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PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

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Hon. W Forwood, MLC (Chairman)
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Mr S P Bracks, MP\(^1\) (Deputy Chairman)
Mr R J Hulls, MP
Mr P J Loney, MP\(^2\)
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\(^2\) Appointed 3 September 1998 in place of Hon. A Sheehan who resigned 8 July 1998
\(^3\) Appointed 21 April 1999 in place of Mr S Bracks, discharged from the Committee on 21 April 1999
\(^4\) Resigned from Parliament 8 July 1998
MEMBERSHIP OF THE SUB-COMMITTEE

Members

This Inquiry was undertaken by:

Hon. N B Lucas, PSM, MLC (Chairman of this Inquiry)
Mr S P Bracks, MP\(^5\)
Hon. W Forwood, MLC
Mr P J Loney, MP\(^6\)
Hon. A Sheehan, MP\(^7\)

For this Inquiry, the Sub-Committee was supported by a secretariat comprising:

Ms M Cornwell    Executive Officer
Mr J Arnol        Research Officer, seconded from the Victorian Auditor-General’s Office
Ms F Essaber      Office Manager

\(^5\) Discharged from attendance as a Member of the Committee on 21 April 1999
\(^6\) Appointed 3 September 1998 to the Sub-Committee on Annual Reporting in the Victorian Public Sector in place of Hon. A Sheehan who resigned 8 July 1998
\(^7\) Resigned from Parliament 8 July 1998
DUTIES OF THE COMMITTEE

The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the *Parliamentary Committees Act* 1968, as amended.

The Committee comprises nine Members of Parliament drawn from both Houses of Parliament and all parties.

The Committee carries out investigations and reports to Parliament on matters associated with State financial management. Its functions under the Act are to inquire into, consider and report to the Parliament on:

(a) any proposal, matter or thing connected with public administration or public sector finances;

(b) the annual estimates or receipts and payments and other budget papers and supplementary estimates of receipts and payments presented to the Assembly and the Council;

if the Committee is required or permitted so to do by or under the Act.

As a result of recent changes to the *Audit Act* 1994, the Committee, in consultation with the Auditor-General, determines the objectives of performance audits and identifies any particular issues that need to be addressed during these audits.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tr>
<td>Accrual accounting</td>
<td>The system of accounting in which items are brought to account as they are earned or incurred (and not as money is received or paid) and included in the financial statements for the accounting periods to which they relate (Australian Accounting Standard No. 6).</td>
</tr>
<tr>
<td>Agencies</td>
<td>Departments or other public bodies as defined in the Financial Management Act 1994.</td>
</tr>
<tr>
<td>Annual appropriation</td>
<td>The process by which Parliament authorises the use of money by the government for public purposes. Annual appropriations require the passage of legislation by Parliament each year.</td>
</tr>
<tr>
<td>Benchmarking</td>
<td>A process of systematically measuring and comparing the products, services and processes of an organisation – internally and against other relevant organisations – and adopting the most efficient, effective or economic practices.</td>
</tr>
<tr>
<td>BERC</td>
<td>Budget Expenditure Review Committee acts on behalf of Cabinet to ensure that funding recommendations to Cabinet are consistent with meeting the government’s desired outcomes and budget aggregates.</td>
</tr>
<tr>
<td>Budget sector</td>
<td>Comprises those Victorian government agencies whose transactions are wholly or largely recorded in the Public Account, and whose activities are subject to detailed financial scrutiny and accountability through the annual budget process. The budget sector includes all government departments as well as a number of other agencies which are funded through the Public Account, such as the Roads Corporation (VicRoads).</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<td>----------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Business plan</td>
<td>The operational plan for an agency, which sets in place the specific strategies and action plans for the agency to achieve its overall corporate targets. Usually has a timeframe of one year.</td>
</tr>
<tr>
<td>Corporatisation</td>
<td>The process of moving a previously public departmental or statutory agency operation into a company under Corporations Law, either wholly or partly owned by the government.</td>
</tr>
<tr>
<td>Corporate governance</td>
<td>The processes by which agencies are directed and controlled. It encompasses authority, accountability, stewardship, leadership, direction and control.</td>
</tr>
<tr>
<td>Corporate objectives</td>
<td>The objectives of an agency are usually included in its corporate plan and set out the goals to which the agency is working. All agency activities should designed to support the achievement of corporate objectives.</td>
</tr>
<tr>
<td>Departments</td>
<td>The government’s eight major administrative units, these are the Departments of: Education, Human Services, Infrastructure, Justice, Natural Resources and Environment, Premier and Cabinet, State Development and Treasury and Finance.</td>
</tr>
<tr>
<td>Funder</td>
<td>The government as funder, agrees and pays for outputs to be provided through the budget process. During the budget process, departments submit output proposals including specification of output delivery levels and price to BERC for consideration.</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicator(s) are key measures of performance for an agency or business unit within an agency. They are indicators of the critical success factors for the agency.</td>
</tr>
<tr>
<td>Key Result Areas</td>
<td>The areas of interest that are intentionally affected by the activities of departments and agencies. For example, drug abuse, crime rate, environmental management, conservation, economic growth, occupational or public health.</td>
</tr>
<tr>
<td>------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>National Competition Policy</td>
<td>An agreement by all States and the Commonwealth to systematically apply the principles of competition across all areas of the economy.</td>
</tr>
<tr>
<td>Outcomes</td>
<td>Outcomes are the results of government activity.</td>
</tr>
<tr>
<td>Output-based budgeting</td>
<td>Under an output-based budget, the government, as funder decides which outputs it will fund, at specified levels of quantity, quality and price. Agreements on output targets are reached and entered into between BERC, Ministers and the Secretaries of Departments prior to the tabling of the Budget Papers in the autumn session of Parliament.</td>
</tr>
<tr>
<td>Output groups</td>
<td>Outputs which have common characteristics aggregated into groupings for budget submission and reporting purposes. The individual outputs are usually grouped when they contribute to a common outcome.</td>
</tr>
<tr>
<td>Outputs</td>
<td>The products and services which are directly and indirectly produced by an agency and delivered to external users. Agencies will be explicitly accountable for the provision of outputs against a range of predefined indicators.</td>
</tr>
<tr>
<td>Output costing</td>
<td>Process of determining all costs of producing an output within a given period. Costs include direct and indirect costs on a full accrual basis.</td>
</tr>
<tr>
<td>Output management</td>
<td>The process of linking funding, reporting and monitoring of clearly defined outputs to government strategic priorities or outcomes.</td>
</tr>
<tr>
<td>Performance indicators</td>
<td>Qualitative and quantitative indicators of an output which provide a guide on performance. They are used to evaluate and assess how well</td>
</tr>
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an organisation is meeting its objectives or outcomes.

**Performance measures**

Provide a more detailed measure of performance than indicators and identify the quantity, quality, timeframe and cost of outputs delivered.

**Performance targets**

Intended output delivery levels expressed in terms of each of the performance measures. Used to assess performance in delivering budget outputs.

**Provider**

The departments, agencies or private sector bodies who deliver goods or services at the levels, quality and prices agreed with the purchaser.

**Public Body**

Public Body means –

(a) a public statutory authority;

(b) a State business corporation or State body within the meaning of the *State Owned Enterprises Act* 1992;

(c) A body, office or trust body -

(i) established by or under Act or enactment; or

(ii) established by the Governor in Council or Minister.

**Purchaser/provider split**

An organisational separation of the policy/funding and service delivery roles of government. Under this model, funds are provided to agencies for the delivery of particular goods or services on the basis of a contract, sometimes as the result of a competitive tender. The funding body is known as the purchaser of goods or services for the community and the agencies contracted to deliver the goods or services to the community are known as the providers.

**Strategic Result**

The policy outcomes identified in strategy
**Areas**

documents such as annual performance plans, corporate and business plans, Budget Papers, policy documents.

**Whole of Government**

All government departments and agencies that are included in the State’s Annual Financial Statement. Local government, universities and some other agencies are excluded.
The Committee initiated its Inquiry into annual reporting in the Victorian public sector in the context of, and in response to, the significant public reforms that have occurred during the past five years.

The government’s financial management reform program offers great potential for improving the effectiveness and efficiency of government services. Part of this process involves consistent and meaningful reporting and formally linking the information contained in corporate and business plans, the budget papers and annual reports - so there is an accountability framework.

All public sector agencies are accountable to Parliament for their activities and outcomes. Annual reporting is an important element in communicating information about an agency’s performance. The challenge for agencies is to develop improved performance information that can be included in annual reports. This the thrust of this report.

The Committee believes that better information about performance will help the Parliament, the community, and public sector managers assess how well government services are performing and whether they are achieving what was intended.

The Committee strongly endorses the view that no agency - large or small, commercial or budget dependent - should be exempt from meeting appropriate requirements set out in the Directions of the Minister for Finance relating to annual reporting.

This report is seen by the Committee as an impetus for encouraging a re-thinking of those annual reporting directions. In essence, the Committee views this report as the foundation for the development of Directions and Guidelines that will assist with implementing a continuous improvement philosophy within the public sector.

As Chairman, I would like to acknowledge the work of the Members of the Sub-Committee that dealt with this Inquiry and particularly that of the Sub-Committee Chairman, Hon. Neil Lucas, who has a strong commitment to the public sector.
This is yet another unanimous report - a reflection of the Public Accounts and Estimates Committee's strong tradition of bipartisanship. We believe that this report has the potential to significantly add to the vigorous reform agenda currently being implemented in the public sector in Victoria.

The Committee would like to thank John Arnol for his valuable research work and to Alan Bridges for reviewing the annual reports of various agencies. As always, our thanks are also extended to the dedicated permanent staff of the Committee, Michele Cornwell and Frances Essaber, for their analytical skills and assistance with the preparation of this report.

The Committee awaits with interest the 1998-99 annual reports.

Bill Forwood  
Chairman  
Public Accounts and Estimates Committee
EXECUTIVE SUMMARY

Chapter 1: Background to the Inquiry

Over the past few years Victoria has introduced sweeping public sector reforms which have changed the way government services are planned, costed, delivered, monitored and reported on. These reforms have accelerated the move to a more business-like public sector and include initiatives such as competitive tendering, the outsourcing of activities, and the corporatisation of Government Business Enterprises (GBEs) through to complete privatisation.

Under these reforms, the business of government is changing dramatically - from direct program delivery to service contract management.

As agencies find new and more effective ways of doing business, the Parliament and the community must have the means to assess how well policies, programs and services are being delivered.

In the past, annual reporting by agencies has focused heavily on inputs, processes and compliance rather than on outputs, outcomes and accountability for performance. Even though agencies are now shifting their emphasis to the management of results, annual reporting in the Victorian public sector is still primarily concerned with financial accountability rather than providing adequate performance information.

As the reforms have implications for accountability, the Committee resolved to conduct an inquiry into annual reporting in the public sector with terms of reference to review:

- the effectiveness of annual reporting in discharging departments’ and agencies’ accountability obligations to the Parliament, government and the community;
- the adequacy of the current level of annual reporting requirements in light of the financial management and public sector reform program;
- the procedures which ensure that departments and agencies comply with the annual reporting requirements;
- the timeliness of annual reporting;
• the level of parliamentary scrutiny of public sector annual reports; and
• any other matter concerning public sector annual reporting in Victoria.

As emphasised by many witnesses during the Inquiry, annual reports serve as a critical component in determining the accountability of the Executive to the Parliament and the community. They provide the means by which Departmental Secretaries and Chief Executive Officers can fully account to the Parliament for the operations of their agencies. It is therefore essential that annual reports contain complete, accurate and meaningful information in a form that can be readily accessed by Members of Parliament and the community.

This report addresses a number of issues, which relate not only to the annual reporting requirements of agencies and GBEs, but also the desirable formats that annual reports should take, and the role of Parliament in providing review and feedback to agencies on the standard of annual reports.

Throughout this report there is an emphasis on accountability and performance reporting – two elements on which the Committee considers agencies must focus in the planning and production of any annual report.

Chapter 2: Annual Reporting Framework in Victoria

Annual reports, whatever their public relations or other uses, are primarily a powerful instrument in the accountability process. They give Parliament and the public an annual overview of the operations of public agencies and an annual opportunity to review aspects of those activities.

The tabling requirements for annual reports of departments and agencies are specified in the Financial Management Act 1994. Part 9 of the Directions of the Minister for Finance, issued under the Financial Management Act, outline the minimum content requirements for annual reports.

However, some GBEs also reporting under Corporations Law may have exemptions from disclosing some of the information specified in the Directions.
The Directions are comprehensive and cover areas such as:

- operational and financial information;
- the types of information to be included in the financial statements; and
- related parties' disclosures.

In July 1998 the Directions were updated as part of the government’s Management Reform Program, to require agencies to report achievements against output performance targets detailed in the Budget Papers.

Since 1989, local government has been required to submit corporate plans detailing annual objectives and planned activities for the year to the Minister for Local Government. Councils have been required to report their achievements against those plans, since July 1998.

Key performance indicators established by the State Government, for local government, encourage consistent reporting of performance and enable comparative assessments of performance between councils.

Councils are required to audit their performance indicators and publish performance statements in their annual reports in a prescribed format.

Councils seeking to increase their rates are required to comply with the key performance indicators program.

The Committee is impressed with the performance management framework developed for local government and believes there are enormous benefits to be gained by reporting performance against objectives outlined in corporate and business plans.

Chapter 3: Developments in other Jurisdictions

The Committee found that other States had introduced, or have plans to introduce, annual reporting requirements to enhance the accountability of public sector agencies for their performance in delivering services.
These new requirements include:

- linking of government policy objectives to objectives in corporate plans and linking of corporate plan objectives to objectives in annual business plans;
- linking of inputs, outputs and outcomes;
- using key performance indicators to measure the achievement of corporate and business plans objectives;
- requiring independent review of the performance information contained in annual reports;
- linking reporting cycles to budget and corporate planning cycles;
- incorporating a statement of achievements and disappointments for the year;
- incorporating assurances and a sign off by the Chief Executive Officer on the integrity of the internal controls, management information systems and the performance information published in the annual report;
- reporting on environmental matters;
- establishing timeliness requirements for the audit and parliamentary tabling processes;
- incorporating a statement addressing corporate governance;
- limiting the promotional content in annual reports;
- introducing half-yearly reporting on the balance sheet;
- providing for optional, full or summary annual reporting;
- establishing additional reporting requirements for corporatised and commercialised GBEs; and
- encouraging participation in annual report awards.

At the international level, the New Zealand and United States governments have established legislative models for annual reporting that comprehensively cover both financial and non-financial information requirements. The salient features of these models that address performance information requirements, include:

- a comprehensive mission statement for the agency;
the specification of outcome-related goals and objectives;
the specification of annual performance plans for program activities with goals that define the level of performance to be achieved; and
the use of performance indicators to measure the relevant outputs, service levels and outcomes.

In the United Kingdom, the government introduced annual reporting against performance targets agreed with the Audit Commission, and service targets included in Citizens’ Charters, which describe service provider obligations, performance targets and customers’ rights.

Many of these proposals have been suggested by the Committee as appropriate for Victoria.

Chapter 4: Readership, Timeliness and Quality of Annual Reporting

Although it is essential for an agency to clearly identify the readers of its annual report in order to be able to produce a meaningful and useful report, the Committee found that very few agencies have either identified the readers of their annual reports or sought feedback from them. The Committee received evidence that indicated that the ultimate recipients of departmental annual reports were largely unknown.

The Committee endorses the view of many witnesses that the primary target audience of an annual report should be the Parliament.

However, the Committee found that:

- agencies seldom seek to identify the reader needs of parliamentarians;
- the Parliament does not systematically review annual reports or monitor compliance with the reporting framework; and
- the Parliament does not provide any formal input into what should be included in the annual reporting requirements.

The Committee received evidence about the distribution of departmental annual reports, which shows that the recipients, who could be identified,
were generally well-educated.\textsuperscript{8} They were identified as likely to be members of professional accounting bodies.

The Committee was also advised that readers prefer performance information that discloses the effectiveness of government services, however, in this regard the Committee found that specific outcome measures were rarely reported in the annual reports of departments and agencies.

The Committee is concerned that the late tabling of annual reports by Ministers leaves too little time for adequate levels of parliamentary debate and scrutiny, within the same sitting period.

The Committee engaged a consultant to review twelve 1997-98 annual reports against assessment criteria developed by the Committee. The criteria were centred on an agency’s accountability for performance and based on the Committee’s review of developments elsewhere. The annual reports of most agencies did not rate very highly in the assessment, due to the absence of specific objectives or objectives that could not be quantified in terms of final outcomes. The reports of the Department of Justice and Department of Human Services rated best, due to their efforts to meet their accountability obligations through reporting on achievements against the objectives in their annual business plans. One of the annual reports that received favourable comment on their performance reporting was Moreland City Council.

The assessment found that agencies needed to present their financial outcomes in a user-friendly format, for example, through the use of meaningful narrative summaries of the financial statements, trend analysis over a period of years and through greater use of graphical presentations of financial performance.

The results of the assessment indicate a need to improve:

- the presentation of the information reported; and
- accountability for performance in terms of efficiency and effectiveness.

\textsuperscript{8} Professor Colin Clark, Users of the Annual Reports of Victorian Government Departments and their Information Needs: Some Empirical Evidence, Public Sector Research Unit, Victoria University of Technology, July 1998, Submission No.79
Chapter 5  Parliamentary Review

The Committee was advised that the Parliament does not provide any direct feedback to agencies on their annual reports. While Parliamentary Committees are users of annual reports for research purposes, Parliament does not provide any scrutiny or guidance on the content or quality of annual reports, and lacks a systematic way of reviewing annual reports.

The Committee found that a formal mechanism should be established to provide parliamentary input into Victoria’s annual reporting standards, reporting guidelines and specific reporting requirements. Other feedback processes that would contribute to the continuous improvement of annual reporting, include:

- a central role for the Parliament, through the Public Accounts and Estimates Committee (PAEC), systematically reviewing and monitoring annual reports; and
- an on-going role for the Parliament, through the PAEC, in the review of the Directions for Annual Reporting.

Currently Annual Reports can only be tabled when Parliament is sitting. The Committee is of the opinion that this arrangement should be changed.
Chapter 6: What should an Annual Report contain?

The Committee is of the opinion that the current annual reporting directions provide minimum prescribed reporting requirements.

The government’s Management Reform Program has moved agencies into an environment where the focus is on managing by results. Consequently, there is a need for agencies to report information that is focussed on outcomes.

As annual reports close the loop in the accountability framework, the Committee believes that the Directions of the Minister for Finance should include requirements for agencies to report against their corporate and annual business plan objectives through the use of key performance indicators. Once annual reports include consistent performance information, departments and agencies should benchmark their performance.

The following matters should be included in annual reports:

- reporting on follow-up actions to recommendations in reports tabled by Parliamentary Committees, the Auditor-General and the Ombudsman;
- certification by Chief Executive Officers, or accountable officers, to the level of assurance provided by the internal control systems in regard to the integrity and reliability of financial, operational and performance information in the annual report; and
- reporting on occupational health and safety, environmental disclosures and customer service charters.

Chapter 7: Changes needed to the Annual Reporting Framework

The government amended the annual reporting legislation in July 1998 to require departments and agencies to report their actual performance against output targets specified in the Budget. For the first time in Victoria, this step has linked the Budget process to an annual reporting requirement. The Committee has suggested further links between

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9 Mr A. Nye, Director, Policy and Management Reform, Department of Treasury and Finance, Transcript of evidence, 10 March 1999, p.94
annual reports and corporate/business plans and the development of
associated output and outcome performance indicators.

The Committee has examined the reporting framework proposed for the
NSW public sector and believes it could form a basis for restructuring
Victoria’s annual reporting framework. The model is similar to Victoria’s
reporting framework as it has two tiers with the main legislation
covering broad reporting obligations (like the Financial Management Act
1994) and regulations (like the Ministerial Directions) providing greater
detail of specific reporting requirements. The difference is in the content
of the governing legislation; for example, NSW agencies must report on
actual performance against corporate plans and include performance
indicators.

The Committee has recommended prescriptive reporting requirements
where it believes that it is in the public interest for a department or
agency to specifically disclose information. For example, aspects of
corporate governance such as any sponsorship arrangements entered
into by an agency.

The Committee has suggested best practice principles that should guide
annual reporting for the Victorian public sector.

The Committee is of the view that separate Directions for Annual
Reporting by statutory authorities and GBEs should be developed.

The Committee believes that when implemented, its recommendations
will form a cohesive accountability framework for linking strategic
planning, budgeting, monitoring and reporting. This arrangement would
have enormous benefits for Victoria. Better information will assist with
decision making and it has the potential to improve public knowledge
of, and confidence in, the institutions of government.
RECOMMENDATIONS

Chapter 2   Annual Reporting Framework in Victoria

The Committee recommends that:

Recommendation 2.1:
page 10  The Financial Management Act 1994 be amended to provide that:
• annual reports of all agencies should be tabled in the Parliament; and
• that for small agencies, with expenses and obligations not exceeding $5 million, the responsible Minister table one copy of the report in Parliament and forward a copy to the Public Accounts and Estimates Committee.

Chapter 4   Readership, Timeliness and Quality of Annual Reporting

The Committee recommends that:

Recommendation 4.1:
page 37  Agencies be encouraged to survey the readers of their annual reports and, where practicable, to incorporate suggested improvements in subsequent annual reports. The results of the survey should be included in agency’s annual reports.

Recommendation 4.2:
page 39  The Directions of the Minister for Finance be amended to provide for the optional publication of a short form annual report specifically on the annual performance achievements of agencies.

Recommendation 4.3:
page 40  The Department of Treasury and Finance prepare Directions for Annual Reporting that require performance information contained in financial statements to be presented in easily understood formats.
Recommendation 4.4:
page 40  Agencies be encouraged to publish their annual reports on the Internet as soon as practicable after their reports are tabled in the Parliament.

Recommendation 4.5:
page 42  With the aim of improving the quality and timeliness of information to Parliament, Ministers present on a half-yearly basis unaudited interim reports on the financial position of agencies. All agencies should also report critical events which have a material effect on their financial position.

Recommendation 4.6:
page 43  The Department of Treasury and Finance should investigate and report to the Public Accounts and Estimates Committee on the most appropriate form that interim reporting by agencies and statutory authorities should take.

Recommendation 4.7:
page 45  The Financial Management Act 1994 be amended to provide for the tabling of annual reports within 14 days of the receipt of the Auditor-General’s report on the financial statements.

Recommendation 4.8:
page 53  The Department of Treasury and Finance develop Directions for Annual Reporting that ensure:
- clear linkages are made between budget figures and reported expenditures;
- greater use of pictorial presentations for performance information, such as charts and diagrams;
- emphasis is given to reporting the types and volume of services delivered, as opposed to just the financial results of service delivery; and
- greater detail of the outputs and outcomes of smaller agencies operating under the administration of departments.
Chapter 5 Parliamentary Review

The Committee recommends:

Recommendation 5.1:
page 60
The Public Accounts and Estimates Committee be given a role to monitor, review and report on the annual reports of agencies.

Recommendation 5.2:
page 61
The Public Accounts and Estimates Committee be given an ongoing role in the development of Directions for Annual Reporting with the objective of maintaining an effective accountability framework.

Recommendation 5.3:
page 61
The Department of Treasury and Finance undertake a yearly review of the Directions for Annual Reporting and consult with the Public Accounts and Estimates Committee before they are re-issued.

Recommendation 5.4:
page 63
The Financial Management Act 1994 be amended to provide for the audit of non-financial information such as an agency’s performance indicators for efficiency and effectiveness or the output and outcome measures used to represent actual performance.

Recommendation 5.5:
page 63
The Audit Act 1994 be amended to provide the Auditor-General with the capacity to engage contractors so that he is in a position to:

- form an opinion on the extent to which performance indicators contained in annual reports are relevant to an agency’s stated objectives, are appropriate for the assessment of the agency’s performance, and fairly represent the agency’s actual performance; and

- report to the Parliament on the results of audits of non-financial information.
Recommendation 5.6:  
page 63  
The Victorian Auditor-General’s Office establish an ongoing program, similar to the Performance Audit Program, for the review of agencies’ performance indicators and their relevance and appropriateness to reported outcomes.

Recommendation 5.7:  
page 63  
The Victorian Auditor-General’s Office establish a program, similar to the Performance Audit Program, for the audit of achievements against key performance indicators, including output and outcome measures, reported in the annual reports of departments and agencies.

Recommendation 5.8:  
page 64  
The Financial Management Act 1994 be amended to provide that when the Parliament is not sitting and an annual report is due for tabling, the Minister can forward copies to the Clerks of the two Houses of Parliament for tabling on the next sitting day. Once acknowledgement of the receipt of the report has been made, the report should then be made public.

Recommendation 5.9:  
page 64  
The Standing Orders Committee of the Legislative Council consider what procedures are required to enable the Council to allocate time to the scrutiny of annual reports.

Chapter 6  What should an Annual Report Contain?

The Committee recommends that:

Recommendation 6.1:  
page 70  
The Directions of the Minister for Finance be amended to include a requirement to report on performance indicators relevant to an agency's service delivery objectives.
Recommendation 6.2:
page 70
The Directions of the Minister for Finance be amended to require explanations in respect of performance indicators where:
• there are significant variations in performance eg. from expected service delivery targets;
• the basis of calculating a performance indicator has changed; and
• established indicators are discontinued.

Recommendation 6.3:
page 70
The Department of Treasury and Finance encourage and assist agencies to develop and improve internal data collection and management information systems to deal with the increased need for performance information as required under accrual output-based budgeting.

Recommendation 6.4:
page 72
Departments and agencies actively develop benchmarking partners or networks for evaluating their outputs.

Recommendation 6.5:
page 72
The Department of Treasury and Finance should oversee these partnership arrangements ensuring that meaningful and robust targets are established.

Recommendation 6.6:
page 72
Benchmarks be included in annual reports making clear reference to the benchmarks set and met, and provide explanations for any significant variations. Action taken to bring about improvements through benchmarking should also be discussed in these reports.

Recommendation 6.7:
page 73
The Directions of the Minister for Finance be amended to include a requirement to report performance information against benchmarks relevant to an agency's service delivery objectives, relative size and operational characteristics.
Recommendation 6.8: page 75

The Directions of the Minister for Finance be reviewed by the Department of Treasury and Finance to ensure they provide adequate reporting of corporate governance related matters, including:

- corruption prevention strategies;
- sponsorship arrangements entered into; and
- directions from Ministers to statutory bodies.

Recommendation 6.9: page 76

The Department of Treasury and Finance review the disclosure requirements of government business enterprises and statutory authorities to determine the minimum requirements necessary to provide adequate disclosure in relation to corporate governance.

Recommendation 6.10: page 76

The Department of Treasury and Finance prepare amended Directions in relation to corporate governance disclosure, and provide them to the Public Accounts and Estimates Committee for review.

Recommendation 6.11: page 77

The Directions of the Minister for Finance be amended to require agencies to report on reviews undertaken on the agency by Parliamentary Committees, the Ombudsman or the Auditor-General, action taken to address the recommendations, and explanations for any lack of action in response to those recommendations.

Recommendation 6.12: page 78

The Directions of the Minister for Finance be amended to require the accountable officer of an agency to certify that the system of internal control provides reasonable assurance of the integrity and reliability of financial, operational and performance information contained in the annual report.

Recommendation 6.13: page 79

The Directions of the Minister for Finance be amended to include specific provisions for reporting on occupational health and safety matters in annual reports.
Recommendation 6.14:  
page 80  
The Directions of the Minister for Finance be amended to include the reporting of environmental disclosures where the activities of an agency cause known or predicted material impacts on the environment.

Recommendation 6.15:  
page 80  
The Directions of the Minister for Finance be amended to include specific environmental disclosure requirements, such as:  
• level of compliance with EPA regulations;  
• descriptions of projects requiring an environmental impact assessment, site remediation or rehabilitation;  
• the indicators that show environmental impacts;  
• audited statements of environmental management systems; and  
• performance measures for waste minimisation.

Recommendation 6.16:  
page 81  
The development of customer service charters be encouraged by the Department of Premier and Cabinet.

Recommendation 6.17:  
page 81  
The Directions of the Minister for Finance be amended to require agencies to report against all service targets specified in customer service charters.

Recommendation 6.18:  
page 82  
The government establish a central data collection point for the recording of all government assets.

Recommendation 6.19:  
page 82  
The Office of the Valuer-General be mandated to ensure consistent asset valuation methodologies are used across the whole of government.

Recommendation 6.20:  
page 82  
Current terminologies, concepts and definitions used in asset valuations be reviewed and standardised for the financial and annual reports of all agencies.
Recommendation 6.21:
page 82
The valuations for in-use special purpose buildings be reported using both the current in-use value and the market value.

Recommendation 6.22:
page 82
The potential cost savings be investigated in relation to:
• standardising the State’s property asset data; and
• linking data to the municipal property revaluation process.

Chapter 7 Changes needed to the Annual Reporting Framework

The Committee recommends that:

Recommendation 7.1:
page 88
The Department of Treasury and Finance establish a model annual reporting framework for the non-financial information that should be included in annual reports (eg. corporate objectives, program objectives, performance indicators, etc.)

Recommendation 7.2:
page 90
The Department of Treasury and Finance should develop separate Directions for Annual Reporting for statutory authorities and GBEs. The directions should be presented on two levels. The first should cover broad issues applicable to all authorities with emphasis on accountability requirements for both financial and non-financial information; and the second level should be divided into sections relevant to particular categories of statutory authorities and GBEs which outline the reporting requirements applicable to each category.
Recommendation 7.3:  
page 92  
The Directions of the Minister for Finance be amended to reflect a two-tiered approach to annual reporting. This approach should include a focus on:
• corporate governance issues;
• reporting the performance of the agency in attaining its corporate and business planning objectives; and
• providing an assessment of performance against best practice benchmarks.

Recommendation 7.4:  
page 94  
The Department of Treasury and Finance review the Directions of the Minister for Finance and the Financial Management Act 1994 to identify prescribed reporting requirements that are peripheral to the core service delivery objectives of departments and agencies.

Recommendation 7.5:  
page 94  
Following consultation with the Public Accounts and Estimates Committee, the Department of Treasury and Finance amend the Financial Management Act 1994 and the Directions of the Minister for Finance to remove any peripheral reporting requirements.

Recommendation 7.6:  
page 99  
The Department of Treasury and Finance establish best practice in output, outcome and performance measurement and reporting for the Victorian public sector through:
• a review of the output measures used in the 1999-2000 Budget Papers; and
• the comparison of these output measures with those presented by agencies in their corporate and business plans, annual reports and other management and accountability documents.

Recommendation 7.7:  
page 99  
The Guide to Corporate and Business Planning be amended to include a requirement for agencies to explain the link between each of their corporate objectives with overall government policy objectives.
Recommendation 7.8: The Directions of the Minister for Finance be amended to require departments and agencies to report actual performance against objectives specified in their corporate plans.

Recommendation 7.9: The Directions of the Minister for Finance be amended to require the annual reports of departments and agencies to publish results against the performance, service delivery and output targets contained in their annual business plans.

Recommendation 7.10: The Directions of the Minister for Finance be amended to provide that agencies report on output targets contained in the Budget Papers and:

- explain the major factors affecting the non-achievement of output targets; and
- report on plans to improve performance in the following reporting period.

Recommendation 7.11: The Directions of the Minister for Finance be amended to require

- departments to align information contained in their annual reports with the relevant output-based Budget Papers;
- distinguish between State and Federal funds when describing changed funding conditions;
- identify the types of services delivered and the respective service targets attained; and
- disaggregate data to improve transparency where more than one agency or corporate entity is involved in the delivery of a service.

Recommendation 7.12: The Directions of the Minister for Finance be amended to require reporting against the service delivery performance targets set in service agreements with Ministers or in purchasing contracts between departments and agencies and their service providers.

Recommendation 7.13:
The Department of Treasury and Finance develop and issue guidelines to all departments and agencies designed to limit the use of annual reports as a promotional and marketing tool.

Recommendation 7.14:
The Department of Treasury and Finance facilitate the ongoing review of agencies’ annual reports with the objective of eventually disseminating advice to all departments and agencies on best reporting practice.

Recommendation 7.15:
The Department of Treasury and Finance coordinate an ongoing review of agencies’ output measures and management information systems to ascertain whether:

- output measures are valid, relevant and appropriate in relation to agencies’ corporate objectives and government objectives;
- the calculation of the measures is sound, based on reliable data collection and internal control systems; and
- performance benchmarks used by agencies are based on comparable organisations and data measurement methods.

Recommendation 7.16:
The Department of Treasury and Finance consult with the Institute of Public Administration Australia (Victoria) about the possibility of instituting an annual report awards scheme for Victorian public agencies.

Recommendation 7.17:
All agencies be encouraged to enter their annual report in the relevant category within the annual reporting competition in this State.

Recommendation 7.18:
The Presiding Officers of the Parliament consider sponsoring an award for annual reporting in the Victorian public sector.
CHAPTER 1  BACKGROUND TO THE INQUIRY

... the responsibility for securing and maintaining high standards in official reporting falls largely on parliamentarians. A model system of reporting will not be bestowed upon Parliament by administrators alone. Members of Parliament must state and restate their needs and it is their responsibility to question and to criticise deficiencies and omissions in the range of reports. But above all, when reports are supplied - they must be used. Otherwise, the act of reporting will become, for the official, an empty formality.\(^\text{10}\)

1.1 Background to the Inquiry

Implications of Public Sector Reform

Victoria has introduced sweeping public sector reforms over the past few years. These reforms have radically altered the institutions, operations and management of the public sector at both the state and local government levels.

Although many of the reforms in Victoria have close parallels with those of other governments in Australia, others are unique to this state. For example, no other government in the world has adopted or framed their co-ordination, management and resource allocations in the style of the current reform package being implemented by the Department of Treasury and Finance. Underpinning these reforms is a financial management reform program which is fundamentally changing the way government services are planned, costed, delivered, monitored and reported on.

To facilitate these reforms, the government has introduced a range of policy initiatives to broaden and accelerate the move to a more business-like public sector to enable it to operate in a competitive market. These initiatives have included competitive tendering; outsourcing of activities; corporatisation of government business enterprises through to complete

\(^{10}\) Reid, G.S., Official reports in the Commonwealth Parliament. Public Administration (Sydney), vol. 21, no.1, March 1962
privatisation; implementation of national competition policy and the development of market-oriented public service management.

Under these new reforms, the business of government is changing dramatically – from direct program delivery to service contract management. In this environment, Chief Executive Officers have been given greater authority to manage through the removal of prescriptive regulation and more flexibility in managing the provision of services. All these changes have significant implications.

In line with its responsibilities, the Committee has taken an active interest in the implementation of the reform program. While the Committee has been impressed with the pace of reform and what has been achieved to date, there remain some issues that warrant attention.

The Committee acknowledges that the reforms introduced during the past few years are evolving and that further refinement of many issues, including improvements in public reporting, are the next steps.

**Accountability**

As agencies\(^\text{11}\) find new, more effective ways of doing business, the Parliament and the community must have the means to assess how well policies, programs and services are being delivered. The government's financial management reform program acknowledges that, in this new environment, greater accountability will be required:

_{increased devolution of decision-making to departments will be matched with increased levels of accountability.}^{12}\)

This theme was mirrored in a speech by the Governor-General, Sir William Deane, which noted that:

_{At a time when the very nature of the business of government - the function and purpose of public administration - is being questioned and redefined in so many areas, it is necessary to identify and to re-assert the core values which should be observed by government administrators._\)

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\(^{11}\) Throughout this report, the term “agencies” refers to a Department or a Public Body as defined in the *Financial Management Act 1994*

\(^{12}\) *Victoria - Department of Treasury and Finance, Management Reform Program, 1997,* p.9
Incorruptibility, accountability and fairness may seem high-sounding words. They are, however, basic values underlying public administration in any truly democratic community. They are in no way inconsistent with the processes of desirable change or the research for greater efficiency.\textsuperscript{13}

The last two estimates reports\textsuperscript{14} of the Committee have raised the need for a comprehensive accountability framework to guide the whole of government in reporting more fully on its performance. Consequently, the Committee has made various recommendations to improve the presentation of financial and performance information in the Budget Papers.

This report deals with another aspect of the accountability framework - annual reporting.

In its Report No. 23\textsuperscript{15}, the Committee expressed concern about the inconsistency in the quality of annual reporting in the public sector. It foreshadowed that a review of annual reporting would be undertaken to determine whether the focus needed to change.

While the Committee acknowledges that the standard of compliance reporting by agencies has improved significantly in recent years, the expectations of the Parliament and the community that they will receive comprehensive information on government activities, have also increased.

As highlighted during the Committee’s review of the estimates for 1998-99 there has, to date, been little attempt to integrate output costing and measurement; outcomes; budget initiatives; and performance targets into the annual reporting framework.

\textsuperscript{13} Address on the Opening of the National Conference of the Institute of Public Administration Australia, Melbourne, 20 November 1996
\textsuperscript{15} Ibid: p.9
Various witnesses highlighted this to the Committee:

Financial statements are in good shape… the real problem is in relation to performance information [which] remains inadequate.\textsuperscript{16}

Performance information is preferred, yet these are the segments of the annual report which have no regulation about their reporting requirements. The focus of reporting requirements is on the financial statements and the notes to the financial statement. Respondents [to a survey] are saying their information interests lie elsewhere than where the regulatory framework sits.\textsuperscript{17}

It is the Committee’s belief that performance information is essential to assist Parliament and the community in assessing the performance of government programs and whether the programs are achieving what was intended.

As witnesses emphasised during the Inquiry, annual reports serve as a critical component in the accountability framework of the Executive to Parliament and the community. They provide the means by which Chief Executive Officers can fully account to the Parliament on their department’s activities. It is therefore vital that the information supplied in departmental annual reports is complete, accurate and in a form which can be readily understood by Members of Parliament and the community.

Given the substantial developments that have occurred in recent years in the financial and accountability arrangements that operate within the Victorian Public Sector, your Committee’s inquiry into the nature and quality of annual reporting within the sector is welcome.\textsuperscript{18}

\textsuperscript{16} Mr D. Blunt, NSW Law and Justice Standing Committee, Transcript of evidence, 2 April 1998, p.51
\textsuperscript{17} Professor C. Clark, Victoria University of Technology, Transcript of evidence, 15 October 1998, p.31
\textsuperscript{18} Mr Ches Baragwanath, Auditor-General, Victorian Auditor-General’s Office, Submission No. 76
1.2 Terms of Reference

The terms of reference adopted by the Committee for this Inquiry were to:

- review the effectiveness of annual reporting in discharging agencies’ accountability obligations to the Parliament, government and the community;
- assess the adequacy of the current level of annual reporting requirements in light of the financial management and public sector reform program;
- examine the procedures which ensure that agencies comply with the annual reporting requirements;
- consider the timeliness of annual reporting;
- review the level of parliamentary scrutiny of public sector annual reports; and
- consider any other matter concerning public sector annual reporting in Victoria.

1.3 Process Followed by the Committee

The following Sub-Committee was formed to conduct this Inquiry:

Hon. Neil Lucas (Chairman of this Inquiry);
Mr Steve Bracks;\(^{19}\)
Hon. Bill Forwood;
Hon. Tony Sheehan;\(^{20}\)
Mr Peter Loney.\(^{21}\)

The terms of reference for the inquiry were advertised in February 1998. Requests for submissions were sent to all Victorian government departments and agencies, local councils, parliamentarians, community groups, professional and business organisations, and universities. The Committee also released an issues paper which sought comments on the following questions:

\(^{19}\) Discharged from attendance as a Member of the Committee on 21 April 1999
\(^{20}\) Resigned from Parliament on 8 July 1998
\(^{21}\) Appointed to the Sub-Committee on Annual Reporting in the Public Sector on 3 September 1998
• Who are the principal readers of public sector annual reports?
• How useful are these reports to their readers?
• Who should be the readers of public sector annual reports?
• What level of reliability do readers place on annual reports?
• What level of monitoring is undertaken as to how effectively agencies are in meeting the needs of readers of annual reports?
• What is the level of external/independent scrutiny of information contained in the annual reports of agencies?
• How readily accessible is the information in annual reports to potential readers?
• How effective are the current annual reporting requirements in ensuring public accountability?
• What new requirements should be included to meet the needs of readers?
• To what extent should annual reporting guidelines be prescriptive?
• Are the current compliance requirements adequate to ensure continuous improvement in annual reporting?
• Are there any alternative means of ensuring compliance with annual reporting requirements?
• Should the quality of annual reports prepared by statutory authorities be different to reports prepared by agencies?
• What should be the linkage between annual reports/budget documents and agencies’ corporate/business plans?
• Are the corporate objectives of agencies identified and linked to overall government policy objectives? Do annual reports effectively link outputs and achievements to corporate objectives?
• To what extent are performance indicators reported in annual reports? Are these indicators objective and
realistic, and are they directly linked to outcomes? Should the reporting of performance indicators be subject to audit scrutiny?

- Should the annual report contain a statement of the key corporate governance practices adopted by agencies?
- Is there a need to have specific standards and guidelines for certain types of information, ie. reviews of agencies by the Auditor-General or Parliamentary Committees?
- What mechanisms should be in place to achieve best practice standards in public sector annual reporting?
- To what extent do annual reporting awards contribute towards increasing the quality of annual reporting? Should an award system be introduced for the Victorian public sector, as is the case in other jurisdictions?
- Are there any other matters on public sector annual reporting in Victoria, which need to be considered?

The issues paper was distributed widely throughout the community and to all agencies. Eighty-three written submissions were received. A list of submissions is at Appendix 1.22

The Committee decided to consult widely on this matter and in April 1998 held a series of private meetings in both Sydney and Canberra during which the key issues were discussed with 29 officials from the NSW Treasury; Audit Office of New South Wales; Commonwealth Department of Finance and Administration; Australian National Audit Office; Department of Prime Minister and Cabinet; Members of the NSW Public Bodies Review Committee; Members and staff of the Senate Committee on Finance and Public Administration; academics; and officials involved with the Annual Reporting Awards.

The Committee held five public hearings during October 1998, and February and March 1999 at which thirty-three witnesses gave evidence. A list of the witnesses appears at Appendix 2.

The Committee thanks all those who participated in the Inquiry by appearing as witnesses, providing written submissions and assisting with the arrangements for meetings and public hearings. The work of

22 A summary of the main issues raised by each submission is provided in Appendix 3
the Victorian Parliament is greatly assisted by such community-wide participation.

1.4 Role of this Report

In this report, the Committee has endeavoured to set the major parameters for a revision of the guidelines for annual reporting by agencies. The issues raised in the report are by no means exhaustive and do not address every matter raised in submissions to the Inquiry. The report addresses the principal issues which should underlie annual reporting and suggests a best practice model that should be used by agencies.

1.5 Scope of the Report

The following chapters of this report address issues which relate not only to the requirements for annual reporting by agencies and government business enterprises, but also to the desirable formats that annual reports should take, and the role of Parliament in providing review and feedback to agencies on the standard of annual reports. Throughout this report there is an emphasis on accountability and performance reporting – two elements which the Committee considers agencies must focus on, in the planning and production of any annual report.
CHAPTER 2  
ANNUAL REPORTING FRAMEWORK IN VICTORIA

The Government recognises that annual reports are important vehicles for public sector bodies to report to responsible Ministers, and through them to the Parliament and wider community, on the management of the resources entrusted to them and, increasingly, on the outputs achieved with those resources.  

2.1 Introduction

This chapter describes the rationale for public sector annual reporting and outlines the current state of annual reporting in Victoria.

2.2 Rationale for Annual Reporting

Various submissions received highlighted that public sector annual reports are the cornerstone of executive accountability. They provide an important source of information for a wide range of users of official information, such as Members of Parliament, the media, the community and business organisations, and form an important part of Victoria’s historical record.

Many witnesses expressed the view that accountability means the responsibility to provide information to the Parliament and to the community to enable them to make informed assessments about key elements of the operations of agencies. These are: organisational performance; financial position; legal compliance; equity and probity.

As some witnesses identified, the subsequent needs of any audience other than Parliament must be secondary and the public relations and management spinoffs of annual reports, can, if necessary, be met in other ways.

The Committee strongly endorses the view that annual reports, whatever their public relations or other uses, are primarily a powerful instrument in the accountability process. They give Parliament and the community

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23 Victorian Government, 9 July 1998, Submission No. 78, p.1
an annual overview of the operations of public agencies and an
opportunity to review aspects of those activities.

2.3 Current Annual Reporting Requirements in Victoria

The legislative basis for annual reporting by agencies lies in sections 45
departments and public bodies to prepare annual reports in a manner
and form approved by the Minister for Finance and to submit them to
the relevant Ministers for tabling. Ministers are required to table the
annual reports of departments and public bodies in each House of
Parliament within four months of the end of the financial year; in most
cases this is 31 October. If the Parliament is not sitting at that time, the
reports must be tabled on the first sitting day thereafter.24

Sections 46(2) and 53A(6) of the Act provide that where a public body’s
expenses and obligations do not exceed $5 million the relevant Minister
must report receipt of the body’s annual report. However, unless
requested by a Member of either House of Parliament, the Minister need
not table these reports.

While the Committee appreciates that this arrangement saves printing
and distribution costs, it is concerned that there is no public scrutiny of
the performance and financial outcomes of these smaller agencies.

Accordingly, the Committee recommends that:

**Recommendation 2.1:**

The Financial Management Act 1994 be amended
to provide that:
- annual reports of all agencies should be
tabled in the Parliament; and
- that for small agencies, with expenses and
obligations not exceeding $5 million, the
responsible Minister table one copy of the
report in Parliament and forward a copy to the
Public Accounts and Estimates Committee.

This arrangement would not impose substantial additional costs on an
agency with a small budget but would ensure collectively that adequate
accountability is provided by small agencies. The Act does not contain

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24 see Appendix 4 for the current reporting requirements under the Financial Management Act 1994
any detailed requirements about the contents of annual reports. The minimum content requirements are detailed in Part 9 of the Directions of the Minister for Finance, issued under the *Financial Management Act* 1994. It should be noted, however, that because of the requirements for state owned corporations to report also under Corporations Law, they may have been granted exemptions from reporting some of the information required under the Directions.

These Directions are comprehensive and contain more than fifty\(^{25}\) specific reporting requirements covering aspects such as:

- operational and financial information;
- the types of information to be included in the financial statements; and
- related parties’ disclosures.

The detail of many of the specific requirements is set out in other guidelines, accounting standards and legislation, including:

- *Public Sector Management Act* 1992;
- *State Owned Enterprises Act* 1992;
- *Audit Act* 1994;
- *Building Act* 1993;
- Competitive Neutrality: A Statement of Victorian Government Policy;
- Victorian Government Timetable for the Review of Legislative Restrictions on Competition;
- Consultancy Guidelines, incorporated in Part 9 of the Directions;
- Australian Accounting Standards, Statement of Accounting Concepts SAC 1, SAC 2 and SAC 3, and pronouncements of the Urgent Issues Group;
- the State’s Consolidated Financial Reporting Requirements;

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\(^{25}\) As indicated by the sample compliance index to Disclosure Requirements, included in Part 9 of the *Directions of the Minister for Finance*
• Department of Treasury and Finance, Guidelines for Members of Public Sector Boards, June 1993;
• Standards Association of Australia and New Zealand (SAA/SNZ MP77: 1998: A Definition of Year 2000 conformity requirements); and
• Master Lease Agreement and Australian Accounting Standard AAS 17 Accounting for Leases.

Section 9.1.3(iv) of the Directions sets out a number of categories of information, which are to “be retained by the accountable officer and made available to the relevant Minister, Members of Parliament and the public on request”. These include declarations of pecuniary interests by relevant officers, and details of:

• shares held by senior officers in a statutory authority or subsidiary;
• agency publications;
• changes in prices, fees, etc. charged by the entity;
• major external reviews;
• research and development activities;
• overseas visits;
• promotional, public relations and marketing activities;
• occupational health and safety measures;
• industrial relations; and
• committees sponsored by the entity.

2.4 Implications of the Management Reform Program for Annual Reporting by Agencies

The government’s submission emphasised that annual reports do not stand alone:

Annual Reports are one element of an interlocking set of arrangements for maintaining the accountability of public bodies. The wider public accountability framework includes the State budget and related papers, inquiries by Parliamentary committees such as the PAEC, corporate
Chapter 2: Annual Reporting Framework in Victoria

plans, audit reports and specific reporting requirements contained in legislation.\textsuperscript{26}

The view was reflected in the Committee’s Report on the 1997-98 Budget Estimates which made a number of recommendations to formalise the relationship between the various components. It recommended:

\textit{The Department of Treasury and Finance develop a performance reporting framework for departments that has a department’s annual report as the cornerstone for external accountability. A department’s annual report should incorporate appropriate elements from its corporate and business plans, budget estimates and other relevant public documents, sufficient to provide the Parliament, the public and other interested parties with an understanding as to whether critical success factors for the department have been achieved.}\textsuperscript{27}

While the government accepted this recommendation, the Committee notes that, at present, there are no requirements to link the agency’s objectives outlined in corporate and business plans to the annual reporting process.\textsuperscript{28}

The government’s financial and budgetary reforms have now advanced to the point where the 1999-2000 Budget includes planning, budgeting, management, accounting and reporting based on full accrual accounting and output management and budgeting.

Under this framework, agencies will need to specify the measures and targets for each output, and describe the quantity, quality, timeliness and cost standards as the basis of funding submissions. Once outputs have been agreed upon, agencies will need to regularly measure their performance and report quarterly on performance against business plans to the Budget Expenditure Review Committee.

\textsuperscript{26} Victorian Government, 9 July 1998, Submission No.78, p.1
The model requires Ministers and Departmental Secretaries to be accountable to government for the delivery of all outputs. According to the Department of Treasury and Finance:

As government retains ultimate accountability for the State’s finances, revised monitoring and reporting systems need to accurately reflect changes to funding and service delivery arrangements….The most appropriate vehicle for reporting actual results is department and agency annual reports, which remain one of the principal accountability mechanisms.29

The Directions of the Minister for Finance were amended in July 1998 to require agencies to report on their achievements against the output performance targets contained in the Budget Papers.30

After reviewing all documentation relating to the annual reporting process, the Committee notes that the requirements are still mainly focused on financial reporting (by agencies) and provide little guidance on the reporting of non-financial operational results. Even though agencies are now gradually shifting their emphasis to the management of results, there is still a way to go in providing adequate performance information in annual reports.

### 2.5 Annual Reporting in Local Government

Since 1989, local government has been required to submit corporate plans detailing annual objectives and planned activities for the forthcoming year to the Minister for Local Government. In July 1998, the annual reporting provisions of the Local Government Act 1989 were expanded to require each council to report its achievements against the achievement of the objectives and activities stated in its corporate plan.

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29 Department of Treasury and Finance, Reform of the Budget Sector, Elements of Financial Management, Management Reform Program, October 1997, p.9

30 The first output-based budget is the 1998-99 State Budget. Specific output targets are provided in the 1998-99 Budget Estimates, Budget Paper No.3, Department of Treasury and Finance, April 1998
The State Government has also prepared a standard set of Key Performance Indicators for local government to encourage consistent reporting of performance and to enable comparative assessments of performance between councils. The Committee was advised that the Department of Infrastructure will regularly review, monitor and benchmark the cost and quality of council services through the key performance indicators program.\textsuperscript{31}

It is the responsibility of each council to have its performance indicators audited and to publish its performance statement in its annual report in a prescribed format.\textsuperscript{32}

For the 1998-99 financial year councils seeking to increase their rates were required to comply with the key performance indicators program. Compliance was to be evidenced by:

- submission of the Annual Business Plan including individual targets for each indicator, by 30 June; and
- submission of the comparative indicators data input module by 31 August.

The Committee is most impressed with the performance management framework that has been developed to ensure local government accountability. The format and content of Moreland City Council and Manningham City Council annual reports, which are based on this framework, contained very comprehensive information.

The Committee believes that there are enormous benefits to be gained by reporting performance information against objectives outlined in corporate and business plans and the targets contained in the Budget Papers.

Public reporting of this information will encourage councils to address performance issues and improve services. It has the potential to improve public knowledge of, and confidence in, the operations of local government.

\textsuperscript{31} Department of Infrastructure, \textit{Key Performance Indicators for Local Government in Victoria}, February 1998, p.4

\textsuperscript{32} A copy of the legislative requirement for local councils to include a performance statement in their annual reports is provided at Appendix 5
CHAPTER 3  DEVELOPMENTS IN OTHER JURISDICTIONS

3.1 Introduction

This chapter provides a brief overview of relevant legislation and the significant different approaches adopted to reporting performance information in other jurisdictions.

3.2 Annual Reporting in other States and Territories

New South Wales

In New South Wales, the Treasury is involved in reviewing annual reports and the parliamentary Public Bodies Review Committee (PBRC) has a key role in encouraging all agencies to move towards best practice in annual reporting. In November 1996 the PBRC published its first report *Guidelines for Reporting Performance*\(^{33}\) to help guide agencies on performance reporting.

The *Annual Reports (Departments) Act* 1985 and a range of other legislation provide the framework for reporting qualitative and quantitative performance measures and the Report of Operations is required to provide “a continuing story” of the department’s operations. Departments are requested to provide information about “challenges, problems and setbacks” to further enhance understanding.

Agencies are required to make meaningful and measurable links between inputs and outputs and outcomes in their annual reports.

The NSW Treasury undertakes an annual reporting review program and, through Treasury Circulars, provides feedback to agencies with suggestions and guidance for further improvements.

Agencies have been encouraged to enter the Annual Report Awards and the Treasury promotes the award winning reports as good or best practice.

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Australian Capital Territory

In June 1995, legislation was introduced which provides for the preparation of annual reports. Under the legislation the form and content of annual reports are set out in annual reporting directions and guidelines and tabled in the Legislative Assembly.

Annual reports include audited financial statements and both financial and operational performance measures. Departments must link inputs with outputs and outcomes to enable the reader to make an informed assessment about performance. Annual reports must also include, inter alia, advice regarding Aboriginal Deaths in Custody recommendations, departmental customer focus, environmental matters and redundancy program costs.

South Australia

In South Australia, annual reporting requirements are set out in regulations under the Public Sector Management Act 1985.

Agencies must align reporting with their strategic management and planning and report on outputs and services. In 1995 agencies were advised that funding would no longer be provided for the production of promotional style annual reports.

The government has prepared guidelines for agencies, which acknowledge that:

Annual reports are critical accountability documents for communicating the purpose, outputs, use of resources, and success or otherwise of agency activities in achieving government policy outcomes.

Included in the guidelines are criteria prepared by the Institute for Public Administration (SA Division) to assist agencies in developing what the Institute regards as a quality annual report. According to the guidelines, annual reports by agencies should:

34 Department of Premier and Cabinet (SA) Circular No. 13, Annual Reporting Requirements, p.9
35 Mentioned in Public Accounts Committee, Annual Reporting in the NSW Public Sector, Report No. 5/51 (No. 95), March 1996, p.19
36 Department of Premier and Cabinet (SA), Circular No. 13, Annual Reporting Requirements, p.2
37 Ibid.
• closely link the structure of the report to their strategic planning objectives;
• provide the reader with information on progress since the last report and future plans;
• describe their products and services not their functions;
• be clear about their purpose and priorities and communicate these;
• avoid detailed examination of the trivia of their daily activities;
• summarise and simplify the information using tables, graphs, charts, etc;
• report good and bad news associated with their performance; and
• not “cobble together” the work of many authors.38

Queensland

In Queensland, annual reporting is governed by the Financial Administration and Audit Act 1977. Reporting requirements are specified in the Annual Reports Practice Statements contained in the Public Finance Standards. Under the standards Ministers have the discretion to determine whether annual reports and financial statements are published in full or in summary form.

From 1 July 1999, the Queensland Government proposes to implement the Managing for Outcomes model of accrual output budgeting which is a fully integrated planning, budgeting and performance management framework.

Under the Managing for Outcomes policy guidelines, agencies will prepare an annual report showing results achieved against output performance targets.39

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38 Ibid. p.8
Western Australia

In Western Australia, the Financial Administration and Audit Act 1985 provides for annual reporting by departments and statutory authorities. The Act requires annual reports to contain financial statements, performance indicators, a report on operations “and such other information as may be directed by the Treasurer’s Instructions”. 40

Treasurer’s Instruction 904 requires all public sector agencies to include key indicators of program efficiency and effectiveness in their annual reports. Under recent amendments, budget funded agencies must report actual performance against targets for output delivery identified in the annual Budget Statements. In the case of agencies not funded through the annual budget process, actual performance must be reported against targets for output delivery contained in corporate planning documentation or as specified by the Minister. In addition, agencies report on key performance indicators of efficiency and effectiveness. 41

An interesting feature of annual reporting in Western Australia is the emphasis on performance indicators, and the role the Auditor-General has been given in providing an opinion on the relevance and appropriateness of performance indicators in annual reports.

A copy of the financial statements and performance indicators must be forwarded to the Office of the Auditor-General by departments by 15 August and by statutory authorities within two months of the end of the financial year. The Auditor-General audits the performance indicators having regard to their purpose and whether they fairly represent the performance indicated. 42

All corporatised and commercialised government enterprises are required to provide additional information to the government through Strategic Development Plans (SDP) and Statements of Corporate Intent (SCI). The SDP is a confidential document prepared annually which provides five-year forecasts of the agency’s economic and financial objectives and operational targets and how these targets are to be achieved.

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40 Financial Administration and Audit Act 1985, section 62
41 WA Treasury Treasurer’s Instruction 904 Update, 4 November 1998
42 The Public Accounts and Estimates Committee recommended the adoption of the West Australian model in its Final Report on the 1993-94 Budget Estimates and Outcomes, November 1994, p.33
The SCI is a public document prepared annually and comprises the agency’s annual performance targets and fundamentals by which the government requires the agency to operate. The SCI contains an outline of the agency’s legislative objectives and appropriate financial and non-financial performance measures and targets.

**Tasmania**

The Tasmanian Department of Treasury and Finance has issued a general guidance paper on the development and use of performance measures that “should be integral to the agency’s planning, budgeting and reporting processes” \(^{43}\)

Full implementation of the output-based budget process is planned for 1999-2000. Guidelines have been developed to assist agencies in the implementation of output-based corporate and business planning.

Guidelines for annual reporting by inner budget agencies based on recommendations of the Tasmanian Auditor-General, were issued for internal comment within Treasury in June 1997. \(^{44}\) According to the Department of Treasury and Finance there is still a need to further develop the output methodology in establishing a total link and clear articulation between budgeting, accounting and reporting. \(^{45}\)

**Commonwealth of Australia**

Annual reporting was made compulsory for all Commonwealth agencies in 1985 through amendments to the *Public Service Act* 1922. The legislation provides for guidelines, setting out the detail of matters to be reported, to be approved by the Joint Committee on Public Accounts and Audit.

The Commonwealth’s annual reporting requirements have been designed to emphasise program performance and the achievement of program objectives, that is, to focus on results. They are intended to provide sufficient information for the Parliament to make a fully informed assessment on departmental performance, while avoiding

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\(^{43}\) Department of Treasury and Finance, *Tasmania’s Management Reform Strategy*, October 1997


excessive and extraneous detail. Agencies are also required to provide advice on action taken to enhance social justice and equity outcomes.\textsuperscript{46}

Annual reports are referred to relevant Senate Legislation Committees for detailed consideration and review.\textsuperscript{47} However, there is no requirement for departments to have corporate plans or if they do, to develop links between corporate plans and annual reports.

The Commonwealth’s annual reporting guidelines are currently under review to reduce the degree of prescription and to place greater emphasis on the inclusion of performance information. The guidelines will require agencies to link outcomes and performance back to their corporate plans, service charters and policy approaches.

Representatives of the Department of Prime Minister and Cabinet told the Committee:

\begin{quote}
We’ve got an indication from the government of… the general direction they’d like to take…and we want to write (guidelines) that are less restrictive, puts the emphasis very much on the performance end of it but basically says to agency heads the shape of your annual report and what you put in there is for you to determine… one would expect one’s information reporting to link back to things in service charters, … in corporate plans… and to have regards to policy approaches.\textsuperscript{48}
\end{quote}

Annual reporting by Commonwealth statutory authorities is also in the process of being changed. The \textit{Commonwealth Authorities and Companies Act} 1985 will for the first time provide all embracing legislative requirements for every statutory authority to report to Parliament. The detailed content of statutory authority reports will be set out in Finance Minister’s Orders, which can be disallowed by either House of Parliament.

Instead of a summary of activities and achievements, the new Finance Minister’s Orders will require the inclusion in annual reports of a management discussion and analysis. Generally, the information in

\addcontentsline{toc}{section}{References}

\textsuperscript{46} Department of the Prime Minister and Cabinet, \textit{Requirements for Departmental Annual Reports}, March 1994 (updated March 1997)

\textsuperscript{47} Prof. J. Guthrie, Macquarie Graduate School of Management, Submission No.82, p.12

\textsuperscript{48} Mr M. Bonsey, First Assistant Secretary, Government Division, Department of Prime Minister and Cabinet, Transcript of evidence, 3 April 1998, p.19
authorities’ annual reports must focus on outcomes; provide clear links between objectives, strategies and outcomes; and be concise, readily understandable and balanced. The management discussion and analysis is required to express management’s views on the performance of the entity and its prospects. The discussion and analysis must address the entity as a whole and for each responsibility segment eg. an area responsible for carrying out a mission, performing a line of services or producing a group of products. The areas to be covered include:

- the business environment in which the reporting entity and each responsibility segment operates;
- the strategic directions of the reporting entity and each responsibility segment;
- the operations and financial results of the reporting entity and each responsibility segment during the reporting period;
- developments since the end of the reporting period;
- likely future developments; and
- each responsibility segment’s ability to innovate, adopt to change and continuously improve.  

3.3. Comparison of Victoria’s Requirements with other States and Territories

Exhibit 1 compares Victoria’s annual reporting requirements with those of other States and Territories.

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Exhibit 1: Comparison of Victorian Public Sector Annual Reporting Requirements – with other States and Territories.

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<thead>
<tr>
<th>Reporting requirement</th>
<th>VIC</th>
<th>NSW</th>
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<th>TAS</th>
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<th>ACT</th>
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Output targets are recognised by the Committee as performance indicators. However, the Victorian annual reporting guidelines do not provide for any other types of performance indicators.
3.4 Overseas Developments with Annual Reporting

New Zealand

Since 1988, the New Zealand Government has implemented wide-ranging public sector reforms similar to those introduced in Victoria. Members of the House of Representatives are informed in the Budget documentation, Statements of Corporate Intent, Statements of Objectives and period-end financial reports about:

- what the government is aiming to achieve (outcomes);
- the goods and services that the government purchases to achieve these aims (outputs);
- the cost of producing these outputs;
- the financial performance expected from government departments, State-owned enterprises and Crown entities; and
- the actual service and financial performance achieved.

The Public Finance Act 1989 provides the framework for the financial management system and prescribes both financial and non-financial reporting for the Crown, departments and Crown entities.

The annual reports of departments, and those Crown entities from which the government purchases a significant quantity of goods and services, are required to include:

- audited statements of objectives; and
- statements of service performance.

These statements report, through a set of reliable performance measures, whether the organisation has met its service obligations for the year. Parliament has also extended the requirements for service performance reporting to ensure that it receives adequate information on entities not already tabling statements in the House.

In 1990, the New Zealand Audit Office reviewed approximately 100 statements of service performance and issued qualified audit opinions.

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52 New Zealand Department of Treasury and Finance, *Putting it together*
on financial statements because of deficiencies in performance information. The Audit Office subsequently issued a special report on performance reporting in the public sector and provided the following guidelines to departments for the evidence needed to support statements of service performance:

- there are identifiable information systems subject to controls that ensure that data are complete, accurate and authorised;
- documentary evidence and work papers support what is reported in the statement; and
- staff are able to provide reasonable explanations in response to queries about performance measures.

Departmental performance reporting and the performance information in financial statements improved to the extent where there were six qualified opinions in 1993, four in 1994 and in 1998 all departments received clear audit opinions.3

As in Western Australia, commercialised and corporatised agencies in New Zealand are required to produce a Statement of Corporate Intent (SCI). The requirement has since been applied to local authority trading enterprises, port companies, energy companies, Crown research institutes and other Crown entities. The SCI model requires the entity to publicly:

- report its objectives and associated performance expectations for the specified period; and
- report its achievements against those objectives and performance expectations at the end of each year.

The New Zealand Parliament has, through its Finance and Expenditure Committee, recently conducted an inquiry into how the quality of annual

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53 An audit report is qualified if the auditor considers that information contained in the financial statements is incorrect or misleading to a degree that would influence the reader’s understanding of the statements and the position of the entity.
55 Office of the Controller and Auditor-General, New Zealand, *First Report to Parliament of 1999*
reporting documents could be enhanced. The government agreed with the recommendation of the Committee that:

> where appropriate and possible, Departments set out in their annual reports the relationship between their key result areas (KRAs) and output classes, and the Government’s strategic result areas (SRAs) and desired outcomes.

The government also concurred with the recommendation that annual reports include a statement by the Chief Executive Officer of achievements and disappointments in the year under review.

These initiatives are intended to improve the usefulness of annual reports to the Parliament and the community.

The New Zealand Government ensures timely delivery of departmental annual reports to the Parliament through the following legislative requirements:

- departmental annual financial statements for the year ended 30 June must be completed and forwarded to the Audit Office by the end of August;
- within 30 days of receiving the financial statements, the Audit Office must issue an audit opinion; and
- within six sitting days of their return from the Audit Office the financial statements, statement of responsibility and audit opinion, must be presented to the Parliament by the responsible Minister as part of the department’s annual report.

An interesting procedural development is that if the House does not sit during the three weeks after the audit opinion has been signed, the Minister is required to ensure the annual report is published. The annual reports of Crown entities and state-owned enterprises are to be

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57 Government Response to Report of the Finance and Expenditure Committee on Inquiry into Departmental Reporting to Parliament, Recommendation 3
The legislative framework governing accountability requires a much greater degree of disclosure of financial and non-financial information regarding actual performance than in Victoria. It also specifies in some detail the kind of information that the government must provide.

**United Kingdom**

In the United Kingdom, Ministers set key annual targets for agencies which cover quality of service, financial performance, efficiency and throughput. Performance against these targets is published annually in the *Next Steps Review*. Since 1996, the *Next Steps Review* has also reported on progress towards developing benchmarking of organisational change.\(^{59}\)

The Committee was advised that there is a link between the budget documentation and annual reporting:

\[
\text{I'm aware of some jurisdictions where the annual reports have really derived directly from budget reporting sort of documentation. I think if you look at the UK's portfolio and annual reports, you'll find that they very much emerged out of the treasury stream of documentation of their budget process and they gradually included more and more information about what departments were doing with the money.}^{60}\]

All UK local authorities have been required to publish annually in December, details of their performance against a set of indicators agreed with the Audit Commission. The Commission then collates and analyses the information from each council. Every year in March the Audit Commission publishes a set of national indicators, allowing authorities and the public to chart their yearly progress and compare their performance with that of other councils. Indicators for 1998-99 include new areas covering Council Services in London, and Services for People with Special Needs.\(^{61}\)

\(^{60}\) Mr M Bonsey, First Assistant Secretary, Government Division, Department of the Prime Minister and Cabinet, Transcript of evidence, 3 April 1998, p.17
\(^{61}\) [http://www.audit-commission.go.uk]
An integral part of the reform process in the UK was the establishment of Citizens’ Charters which aim to raise the standard of public services and make them more responsive to the wishes and needs of their users. There are 42 main charters, covering all the key public services, setting out the standards of service people can expect to receive. Reporting against the performance criteria in these charters occurs through agencies’ annual reporting processes.

**United States of America**

The Federal Government’s *Performance and Results Act* 1993 has several purposes:

- to improve the confidence of the people in government by holding agencies accountable for achieving program results;
- to stimulate reform with a series of pilot projects that could be used as examples for others;
- to help managers improve service delivery by requiring them to plan for meeting program objectives and providing them with information about results;
- to improve congressional decision making by providing information on achieving statutory objectives and relative effectiveness of various programs; and
- to improve internal management of the federal government.

The Act provides three sets of requirements for all government agencies. The first is the establishment of a five-year strategic plan, which includes:

- a comprehensive mission statement for the agency;
- a specification of general and outcome-related goals and objectives, as well as:
  - the methods that will be used to achieve them;
  - the relationship between the goals and objectives and performance goals;
  - identification of key factors that could affect the achievement of goals and objectives; and
- a description of the program evaluations used in establishing or revising the goals and objectives.

Agencies are required to consult with Congress and others interested in or affected by the plan. The government gave agencies five years to develop management systems that would ensure the full implementation of the Act.

The second set of requirements provides for the specification of annual performance plans for program activities, as set in an agency’s annual budget. The annual performance plans include:

- goals that define the level of performance to be achieved by a program activity;
- goals that are specified in objective, quantifiable and measurable form;
- an indication of the operational processes, skills, technology, and resources required;
- the performance indicators to be used in measuring relevant outputs, service levels and outcomes;
- a basis for comparing actual program results with established performance goals; and
- specification of the means to verify and validate measured values.

The third set of requirements under the Act establishes annual program performance reports that compare the actual performance for each program activity to the goals set in the annual performance plan. The requirements include a provision for agencies to explain any performance failures and to provide further plans for achieving the performance goal in the future.

Agencies must report annually to Congress by 31 March on their performance and include their results for the past three years. The Committee was impressed with this model as it closes the loop in the accountability and management framework.

3.5 Comparison of Victoria’s Requirements with other Jurisdictions
Exhibit 2 compares Victoria’s annual reporting requirements with those of local government, national and international jurisdictions.
Exhibit 2: Comparison of Victorian Public Sector Annual Reporting Requirements – with Victorian local government, the Commonwealth Government and international jurisdictions.

<table>
<thead>
<tr>
<th>Reporting requirement</th>
<th>Vic Agencies</th>
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<th>USA</th>
<th>UK</th>
<th>C’th of Aust.</th>
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<td>Corporate governance</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>CEO sign off on accuracy of information</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Environmental reporting</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>State aims and objectives</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Customer service guarantee</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Response to matters raised in external reports included in annual report</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Community Service Obligations</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Occupational Health &amp; Safety in annual report</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Optional summary report</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Internet distribution</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>


It is understood that an extensive review of the Commonwealth Annual Reporting requirements will be undertaken shortly, with a view to bringing them into line with output-based budget principles and to link Budget Statements with annual reporting.

Output targets are recognised by the Committee as performance indicators, however, the Victorian annual reporting guidelines do not provide for any other types of performance indicators.
I do not think you can start on the road of measuring or monitoring an industry unless you are clear about what you want to understand, when you want to report it and who the readers will be. It is about understanding from the customer’s perspective the various roles of governments and regulators and the purpose for which the information is required.  

4.1 Introduction

To produce a meaningful and useful annual report, it is essential for an agency to clearly identify the readers.

The Committee was surprised to find that almost all of the submissions from agencies stated that reader surveys were not conducted and that very little is known about the interests of the users of their annual reports.

Some witnesses argued that off-budget agencies should prepare their annual reports primarily for industry and consumer groups.

The Committee does not deny the important role and relationship between the off-budget agencies and their industry and consumer groups. However, it is the Committee’s view that these agencies are primarily accountable to Parliament, because it is Parliament that controls their enabling legislation.

4.2 Who Reads Annual Reports?

Most agencies believe their readership mainly comprises parliamentarians, key stakeholders, special interest groups, the media and interested members of the community. Two academics informed the Committee that although there is a substantial amount of academic

64 Mr I. Wilson, General Manager, Office of the Regulator-General, Transcript of evidence, 9 March 1999, p.80
65 See for example: Mr L. Reddam, Secretary, Association of Rural Water Authorities, Submission No.46, p.1 and Melbourne Docklands, Submission No. 38, p.1
research into the readership of private sector annual reports, there is only limited research concerning users of public sector annual reports:

> there have been quite a few [studies] and most of them through surveys of share registers...and the common findings of about 20 studies was that only about 10 per cent of the shareholders actually read the annual report in detail...  

> ...[there is]... limited research concerning the users of [public sector] annual reports...there is very little in the literature to help us...except it seems to me that a number of information needs have not been met by current requirements.  

The Committee concurs with a number of witnesses that annual reports are produced to consolidate in publicly accessible form, information which can then be used to hold agencies accountable for their performance.

The Committee was advised, and strongly agrees, that the primary target audience for annual reports is the Parliament. As pointed out by Professor Guthrie:

> Parliament is the primary target audience for annual reports...and government bodies have a responsibility to ensure that parliamentary needs are met.

Given this, the Committee is concerned that:

- the Parliament does not provide any formal input into what to include in the annual reporting requirements;
- agencies seldom seek to identify the reader needs of parliamentarians; and
- the Parliament does not systematically review annual reports or monitor compliance with annual reporting requirements.

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66 Professor R. Walker. University of NSW, Transcript of evidence, 12 April 1998, p.6
67 Professor J. Guthrie, Macquarie University, Transcript of evidence, 2 April 1998, p.34
68 Prof J. Guthrie, Macquarie University, Transcript of evidence, 2 April 1998, p.32
To redress the current lack of formal parliamentary feedback on annual reports, the Committee has recommended, in Chapter 5, a number of strategies that could provide for parliamentary involvement in the annual reporting framework.

### 4.3 Distribution of Annual Reports

A survey undertaken by Professor Colin Clark provides an insight into the distribution of 1996-97 departmental annual reports:

**Exhibit 3: Distribution of 1996-97 Annual Reports**

<table>
<thead>
<tr>
<th>Department</th>
<th>Total printed</th>
<th>Parliament</th>
<th>Information Victoria</th>
<th>Department mailing list</th>
<th>Ad hoc</th>
<th>Internal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>1000</td>
<td>60</td>
<td>150</td>
<td>550</td>
<td>160</td>
<td>80</td>
</tr>
<tr>
<td>Human Services</td>
<td>5340</td>
<td>231</td>
<td>60</td>
<td>2200</td>
<td>1618</td>
<td>1231</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>3000</td>
<td>80</td>
<td>250</td>
<td>380</td>
<td>1790</td>
<td>500</td>
</tr>
<tr>
<td>Justice</td>
<td>1000</td>
<td>80</td>
<td>150</td>
<td>400</td>
<td>220</td>
<td>150</td>
</tr>
<tr>
<td>Natural Resources &amp; Environment</td>
<td>3000</td>
<td>60</td>
<td>32</td>
<td>700</td>
<td>966</td>
<td>1242</td>
</tr>
<tr>
<td>Premier &amp; Cabinet</td>
<td>1500</td>
<td>62</td>
<td>150</td>
<td>300</td>
<td>250</td>
<td>738</td>
</tr>
<tr>
<td>State Development</td>
<td>2000</td>
<td>80</td>
<td>32</td>
<td>396</td>
<td>692</td>
<td>800</td>
</tr>
<tr>
<td>Treasury and Finance</td>
<td>1000</td>
<td>60</td>
<td>30</td>
<td>221</td>
<td>229</td>
<td>460</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17840</strong></td>
<td><strong>713</strong></td>
<td><strong>854</strong></td>
<td><strong>5147</strong></td>
<td><strong>5925</strong></td>
<td><strong>5201</strong></td>
</tr>
</tbody>
</table>

Of the 11,126 reports available for distribution internally or on an *ad hoc* basis, the ultimate recipients were largely unknown.

Of the recipients that could be identified, the survey showed that in the main, they were:

- resource providers rather than the recipients of goods and services;
- individuals or organisations performing a review or oversight function;
- well educated;
- between 40 and 49 years of age; and
- likely to be members of a professional accounting body.

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70 Information Victoria is the Victorian Government Bookshop, 356 Collins Street, Melbourne, Victoria [http://www.information.vic.gov.au]
4.4 Identifying and Monitoring Readers’ Needs

Currently in Victoria there is no systematic monitoring undertaken by Parliament or the Department of Treasury and Finance to ascertain how effectively agencies are meeting the needs of the readers of annual reports. In response to a question about whether the Department of Treasury and Finance has initiated any reviews of the readership of annual reports, the Committee was advised that:

We have not, in my memory, in the past two and a half or three years, and I am unaware of any other attempts. In part it is a question of ownership. As I think we indicate in our submission, the principal objective of the annual report is for an accountable officer to report to the portfolio Minister, and we have taken the view that the determination of readability, whether it hits the mark or not, is for that initiating agency to test. We have not taken a centralist view of doing market research on behalf of the authors of the reports, whereas we have done so in respect of Budget Papers, which is our product.  

One submission suggested that the annual reports of agencies should include a reader’s survey.  

The Secretary of the Department of Education informed the Committee that the most recent annual report of the Department of Education included a small reader’s questionnaire in each copy:

I think for the first time last year we actually surveyed our annual report mailing list. The response rate was about 10 per cent, which on one level was a bit low and on another level was a pleasant surprise to me. The indication was that it was broadly meeting the needs of those readers who responded. We are again looking at the utility of that survey, its focus and the questions asked. It is a relatively easy operation to insert a small questionnaire into each

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71 Submission No. 79, op.cit., p.32
72 Mr A. Nye, Director, Policy and Management Reform, Department of Treasury and Finance, Transcript of evidence, 10 March 1999, p.100
73 Energy Efficiency Victoria, Submission No. 36
copy of the report we mail out and we will continue to do that.\footnote{Mr P. Allen, Secretary, Department of Education, Transcript of evidence, 10 March 1999, p.102}

The Committee supports this initiative as it could provide valuable and continuous feedback on reader needs.

The Committee recommends that:

\textbf{Recommendation 4.1:}

\begin{quote}
Agencies be encouraged to survey the readers of their annual reports and, where practicable, to incorporate suggested improvements in subsequent annual reports. The results of the survey should be included in agency’s annual reports.
\end{quote}

The Committee was advised by some witnesses that there are different readership groups which have different expectations. Consequently, an annual report that satisfies the information requirements of one group may not necessarily meet the needs of other readers.

The suggestion was made for different types of annual reports to be produced for different readership groups, for example, reports that are targeted at rural audiences containing relevant regional data. It was suggested that Parliament could receive an overview of a department’s activities comprising an executive summary of all regional reports compiled to provide a statewide annual report:

\begin{quote}
At the moment one of our difficulties is that we are expecting an annual report to meet every single function we can come up with...[community interest groups] want to know about neighbourhood houses or community services, whatever it might be. Or you may need regional data...it would be great to have information on what is happening in West Gippsland or wherever it might be... so you match the needs to the particular readership.\footnote{Ms D. Fifer, Chief Executive Officer, VCOSS, Transcript of evidence, 13 October 1998, p.7}
\end{quote}

The review by the Committee of the distribution of annual reports highlighted that the focus of a department’s activities impacts considerably upon the level of interest and the type of audience the report attracts. For example the Department of Human Services’ focus on service delivery in community welfare attracts a large interest from
community service organisations, whereas the Department of Premier and Cabinet’s policy advice focus is of interest to a smaller segment of the community.

When queried about the feasibility of producing annual reports based on regional data for local distribution, a representative from the Department of Human Services informed the Committee that current internal reporting arrangements were already based on regional data collection systems:

Cross programming and regional reporting are elements that are very much there for us, not just the annual report or the Departmental plan. This particular issue is one we are always looking at to decide to what degree we should focus on a geographic dimension, which is what a region is, as against a statewide programmatic basis, or to some degree cross programmatic. With next year’s annual report the issue you have raised...will certainly be part of our consideration.  

The annual report users survey undertaken by Professor Clark identified that there is a preference for better performance information, as this is more useful than financial information. Performance information in relation to effectiveness and outcome measures was particularly valued, although it was found that outcome measures are rarely reported by government agencies. This view was supported by a number of witnesses who indicated they wanted information included in the report about what was planned and what was achieved.

The different perspectives on what should be included in annual reports highlighted the difficulty of being too prescriptive with the Directions.

The Committee believes that, for the sake of consistency, it is necessary for the Parliament to identify the key information that it requires. However, it also appreciates that increased use of information technology and the detailed information that departments now have available through the accrual framework, will mean that there will be opportunities for agencies to be more innovative in the future in the way they present information.

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76 For example, Mr B. Nicholls, Director, Corporate Strategy, Department of Human Services, Transcript of evidence, 10 March 1999, pp.115-116
77 Submission No. 79, op. cit.
The Committee encourages agencies to include information in their reports which is likely to be of interest to a wider readership.

The Committee believes that a broader readership of public sector annual reports should be encouraged through a wide distribution of short-form, brochure-sized annual reports that focus on the performance achievements of agencies. For agencies taking this option, the full text of their annual report should continue to be tabled in Parliament and interested readers should be advised that the complete report is available on either the internet or on request from the agency.

The Committee recommends that:

Recommendation 4.2:

The Directions of the Minister for Finance be amended to provide for the optional publication of a short form annual report specifically on the annual performance achievements of agencies.

In supporting the Committee’s belief that a wider audience needs to be reached by agencies, it is also imperative that the presentation of the complex financial information contained in annual reports is presented in an improved format. In this regard, the Committee believes that the annual reports of departments and agencies need to make greater use of:

- meaningful narrative summaries of the financial statements, located early in the report;
- trend analysis over a period of years;
- graphic presentation of financial performance; and
- links and cross-references between the financial statements and the operations/service delivery sections of the report.\(^78\)

The Committee recommends that:

Recommendation 4.3:

\(^78\) Assessment prepared by Mr A. Bridges on 12 Victorian departmental and agency annual reports
The Department of Treasury and Finance prepare Directions for Annual Reporting that require performance information contained in financial statements to be presented in easily understood formats.

4.5 Availability of Reports

The Committee was advised that six of the eight departments presently publish their annual reports on the Internet, thus increasing availability and access. Readers who do not have access to the Internet can locate copies of annual reports in public libraries or directly through the relevant agencies or the government bookshop.

While the Committee welcomes this initiative, the challenge is to ensure that the information remains easily accessible. The Committee believes that agencies must ensure that the design of the document, particularly in its electronic form, guarantees ease of use.

The Committee recommends that:

Recommendation 4.4:

Agencies be encouraged to publish their annual reports on the Internet as soon as practicable after their reports are tabled in the Parliament.

4.6 The Timeliness of Annual Reporting

Three issues relating to the timeliness of annual reporting were raised during the Inquiry:

- the appropriateness of only reporting annually;
- the negative effects of the requirement to table annual reports in the Parliament within a specific timeframe; and
- the timeliness of annual reporting in relation to the parliamentary sitting pattern.

The Committee received evidence that annual reporting by agencies could be enhanced through the tabling of more frequent, interim reports throughout the year. The Committee was informed that private sector companies practice both continuous reporting and abridged reporting as a means to improve the communication of information to their
shareholders and the Australian Securities and Investments Commission.

One of the issues that the Committee explored with a representative from the Department of Treasury and Finance concerned the tabling of six-monthly financial reports:

There are two classes of decisions …. One is what you collect and how frequently, and the other is what you do with it and whether you publish it. I think we sometimes confuse the two. To say we are collecting monthly financials from departments does not lead to the inevitable conclusion that we should publish those. Therefore, the fact that there is a form of continuous disclosure through ministerial review processes in portfolios does not inevitably lead to the fact that there is, what in ASIC terms, a continuous disclosure regime. The art in this is to work out what, of all the information that is collected as part of the management process, gets bundled up and reported.

The (information) is reviewed, and the government can determine whether it wants to publish those statements or otherwise. They are available for publication should somebody decide there is a public policy imperative.79

The Committee believes that interim reporting has many benefits:

- it enhances the timeliness of reporting and allows decision makers to respond quickly to financial information contained in the reports;
- it enhances closer monitoring of an agency’s operations; and
- it improves accountability.

The Committee pursued the cost and benefits of requiring agencies to table unaudited financial data. A representative from the Department of Education advised the Committee that unaudited half-yearly reports,

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79 Mr A. Nye, Director, Policy and Management Reform, Department of Treasury and Finance, Transcript of evidence, 10 March 1999, pp.96-97
would not impose additional costs to the current monthly reporting requirements of the Department of Treasury and Finance:

We are always trying to minimise the cost of compliance by having good-quality systems so that the information basically falls out of the system on a timely basis. Having said that, I point out that the question involves compliance costs. It is interesting to note that when the management reforms were introduced into New Zealand the requirement was for six-monthly reporting by departments through audited financial statements. However, after the system had been in place for less than two years it was seen that the compliance costs were too great for the benefits of external published financial reports on a six-monthly basis.

Nevertheless they were full financial reports; they were not, if you like, precis reports. If the compliance costs are not large, and depending on whether you require departments to produce audited financial statements, which is an important question when considering compliance costs, the question to be asked is whether the reports would provide added value in information made available to users.

The Committee believes that interim reporting would enhance accountability and timeliness of providing information to the Parliament.

The Committee recommends that:

Recommendation 4.5:
With the aim of improving the quality and timeliness of information to Parliament, Ministers present on a half-yearly basis unaudited interim reports on the financial position of agencies. All agencies should also report critical events which have a material effect on their financial position.

Recommendation 4.6:
The Department of Treasury and Finance should investigate and report to the Public Accounts and Estimates Committee on the most appropriate form

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80 Ms R. MacLeod, Chief Finance Officer, Finance Division, Department of Education, Transcript of evidence, 10 March 1999, p.106
that interim reporting by agencies and statutory authorities should take.

It is the Committee’s firm belief that reporting within a reasonable time of the end of the year is an integral duty of an agency to account for its stewardship. Not only is it important that all the required information about an agency’s performance should be made available, but it is equally important that it should be available promptly.

While there may be no necessary correlation between the standard and timeliness of annual reports and the quality of an agency’s management system, the Committee nevertheless believes that an agency which is well-managed and on top of its task should have no difficulty in preparing an annual report to meet the standards of quality and timeliness detailed in this report.

In most cases, the required financial and performance data should already be available for internal management purposes and decisions on services, priorities and objectives which already have been made by BERC. This is not to argue that all the detail which might appropriately be included would be readily available but that its consolidation into a timely and useful annual report is more a question of commitment than anything else.

In accordance with the Financial Management Act 1994, in most instances, annual reports must be tabled in the Parliament by 31 October. This allows agencies four months in which to prepare and finalise their annual reports.

On researching the timeliness of annual reporting, the Committee found that even though the majority of financial statements are audited in August and September most annual reports are not tabled until the latter part of the spring session.
Exhibit 4: Trend in the audit of financial statements, 1995 - 1997

![Proportion of Audit Reports completed]

A review of the dates that reports were tabled over the past three years indicates that the majority of Ministers are now tabling annual reports in November.

Exhibit 5: Trend in the tabling of Annual Reports, 1995 –1998

<table>
<thead>
<tr>
<th>Year</th>
<th>September No. (%)</th>
<th>October No. (%)</th>
<th>November No. (%)</th>
<th>December No. (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>0 0</td>
<td>132 84.6</td>
<td>16 10.2</td>
<td>8 5.1</td>
</tr>
<tr>
<td>1996-97</td>
<td>2 1.2</td>
<td>107 65.2</td>
<td>43 26.2</td>
<td>10 6.1</td>
</tr>
<tr>
<td>1997-98</td>
<td>0 0</td>
<td>78 46.1</td>
<td>90 53.2</td>
<td>1 0</td>
</tr>
</tbody>
</table>

Besides not acting in accordance with the spirit of the prescribed timing requirements of the *Financial Management Act 1994*, the tabling pattern does not permit the Parliament sufficient time to scrutinise agencies’ annual reports during the same parliamentary session. Due to the length
of the summer recess, it means that several months could elapse before Parliament is able to discuss the contents of the reports.

To address this issue, the Auditor-General suggested the introduction of revised requirements for the tabling of annual reports within a specified time following the completion of the audit of financial statements.

The Assistant Auditor-General has advised the Committee that it is feasible for all financial audits to be completed by late August or early September and he supported bringing forward the date for tabling of reports.

The Committee believes it is practicable for agencies to complete the printing arrangements within a fortnight of the signing of the audit. By moving to an earlier tabling date, the Committee would be able to commence its review of agencies annual reports in October.

The Committee recommends that:

**Recommendation 4.7:**

The Financial Management Act 1994 be amended to provide for the tabling of annual reports within 14 days of the receipt of the Auditor-General’s report on the financial statements.

### 4.7 Usefulness of Information

It is crucial that the information contained in annual reports is accurate so that Members of Parliament and other readers can use it confidently. The importance of accuracy is heightened by the fact that the users of annual reports generally have limited access to other types of performance information generated by agencies.

The Committee received evidence from several witnesses concerned about the level of reliability that readers place on the information contained in annual reports. All witnesses were satisfied with the accuracy of financial statements because they were audited by the Auditor-General. However, some witnesses were less confident about the usefulness of reported performance information, for example, that included as part of an agency’s Report of Operations:
I would not write a research report using any data from an annual report and expect it to be seen as a credible piece of research or report.

Not because it is inaccurate – it is very difficult to prove whether it is – but that it is not comprehensive enough in its nature and it is not answering the sorts of questions that VCOSS needs to answer in terms of unmet community need. For example, the level of disadvantage and what they are doing to address concerns. We are asking specific questions that are not in the reports, like ‘Have targets been met?’

A survey of the users of the 1996-97 annual reports indicated that approximately 6 per cent perceived that the performance information was a poor representation of the facts, 27 per cent were undecided and 67 per cent believed that the data was reliable.

In Chapter 5, the Committee has recommended that performance information should be audited. The Committee believes that this process will improve the performance information provided, and the confidence of readers in the information.

4.8 The Quality of Annual Reporting

To assist with determining a best practice model with annual reports, the Committee asked Mr Alan Bridges, an adjudicator with the NSW Annual Reports Awards and an adviser to the NSW Public Bodies Review Committee, which examines the annual reports of all New South Wales public bodies, to assess the annual reports of twelve Victorian public agencies.

The annual reports were assessed against the following criteria:

- Objectives:
  - Are objectives reported?
  - Are the objectives readily measurable?

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81 Ms D. Fifer, Chief Executive Officer, VCOSS, Transcript of evidence, 13 October 1998, p.7
82 Submission No. 79, Ibid.
- Are they linked to goals or the annual business plan?
- Are they managerially useful to report achievements against?

**Outcomes:**
- Are outcomes reported?
- Are the outcomes linked to objectives?
- Are the outcomes benchmarked?
- Are any changes, deletions and additions to KPIs explained?
- Are the statistics reported related to performance?
- Are they useful ie. enable assessments of achievements?

**Financial Information:**
- Is a financial summary reported and useful to readers?
- Are the financials linked to the Report of Operations?
- Are the financials in reader friendly format eg. graphics?
- Are the notes to the financials useful to lay readers?

**Generally:**
- Is the report about accountability or largely a public relations document?
- Does the report include a report of activities?
- Is the annual report a frank and credible report?

Exhibit 6 summarises the profile of the departments and agencies included in the assessment.
Exhibit 6: Profile of the twelve agencies included in the assessment

<table>
<thead>
<tr>
<th>Annual report</th>
<th>Operational expenditure ($ million)</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Education</td>
<td>3600</td>
<td>43000</td>
</tr>
<tr>
<td>Department of Human Services</td>
<td>5500</td>
<td>9800</td>
</tr>
<tr>
<td>Department of Infrastructure</td>
<td>840</td>
<td>750</td>
</tr>
<tr>
<td>Department of Justice</td>
<td>460</td>
<td>3420</td>
</tr>
<tr>
<td>Department of Natural Resources and Environment</td>
<td>790</td>
<td>4300</td>
</tr>
<tr>
<td>Department of Premier and Cabinet</td>
<td>360</td>
<td>3000</td>
</tr>
<tr>
<td>Department of State Development</td>
<td>260</td>
<td>550</td>
</tr>
<tr>
<td>Department of Treasury and Finance</td>
<td>900</td>
<td>1030</td>
</tr>
<tr>
<td>Melbourne Water Corporation</td>
<td>325</td>
<td>560</td>
</tr>
<tr>
<td>Moreland City Council</td>
<td>75</td>
<td>910</td>
</tr>
<tr>
<td>Transport Accident Commission</td>
<td>65</td>
<td>600</td>
</tr>
<tr>
<td>Victoria Police</td>
<td>940</td>
<td>11900</td>
</tr>
<tr>
<td>Total</td>
<td>14115</td>
<td>79820</td>
</tr>
</tbody>
</table>

Exhibit 7 shows the overall results of the consultant’s evaluation summarised for the four main categories of assessment criteria:

Exhibit 7. Summary results against the four categories of assessment

<table>
<thead>
<tr>
<th>Annual report</th>
<th>Objectives reported</th>
<th>Outcomes reported</th>
<th>Explicitly linked objectives</th>
<th>Reader useful financials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Education</td>
<td>Yes</td>
<td>Maybe</td>
<td>Maybe</td>
<td>Maybe</td>
</tr>
<tr>
<td>Department of Human Services</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Department of Infrastructure</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Department of Justice</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Department of Natural Resources and Environment</td>
<td>No</td>
<td>No</td>
<td>Maybe</td>
<td>No</td>
</tr>
<tr>
<td>Department of Premier &amp; Cabinet</td>
<td>Yes</td>
<td>Maybe</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Department of State Development</td>
<td>No</td>
<td>Maybe</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Department of Treasury &amp; Finance</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Melbourne Water Corporation</td>
<td>Yes</td>
<td>Maybe</td>
<td>Maybe</td>
<td>Some</td>
</tr>
<tr>
<td>Moreland City Council</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Transport Accident Commission</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Maybe</td>
</tr>
<tr>
<td>Victoria Police</td>
<td>No</td>
<td>Maybe</td>
<td>Maybe</td>
<td>No</td>
</tr>
</tbody>
</table>

In his assessment, Mr Bridges states that:

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83 Mr Alan Bridges, FCPA, data supplied, Report on the assessment of twelve 1997-98 annual reports of the Victorian Public Sector, 3 April 1999

84 Ibid.
Chapter 4: Readership, Timeliness and Quality of Annual Reporting

Clear, specific, managerially useful objectives provide a direct focus for management and prevents management from using poorly specified objectives as an excuse for unsatisfactory performance.

Five of the reports examined contained no objectives – despite their Compliance Index indicating otherwise. Most of the objectives that were reported were expressed in such vague terms as to be of little use managerially and of little use to report actual outcomes against.

The majority of outcomes/performance/results reported did not enable a reliable assessment about what had, or had not been, achieved.

In most cases, activity “being busy” was reported extensively, and in very general and descriptive terms. “Being busy” is not a substitute for achievement. Valid evidence of outcome is generally accepted as essential to effective management.

In only 5 of the 12 cases was there an explicit link between outcomes and objectives. In only three cases (Human Services, Moreland City Council and Treasury and Finance) was there an attempt to explain outcomes.

Financial information was scored as “useful to general readers” in only three cases (Human Services, Infrastructure, Moreland City Council). In all cases a narrative explanation of the organisation’s financial position and financial performance, perhaps under the signature of the Chief Financial Officer, would be of immeasurable benefit to any interested readers.

4.9 Detailed Results of the Assessment

Mr Bridges advised that the criterion – “Is the annual report a comprehensive and detailed report of achievements?” - had to be
modified because in most cases agencies persistently reported on the level of their activities rather than on their achievements.

The Committee notes that the highest rating annual report for a department was the report of the Department of Justice followed by the Department of Human Services. The consultant attributes these results to the use by these departments of objectives, outcome and performance information. These annual reports were “considered to be an attempt at meeting accountability obligations”. The Department of Human Services annual report illustrates how casemix funding, a detailed output-price measure, has enabled the Department to closely monitor and report on the achievement of its objectives in the public acute health system.

The 1997-98 annual report of the Department of Treasury and Finance also rated highly relative to the other annual reports. This was attributed to the department specifying key objectives and deliverables and reporting on outcomes that were linked to each of its four key objectives. According to the assessor, both the objectives and deliverables, however, “are expressed in very vague terms.”

The next group of reports with a lower rating, include the 1997-98 annual reports of the Melbourne Water Corporation, Department of Infrastructure, Victoria Police and the Department of Premier and Cabinet. The strengths and weaknesses in these reports include:

- only two of the four annual reports, those of the Melbourne Water Corporation and the Department of Premier and Cabinet, include objectives against which the performance of the agency could be quantified or measured;
- where performance objectives are reported, however, they are expressed in general or vague terms;
- outcomes are reported in all cases, however, the majority of outcomes are not benchmarked and explanations are not reported where changes were made to the performance measures or KPIs used; and
- although three of the four reports include a financial summary that is useful to the reader, none of the reports

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85 Ibid.
86 Ibid.
include a financial statement that can be easily interpreted by the general reader.

The Committee was advised that an annual report that meets most of the above assessment criteria is that of a local government agency, Moreland City Council, which is both innovative in format and contains informative material.

As pointed out earlier in this report, performance information included in the annual reports of local government councils is required under the Local Government Act 1989. However, there are currently no reporting requirements for public sector agencies to include actual performance results against the objectives set out in their corporate or annual business plans.

The Committee is concerned that some of the largest departments with responsibilities for the highest number of public sector employees and substantial budgets, rated poorly in terms of providing a satisfactory account of their performance for the 1997-98 financial year.

Despite the above assessment, the Committee was encouraged to find that some Victorian public sector agencies have won awards for their annual reports. The winners of awards for their 1996-97 annual reports include:

- Country Fire Authority (Gold);
- Environment Protection Authority (Silver);
- Kyabram and District Memorial Hospital (Silver);
- Treasury Corporation Victoria (Silver);
- Victorian Auditor-General’s Office (Silver); and
- West Gippsland Healthcare Group (Silver).  

\footnote{Annual Report Awards Inc. (ARA Awards) list for 1998}
The Committee believes that the emphasis on performance reporting in the annual reports of the above agencies approaches the model of best practice as recommended for Victorian public agencies in this report. Annual reports produced in other jurisdictions that have been identified by Mr Bridges as relevant models of best practice reporting also include the annual reports of:

- Australian National Audit Office (Gold, 1997-98);\(^{88}\)
- Australia Post; and
- Integral Energy.\(^{89}\)

The Committee has reviewed these reports and was most impressed with the quality of performance and financial information and their overall presentation.

4.10 New Requirements to Meet Reader Needs

Several submissions identified the following additional requirements that should be included in annual reports:\(^{90}\)

- performance information that indicates whether government programs are achieving what was intended under government policies (ie. outcome and effectiveness measures);
- much clearer linkages between information in the budget and the reported expenditures in annual reports;
- the use of consistent performance information that will permit a comparison between different years;
- disaggregation of data to disclose the performance details of smaller agencies operating under the administration of large government departments;\(^{91}\)
- the linking of targets set under corporate plans and the reporting of target attainment in annual reports;

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\(^{90}\) For example, Victorian Council of Social Services, Submission No. 74

\(^{91}\) Ms M. Ryan suggests an annual report for each agency operating under a separate Act of Parliament, Submission No. 8
• greater emphasis on reporting the types and volume of services annually delivered and the level of unmet need for services in the community; and
• a greater use of pictorial presentation (ie. charts, diagrams, etc.) for performance information.

In summary, the submissions received by the Committee highlighted the need to improve:

• the presentation of information reported;
• the level of transparency in terms of the services delivered; and
• accountability for performance in terms of the efficiency and effectiveness.

The Committee recommends that:

Recommendation 4.8:

The Department of Treasury and Finance develop Directions for Annual Reporting that ensure:
• clear linkages are made between budget figures and reported expenditures;
• greater use of pictorial presentations for performance information, such as charts and diagrams;
• emphasis is given to reporting the types and volume of services delivered, as opposed to just the financial results of service delivery; and
• greater detail of the outputs and outcomes of smaller agencies operating under the administration of departments.

The development of Directions for Annual Reporting is further discussed in Chapter 7 in this report.
If the Parliament does not accept greater responsibilities, the elaboration of checking and accountability devices and institutions at the administrative level will be effective on much the same basis as at present – that all those official actions which politicians do not control are kept reasonable only by a sort of honour system.  

5.1 Introduction

The Committee has argued that the Parliament is the primary audience for annual reports and accountability the primary function. This chapter reinforces that argument. It also reviews the way that Parliament uses annual reports and recommends improvements in parliamentary procedures for dealing with these documents.

5.2 How Parliament uses Annual Reports

Parliament is an integral element of public sector administration and accountability. As the representative of the Victorian people, Parliament is required to monitor the performance of the executive government and report on that performance. Annual reporting by public sector agencies has become one of the most important mechanisms by which the Parliament carries out this role.

The Committee believes it is incumbent on the Parliament to use that mechanism as effectively as possible.

The Committee’s review of how Parliament uses annual reports shows that it tends to be sporadic, unstructured and largely invisible to those responsible for preparing the documents.

The Committee took evidence from a number of witnesses to the effect that they receive no feedback from the Parliament on their annual reports. Given the range of other users and the relatively ad hoc way in which the Parliament uses these documents, it is not surprising that

many of the reporting agencies underestimate the value that Parliament places on annual reports and the reporting process.

Few parliamentary inquiries have arisen from annual reports. However, most Committees, including this Committee during the estimates process, use annual reports extensively as research and reference documents.

Research revealed that considerable use is made of annual reports as a basis for debate in the Parliament. A review of Hansard during the past six months showed that Members referred to issues contained in annual reports on 108 occasions either in questions on or without notice or during debate on various issues.

It is therefore clear that the main parliamentary use of annual reports is as a convenient source of information on a range of agency activities and government services.

The Committee is of the opinion that Members of Parliament expect annual reports to be authoritative, accurate and up-to-date information sources. It follows that, if agencies were aware of the use that parliamentarians and the Parliament make of annual reports, then the expectations of Members would be met.

5.3 Achieving Continuous Improvement in Annual Reporting

Continuous improvement requires a system of formal monitoring, review and feedback that encourages agencies to continually adjust and improve the form and content of their annual reports.

As most submissions emphasised, currently there is no formal mechanism in place to monitor the effectiveness of annual reports.

At the present time I would suggest that Parliament lacks a systematic way of reviewing annual reports. Some people recently, ... through estimates committees and through the Public Bodies Review Committee [NSW], have started to systematise this, but it still seems to me that this is a weak mechanism in the way it is being used at the present time. ... clearly, there needs to be more guidance as to what
should be included in annual reports and I believe the guidance should come from Parliament.  

The Committee was advised that in some other jurisdictions an increased level of scrutiny is given to annual reports through the practice of systematic review. These include:

- in NSW, the Parliamentary Public Bodies Review Committee selectively reviews the annual reports of government agencies:

  *In New South Wales the Public Bodies Review Committee’s only charter is to review all the reports, and provide guidelines on what should be contained in the annual reports…*  

- also in NSW, there is an ongoing arrangement between the Department of Treasury and the Audit Office to review specific aspects of agencies annual reports:

  *The Audit Office helps us in looking at annual reports of agencies and arising out of each of the reviews…we identify and promote examples of best practice;*

- in WA, the Auditor-General audits agencies’ key performance indicators to form an opinion on the extent to which they are relevant to an agency’s stated objectives; are appropriate for assisting external users to assess performance; and fairly represent actual performance.

The Committee received advice from the WA Deputy Auditor-General that this has had a significant impact on improving the quality of performance information:

*There has also been a continuing improvement in the area of performance indicators. Over the past three years, the general trend has seen a marked decrease*

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93 Professor J. Guthrie, Macquarie University, Transcript of evidence, 2 April 1998, p.33
94 Mr M. Bonsey, Department of Prime Minister & Cabinet, Transcript of evidence, 3 April 1998 (Appendix 4 shows the terms of reference for the NSW Public Bodies Review Committee), p.28
95 Mr J. Chan-Sew, NSW Department of Treasury, Transcript of evidence, 2 April 1998, p.2
in qualified opinions and in 1997-98, eight agencies received qualified performance indicators.\(^96\)

- all annual reports of Commonwealth agencies are referred to Senate Committees and they present reports to the Senate on the outcome of those reviews.

The Committee was advised that these initiatives have led to improvements in annual reporting and greater transparency and consistency in the range of information provided to their parliaments and the community.

The Committee believes instituting the following feedback and review process will lead to improvements and facilitate the achievement of best practice in annual reporting by Victoria’s agencies:

- a role for the Parliament, through the Public Accounts and Estimates Committee, in systematically monitoring and reviewing annual reports, reporting standards and practices;
- a role for the Parliament, through the Public Accounts and Estimates Committee, in reviewing the Directions for Annual Reporting;
- a role for the Auditor-General in the audit of internal information controls, key performance indicators and other non-financial disclosures and in reporting to Parliament on these and other annual reporting compliance issues; and
- implementing some procedural changes so that:
  (a) time is allocated in the parliamentary business timetable for the Legislative Council to consider annual reports; and
  (b) annual reports can be tabled during periods when the Parliament is not sitting.

Each of these matters is discussed in greater detail in the following sections.

5.4 Parliamentary Role in Reviewing Annual Reporting

The Committee wants to emphasise that reporting does not necessarily ensure accountability. The Parliament must use the information to determine whether agencies are providing services in an effective and efficient manner. It does this now, while the Parliament is in session, by querying Ministers during question time or by debating the government’s annual estimates of expenditure.

However, the Parliament has delegated the detailed review of the budget and public administration to the Public Accounts and Estimates Committee. While the Committee is limited in its time and resources, it does provide an ideal forum for a detailed and relatively bipartisan review of the performance of an agency. This could be undertaken as part of the estimates process.

Over the past two years, the PAEC review of the budget estimates has involved a review of:

- the outcomes for the financial year; and
- the estimated expenditure for the following financial year.

Since the Budget is brought down prior to the start of the financial year, the Committee commences its estimates hearings in May and June. At that time it is difficult to question departments on their outcomes or to properly scrutinise financial or performance data because no actual measurement data for the current year is available. This is because the Committee does not have details of actual expenditure against estimates for the year or a draft annual report, containing detailed information on the achievements for the year. The difficulties are further compounded by the fact that, in some cases, business and corporate plans are not finalised by the time the estimates hearings commence.

Without this information, it is difficult for the Committee to undertake a meaningful review of agencies intentions and actual results. Consequently, the Committee’s hearings on the estimates process are now mainly concerned with reviewing the proposed expenditure for the next financial year.

The Committee believes that the Parliament would be better served by a two phased estimates process that would involve:
estimates hearings in May and June with the Committee examining the proposed expenditures of departments for the next financial year; and

- a further review process in October with the Committee examining the annual reports of departments, the government’s statement of budget outcomes, and a review of business plans.

As part of this process, the Public Accounts and Estimates Committee would institute limited and regular reviews of:

- relevant departmental annual reports or specific aspects of them;
- a selection of other agency reports; and
- all explanations for late tabling.

This additional review process would focus on the operation and performance of agencies and complement the initial estimates review process.

As far as possible, the Committee’s inquiries would be based on quick, relatively informal hearings and produce short reports for the Parliament.

The emphasis would be on reviewing outcomes and performance and providing constructive feedback. It would also provide an opportunity for agencies to publicise their achievements and for the Committee to review the form and content of their annual reports.

The Committee believes that this new process would enhance the accountability of agencies and give the Parliament more meaningful information about results achieved compared to the results expected by agencies. It intends to consider this matter further in preparing for next year’s estimates hearings.

The Committee recommends that:

**Recommendation 5.1:**

The Public Accounts and Estimates Committee be given a role to monitor, review and report on the annual reports of agencies.

5.5 Review of the Directions
Although there was unanimous agreement from witnesses that the major purpose of annual reports is to communicate information about the operations of agencies to the Parliament, the Parliament has no input into the development of the Directions relating to annual reporting.

Given that the primary user of the information contained in the annual reports is the Parliament, the Committee is of the view that there is a need for formal parliamentary input in determining what material should be specified in the Directions.

While the Department of Treasury and Finance has the responsibility for reviewing and updating the Directions, the Committee is of the opinion that the Public Accounts and Estimates Committee should have a formal role in reviewing the requirements.

The Committee appreciates that implementation of the recommendations contained in this report will require a major review of the Directions. To ensure that the Directions relating to annual reporting meet the expectations of the Parliament and continue to enhance the transparency and accountability of agencies’ operations, the Committee believes they should be reviewed on a yearly basis.

The Committee recommends that:

Recommendation 5.2:
The Public Accounts and Estimates Committee be given an ongoing role in the development of Directions for Annual Reporting with the objective of maintaining an effective accountability framework.

Recommendation 5.3:
The Department of Treasury and Finance undertake a yearly review of the Directions for Annual Reporting and consult with the Public Accounts and Estimates Committee before they are re-issued.

5.6 Role of the Auditor-General in Annual Reporting

At present, parliamentary scrutiny of annual reports comprises an audit of the financial statements of agencies by the Victorian Auditor-General. The Victorian Auditor-General contracts out and signs-off on the audits of all the financial statements attached to the annual reports tabled in Parliament.
The Committee was advised that any requirement for agencies to report on performance indicators should also be accompanied with a requirement for the independent audit of this information. As mentioned earlier in this report, the Western Australian Auditor-General is required to audit and provide an opinion on the relevance and appropriateness of performance indicators contained in annual reports. Victorian local government councils are also required to have the performance information contained in their annual reports externally audited.

The Committee is aware that consideration is being given to the NSW Auditor-General having a similar role:

(the NSW Auditor-General), would like to have a provision in the new legislation for the Auditor-General to look at the performance, in the key performance indicators, of selected agencies in the context of annual financial statement audits. Every year when he does the financial statement he’d do an audit of KPIs, but he would like to have the choice of saying this year I’m going to do Health, Education - half a dozen (agencies). And then he would like to have the ability to report on that in the audit opinion on the financial statement. So what he envisages is a two-part opinion. First part on the true fairness of financial statement. Second part commenting on the accuracy, the compilation of the key performance indicators which are publicly reported.

In evidence, the Victorian Auditor-General also suggested that he should be given a role in compliance monitoring and in regularly auditing the non-financial information contained in annual reports.

The Committee recommends that:

Recommendation 5.4: The Financial Management Act 1994 be amended to provide for the audit of non-financial information such as an agency’s performance indicators for

97 Mr A. Bridges, NSW PBRC, Transcript of evidence, op. cit., 2 April 1998, p.30
98 Mr D. Blunt, NSW Law and Justice Standing Committee, Transcript of evidence, 2 April 1998, p.52
99 Section 153B, Local Government Act 1989 – (see Appendix 5)
100 Mr J. Chan-Sew, Department of Treasury, Transcript of evidence, 2 April 1998, p.8
101 Mr C. Baragwanath, Victorian Auditor-General’s Office, 30 June 1998, Submission No.76
efficiency and effectiveness or the output and outcome measures used to represent actual performance.

Recommendation 5.5:
The Audit Act 1994 be amended to provide the Auditor-General with the capacity to engage contractors so that he is in a position to:
- form an opinion on the extent to which performance indicators contained in annual reports are relevant to an agency’s stated objectives, are appropriate for the assessment of the agency’s performance, and fairly represent actual agency performance; and
- report to the Parliament on the results of audits of non-financial information.

Recommendation 5.6:
The Victorian Auditor-General’s Office establish an ongoing program, similar to the Performance Audit Program, for the review of agency performance indicators and their relevance and appropriateness to reported outcomes.

Recommendation 5.7:
The Victorian Auditor-General’s Office establish a program, similar to the Performance Audit Program, for the audit of achievements against key performance indicators, including output and outcome measures, reported in the annual reports of departments and agencies.

5.7 Impediments to Timely Reporting

As previously mentioned, the Financial Management Act 1994 requires the Minister to table the majority of annual reports in both Houses of Parliament on or before 31 October or if the Parliament is not sitting at that time, the first sitting day after that date. Until the reports are tabled in Parliament they cannot be made public or distributed to Members.

As the Parliament meets at set times throughout the year and there can be several months between each session, the requirement to table the report in the Parliament can significantly delay the public release of the document. This is particularly a problem if an election is held during the latter half of the year, which could effectively delay the tabling of the report for several months.
One means of overcoming delays in making these annual reports available for public scrutiny is to implement a procedure whereby, when the Parliament is not sitting, Ministers are able to present the annual reports to the Clerks of the two Houses and the reports are then deemed to be presented to the Parliament and their publication authorised. When the Parliament resumes, the reports are then formally tabled in both Houses.

With the adoption of this procedure the delays in releasing reports caused by the parliamentary recess could be largely eliminated.

The Committee recommends that:

Recommendation 5.8:

The Financial Management Act 1994 be amended to provide that when the Parliament is not sitting and an annual report is due for tabling, the Minister can forward copies to the Clerks of the two Houses of Parliament for tabling on the next sitting day. Once acknowledgement of the receipt of the report has been made, the report should then be made public.

The Committee understands that a similar procedure has been adopted in some other parliaments in Australia.

5.8 Debate on Annual Reports

In 1998, 534 annual reports were tabled in the Parliament. As parliamentary scrutiny of the operations of government agencies is an essential link in the accountability chain, the Committee believes that there would be substantial benefits if provision was made in the parliamentary timetable, perhaps during General Business, for the Legislative Council to allocate 30 minutes each second sitting week for the consideration of annual reports.

The Committee recommends that:

Recommendation 5.9

The Standing Orders Committee of the Legislative Council consider what procedures are required to enable the Council to allocate time to the scrutiny of annual reports.
CHAPTER 6 WHAT SHOULD AN ANNUAL REPORT CONTAIN?

Parliamentarians should not be satisfied with just a financial accountability (however adequate), but should also consider the necessary political and social accountability for these public business enterprises.\textsuperscript{102}

6.1 Introduction

At present most reporting is limited to financial and activity reporting. There is little reporting of results or analysis of performance, and what is available is not always at an appropriate level of detail. In view of the significant changes in the way that agencies now operate, the Committee considers that a broad range of information should now be included in annual reports.

The Parliament and the community should be informed about both planned and actual performance. Knowing the intentions of agencies, given the high degree of managerial discretion and resources entrusted to them, is a critical part of the accountability process. It sets the basis for assessing the results achieved.

Meaningful accountability information should explain not only what happened, but why. In this way, lessons can be learned about which activities worked and which did not.

For the focus of performance to be expanded to results, annual reports need to include a broader range of information. The discussion in this chapter outlines the additional information that the Committee believes should be included in future annual reports of agencies.

6.2 The need for Performance Indicators in Annual Reports

A number of submissions and various witnesses highlighted the need for a greater emphasis on performance information in annual reports.

As mentioned, to encourage consistency across local government, the Department of Infrastructure has introduced a performance measurement program for councils. A representative from the department advised the Committee that the proposal for a Key Performance Indicators Program being considered includes 29 high level annual plan indicators and 47 service-specific comparative indicators:

The Councils set targets for the higher level measures in their annual business plans. They then report in their annual reports, so we will have annual results. We had data coming from an annual community satisfaction measurement program across all the 78 councils that represent the sources of data for the performance measures. They will manifest themselves in the performance statement that appears in the annual report. The first performance statement will appear in the annual report for the current financial year, 1998-99 and therefore will be due out about September next year.

At 30 June 1998, 77 councils had submitted annual business plans to the Department of Infrastructure containing the required performance indicators and their planned annual performance targets:

We already have 77 business plans from councils for this coming year, each with its targets set. The performance statement will take the targets and when the results for this year come in the actual results will be compared with major targets. And major variances will appear in the annual report.

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103 Mr J Cincotta, Director Local Government Policy, Department of Infrastructure, Transcript of evidence, 15 October 1998, p.55 and Key Performance Indicators for Local Government in Victoria, Department of Infrastructure, February 1998. See Sections 153A and 153B Local Government Act, 1989 (Section 153B is included in Appendix 6).

104 Mr J Cincotta, Director Local Government Policy, Transcript of evidence, 15 October 1998, p.56
The annual plan indicators are higher level governance and corporate accountability measures of the extent to which the broad objectives of individual councils, local communities and the State Government are being achieved. They cover financial performance, rating levels, community satisfaction, operating costs and capital expenditure.

The comparative indicators are service-specific and focus on the cost and quality of service delivery. The indicators are to be prescribed by regulation and cover services such as family, children’s and youth services, road construction and maintenance; waste management; town planning; and administration.

An industry database of comparative indicators, currently under development, will permit councils to benchmark key performance indicators and to establish best practice service standards.

The Committee was advised that the indicators used in the Key Performance Indicators Program would include important outcome measures; for example, measures essential to determining the level of access to services and measures of the unmet need for services.

The Chief Executive Officer of VCOSS was particularly supportive of this initiative and indicated that public sector agencies should have a similar performance management program.

The Committee welcomes these initiatives and believes that they will, over time, allow:

- councillors and council managers to assess whether their programs are achieving the desired objectives and, if necessary, to take corrective action;
- councils to assess overall program effectiveness and make resource allocation decisions based on the best possible decisions;
- the community to determine whether the program objectives are being achieved;
- informed debate in councils concerning the appropriate allocation and use of public money; and
- the community to assess whether appropriate results are being generated from the use of ratepayers’ money.

105 Ms D. Fifer, Chief Executive Officer, VCOSS, Transcript of evidence, 13 October 1998, p.3
The Convenor of the ACT Annual Report Awards Incorporated, which reviews the annual reports of Commonwealth agencies, was also very supportive of including performance indicators in annual reports:

_This year there’s certainly a pretty solid attempt to nominate objectives and to define measures of performance and to report against them. Now they vary enormously in quality and obviously some are easier to report about than others. I do think that’s probably the biggest area of improvement over the last few years - the use of performance indicators._

The Adviser to the NSW PBRC also emphasised the importance of including quantifiable and verifiable information in annual reports.

Witnesses emphasised that agencies need to ensure that the performance indicators reported are relevant ie. clearly linked to the service delivery or agency objectives, measurable, complete and are supported by robust data.

Evidence was also presented about the results of a recent survey by the Institute of Chartered Accountants which indicated that the financial KPIs reported on by councils were not easily understood by readers of annual reports:

_Its findings were that disclosure and reports of operations were driven by legislation rather than by the need to reform. That there was little linkage between financial issues and overall performance. That the quality of reporting varied according to the available resources. That the terms of compliance and the quality of disclosure was adequate, although there was a great reliance on the audit process to refine financial statements. That the financial KPIs reported by councils did not aid the understanding or analysis of financial performance and that better use of indicators must be made._

106 Mr G. O’Loghlin, Convenor, ACT Panel of Assessors, Annual Report Awards Inc., Transcript of evidence, 3 April 1998, p.53
107 Mr A. Bridges, Adviser, NSW PBRC, Transcript of evidence, 2 April 1998, pp.30-31
108 Mr H. Raysmith, Victorian Local Governance Association, Transcript of evidence, 18 February 1999, p.64
The Committee is aware that reliable and comparative performance indicators are yet to be developed for measuring outcomes in many areas of public sector service provision, for example, in acute health services\textsuperscript{109}.

The Government’s submission to this Inquiry acknowledges the varying levels of sophistication of output measurement information systems used by most Departments:

\textit{mandating additional [reporting] requirements...would be inappropriate as Departments are at varying stages of sophistication in the development of internal systems to deal with the increased need for performance information.}\textsuperscript{110}

The Committee appreciates that some agencies are more advanced than others with developing systems for collecting and measuring performance information. The Committee does not believe that shortcomings in the existing data are in themselves reasons for delaying the publication of performance indicators, as long as the data are accompanied by appropriate explanations of those shortcomings.

The Committee encourages agencies to begin reporting against performance indicators.

Suggested improvements to the reporting of performance indicators, include the following:

\begin{itemize}
  \item the reporting of explanations of significant variances;
  \item the reporting of any changes to the basis of the calculation of the performance information; and
  \item reporting an explanation for discontinuing the reporting of established performance indicators.
\end{itemize}

\textsuperscript{109} For example, see \textit{1998 Response by the Minister for Finance to the Auditor-General's Reports issued during 1997-98}, Part C, Special report No.56 \textit{Acute Health Services Under Casemix Funding: A case of mixed priorities}, December 1998, p.87 and 89.

\textsuperscript{110} Hon. J Kennett, covering letter, Submission No. 78, 9 July 1998, p.2
The Committee recommends that:

**Recommendation 6.1:**

The *Directions of the Minister for Finance* be amended to include a requirement to report on performance indicators relevant to an agency's service delivery objectives.

**Recommendation 6.2:**

The *Directions of the Minister for Finance* be amended to require explanations in respect of performance indicators where:

- there are significant variations in performance eg. from expected service delivery targets;
- the basis of calculating a performance indicator has changed; and
- established indicators are discontinued.

**Recommendation 6.3:**

The Department of Treasury and Finance encourage and assist agencies to develop and improve internal data collection and management information systems to deal with the increased need for performance information as required under accrual output-based budgeting.

### 6.3 Benchmarking in the Public Sector

The Committee was informed that the inclusion of benchmarks in annual reports provides useful information as it enables comparisons to be made about the performance of similar agencies:

*The inclusion of benchmarks is useful...the ACT’s Chief Minister’s Department is working on effectiveness and efficiency indicators to go into its annual reports...the National Consumers Council in the UK has evaluated housing services ...and the CSIRO, VCOSS and Swinburne are also working on national well-being index indicators...The Council for Aboriginal Reconciliation nationally is getting a commitment from all Commonwealth and state departments to work to a benchmarking framework for indigenous Australians.*

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111 Ibid., p.6, refers to a book on benchmark frameworks
The Committee was advised that the OECD had developed a model of international best practice in benchmarking that would be useful for agencies:

The website of the specialist body for the OECD that deals with public management called PUMA...certainly helps you identify something that’s regarded as world’s best practice...what you find there is that they have gathered together budget officials from national governments from all around the world to try to work out a kind of international regime of preferred practices on performance reporting, accountability, benchmarking...there’s probably no other source that I could point to other than the OECD as a kind of clearing house for all of this information...instead of just trying to work out whether government agencies in the State of Victoria are complying with Treasury and Finance guidelines, try and see whether the guidelines themselves stack up to what’s happening around the world.¹¹²

The Committee received questionnaire survey results, which indicate that there is a wide perception among the readers of annual reports that the current level of reporting of benchmarking is inadequate. The results also indicated that current benchmarking practice across the public sector does not permit a comparison of performance measures between agencies:

... the information contained in annual reports also appears not to rate well with respondents in relation to comparability, particularly in their perception that the presentation of information is perhaps less than consistent over time and that the material is not necessarily presented in a way that allows comparison of the performance of different government departments.

Consistent with that is my own content analysis, my reviews of the content of annual reports, in which I have observed that very little comparable information is

¹¹² Dr John Uhr, Australian National University, Transcript of evidence, 3 April 1998, p.4 refers to [http://.www.oecd.org/puma]
presented, particularly within a single annual report. It is necessary to return to a prior year’s annual report in an endeavour to find comparative information, if it is present at all.\textsuperscript{113}

The Committee believes that the development of a more rigorous approach to the setting of current and future targets with external benchmark partners, should ensure that the perceived ‘softness’ identified by various witnesses as a problem with internally approved targets, is overcome.

The Committee is keen that annual reports should include some analysis about how benchmarks have been developed. Another area that agencies should focus on concerns the action they take to improve performance through the use of benchmarks.

The Committee believes that information used for benchmarking purposes should focus on resource usage, cost differentials and performance.\textsuperscript{114}

The Committee recommends that:

**Recommendation 6.4:**
Departments and agencies actively develop benchmarking partners or networks for evaluating their outputs.

**Recommendation 6.5:**
The Department of Treasury and Finance should oversee these partnership arrangements ensuring that meaningful and robust targets are established.

**Recommendation 6.6:**
Benchmarks be included in annual reports making clear reference to the benchmarks set and met, and provide explanations for any significant variations. Action taken to bring about improvements through benchmarking should also be discussed in these reports.

**Recommendation 6.7**

\textsuperscript{113} Prof C. Clark, Victoria University of Technology Transcript of evidence, 15 October 1998, pp.32-33 and Submission No. 79 by Professor Clark, *Users of the Annual Reports of Victorian Government Departments and their Information Needs: Some Empirical Evidence*, Public Sector Research Unit, Victoria University of Technology, July 1998

\textsuperscript{114} Ibid., p.11
The Directions of the Minister for Finance be amended to include a requirement to report performance information against benchmarks relevant to an agency’s service delivery objectives, relative size and operational characteristics.

6.4 Statement of Corporate Governance Practice

The corporatisation of many agencies raises particular accountability problems as direct control of these organisations is now with a board of directors, rather than with Ministers.

In providing services, corporations pursue business objectives that require them to operate using commercial business practices. At the same time, they are part of the public sector because they also pursue public policy goals and may receive some public funding. The simultaneous pursuit of both commercial and public policy goals can create significant governance challenges.

The governance of these corporations is complex and the roles and responsibilities of the parties involved in the governance process are often difficult to understand at all levels. Several submissions referred to the need to improve the present governance model:

It is important to understand that we were looking largely at organisations that had a board structure in place and therefore had moved to corporatisation in some form or other. The direct control of government perhaps was not as obvious to the public – it had passed to directors – and therefore there was a need to have full confidence that the board was operating as expected.\textsuperscript{115}

To have full confidence that boards and directors are operating with propriety, the Committee was advised that public sector disclosure guidelines concerning corporate governance issues should be enhanced:

We believe disclosure of corporate governance practices should be something that government should be thinking about in terms of a way forward…one of the important things we have found about corporate governance is that although there may be some general principles, the actual

\textsuperscript{115} Ms Howells, PricewaterhouseCoopers, Transcript of evidence, 13 October 1998, p.22
model put in place will vary depending on the nature of the people, the nature of the business and the objectives of an organisation. One structure cannot simply be translated to another. Governance disclosure would enhance stakeholder understanding of how an organisation operates and how it comes to its decisions.\textsuperscript{116}

Corporate governance is defined as the system by which companies are directed and controlled\textsuperscript{117} and refers to the accountability of executive management in publicly listed companies to their boards of directors and the way directors exercise their responsibilities. A statement of corporate governance for public sector agencies would cover a range of accountability and probity issues such as the relationship between executives of a statutory body, the board of management and the Minister.

The Committee notes that the NSW Public Accounts Committee addressed the issue of reporting corporate governance practice in its inquiry into annual reporting in the NSW public sector.\textsuperscript{118} It recommended that agencies report on public sector governance by providing:

- the composition of the board; the accountability chain between the chief executive, the board and the Minister, their respective roles; whether there are any committees of the board such as an Audit Committee; and, if so, their roles and objectives;
- a statement signed by the Chief Executive Officer of a department, or the Chief Executive Officer and a board member of a statutory body indicating whether a system of internal control was in place and operated satisfactorily during the year;
- a statement signed by the Chief Executive Officer of a department or Chief Executive Officer and chair of the board of a statutory body, to the effect that the annual report complies with all reporting requirements;
- corruption prevention strategies;

\textsuperscript{116} Mr Moore, PricewaterhouseCoopers, Transcript of evidence, 13 October 1998, pp.17-18
\textsuperscript{117} Defined by the Cadbury Code – see [http://www.cabinet-office.gov.uk] – report of the Cadbury Committee on Corporate Governance
\textsuperscript{118} Public Accounts Committee, \textit{Annual Reporting in the NSW Public Sector}, March 1996, Chapter 7
• sponsorship arrangements entered into;
• related party disclosures (for agencies with boards of management);
• fees paid to directors and board members; and
• directions from Ministers (to statutory bodies).

Some of the corporate governance matters, listed above, are addressed by recommendations made elsewhere in this report, and others already exist as requirements in the Directions of the Minister for Finance. However, disclosure of matters such as corruption prevention strategies, sponsorship arrangements and detail of directions from Ministers to statutory bodies are not always required to be reported on by agencies. The Committee believes that the Directions of the Minister for Finance need to be reviewed to ensure they provide adequate disclosure of corporate governance matters to the Parliament.

In regard to corporatised agencies, due to the potential commercial implications of disclosure of information to competitors, exemptions may have been given from complying with certain of the requirements under Part 9 of the Directions. In these cases, information disclosed in the annual report must comply with the requirements of the Corporations Law.

Given the size and importance of the government’s business enterprises, and the public policy aspect of their activities, the Committee believes that there is a need for the Department of Treasury and Finance to review the minimum reporting requirements of such agencies to ensure they provide for adequate disclosure.

The Committee recommends that:

Recommendation 6.8:

The Directions of the Minister for Finance be reviewed by the Department of Treasury and Finance to ensure they provide adequate minimum reporting of corporate governance related matters, including:
• corruption prevention strategies;
• sponsorship arrangements entered into; and
• directions from Ministers to statutory bodies.

Recommendation 6.9:

The Department of Treasury and Finance review the disclosure requirements of government business
enterprises and statutory authorities to determine the minimum requirements necessary to provide adequate disclosure in relation to corporate governance.

Recommendation 6.10:
The Department of Treasury and Finance prepare amended Directions in relation to corporate governance disclosure, and provide them to the Public Accounts and Estimates Committee for review.

6.5 Outcomes of External Reviews

The Committee was advised that in other jurisdictions the outcomes of external reviews by the Auditor-General, the Ombudsman or Parliamentary Committees are included in annual reports:

Departments are required to report on adverse comments by the Auditor-General or Parliamentary Committees, and there’s some acknowledgment of that bad performance, but it is more reactive.\(^{119}\)

The Directions of the Minister for Finance currently require details of any major external reviews carried out on the entity to be retained by the accountable officer and made available to Members of Parliament on request.

The Committee believes there would be merit in requiring agencies to report on external reviews, in their annual reports. Information reported could include findings and recommendations made by the independent reviewers, action taken to address the recommendations and an explanation of any lack of action by the agency.

The Committee recommends that:

Recommendation 6.11:
The Directions of the Minister for Finance be amended to require agencies to report on reviews

\(^{119}\) Ms B. Belcher, Department of Prime Minister and Cabinet, Transcript of evidence, 3 April 1998, p.26
undertaken on the agency by Parliamentary Committees, the Ombudsman or the Auditor-General, action taken to address the recommendations, and explanations for any lack of action in response to those recommendations.

6.6 Chief Executive Officer Responsibilities

The Committee notes that current reporting requirements under the Financial Management Act 1994 provide for the signing of financial statements and report operations.

The financial statements must be signed and dated by the accountable officer and a member of the governing board, where a board exists, or in all other cases by the accountable officer. The signatories are required to provide a certification of fairness of the statements, whether they comply with the Directions and whether they are aware of any circumstances which would render them misleading or inaccurate.\(^{120}\)

Under the Directions, the report of operations must be signed and dated by the accountable officer of a department, or, in the case of public body, by the chairman or his delegate, on behalf of the board. There is no requirement for the signatories to certify to the accuracy or fairness of the report of operations.\(^{121}\)

The Committee has considered whether these requirements for certification should be expanded to include a statement relating to the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance of the integrity and reliability of financial, operational and performance information. A similar reporting requirement exists under New Zealand’s Public Finance Act 1989\(^{122}\), which clearly delineates the responsibilities of the Chief Executive Officer to provide accurate and sound information to the Parliament.

The Committee recommends that:

**Recommendation 6.12:**

The *Directions of the Minister for Finance* be amended to require the accountable officer of an agency to certify that the system of internal control

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\(^{120}\) Financial Management Act 1994, Section 49 and Directions of the Minister for Finance, 9.2.2 (iv)

\(^{121}\) Financial Management Act 1994, Section 48 and Directions of the Minister for Finance, 9.1.2 (ii)

\(^{122}\) NZ Public Finances Act 1989, Section 37
provides reasonable assurance of the integrity and reliability of financial, operational and performance information contained in the annual report.

### 6.7 Health and Safety Issues

The Committee received evidence from the Victorian WorkCover Authority regarding the need for additional requirements under the *Financial Management Act* 1994 to require agencies to report on their health and safety performance.

> We are aware that currently the *Financial Management Act* does not require reporting on health and safety. I do not think we can elicit any conclusive evidence, either domestically or internationally, that demonstrates that reporting requirements, either voluntarily complied with or mandatory, of themselves can be shown to necessarily improve health and safety outcomes. But it is our strong view that there is a good case for having guidelines and there may also be a good case for requiring them to be mandatory in the context certainly of government entities. It is important, as a matter of governance, that Boards and management focus on the area. One way of getting the attention, if you like, of senior management and Boards to this area is to provide for a reporting regime.\(^{123}\)

The Victorian WorkCover Authority recently released *Draft Guidelines for the Reporting of OHS in Annual Reports*, however, the Committee is aware that there are presently no requirements for agencies to report on occupational health and safety matters\(^{124}\). The government indicated in its submission to the Inquiry that future changes to the Ministerial Directions will include occupational health and safety disclosure requirements.

The Committee believes that occupational health and safety issues should be included as part of an agency’s disclosures on corporate governance.

The Committee recommends that:

\(^{123}\) Mr A. Lindberg, Chief Executive Officer, Victorian WorkCover Authority, Transcript of evidence, 13 October 1998, p.25

\(^{124}\) Victorian WorkCover Authority, Submission No. 81
Recommendation 6.13:
The *Directions of the Minister for Finance* be amended to include specific provisions for reporting on occupational health and safety matters in annual reports.

6.8 Environmental Disclosures

The Committee was advised that the annual reports of agencies should include the disclosure of environmental impacts, similar to the level of environmental disclosure in the annual reports required by the NSW Environment Protection Authority.\(^{125}\)

The suggested reporting requirements under an environmental disclosure provision include compliance with EPA regulation; an environmental policy statement; project/program description; performance versus targets; internal and external environmental audit disclosure; and details of any governing body or environmental committee.\(^{126}\)

The Committee believes that environmental accounting and reporting in government should eventually be developed to an internationally recognised standard. For example, the *Public Environmental Reporting Initiative* is an internationally recognised framework with disclosure guidelines. The Committee is aware through its concurrent Inquiry into environmental accounting and reporting that, since 1996, Denmark has had compulsory reporting for companies, in regards to:

- their main resource and environmental parameters;
- resource consumption (raw materials water and energy);
- types of volumes of pollutants and waste produced; and
- director’s reports on the significance of the information provided.

The Committee recommends that:

Recommendation 6.14:
The *Directions of the Minister for Finance* be amended to include the reporting of environmental disclosures where the activities of an agency cause

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\(^{125}\) Prof. J Guthrie, Macquarie University, Transcript of evidence, 2 April 1998, p.38

\(^{126}\) Op. cit. (as detailed by Professor J Guthrie, Macquarie University in Submission No. 82, p.10)
known or predicted material impacts on the environment.

Recommendation 6.15:
The Directions of the Minister for Finance be amended to include specific environmental disclosure requirements, such as:
• level of compliance with EPA regulations;
• descriptions of projects requiring an environmental impact assessment, site remediation or rehabilitation;
• the indicators that show environmental impacts;
• audited statements of environmental management systems; and
• performance measures for waste minimisation.

6.9 Customer Service Charters

It was also suggested that the Committee consider the reporting of customer service charters for all main output activities or programs and that the agency or department report against any service targets mentioned in their charters in their annual report:

Clearly customers’ service charter, citizens’ charter, other sorts of activities now need to be linked to output activities or programs. And departments should report against these in their annual report and once again I don’t really want to see numbers against them. Sometimes it can be just a summary of activity...in terms of systems, in terms of management and in terms of strategic plans. Otherwise you might get more process things like “we answered the telephone in 34 seconds”. We’re at a bigger level here.\(^\text{127}\)

The Committee is aware, however, that only a few agencies such as Victoria’s metropolitan water retail bodies, have developed customer service charters to the extent where annual service performance levels can be reliably and consistently reported.\(^\text{128}\)

The Committee recommends that:

Recommendation 6:16:

\(^\text{127}\) Prof. J Guthrie, Macquarie University, Transcript of evidence, 2 April 1998, p.38
\(^\text{128}\) Victorian Auditor-General’s Office, Special Report No. 44, Timeliness of Service Delivery – A customer’s right, p.75
The development of customer service charters be encouraged by the Department of Premier and Cabinet.

Recommendation 6.17:
The Directions of the Minister for Finance be amended to require agencies to report against all service targets specified in customer service charters.

6.10 Asset Valuation and Annual Reporting

The Committee received evidence from the Office of the Valuer-General that asset identification and asset valuation were inconsistent across the whole of government. The lack of consistent valuations of assets across the whole of government results in inaccurate financial reports which poorly reflect the actual financial position of government agencies.

The Valuer-General made several useful suggestions to address the issue, including:

- the establishment of an integrated data collection point where all of the government’s assets are recorded in one place at one time;
- the coordination and monitoring of asset valuations across the whole of government, to ensure consistent methodologies, preferably by an independent valuer such as the Office of the Valuer-General itself;
- a review of the various terminologies, concepts and definitions for the purpose of standardising the asset valuation information contained in the financial reports and annual reports of all agencies;
- the reporting of two sets of valuations for in-use special purpose buildings – the current in-use value and the market value; and
- standardising all of the State’s asset data sets, which, to save on costs, could be linked with the municipal property revaluations process.

129 Mr J. Dunham, Valuer-General, Transcript of evidence, 15 October 1998, pp 47, 50 & 52
130 Ibid.
Reporting the value of the State’s assets on a whole of government basis forms a major part of the government’s management reform program. The Committee supports the suggestions put forward by the Valuer-General as a means of rectifying the inconsistencies in the valuation of assets.

The Committee recommends that:

Recommendation 6.18:
The government establish a central data collection point for the recording of all government assets.

Recommendation 6.19:
The Office of the Valuer-General be mandated to ensure consistent asset valuation methodologies are used across the whole of government.

Recommendation 6.20:
Current terminologies, concepts and definitions used in asset valuations be reviewed and standardised for the financial and annual reports of all agencies.

Recommendation 6.21:
The valuations for in-use special purpose buildings be reported using both the current in-use value and the market value.

Recommendation 6.22:
The potential cost savings be investigated in relation to:
- standardising the State’s property asset data; and
- linking data to the municipal property revaluation process.
CHAPTER 7  

CHANGES NEEDED TO THE ANNUAL REPORTING FRAMEWORK

The Government’s financial reform program advocates greater transparency and accountability in government budgeting and reporting, improved performance information, greater choice in government resource allocation and comparison of performance through measures such as benchmarking.¹³¹

7.1 Effectiveness of Current Annual Reporting Requirements

The effectiveness of annual reporting in discharging agencies’ accountability obligations to the Parliament, government and the community is dependent upon the following main factors:

- meeting reader needs in terms of accessibility, data presentation and content;
- the appropriateness of the statutory reporting requirements, guidelines and performance benchmarks;
- the accuracy of the information presented and an agency’s compliance with reporting requirements and guidelines; and
- the relevance of the performance measures reported to the achievement of government policy objectives and initiatives.

The Committee received a submission from the Victorian Auditor-General’s Office, which suggested that the following changes would improve the effectiveness of annual reporting in Victoria¹³²:

- there be a link between corporate business planning, budgets and annual reports;

¹³¹ Hon. J Kennett, op.cit, p.1  
¹³² Victorian Auditor-General’s Office, Submission No. 76
• the reporting of performance indicators against targets determined by the annual, output-based budgeting process;

• the external audit of key performance indicators, including independent monitoring and scrutiny of annual reports by the Public Accounts and Estimates Committee;

• disclosure of administered transactions, such as state taxes, in the body of financial statements, at least at a central agency level;

• disclosure of all expenditure of government-owned companies in the body or notes of their financial statements;

• quantification of the ongoing service commitments eg. in outsourced contracts and other private sector infrastructure arrangements, to be reported in the notes to financial statements;

• the tabling of annual reports within a specified period of the financial statement being audited;

• reporting on the effectiveness of corporate governance; and

• continuous as well as abridged annual reporting and interim reporting for the whole of government.

Through inference, the Auditor-General’s submission indicates to the Committee that current annual reporting requirements need to be developed in order to improve their effectiveness.

However, the collection and publication of information about service delivery and comparisons across jurisdictions will not of itself improve services. There is a need to follow through.

Part of the “following through” will be via the reporting process itself. Annual reporting to Parliament and the community will provide agencies with the opportunity to demonstrate the actual level of service improvement they have achieved and where they intend to make further improvements.

The Committee believes annual reporting represents an important potential element in the government’s Management Reform Program. In terms of the targets and objectives specified in corporate and business
plans and the outcomes and outputs shown in Treasury Budget Papers, annual reports should ‘close the loop’ to create an integrated reporting framework. That is, annual reports should provide the medium for reporting back to government, the Parliament and the community on the actual results achieved by agencies.

However, annual reports have not yet been developed to the point where they can deliver comprehensive and meaningful information on those matters and the loop has not yet been closed and information on outputs and outcomes has not yet become a focus for annual reports.

The Committee believes that the breadth of discussion for annual reporting needs to be widened to allow full and open disclosure of the achievements of agencies in the new financial framework of output-based budgeting.

The Committee believes that the annual reporting framework for Victoria’s agencies should include the following elements:

- a requirement for agencies to report against the objectives specified in their corporate and annual business plans;
- guidance on the development of objectives which are measurable in terms of their potential outputs and outcomes;
- guidance on the development of performance indicators (and related management information systems) which will stand the test of time;
- guidance on the development of benchmarks for annual reporting;
- guidance on the presentation of financial information that permits a greater level of comprehension by lay readers; and
- guidance on the structure of annual reports, including the need for financial summaries and the linking of financial results to the report of operations.
7.2 Is the need for Public Accountability being Met?

Chapter 2 of the Committee’s Report on the 1996-97 Budget Estimates and 1995-96 Budget Outcomes\(^{133}\) provides a discussion on public accountability. In considering the concept of accountability, the Committee acknowledged that there is a contract between government and the community regarding responsibility for the management of public resources and accountability for performance. This concept:

\[
\text{clearly establishes the right of the people both to know what government intends to do, and how well it has met its goals.}^{134}
\]

Given the development of a performance management framework within government, there is a need to broaden the accountability framework to meet this implicit contract the government has with the community.

When goals are set within government and resources are dedicated to meeting them, there is a need for clear and unambiguous reporting about their achievement to the Parliament and the community. Presently the only mechanism for agencies to provide this advice is through annual reporting. However, two recent Reports by this Committee on the Budget Estimates include recommendations for departments to improve their accountability to the community for their outcomes.

The current emphasis on reporting on financial outcomes does not fulfil the contractual responsibilities now set in place with the introduction of output management. Output management implies a new mode of reporting which focuses on results rather than on cost alone. Annual reporting within government has, in effect, fallen behind these recent initiatives and the government therefore needs to realign its annual reporting requirements to meet its contractual commitments to the public.

The Committee believes that the Management Reform Program has implications for annual reporting that extend beyond the basic need for


\(^{134}\) Ibid., p.7
agencies to account for their expenditure against budgeted annual output targets. These include:

- whether the specification of outputs and performance measurement by agencies have produced the desired policy outcomes;¹³⁵
- whether the measurement of outputs is strategically linked to the measurement of outcomes;
- whether the increased accountability of agencies for their performance in delivering services more efficiently and more effectively is adequately supported through the reporting requirements;
- the need for agencies to measure, benchmark and report on organisational performance; and
- whether the performance measures of quantity, quality, timeliness and cost, used to assess the production and delivery of outputs, are accurate, reliable and valid.

The Department of Education, for example, informed the Committee that the output groups in the Budget Papers tend to focus on initiatives. It is the department’s view that the budget output tables in the Budget Papers do not represent a holistic outline of the department’s main strategies and priorities, whereas its annual report provides data on its total output performance:

*We are progressively working towards getting as good an alignment as possible between the dot points that are in the Budget Papers and the reporting on output and outcome performance in the annual report. However, I do not think it will ever be a complete 100 per cent alignment because, for one thing, the difference between the dot points you have mentioned in the Budget Papers and what we have reported in the annual report, is that the dot points in the Budget Papers tend to focus on initiatives which are the subject of new policy dollars that the government has provided in the Budget Papers. It is not a holistic outline of what our main strategies and priorities are, whereas*

¹³⁵ Outcomes are defined as the government’s desired or intended impacts on the community.
when we do the annual report we will report on our total output performance.’

To ensure that Victoria’s annual reporting framework adequately addresses these issues, the Committee believes that budget output specifications, current reporting requirements and internal management information systems need to be revised.

The Committee recommends that:

Recommendation 7.1:

The Department of Treasury and Finance establish a model annual reporting framework for the non-financial information that should be included in annual reports (e.g. corporate objectives, program objectives, performance indicators, etc.).

7.3 Reporting Requirements of Statutory Authorities and GBEs

The statutory bodies and GBEs that responded to the Committee’s Inquiry included various government business enterprises, statutory companies, off-budget agencies, and a number of other bodies, such as advisory committees and trust funds.

The functions of the responding bodies varied greatly and included organisations involved in: business enterprises - Melbourne Water Corporation; trust funds - Templestowe Cemetery Trust and regulatory activities - Environmental Protection Authority.

During the Inquiry it became apparent to the Committee that the terms statutory authority and GBE cover a broad spectrum of government agencies. The size, function and managerial autonomy of these authorities highlighted the diversity in the quality and content of annual reports.

The Committee received submissions from several statutory authorities, superannuation funds and corporatised agencies suggesting they should be obliged to report under a separate set of more appropriate reporting standards. Some of the corporatised entities report under the Corporations Law as well as complying with the more onerous public

136 Mr I. Hind, General Manager, Strategic Planning, Department of Education, Transcript of evidence, 10 March 1999, p.104
sector reporting requirements. The main arguments forwarded by these agencies are, that:

- there is a duplication of the financial reporting requirements between the Financial Management Act 1994, Corporations Law, and superannuation industry laws; and
- corporatised agencies would be at a distinct competitive disadvantage if they were to fully disclose commercially sensitive information under public sector reporting requirements.

The Committee discussed these issues with a number of witnesses and various concerns were identified:

We are moving into a much more competitive environment...what is put on the public record about our strategies, developments and initiatives...is becoming more sensitive.\(^{138}\)

We need to be concerned that the qualitative and quantitative obligations on which we have to report and the performance criteria on which our competitors are not required to report may well create a situation where we could have a competitive disadvantage.\(^{139}\)

We have been frustrated over the past three or four years since the disaggregation of the metropolitan water industry into three retail water companies. They are allowed to report under Corporations Law, but we are not. We follow the provisions of the Financial Management Act although we must follow other specific requirements under Corporations Law. Our preference in preparing accounts is to follow Corporations Law.\(^{140}\)

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\(^{137}\) For instance, Melbourne Water Corporation, Submission No. 35
\(^{138}\) Dr T Grigg, Academic Registrar, Swinburne University, Transcript of evidence, 18 February 1999, p.75
\(^{139}\) Mr J. Arnephy, Chief Finance Officer Melbourne Water Corporation, Transcript of evidence, 9 March 1999, p.89
\(^{140}\) Mr H. Stravrellis, Manager, Corporate Finance, Melbourne Water Corporation, transcript of evidence, 9 March 1999, p.88
On reviewing the guidelines the Committee found that they do not provide any specific annual reporting requirements for Government Business Enterprises. The document does, however, advise all GBE’s to comply with the same annual reporting requirements as departments and agencies.\footnote{Refer \textit{Corporate Governance and Monitoring}, A comprehensive guide for Government Business Enterprises, Business Enterprises Branch, Department of Treasury and Finance, July 1998}

The Committee strongly endorses the development of guidelines which lay the foundations for accountability obligations to the Parliament, but also recognise the diversity of their operations. The Committee believes that this could be accomplished by one set of general guidelines that focuses on reporting financial and performance information. This could be supplemented by specific reporting requirements relevant to each classification of statutory authority.

The Committee recommends that:

\textbf{Recommendation 7.2:}\newline
The Department of Treasury and Finance should develop separate Directions for Annual Reporting for statutory authorities and GBEs. The Directions should be presented on two levels. The first should cover broad issues applicable to all authorities with emphasis on accountability requirements for both financial and non-financial information; and the second level should be divided into sections relevant to particular categories of statutory authorities and GBEs which outline the reporting requirements applicable to each category.

\textbf{7.4 Two-tiered Reporting Framework}\newline
The Committee was advised that the NSW Treasury is giving consideration to introducing, a two-tiered approach to annual reporting by public sector agencies. The two-tiered reporting framework refers to general reporting obligations to be included in a new Act and specific reporting obligations set out in regulations to be made under the Act:

\begin{quote}
What we’re proposing is to have the broad, general reporting obligations of performance, qualitative and quantitative measures, corporate governance objectives…and that’s up front in the Act. Whilst in the
\end{quote}
regulations we get down to more detailed requirements, more of a listing...you know, “thou shall do this”. 142

The first tier, the proposed general reporting obligations, would include:

- the charter, objectives and major strategies and activities of the organisation;
- the major features of public sector governance operating within the organisation;
- whether in the opinion of the chief executive or the governing board, the agency has achieved its plans and objectives as indicated in the corporate plan and, if not, the reasons for non-achievement;
- qualitative and quantitative measures of actual performance together with a commentary on significant trends (indicating a clear linkage between inputs, outputs and outcomes);
- a comparison of actual performance with past and planned performance as well as the performance of equivalent agencies in other jurisdictions, both locally and overseas (where practicable);
- highlights of major achievements and events and key strategic initiatives implemented during the year;
- significant internal and external factors to be taken into account in assessing the financial and non-financial performance;
- the agency’s response to significant political debate about major aspects of its activities;
- the future operating environment and developments as well as future plans and major projects including those which are designed to further improve performance; and
- such other matters as are relevant to an informed assessment of performance. 143

The second tier, the proposed specific reporting obligations, would emulate the function of the Victorian Directions of the Minister for

142 Ms D. McHugh, NSW Department of Treasury, Transcript of evidence, 2 April 1998, pp.10-11
Finance under the *Financial Management Act 1994*, that is, they represent specific reporting requirements.

The Committee believes that a similar model should be adopted for Victorian public sector agencies as it would provide greater flexibility, establish a consistent reporting format and place an appropriate emphasis on performance reporting.

The Committee recommends that:

**Recommendation 7.3:**

That the *Directions of the Minister for Finance* be amended to reflect a two-tiered approach to annual reporting. This approach should include a focus on:

- corporate governance issues;
- reporting the performance of the agency in attaining its corporate and business planning objectives; and
- providing an assessment of performance against best practice benchmarks.

### 7.5 Encouraging Compliance with Reporting Requirements

In addition to the establishment of review processes for the Parliament and the Auditor-General, as discussed in Chapter 5 of this report, the Committee received the following suggestions that provide further means of encouraging compliance with annual reporting requirements:

- the establishment of a model annual reporting framework for non-financial information, including the linkage of budget strategy documents with actual output performance measures;
- the introduction of statutory, broad reporting principles with flexibility to impose more specific requirements through the Directions; and
- the reduction of prescribed requirements in relation to information that is peripheral to the core service delivery functions of departments and agencies.

Given that most of the above measures are already in place in other jurisdictions, in Australia and overseas, the Committee believes that the current accountability regime for annual reporting in Victoria needs to
be further developed through similar initiatives to encourage agency compliance.

The Committee was informed that the quality of annual reports could be addressed as part of the Continuous Improvement program sponsored by agencies in conjunction with the Australian Quality Council. This may be an option for larger organisations that could afford the additional cost of including the annual reporting process in their current quality management system. It is the Committee’s view, however, that the cost of establishing quality management systems for small agencies would, in most cases, be prohibitive.

The Committee raised the issue of identifying and possibly reducing peripheral reporting requirements. Most witnesses responded by stating that the reporting requirements of the Minister for Finance are viewed as a useful check on the minimum standards necessary. Only two agencies believed that there were some unnecessary or obsolete reporting requirements under the Financial Management Act, 1994. These were identified as:

- equal opportunity statistics;
- status of compliance with building regulations;
- the naming of members of audit committees;
- the policy statement on competitive neutrality; and
- annual data on freedom of information.

The Committee is of the opinion that Department of Treasury and Finance should review the Directions and associated legislation relating to annual reporting requirements with the intention to reduce many of the historic prescriptive reporting requirements under the Financial Management Act 1994, while continuing to maintain a robust accountability framework.

The Committee recommends that:

**Recommendation 7.4:**

The Department of Treasury and Finance review the Directions of the Minister for Finance and the Financial Management Act 1994 to identify prescribed reporting requirements that are

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144 Victorian Institute of Forensic Medicine, Submission No. 30
145 The Bendigo Health Care Group, Submission No 19 and Melbourne Water Corporation, Submission No 35
peripheral to the core service delivery objectives of Departments and agencies.

**Recommendation 7.5:**

Following consultation with the Public Accounts and Estimates Committee, the Department of Treasury and Finance amend the *Financial Management Act 1994* and the *Directions of the Minister for Finance* to remove any peripheral reporting requirements.

### 7.6 Creating the Link Between Corporate Plans, Business Plans, Budgets and Annual Reports

If a consistent and unambiguous understanding of departmental performance is to develop, clear links between corporate and business plans, budgets and annual reports must be established for all agencies. Without these links annual reporting will not effectively inform the Parliament and the community of the achievements attained by government programs.

On an annual basis, annual reporting should be the final chapter in a strategic discussion about where an organisation wanted to be by year-end and whether it actually achieved the goals set. It should also lead logically to a discussion of future strategic direction and set new targets for a future annual report to comment upon.

The Committee believes that the next step should be the integration of the information contained in various management and accountability documents, particularly corporate and annual business plans, budget documents, performance plans, interim reports and annual reports.\(^{146}\)

To achieve this, the Committee is keen for the Department of Treasury and Finance to provide more meaningful guidelines and directives to assist agencies to further refine and develop accrual information and to show a clear relationship between the information reported, which should be outcome focused, and the outputs. Additional integrated financial and performance information would assist the Parliament and the community in assessing both intended and actual results.

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\(^{146}\) This issue was raised in previous estimate reports and flagged as an area for attention in the Public Accounts and Estimates Committee, Twenty-third Report to Parliament, December 1997, p.5
Chapter 7: Changes needed to the Annual Reporting Framework

The Committee is also of the opinion that corporate and business plans, budget documents, annual reports and the financial statements for Victoria should be linked, to enable performance assessment of individual agencies and on a whole of government basis.\textsuperscript{147}

Under the \textit{Local Government Act} 1989 and \textit{Local Government (Financial) Act} 1992, councils are required to prepare corporate plans that set clear corporate objectives and to report against these objectives in their annual reports to the Minister for Local Government.\textsuperscript{148}

A review of the most recent corporate and business plans of departments by the Public Accounts and Estimates Committee\textsuperscript{149} found that:

- most plans did not incorporate the government’s priorities or link corporate objectives to major policy initiatives;
- some departments did not wish to disclose parts or all of their corporate and business plans;
- outputs were generally different to those in the 1998-99 Budget Papers;
- with one exception, outputs were not listed by Ministerial portfolio; and
- most plans did not meet all of the content requirements outlined in the draft Treasury guidelines released in April 1996.

The Committee reiterated its recommendation in the \textit{Report on the 1997-98 Budget Estimates} that the draft guidelines on corporate and business planning, issued in April 1996,\textsuperscript{150} amended to reflect the new output and accrual output-based framework with its focus on outputs, and reissued at the start of the 1999-2000 budgetary cycle.

The current guidelines have resulted in:

- the corporate objectives of agencies not being linked to overall government policy objectives; and

\textsuperscript{147} This vision of the links and consistency in performance management knowledge is similar to the observation in the 1997-98 \textit{Report on the Budget Estimates}, PAEC, see Chapter 2, ‘Quality of Financial and Other Information’, December 1997
\textsuperscript{148} Mr H Raysmith, Victorian Local Governance Association, Transcript of evidence, 18 February 1999, p.62
\textsuperscript{150} Department of Treasury and Finance, \textit{A Guide to Corporate and Business Planning}, Draft, 12 April 1996
• annual reports not effectively linking achievements against output targets to corporate objectives.

Under the government’s Management Improvement Initiative, which commenced in October 1993, all departments must prepare annual business plans as part of an Integrated Management Cycle. In accordance with the Integrated Management Cycle, departments prepare draft corporate and annual business plans in February to March and finalise the plans in May to June for approval by the relevant portfolio Minister. The plans include performance targets.

Similarly, the government’s service agency initiative, which commenced in October 1994, requires service agencies to prepare annual business plans incorporating specific performance and service improvement targets.

The Integrated Management Cycle and the establishment of the service agency initiative are both elements of the government’s Management Improvement Initiative that was designed on the following principles:

• clear linkages between policy, strategies and budgets;
• the corporate and business planning processes must relate to reality;
• clear accountability for results;
• transparent and public reporting of performance of public agencies;
• public services will improve the range and quality of information that staff provide to consumers, including specific performance targets and benchmarks;
• new forms of control and accountability across publicly-funded services will focus on outcomes and value for money for government;
• devolution of management responsibility, increased operational flexibility and relaxation of central controls on inputs will be matched by increased consultation, improved corporate planning focussing on results to be

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151 Hon. J. Kennett, Premier of Victoria, A Management Improvement Initiative for Victoria, 1 October 1993
152 K.P. Baxter, Secretary, Department of the Premier and Cabinet, Integrated Management Cycle, July 1994 to October 1996
153 Hon. J. Kennett, Premier of Victoria, A Management Improvement Initiative for Victoria, 1 October 1993, Chapter 2
achieved and regular reporting of progress against annual targets; and

• additional traditional public service controls and accountabilities will be limited to the Crown and departments of the State.

Under the government’s Management Reform Program, consistent with Integrated Management Cycle arrangements, departments must submit quarterly reports on performance against Business Plans for consideration by the Budget Estimates Review Committee.

Current annual reporting requirements, however, do not place any obligations on agencies to disclose their actual service delivery achievements against the performance targets that are specified in their annual business plans.

The Committee believes that the significant and sweeping management reforms introduced by the government, which have included the annual specification of performance and output targets by service providers, have not been supported through appropriate changes to the public accountability framework. The accountability process should, for instance, include the linkage of the performance and service delivery targets identified in an agency’s annual business plan to the annual reporting process.

The Committee was advised that the prime role of the annual report should be to report on actual performance against targets set within the Budget Papers and that this is consistent with the notion of annual business planning and the reporting of performance indicators:

Professor Clark advised the Committee:

Perhaps the prime role of the annual report is to report on the performance. And given the time-frame differences of the Budget Papers and annual reports, there is a case for connecting the performance information between these two reporting vehicles, so that there is consistency of performance measure reporting, but with the Budget Papers focusing on the target and the annual report focusing on the actual performance for the year.\textsuperscript{154}

\textsuperscript{154} Professor C. Clark, Victoria University of Technology, Transcript of evidence, 15 October 1998, p.34
The linking of annual business plans with the annual reporting process would support the principle of improving public accountability, which underpins the government’s Management Improvement Initiative.

The government’s “Guide to the 1998-99 Budget Papers” states:

> In order to make departments publicly accountable for the services they provide, major performance targets are published in the Budget Papers and each department’s annual report.  

The Financial Management Act 1994, was amended in July 1998 to include the following provision under Part 9 of the Directions of the Minister for Finance:

> The Report of Operations of a department must include a comparison of the output targets specified in the State Budget with actual performance against those targets.

The Committee welcomes this development as it will provide important information on the performance of agencies. The Committee believes that public accountability could be strengthened by a requirement for agencies to explain failures to achieve output targets and to report on plans to deal with the major factors affecting their non-achievement.

The Committee recommends that:

**Recommendation 7.6:**

The Department of Treasury and Finance establish best practice in output, outcome and performance measurement and reporting for the Victorian public sector through:

- a review of the output measures used in the 1999-2000 Budget Papers; and
- the comparison of these output measures with those presented by agencies in their corporate and business plans, annual reports and other management and accountability documents.

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156 Directions of the Minister of Finance, Part 9, Reporting requirements, 9.1.2 (iii), Financial Management Act 1994
Recommendation 7.7:

The *Guide to Corporate and Business Planning* be amended to include a requirement for agencies to explain the link between each of their corporate objectives with overall government policy objectives.

Recommendation 7.8:

The *Directions of the Minister for Finance* be amended to require departments and agencies to report actual performance against objectives specified in their corporate plans.

Recommendation 7.9:

The *Directions of the Minister for Finance* be amended to require the annual reports of departments and agencies to publish results against the performance, service delivery and output targets contained in their annual business plans.

Recommendation 7.10:

The *Directions of the Minister for Finance* be amended to provide that agencies report on output targets contained in the Budget Papers and:

- explain the major factors affecting the non-achievement of output targets; and
- report on plans to improve performance in the following reporting period.
7.7 Transparency of Annual Reports

The importance of public access to information was highlighted in a discussion paper released in May 1995 by the Australian Law Reform Commission and the Administrative Review Council:

*Access to government information is a pre-requisite to the proper functioning of a democratic society. Without information, people cannot exercise their rights and responsibilities or make informed choices.*

The Committee heard evidence from Ms Ryan who had examined in detail the type and level of information contained in the annual reports of the Department of Human Services:

*In my March submission my overriding concerns were improved accountability, greater transparency and the provision of information to assess how well government programs are performing and whether the programs are achieving what was intended.*

*…One of the things that happens when the annual report comes down is that you do not appear to get figures of what was in the budget and what was spent. I would have thought that was a fairly important piece of information.*

*…If you want to generalise disability services, it comes down to accommodation, day programs, aids and equipment and respite care – those four areas are vitally important to people with disabilities. We only get information about the number of people in care and the number of people receiving day programs.*

*…People work in budgets within broad parameters. Expenditure does not change dramatically, whether it be for education, health or welfare. It is a matter of what services are delivered rather than the dollar amounts. That*

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may sound strange, but the dollar amount is not as 
important as what you get for your dollar. That comes 
back to the delivery of services.

...The Department of Human Services has no real way of 
determining the appropriate needs in this State.158

In summary, according to her analysis, the information on the Disability Services Division in the Department of Human Services’ recent annual report:

- lacks transparency;
- does not align with the information contained in related Budget Papers;
- fails to distinguish between Commonwealth and State funding sources;
- provides a great level of detail much of which, however, is not meaningful; and
- cannot be used to identify the types of services delivered.

The Committee followed up these issues with officers from the Department of Human Services:

Mr Forwood — If you look at output group 117 on page 104 [of the 1997-98 annual report of the Department of Human Services] it hardly tells you a thing. It gives you a broad category but there is no place you can go to break it up into smaller units, such as you can with an individual hospital network or a country hospital.

One of the challenges your department is faced with in being comprehensive in its reporting and transparency and accountability mechanisms, is that it is now such a huge organisation that the level it aggregates to, makes it difficult for people to follow, at what we would have in the old days called, program level.

Mr Nicholls — There are a couple of elements in that discussion. I would not presume to discuss disability in particular, so I am addressing your point in general.

158 Ms M. Ryan, Transcript of evidence, 13 October 1998, pp.11–14 and attachments
Comparing, for example, acute health systems and other parts of the department, the reality is that part of what sits behind is related to the way acute health is currently structured and funded compared with other parts of the department.

As you know, in the change to casemix arrangements, for example, there has been a very substantial but also quite elongated process in order to reach the situation where acute can actually measure things in a price-output way, which is not quite what other sections of the department can do.

Apart from the complexity and size there is an element in that contrast you have drawn which is itself related to where the department is in terms of the particular development of its measurement capacity. Acute health has a greater specificity in respect to price and output than do other parts of the department.

To take another example, in the case of the ambulance service, with which I have some particular responsibility, we do not yet have an output-based funding arrangement for it as we have for acute health. The department in its various elements is trying increasingly to move to make sure that all parts of the department are funded on a quite explicit output connection. We are not quite there yet. There have been lots of important developments, but in some respects there is a bit to be done yet to get to that particular position.

The other element you mentioned about disaggregation is a slightly different point, and with a department as large as ours there is no doubt that there will always be issues about the degree of information that can be provided. We always have a debate in the department about how many indicators we might have for various output groups. There is always some sort of tension between having a limited number of indicators on which you can focus to make sure you do not get lost in the volume as against losing some information which some particular party might like to have for his or her particular requirements.  

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159 Mr B. Nicholls, Director Corporate Strategy, Transcript of evidence, 10 March 1999, p.115
The Committee was also presented with evidence that the annual reports of the large departments contain aggregated and global information and that this tends to reduce the transparency of the information provided.

Various agencies provided the Committee with evidence of a counter view, suggesting that the transparency of performance information had improved where services or the responsibility for service delivery had been devolved, contracted out, outsourced or privatised. According to the evidence presented, areas with improved levels of performance information, include:

- **the 29 schools participating in the self-governing schools program under educational service agreements;**

  Self-governing schools operate under Educational Services Agreements, which specify the obligations for the school within government policy and in particular, set out the specific learning targets to be achieved. These targets are audited so that they are ‘stretching targets’ and the schools are required to report against them.

  Each individual school is responsible for reporting its performance at the local level, under guidelines provided by the Department of Education. The department advised that the standard of reporting varies and that some are exemplary. The department is attempting to aggregate the reporting of the individual self-governing schools and report the content in meaningful ways at a total system level.

  The self-governing schools have greater authority in some areas but face tighter accountability. The department is monitoring their reporting with a view to refining the key information needed on a monthly basis to monitor schools operating under the Schools of the Future model. It is expected that the reporting regime will be continually refined over the next 5 to 10 years.

- **the delivery of health care services under the Health Service Agreements:**

  The Department of Human Services has established an annual financial reporting format for many of the agencies in the non-government sector and is putting in place Health Service Agreements which include targets. The targets are monitored on a quarterly basis. The department advised that work is continuing in relation to these arrangements.
the reporting requirements that the Office of the Regulator-General has imposed on privatised electricity companies:

The Office of the Regulator-General reports annually on the electricity, water and gas industries. The formats of the reports for each industry differ because of the different regulatory frameworks applicable. Reporting for the electricity industry is the most comprehensive because the industry is the most privatised and, its regulation, excluding safety, is completely the responsibility of the Office.

The Office advised that performance indicators for the five-year period from 2001 are likely to be more expansive than those set at the time of privatisation of the industry. For example where the number of outages was set as an indicator initially, now due to improvements in the time taken to rectify faults, the frequency of interruption is an issue.

The Committee was informed, however, that even though service agencies reported to a Minister against the annual performance targets sets in their service agreements, the results were not necessarily documented in an annual report. The Bendigo Health Service was given as an example:

The Health Service operates under a Health Service Agreement with the Department of Human Services, which includes agreed performance targets. In its 1997-98 Annual Report, the Service reported performance information it considered reflected the activity of the organisation, in more detail than was required under the Agreement. The information reported gave an indication of the activities of the Service and how it had performed against its previous year’s performance. However, it did not show the organisation’s performance against the agreed indicators, in terms of whether the Health Service Agreement requirements were met or exceeded.

The Committee recommends that:

Recommendation 7.11:
The Directions of the Minister for Finance be amended to require:

- departments to align information contained in their annual reports with the relevant output-based Budget Papers;
- distinguish between State and Federal funds when describing changed funding conditions;
- identify the types of services delivered and the respective service targets attained; and
- disaggregate data where more than one agency or corporate entity is involved in the delivery of a service.

Recommendation 7.12:

The Directions of the Minister for Finance be amended to require reporting against the service delivery performance targets set in service agreements with Ministers or in purchasing contracts between departments and agencies and their service providers.

7.8 Promotional Style Annual Reports

The Committee received evidence that some agencies use the annual report document as a marketing and promotional tool. The Committee received evidence that annual reports can be used in this way to increase investment activity, to attract greater patronage or to improve public relations.

In the case of the Docklands Authority, its 1997-98 audited financial statement was published as a booklet that could be separated from the main report. The main report, as distinct from the financial statement, is viewed by the Committee as a quality document that is clearly aimed at promoting investment in the Docklands development. The demand for the document is exceeding expectations and a total of 20,000 may need to be printed in 1999:

I don’t have the quantitative evidence to support it. We haven’t done a market test in that regard, but it is certainly possible to see the theme of movement of the annual reports over the last three years where we went to a statutory document only three years ago.
We started to move towards talking about what Docklands would become and what we had achieved last year. That was seen as a very good corporate document but it was not seen as something which interested the general public, so we took the same sort of content a year later and deliberately tried to make it much more readable, hence the tabs, the simple titles, and a very good index.

We have now used 8 000 of these, out of a total of 10 000 printed since November. Last year we used 15 000 for the whole year and still have probably 1 000 in stock. So we think we will probably do 20 000 this year. The anecdotal responses from the market are that people have come back and asked for more copies. We know it is used by developers, financiers and investors in Docklands to take to their prospective tenants and say, ‘This is what Docklands is about. Here’s our project and here’s the whole project.’

Other public sector agencies held the opposite view. For example, the Academic Registrar of Swinburne University indicated to the Committee that given an annual report’s primary purpose is to inform the Parliament, their annual report was not prepared or used as a promotional tool:

It was a decision of the university that this will not be a marketing document but a reporting document to Parliament. If we wanted to put out a marketing or PR-style annual report, which we could tout around various businesses when trying to attract their interest and investment, we would not use this document. We see those two goals or functions as being quite different, and that is why we have taken a compliance approach. I do not think, however, that by being so compliant — and I am being quite up-front — we are meeting in a very effective way what Parliament might be interested in. We are not sure what Parliament really is interested in!

160 Mr J. Tabart, Chief Executive Officer, Docklands Authority, Transcript of evidence, 18 February 1999, p.70
161 Dr T Grigg, Academic Registrar, Swinburne University, Transcript of evidence, 18 February 1999, p.77
Although the Committee is impressed with the Docklands annual report, its reservations concerning the utility of public sector annual reports as a marketing tool include:

- high production costs possibly diverting needed funds away from other direct services;
- the omission of negative information and the incentive to minimise compliance with reporting or other accountability requirements; and
- the diversion of attention from the main purpose of annual reports, which should be the reporting of specific disclosures to make agencies accountable for the delivery and outcomes of tax-funded services.

Although the Committee appreciates the opportunity that annual reports present to agencies for self-promotion, it believes that guidelines should be developed to discourage the practice.

The Committee recommends that:

**Recommendation 7.13:**
The Department of Treasury and Finance develop and issue guidelines to all departments and agencies designed to limit the use of annual reports as a promotional and marketing tool.

### 7.9 Role of the Department of Treasury and Finance

The Committee was informed that the NSW Department of Treasury entered into an agreement with the NSW Audit Office for the ongoing review of annual reports. Under this arrangement the Department of Treasury directs the Audit Office to investigate specific aspects of the annual reports of particular agencies, for example, the level of legislative compliance or the accuracy and efficiency of performance reporting. Matters arising out of each review that identify areas of best practice or that have the potential to improve the efficiency of annual reporting are included in Treasury Circulars and sent to all agencies, as a guide to good or best practice guidance.\(^\text{162}\)

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\(^{162}\) Mr. J. Chan-Sew, NSW Dept Treasury, Transcript of evidence, 2 April 1998, p.2
At a public hearing on 10 March 1999, the Committee questioned the Victorian Department of Treasury and Finance about its role in monitoring compliance with the Directions. Mr Nye acknowledged that the department had monitored compliance with the reporting requirements although the analysis of the content had not been deep he advised that it is not the department’s role to determine whether the contents of annual reports meet readers’ expectations:

A compliance check is conducted, and I think it is fair to say that until recently there has not been a deep analysis of the content, particularly of the financial statements. They are audited. However, we have recently moved to redress that. Much of the annual report content — the narrative and whatever, the quality of the photographs and so on — is not something in which we have an interest ourselves. In part we have moved away from the days in the 1980s when there were strictures on the cost of each copy; I think central agencies at that stage did police, and I think it was a $10-a-copy limit. That is not a role that we at Department of Treasury and Finance have adopted. Similarly where Secretaries use annual reports to express views of a personal nature, that is a matter for them to sort out with their Ministers. We do not intervene on that point. The deeper approach I am interested in — which, as I say, we have commissioned work on — is to do some financial statement analysis of the sort that the ASIC [Australian Securities and Investment Commission] would undertake to determine whether the records do produce a consistent, fair and meaningful view of the operations of an agency.

The Committee believes that the Department of Treasury and Finance has a key role to play in improving financial and performance reporting in the public sector. The Committee encourages the Department of Treasury and Finance to maintain the momentum of the Management Reform Program and to develop strategies to provide more meaningful and useful information in annual reports.

The Committee recommends that:

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163 Mr A Nye, Director, Policy and Management Reform, Department of Treasury and Finance, Transcript of evidence, 10 March 1999, pp. 97, 100

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Recommendation 7.14:
The Department of Treasury and Finance facilitate the ongoing review of agencies’ annual reports with the objective of eventually disseminating advice to all departments and agencies on best reporting practice.

Recommendation 7.15:
The Department of Treasury and Finance coordinate an ongoing review of agencies’ output measures and management information systems to ascertain whether:
- output measures are valid, relevant and appropriate in relation to agencies’ corporate objectives and government outcomes;
- the calculation of the measures is sound, based on reliable data collection and internal control systems; and
- performance benchmarks used by agencies are based on comparable organisations and data measurement methods.

7.10 Annual Report Awards

The Committee was interested in determining the potential for annual report awards to improve the quality and consistency of annual reporting. Other jurisdictions in Australia have encouraged participation in awards schemes to promote compliance with and the continuous improvement of annual reporting standards.

The main issues of concern to the Committee in regards to annual report awards are:
- the extent to which annual report awards contribute towards increasing the quality of annual reporting;
- the cost effectiveness of participating in awards schemes for smaller agencies; and
- whether report awards result in continuous improvement of annual reporting processes.

Both New South Wales and Commonwealth government representatives agreed that encouraging agencies to enter award competitions was useful in developing an environment of continual improvement:
We actually have had people ringing up saying can we get copies of these other agencies’ annual reports because they have been highlighted as those that are good.\textsuperscript{164}

The Committee was also advised that the annual report award competitions often provide useful feedback to agencies about the weaknesses and strengths within their reports:

\begin{quote}
We think award schemes are good, and there have been a lot of them with annual reporting. To date, most have focused on the financial side, and there is no doubt that accounting bodies, particularly with the introduction of accrual accounting, have advanced significantly in the meaningfulness of financial reporting in annual reports. That has been the focus in both the private and public sectors, but there is very little performance reporting in most of those reports. Most tend to be an opportunity to talk up the organisation and put its best features forward — usually using a glossy publication of some sort — and to talk about the achievements without the discipline of the original objectives.
\end{quote}

We would be interested in looking at the possibility of an award scheme, but if we have a major view to submit to this committee it is that annual reports need better structuring — not to the extent of prescription, but rather a framework that meets a principle of saying, ‘It is important that public sector organisations report against their stated objectives, that they state those objectives clearly, and that they report back to the public on how they are achieving those objectives’. An award scheme devoted to assessing how well public sector agencies are achieving that sort of accountable reporting greatly interests us.\textsuperscript{165}

The improvements expected would not necessarily mean slicker, glossier and more expensive reports. An expectation, from increased.

\textsuperscript{164} Witnesses from the NSW Department of Treasury and NSW Audit Office, Transcript of evidence, 2 April 1998, pp.5–6

\textsuperscript{165} Mr Johnstone, Member IPAA (Victorian Division) and Chief Executive Officer Moreland City Council, Transcript of evidence, 10 March 1999, pp111–112
competition between agencies in this field, would be that reports be assessed upon criteria such as content and relevance to external parties.

Various award systems operate within jurisdictions and normally categories are developed to suit the unique position of government agencies. The Institute of Public Administration Australia established an annual report award for Commonwealth Departments in 1982. The assessment process comprises:

- compliance with report guidelines prepared by the Department of Premier and Cabinet; and
- qualitative assessment against a set of reporting criteria.

The contribution that the awards scheme can make to developing a best practice model for annual reporting was illustrated in the following comments by the Secretary of the Department of the Prime Minister and Cabinet at the presentation of the 1997–98 Annual Report Awards:

*Winners of recent IPAA Annual Report Awards have something in common; a demonstrated ability to report about performance in a transparent fashion. Specifically, they have achieved a good degree of transparency in their reports, with clear accounts of performance against desired outcomes. They have, in effect, been adopting the approach of the private sector in concentrating more on the outcomes of their activities than on the process involved.*

Given the scope for improvement in annual reporting which could be brought about by competition, the Committee considers that all large government agencies (ie. with a turnover greater than $5 million per annum) should be encouraged to enter annual reporting competitions.

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166 Address by Mr Max Moore-Wilston, Secretary Department of the Prime Minister and Cabinet, 27 April 1999, p.3
The Committee recommends that:

Recommendation 7.16: The Department of Treasury and Finance consult with the Institute of Public Administration Australia (Victoria) about the possibility of instituting an annual report awards scheme for Victorian public agencies.

Recommendation 7.17: All agencies be encouraged to enter their annual report in the annual reporting competition within this State.

Recommendation 7.18: The Presiding Officers of the Parliament consider sponsoring an award for annual reporting in the Victorian public sector.

The Committee was advised that in terms of providing incentives for continuous improvement, the only known incentive is the annual report awards scheme.¹⁶⁷

7.11 Prescriptive versus Performance-based Guidelines

Prescriptive guidelines require departments and agencies to provide specific information in compliance with statutory reporting requirements. Performance-based guidelines permit agencies to vary the information supplied, for example, under general reporting rules or in accordance with suggested reporting models, provided that the information reported enables reporting outcomes to be achieved.

The Committee has considered arguments both for and against the introduction of further prescriptive requirements under the Financial Management Act 1994. The extent to which annual reporting guidelines need to be prescriptive is, in the view of the Committee, directly related to the sensitivity of the information that could be disclosed. Performance-based guidelines will give agencies greater flexibility in the type of information they may include in their annual reports. This flexibility could, however, come at the cost of reducing the effectiveness of annual reports as an accountability mechanism unless adequate independent scrutiny is applied. A balanced approach is needed.

¹⁶⁷ Mr. G O’Loghlin, Consultant, Transcript of evidence, 3 April 1998, pp.49-50
Submissions received by the Committee on this matter were equally divided. Arguments used to support prescriptive requirements include:

- the need to have consistent annual reporting formats to enable the comparison of performance information between agencies and over time;
- to encourage uniformity in the approach to annual reporting across agencies, such as the use of annual business targets in corporate plans as a basis for reporting on performance outcomes;
- guidelines in relation to important issues such as corporate governance, environmental accounting and performance reporting need to be prescribed to assist in the disclosure of potentially sensitive information; and
- to make agencies fully accountable for the disclosure of specific reporting requirements, such as key performance indicators or assurances of the integrity of data collection systems.

The Committee notes that many of the agencies advocating that it was not appropriate to increase prescriptive requirements were either large corporatised bodies, or small agencies such as rural community health services. Arguments against prescriptive requirements include:

- additional prescriptive requirements will increase the cost of collecting information and the cost of producing annual reports to the specific standards required;
- current financial reporting requirements duplicate requirements that exist under the Corporations Law, which already provide a sufficient level of reporting for corporatised statutory bodies;
- performance-based guidelines will encourage innovation and improvements in best practice reporting; and
- minimal prescription permits flexibility in the development of different reporting formats between agencies.

In terms of reporting performance indicators, the Committee found there was general support that there should be some prescription to ensure comparability of information across the public sector. At the same time
the Committee acknowledges that there needs to be enough flexibility in the annual reporting requirements to allow performance indicators to change and develop with any changes in policy or programs.

Professor Guthrie advised the Committee:

> the performance and other information sets in annual reports should be viewed as not static, but one of continual change and development. And then we don’t get into all these arguments that you need to have specific standards that are black letter rules, that we collect data to show trends over 5 years and 10 years….So I take the view that we’ve just got to understand that these things continually change and develop and that’s all part of it. But we can get consistency, because clearly there needs to be regulations, directives, guidelines and examples of best practice.

> So this may be the way forward. Examples of best practice, highlighting what people are doing, training people up, sharing knowledge, people understanding that these are important things for them to undertake.  

A commendable suggestion for the regulation of performance information was the establishment of a reporting framework that requires agencies to identify their program objectives and to report on performance measures relevant to each objective. Professor Clark informed the Committee that:

> The US has adopted the approach of prescribing the performance measures to be reported by states across a range of key function areas. That has not been the approach of other jurisdictions. The approach in the US is in its early days, and we are yet to test the usefulness of that information. There are difficulties in being prescriptive about the performance information to be provided in a broad way because of the disparate or unlike activities that are being engaged in, even within a set of agencies such as government departments. But when you take the wider public sector and the breadth of agencies it

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168 Professor James Guthrie, Macquarie University, Transcript of evidence, 2 April 1998, p.35
encompasses, it is difficult to be prescriptive about the measures that should be reported by all.

Personally, I see the way to go as identifying a framework in which reporting can take place without necessarily saying what the indicators are. I would approach that by saying that all agencies should be required to report on their objectives — that is, to identify what their objectives are — then, having identified the objectives, be required to report performance measures relevant to each of the objectives.

At present there is an uneven quality of reporting of objectives within annual reports. Performance measurements are not always present, and where they are reported they are not always relevant to the objectives. That problem is being approached in Western Australia by requiring the audit of the relevance of the performance measures without necessarily auditing the numbers that make up the performance measure.  

Such a framework has been established for the New Zealand public sector where agencies must include:

*a Statement of Service Performance reporting on classes of outputs produced...compared with the classes of outputs described in the Statement of Objectives.*

The Statement of Objectives and Statement of Service Performance by NZ public sector agencies provide measurements of the actual outputs produced and compare them with the outputs agreed to at the beginning of the financial year. This is also similar to the annual reporting framework for Victorian local government councils, which have to report their performance achievements against the objectives stated in their corporate plans.

In striking a balance between protecting the community’s right to be informed about government expenditure and developing an adequate accountability framework for public sector agencies, the Committee has,

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169 Professor Colin Clark, Victoria University of Technology, Transcript of evidence, 15 October 1998, p.34  
170 NZ *Public Finance Act* 1989, Sections 35(3)(d), (e),
where necessary, recommended prescriptive reporting requirements. In areas, such as performance information, the Committee has recommended the development of general reporting principles and associated guidelines.

7.12 Best Practice Guidelines

Based on a review of reports and advice on best practice reporting, the Committee has developed the following best practice annual reporting guidelines.

1. Annual reports need to include a balance of financial and performance related information. This information should be presented in clear and simple language, and be supported by graphical presentations of data, especially where comparisons or trends exist.

2. Agencies should report their year’s performance against the objectives and targets set in their corporate and annual business plans. In developing their business and corporate planning objectives, agencies should ensure that the achievement of objectives can be cost-effectively and readily measured through their current data information systems.

3. Performance indicators should be developed for the key objectives or targets set by agencies in their annual business and corporate plans. Other performance indicators that already exist in monitoring the performance of outsourced service contracts, public charters and service agreements, should also be used in annual reports to explain the results of relevant public sector programs, initiatives or projects.

4. To permit the detection of any trends or possible influences on changing levels of performance, key performance indicators should be used over long periods (at least 3–5 years) in which there are no changes made to the basis of their calculation.

5. Benchmarks should be used to compare the efficiency, economy and effectiveness of various government operations with those in other sectors and industries. Benchmarks should be consistently applied over a long term to permit valid comparisons of performance between years.
6. Continuous improvement in the form and style of annual reports should be sought through the regular survey of reader needs and participation in annual report award competitions.

7. Large agencies, such as the eight major departments, should consider improving the transparency of their annual reports through the non-aggregation of data and also reporting on regional performance as well as state-wide outcomes.

8. Departments should develop and report on community outcome measures. Such measures should bear some relationship to the budget output groups that departments are responsible for delivering.

Based on the evidence compiled for this section, a diagram of a model for performance reporting in the Victorian public sector is included at Appendix 7.
APPENDIX 1

Submissions received

Agriculture Victoria Services
Annual Report Awards Australia Incorporated
Anti-Discrimination Tribunal
Architects Registration Board of Victoria
Association of Rural Water Authorities
Australian Accounting Research Foundation
Australian Medical Association (Victorian Branch) Ltd
Australian Music Examinations Board (Vic) Ltd
Australian Stock Exchange Ltd
Benalla & District Memorial Hospital
Bendigo Health Care Group
Buchler, Mr. J.
Building Control Commission
Chiropodists Registration Board
City West Water Ltd
Clark, Professor Colin
Colac Community Health Services
Country Fire Authority
Dental Health Services Victoria
Docklands Authority
Driver Education Centre of Australia Ltd
Emergency Services Superannuation Scheme
Energy Efficiency Victoria
Environment Protection Authority

Fawkner Crematorium and Memorial Park
Glenelg Water
Guthrie, Professor James
Hamilton Base Hospital
Hospitals Superannuation Board
Institute of Public Administration Australia (Victoria)
La Trobe University
Eastern Regional Waste Management Group (trading as Least Waste)
Legal Practice Board
Marine Board of Victoria
Maryborough District Health Service
Medical Practitioners Board of Victoria
Melbourne Water Corporation
Metropolitan Fire and Emergency Services Board
Mildura Rural City Council
Moreland City Council
Nesmith Consulting
Northern Regional Waste Management Group
North East Region Water Authority
Nurses Board of Victoria
O’Connell Family Centre (Grey Sisters) Inc
Office of the Chief Electrical Inspector
Office of the Regulator-General Ombudsman Victoria, The Parliamentary Trustee
Plumbing Industry Board
Port Fairy Hospital
Premier of Victoria
PricewaterhouseCoopers
Prideaux, Mr J. R.
Public Sector Research Unit
Public Transport Corporation
Royal Botanic Gardens
  Melbourne
Royal Melbourne Institute of
  Technology University
Ryan, Ms. M.
Shire of Campaspe
Smith, Mr. N.
South East Water Ltd
State Electricity Commission of
  Victoria
Sunraysia Rural Water Authority
Swinburne University of
  Technology
Templestowe Cemetery Trust
Transport Accident Commission
Trust for Nature

Tweddle Child & Family Health
  Service
Valuation and Survey Services
Victoria Legal Aid
Victoria University of
  Technology
VicRoads
VicSuper
Victorian Auditor-General’s
  Office
Victorian Casino and Gaming
  Authority
Victorian Council of Social
  Service
Victorian Electoral Commission
Victorian Institute of Forensic
  Medicine
Victorian Relief Committee
Victorian WorkCover Authority
Wodonga Regional Health
  Services
Wyndham City Council
## APPENDIX 2

### Witnesses to the Inquiry

List of organisations and witnesses who gave evidence at public hearings and private briefings in Melbourne, Canberra and Sydney.

**Private Briefings, 2 April 1998**

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Witnesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Treasury, NSW</td>
<td>Mr John Chan-Sew, Executive Director, Accounting and Finance Division  &lt;br&gt; Mr Martin Smith, Acting Principal Policy Analyst, Financial Management Division  &lt;br&gt; Ms Dianne McHugh, Senior Policy Analyst, Financial Management Division</td>
</tr>
<tr>
<td>NSW Audit Office</td>
<td>Mr Terry Hogan, Audit Manager (Policy and Research)</td>
</tr>
<tr>
<td>NSW Public Bodies Review Committee</td>
<td>Mr Stan Neilly, MP (Chairman)  &lt;br&gt; Mr Don Beck, MP (Member)  &lt;br&gt; Mr Ian McManus, MP (Member)  &lt;br&gt; Mr Michael Richardson, MP (Member)  &lt;br&gt; Mr Gerald Sullivan, MP (Member)  &lt;br&gt; Mr Alan Bridges, FCPA, Advisor to the Committee, Member Annual Report Awards Australia, Inc.  &lt;br&gt; Ms Catherine Watson, Director</td>
</tr>
<tr>
<td>Macquarie University</td>
<td>Professor James Guthrie, Deputy Director (Academic), Macquarie Graduate School of Management</td>
</tr>
<tr>
<td>Council on the Cost of Government</td>
<td>Professor Robert Walker, Professor of Accounting, University of New South Wales and Chairman, Council on the Cost of Government  &lt;br&gt; Mr Stan Droder, Council Member and</td>
</tr>
</tbody>
</table>
former Chairman of the Accounting Standards Review Board

NSW Public Accounts Committee
 Mrs Patricia Azarias, Director

Law and Justice Standing Committee
 Mr David Blunt, Director

Private Briefings, 3 April 1998

Department of the Senate, Parliament House
 Ms Ann Lynch, Deputy Clerk of the Senate

Australian Senate Committee on Finance and Public Administration
 Mr Derek Abbott, Secretary
 Ms Barbara Allan, Senior Research Officer

Department of Prime Minister and Cabinet
 Ms Barbara Belcher, Assistant Secretary, Parliamentary and Government Branch
 Mr Martin Bonsey, First Assistant Secretary, Government Division
 Ms Anne Dowd, Acting Senior Advisor, Parliamentary and Government Branch

Department of Finance and Administration
 Mr Lewis Hawke, Branch Manager, Accrual Budgeting, Outputs and Outcomes Team
 Mr Chris Sadlier, Policy Advisor, Accrual Budgeting
 Mr Neville Jackson, Manager, Government Accounts
 Ms Sylvia Plummer, Budget Office, CARA Team

Institute of Public Administration Australia
 Ms Maureen Allan, Member, (Director, Professional & Management Development Directorate, The Treasury)

O’Loghlin Consultants
 Mr Graham O’Loghlin, Convenor, Panel for Judging Annual Reports of Statutory Authorities
Australian National University  Dr John Uhr, Senior Lecturer, Public Policy Program

Hearings, 13 October 1998

Victorian Council of Social Service  Ms Dimity Fifer, Chief Executive Officer
Private citizen  Ms Margaret Ryan
PricewaterhouseCoopers  Ms Anne Howells, Senior Manager
Mr Richard Moore, Partner
Victorian WorkCover Authority  Mr Andrew Lindberg, Chief Executive Officer
Ms B. Richardson, Executive Officer

Hearings, 15 October 1998

Victoria University of Technology  Professor Colin Clark, Head of Public Sector Research Unit, Victoria
Victorian Auditor-General’s Office  Mr Russell A. Walker, Assistant Auditor-General (Statewide Financial Audit)
Office of the Valuer-General  Mr Jack Dunham, Valuer-General
Mr Graham Balfour, Manager Assets Valuation
Department of Infrastructure  Mr John Cincotta, Director Local Government Policy

Hearings, 18 February 1999

Victorian Local Governance Association  Mr Andrew Rowe, Councillor, Moreland City Council
Mr Hayden Raysmith, Executive Services
Docklands Authority  Mr John Tabart, Chief Executive Officer
Swinburne University  Dr Tony Grigg, Academic Registrar
Mr Paul Read, Director Finance

Hearings, 9 March 1999
<table>
<thead>
<tr>
<th>Office of the Regulator-General</th>
<th>Mr Ian Wilson, General Manager</th>
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<tbody>
<tr>
<td>Melbourne Water Corporation</td>
<td>Mr Joe Arnephy, Chief Finance Officer</td>
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<tr>
<td></td>
<td>Mr Harry Stavrellis, Manager, Corporate Finance</td>
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<tr>
<td>Hearings, 10 March 1999</td>
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<tr>
<td>Department of Treasury and Finance</td>
<td>Mr Adrian Nye, Director, Policy and Management Reform</td>
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<tr>
<td>Department of Education</td>
<td>Mr Peter Allen, Secretary</td>
</tr>
<tr>
<td></td>
<td>Mr Ian Hind, General Manager, Strategic Planning, Project Development and Evaluation Division</td>
</tr>
<tr>
<td></td>
<td>Ms RoseAnne MacLeod, Chief Finance Officer, Finance Division</td>
</tr>
<tr>
<td></td>
<td>Mr John Adams, Project Manager, Corporate Services</td>
</tr>
<tr>
<td>Institute of Public Administration Australia, Victorian Division Inc.</td>
<td>Ms Zana Smith, Executive Director</td>
</tr>
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<td></td>
<td>Mr Casey Tan, Council Member</td>
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<td></td>
<td>Mr Peter Johnstone, Chief Executive Officer, Moreland City Council</td>
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<tr>
<td>Department of Human Services</td>
<td>Mr Barry Nicholls, Director, Corporate Strategy Division</td>
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<tr>
<td></td>
<td>Mr Bruce Prosser, Assistant Director, Business Planning and Analysis</td>
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<tr>
<td></td>
<td>Mr John Hayes, Assistant Director, Financial and Administrative Services</td>
</tr>
<tr>
<td>Bendigo Health Care Group</td>
<td>Mr Ian Fisher, Executive Director, Non-clinical Support Services</td>
</tr>
<tr>
<td>Transport Accident Commission</td>
<td>Mr Andrew Fronsko, Manager, Business Planning</td>
</tr>
<tr>
<td></td>
<td>Mr Sean Hogan, Manager, Communications</td>
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APPENDIX 3

Statutory Reporting Requirements

Sections 45 to 54 of Part 7 of the *Financial Management Act* 1994 specify the accountability and annual reporting requirements for departments and public bodies.

In particular, section 45 of the Act requires departments and public bodies to prepare annual reports that comprise a report of operations and audited financial statements.

The following are relevant extracts from the Act.

45. *Report of operations and financial statements to be prepared:*

   (1) As soon as practicable after the end of each financial year:
       (a) the relevant Minister of a department must cause to be prepared, in accordance with this Part, a report of the operations of the department during the financial year;
       (b) a public body must cause to be prepared, in accordance with this Part, a report of the operations of the department during the financial year; and
       (c) the accountable officer of each department and public body must cause to be prepared, in accordance with this Part, financial statements of the department and public body for the financial year.

46. *Tabling requirements*

   (1) The relevant Minister of a department or public body must cause the report of operations and audited financial statements of the department or public body to be laid before each House of the Parliament after the end of that financial year and before the end of the next following fourth month of the year or on the first sitting day of the House after the end of that month.

48. *Report of operations*

   Section 45 requires:
       (a) the relevant Minister must cause to be prepared a report of the operations of the department during the financial year;
Appendices

(b) a public body must cause to be prepared a report of its operations during the financial year; and
(c) the accountable officer of each department and public body must cause to be prepared financial statements for the financial year.

49. Financial statements

The financial statements referred to in section 45:
(a) must contain such information as required by the Minister;
(b) must be prepared in a manner and form approved by the Minister;
(c) must present fairly the financial transactions of the department or public body during the financial year to which they relate;
(d) must present fairly the financial position of the department or public body as at the end of that year; and
(e) must be certified by the accountable officer for the department or public body in the manner approved by the Minister.

53A. Annual reports of State-Owned corporations and other bodies

(1) This section applies to the following bodies--

(a) a corporation within the meaning of the Corporations Law (other than a State owned company within the meaning of the State Owned Enterprises Act 1992) all the shares in which are owned by or on behalf of the State or a statutory authority (whether or not a public statutory authority), whether directly or indirectly; and
(b) a body corporate declared by the Governor in Council, under sub-section(2) to be a body to which this section applies.

(2) The Governor in Council, by notice published in the Government Gazette, may declare a body corporate to be a body to which this section applies if--

(a) a member, or a member of the governing body, of the body corporate is appointed by the Governor in Council or a Minister; or
(b) the Governor in Council is satisfied that a primary object of the body corporate is to carry out a public function in relation to which it is registered, or holds a license or other authority granted or issues, under an Act.

(3) The Governor in Council by notice published in the Government Gazette, must declare a Minister to be the relevant Minister in relation to a body to which this section applies for the purposes of this section.

(4) A body to which this section applies must, as soon as practicable after the end of each financial year, submit to the relevant Minister of that body its annual report, including its audited financial statement, in respect of that financial year.

(5) Subject to sub-sections (6) and (7), the relevant Minister must cause the annual report to be laid before each House of the Parliament on or before 31 October each year or, if a House is not then sitting, on the first sitting day of that House after 31 October.

Directions of the Minister for Finance
The annual reports of departments and public bodies must also contain any other information required under the Directions of the Minister for Finance in accordance with section 8 of the Financial Management Act. Part 9 of the Directions include details of the reporting requirements referred to in the above mentioned sections of Part 7. The following are extracts from the Directions, relevant to this report:

Report of Operations

9.1.2 Directions

(i) The Report of Operations of an entity must contain general and financial information relating to the entity and its operations.

(ii) The Report of Operations of an entity must be signed and dated by the Accountable Officer of a Department or, in the case of a public body, the Chairman of the governing board, or his nominee, on behalf of the board.
(iii) The Report of Operations of a Department must include a comparison of the output targets specified in the State Budget with actual performance against those targets.


9.1.3 Guidelines

(i) Relevant general information should include:

(a) the manner in which the entity was established and its relevant Minister;

(b) the objectives, functions, powers and duties of the entity;

(c) the nature and range of services provided by the entity including the persons or section of the community served by the entity;

(d) the administrative structure of the entity including:

(i) the names of the members of the governing board, Audit Committee and Chief Executive Officer;

(ii) the names of occupants of senior offices and a brief description of the area of responsibility of each office;

(iii) a chart setting out the organisational structure of the entity;

(e) a statement on workforce data for the current and previous financial year and a general statement on the application of merit and equity principles during the year;

(f) a summary of the application and operation of the Freedom of Information Act 1982 in relation to the entity.

(ii) Relevant financial and other information in respect to a financial year should include:

(a) a summary of the financial results for the year with comparative results for the preceding four financial years;
(b) a summary of significant changes in financial position during the year;

(c) the operational and budgetary objectives of the entity for the financial year and performance against those objectives including significant activities and achievements during the year;

(d) a summary of major changes or factors which have affected the achievement of the operational objectives for the year;

(e) events subsequent to balance date which may have a significant effect on the operations of the entity in subsequent years;

(f) for consultancies during the year costing in excess of $100,000, a schedule listing the consultants engaged, particulars of the projects involved, the total fees incurred and future commitments in relation to each consultant;

(g) for consultancies during the year costing less than $100,000, the number and total cost of engagements;

(h) a statement on the extent of compliance with the building and maintenance provisions of the Building Act 1993;

(i) a statement, to the extent applicable, that the information listed in 9.1.3(iv) below has been prepared and is available to the relevant Minister, Members of Parliament and the public on request;

(j) a compliance index identifying the extent of compliance with statutory disclosure and other requirements;

(k) a statement, to the degree applicable, on the extent of progress in implementation and compliance with National Competition Policy, including

(i) the requirements of the Government policy statement, Competitive Neutrality: A Statement of Victorian Government Policy; and

(ii) the Victorian Government Timetable for the Review of Legislative Restrictions on Competition
and subsequent reforms.

(iii) Information of relevance in relation to a report being prepared by a public sector superannuation scheme in respect to a financial year should include, in addition to the matters referred to in (i) and (ii):

(a) a list of the superannuation funds operated by the trustees, and a general statement as to which members of the scheme are covered by each fund, the types of benefits provided and the basis of the employer’s funding;

(b) information about the membership and terms and conditions and changes in membership and terms and conditions during the year for each fund under the control of the trustees;

(c) an Investment Performance Report including information about investment objectives, powers and policies of the trustees and investment managers, details of investments and returns classified by type and distinguishing between internally managed and externally managed investments and domestic and overseas holdings;

(d) an Actuarial Overview including information on the date of the last actuarial report, actuarial assumptions, the actuarial methodology, actuarial recommendations and any action taken, changes in conditions since the last actuarial report and the impact of these changes, adequacy of scheme assets to meet obligations and any contingent liability on termination or otherwise of the scheme.

(iv) Relevant information, in relation to the financial year, to be retained by the accountable officer and made available to the relevant Minister, Members of Parliament and the public on request should include:

(a) a statement that declarations of pecuniary interests have been duly completed by all relevant officers;
(b) details of shares held by a senior officer as nominee or held beneficially in a statutory authority or subsidiary;
(c) details of publications produced by the entity about the entity and the places where the publications can be obtained;
(d) details of changes in prices, fees, charges, rates and levies charged by the entity;
(e) details of any major external reviews carried out on the entity;
(f) details of major research and development activities undertaken by the entity;
(g) details of overseas visits undertaken including a summary of the objectives and outcomes of each visit;
(h) details of major promotional, public relations and marketing activities undertaken by the entity to develop community awareness of the entity and the services it provides;
(i) details of assessments and measures undertaken to improve the occupational health and safety of employees;
(j) a general statement on industrial relations within the entity and details of time lost through industrial accidents and disputes;
(k) a list of major committees sponsored by the entity, the purposes of each committee and the extent to which the purposes have been achieved.

Arrangements Covered by Consultancy Guidelines

(v) For the purposes of these Guidelines, in particular Guidelines 9.1.3 (ii)(f) and (g), a consultancy is defined as follows:
(a) **Consultancy**: An arrangement where an individual or organisation is engaged:

(i) to provide expert analysis and advice which facilitates decision making;

(ii) to perform a specific, one-off task or set of tasks;

(iii) to perform a task involving skills or perspectives which would not normally be expected to reside within the agency.

In contrast, an arrangement with a contractor has the following attributes:

(b) **Contractor**: An individual or organisation engaged;

(i) to provide goods, works or services which implement a decision;

(ii) to perform all or part of a new or existing ongoing function to assist an agency carry out its defined activities and operational functions;

(iii) to perform a function involving skills or perspectives which would normally be expected to reside within the agency but which the agency has determined to outsource.

(c) To be classified as a consultancy, an arrangement should meet all of the criteria for a consultancy.

(d) Because criterion (iii) is dependent on the nature of the organisation, a task which in one agency would be a consultancy might in another agency be considered a contracting out arrangement.

**Examples of Consultancies**

(e) The following examples meet all the criteria for defining a consultancy:

(i) an IT consultant engaged to assist in the development of a department’s IT Plan;

(ii) an independent expert engaged to advise on industry/sector structural reform;
(iii) an organisation engaged to do a training needs analysis for a department;

(iv) an accounting firm engaged to examine the financial performance of an agency;

(v) a consultant engaged to review the performance of a departmental program and to make recommendations for better service delivery.

Examples of Arrangements Involving a Contractor

(f) The following examples are regarded as contracting out or temporary employment arrangements as they fail to meet one or more of the criteria for defining a consultancy:

(i) an information systems contractor on a 12 month contract to provide general maintenance programming and support of an agency’s main computer system;

This does not meet any of the criteria of a consultancy. It is a contracting out arrangement.

(ii) an organisation engaged to conduct a training session or program for a department.

This does not meet the criterion (i) of a consultancy. Although such work has often been regarded as consultancy work, it does not involve the provision of advice on which decisions are made. It involves outsourcing part of the ongoing role of staff development.

(iii) an accounting firm engaged to perform certain routine accounting tasks of an agency;

This does not meet the criterion (i) of a consultancy.

(iv) a media consultant on a three year contract to provide media-related services including public relations and advertising;

This does not meet the criteria (i) and (ii) of a consultancy

(v) a private sector accountant on a six month secondment to a department as part of a
Government initiative to inject business and industry skills into the public sector;

This does not meet the criteria (i) or (ii) of a consultancy. Nor is it contracting out, because the function is not being outsourced. This is a temporary employment situation.

(vi) an organisation engaged to implement Government decisions to corporatise or privatise a government business enterprise.

This does not meet criterion (i) of a consultancy.

Financial Statements

9.2.2 Directions

(i) In relation to a financial year each entity must prepare to the extent applicable and by whatever name is considered appropriate:

(a) a statement of the financial operations for the year detailing all material revenue and expense items;

(b) a statement of the financial position at the end of the year;

(c) a statement of cash flows during the year;

(d) notes to the financial statements, including information on ex gratia payments, by nature and amount, and amounts written off during the year;

(e) consolidated financial statements where the reporting entity has controlled entities.

(ii) The Financial Statements of an entity, to the extent applicable, must:

(a) be prepared on an accrual basis;

(b) comply with Australian Accounting Standards, Statement of Accounting Concepts SAC 1, SAC 2 and SAC 3, and pronouncements of the Urgent Issues Group;
(c) comply with Accounting and Financial Reporting Bulletins and other accounting policy papers issued under this Direction;

(d) be prepared in accordance with the historical cost convention, except where certain assets may be accounted for on another basis and such basis is described fully in the notes to the financial statements;

(e) disclose information for the preceding financial year which corresponds to the disclosures specified for the current financial year.

(iii) The Financial Statements of an entity must be expressed by reference to the nearest dollar except where the total assets, or revenue, or expenses, of the entity are greater than:

(a) $10,000,000, the amounts shown in the financial statements may be expressed by reference to the nearest $1,000; or

(b) $1,000,000,000, the amounts shown in the financial statements may be expressed by reference to the nearest $100,000.

(iv) The Financial Statements of an entity must to the extent applicable be signed and dated by the Accountable Officer and a member of the governing board on behalf of the board where a governing board exists, or in all other cases, the Accountable Officer and the chief finance and accounting officer, stating:

(a) whether, in their opinion, the financial statements present fairly the financial transactions during the financial year and the financial position at the end of the year;

(b) whether, in their opinion, the financial statements are drawn up in accordance with these Directions;

(c) whether, at the date of signing, they are aware of any circumstance which would render any particulars in the financial statements to be misleading or inaccurate.

9.2.3 Guidelines
The guidelines list relevant information about the financial operations of an entity that should be included in the financial statements. For example:

(i) The objective of financial reporting is to provide information which is useful to users for making and evaluating decisions about the allocation of resources and which assists in discharging the accountability of the entity’s management or governing body. In determining what should be disclosed in financial statements and how an item should be disclosed, regard should be given to the above objective.

9.4.2 Directions

The financial statements of a reporting entity (including consolidated financial statements in relation to an economic entity) must disclose:

(i) the name of each person holding the position of Responsible person of the reporting entity at any time during the reporting period;

(ii) the total remuneration (excluding any amount to which paragraph (v) applies) of all Responsible persons of the reporting entity to which paragraph (iii) applies for the reporting period, received or receivable from the reporting entity in connection with the management of the reporting entity, except where only one person is being reported on, that persons remuneration may be disclosed in bands pursuant to paragraph (iii);

(iii) an analysis of the remuneration (excluding any amount to which paragraph (v) applies) of Responsible persons (excluding, where a governing board exists, an Accountable Officer who is not a member of the governing board), in bands of $10,000, listing the number of Responsible persons whose actual remuneration for the period falls within each band;

(iv) the number of executive officers, other than Responsible persons, whose actual remuneration falls within each $10,000 band above $100,000, and, except where only one person is being reported on, the total of the remuneration of the executive officers included under this paragraph;

(v) the aggregate of amounts paid during the reporting period by the reporting entity in connection with the retirement of
Responsible persons of the reporting entity to which paragraph (iii) applies;

(vi) the aggregate amount of all loans in existence at the reporting date that have been made, guaranteed or secured by the reporting entity to a Responsible person of the reporting entity or a related party of a Responsible person;

(vii) in respect of loans made to parties referred to in paragraph (vi):

(a) the aggregate amount of loans made; and

(b) the aggregate amount of repayments received;

during the reporting period and the names of the Responsible persons concerned, classified by nature of the terms and conditions;

(viii) in respect of share or share option transactions:

(a) the aggregate number of shares and share options of any entity in the economic entity:

(i) acquired during the reporting period;

(ii) disposed of during the reporting period;

(iii) held as at the reporting date directly, indirectly or beneficially;

by Responsible persons of the reporting entity or their Responsible person-related parties, classified by issuing entity and class of share or option; and

(b) the nature of the terms and conditions of each different type of transaction if on terms and conditions more favourable than those which it is reasonable to expect the issuing entity would have adopted if dealing with the holder at arm’s length in the same circumstances;

(ix) subject to paragraph (xi), in respect of other transactions during the reporting period with Responsible persons of the reporting entity or their Responsible person-related parties:

(a) each different type of transaction;

(b) the nature of the terms and conditions of each type of transaction; and
(c) for each combination of type of transaction and nature of terms and conditions:

   (i) the names of the Responsible persons concerned; and

   (ii) the aggregate amount recognised;

(x) subject to paragraph (xi):

   (a) the aggregate amounts of the following items of revenue or expense for the reporting period that resulted from transactions with Responsible persons of the reporting entity or their Responsible person-related parties:

      (i) interest revenue;

      (ii) dividend revenue;

      (iii) interest expense; and

      (iv) provisions for doubtful receivables and write-downs of receivables;

   (b) the aggregate amounts, classified into current and non-current categories, receivable from and payable to Responsible persons of the reporting entity or their Responsible person-related parties recognised as at the reporting date, excluding loans subject to paragraph (vi);

   (c) the aggregate amount, classified into current and non-current categories, of the provisions for doubtful receivables recognised as at the reporting date in respect of:

      (i) loans subject to paragraph (vi);

      (ii) other receivables subject to paragraph (x)(b);

   (d) for any other benefits derived during the reporting period by Responsible persons of the reporting entity or their Responsible person-related parties:

      (i) resulting from transactions undertaken during the reporting period or earlier with the reporting entity; and
(ii) not otherwise required to be disclosed by these guidelines;
the names of the Responsible persons concerned and the aggregate amount recognised.

(xii) notwithstanding any interpretation to the contrary, these Directions shall not require a public sector entity to disclose transactions with, and amounts receivable from, or payable to, another public sector entity.

An illustrative disclosure for Ministers and Accountable Officers is also provided in the guidelines.
9.6 Year 2000 Compliance Requirements and Disclosures

9.6.1 Background

...The Government requires that all reporting entities include in their annual reports to Parliament a statement of progress towards Year 2000 compliance by listing all classes of business critical systems in use and the scheduled dates by which those systems will be Year 2000 compliant.

9.6.2 Directions

(iii) Compliance is to be evaluated in the light of Australasian Standard SAA/SNZ MP77:1998 : A Definition of Year 2000 conformity requirements (‘the standard’).

9.6.3 Guidelines

(i) ...Where a principal reporting entity has a business critical system which is controlled, operated or maintained by another organisation (including another reporting entity), that system should be included in the principal entity’s compliance statement. A department is not required to report on compliance in relation to public bodies except to the extent that those public bodies use systems controlled, operated or maintained by the department. Where a reporting entity relies upon an electronic interface with a third party such as a bank, a supplier and/or client, the system interface should be included in the organisation’s compliance statement.

(ii) Australasian Performance Standard

The Standard to be observed defines conformity as follows:

“Year 2000 conformity shall mean that neither performance nor functionality is affected by dates prior to, during or after the year 2000. In particular...”
APPENDIX 4

Terms of Reference, Parliament of NSW Public Bodies Review Committee

The Public Bodies Review Committee has the role of examining the annual reports of all New South Wales public bodies. What the Committee hopes to find is that annual reports clearly and simply explain what an organisation’s objectives were for the period, and what was actually achieved. The Committee’s terms of reference are:

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

a) the adequacy of all financial and operational information;

b) any matter arising from the annual report concerning the efficient and effective achievement of the agency’s objectives;

c) any other matter referred to it by a Minister or the Legislative Assembly.’

Source: Public Bodies Review Committee, Results of the Committee’s Review of Ten Annual Reports, Report No. 4: June 1998, Parliament of New South Wales
APPENDIX 5

Section 153B, Local Government Act 1989

153B. Performance Statement

(1) As soon as is reasonably practicable after the end of each financial year, a Council must prepare a performance statement.

(2) The statement must-

(a) outline the performance targets and measures set out in relation to the achievement of the business plan in respect of that year described in the Council’s corporate plan; and

(b) describe the extent to which the business plan was met in that year having regard to those targets and measures.

(3) The statement must be in the form , and must contain the details, required by the regulations.

(4) The Council must submit the statement to its auditor as soon as possible after the statement has been prepared.

(4A) The Council must not submit the statement to its auditor or the Minister unless it has passed a resolution giving its approval in principle to the statement.

(4B) The Council must authorise 2 Councillors to approve the statement in its final form after any changes recommended, or agreed to, by the auditor have been made.

(4C) The approval by the 2 Councillors must be given in the form and manner required by the regulations.

(5) The Council must submit the statement to the Minister within 3 months of the end of the financial year to which the statement relates.

(6) The Council must do this even if the auditor has not yet prepared the report on the statement required by section 128.
(7) If the statement shows that the Council has failed to substantially achieve the targets set out in the business plan, the Council must ensure that the copy of the statement submitted to the Minister is accompanied by a written explanation of why it failed to achieve those targets.
APPENDIX 6

Senate Standing Orders\textsuperscript{171}

(21) Annual reports of departments and agencies shall stand referred to the Legislation Committees in accordance with an allocation of departments and agencies in a resolution of the Senate. Each Committee shall:

a) examine each annual report referred to it and report to the Senate whether the report is apparently satisfactory;

b) consider in more detail, and report to the Senate on, each annual report which is not apparently satisfactory, and on the other annual reports which it selects for more detailed consideration;

c) investigate and report to the Senate on any lateness in the presentation of annual reports;

d) in considering an annual report, take into account any relevant remarks about the report made in debate in the Senate;

e) if the committee so determines, consider annual reports of departments and budget-related agencies in conjunction with examination of estimates;

f) report on annual reports tabled by 31 October each year by the tenth sitting day of the following year, and on annual reports tabled by 30 April each year by the tenth sitting day after 30 June of that year;

g) draw to the attention of the Senate any significant matters relating to the operations and performance of the bodies furnishing the annual reports;

report to the Senate each year whether there are any bodies which do not present annual reports to the Senate and which should present such reports.

\textsuperscript{171} Issued February 1997 (amended 24 August 1994, 13 February 1997)
APPENDIX 7

Model for Performance Reporting in the Victorian Public Sector

- Government Policies and Initiatives
- Budget Paper No. 3 (May)
- Corporate Plan (3 year)
- Output targets, performance & service delivery standards
- Public Sector Charters
- Service Contracts
- Agency Service Agreements
- Annual Business Plan (July)
- Report on achievements against objectives, targets and service delivery standards
- Annual Report (Sept.)

Corporate objectives, output targets linked to Government policy and Budget Papers.
Changes needed to the Reporting Framework