

Auditor-General of Queensland

Report to Parliament No. 1 for 2008

Enhancing Accountability through Annual Reporting

A Performance Management Systems Audit



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A Performance Management Systems Audit**



Queensland

Prepared under Part 6

Division 3 of the

Financial Administration and Audit Act 1977

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Auditor-General of Queensland

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The Honourable M F Reynolds MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

This report is prepared under Part 6 Division 3 of the *Financial Administration and Audit Act 1977*, and is a performance management systems audit of annual reporting. It is the first in the series of Auditor-General's Reports to Parliament for 2008.

In accordance with s.105 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely



Glenn Poole
Auditor-General



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Contents

Section 1 Executive summary	1
1.1 Audit overview.....	1
1.2 Audit opinion	1
1.3 Summary of recommendations	2
1.4 Departmental response	3
Section 2 Audit focus	5
2.1 Reasons for the audit.....	5
2.2 Audit objective.....	5
2.3 Audit scope	6
Section 3 Audit findings and recommendations.....	7
3.1 Compliance	7
3.2 Reporting guidance.....	11
3.3 Assurance	13
3.4 Other forms of reporting.....	13
Section 4 Beyond compliance – how ten agencies compare to better practice	15
4.1 A framework for disclosure and transparency	15
4.2 Results of assessment against better practice criteria	17
4.3 Enhancing completeness information.....	23
Section 5 Results	25
5.1 Compliance audit results with governance requirements	25
5.2 Compliance audit results with performance requirements.....	27
5.3 Compliance audit results with specific requirements	28
5.4 Compliance audit results with procedural requirements.....	29
Section 6 Appendix	31
6.1 PMSA approach.....	31
6.2 Audit methodology and criteria	31
6.3 References.....	32
Section 7 Publications.....	35
7.1 Publications.....	35
7.2 Auditor-General's Reports to Parliament 2008.....	35

Section 1

Executive summary

1.1 Audit overview

Taxpayers expect governments to spend their tax dollars efficiently and effectively. They want governments to be accountable and have systems in place that provide the required performance information. Mr R Sendt, the then Auditor-General of New South Wales noted in his report to the New South Wales Parliament on annual reporting that:

Good performance reporting allows readers to judge achievements and value for money. When performance reporting is poor, accountability, transparency and openness are diminished. By reading an agency's annual report, ordinary citizens should gain some appreciation of whether their tax dollars are being spent efficiently and effectively¹.

The role of annual reports is to provide Parliament with the information needed to examine the actions of the government and its agencies. This allows Members of Parliament to debate how resources have been used and what outcomes have been achieved, and assists informed decision making on funding for policies and services to meet identified needs or the introduction or amendments to legislation. Timely and accurate accountability information is vital to carrying out these duties. This audit assessed compliance, guidance and assurance in relation to annual reporting.

- **Compliance** – with legislative and prescribed requirements
- **Guidance** – standards, examples and direction
- **Assurance** – to the Parliament that the legislative and prescribed requirements have been met.

Section 3 of this report provides specific details on the issue of compliance, whilst Section 4 goes beyond compliance and assesses agencies against a more rigorous framework of disclosure and transparency in reporting performance information.

1.2 Audit opinion

Considering the results of my previous audits on performance reporting, I was disappointed to find in this audit a continued critical lack of accountability to Parliament. In particular:

- the information provided to the Parliament through departmental annual reports does not fully comply with legislation, is incomplete and ambiguous in the portrayal of agency accountability and performance
- guidance provided by the Department of the Premier and Cabinet and the Treasury Department is not sufficient to support accountability and promote a culture of performance management
- according to better practice standards, the performance information in the audited annual reports does not meet the disclosure and transparency needs of readers
- planning documents such as Ministerial Portfolio Statements and agencies' strategic plans do not set clear expectations of results and lack relevant and appropriate performance measures
- other forms of performance reporting presented to Parliament are not part of the current legislative accountability framework and do not meet the better practice criteria for disclosure and transparency.

These factors hinder Ministers, Members of Parliament and other readers of annual reports making informed judgements of the economy, efficiency and effectiveness of government and agency operations. Overall, annual reports fail to answer questions such as "Has the agency achieved what it was intended to do?", "Is this better than last year?", "Is this good enough?", "Were these activities needed in the first place?", "Could they have done this for less money?". Poor reporting on the performance requirements means that the Parliament does not have the necessary information to engage in a meaningful debate on the merit of the government's stated achievements and policies.

¹ NSW Auditor-General's Report Performance Audit *Judging Performance from Annual Reports Review of Eight Agencies' Annual Reports*, October 2003.

Under the current accountability framework established by the *Financial Administration and Audit Act 1977*, accountable officers are responsible for ensuring that all information in annual reports complies with the legislative and prescribed requirements. However, in my view a separate mechanism is needed which will provide Parliament with independent assurance that compliance has been met. As outlined in Section 3.3 this independent assurance role can be undertaken in a number of ways. In some jurisdictions it is part of the mandate for the Auditor-General.

An existing review function in Queensland is the Service Delivery and Performance Commission (SDPC). I note the Premier's recent announcement of the intention to merge the SDPC with the Office of the Public Service Commissioner. One of the objectives of the *Service Delivery and Performance Commission Act 2005* is to "Improve the accountability of agencies for their delivery of services"². In my opinion, the role of the new body could be extended to provide independent assurance over performance reporting.

I am also concerned at how poorly agencies reported effectiveness, efficiency and economy. It raises questions of how well placed agencies and the government will be to take advantage of the Council of Australian Governments changes to the provision of Special Purpose Payments. As the payments will be conditional in future on achieving interim benchmarks and target outcomes, failure or an inability to comply with the reporting requirements could result in lost funding for the state.

I also consider that compliance with legislative requirements is just the starting point and that to improve transparency and accountability, agencies need to move towards achieving better practice in reporting performance information. Given that accountable officers have been required to report on their performance for the past eleven years, I would have expected greater progress towards better practice. To assist agencies develop competencies in this area, further guidance is needed from the Department of the Premier and Cabinet and Treasury Department as lead agencies in relation to reporting requirements.

1.3 Summary of recommendations

Based on the overall audit findings I encourage all public sector entities to review the matters raised and the related recommendations, and seek further guidance to ensure improvements within their own agency's annual report. The recommendations fall under the themes of compliance, guidance and assurance.

RECOMMENDATION - COMPLIANCE

It is recommended that:

1. **Accountable officers develop robust systems and together with the Minister ensure they meet the prescribed requirements of the *Financial Administration and Audit Act 1977* and *Financial Management Standard 1997*, particularly with regard to tabling, and the reporting on governance, performance and other specific information and the statutory obligations they administer.**

RECOMMENDATIONS - GUIDANCE

It is recommended that:

2. **The Department of the Premier and Cabinet with the Treasury Department take a stronger role in providing guidance to agencies on:**
 - **how they can better present performance information that complies with prescribed requirements and better practice principles**
 - **how they can clearly demonstrate their contribution to government outcomes.**
3. **The Department of the Premier and Cabinet with the Treasury Department revise the *Annual Report Guidelines for Queensland Government Agencies for 2007-08* to provide more comprehensive advice to agencies on meeting better practice in presenting performance information. This should include examples, standards, templates and references to other sources of better guidance available in the public domain.**

² *Service Delivery and Performance Commission Act 2005*.

RECOMMENDATION - ASSURANCE

It is recommended that:

4. The Department of the Premier and Cabinet develop an appropriate framework which will provide Parliament with an assurance that all information in annual reports complies with the *Financial Administration and Audit Act 1977* and other legislative requirements.

1.4 Departmental response

A joint response from the Department of the Premier and Cabinet and Treasury Department

In addressing each recommendation, the Under Treasurer and Acting Director-General of the Department of the Premier and Cabinet stated in their response of 4 April 2008:

RECOMMENDATION 1

“Your view that accountable officers, together with the relevant portfolio Minister, are responsible for ensuring departmental annual reports comply with the prescribed requirements is supported. To remind them of this responsibility, Treasury will write to accountable officers to draw their attention to the requirements of both the Financial Administration and Audit Act 1977 and the Financial Management Standard 1997 regarding the contents and tabling of annual reports.”

RECOMMENDATION 2

“The Department of the Premier and Cabinet (DPC) and Treasury have been liaising on the annual reporting requirements as part of the comprehensive review of the Financial Administration and Audit Act 1977 and the Financial Management Standard 1997. It is intended to update requirements to reflect the current environment, including Government’s direction to streamline whole-of-Government reporting while maintaining accountability to Parliament and the Queensland public. This will include consideration of developing additional, user-friendly guidance to agencies on how to better present performance information and demonstrate their contribution to Government outcomes.”

RECOMMENDATION 3

“You have requested more comprehensive advice to be provided in the Annual Report Guidelines for Queensland Government Agencies for 2007-08 (the guidelines).

DPC issues these guidelines each year in April to allow preparers sufficient time to plan the coordination of information from all sections and regional centres of their department. Due to the limited lead time to the issue date for the guidelines, it will not be possible to include further detailed guidance on best practice performance reporting for the current year. Treasury with DPC have commenced a major review of performance reporting as prescribed in the Financial Administration and Audit Act 1977 and the Financial Management Standard 1997 including the annual report guidelines. Recommendations from this review are expected to be implemented for the 2008-09 annual report.

However, as an interim measure, it is proposed that the letter to accountable officers referred to above will highlight the need for agencies to adequately report on their performance as specified in the legislation.”

RECOMMENDATION 4

“We note your recommendation that an additional assurance framework be developed to monitor compliance with prescribed legislation. As previously stated it is agreed that accountable officers are responsible for ensuring annual reports comply with the prescribed requirements. It is proposed that DPC and Treasury will develop a certification for this purpose to be signed by accountable officers. This certification will provide assurance that all legislative requirements have been addressed.”

Supplementary comment received from the Treasury Department

The Under Treasurer, in a further response of 7 April 2008, stated:

“... It is also apparent that the requirements of the Financial Management Standard in respect to annual reports do require review and modernisation. This will be incorporated in the review of the Financial Administration and Audit Act currently under way...”

Auditor-General’s additional comment

I acknowledge the comments received from Department of the Premier and Cabinet and Treasury Department and I am encouraged by the proposed actions. I accept that the proposed action in relation to Recommendation 4 will assist in improving accountability. However, I consider that the development of a certification will not, in itself, provide the independent assurance needed for Parliament and which would aid in the continuous improvement of departmental performance reporting.

Section 2

Audit focus

2.1 Reasons for the audit

The series of Performance Management Systems audits of output performance measurement and reporting systems undertaken since 2005 have consistently highlighted the importance of annual reports as a key accountability document. Annual reports are the primary way that government agencies account for their performance to Parliament and the community.

Legislation requires that all agencies and statutory bodies prepare annual reports and table them in the Parliament. Good performance reporting enables readers to judge achievements and value for taxpayers' money. If performance information is poor, it results in diminished accountability, transparency and openness of government to the democratic processes of governance.

The Honourable Gerald Edward (Tony) Fitzgerald AC, QC in his inquiry in 1989 noted that the key role of Parliament is the forum in which the necessity and worth of proposed laws, including those raising revenue and appropriating funds, can be debated. He also noted that it should act as an inquest in which all or any aspects of public administration can be raised.

Without information about Government activities and research staff to properly assess it, the opposition party or parties have no basis on which to review or criticize the activities. Without information, there can be no accountability. It follows that in an atmosphere of secrecy or inadequate information, corruption flourishes. Wherever secrecy exists, there will be people who are prepared to manipulate it.³

This audit covered compliance with prescribed requirements, guidance and better practice in performance reporting to identify aspects of annual reporting that could be enhanced in the Queensland public sector.

The audit also considered the impact on accountability of other forms of reporting to Parliament, for example reporting on cross-government and whole-of-government policy initiatives such as the SmartState initiative, reports on infrastructure, health and other areas of interest.

2.2 Audit objective

The overall objective of this audit was to identify opportunities to enhance accountability to Parliament through annual reporting. The audit checked whether departmental annual reports complied with the prescribed requirements and fairly represented achievements against planned performance. Specifically, the audit aimed to:

- determine to what extent accountable officers present annual reports compliant with the prescribed requirements of *Financial Administration and Audit Act 1977* (FA&A Act), *Financial Management Standard 1997* (FMS), other applicable legislation and the *Annual Report Guidelines for Queensland Government Agencies 2006-07*
- assess the extent to which performance information in annual reports aligns with better practice
- examine the guidelines, systems and roles of lead agencies to support continuous improvement with accountability and disclosure requirements
- review other forms of annual reporting presented by the Government and assess whether they meet the accountability standards established by the Parliament for annual reports
- identify possible enhancements to accountability.

³ *Commission of Inquiry into Possible Illegal Activities and Associated Police Misconduct*, G. E. Fitzgerald, 1989.

2.3 Audit scope

The audit reviewed the 2006-07 annual reports of all State Government departments and chose a sample of ten departments for a detailed compliance check against prescribed requirements and an assessment against better practice for presenting performance information.

The following ten departments were selected for the audit of compliance and presentation of their annual reports:

- Department of Communities
- Department of Corrective Services
- Department of Education, Training and the Arts
- Department of Emergency Services
- Department of Health
- Department of Infrastructure
- Department of the Premier and Cabinet
- Department of Transport
- Environmental Protection Agency
- Treasury Department.

The departments selected for the detailed compliance review represent a range of services provided by the budget sector. In total, these ten departments accounted for approximately 65 per cent of the 2006-07 total budgeted operating expenditure of the Queensland budget sector of \$24b.

The field work for this audit was conducted between late November 2007 and March 2008. While the 2006-07 annual reports were the primary reference of this audit, annual reports from earlier reporting periods were examined in some cases to assess the consistency of the presentation of performance information.

The audit also considered:

- policy developments in the area of existing and emerging annual reporting and auditing requirements
- the impact of developments in the State's financial management framework and amendment of the FA&A Act and the FMS.

The audit was conducted as a desktop review of annual reports and associated planning documents, namely agency strategic plans, policy pronouncements, budget papers and associated Ministerial Portfolio Statements.

While the scope of the audit included the accuracy, relevance, appropriateness and fair representation of performance measures, the audit did not examine the systems used to record and prepare reports on performance to the same level of detail as in previous reports on output performance reporting. The financial statements were also excluded from the scope of this audit as they are audited and certified by my Office as part of the financial audit program.

Section 3

Audit findings and recommendations

3.1 Compliance

Why must agencies comply with the prescribed requirements?

Accountable officers and their Ministers are responsible for ensuring compliance with the prescribed requirements established under legislation and the associated guidelines. Legislation requires that information contained in an annual report is compliant with its prescribed requirements and fairly represents the agency's performance. This gives Parliament the information needed to make informed decisions.

The prescribed requirements can be grouped broadly into five accountability areas that Parliament has stipulated must be covered through information contained in the annual report:

- governance⁴
- performance information disclosures⁵
- specific requirements⁶
- procedural⁷
- financial statements⁸.

The results of the audit of these elements, excluding financial statements, are outlined below.

Overall findings

Overall, the audit found inadequate compliance by accountable officers with the prescribed requirements for annual reports. Non-compliance was highest in reporting performance information. There was greater compliance with the prescribed requirements where there was specific guidance available for agencies. When there were explicit formats or examples on how to present and disclose information in annual reports, the information reported was clearer and more compliant.

Generally, the annual reports were deficient in reporting the links between output measures and planned outcomes from the strategic plan. The audit findings raise questions as to whether agencies' planning and reporting frameworks and systems are adequate to assure compliance with the prescribed requirements. More discussion on completeness of presenting performance information is contained in Table 4.4 of this report.

Overall conclusion

Failure to comply with the legislation hinders the Parliament's role in holding the agency, its Minister and ultimately the Government to account. Compliance can be helped by developing comprehensive guidance and standards for annual report disclosure. Failure to do so has resulted in agencies presenting non-compliant, incomplete and ambiguous information to Parliament.

RECOMMENDATION

It is recommended that:

- 1. Accountable officers develop robust systems and together with the Minister ensure they meet the prescribed requirements of the *Financial Administration and Audit Act 1977* and *Financial Management Standard 1997*, particularly with regard to tabling, and the reporting on governance, performance and other specific information and the statutory obligations they administer.**

⁴ Sections 95 & 96 FMS.

⁵ Section 95 FMS, Annual Report Guidelines.

⁶ Annual Report Guidelines, Section 95 FMS.

⁷ Section 37, 39 & 46K FA&A Act.

⁸ Section 40 FA&A Act.

3.1.1 Compliance with governance requirements

To meet governance requirements, agencies need to provide information about the establishment of the agency, guiding legislation and policies. Governance also covers the agency's role, functions, powers, the goals set for the agency by the Parliament and the Government, and key committees. The result of audit testing of compliance with governance accountability requirements is provided in Section 5.1.

Findings

Agencies showed varying degrees of compliance with the governance requirements of the legislation. Audit found that over half of the agencies identified the relevant Act under which they were established, some of the policies and priorities that government had set for them and included details of their governance arrangements and committees.

The role, functions and powers of agencies were generally well documented. However, the use of headings in the annual report that link to the relevant sections of the legislation would provide greater clarity to the reader. In many instances a concise role description of the agency is only detailed in the notes to the financial statements located in the back of annual reports.

Information on agencies' goals for 2006-07, the year covered by the annual reports, was not always easily available. In many cases the previous strategic plans, to which the annual report referred, had been replaced on websites by the 2007-2011 strategic plans which often had different goals. Only a few agencies maintained archives of previous planning documents. Access to the pertinent strategic plan should remain available for at least as long as the annual report stays current.

Governance details for other bodies formed or acquired by the agency, their roles, functions, responsibilities, achievements and costs were not well disclosed. Overall it was the omission of details of the existence of many bodies or boards that led to this result. As there are some 728 boards identified in the Government Directory, I acknowledge the Premier's recent announcement to undertake a review of the number and functions of these entities.

The audit found that machinery of government changes to agencies were not well explained in annual reports. It was not clear how the new agency was meeting the commitments made to the community in the superseded strategic plan/s of the old agencies. The strategic plan and annual report of the new agency did not clearly identify the changes in terms of either policy initiatives or economy efficiency and effectiveness benefits. So, questions regarding the reasons for the change and its impact on service delivery were not answered.

Conclusion

When new agencies are formed, transparency and accountability could be enhanced by making the strategic plan of the new entity publicly available in a timely manner. To make it clear to Parliament and the agencies what the new agency has to achieve, the following information should be included in the strategic plan:

- how the new agency was constituted
- the goals it is to pursue and associated performance measures
- the specific powers and functions the agency has if it is not established under separate enabling legislation.

3.1.2 Compliance with performance information

Accountability for performance information relates to how efficiently and effectively the agency has carried out its operations and is aimed principally at reporting value for money. The results of audit testing of compliance with performance information requirements is provided in Section 5.2.

Findings

Audit found that none of the ten agencies fully complied with the prescribed requirements as set out by Parliament for the disclosure of performance information.

Agencies are not consistently or sufficiently using benchmarks, standards and measures of cost effectiveness to report on their services and the outcomes for the Queensland community.

Information on the achievement of statutory obligations is also poor. For the last four years, one agency audited has missed specific annual report disclosures prescribed for public safety. This oversight creates the risk that agencies are not carrying out the Parliament's wishes as prescribed in legislation and allows for significant risks to go undetected.

The disclosure of performance information in agency annual reports is generally limited to measures of how busy they were rather than measures of what was actually achieved against the intended goals. The annual reports did not therefore present sufficient performance information.

Good performance data:

- includes trends
- uses both qualitative and quantitative measures
- reports against targets
- declares or discusses achievements and setbacks
- links costs to results.

The reporting of poorly designed performance measures in annual reports is a distraction for the reader. Disclosing measures that are not relevant or appropriate takes the focus away from accountability and disclosure and fills the reports with insignificant information. Poor performance information focuses on:

- inputs without any link to outputs and outcomes
- listing unrelated activities
- stating the aims of an initiative rather than achievements for clients
- how the work was undertaken, not the impact
- isolated data without the context of trends to allow judgments of performance.

Section 4 of this report provides a way forward for planning for performance and disclosing these results through annual reports.

Conclusion

Members of Parliament require the disclosure of appropriate performance information to decide whether the application of taxpayers funds and resources is providing the best mix of output service delivery to achieve the Government's whole-of-government outcomes and priorities.

To better report performance information, agencies should show the linkages between their statutory obligations, strategic goals, and outputs. The reports should also include performance measures that:

- are relevant and appropriate
- are based on targets and benchmarks
- cover efficiency, effectiveness and economy for each of the Government outcomes and priorities
- cascade from the *Charter of Social and Fiscal Responsibility* to strategic plans and Ministerial Portfolio Statements
- are constant for the planning cycle of the agency or explain any changes
- guide the development of the strategic plans starting in 2008-09 and subsequent annual reports
- include sufficient years of data to show trends, typically five years.

3.1.3 Compliance with specific requirements

There are specific information disclosures that need to be complied with which include, but are not limited to, overseas travel by public service employees, engagement of consultants and the shared services initiative. Many of these matters are expanded on in the *Annual Report Guidelines* rather than legislation. The results of audit testing of compliance with specific requirements are contained in Section 5.3.

Findings

Audit found better levels of compliance with specific requirements such as overseas travel and expenditure on consultancies. Audit did note, however, one agency had omitted to disclose any details of expenditure on consultancies in their annual report. The agency has undertaken to rectify this oversight in the future.

Conclusion

Clear guidance is given to agencies about the specific requirements and this appears to have reduced the risk of non-compliance. This is discussed in more detail in Section 3.2.2.

3.1.4 Compliance with procedural requirements

The procedural requirements relate to the responsibilities for preparing the annual report, the role of accountable officers and the transmittal of the annual report to the Minister for tabling in Parliament to account for their agency's and portfolio's operations. These requirements are set out in sections 37, 39, 46J and 46K of the FA&A Act. Audit reviewed compliance with these Sections and the results are presented in Section 5.4 of this report.

Findings

Audit found that all accountable officers prepared an annual report and general purpose financial statements about the operations of the agency within the required timeframe of four months. The Minister is then required to table the annual report in Parliament within 14 days of receipt. Many agencies include a transmittal letter to the appropriate Minister in the annual report, but audit found those were undated except for the month and year. Audit also noted that larger agencies do not include a letter of transmittal to the Minister.

The earliest tabled annual report from the audit sample was on 1 November 2007, with six tabled on the last possible day of 14 November 2007. All agencies tabled annual reports by the 14 November 2007. However, in three instances, audit was unable to confirm if the Minister tabled the report within 14 days of receipt. Earlier tabling of annual reports would enhance public accountability by presenting information in a more timely manner.

Previous Auditor-General's Reports (No. 4 for 2005, No. 4 and No. 7 for 2006 and No. 9 for 2007) have raised issues about the timeliness of disclosure of information to the Parliament. I have supported the move to earlier certification of financial statements, and these are now required to be prepared by the relevant agency, audited by my officers and certified by audit by 31 August each year.

The timing for tabling annual reports is still two months after certification of the financial statements. The Public Accounts Committee (PAC) made recommendations supporting the timeliness of access to annual reports in their Report No. 59 Annual reporting in the Queensland public sector (December 2001) and in Report No. 76 Review of Auditor-General Report 2 for 2006 - Results of Performance Management Systems Audit of Government Owned Corporations' Performance Reporting (August 2007).

Further comment about timeliness of annual reporting is provided in Table 4.8 of this report.

Conclusion

Without including or dating a letter of transmittal with the annual report, it is not clear to the Parliament whether the agency and the Minister have complied with prescribed procedural requirements. It would be more transparent if the Minister provided information on the date of receipt of the report from the accountable officer at the time of tabling the report in Parliament.

3.2 Reporting guidance

Is the guidance available to agencies adequate to help them meet these requirements?

Each year, the Department of the Premier and Cabinet produce guidelines on annual reporting. The guidelines include extracts of the pertinent legislation and examples, formats and resources about the presentation of certain performance information. The guidelines also include publication requirements about fonts, cover images and paper types.

Other guidance is also available, such as:

- *Queensland Public Sector Annual Report Awards Judging Criteria* - Institute of Internal Auditors Queensland Chapter
- *ARA Criteria* - Australasian Reporting Awards (Inc.)
- *HB 405 – 2004: Disclosure and Transparency Frameworks* – Standards Australia
- *G3 Reporting Framework* – Global Reporting Initiative, United Nations.

3.2.1 The role of central agencies

The roles of the Department of the Premier and Cabinet (DPC) and the Treasury Department (Treasury) are to:

- work with government agencies and the community to effectively deliver the Government's priorities
- support the Queensland Government to meet its fiscal objectives and the key priorities outlined in the *Charter of Social and Fiscal Responsibility*.⁹

Findings

DPC, as the lead agency responsible for administration of the State's annual report policies and guidelines, have systems and procedures in place to support compliance with the relevant Acts and incorporate continuous improvements to accountability and disclosure requirements. Treasury administers the FA&A Act which sets out the prescribed requirements for accountability of accountable officers and Ministers for the use of taxpayer funds in Queensland.

DPC's role includes:

- coordinating the content requirements based on suggestions and feedback provided by the PAC, Treasury, agencies and statutory authorities through an annual consultation process to update the guidelines to ensure relevance
- placing a strong focus on the presentation style and printing specifications to ensure efficiency and consistency in annual report production
- obtaining the Treasury Department advice on interpreting the legislative requirements
- delivering an annual workshop for agency staff preparing annual reports.

The Treasury Department provides advice to the DPC on developing the Annual Report Guidelines. They recognise that it is the responsibility of each accountable officer and Minister to ensure that their annual report complies with the prescribed requirements.

3.2.2 Guidance provided to agencies

DPC provides a set of guidelines for agencies preparing annual reports. The components of the guidelines, *Annual Report Guidelines for Queensland Government Agencies 2006-07* are contained in Section 5.

Findings

The guidelines summarise the various legislative and policy requirements for agencies to address in compiling their annual reports. For some reporting elements, detailed and/or specific guidance is provided to ensure consistency across government or adherence with better practice.

⁹ *Treasury Corporate Plan 2006-11*.

The audit found that where guidance was comprehensive there were higher levels of compliance across government for elements such as:

- reporting remuneration of executives
- surveying readers
- summaries of financial performance
- reporting consultancies and overseas travel
- consistency of internet-published reports.

However, compliance was poor where specific guidance was not provided, such as for reporting performance information and measures against planned performance. The way individual agencies chose to report information about their contribution to government outcomes and priorities was inconsistent. This made it difficult to see how the individual arms of government were working in a coordinated way to deliver the Government's priorities.

3.2.3 Other guidance

A range of other guidance materials is available for agencies wishing to enhance their annual reports, such as:

- *Queensland Public Sector Annual Report Awards Judging Criteria* - Institute of Internal Auditors Queensland Chapter
- *ARA Criteria* - Australasian Reporting Awards (Inc.)
- *HB 405 – 2004: Disclosure and Transparency Frameworks* – Standards Australia
- *G3 Reporting Framework* - Global Reporting Initiative G3 Framework – United Nations.

Findings

Audit found that a number of agencies had made use of national or international frameworks to enhance the presentation of their annual report including the Queensland Public Sector Annual Report Awards and the Australasian Reporting Awards (Inc.). Although these frameworks provide useful information on how to present performance information they are not specific guides on how to comply with the legislative requirements in Queensland. It is therefore possible for annual reports to rate well against other frameworks but still not comply with the FA&A Act.

Overall conclusion

Central agencies have a role in supporting government to ensure its fiscal objectives and priorities are being delivered. In the context of annual reporting, central agencies currently provide advice through producing guidelines for agency reference and providing an annual workshop. However the lack of compliance in reporting performance information makes it difficult to judge agency performance over time and the contributions that individual agencies are making to government outcomes and priorities.

Greater guidance on reporting information could give the government better information on the delivery of its objectives and priorities.

RECOMMENDATIONS

It is recommended that :

- 2. The Department of the Premier and Cabinet with Treasury Department take a stronger role in providing guidance to agencies on:**
 - **how they can better present performance information that complies with prescribed requirements, better practice principles**
 - **how they can clearly demonstrate their contribution to government outcomes.**
- 3. The Department of the Premier and Cabinet with Treasury Department revise the *Annual Report Guidelines for Queensland Government Agencies for 2007-08* to provide more comprehensive advice to agencies on meeting better practice in presenting performance information. This should include examples, standards, templates and references to other sources of better guidance available in the public domain.**

3.3 Assurance

Why does Parliament need to be sure that they are getting compliant, timely and relevant performance information?

For Parliament to operate effectively, its members need to be able to rely on the accuracy and completeness of the governance, procedural and performance information that they are provided. This information must comply with all of the legislative requirements for its production. Members of Parliament want to know that public monies are being spent to the best advantage of Queenslanders and that government commitments are being delivered.

Parliament currently receives independent assurance from this office that the financial statements of agencies present a true and fair view and that the statements comply with the legislative requirements.

Findings

Audit found that in Queensland, there is no guarantee that the performance information reported by agencies is valid and reliable (unlike financial information, which is subject to independent audit). In a number of jurisdictions, an independent entity assures the Parliament that performance information is, amongst other things, compliant with the legislative requirements. In New Zealand, the Auditor-General audits the department's service performance achievements. In Western Australia and the Australian Capital Territory the key performance measures and financial statements are audited by the Auditor-General.

I note that there is an existing entity with responsibilities to improve the accountability of agencies for their delivery of services. The Service Delivery and Performance Commission currently provides the Premier and Treasurer with annual service delivery and performance reports and encourages agencies to be proactive about establishing effective and appropriate performance frameworks, including planning and reporting practices.

Conclusion

I consider that an independent validation of performance information is an essential component of accountability. The Department of the Premier and Cabinet is best placed to facilitate the development of a suitable assurance mechanism using the resources of either existing or new entities.

RECOMMENDATION

It is recommended that:

- The Department of the Premier and Cabinet develop an appropriate framework which will provide Parliament with an assurance that all information in annual reports complies with the *Financial Administration and Audit Act 1977* and other legislative requirements.**

3.4 Other forms of reporting

Are departmental annual reports being supplemented by other forms of reporting?

The Government and its agencies are increasingly using other forms of reporting to Parliament and the community to give an account of their achievements. These include reports cross-government and whole-of-government policy initiatives such as the SmartState initiative, reports on infrastructure, health and other areas of interest which generally involve more than one department.

Findings

The current legislative accountability framework is focused on the operations of individual departments and the responsibilities of accountable officers. In this framework the primary accountability document is the departmental annual report.

The operations of government are becoming more complex resulting in many policy objectives being addressed through multi-agency programs. There is currently no legislative accountability framework for these cross-agency activities.

The reports listed below were assessed against the framework of eight criteria used to look at the quality of performance information outlined in Section 4 of this report. In addition, the audit considered relevant prescribed requirements to determine the value of the reports as tools for acquitting accountability obligations to the Parliament:

- *SmartState Strategy Progress Report for 2007*
- *South East Queensland (SEQ) Infrastructure Plan and Program 2005 to 2026*
- *Queensland Public Hospital Performance Report 2006/07.*

Audit found that the *SmartState Strategy Progress Report for 2007* and the *South East Queensland (SEQ) Infrastructure Plan and Program 2005 to 2026* reports did not meet either the prescribed requirements for a departmental annual report or the better practice principles outlined in Section 4. Although they are tabled in Parliament and would appear to be reporting on government achievements and performance, these reports currently lack the rigor and framework to be considered as effective performance reports which enhance accountability to the Parliament for planned performance.

The *Queensland Public Hospital Performance Report* is a prescribed requirement of the *Health Services Act 1991*, which was amended in November 2005 following the Queensland Public Hospitals Commission of Inquiry and the Queensland Health Systems Review into the Department of Health. This Report is produced annually, with quarterly reports also tabled in Parliament for information. The legislation grants the Department of Health the option to produce a separate report or to include the required data in their annual report. The Department of Health has complied with both the prescribed requirements of the Health Services Act and the eight quality criteria of performance information. The audit noted the sound quality of the presentation of the performance data.

The Department has produced the *Public Hospital Performance Report* separately to the Department's annual report for the last two reporting periods (2005-06 and 2006-07). However, both of these public hospital performance reports were tabled more than seven months after the end of the relevant reporting period. This impacts on the timely provision of information to the Parliament and weakens the role of the Department of Health's Annual Report as the key accountability document. Discussions with the Department of Health have identified two main issues that impact on their ability to provide a comprehensive report to Parliament more quickly. Firstly the complexity of data collation from all public hospitals across the State and secondly the need to fully investigate safety and quality issues prior to reporting. However, reporting would be more timely if the Department of Health included the public hospitals performance report in the annual report or tabled it within similar timeframes.

Conclusion

The *SmartState Strategy Progress Report* and the *SEQ Infrastructure Plan* newsletter were useful in giving the public an overview of projects undertaken, including progress updates of selected projects. While these documents are not formal accountability documents, they could be perceived as such due to the way they are presented. In their current format, they fail to meet the eight criteria used to assess the quality of performance information outlined in Section 4 of this report. For these other reports to be able to enhance accountability of the Government to Parliament they would need to be brought within a similar legislative framework as the *Public Hospital Performance Report* or departmental annual reports.

The *Public Hospital Performance Report* could be improved by including national and international benchmarking data and by releasing the report in a more timely manner.

All progress reports to Parliament should allow for the assessment of performance and so enable the Parliament to hold the Government to account for the use of public moneys. If other reports on government plans do not meet the same requirements of departmental annual reports then their usefulness as part of the overall accountability regime is diminished.

With the increase in the level of multi-department and cross-government programs, it would enhance accountability for the legislative framework that governs the preparation of annual reports by individual departments to be expanded to include these new forms of reporting to Parliament.

Section 4

Beyond compliance – how ten agencies compare to better practice

4.1 A framework for disclosure and transparency

Why should agencies present performance information over and above compliance?

There is increasing expectation from the wider community that government services provide value for money. Good performance information that goes beyond the minimum requirements of the legislation is needed to demonstrate this. The handbook *Disclosure and Transparency Frameworks – Standards Australia*¹⁰ sets out guidelines on disclosure and transparency for entities trying to become better corporate citizens.

Use of the criteria from the guidelines (Standards Australia) to prepare annual reports would allow accountable officers to be confident that the performance information demonstrates accountability for the expenditure of public funds.

To do this, annual reports should:

- report on goals and objectives that are clear and measurable
- focus on results and outcomes
- discuss results against expectations
- be complete and informative
- explain new, revised or discontinued performance measures overtime
- provide evidence of value for money
- discuss risks, strategies and the external operating environment
- provide timely access to information.

The same sample of ten departments was used for a detailed assessment of their annual reports against better practice for presenting performance information. The findings and conclusion are presented below with more detail in Section 4.2. The audit also identified a number of key areas that could be included in future annual reports to enhance completeness and accountability, see Section 4.3.

Findings

The audit found that transparency and disclosure of agency performance reporting is hindered by several factors.

Firstly, the objectives in agencies' strategic plans are stated in general terms which make it difficult for the reader and Parliament to be certain what level of performance or result was planned to be achieved for the community. This makes it unclear whether the results reported represent success or failure. As the reports contained few measures of client responses to the services provided, success could not be determined against either planned achievement or actual result.

Secondly, agencies did not include discussions about the 'value for money' of the services delivered on behalf of the Government. Measures of efficiency and effectiveness were also sparse throughout the reports. This raises questions about the adequacy of the planning documents the annual reports are based on. Although outside the scope of this audit, if planning documents contained clearer statements of what is to be delivered through either better goals and objectives or more comprehensive performance measures, the quality of annual reports would also likely improve.

¹⁰ *Disclosure and Transparency Frameworks – Standards Australia, 2004.*

Lastly, the use of selective and isolated performance data that is inconsistent from year to year provides little opportunity for agencies to discuss reasons for both high and poor performance. It also limits discussion of any actions planned to address objectives or strategies that are successful and need to be documented and celebrated or strategies that are ineffective or inefficient and need to end. The use of trend data that is consistent and complete from year to year would provide the community with greater accountability and transparency for the use of taxpayer funds.

Conclusion

Agencies are better at reporting activities and outputs rather than their outcomes. It is acknowledged that reporting performance against planned outcomes presents a greater challenge but accountability is needed nonetheless. If agencies adopt the Standards Australia framework for disclosure and transparency it would be easier for report readers to see how the services provided are making a difference for Queenslanders.

When combined with the finding that many agencies did not include trend data in the reports to allow comparisons of performance, it is clear that accountability is weakened.

4.2 Results of assessment against better practice criteria

Table 4.1 — Goals and objectives are clear and measurable

<p>1. Better practice in setting goals and objectives that are clear and measurable:</p> <p>There should be clear links between the report, the strategic plan and the information used to judge budget allocations. They should include a charter, list of aims, client groups and goals or objectives that are specific and relevant; define impacts on the community, economy or the environment; are measurable and auditable; be easily understood by readers; and are aimed at meeting the specified needs of a target group.</p> <p>A good example was:</p> <p><input checked="" type="checkbox"/> To provide a quality public education system that delivers opportunities for all students to achieve learning outcomes and reach their potential - <i>Department of Education, Training and the Arts.</i></p>	
<p>Audit found:</p> <ul style="list-style-type: none"> ● goals of most agencies were too general making them difficult to report specific achievements ● agencies clearly identified their roles, functions and powers, but were poor on detailing their statutory obligations ● five of the agencies did not disclose and fully report all the goals from their strategic plan ● except for one agency, MPS outputs still require the establishment of an objective to allow for assessments of output achievements to be made. 	<p>Examples of unclear and hard to measure objectives:</p> <ul style="list-style-type: none"> <input checked="" type="checkbox"/> enhance operational service delivery <input checked="" type="checkbox"/> develop robust partnerships with our partners <input checked="" type="checkbox"/> build organisational capability <input checked="" type="checkbox"/> contribute to the National Agenda.
<p>This means</p> <p>Clearer links should be established between the agency planning documents and the annual report, particularly in developing goals that are clear and measurable and cover all the agency's statutory obligations.</p>	

Table 4.2 — Focusing on results and outcomes

<p>2. Better practice in focusing on results and outcomes:</p> <p>The annual report should provide a clear discussion on what the agency planned to achieve, did achieve and plans to achieve in the future. This includes reporting on services delivered and outcomes for clients.</p> <p>A good example was:</p> <p><input checked="" type="checkbox"/> Department of Emergency Services Annual Report. It provided a full six year performance summary on each of its goals and included explanatory notes and a discussion of key trends. See page 11 of the <i>Department of Emergency Services Annual Report 2006-07.</i></p>	
<p>Audit found:</p> <ul style="list-style-type: none"> ● a focus on how much activity and how many services were provided within the outputs rather than reporting on their results and outcomes ● little explanation of how the reported activities contributed to whole-of-government outcomes and government priorities ● only four of the ten reports provided the performance measures on all the goals from the strategic plans and only five included all their output measures ● only one agency included performance information on client satisfaction with the services provided ● no discussion of the relationship between costs and results ● minimal reporting on resource inputs, such as, human, financial and other resources. 	<p>Examples of focusing on activities rather than achievements:</p> <ul style="list-style-type: none"> <input checked="" type="checkbox"/> \$XX million over the next five years of the <named> Plan was provided in 2006-07 to enable expansion of services <input checked="" type="checkbox"/> commenced a review of <named> policy/study/legislation.
<p>This means</p> <p>Parliament is provided with reports on how busy agencies are rather than on what has been achieved for the community. This makes it hard for Parliament to judge the efficiency, effectiveness and economy of the use of public monies.</p>	

Table 4.3 — Discussing results against expectations

<p>3. Better practice in discussing results against expectations:</p> <p>Planning documents should clearly set out the results the agency is expecting to achieve with the resources available and the strategies to be employed to do so. Agency targets allow readers to assess the success or otherwise of the agency’s performance. Agencies need to report actual results against expectations or targets and include the reasons for any significant variance from the target.</p> <p>A good example was:</p> <p>The Department of Communities included, in its annual report, a four-page overview of their performance against expectations. The report outlined for each of their strategic goals the key achievements against published performance targets. There was also a discussion of the way forward in light of the actual result.</p> <p><input checked="" type="checkbox"/> Percentage of youth justice conferences where participants, including the victim, are satisfied with the outcome. Target 95% Result 98.3%.</p>	
<p>Audit found:</p> <ul style="list-style-type: none"> ● vague descriptions of many agency goals make it difficult to assess the intended impact or achievement ● only one agency reported on all its strategic goals and performance measures, their expected impact and level of achievement ● results often state the aims of a program rather than any achievements ● only five agencies included achievements against their published output measures in their plans. Of these five only three provided any explanations of variances or discussed what remedial actions were necessary to lift performance back to expectations ● all agencies have published targets in their MPS, however, only two included all these targets in their annual report when discussing results. 	<p>Examples of discussing results in the absence of expectations or targets:</p> <ul style="list-style-type: none"> <input checked="" type="checkbox"/> number of complaints received <input checked="" type="checkbox"/> number of <name> documents prepared <input checked="" type="checkbox"/> the program aims to reduce the incidence of dissatisfied clients through participation in the program <input checked="" type="checkbox"/> the <named> programs were funded \$XX million <input checked="" type="checkbox"/> represented Queensland on the <named> working group on <named> initiative.
<p>This means</p> <p>If planning documents do not set clear expectations or targets that are then reported against it is not possible to judge if the reported results represented success or failure. The effect is that agencies can not be held accountable for the use of public monies.</p>	

Table 4.4 — Reporting is complete and informative

4. Better practice in complete and informative performance reporting

Performance reporting is complete and informative if it:

- covers key functions and services of the agency
- reports on performance against targets
- includes honest coverage of both successes and setbacks
- includes trend data and a discussion of changes over time
- includes the results of evaluations, audits and inquiries reported in the period.

A good example was:

- The Department of Communities included, in its annual report, a discussion of its performance against its goals identifying achievement and setbacks.

OUR STRATEGIC OBJECTIVES	WHAT WE ACHIEVED	PERFORMANCE TARGETS	TARGET	RESULT	LOOKING FORWARD
Facilitating easier access to government information and services	Processed 4.7 million client inquiries and transactions (an increase of one million from 2005–06) and achieved a customer satisfaction rate of 99 per cent for the Smart Service Queensland contact centre (see page 39).	Customer satisfaction with the services delivered by Smart Service Queensland	80%	99%	Transition 23 new services to provide Queenslanders with easier access to government services and information

Audit found:

- none of the agencies provided a complete and informative assessment of agency performance against all goals and outputs
- five of the reports covered all the strategic plan goals and output measures but few included their statutory obligations or performance measures
- five of the annual reports provided information on progress against output targets
- four agencies included measures of effectiveness and efficiency for all their strategic goals
- inconsistent performance measures were often used from period to period
- only one agency published trend data on their performance measures.

Gaps in complete and informative reporting:

- output measures from MPS often not included in the annual report
- performance measures from Strategic Plan selectively reported
- explanation of failures to reach targets were not well detailed
- no trend data on key measures of agency performance.

This means

The lack of trend analysis combined with the data shortcomings, raises questions about a balanced coverage of both successes and setbacks.

By omitting any discussion of setbacks in annual reports, the reader cannot be confident the agency is committed to robust performance reporting that is fair, balanced and unbiased. This has the potential to undermine the value of the annual report as an accountability document.

The selective use of data to portray only positive aspects of performance fundamentally restricts the Parliament's ability to judge agency and government performance from year to year and hold them accountable. It limits the Parliament's ability to debate the success or failure of government policy.

Table 4.5 — Explaining changes over time

<p>5. Better practice in explaining new, revised or discontinued performance measures over time</p> <p>Performance information should be reported consistently from one year to the next to allow readers to judge trends in performance such as whether services are improving or declining. Although redundant measures should be replaced with more relevant and appropriate measures of performance, changes should be clearly identified and explained.</p>	
Audit found:	Gaps in explaining changes over time:
<ul style="list-style-type: none"> ● there was little consistency in the performance measures and information disclosed in the 2005-06 and 2006-07 annual reports of most agencies ● only two of the ten agencies disclosed and reported consistent performance measures from year to year ● where changes were made to performance measures reported between years not all of the agencies explained the reason for the changes or reported the previous measure for year to year comparison. 	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> redundant measures are omitted without any explanation <input checked="" type="checkbox"/> failing to explain changes to definitions or counting rules confuses analysis of the results.
<p>This means</p> <p>Parliament and other readers of annual reports may not be able to compare performance and judge achievements against plans over time. This may be exacerbated by the recasting of five year strategic plans each year, with changes to strategic goals and associated performance measures. However, while the suite of output measures contained in the Ministerial Portfolio Statement have not changed significantly over time, they generally are not fully disclosed in annual reports.</p>	

Table 4.6 — Providing evidence of value for money and benchmarking

6. Better practice in providing evidence of value for money and benchmarking

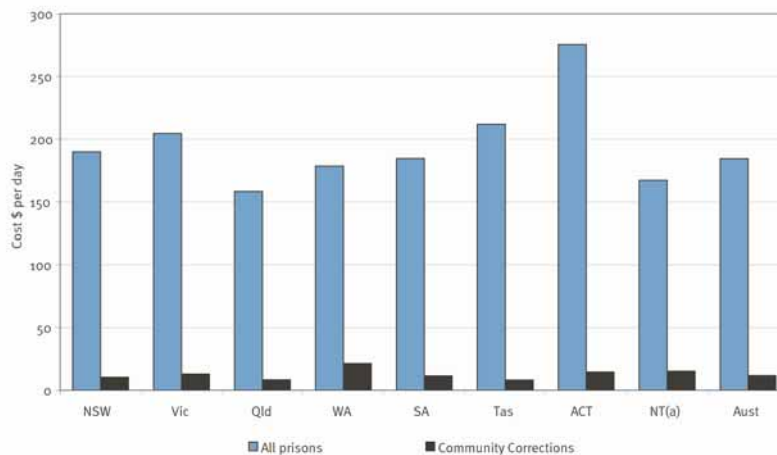
In reporting value for money, agencies should:

- define their target population or client base
- identify main outputs and outcomes provided to clients
- disclose costs involved in providing the main outputs and, where possible, outcomes
- benchmark their operations against similar organisations or the private sector.

A good example was:

The Department of Corrective Services included a chart in their annual report showing the cost per prisoner/offender per day for 2005-06 compared to other national jurisdictions. This provides the reader with more context to make their judgement and is illustrated in Figure 4.1 below.

Figure 4.1 — Cost per prisoner/offender per day for 2005-06



Source: Queensland Corrective Services

Audit found that for benchmarking:

- none of the agencies comprehensively compared their results to similar organisations in other jurisdictions or to national averages, even though a range of comparable data is available and easily accessible
- performance measurement information included in annual reports differs markedly from that agreed by State Ministers with their interstate and Australian Government equivalents.

Sources of benchmarks available to departments:

- Report on Government Services – the Productivity Commission
- Office of Economical and Statistical Research – Treasury Department
- reports by specialist agencies such as:
 - Bureau of Crime Statistics
 - Australian Institute of Health and Welfare
 - Productivity Commission
- annual reports of similar agencies in other jurisdictions.

Audit found that for cost efficiency and effectiveness measures:

- agencies are not reporting on cost effectiveness despite this being a legislative requirement
- only one agency reported on the relationship between its inputs and outputs
- some agencies reported on some efficiency measures, but failed to explain how the relationship between their inputs and outputs led to the result.

Examples of poor reporting on cost, efficiency and effectiveness:

- in 2006-07 \$XX million was invested to support <named NGO> to provide <named> service
- the Department expended \$XX million on capital works, involving the completion of over 500 new or significantly refurbished facilities.

This means

Having benchmarks to compare performance provides the reader with the context to judge whether the agency's performance is better or worse than other agencies, states or countries.

Most State agencies collate performance measures to satisfy their funded national arrangements, yet few use this information or disclose the benchmarks in their annual report. If there are valid reasons for excluding these measures alternatives should be developed.

Auditor-General Report No. 4 for 2007 highlighted the difficulty most agencies have in meeting the basic costing requirements for outputs. These measures should be included in the output statement, but currently few agencies have developed adequate costing measures. As a result while agencies report on the total cost of outputs they did not report cost effectiveness.

Table 4.7 — Discussing risks, strategies and external factors

7. Better practice in discussing risks, strategies and the external operating environment	
Agencies should provide information on environmental factors affecting the agency's ability to achieve objectives.	
Audit found:	Examples of factors to include:
<ul style="list-style-type: none"> generally the annual reports audited discussed significant external and internal challenges that could affect the agency's operating environment. However, the likely impacts on its strategic goals or objectives, and the agency's responses to these challenges were not well discussed. six annual reports discussed the effectiveness of the agency's system of risk management and internal control. 	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> the operating environment, external and internal factors that affect day to day activities <input checked="" type="checkbox"/> factors that might impact on present and likely success <input checked="" type="checkbox"/> responses to significant public interest issues <input checked="" type="checkbox"/> future developments in the operating environment.
<i>This means</i>	
Not adequately discussing these items makes it unclear how well the agency is positioning itself and the Government to respond to external factors and risk.	

Table 4.8 — Access to annual reports

8. Better practice in providing timely access to annual reports	
The annual report of an agency should be easily accessible, as it is the primary means for Parliament and the public to judge the performance of an agency and how well it spends public money.	
Audit found:	Examples of possible improvements to timely access:
<ul style="list-style-type: none"> all the annual reports audited were easily accessible to readers on the internet although not necessarily on the same day as tabled in Parliament five of the agencies made previous annual reports available electronically on their web sites for comparative purposes. 	<ul style="list-style-type: none"> <input checked="" type="checkbox"/> archives of the pertinent and previous five annual reports, Ministerial Portfolio Statements and strategic plans should be available for comparison <input checked="" type="checkbox"/> electronic versions of the annual report should be available on the same day as tabling in Parliament.
<i>This means</i>	
Where previous planning documents and annual reports are not easily accessible it is difficult for the reader to make comparisons between current and previous performance.	

4.3 Enhancing completeness information

Annual reports need to be complete and informative to enhance accountability. Audit noted several key areas where accountability to the Parliament and community could be enhanced. These areas include the results of evaluations and audits, financial summaries, capital works and probity and proprietary matters.

Results of evaluations, Auditor-General's reports and other external reviews

The inclusion in the annual report of the results of evaluations, audits and other external reviews ensure the agency's reporting is complete and informative for the reader of the annual report, including any assurance or shortcomings that should be considered in assessing performance. Guidance¹¹ developed by the SDPC provides a valuable source of advice on how to incorporate evaluation into a performance management culture.

Financial summary

The PAC in its Report No. 59 December 2001 required agencies to include a financial summary ahead of their financial statements. No prescribed format exists. Section 60 of the FMS also specifies the necessary elements of systems for information about financial performance. As a minimum, agencies should include:

- a brief financial summary with explanations against budget appropriation in total and by output (i.e. budget and financial objectives and target)
- a statement of whether the agency is operating within its budget and achieving reasonable value for money
- assurance that the agency is minimising its costs and risks in relation to its liabilities and contingent liabilities
- key financial ratios (exemplifying performance) with an explanation of the significance of each
- a preface to the financial statements including management's comments and discussion on the results.

This would allow Members of Parliament and the community to assess whether budget objectives are achieved as planned and appropriated.

Capital works

Queensland is investing in infrastructure at levels far more than other Australian states. In 2006-07 total capital spending exceeded \$14b. Containing costs and delivering projects on schedule and to specification is a critical requirement in meeting agency goals and delivering services to an increasing population.

Agency annual reports could enhance accountability for capital works by including the following information for each major project:

- the original and revised budget
- scheduled and revised completion
- progress to date.

Probity and propriety

With the use by governments of contracted arrangements, such as public private partnerships and outsourcing of services, it is becoming increasingly important that these arrangements are clear and transparent. Accountability could be enhanced by including details of contractual arrangements as matters of public interest, where third parties are used to help the government and agency in achieving their outcomes and goals. This would include details of the service provider, the arrangements entered into and assessment of performance against the service delivery standards established in the arrangements for rewards, incentives and penalties.

¹¹ Service Delivery and Performance Commission, *Using evaluation to drive continuous improvement*. November 2007.

Section 5

Results

5.1 Compliance audit results with governance requirements

Compliance with governance requirements	Number compliant (/10)
Financial Management Standard 1997	
Section 95 Content of Annual Reports	
(1) The following information about an agency must be included in the agency's annual report—	
(a) the constitution, goals and functions of the agency, including, for example—	
(i) the Act under which the agency is established and the date it was established; and	7
(ii) the agency's statutory objectives, functions and powers; and	3
(iii) the agency's goals and outputs identified in its strategic plan;	10
(b) the location of the agency's principal place of business and regional offices;	10
(c) its structure, including, for example—	9
(i) a summary of the agency's organisational structure;	
(f) information about the agency's operations, including, for example—	10
(i) an outline of the nature and range of the agency's operations and a summary of significant operations; and	
(ii) changes in the law,	4
the economic climate or	3
other factors that have affected, or may affect, the agency	7
(iii) human resourcing issues, including, for example, an organisation chart, staffing policies and establishment, management development, industrial relations and safety; and	10#
(iv) matters of interest to special interest groups served or regulated by the agency; and	8
(j) a summary of the agency's systems for obtaining information about financial	4
and operational performance;	6
(k) details about the name, membership and activities of any committees established for the agency's risk management, including, for example, the agency's audit committee and risk management committee;	6
Section 96 Additional requirements for other entities in annual or final report	
(1) An agency's annual report must also include—	
(a) a list of entities controlled by the agency, together with—	
(i) a statement of the functions of each entity; and	5
(ii) details of financial reporting arrangements for each entity; and	9
(iii) if an entity has been exempted, under a regulation, from audit by the Auditor-General, the way in which the regulation provides for the entity's audit; and	1

Whilst ten agencies have included some level of human resourcing issues, disclosure varies from poor to comprehensive.

Compliance with governance requirements	Number compliant (/10)
(b) a list of other bodies that— (i) have been formed or acquired by the agency to carry out functions in relation to the agency's functions (excluding normal contractual arrangements); and	1
(ii) receive funds from the agency to carry out the agency's functions.	3
(2) A department's annual report must also include a schedule of statutory authorities or instrumentalities that are part of the department, together with details of— (a) legislation under which the authorities or instrumentalities are established; and	9
(b) whether the transactions of the authorities or instrumentalities are accounted for in the department's financial statements.	8
Annual Report Guidelines for Queensland Government Agencies 2006-07	
4 Other Statutory Requirements	
(a) <i>Public Sector Ethics Act 1994</i> , give details of action taken during the reporting period to comply with certain sections	6
(b) <i>Whistleblowers Protection Act 1994</i> , Ministers must report upon public interest disclosures received by the Department in compliance with this Act	8
5 Other Content Requirements	
(b) Remuneration details of agency's Executives including the Chief Executive Officer the aggregate remuneration of all senior executive officers whose remuneration for the financial year is \$100,000, be disclosed in the notes of department's financial statements	10
the number of senior executives whose total remuneration for the financial year falls within each successive \$20,000 bank commencing at \$100,000 be disclosed in the financial statements	10
(c) Cost of boards, committees information on the costs associated with remunerating all government boards, committees and statutory bodies (and any committees or sub-committees of the parent board) under the portfolio be included in the annual report	5
include a description of the roles, functions, responsibilities and achievements of each board during the financial year	3
functions and achievements of the board been disclosed in the relevant annual report	2
(d) Audit committees Included a summary of the role and achievements of audit committees	7
A statement that the audit committee has observed the terms of its charter and had due regard to Queensland Treasury's Audit Committee Guidelines be included in the annual report	5
(n) Recordkeeping list compliance with the provisions of the Public Records Act 2002 and on the implementation of Information Standard 40: Recordkeeping	8
6 Optional Reporting Requirements	
Freedom of Information activities over the reporting period	5
Native Title issues	8
Queensland Government's Privacy Policy	6
7 Machinery of Government changes – impact on annual reporting	
Include standard text explaining machinery of government changes	4*

* However, some agencies deviated slightly from the standard text supplied and four were not required to include any changes.

Source: QAO

5.2 Compliance audit results with performance requirements

Compliance with performance requirements	Number compliant (/10)
Financial Management Standard 1997	
Section 95 Content of Annual Reports	
(1) The following information about an agency must be included in the agency's annual report—	
(e) a review of the progress in achieving the agency's statutory obligations;	2
(g) a review of the agency's progress towards achieving its goals and delivering its outputs for the year, including details about the agency's actual performance in relation to its goals and outputs	0
measured using the performance measures in the agency's strategic plan	3
(h) a review of the proposed forward operations of the agency, including—	7
(i) its forward plans, proposed changes to operations and the need to continue current operations; and	
(ii) the goals identified in the agency's strategic plan for the next financial year;	4
(i) information about how efficiently and effectively the agency has carried out its operations, including a review of the agency's progress in;	0
benchmarking and	0
achieving best practice and	0
cost-effectiveness in carrying out its operations	0
Annual Report Guidelines for Queensland Government Agencies 2006-07	
5 Other Content Requirements	
(a) Summary of financial data – PAC endorsed Report No. 59 Dec 2001.	7
(e) <i>Environmental Protection (Waste Management) Policy 2000</i> , to prepare and implement a waste management plan, and to report upon the plan in the annual report	8
(f) <i>Women in the Smart State Directions Statement 2003-2008</i> , report on initiatives, for example: <ul style="list-style-type: none"> • Representation of women at salary level • Percentage of women on boards of statutory authorities • Activities in the department that promote the balancing of work and family responsibilities • Initiatives to develop women's career development • Programs and opportunities for increasing participation in IT fields • Other activities new or continuing which separately benefit women as internal or external clients 	8
(h) <i>Multicultural Queensland – making a world of difference policy</i> , report on action plans	7
(m) <i>Engaging Queenslanders: Get involved, Improving community engagement across the Queensland Public Sector July 2000</i> , report on community engagement activities, highlighting ways in which improved community engagement has delivered better outcomes for communities	8

Source: QAO

5.3 Compliance audit results with specific requirements

Compliance with specific requirements	Number compliant (/10)
Financial Management Standard 1997 Section 95 Content of Annual Reports	
(1) The following information about an agency must be included in the agency's annual report—	
(ea) information about overseas travel undertaken by the agency's officers and, for a statutory body, members of the body, including, for example— (i) the names of, and the offices or positions held by, the officers or members; and	8
(ii) the destination, purpose and cost of the travel	9
(eb) information about the agency's expenditure on each category of consultancies, including a description of the category;	8
(l) details of the public availability of the annual report.	9
Annual Report Guidelines for Queensland Government Agencies 2006-07 5 Other Content Requirements	
(g) Commercially Sensitive Issues: PAC Report No. 59 December 2001, Where information is not disclosed because it is deemed commercially sensitive, a ministerial explanation should be provided.	No agencies disclosed
(i) Voluntary Early Retirement (VER): Minister for Employment and Industrial Relations and Public Service Commissioner Directive No. 11/05 each Department shall state the number and value of VER packages taken by employees during the period.	9
(j) Shared Services Initiative (SSI): Standard text to be included in agency annual reports.	7
(k) Travel: A template is included to ensure consistent reporting including name of officer and position, destination, reason for travel, agency cost and contribution from other agencies or sources	8

Source: QAO

5.4 Compliance audit results with procedural requirements

Compliance with procedural requirements	Number compliant (/10)
<p>Financial Administration and Audit Act 1977</p> <p>Part 2 Division 7 Financial statements and annual reports</p> <p>Section 37 Purpose</p> <p>(1)(b) the accountability of accountable officers for public moneys and other moneys including, for example, by requiring each accountable officer of a department to prepare an annual report and general purpose financial statements about the operations of the department.</p>	10
<p>Section 39 Annual Report by department and short form annual Report</p> <p>(1) Within 4 months after the end of each financial year (the “preparation period”) —</p> <p>(a) the accountable officer of a department, other than the official secretary and the Clerk of the Parliament, must prepare and give to the appropriate Minister a written report on the operations of the department during the financial year and give a copy of the report to the Treasurer;</p>	10
<p>(4) Without limiting subsection (1), the accountable officer must include in the report —</p> <p>(a) information required by the appropriate Minister to enable the Minister to assess the efficiency, effectiveness and economy of the department;</p>	6@
<p>(b) information required under a financial management standard;</p>	0
<p>(c) a list of statutory bodies for which the appropriate Minister is responsible under the Minister’s portfolio;</p>	8
<p>Part 3A Tabling of annual reports</p> <p>Section 46K(2) Tabling of annual report</p> <p>(2) The person (Minister) must table a copy of the report in the Legislative Assembly within 14 days after receiving it.</p>	7**

@ Four agencies did not receive Ministerial requests.

** Denotes that this was difficult to determine, but all reports were tabled within four months and 14 days as required.

Source: QAO

Section 6

Appendix

6.1 PMSA approach

The legislative basis for this audit is Section 80 of the *Financial Administration and Audit Act 1977* (FA&A Act). A performance management systems audit (PMSA) is an independent examination of whether an entity or part of an entity's activities have performance management systems in place to enable management to assess whether its objectives are being achieved economically, efficiently and effectively. While a PMSA will not review or comment on government policy, it may extend to include a focus on the entity's performance measures and whether in the Auditor-General's opinion, the performance measures are relevant, purposeful and fairly represent the entity's performance.

The intent of a PMSA is to provide independent assurance to the Parliament, and to act as a catalyst for adding value to the quality of public administration by assisting entities in the discharge of their governance obligations. A PMSA has a focus on ascertaining whether the systems and controls used by management to monitor and measure performance, assist the entity in meeting its stewardship responsibilities.

The statutory office of the Auditor-General, as the external auditor for the Parliament, is established pursuant to the FA&A Act. The Auditor-General is independent and is not subject to direction by any person in the way audits are conducted. Although the Auditor-General takes note of the entity's perspective, the scope of a public sector audit is at the sole discretion of the Auditor-General as the FA&A Act prescribes that the Auditor-General may conduct an audit in the way the Auditor-General considers appropriate.

The Queensland Auditor-General's Guidelines for the Conduct of Audits of Performance Management Systems is available at www.qao.qld.gov.au.

6.2 Audit methodology and criteria

6.2.1 Audit methodology

The following audit procedures were used:

- an examination of key legislation in relation to the content of annual reports
- policy documents and guidelines developed by central agencies and individual departments
- interviews with Department of the Premier and Cabinet nominated officers involved in setting guidelines and minimum standards for annual reporting requirements in Queensland
- an examination of the type of performance information collected and the presentation of the information published in annual reports
- the preparation of a Report to Parliament on the findings and resulting recommendations of the audit.

6.2.2 Audit criteria

The audit sought to assess whether annual reports are in compliance with relevant Act's and that the required performance information and measures are disclosed in a manner that fairly represents the performance achievements. The principal source of audit criteria include:

- *Financial Administration and Audit Act 1977*
- *Financial Management Standard 1997*
- *Annual Report Guidelines for Queensland Government Agencies 2006-07*
- The policies, strategies, initiatives and programs currently in place for enhancing annual reports and the fair representation of performance through reporting in Queensland
- The Institute of Internal Auditors Australia – Queensland Annual Report Awards and the national Australasian Reporting Awards (ARA) used as a benchmark in other public sector jurisdictions

- Sections of the QAO audit program for Auditor-General's Report No. 4 for 2007 *Are departmental output performance measures relevant, appropriate and a fair representation of performance achievements?*
- Annual report policy and guideline requirements in Australia from Commonwealth and State central agencies
- Annual Report award criteria utilised across Australia
- Standards Australia Handbook 405-2004 - *Disclosure and Transparency Frameworks*
- Better practice guides and audit programs from other Auditor's-General e.g. ANAO, VAGO, AONSW and OAG WA and international jurisdictions, OAG Canada, OAG British Columbia, the CCAF and NAO.

6.3 References

6.3.1 Bibliography

The primary references sourced during the research undertaken for this audit are detailed below:

Queensland

Department of the Premier and Cabinet. *Annual Report Guidelines for Queensland Government Agencies 2006-07*. May 2007.

Auditor-General of Queensland. *Report to Parliament No. 4 for 2007. Are departmental output performance measures relevant, appropriate and a fair representation of performance achievements?*

Service Delivery and Performance Commission. *Performance Management Review Framework*. February 2007.

Auditor-General of Queensland. *Better Practice Guide – Output Performance Measurement and Reporting*. February 2006.

Office of the Queensland Parliamentary Counsel. *Financial Management Standard 1997*.

Office of the Queensland Parliamentary Counsel. *Financial Administration and Audit Act 1977*.

National

Auditor-General of Victoria. *Parliamentary Appropriations: Output Measures*. November 2007.

Australian National Audit Office. *Audit Report No. 23 for 2006-07. Application of the Outcomes and Outputs Framework*. February 2007.

Standards Australia. *Handbook : Disclosure and Transparency Frameworks, HB 405-2004*.

Australian National Audit Office. *Better Practice Guide – Better Practice in Annual Performance Reporting*. April 2004.

Australian National Audit Office. *Better Practice Principles for Performance Information*. April 2004.

New South Wales Audit Office. *Judging Performance from Annual Reports : Review of Eight Agencies' Annual Reports*. 2003.

Auditor-General of Victoria. *Performance Audit. Performance management and reporting – Progress report and a case study*. April 2003.

New South Wales Audit Office. *Reporting performance : a guide to preparing performance information for annual reports*. November 2000.

Audit Office of NSW. *Judging Performance from Annual Reports*. November 2000.

International

Auditor-General of British Columbia. *Building Better Reports: Our assessment of the 2004/05 Annual Service Plan Reports of Government*. March 2006.

Controller and Auditor-General of New Zealand. *Reporting Public Sector Performance 2nd Edition*. January 2002.

Auditor-General of British Columbia. *Building Better Reports Public Performance Reporting Practices in British Columbia*. 2001-02.

Auditor-General of British Columbia. *Performance Reporting Principles For the British Columbia Public Sector Principles Endorsed by Government, the Select Standing Committee on Public Accounts and the Auditor General of British Columbia*. November 2003.

6.3.2 Websites

www.qao.qld.gov.au	Queensland Audit Office
www.premiers.qld.gov.au	Department of the Premier and Cabinet, Queensland
www.treasury.qld.gov.au	Queensland Treasury Department
www.sdpc.qld.gov.au	Service Delivery and Performance Commission
www.anao.gov.au	Australian National Audit Office
www.audit.vic.gov.au	Victorian Auditor-General's Office
www.audit.nsw.gov.au	Audit Office of New South Wales
www.audit.wa.gov.au	Western Australian Audit Office.
www.standards.com.au	Standards Australia
www.finance.gov.au	Commonwealth Department of Finance and Deregulation

6.3.3 Acronyms

DPC	Department of the Premier and Cabinet
FA&A Act	<i>Financial Administration and Audit Act 1977</i>
FMS	<i>Financial Management Standard 1997</i>
NGO	Non-Government Organisation
PAC	Public Accounts Committee
PMS	Performance Management Systems
PMSA	Performance Management Systems audit
SDPC	Service Delivery and Performance Commission
Treasury	Treasury Department

6.3.4 Glossary

Accountability	Accountability is a responsibility on public sector entities to achieve their objectives, with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.
Economy	The acquisition of the appropriate quality and quantity of resources at the appropriate times and at the lowest cost.
Effectiveness	The achievement of the objectives or other intended effects of activities at a program or entity level.
Efficiency	The use of resources such that output is optimised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.
Output	Measurable direct results of activities provided to external clients, such as products and services.
Output measure	Measures of quantity, quality, timeliness, location or cost used to describe how many, how well, when or how frequently the dimensions of an output (products or services) consist of. This is the basis for budget appropriation to Departments and accountability for service delivery.
Performance measure	A measure that focuses on a specific aspect of performance, used to help judge performance with the ultimate objective of improving performance. Measures of performance are measures of economy, efficiency and effectiveness.

Section 7

Publications

7.1 Publications

Publication	Date released
Annual Report 2007	October 2007
INFORM Issue 1 for 2008	February 2008
Guidelines Better Practice Guide — Risk Management Checklist for Organisational Change — Managing MOG Changes Checklist — Preparation of Financial Statements Better Practice Guide — Output Performance Measurement and Reporting Better Practice Guide — Strategies for earlier financial statement preparation	October 2007 September 2006 August 2006 February 2006 December 2005
Other Auditor-General of Queensland Auditing Standards Performance Management Systems Audits — An Overview	April 2007 January 2006

7.2 Auditor-General's Reports to Parliament 2008

Report No.	Subject	Date tabled in the Legislative Assembly
1	Auditor-General's Report No. 1 for 2008 Enhancing Accountability through Annual Reporting A Performance Management Systems Audit	April 2008

Queensland Audit Office publications are available at www.qao.qld.gov.au or by phone on (07) 3405 1100

