms

The way in which this document uses some key terms is described below. Unless otherwise indicated, these are taken from the *CCAF Lexicon*, a glossary of governance, accountability and comprehensive audit terms as used by CCAF.

ACHIEVEMENT	The extent to which goals and objectives have been realized.
DUE DILIGENCE	Due diligence is more than the converse of negligence. It describes a positive duty, a defense, a standard of care, a system of compliance.
ETHICS	See <i>Values</i>
EXPECTATION	See <i>Target</i>
FAIR	Unbiased, impartial and candid. (<i>Webster</i>)
GOAL	Some future state of the world which the members of the organization try to bring about by the application of a set of means. A general statement of desired results to be achieved. Synonyms: outputs, objectives, mission, purposes, results, ends, aims.
INPUTS	The resources and authorities given to an organization to carry out activities, produce outputs and accomplish results. Inputs include such items as tax dollars, user fees, transfers, human resources, capital and information.
OBJECTIVE	A “goal” expressed as a specific target to be achieved over a specified period of time.
OUTCOMES	The consequences of a policy, program or initiative that can be plausibly attributed to it. Outcomes can be distinguished in many ways—intermediate or ultimate, short- or long-term, expected or unexpected, and intended and unintended.
PERFORM	To do, fulfill, carry out, accomplish. (<i>Webster</i>)
PERFORMANCE	At its core, performance is 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 and 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.

RESULT	An impact or effect (consequence) of a policy, program or initiative. Results can reflect a broad spectrum of performance and include outcomes, outputs and changes in inputs. Results may also be referred to as performance accomplishments.
RISK	The possibility that an event, action or circumstance will affect, positively or negatively, an organization's ability to achieve its objectives. This encompasses exposure to negative consequences (hazards) and the possibility that positive consequences (opportunities) will be missed. (<i>Treasury Board of Canada Secretariat</i>)
ROBUST	Strong and sturdy, not readily weakened. Straightforward, firm (<i>Oxford</i>)
TARGET	A usually quantified statement of the level or quantity of performance an organization plans to achieve in a future period. Targets may also be referred to as performance expectations.
VALUE (ETHICS)	Values such as prudence, due diligence, regularity (compliance with rules), probity, integrity and equity have inspired the conduct of generations of public servants.

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MEMBERSHIP OF THE CCAF BOARD OF GOVERNORS COMMITTEES ON PUBLIC PERFORMANCE REPORTING

Since the inception of the Public Reporting Program, a committee of CCAF governors has provided strategic advice to the program and the Board. **Douglas Barrington**, as Chair of CCAF, was an ex-officio member of the committee.

The initial advisory group, 1999–2001 comprised: **L. Denis Desautels**, Auditor General of Canada; **Joan Green**, Chief Executive Officer, Education Quality and Accountability Office, Province of Ontario; **V. Peter Harder**, Secretary of the Treasury Board and Comptroller General of Canada; **Paul Labbé**, Chairman, Citibank Canada; **Robert Lord**, Vice-Chairman, Ernst & Young; **George Morfitt**, Auditor General of British Columbia.

From 2001, **Joan Green**, Consultant, provided continuity with the initial group and chaired a committee made up of: **Alain Benedetti**, Vice-Chair, Ernst & Young; **David Brown**, Chairman, Ontario Securities Commission; **Jean-Claude Delorme**, Corporate Director; **Sheila Fraser**, Auditor General of Canada; **Scott Serson**, President, Public Service Commission of Canada; and **Wayne Strelieff**, Auditor General of British Columbia.

Throughout, **Ken Hoffman**, Assistant Auditor General of Alberta, has provided ongoing liaison with the Performance Reporting and Auditing Study Group of the Canadian Council of Legislative Auditors.

PARTICIPATION IN A NATIONAL SYMPOSIUM ON REPORTING PRINCIPLES, OTTAWA, MARCH 1999

Participants: **Robert Adams**, Director, Transportation Crowns, BC Crown Corporations Secretariat; **Tom Austin**, Vice-President, Operations and Learning Support, Royal Roads University; **Maria Barrados**, Assistant Auditor General, Office of the Auditor General of Canada; **Gilles Bédard**, Assistant Auditor General of Quebec; **Daniel Brassard**, Director, Science & Technology Division, Library of Parliament; **Peter Estey**, Vice-President, Finance & Corporate Services, Atlantic Canada Opportunities Agency; **J. Peter Gregory**, Assistant Auditor General, Office of the Auditor General of British Columbia; **Ken Hoffman**, Assistant Auditor General, Office of the Auditor General of Alberta; **Yvonne Latta**, Director General, Strategic Business Planning Directorate, Agriculture and Agri-Food

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Symposium Moderator/Facilitator: **Eva Kmiecić**, Vice-President, The Public Policy Forum.

DEVELOPMENT OF PRINCIPLES FOR BUILDING A PUBLIC PERFORMANCE REPORT—A DISCUSSION PAPER FROM CANADA’S LEGISLATIVE AUDIT COMMUNITY, JULY 1999

Canada’s legislative auditors whose support made possible this document and whose consensus is reflected in it: **Guy Breton**, Auditor General of Quebec; **L. Denis Desautels**, Auditor General of Canada; **Elizabeth Marshall**, Auditor General of Newfoundland & Labrador; **George Morfitt**, Auditor General of British Columbia; **Wayne Murphy**, Auditor General of Prince Edward Island; **Erik Peters**, Provincial Auditor of Ontario; **Roy Salmon**, Auditor General of Nova Scotia; **Jon Singleton**, Provincial Auditor of Manitoba; **Wayne Strelloff**, Provincial Auditor of Saskatchewan; **Peter Valentine**, Auditor General of Alberta; and **Daryl Wilson**, Auditor General of New Brunswick.

Members of the project team who developed this discussion paper: **Brian Jones**, **J. Peter Gregory** and **Errol Price** of the Office of the Auditor General of British Columbia; **Ken Hoffman** of the Office of the Auditor General of Alberta; and **Henno Moenting** of the Office of the Auditor General of Canada. The work of the project team built on an earlier initiative of the **Public Sector Accountability Study Group** of the **Canadian Conference of Legislative Auditors**.

PARTICIPATION IN A TRI-GOVERNMENT TASK FORCE TO DEVELOP A MANAGEMENT PERSPECTIVE ON REPORTING PRINCIPLES, FEBRUARY 2001

To develop a management perspective on reporting principles, CCAF formed a task force of managers from the governments of Alberta, Canada, and Ontario. Members of the task force were: **Kathryn Bouey**, Deputy Minister of Intergovernmental Affairs, Government of Ontario; **Keith Coulter**, Assistant Secretary, Planning, Performance and Reporting Sector, Treasury Board of Canada Secretariat; **Ian Glen**, Chief, Communications Security Establishment, Government of Canada; **Richard Goodkey**, Alberta Treasury; **Paul-Henri Lapointe**, Assistant Deputy Minister, Economic and Fiscal Policy Branch, Finance Canada; **Michele Noble**, Secretary of Management Board of Cabinet and Deputy Minister, Management Board Secretariat, Government of Ontario; **Hilary Rose**, Senior Consultant, Alberta Health and Wellness; and **Gabriel Sékaly**, Assistant Deputy Minister, Fiscal & Financial Policy Division, Ministry of Finance, Government of Ontario.

**PROVISION OF COMMENTS ON AND REACTIONS TO A BRIEFING PAPER FOR LEGISLATORS—
REPORTING PERFORMANCE TO LEGISLATURES AND CANADIANS: TOWARD GUIDING
PRINCIPLES, JUNE 2001**

CCAF developed a briefing paper to reflect the common ground between the views of auditors and managers, together with a discussion agenda. Through the chairs and vice-chairs of public accounts committees, CCAF then invited federal and provincial legislators to comment on the briefing paper and discuss related issues.

CCAF is grateful to the following legislators who provided their views through individual interviews or group discussions: **Reginald Alcock, B.A., M.P.A.**, MP for Winnipeg South; **Joel Bernard**, M.L.A. for Nepisiguit and Deputy Speaker of the Legislative Assembly of New Brunswick; **John Bryden, B.A. (Hons.), M.Ph.**, M.P. for Ancaster-Dundas-Flamborough-Aldershot; **Marlene Catterall, B.A.**, M.P. for Ottawa West-Nepean; **John C. Cleary**, M.P.P. for Stormont-Dundas-Charlottenburgh, Ontario; **Jim DeWolfe**, M.L.A. for Pictou East, Nova Scotia; **Madeleine Dubé, B.S.W.**, M.L.A. for Edmunstun, New Brunswick; **Howard Epstein, B.A., LL.B.**, M.L.A. for Halifax Chebucto, Nova Scotia; **Henri-François Gautrin, B.A., B.Sc., M.Sc., Ph.D.**, M.N.A. for Verdun, Quebec; **John Gerretsen, Q.C., B.A., LL.B.**, M.P.P. for Kingston and the Islands, Ontario; **John Ferguson Godfrey, B.A., M.Phil., D.Phil.**, M.P. for Don Valley West; **Shawn Graham, B.Ph.Ed., B.Ed.**, M.L.A. for Kent, New Brunswick; **Ronald Lee Harper**, M.L.A. for Regina Northeast, Saskatchewan; **John Hastings**, M.P.P. for Etobicoke North, Ontario; **Marlene Jennings, LL.B.**, M.P. for Notre-Dame-de-Grâce; **David Jordan**, M.L.A. for Grand Lake, New Brunswick; **Kenneth Patrick Krawetz, B.Ed.**, M.L.A. for Canora-Pelly, Saskatchewan; **Claude Lachance, B.A.**, M.N.A. for Bellechasse, Quebec; **Cy (Richard) Leblanc, B.A.**, M.L.A. for Dieppe-Memramcook, New Brunswick; **Sheldon Lee**, M.L.A. for Charlotte, New Brunswick; **Richard Andrew Patten, B.A.**, M.P.P. for Ottawa Centre, Ontario; **Bernard Richard, B.A., LL.B.**, M.L.A. for Shediac-Cap-Pelé, New Brunswick; **Wayne Steeves**, M.L.A. for Albert, New Brunswick; **Wally Stiles, C.D., B.B.A.**, M.L.A. for Petitcodiac, New Brunswick; **Cécile Vermette, B. Admin.**, M.N.A. for Marie-Victorin, Quebec; **Elizabeth Weir, LL.B.**, M.L.A. for Saint John Harbour, New Brunswick.

Parliamentary officers who attended and/or facilitated consultations: **Marie-Renée Beaulieu**, Quebec; **Don Forestell**, New Brunswick; **Ray McLellan**, Ontario; **Mora Stevens**, Nova Scotia; **Margaret A. Woods**, Saskatchewan.

DEVELOPMENT OF CONTINUUM PAPERS

A key point raised by legislators was that guidance would have to go beyond bare statements of principles to reflect the diversity of circumstances and be helpful to governments at very different stages in the evolution of their reporting.

To provide constructive insights into what it means to put these principles into practice, CCAF commissioned leading professional advisers to develop papers describing their advice about the key considerations involved, strategies for addressing them and significant progress markers. Papers were received from: **J. Colin Potts & Nathalie Robertson**, Deloitte & Touche LLP; **Marilyn Dolenko**, M. Dolenko Consulting; **Brenda Eprile & Barbara Elliott**, PricewaterhouseCoopers LLP; and **Patrick D. Lafferty**, PricewaterhouseCoopers LLP.

PARTICIPATION IN CONSULTATIVE NETWORK REVIEW

To assist the Special Task Force in its work and assure the quality of the final document, CCAF formed a network of interested and knowledgeable individuals who agreed to review and provide comments on a precompletion draft of this document. Comments were received from:

Bruce Anderson, Assistant Auditor General, New Zealand; **Maria Barrados**, Assistant Auditor General of Canada; **Louis Bernard**, Chief Negotiator, Quebec Ministry of Transportation; **Ivan Blake**, Executive Director, Comptrollership Modernization, Treasury Board of Canada Secretariat; **Patrick Boyer**, President, Breakout Educational Network; **Beverley Brennan**, Corporate Director; **Bill Broadhurst**, former chair Ontario Financial Review Commission; **Marcel Côté**, President, SECOR; **Marie-France D'Auray-Boult**, Executive Director of Risk-Management, Treasury Board of Canada Secretariat; **Mary Ferguson-Paré**, Vice-President & Chief Nursing Officer, University Health Network; **Richard Goodkey**, formerly with Alberta Treasury; **Trent Gow**, President, Thompson Gow & Associates; **Peter Green**, formerly with Comptrollership Branch, Treasury Board of Canada Secretariat; **J. Peter Gregory**, Deputy Auditor General of British Columbia; **Sharon Halkett**, Chief Executive Officer, Crown Agencies Secretariat, British Columbia; **V. Peter Harder**, Deputy Minister, Industry Canada; **Ken Hoffman**, Assistant Auditor General of Alberta (representing the Canadian Council of Legislative Auditors [CCOLA] Study Group on Performance Reporting and Auditing and its members); **Marlene Jennings**, Parliamentary Secretary to the Minister for International Cooperation; **Patrick Johnston**, President & Chief Executive Officer, Canadian Centre for Philanthropy; **James A. J. Judd**, Secretary to Treasury Board and Comptroller General of Canada; **Eva Kmiecic**, Deputy Commissioner Strategic Direction, Royal Canadian Mounted Police; **Peter Kruselnicki**, Deputy Minister, Alberta Finance; **Murray Lyle**, Alberta Treasury; **John Mayne**, Principal, Office of the Auditor General of Canada; **Lee McCormack**, Executive Director, Results Management and Accountability, Comptrollership Branch, Treasury Board of Canada Secretariat; **George Morfitt**, Associate Director, Capacity Development Network, School of Public Administration, University of Victoria; **Bev Ann Murray**, Executive Director, Strategic Initiatives, Manitoba Department of Health; **Richard J. Neville**, Deputy Comptroller General, Treasury Board of Canada Secretariat; **Michele Noble**, Former Secretary of Management Board of Cabinet, Ontario; **Doris Paradis**, (Acting) Auditor General of Quebec; **David Prince**, Director of Operations, Audit Commission, UK; **Ronald N. Robertson**, Chairman of the Board, Canada Deposit Insurance Corporation; **Hilary Rose**, Director, Policy, Finance and Information Services, Alberta Infrastructure; **Robert Siddall**, Provincial Controller, Ontario Ministry of Finance; **Kevin Simpkins**, Deputy Auditor General, New Zealand; **Carole Swan**, Associate Secretary, Treasury Board of Canada Secretariat; **Arn van Iersel**, Comptroller General of British Columbia; **David Woodward**, Deputy Secretary to Treasury Board of British Columbia; **Neil Yeates**, Deputy Minister, Saskatchewan Department of Post-Secondary Education and Skills Training; **David Zussman**, President, The Public Policy Forum.

MEMBERSHIP OF SPECIAL TASK FORCE ON PUBLIC PERFORMANCE REPORTING

PRINCIPLES

The members of the Special Task Force provided substantive and strategic advice and quality assurance as CCAF brought together all the other inputs to develop this document.

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 LLP; **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.

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Liba Berry copyedited the report and **Marta Arnaldo** coordinated final production and publication.