

PREFACE

Legislators, government departments, taxpayers, service recipients, investors, employees and the public in general, and the management of the organizations themselves, all have an interest in both the financial and non-financial performance of government business enterprises.

- to assist in the formulation and implementation of policy;
- to assist in the planning of service provision and to monitor the implementation of planned change;
- to monitor standards of service and organizational effectiveness;
- to monitor the extent to which resources are being used effectively;
- to ensure fair distribution and accessibility to potential users; and
- to improve accountability.

At present, there is no agreed conceptual basis or set of generally accepted principles for the reporting of performance and how performance reporting should be integrated with other forms of financial reporting.

The International Public Sector Guideline 1, "*Financial Reporting by Government Business Enterprises*" acknowledges that financial statements may in certain circumstances provide insufficient information to users. In particular, enterprises operating in non-competitive or monopolistic environments, or which have non-financial or social objectives in conflict with commercial objectives, might find it appropriate to report on their performance against other objectives. But the guideline does not consider how or in what from this performance might be reported.

Worldwide social and economic changes are increasingly highlighting the need for all enterprises, but particularly government business enterprises, to be accountable for many aspects of performance. The aim of this study is to identify and consider some of the principal users of performance information; the needs of the users; and some of the forms of reporting available.

The project is concerned primarily with the provision of information provided about an enterprise's performance (covering both financial and non-financial aspects of performance) that is supplementary to the information provided in financial statements, in the context of general purpose financial reports. Although the study is concerned only with performance reporting by government business enterprises, as defined in IFAC Public Sector Guideline 1, many of the principles are relevant to public organizations in the wider sense, and in particular to non-business activities of governments. The IFAC Public Sector Committee intends to carry out further work to consider how these principles might be applied to such other public sector enterprises.

As readers will see from the bibliography there is already a wide literature on performance reporting generally. In drafting the study, the Public Sector Committee has deliberately not attempted to 'reinvent the wheel', but to pull together existing thought and to summarize it in a way that it is hoped will be useful to its constituency. In particular, we have drawn heavily on the publication, "*Developments in Performance Measurement and Financial Management*" published by the Fédération des Experts Comptables Européens (1991).

Throughout the study the term 'enterprises' is used to refer to government business enterprises.

Performance Reporting by Government Business Enterprises

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CHAPTER 1

INTRODUCTION

Background

- .001 International Public Sector Guideline 1, "*Financial Reporting by Government Business Enterprises*" addressed the application of international accounting standards to the financial statements of government business enterprises. It defines the "minimum level of reporting necessary to provide adequate information to users". This requires enterprises to prepare financial statements that conform with International Accounting Standards and comply with appropriate national accounting standards and the requirements applicable to other business enterprises. However, it specifically acknowledges that there may be circumstances in which "it may be appropriate to report additional information" (paragraph 10), and suggests that such circumstances would include:
- when a government business enterprise is operating in a non-competitive or monopolistic environment, in which case "*financial results alone may be an inadequate measure of performance; thus, it may be appropriate to provide information on productivity/efficiency as additional performance measures*"; and
 - when government business enterprises have non-financial or social objectives which conflict with their commercial objectives, in which case "*it may be appropriate for them to report on the extent to which they have achieved these other objectives and the impact on financial performance*".
- .002 The guideline does not go on to consider how these other aspects of performance might best be reported, or in what form.
- .003 This study considers how such information about the performance of the enterprise might be reported. It covers:
- the terminology to be adopted and related conceptual issues;
 - the framework of performance reporting, with particular reference to the information needs of different user groups;
 - the qualitative characteristics of performance information;
 - the definition and setting of performance standards and targets;
 - the reporting of performance information; and
 - the audit of performance information.
- .004 It concludes with a survey of current international practice in this area. Practical examples drawn from across the world are reproduced in the appendices.

Scope

- .005 This study is concerned with performance reporting by government business enterprises, as defined in International Public Sector Guideline 1. It includes such government business enterprises as national railways, energy utilities and communication services.
- .006 It is concerned with the provision of information about an enterprise's performance (covering both financial and non-financial aspects of performance) in addition to the information provided in financial statements, in the context of general purpose financial reporting.
- .007 General purpose financial reports are prepared and presented at least annually and are directed towards the common information needs of a wide range of users. Some of these users may require, and have the authority and ability to obtain, information in addition to that contained in the financial reports. However, the majority of external users have to rely on the information provided in the report as their major source of information about the entity and, therefore, reports should be prepared and presented with their needs in mind.
- .008 The study is **not** concerned with internal reporting about performance to the management of the enterprise or related management processes or philosophies (such as total quality management), or with other forms of special reports that may be required in certain circumstances. However, the study does consider how performance measures might be included in other financial reports such as budgets and corporate plans.

- .009 Although the study is concerned only with performance reporting by government business enterprises, as defined in IFAC Public Sector Guideline 1, many of the principles are relevant to public organizations in the wider sense, and in particular to non-business activities of governments.

The need for performance information

- .010 In the public sector, financial reporting is on its own not sufficient to give those who are interested an indication of the overall performance of a particular organization. Public sector bodies differ from private sector enterprises in both their objectives and finance. The primary goal of a private sector enterprise is profit and its resources are used to that end. Public sector bodies, on the other hand, provide public services. Their organization and management will reflect a variety of political and socio-economic objectives. Although government business enterprises are normally required to operate commercially and usually take the same legal form as private sector business enterprises, the combination of the fact that they often enjoy a monopoly position and the political context in which they operate means that the user of financial reports cannot rely on simplistic measures such as return on capital employed.
- .011 As a result, the groups with an interest in the performance of government business enterprises - governments, legislators, taxpayers and consumers - all have difficulty in making informed judgements about the economy, efficiency and effectiveness of government business enterprises.
- .012 Because such enterprises have a variety of goals and objectives, some of which may conflict, measuring and assessing performance can be a difficult task. Although a number of private sector performance indicators and ratios can be useful, overall performance needs to be assessed by additional means. Often, however, such performance indicators or performance measures are difficult to define. Moreover, even where performance can be measured, assessing the significance and interrelationships of the various measurements can be difficult.
- .013 The need for all countries to improve their international competitiveness means that they must strive for greater efficiency and effectiveness in the allocation of economic resources. However, there are a number of practical difficulties in defining efficiency and effectiveness in this context. In the private sector, where measures of performance are dictated by the market mechanism, decisions are made on the basis of relative economy, efficiency and effectiveness, although in practice they may be affected by the degree of competition that actually exists. However, government business enterprises may not always be delivering services in circumstances that are even close to being a competitive market. So the test of relative market efficiency and effectiveness cannot always be applied. The issue therefore is how to formulate performance measures which will enable judgements about efficiency and effectiveness to be made.
- .014 This study considers how such measures might be defined and how a government business enterprise's performance in relation to these measures might best be reported to those with an interest in its performance.
- .015 The arrangements for auditing performance measures are also considered. There are no generally accepted principles regarding the audit of such information. Where performance measures are integrated into the general purpose financial statements, for example in the directors' report, the auditor's opinion will include them in situations where the director's report is within the scope of the audit. However, the audit status of other performance information included in the enterprise's annual report is less certain. There may be a statutory requirement to audit certain classes of performance measures, while other information included in the enterprise's annual report may not be subject to an audit at all.

CHAPTER 2

DEFINITION OF TERMS

Introduction

- .016 Government business enterprises operate within the public sector usually to meet a social or political objective. They are normally required to operate commercially, that is to make profits or to recoup, through user charges, a substantial proportion of their operating costs.
- .017 Performance reporting may be defined as "the communication of quantitative and qualitative information which identifies the results of an enterprise against specified benchmarks" (i.e., pre-determined targets). It includes performance information presented in budgets, plans or reports on the performance of individual programmes or activities in addition to the information provided in the financial statements. As already stated, while the concepts may be relevant to performance information reported in other ways, this study focuses primarily on performance information published within an enterprise's general purpose financial report.
- .018 In reporting performance, a distinction needs to be drawn between performance measures and performance indicators. A "performance measure" is a clear quantified and unambiguous expression of performance that can readily be expressed in relation to targets set. Performance measures need to be based upon a careful evaluation of the causes and effects of policy intervention. However, often it is not possible to obtain such precise measures and in such cases it is usual to refer to "performance indicators".
- .019 A performance indicator is less precise than a performance measure and usually provides only an intermediate measure of achievement. It is often used if direct measures are difficult or costly to obtain and corresponds less precisely to the objective than a performance measure. An example of a performance measure for improved service for a state-run railway enterprise would be the percentage of trains that arrive at their destination on time; an example of a performance indicator for the service objective would be fewer customer complaints.
- .020 Whatever measures or indicators are produced and used, the quality of the information available will be dependent upon the enterprise having information and management systems which are adequate and fit for the purpose.
- .021 For the purposes of this study, the following general set of definitions is also suggested:
- economy: ensuring that the appropriate quality and quantity of financial, human and physical inputs are acquired at the appropriate time and at the lowest cost, performance measures and/or indicators are required to measure economy, such as unit input costs and comparisons of input volume relative to plan;
 - efficiency: the ratio between outputs (volume and quality of goods and services) and inputs (resources), i.e., the lowest level of resources capable of meeting output specifications; performance measures and/or indicators are required, such as measures of productivity or unit costs;
 - effectiveness: the achievement of intended outcomes, i.e., providing the right goods and services to enable an enterprise to implement its policies and meet its objectives; performance measures and/or indicators are required that permit outcomes or impacts to be compared with objectives;
 - inputs: the resources used to produce the goods and services which are the output of the enterprise;
 - outputs: the goods and services produced that result from an enterprise's activity;
 - outcomes: the impacts on, or consequences for, the community of the outputs produced by the enterprise. Outcomes include both intended and unintended or indirect effects on Society at large. Using the example of a state-run railway, the outcomes are the benefits received by those using the service (acquiring the outputs) as well as the effects on those subjected, for example, to rail noise, or benefiting from less congestion on the roads.

- .022 Actual and planned inputs and outputs can be compared to give an achieved ratio for economy and efficiency. These ratios can be expressed either in physical terms, i.e., measured in terms of actual inputs and outputs, or in financial terms, i.e., the monetary value of the inputs and outputs. Both can be useful, depending on the type of information required.
- .023 Government business enterprises are frequently expected to achieve certain non-commercial objectives. These objectives relate to the impacts on or consequences for the community and affect the outcomes. Examples of such outcomes include public service obligations imposed by governments, such as obligations on postal services to provide a single cost postal service throughout a country or a railway enterprise to provide uneconomic rural and commuter services. The business managers are required to meet the public service obligations but the responsibility for the setting of these obligations lies outside the business.
- .024 Where total output and input are compared over a period of time, the "average" efficiency is being recorded. An alternative may be to compare only extra output with extra input and, in this way, measure "marginal" efficiency, i.e., to assess whether extra inputs will add to output, or will add as much as the existing outputs do on average.
- .025 Each stage of an enterprise's activities - inputs, outputs, outcomes and impacts - has qualitative attributes. These include:
- timeliness (speed of delivery of service);
 - accuracy (delivering the correct service as set by the enterprise's objectives);
 - equity (delivering an equal service to all or to those who need the service most);
 - relevance (delivering a service that meets the needs of the customers or consumers); and
 - quality (delivering a service that generates a high degree of user satisfaction).

Deciding what is to be measured

- .026 The first step in deciding what is to be measured is to identify the objectives of the enterprise concerned. The second step is to define the appropriate standards and targets for each of these objectives. These may be set by or agreed with the Government department concerned or other external regulatory body. As a minimum there should be a defined measure of performance for each of the objectives of the enterprise. In practice, however, the objectives may be 'ranked' to reflect agreed priorities or other criteria, for example the scale of spending or the risk involved.
- .027 The definition of clear and measurable objectives is critical. However, in the public sector this process can be a complex and difficult one. Sometimes the political intent may be different from the stated policy or the initial reason for the policy has been overtaken by changes in the political environment.
- .028 Any framework of performance measurement will involve the setting of targets. It will also be linked with other systems at some point, especially budgeting systems. Performance measures need at some point to link with management decisions regarding the allocation and use of resources. Many individual performance measures may be valuable in themselves, but are not capable of providing this linkage. However, the competing demands for scarce economic resources require that resources and performance must be linked. The exact level at which this linkage occurs will depend upon the circumstances of individual enterprises.
- .029 To meet the objectives of the enterprise, a balance needs to be struck between having too many indicators/ measures, and thus blurring the focus, and having too few, with the result that indicators do not reflect those aspects of behavior which allow the users to reach an informed assessment about the performance of the enterprise.
- .030 The basic "building blocks" of a framework of performance measures are:
- numbers (quantification);
 - comparability (yardsticks); and
 - relationships (input to output/outcomes and impacts).

- .031 The most common elements of any framework of performance measures and indicators, relating to the economy, efficiency and effectiveness of an enterprise's performance, are:
- cost indicators (economy);
 - productivity indicators (efficiency);
 - time targets (efficiency/effectiveness);
 - volumes of service (crude measure of efficiency/effectiveness);
 - quality of service indicators (effectiveness);
 - demand for service indicators (effectiveness);
 - availability of services (effectiveness); and
 - outcome (or impact) of policy indicators.
- .032 It would usually be necessary to have a number of complementary indicators to provide a balanced view of the enterprise's performance. For example, a state-run railway enterprise may consider its performance to have improved if it is increasing the number of passenger miles, while keeping down the cost of a passenger mile. But what about the quality of the service? How often are trains late? Do passengers have to stand? Are the trains clean? Are there enough trains at the right times?

CHAPTER 3

FRAMEWORK OF PERFORMANCE REPORTING

Introduction

- .033 The concept of accountability lies at the root of any discussion about external reporting by public sector organizations. Accountability comprises two main elements: accountability for stewardship and accountability for performance.
- .034 In this context, stewardship may be taken to mean the responsibility of the management of the enterprise to account for the proper use of the various resources made available to it and to demonstrate compliance with any statutory obligations. However, accountability for performance goes much wider than that and relates to management's responsibility to account for the use of public money and economic resources in the achievement of specific policy aims and objectives. As such, it concerns the efficiency and effectiveness with which resources have been used and the quality of output achieved, typically the standard or quality of services provided.

Objectives

- .035 Clearly, concepts such as "effectiveness" and "quality of service" are not absolute measures of performance and can only be understood in the context of the specific policy objectives of the reporting organization. In this sense, performance reporting is concerned with relative performance, for comparison with the enterprise's planned objectives, its past performance and with other comparable organizations as well as with the expectations of resource providers, the recipients of goods and services and other members of the community.
- .036 Within this definition of accountability, the objectives of performance reporting are:
- to assist in the formulation and implementation of policy;
 - to assist in the planning of service provision and to monitor the implementation of planned change;
 - to monitor standards of service and organizational effectiveness and efficiency;
 - to monitor the extent to which resources are being used effectively and efficiently;
 - to ensure fair distribution and accessibility to potential users of the enterprise's services; and
 - to improve accountability, by increasing the information available to interested third parties.
- .037 To meet these objectives, a system of performance reporting should ensure that:
- the reported performance information satisfies certain basic qualitative characteristics;
 - the benchmarks against which performance is reported are meaningful and relevant;
 - the performance information is reported to users in an appropriate form; and, finally
 - the performance information reported is subject to some form of external validation.
- .038 If government business enterprises' responsibility to account for the use of economic resources is to be discharged properly, the performance information must be related to the needs of the users; in other words, performance reporting should seek to satisfy as far as possible the information needs of users: the information should be useful. Thus, the objectives, principles and practice of performance reporting should be designed to meet users' needs. The performance reporting process should seek to link objectives, principles and practices to the needs of users.

Users

- .039 Users of government business enterprises' financial reports are diverse and the corollary is that their information needs are also diverse. General purpose financial reports cannot hope to meet all of the needs of all users. Therefore, the type and amount of performance information provided should aim to meet, to the greatest extent practicable, the common needs of external users.

.040 The main users of government business enterprises' general purpose financial reports are:

- government departments, and legislative and other governing bodies: these grant resources to the enterprises to manage particular services, and subsequently hold them accountable. They are the primary users of performance reports. Governments also require information about performance in order to regulate the activities of enterprises, determine taxation policies and to act as the basis for national income and similar statistics;
- the public: the government, and legislative and other governing bodies are accountable to the public, who provide the tax revenues and resources necessary to finance the enterprise's activities, who may receive the services as clients and consumers, and who are the beneficial owners of the public money and property invested in the enterprise. The public includes taxpayers, electors, recipients of goods and services provided by the enterprise, and special interest groups. These various groups often rely heavily on reports in the media. The public and media seek information on how well the management of an enterprise has managed its affairs, and on the overall impact of the enterprise's activities;
- investors and creditors: require information that will enable them to evaluate the enterprise's ability to finance its activities and to meet its liabilities and commitments;
- other government and international agencies: will require information about the performance of government business enterprises for comparative purposes;
- economic and financial analysts: review, analyze and disseminate information to other users, for example legislators, the public and other governments. They use information provided to analyze and evaluate financial and economic issues;
- employees: employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information which enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities.

.041 The needs of the different user groups will differ. In general, it is possible to distinguish between "first level" and "second level" information needs. The first level needs are those which relate to key objectives set by government and/or the legislature and/or an officially appointed regulator. These users need to assess the extent to which enterprises have achieved the objectives they were set, and sometimes to be able to use the information for the allocation of resources in terms of macro-economic management and planning.

.042 Clearly, these "first level" users have the power to obtain whatever information they need for their purposes in whatever form they require. However, the concept of accountability requires a public accounting for performance. In this sense, the "first level" users in effect act as "agents" for the "second level" users, by defining what information they require to be published in general purpose financial

.043 In broad terms, users need information to help them evaluate a government business enterprise's use of economic resources. They are interested in plans, as well as the results of implementing those plans. They need information to assess performance in terms of the economy and efficiency of the operations and how well goals and objectives have been met. They need such information to assess the enterprise's ability to maintain the level and quality of its services.

.044 Comparison with budgeted performance provides a good basis for evaluating actual performance because users can use it to assess whether resources were obtained and expended as planned, and whether stated goals and objectives were achieved.

CHAPTER 4

QUALITATIVE CHARACTERISTICS OF PERFORMANCE INFORMATION

Introduction

- .045 Performance reporting has been defined as the communication of quantitative and qualitative information which identifies results against specified benchmarks. To communicate effectively, performance information must reflect certain characteristics. Qualitative characteristics are the attributes that make the information useful to users. As a general principle, reports should communicate performance information that is relevant to the decision-making and accountability needs of users. The other principal qualitative characteristics are reliability, understandability and comparability. Comparability in this context is taken to include consistency.

Relevance

- .046 To be useful, information must be relevant to the needs of users. Information has the quality of relevance when it helps them evaluate past, present or future events or confirms or corrects past evaluations.
- .047 Relevance encompasses other qualitative characteristics: for example, if the information is not reliable or not timely, it cannot be relevant. But information can meet all of the other characteristics and still not be relevant. To be relevant, there must be a logical relationship between the information provided and users' information needs.

Reliability

- .048 To be useful, information must be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. Inaccurate, or incomplete information will inhibit accountability and decision-making.
- .049 Reliability does not imply precision or certainty. There may be uncertainties inherent in what is being measured. Reports may need to describe the underlying assumptions and uncertainties.
- .050 To be reliable, information must be neutral, that is free from bias. Reports are not neutral if, by the selection or presentation of performance information, they influence the making of a judgement in order to achieve a predetermined result or outcome.

Understandability

- .051 An essential quality of performance information provided in reports is that it is readily understandable by users. Users of government business enterprises' financial reports tend to have different levels of knowledge about their accounting and financing arrangements. Excessive detail, vague or overly technical descriptions and unnecessarily complex presentation formats will cause confusion and misinterpretation. Users need information to be presented clearly and simply. Information should also include explanations and interpretations that help the users understand the information provided.
- .052 However, information about complex matters that should be included because of its relevance should not be excluded merely on the grounds that it may be too difficult for certain users to understand.
- .053 This characteristic is not synonymous with simplicity, but it does imply the need to report all material matters without confusing the user with too much detail. The level of detail should be the minimum that is consistent with the proper understanding of the activities and performance of the enterprise.

Comparability

- .054 Users must be able to compare the performance of government enterprises through time in order to identify trends in its performance. Users should also be able to compare performance of different enterprises in order to evaluate their relative performance.
- .055 Users are interested in knowing whether measured performance is good or bad or getting better or worse. They can only make those judgements if there are reference comparators. Those comparators may be other similar enterprises, the same organization in different periods, or international comparators.
- .056 Unless there is a valid basis for comparison or yardstick, performance measures will be virtually meaningless. The sources available for comparison include:
- standard targets or norms;
 - inter-service comparators;
 - alternative suppliers;
 - inter-organization comparators; and
 - time.
- .057 In all of these comparisons there is a need to match like with like, otherwise the comparison will lack credibility.
- .058 Comparisons relating to the effectiveness of services can be elusive. Often the only method available to test effectiveness is to carry out a survey to collect opinions on the outcome or impact of a service from the users themselves. The use of comparisons over time can be helpful where it is difficult to find conventional comparisons.
- .059 An important implication of the qualitative characteristic of comparability is that performance must be measured in a consistent way. In particular, it requires that the organization itself should apply consistent accounting and reporting policies over time and that any changes in such policies should be disclosed fully, together with the financial effects of the changes.
- .060 Because users will wish to compare the performance of an enterprise over time, it is important that the general purpose financial reports show corresponding information for preceding periods.

Constraints on relevant and reliable information

Timeliness

- .061 In general, the usefulness of performance information in arriving at judgements, and in serving accountability, lessens as time elapses. Timeliness does not of itself make the information useful, but the passage of time usually diminishes the usefulness it might otherwise have had. If there is undue delay in the reporting of performance information it may lose its relevance.

Balance between benefit and cost

- .062 In defining the objectives of performance reporting a cost/benefit analysis of providing the information should be undertaken. Clearly, the total benefits to all users that are expected to arise from providing the information must exceed the cost of providing it. Cost includes the cost of recording, summarizing, reporting and auditing the information. The cost/benefit exercise should recognize that the costs do not necessarily fall on those users who enjoy the benefits.
- .063 Accountability and cost/benefit considerations may conflict. Some may suggest that accountability is almost without limits. However, too much information and excessive detail may confuse rather than clarify and performance information that is important to some users may not be important to others. Thus, in assessing costs and benefits, consideration should be given to:
- whether specific users can obtain the information by special request;
 - the intensity of the needs of various users; and
 - the risks associated with not reporting certain types of information.

- .064 The balance between benefit and cost is a pervasive constraint, rather than a qualitative characteristic, and the evaluation of benefits and cost is essentially a matter of judgement.

Materiality

- .065 A concept in financial reporting that is interrelated with these qualitative characteristics is materiality. Materiality is a term used to describe the significance of particular items of financial information to users. Materiality is a matter of professional judgement in particular circumstances. It should be judged in relation to the reasonable prospect of an item being of significance and used as the basis for assessments and judgements. A material item would be expected to affect assessments, and judgements on, the government business enterprise's performance.
- .066 In general, users are interested in financial information that has direct bearing on their assessments and decisions. Reporting immaterial items might simply impair the clarity and understandability of the financial report.

CHAPTER 5

THE DEFINITION AND SETTING OF PERFORMANCE STANDARDS AND TARGETS

Targets and standards

- .067 Targets represent a quantified step towards achieving an objective, and are usually specified as a planned output or level of performance to be achieved within a set time. They will normally be based on, but not necessarily directly related to, standards set for a particular activity. They should take account of past performance measurement results and, as with standards, should be challenging, realistic and measurable.
- .068 Targets should be precise enough to avoid argument as to whether they have been achieved, but not so precise that they state the method by which the target is to be achieved. At the highest level, targets should be few in number and related to the key objectives of the organization. Frequent monitoring of performance against targets is important to check progress and where necessary to take corrective
- .069 Targets should include not only financial targets but also targets for other aspects of performance. By themselves financial targets may not stimulate management to further efficiency, since to the extent that there is a monopoly situation some targets could be achieved by price rises or changes in the level of service.

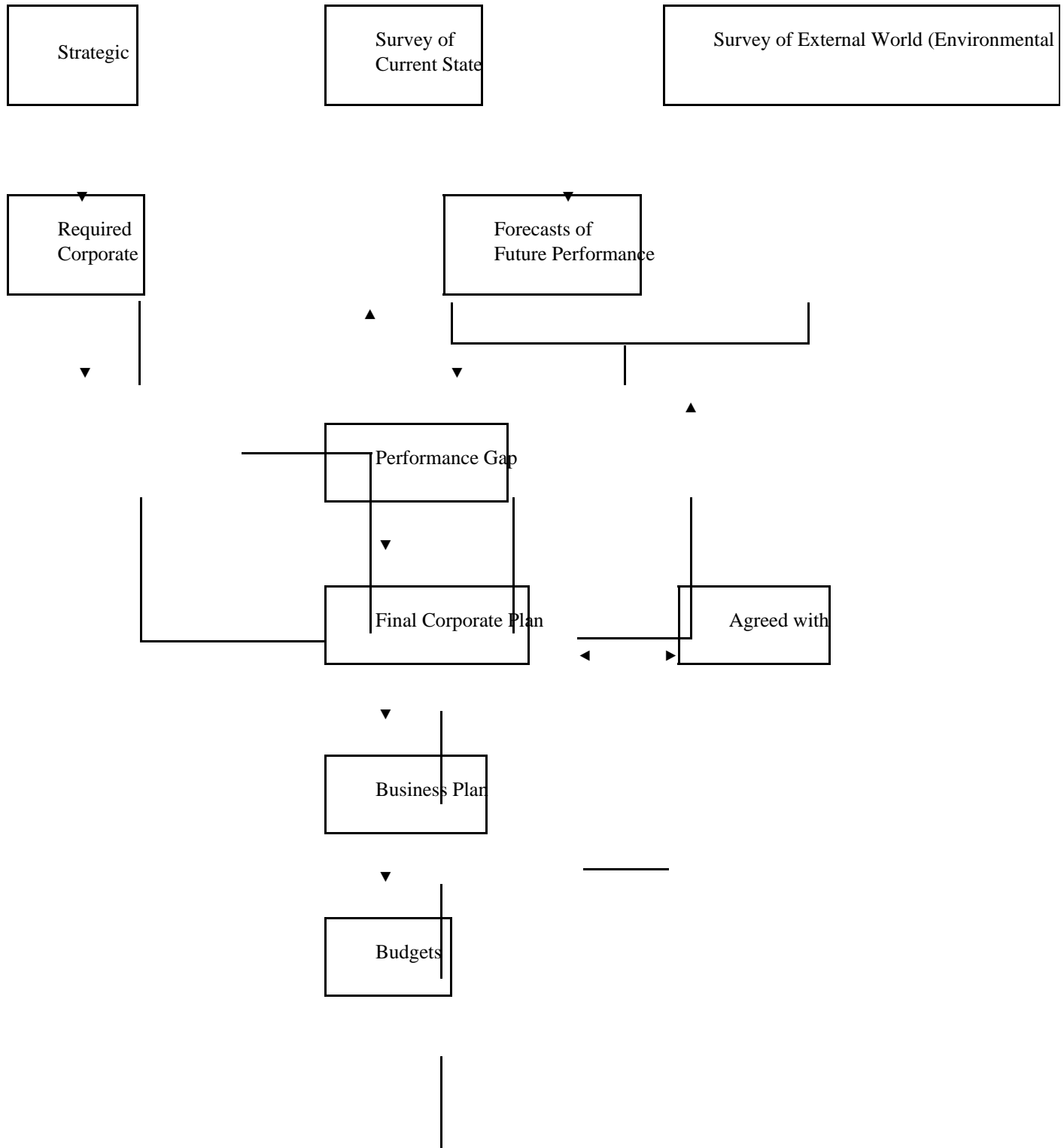
Types of target

- .070 Targets usually fall under one or another of the following headings:
- financial performance;
 - output and quality of service;
 - outcome and impact; and
 - efficiency.

Although to some extent they can be considered independently they all link together. In particular quality of service and efficiency should always be considered together and an explicit choice made on the balance between them. Likewise, there is clearly a close relationship between the quality of service and the outcomes and impacts of the service. This needs to be considered when targets are being set. Some of the targets are likely to be ongoing, with the targets reassessed every year. Others will relate more to the development of the business and may be required for one year only.

Target decisions

- .071 The legislative mandates of enterprises are often broad and involve difficult to measure concepts. Nevertheless, it is necessary for senior management of enterprises and boards of directors to develop clear corporate objectives that are consistent with the legislative mandate, and to develop appropriate strategies for accomplishing them. As in the private sector, it is difficult to manage without specific targets against which the achievement of objectives can be measured. Enterprises must identify those that are most meaningful to them, the government, the legislature and other users.
- .072 The decisions about which targets to choose are normally made as part of the corporate planning cycle. A government business enterprise should produce annually a plan for its corporate strategy over the following few years. This will review past performance against agreed targets, analyze prospects, include a discussion of the options open to the business, and propose a broad strategy for the future. The purpose of the plan is to enable the responsible sponsoring department to agree with the government business enterprise the strategy and targets for the forthcoming periods. The corporate plan in most instances should be supplemented by a business plan for one year only which sets out the implications, with detailed figures (See Figure 1).

Figure 1: THE CORPORATE PLANNING PROCESS

The benefits of the corporate plan are that:

- managers have a clear view of the long term direction of the enterprise and what is expected from them to achieve the objectives through measurable targets;
- the sponsoring ministry and the legislature can assess and review the level of performance that will be/is achieved in exchange for public funds;
- there is written confirmation that government policies are being acted upon, e.g. social responsibilities; and
- investments/diversification which carry risks to the public sector are highlighted.

Setting the targets

- .073 It is important to avoid theoretical or arbitrary targets. Instead, more objective methods of target setting should be used. Three main methods may be used.
- .074 Historical performance - This may be the best or the only relevant yardstick that is available. At its simplest past performance could be averaged. The main shortcoming of this approach is that historical performance will include all its inefficiencies and efficiencies and the circumstances pertaining to when those performances occurred. Additionally, if the standard performance is expressed in monetary rather than physical form, an allowance must be made for future costs being higher or lower than in the past. Management may use its subjective opinion and knowledge to adapt the historical performance to reflect expected conditions and efficiencies.
- .075 Inter unit/firm or valid international comparisons - If an enterprise consists of several comparable business units, the performance of the best may give an indication of what may be achievable by the others. If the enterprise is operating in a competitive environment then targets could be related to the performance of firms within that sector.
- .076 Consultancy, inspection and review including the Supreme Audit Institution's (SAI's) performance audit reports may provide an independent examination of the level of performance that may be achieved by the enterprise and may thus be an indirect means of influencing decisions on targets.

Financial targets

- .077 All enterprises should be operating within a corporate financial framework which itself can be regarded as a target for financial performance.
- .078 Financial targets are central to the guidelines which industries expect from Government, and they are essential to their short and medium term planning. A financial target must obviously be tailored to the circumstances of the particular industry. It must be in a form which can be clearly understood and which will provide an effective discipline on the enterprise. The main form for profitable industries will be a percentage return, before interest, on the average net assets employed by the enterprise.
- .079 Alternatively, a profitable industry might be set a target in terms of a percentage return on turnover. Industries which require grant finance, or are running at break even, may be set targets in terms of the amount of deficit or grant.
- .080 The level of each financial target needs to be decided from business to business. It will take account of a wide range of factors. These will include the expected return from effective, cost-conscious management of existing and new assets; market prospects; the scope for improved productivity and efficiency; the opportunity cost of capital; the implications for the government's borrowing requirement; and social or sectoral objectives for the industry.

Targets/output

- .081 Output is what an organization produces. Some outputs are intermediate outputs, a step towards producing something else. On the whole it

is preferable to measure output in physical terms, but there may be occasions when for the purposes of aggregation the target may be related to the value of output.

- .082 In targeting output it is necessary to consider quality as well as volume. Thus it would not normally be right to increase the number of items produced if this involved a reduction in accuracy or in some other aspect of quality of service. In all cases, where a potential trade off arises, it is necessary for a decision to be reached on the desired balance between volume and quality.
- .083 It is sometimes assumed that output targets are inappropriate in a service which is subject to varying levels of demand. This is not necessarily so. The managers of such organizations may have the opportunities to increase their output by, for example, increasing take up rates by better marketing or better information. Alternatively they may in certain circumstances be expected to reduce their outputs, for example if demand for their services is falling. Targets for varying output will be appropriate where this is in line with objectives.
- .084 Good output measures are essential for all enterprises, even if it is decided not to set output targets, for the whole concept of efficiency depends upon comparing the output with the resources employed to achieve that output.

Targets/quality

- .085 Quality should be of prime concern to any commercial organization. The aspects of quality can be classified as those relating to quality of the output (e.g. accuracy, fitness for purpose) and those aspects relating to the process (such as timeliness, turnaround and customer supplier relationships). Customers may well have an overall perception of the quality of service based on these elements and help to define the concept themselves.
- .086 Quality of service targets are particularly important where the organization is a monopoly supplier, as they act as a surrogate for customer choice. Providing a quality service will require the organization to find out what the customer wants or would prefer to have. This can be done through customer committees, customer surveys, sampling and analysis of letters received. Customers may be prepared to pay different prices for different standards where, for example, they get value for money from a faster service.

Targets/efficiency

- .087 One way to improve efficiency is to reduce the cost of inputs without detriment to the quality of the outputs. Management may be able to obtain lower prices for inputs through competitive tendering or assessing the cost of in house services by market testing. If there is a change to the quality of the output, then the judgement is more complex. But there may be cases where the requirements have been overspecified and inputs have been bought at a correspondingly high price. In such cases the specification and price can both be reduced without detriment. In other cases the implied detriment to the quality of output may outweigh the implied benefit.

Unit costs

- .088 A key efficiency measure for almost every commercial organization is the unit cost of output. This involves dividing the total cost of producing that output by the number of units of output. When unit costs of output are selected as targets the figures will depend upon a forecast estimate of future volume of output, future costs, and the extent to which the organization can be expected to make improvements during that future period. Unit cost of output targets can either be in cash or in real terms (allowing for inflation where the target applies for a longer period than one year). The target can be expressed as an amount or as a percentage. In assessing an enterprises' efficiency management may want compare the enterprise's own unit costs with those of other, similar, providers within the public or the private sector. This benchmarking process may lead to a change in the enterprise's efficiency targets.
- .089 In compiling a proposal for a target, the organization will start with a forecast volume of output which may depend on a forecast of demand. The costs side will involve the inputs which will be used, taking account of expected productivity improvements, the effects of changes in the planned quality level which may involve cost and the cost implications of planned capital investments. These estimates of future costs will involve making assumptions about future price changes, including changes in the level of pay.

Productivity

- .090 A common measure of efficiency is labor productivity, that is the volume of output divided by the number of staff. The output can be expressed in physical terms or in financial terms. The main disadvantage of such productivity measures is that, since they do not take account of changes in prices, any extravagance or lack of control of costs by management would not show up. However, provided they are supplemented by other efficiency information (notably unit costs), measures of productivity can highlight the success of management in deploying resources.

CHAPTER 6

REPORTING OF PERFORMANCE INFORMATION

The reporting entity

- .091 The definition of performance standards and targets for inclusion in general purpose financial reports will normally be set by an outside body, for example the Government or other regulatory agency, i.e., by "first level" users (see Chapter 3). This reflects the fact that "second level" users, such as consumers, are often not in a position effectively to articulate their information requirements. Nevertheless, in acting as "agents" for the "second level" users, the first level users should take steps to identify that information will be most relevant and useful to other groups of users. As a general principle, government business enterprises should provide information for each discrete part of the business for which it is likely that there are users who require the information for decision making and accountability purposes.
- .092 Many government business enterprises will carry on several classes of business. It is not usually possible for the user of the general purpose financial reports of such enterprises to make judgements about either the nature of the enterprise's different activities or their contribution to its overall performance, unless information is provided on some form of segmental basis. The purpose of providing segmental information is to provide information to assist the users of the information:
- to appreciate more thoroughly the performance of the enterprise; and
 - to be aware of the impact that changes in performance in the significant components of the enterprise may have on the overall performance of the enterprise as a whole.

Such segmental performance information should be disclosed on a consistent basis.

- .093 A separate class of business is a discrete component of an enterprise that provides a separate product or service or a separate group of related products or services. When deciding whether or not an enterprise operates in different classes of business, the following factors should be taken into account:
- the nature of the products or services;
 - the nature of the production processes;
 - the markets in which the products or services are sold;
 - the distribution channels for the products;
 - the manner in which the enterprise's activities are organized; and
 - any separate legislative framework relating to parts of the business.
- .094 A government business enterprise's classes of business will need to be determined either by the Government or other external agency or by the management of the enterprise. The definitions will need to be reviewed annually and redefined where appropriate. In doing so, regard should be had to the fundamental objective, which is to achieve as far as possible consistency and comparability between

Financial plans and budgets

- .095 For public sector bodies generally the general purpose financial report comprises only one link in a chain of accountability. In addition to publishing their results, government business enterprises are also normally required to publish a financial plan which may take the form either of a budget covering between 1 and 5 years or a more strategic corporate plan for the development of the enterprise over the medium term.
- .096 If these prospective financial plans are to be of use to users they should include performance information prepared on the same basis as they are included in retrospective general purpose financial reports and in conformity with the same principles outlined in this study. The publication of such information can provide an important benchmark against which to judge future performance. For example, a government business enterprise may be able to demonstrate that performance has improved regularly on a year by year basis. However, the financial report may not show the full picture; thus, although performance has improved it may not have improved in the way the management of the enterprise

estimated that it would when it published its financial plans and budgets for the period. What may appear to the unsuspecting user of the annual report to be a story of unalloyed success, may in fact be a story of relative failure.

General purpose financial reports

- .097 The qualitative characteristics of performance information identified in paragraph .045 above are essentially technical and concerned with the quality of information provided to users. Nevertheless, the characteristics of relevance and understandability do have direct implications for both the form and content of published performance information. However, these characteristics do not provide a basis for practical decisions about either the nature of the information to be provided or, in particular, the way it is presented.
- .098 This study is concerned primarily with the reporting of performance information in addition to the financial information included in general purpose financial reports. Clearly, concepts such as effectiveness and quality of service are not absolute or objective measures and can only be understood in the context of the specific policy objectives of the reporting enterprise. In this case, therefore, the report is concerned primarily to communicate information about relative performance, for comparison both with the enterprise's planned objectives and with other comparable enterprises. This means that the report as a whole needs to communicate the aims and objectives of the organization, any constraints it acts under, its achievements, and the reasons for any non-achievements.
- .099 In preparing any report it is important to make clear who the report is intended for and what the recipient is expected to do with it. In this sense, the aim should be to communicate the right amount of information at the level and in the form appropriate to the intended users, that is "what they need to know in a way they can readily understand".
- .100 In terms of the overall structure of the report, 'coherence' should be the watchword. The coherence of the report may be defined as that quality whereby the constituent parts are well integrated in such a way that the links between them are explained clearly and cogently. This implies the need to relate the nature of the enterprise, its objectives and the context within which it operates to its financial statements and in turn to the performance indicators to be provided, for example:
- this is who we are and what we are expected to do (it cannot be assumed that the user already knows);
 - these are the constraints we face and the objectives we have set;
 - this is what happened, the problems that arose and what was achieved;
 - this is how performance compared with:
 - previous periods;
 - planned performance;
 - other similar organization; and
 - these are the implications for the future.
- .101 In this sense, performance information should be fully integrated with the other information included in general purpose financial reports. Indeed, it can be seen as the thread which binds the different elements together. In addition, however, it may be useful to summarize the key performance indicators separately within the report to highlight the enterprise's achievements in the period, for the benefit of the user. It should also be made clear whether all or part of the performance information within the annual report is to be included in any audit report and assessment. This will depend on how the information is integrated within the financial statements and with any other statutory requirement regarding the scope of the audit.
- .102 In presenting performance information what is needed is a greater degree of explanation and interpretation, rather than an approach which reproduces an overwhelming array of data for its own sake. The latter approach serves to undermine the objective of producing the information, because in effect it can mean that information is concealed from those non-specialist users who have neither the inclination or time nor the necessary knowledge or skills to extract significant information from the data provided.
- .103 Readers should not be confronted with a mass of statistics and technical data. Graphics are often an effective way of presenting comparative or relative performance information. Likewise, the text should always be written in a clear and simple language. Jargon or 'officialese' should be avoided at all costs. If it is necessary to use technical terms to explain the performance of an enterprise, they should be explained in a glossary.

- .104 Above all it is essential to integrate financial and non-financial performance information in the report to demonstrate the close and direct link between 'finance' as reflected in the results of the enterprise and the other activities of the organization. In this sense, however, integration means more than merely breaking up the financial statements with a table of performance information or graphics. A narrative explanation should be provided to enhance the figures; for example, variations in performance between years may be explicable in terms of new developments referred to elsewhere in the annual report. Conversely the financial statement should support the written commentary, explaining the impact which changes in performance have had on the financial results.

Other forms of reporting

- .105 It can be argued that all public bodies by their very nature have a special duty of accountability both to their resource providers and those whom they serve. This implies a need to disseminate the information contained in the annual report as widely as possible. In practice, however, there are two obstacles to achieving such a wider readership: first a 'physical' problem of accessibility and, secondly, the technical complexity of some of the information contained in the report. One way in which these obstacles may be removed is for government business enterprises to produce simplified reports aimed at "second level" users.
- .106 It is widely recognized that the level of detail and technical complexity of the information contained in the traditional annual report, including performance information, is such that only a few lay readers are able to understand or interpret the information that is presented to them, and that the majority of potential readers are thus effectively inhibited from using the information. To the extent that this is true, the value of the annual reports of public bodies in terms of accountability is diminished.
- .107 In practice, therefore, it may be necessary to produce a simplified form of report for the non-specialist user, in which financial and performance information is presented in a more readily understandable form. Such a report might include a summary of key performance measures, including comparisons with previous years, plans and other similar organizations. However, it is important to ensure that any simplified form of report does not distort the financial position or performance information of the enterprise but remains a fair presentation of the full general purpose financial report.
- .108 One particular major audience for which it may be appropriate to produce a simplified report is the employees of the enterprise. In communicating information to employees, it is important to bear in mind their specific concerns and interests. Employees' interests may be confined to a particular operating division and to the effect of past or planned performance on their future job prospects. A good employee report should encourage staff to feel that they are properly informed about the objectives and problems of the organization, and to feel involved in meeting corporate aims.

CHAPTER 7

AUDIT OF PERFORMANCE INFORMATION

Introduction

- .109 This chapter deals with the approach to the audit of performance information systems, measures and indicators.
- .110 The last chapter outlined the responsibility of "first level" users, for example the Government or other regulatory agency, to define the performance standards and targets for inclusion in general purpose financial reports. Both "first level" and "second level" users will seek to rely on these reports to judge the success of the government business enterprise, i.e., the extent to which performance standards and targets are met.

Audit of performance

- .111 The board members or the director of finance of government business enterprises will sign the general purpose financial statements and thereby express their agreement with the information contained therein, including the performance standards and targets. As it is the chief executive's responsibility to satisfy "first level" users that the standards and targets have been met and that value for money has been achieved, the chief executive will need to establish a properly managed internal system of data collection run by reliable and competent staff, validated where appropriate by the enterprise's own internal audit, or by work commissioned from an outside source.
- .112 There may be occasions where it is necessary for the soundness of the relevant systems or the achievement of particular performance standards and targets to be validated by a body external to the government business enterprise, for example additional assurances may be sought by "first level" users where the achievement of targets affects the pay of enterprise staff or where non-financial targets are of partic

Audit coverage

- .113 The extent of the validation will depend on the level of assurance required by users. Generally, however, the responsibilities of the public sector auditor in validating performance information extend beyond those of the private sector auditor.

Audit objectives

- .114 The primary aim of the audit is to provide users with independent assurance on the performance information and systems. In meeting this aim the main audit objectives are:
- to establish whether and to what extent the audited organization has sound systems and controls;
 - to examine how far these systems and controls operate satisfactorily in practice with effective management information systems to monitor performance;
 - to identify appropriate ways of improving performance information systems and value for money and recommending the audited organizations to take action where improvements are shown to be necessary, possible and cost effective;
 - to examine the extent to which performance information is relevant, reliable, understandable and comparable; and
 - to examine evidence and examples of unsatisfactory performance so as to establish causes and necessary improvements.

The precise objectives of the audit will vary and should be set in consultation with the 'first level' users and reflected in the engagement letter or 'audit mandate', accordingly.

Audit reporting

- .115 The form of reporting the results of the audit may need to be agreed with the first level users of the performance information. The reporting may be for the benefit of all users or for one or some of the users, e.g., management. Reporting may take the form of one or more of the

following:

- a formal audit opinion;
- a published report setting out the results of a performance audit;
- a management letter to the organization;
- an unpublished report to a first level user or users; and
- exception reporting, only reporting when the results of the audit need to be brought to users attention.

Audit Standards

- .116 Many of the basic principles underlying the auditing standards that govern the auditing of financial statements are generally applicable also to the auditing of performance information. However, those auditing standards do not deal with all circumstances faced in the audit of performance information. For example, there are no generally accepted performance measures or indicators, analogous to generally accepted accounting principles, which places a responsibility on the auditor to assess the suitability of the performance measures or indicators used by the enterprise. In a number of countries specific standards on the auditing of performance information have been developed; an example is the Statement of Auditing Practice AUP33 on 'Performance Auditing' issued by the Australian Accounting Research Fo

CHAPTER 8

SOME EXAMPLES OF CURRENT INTERNATIONAL PRACTICE

Background

- .117 Government business enterprises are involved in a wide range of activities and have played a key role in the development of the countries examined. The size of the sector in each country in relation to GDP varies considerably. Most long standing enterprises are statutory authorities, although some are established under general company legislation. In some countries (notably the United Kingdom and Canada) the sector has declined in size as enterprises have been privatized, although this has not been the same in all countries. There may be numerous objectives for privatizing enterprises (raising revenue, encouraging wider share ownership) but one common theme is to improve commercial performance by subjecting the companies to the disciplines of the market place.

Commercial performance

- .118 The financial performance of some of the enterprises that remain in the public sector has been perceived as inferior to their counterparts in the private sector. A major concern of the executive and legislative has been how to improve the financial performance of those enterprises while maintaining their accountability. One of the cornerstones of these policies has been to remove traditional central constraints and give managers the freedom to make decisions on how to improve and market services. Managers are also expected to improve the efficiency with which these services are delivered.
- .119 For very similar reasons a recent trend in several countries has been the increase in the number of government owned businesses. These companies have been created as a mechanism to separate the executive functions of government from policy making. In some cases these companies are trading organizations selling goods and services to a number of customers and relying almost exclusively for their income from these sources.

Social obligations

- .120 Social obligations may be imposed by law, contract or be undertaken voluntarily. In practice there may be little difference between the behavior expected from the private sector and the enterprises. However, there is usually an expectation that the enterprises will act in accordance with the highest standards.
- .121 One way in which such expectations can be assessed is to provide comparative information between similar government business enterprises, for example where the water supply within a country is provided by a series of regional state-owned companies. Comparative information can be prepared on both commercial issues and objectives, as well as other social objectives, such as environmental concerns. It may also be of benefit to provide international comparative measures, where appropriate.
- .122 The challenge which faces countries is how to get an acceptable balance between commercial concerns and the social responsibilities of enterprises. The general worldwide trend of improving the financial performance of government business enterprises is likely to impose limits on the extent to which these organizations can undertake unprofitable social responsibilities. This emphasis on the rate of return from the government's investment in these organizations may lead them to give a lower priority to their social obligations at a time when there is growing public concern over organizations' responsibilities to the environment, clients and employees.

The new model

- .123 It is clear from the case studies that countries have recognized these challenges and met them head on. Countries have put in place mechanisms to address the new environment within which enterprises are expected to operate. These major reforms have brought about revised corporate and financial structures and have emphasized the need for better information on the financial position and performance of enterprises. But the progress in implementing these changes within and between countries has been patchy and has met with mixed success. The challenge for the future is how to build on the progress already made so that all enterprises meet the standards required for meaningful performance

reporting. If progress is to be made, it is imperative that support is obtained from all the parties involved, particularly the managers of enterprises supported by the government. In addition, scrutiny from the legislature and pressure from the public and media will encourage co-operation. The following paragraphs examine how countries have generally responded to these new challenges.

Planning

- .124 The planning systems adopted by enterprises in the case study countries all bear striking similarities. Generally, the key features of these planning systems includes the specification of business objectives, service and social goals, financial targets for each enterprise, arrived at so far as practicable by negotiation with that enterprise and the responsible minister. All of these elements are covered in the form of a contract between the enterprise and the sponsoring ministry. These planning systems provide the benchmark against which the enterprises performance can then be monitored and assessed by the sponsoring department.

Type of performance indicators and measures

- .125 The types of performance indicators and measures used by enterprises vary considerably and according to their type of business and the environment within which they operate. Traditionally, greater emphasis has been placed on financial targets and cash limits rather than other indicators. A recent trend in the countries examined has been to give greater prominence to non-financial indicators, with particular emphasis in recent years on the volume and quality of service provided by enterprises.
- .126 The Commonwealth Joint Committee of Public Accounts in Australia has recommended that enterprises should "be required to report on non-financial information performance in their annual reports, providing as a minimum an outline of programme objectives and of desired results together with a description of key performance indicators. Comparative data over successive years should be presented where relevant." One of the central tenets of The Citizen's Charter in the UK is the provision of performance targets on the standard of service to be delivered by public services. Similar initiatives are being undertaken in Canada with the Public Service 2000 programme.

Reporting

- .127 The increased autonomy and the associated degree of management flexibility provided to the management of enterprises has created a greater need for detailed and proper reporting to fulfil the accountability requirements to the legislature. In all the countries examined attention has focussed on the annual report as one of the most important vehicles for the effective scrutiny of the enterprises activities by the legislature. The general view in most countries is that the type of information published in the past will not be adequate for users' current requirements. External reports have generally concentrated on financial results rather than overall performance. More information is being demanded on how funds are spent, how better use can be made of resources, what is being achieved and how accountability mechanisms can be improved.
- .128 The Auditor General of Canada, in a chapter on Crown Corporations in his 1990 report to Parliament, supports the view that the current reporting arrangements are not always satisfactory. Weaknesses found included:
- in reporting performance, annual reports did not always state what the objectives for the period had been;
 - performance was not always stated in precise or measurable terms; and
 - where performance was reported against objectives, not all objectives or elements of a corporation's mandate were
- .129 Generally organizations needed to be encouraged to improve narrative reporting through management discussion and analysis of the year's activities. This should include better linkage between performance figures and descriptive text, for more frank, honest discussion of strategic choices and issues, and more meaningful and complete comparison bases for performance data.

New forms of reporting

- .130 Initiatives have been taken by several countries to improve the reporting arrangements of public sector entities including GBEs. These new arrangements are still in the early stages of implementation and in some cases can be termed experimental approaches which are still subject to development in the field.

- .131 For example, a new approach to reporting and auditing the performance of organizations has been pioneered by the Canadian Comprehensive Auditing Foundation (CCAF). The guideline 'Effectiveness Reporting and Auditing in the Public Sector' proposes that managers provide information in the form of representations to help governing bodies form judgements about effectiveness. The CCAF has synthesized the concept of effectiveness into a framework of twelve attributes, each of which is useful for forming judgements about effectiveness. The attributes are intended to provide a basis for reporting information at a level that is meaningful to managers and can be substantiated and audited. The CCAF recognizes that its proposals are radical and present considerable challenges to implement. Also further development and adaptations to the approach need to be based on experience that is gained in practice.
- .132 In Canada, the 1984 amendments to the Financial Administration Act call for a "special examination" to be conducted by an external examiner at least once every five years. The special examination represents an opinion, in accordance with specific criteria, that there are reasonable assurances that there are no significant deficiencies in the corporation's systems and practices examined re: safeguarding and controlling assets, managing resources economically and efficiently and carrying out operations effectively. While special examinations are a form of value for money audit, requiring an overall opinion on these aspects is unique.

Auditing arrangements

- .133 Auditing arrangements vary but the external audit of the general purpose financial statements is usually undertaken by the Auditor General, although there are instances where commercial auditors may be used (note in particular the UK). Even in countries where the Audit Office has traditionally audited the accounts of these bodies there are examples of where the Auditor General has been replaced by other auditors. However, in such instances the Auditor General has raised concerns with the legislature over the accountability implications.
- .134 Although the auditor provides an opinion on the general purpose financial statements this does not encompass other performance information included in the enterprise's annual report. The Office of the Auditor General of Canada has identified this as a shortcoming in the existing arrangements. On the other hand the Committee of Public Accounts (Australia) notes that "While it is the Auditor General who provides some comfort about the accuracy of financial data, it is the public and, for commercial enterprises, the relevant industry bodies, that are the best judges of the accuracy of an entity's non-financial activities."
- .135 Most countries have arrangements whereby an external body, usually the Auditor General (but note the Monopolies and Mergers Commission in the UK), can undertake in-depth examinations on the economy, efficiency and effectiveness with which the enterprise has used its resources. Such examinations are ad hoc, highly selective and focussed on an aspect of an organization's activities. The results of the examinations are usually published and put before the legislature. It is interesting to consider whether these types of examination are necessary under the Canadian Comprehensive Auditing Foundation approach to effectiveness. In this case audit's role would be to give assurance in the form of an opinion as to the fairness of the information that management has reported. This approach would also be consistent with the auditor's role respecting financial statements.

Accountability

- .136 The increasing autonomy of enterprises can lead to a decline in the influence of Parliament, as the Auditor General in New Zealand has pointed out "one of the features of company ownership is the transference of authority from Parliament to the Executive. Allowing the executive to determine the resources to be entrusted to a State owned Enterprise and the nature of activities that will be undertaken with them represents a very real reduction in the authority of Parliament. As Parliament's authority is eroded and its constitutional role diminished, so too is the effectiveness with which it can impose proper accountability. This will continue to occur until adequate mechanisms exist which allow Parliament to examine and challenge actions, both taken and proposed, of the Executive or the enterprises themselves." It is worth comparing this position with that in the UK where the National Audit Office does not directly audit government business enterprises but Parliamentary control is exercised through the Select Committee system of scrutiny.

CHAPTER 9

CONCLUSION

- .137 In the public sector, financial reporting on its own is not sufficient to give those who are interested an indication of the overall performance of a particular organization. Although government business enterprises are normally required to operate commercially and usually take the same legal form as private sector business enterprises, the combination of the fact that they often enjoy a monopoly position and the political and socio-economic context in which they operate means that the user of financial reports cannot rely on simplistic measures such as return on capital employed.
- .138 Furthermore, the need for all countries to improve their international competitiveness has led to greater efficiency and effectiveness in the allocation of economic resources. In the private sector, where measures of performance are dictated by the market mechanism, decisions are made on the basis of relative economy, efficiency and effectiveness, although in practice they may be affected by the degree of competition that actually exists. However, government business enterprises may not always be delivering services in circumstances that are even close to being a competitive market. Hence, there is a need to formulate performance measures which will enable judgements about efficiency and effectiveness to be made.
- .139 This study has shown that the first step in deciding what is to be measured is to identify the objectives of the enterprise concerned. The second step is to define the appropriate standards and targets for each of these objectives. These may be set by or agreed with the government department concerned or other external regulatory body. As a minimum there should be a defined measure of performance for each of the objectives of the enterprise.
- .140 The definition of clear and measurable objectives is critical. However, in the public sector this process can be a complex and difficult one. Sometimes the political intent may be different from the stated policy or the initial reason for the policy has been overtaken by changes in the political environment.
- .141 Furthermore, concepts such as "effectiveness" and "quality of service" are not absolute measures of performance and can only be understood by users in the context of the specific policy objectives of the reporting organization. In this sense, performance reporting is concerned with relative performance, for comparison with the enterprise's planned objectives, its past performance and with other comparable organizations as well as with the expectations of resource providers, the recipients of goods and services and other members of the community.
- .142 Users of government business enterprises' financial reports are diverse and the corollary is that their information needs are also diverse. General purpose financial reports cannot hope to meet all of the needs of all users. Therefore, the type and amount of performance information provided should aim to meet, to the greatest extent practicable, the common needs of external users.
- .143 Performance reporting has been defined as the communication of quantitative and qualitative information which identifies results against specified benchmarks. To communicate effectively, performance information must reflect certain characteristics. Qualitative characteristics are the attributes that make the information useful to users. As a general principle, reports should communicate performance information that is relevant to the decision-making and accountability needs of users. The other principal qualitative characteristics are reliability, understandability and comparability.
- .144 Users may require the external validation of the information provided. The primary aim of any audit of performance measures within the financial report should be to provide users with independent assurance on the performance information and systems.
- .145 Finally, in all the countries examined attention has focussed on the general purpose financial report as one of the most important vehicles for the effective scrutiny of the enterprises' activities by the legislature. The general view in most countries is that the type of information published in the past will not be adequate for users' current requirements. External reports have generally concentrated on financial results rather than overall performance. More information is being demanded on how funds are spent, how better use can be made of resources, what is being achieved and how accountability mechanisms can be improved.

APPENDICES: CASE STUDIES

Appendix 1A : UNITED KINGDOM

Appendix 1B : BRITISH RAIL

Appendix 2 : AUSTRALIA

Appendix 3 : CANADA

Appendix 4 : USA

Appendix 5 : ITALY

APPENDIX 1A

CASE STUDY: UNITED KINGDOM

Background

- 1 The size of the traditional government business enterprise sector peaked in the mid 1970s; by this time, all the major public utilities were in public ownership along with a few key manufacturing industries. However, since the accession of the Conservative government in 1979 the sector has gone into rapid decline with the privatization of well over 50% of these enterprises notably British Airways, British Gas, British Petroleum, British Telecom, Water Authorities, Electricity Generators and Suppliers. This process is likely to continue, albeit at a slower rate, and will eventually include the last remaining large industries of British Rail and British Coal.

Planning

- 2 All nationalized industries produce an annual rolling corporate plan that is presented to and approved by the minister and sponsoring department. The plan attributes most attention to the achievement of the government imposed External Financing Limit and the various financial targets. The minister sets a financial performance target in one of three forms: return on assets, profit as a percentage of turnover, or target profitability or loss - the most commonly used target is the percentage return on net assets. The plan will also contain a number of supplementary objectives both financial and non-financial - productivity targets, unit cost reductions, improved quality of service - some of which are published in the annual report. One common measure that the industry itself tends to regard as important is the self financing ratio which is the proportion of capital expenditure or of total funds over a period that is financed from internal resources. Most industries see this as a key indicator of how well they are doing because it reveals how dependent they are on public funds. Nonetheless, greatest attention is given to satisfying the External Financing Limit and achieving the financial targets because they are the measures that the minister will look at most closely.

The Citizen's Charter

- 3 The Government issued a White Paper in July 1991 called the Citizen's Charter. The four main themes of the White Paper
 - 1 QUALITY - A sustained new programme for improving the quality of public services.
 - 2 CHOICE - Choice, wherever possible between competing providers, is the best spur to quality improvement.
 - 3 STANDARDS The citizen must be told what service standards are and be able to act where service is unacceptable
 - 4 VALUE - The citizen is also a taxpayer; public services must give value for money within the tax bill the nation
- 4 The range of mechanisms in the Charter covers more privatization, wider competition, published performance targets, comprehensive publication of information on standards achieved, more effective complaints procedures, and better redress. Where appropriate nationalized industries such as British Rail and the Post Office are expected to respond to this initiative by setting appropriate targets, publishing them and the results achieved in their annual reports as well as at the point of delivery of their services.

Next Steps Agencies

- 5 As part of the drive towards more business-like and decentralized delivery of services, the executive functions of central government are being handed over to Next Steps agencies. The agencies remain within government, but they are set up specifically to deliver particular services or products, such as vehicle testing, passports, and stationery goods. Some of these agencies are trading organizations.
- 6 Each agency has a framework document which states the job to be done, the lines of responsibility, the extent of managerial independence, and the key performance measures by which the success of the organization will be judged. The document which is published sets out in a semi-contractual way the duties and responsibilities on both sides of the relationship between the minister and chief executive. Through it, and the corporate and business plans which support it, ministers lay down targets for efficiency and standards of service which the agency is to deliver, and establish the chief executive's budget. Agencies are also expected to comply with the provisions of the C

Audit arrangements

- 7 The accounts of the nationalized industries are audited by private sector audit firms who provide an opinion on the financial statements but not the published performance indicators. The accounts of all Next Steps Agencies are audited by the National Audit Office.

Case study

- 8 The case study on British Rail attached illustrates some of the points described above.

APPENDIX 1B

BRITISH RAIL

Introduction

- 1 British Rail (BR) is organized into six market focussed businesses (Intercity, Network Southeast, Regional Railways, Trainload Freight, Railfreight Distribution and Parcels) managed through 27 profit centres.

Board objectives

- 2 New objectives are agreed with the Secretary of State for Transport every third year for three years ahead. All of these objectives are based on the Board's Corporate Plans and represent an agreed view of what should be achieved on the basis of the Board's underlying assumptions about the national economy.
- 3 The objectives require the Board to offer "an efficient railway providing good value for money" and to:
 - reduce the Public Service Obligation (the subsidy provided by the Government for BR's social obligation such as to relieve road congestion);
 - achieve x% overall return on assets at current cost before interest; and
 - implement vigorous measures to broaden the participation of the private sector in the provision of services to facilitate a more cost effective and competitive customer service.

The Passenger's Charter

- 4 The Passenger's Charter (BR's response to the Citizen's Charter) published by the Board in March 1992 sets out BR's commitment to provide an improving quality service, including new performance standards, and spells out the compensation available.
- 5 British Rail standards are to provide:
 - a safe, punctual, and reliable train service;
 - clean stations and clean trains;
 - friendly and efficient service;
 - clear and up to date information; and
 - a fair and satisfactory response if things go wrong.

BR state that the "Charter is a beginning. We aim to improve standards over time, and to develop and improve services in a way that will clearly show our intent to care for our passengers".

- 6 Performance standards cover punctuality and reliability of passenger trains. For example, the Intercity standards are:

PUNCTUALITY - 90% of trains to arrive within ten minutes of scheduled time.
RELIABILITY - 99% of services to run.

Annual report and financial statements

- 7 British Rail produces an Annual Report and Accounts which includes the Chairman's Statement and a profile on each sector of the business. This is followed by the financial statements with the auditors' report on those statements. Accounting policies are explained in a further section. Statistics are also included on passengers (e.g., receipts, journeys, and miles), freight, operations and rail assets. Performance indicators are provided (54 in total divided between BR's main businesses). For example, for the Intercity these include:
 - grant per supported passenger mile;
 - grant as a percentage of other receipts;

- profit as a percentage of receipts;
- receipts per train mile;
- receipts per passenger mile;
- passenger miles per loaded train mile;
- total operating expenses per train mile;
- percentage of trains arriving within 10 minutes of scheduled time; and
- percentage of trains run.

The statistics and performance indicators are not covered by the auditor's report.

APPENDIX 2

CASE STUDY: AUSTRALIA

Government Business Enterprises

- 1 Government Business Enterprises (GBEs) supply a wide range of goods and services directly to industry and the public and play an important role in Australia's mixed economy. The structure of GBEs varies from authorities and statutory corporations established by Acts of Parliament to public companies.
- 2 The size of the sector is larger than in the United States and Britain, but smaller than in most Western European nations. Australian GBEs are concentrated in the area of public utilities. They account for only a very small proportion of the output of mining and manufacturing, in contrast to some other countries.
- 3 Privatization is yet to have any marked effect on the size of the GBE sector in Australia. The sector actually grew in importance in the mid 1980s, in contrast to a number of other OECD countries. While pressures for continued GBE activity remain, a number of developments make privatization more feasible. Improvements in capital markets and in regulatory arrangements have lessened the need for public ownership. Budget pressures also increase the attractiveness of GBE sales.

Statutory authorities

- 4 Statutory authorities are commissions, corporations, boards or similar bodies created by legislation to undertake a variety of government tasks. The enabling legislation normally specifies the powers, duties, and functions of the authority as well as any limitations on the exercise of those functions by the authority and powers such as the power to invest surplus moneys. Generally, the enabling legislation contains provisions relating to auditing and reporting, including financial reporting. The organizations cover a diverse range of government activity including, for example, communications, banking, transport, superannuation, marketing, construction, broadcasting, engineering, and other public utilities functions or activities. Two particular types of statutory authority are:
 - the Government Business Enterprise - a trading or commercially oriented organization, often restructured as a company
 - the Statutory Marketing Authority - an organization set up to market Australian primary, agricultural and other products

The 1987 reforms

- 5 A policy information paper published in October 1987 established guidelines designed to ensure the efficiency and accountability of GBEs. In particular, these guidelines require GBEs to:
 - provide the responsible minister with a strategic corporate plan covering periods of three to five years;
 - work towards an overall financial target agreed in advance by the responsible minister. Generally, the target will take the form of a specified rate of return on GBEs' assets, funds employed or capital;
 - pay a dividend to the Commonwealth if a financial surplus is achieved; and
 - give an account in their annual reports of performance against previously established goals.
- 6 A range of controls on GBEs would be removed, with priority to be given to the removal of those controls that most clearly detracted from a GBE's commercial performance. GBEs were invited to identify the controls that should be abolished in order to reduce costs and enhance profitability.
- 7 For GBEs established by an Act of Parliament, the enabling legislation provides for the Auditor General to be the auditor. However, for GBEs which are companies, the boards of the companies are able to recommend to the minister the appointment of an auditor of their choice.

The 1988 reforms

- 8 The principle of devolution of responsibility and ensuring proper accountability for results, embodied in the 1987 guidelines, was translated into a package of reforms, relevant only to GBEs in the Transport and Communications portfolio. The reforms were announced by the Minister for Transport and Communications.

for Transport and Communications in the 1988 statement: Reshaping the Transport and Communications Government Business Enterprises. This reform package consisted of:

- revised corporate and financial structures;
- new planning and accountability mechanisms;
- modification of major strategic controls; and
- removal of day to day controls.

- 9 The 1988 reforms released eight GBEs from many of the requirements outlined in the 1987 policy guidelines, including the requirement for general application of Part XI of the Audit Act. That is Transport and Communication GBEs, with the exception of Telecom and Australia Post, were allowed to recommend the appointment of an auditor of their choice. In most cases, the above changes were embodied in the Act establishing the GBE.

Effects of the reforms on accountability

- 10 The reforms were aimed, in part, at improving public accountability. This was achieved through the preparation and appropriate dissemination of better and more useful information on performance. Focus was on the development of strategic plans, including clear goals, objectives, performance targets, and means to measure and assess performance. Annual reports, which were described as the centre piece of accountability in the 1987 reform package, would be the principal reporting mechanism to external parties. The annual reports would give account of performance against the previously established goals and targets. Ministerial responsibility was emphasized, but monitoring and review occurred generally through the portfolio and co-ordinating departments.
- 11 The policy guidelines have established an effective accountability framework, although subsequent amendments which limited external auditing arrangements have seriously weakened it. However, neither planning nor reporting has been of consistent quality or detail. Furthermore, the Parliament is largely dependent on GBEs' self evaluation of performance.

External scrutiny

- 12 GBEs may be subject to a wide range of external scrutiny, at a variety of levels as follows:
- Members of Parliament and Senators who ask questions in the Houses of Parliament;
 - committees of both Houses of Parliament, including the Senate Estimates Committees;
 - Ministers;
 - external auditors, such as the Australian National Audit Office, and specialist review panels;
 - regulatory bodies such as the Australian Broadcasting Tribunal;
 - agencies with special responsibility for particular social responsibilities, like the Public Service Commission; and
 - consultative and advisory committees and special interest.

The Public Accounts Committee

- 13 The Joint Committee of Public Accounts has produced a number of significant reports which affect performance reporting by GBEs. These reports include:
- Annual Reporting Guidelines for Statutory Authorities (Report 309, May 1991); and
 - Social Responsibilities of Commonwealth Statutory Authorities and Government Business Enterprises (Report 315, April 1992).

APPENDIX 3

CASE STUDY: CANADA

GBEs in Canada are called Crown Corporations.

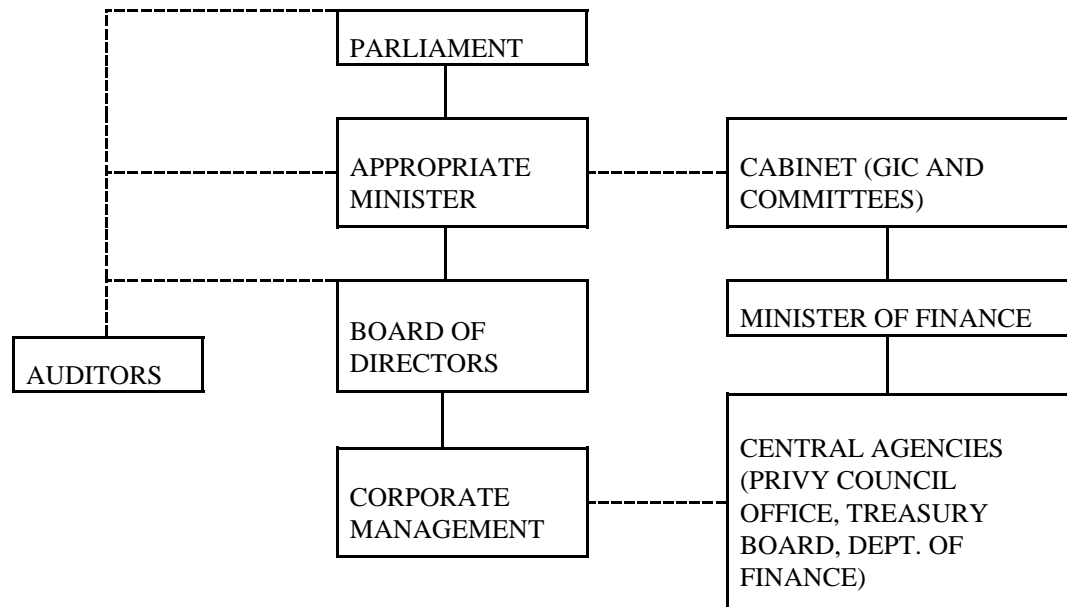
The main users of Crown Corporations' performance reports

- 1 As set out in Part X of the Financial Administration Act the bodies responsible to Parliament for Crown Corporations are the appropriate minister and the Minister of Finance, the Board of Directors and the management of the Crown Corporations themselves.
- 2 External auditors report to the Board of Directors (and if required Parliament) on the economy, efficiency and effectiveness of Crown Corporations as a result of carrying out special examinations at least once every five years. The internal and external auditors' roles are specified in legislation (FAA Chapter X). Each Crown Corporation has an audit committee over-seeing and advising on internal audits. External auditors draw on the work of internal audit to the extent practicable in both their annual audits and periodic speci

Figure 1:

CROWN CORPORATIONS —

ACCOUNTABILITY AND REPORTING RELATIONSHIPS



The needs of the user group

- 3 The responsibilities of these players in controlling Crown Corporations are set out in Part X of the Financial Administration Act. There are currently 56 parent crown corporations listed under the FAA, along with 118 wholly owned subsidiaries (also referred to as Crown Corporations). There are also 8 other parent Crown Corporations which are exempt from this framework of accountability. The rationale for these exemptions is "their need for a degree of independence from political and bureaucratic control" (C&AG 1991). The role of the central agencies is "to review challenge and advise" (Patriquin). The role of ministers and Cabinet is "more direct control" (Patriquin).

The elements of performance that should be reported

- 4 The elements which should be reported annually include:
- The profile of the Crown Corporation
 - Assessments
 - Performance of corporations during previous fiscal year
 - Business environment
 - Strengths and weaknesses of the corporation
 - Articulation
 - Strategy
 - Objectives and performance indicators
 - Detailed Plans
 - Capital budgets
 - Operating budgets
 - Projected financial statements
 - Borrowing plan
 - Requests for transactions which they do not have the powers to carry out (e.g., creation of a subsidiary).

Assessment of existing performance reporting

- 5 The Auditor General has had a continuing interest in the performance reporting of Crown Corporations. The 1991 Report identified a number of areas requiring more attention:
- In how objectives are articulated and in how performance is linked to them. The majority of Crown Corporations do not disclose in their annual reports the extent to which they have achieved their objectives by not stating or re-stating what the objectives were/are, by not showing how performance information relates to those objectives or by not having robust and meaningful performance information (in some cases no performance indicators) for objectives.
 - Crown Corporations have been reporting budgetary funding (direct funding for operating and capital expenditures) and non-budgetary funding (loans, investments and advances) in different ways. This is confusing and has led to misleading comparisons between Crown Corporations. Taking as an example Government capital funding, some corporations have netted such appropriations against the cost of assets while others reflect such amounts as contributed surplus.
 - Non-financial performance information in annual reports is not audited, although there is provision in the Financial Administration Act to permit such audit.
 - There are no provisions to clarify management's responsibilities or to ensure consistent accountability to Parliament for those Crown Corporations exempt from Part X of the Financial Administration Act.

The form of performance reporting

- 6 Under Part X of the FAA, Crown Corporations must produce a corporate plan, a budget submission and an annual report. The cycle of

reporting is set out below (source: Patriquin).

ACCOUNTABILITY AND CONTROL MECHANISMS

- AT THE BEGINNING OF EACH YEAR:
 - Corporate plan (5 year plan)
 - Operating and capital budgets
- DURING THE YEAR:
 - Modifications to corporate plans, operating and capital budgets
 - Continuing discussions with appropriate minister, line department officials and the Crown Corporations Directorate on strategies, mandate, government policies
 - Directives (rarely used)
- AT THE END OF THE YEAR:
 - Next corporate plan
 - Annual report of corporation to minister which is tabled in Parliament
 - Auditor's report
 - Annual report of the President of the Treasury
- EVERY FIVE YEARS:
 - Special examination report to the Board by external auditors

Plans for future developments

7 The government and the Crown Corporations are working together:

- to improve annual reports and relate these to the business plans;
- to establish meaningful performance indicators which relate to objectives and which are clearly stated in both their business plans and annual reports;
- to set out performance information in one particular section of the report;
- to include additional information to provide context to performance information, for example, year on year comparisons or comparisons with other Crown Corporations;
- to develop a suitable accountability framework setting out statements of management responsibilities, accountability requirements and audit provisions for all Crown Corporations currently excluded from Part X of FAA.

Existing good practice

8 The performance measures developed to assess the efficiency and effectiveness of Canada Post Corporation has received acclaim. The public accounting firm appointed to measure Canada Post's delivery performance system sent over 40,000 pieces of correctly addressed but anonymous mail through the system and measured the numbers reaching their destinations within the defined service standards. They repeat and report on this process every quarter.

APPENDIX 4

CASE STUDY: USA

- 1 The United States enacted the Government Performance and Results Act of 1993 (GPRA) which requires federal agencies (including Government Business Enterprises as defined by IFAC) to develop, no later than the end of fiscal year 1997, strategic plans covering a period of at least 5 years that include the agency's mission statement, identify the agency's goals, and describe how the agency intends to achieve those goals through its activities and through its human, capital, information, and other resources. Under GPRA, agency strategic plans are the starting point for agencies to set goals for programs and measure the performance of the programs in achieving those goals.
- 2 In addition, GPRA requires agencies to submit, beginning in fiscal year 1999, annual program performance plans to the Office of Management and Budget (OMB), which is within the Executive Office of the President, and program performance reports to the President and Congress. Program performance plans are to describe how agencies are to meet their program goals through daily operations and establish target levels of performance for program activities. In these plans, agencies are to define target levels in objective, measurable terms so that actual achievement can be compared against the targets. Agencies' individual performance plans are to provide information to OMB for an overall federal government performance plan that OMB is to develop and submit annually to Congress with the president's budget. In their program performance reports, agencies are to show (1) program achievements compared to the targets specified in the performance plans; and (2) when a target has not been met, an explanation of why the target was not met and what actions would be needed to achieve the target.
- 3 GPRA also allows agencies to propose in their annual performance plans that OMB waive certain administrative requirements. These administrative waivers are intended to provide federal managers with more flexibility to structure agency systems to better support program goals. Under GPRA, the administrative requirements eligible for waiver would be nonstatutory and involve only budgeting and spending within agencies. In return, agencies would be held accountable for achieving higher performance.
- 4 Finally, GPRA requires a 2 year test of performance budgeting in not less than five agencies, at least three of which have had experience developing performance plans. Under the test, performance budgets are to provide Congress with information on the direct relationship between proposed programme spending and expected programme results and the anticipated effects of varying spending levels.
- 5 GPRA calls for phased implementation so that selected agencies can develop experience from implementing its requirements before implementation is required for all agencies. As of January 25, 1995, OMB had selected over 70 agencies or programs to pilot performance planning, performance measurement, and performance reporting. OMB will be selecting agencies from among the initial pilots to pilot managerial flexibility and test performance budgeting in fiscal years 1995 and 1998, respectively. Although GPRA does not call for government-wide implementation of strategic planning and performance planning until fiscal years 1998 and 1999, respectively, OMB and the administration's National Performance Review have strongly endorsed these reforms and have encouraged all agencies to develop their strategic and performance plans as soon as possible.

General Purpose Financial Statements

- 6 While GPRA is focused on the development and reporting of performance measures at a program level, certain measures are currently being reported in the entity's general purpose financial statements, as part of the Overview to the financial statements (also known as Management's Discussion and Analysis). It is expected that the annual performance report mentioned above to satisfy the GPRA will be combined with the general purpose financial report after 1999.
- 7 The accounting concepts and standards recently issued and those being developed for general purpose financial reports have been focused on providing users with information on the cost of programs and the outputs and outcomes achieved. In response to users needs, the display of information about costs and accomplishments has led to the development of a statement of net costs and a statement of performance measures as part of the general purpose financial report. These new displays were recently issued in the Statement of Federal Financial Accounting Concepts, Entity and Display.
- 8 The statement of net costs is focused on providing the net cost of operations that must be financed with taxes or other unearned monies. It also is designed to provide cost information for each major program for which the reporting entity is responsible. Thus the statement of net cost will provide by program the total cost incurred in providing goods and services and in carrying out other operating activities less earned revenue. The earned revenue is to be associated with the cost incurred in earning that revenue to the extent possible. To make the information

in the statement of net cost reliable and timely and based on the full cost of federal programs, cost accounting standards have been developed which are intended to be used for both internal and external reporting. By reporting cost information by program in general purpose financial statements and when used with the appropriate performance measures, external users have information to assist them in making decisions about allocated resources and in evaluating program performance, unit cost, and the entity's economy and efficiency.

- 9 The statement of program performance measures would include measures for each of the reporting entity's major programs. These measures are expected to be output and outcome measures and to be comparative to similar programs or to prior years. These measures are to relate to the purposes and goals of the program and be important to decisionmakers. The most significant measures are also to be highlighted in the report's overview section.
- 10 In addition, a proposed accounting standard on stewardship reporting calls for reporting as supplemental information certain trend information about costs incurred and the related output and outcome measures achieved. This information relates to expenditures that represent substantial federal investments and produce long-term benefits for the nation and its economy.
- 11 In summary, federal financial reporting in the United States is taking on a greatly expanded role. The reporting of performance measures and the redesign of financial statements are significant and important steps in providing accountability and stewardship information about its resources.

APPENDIX 5

CASE STUDY: ITALY

EXTRACT FROM THE DIRECTIVE OF THE PRESIDENT OF THE ITALIAN COUNCIL OF MINISTERS: JANUARY 1994

Principles regarding the Provision of Public Services

Standards

- 1 Within three months, public service providers have to identify the factors on which the quality of their service depends and, on the basis of these factors, they have to adopt and publish quality and quantity standards which ensure that they are complied with.
- 2 Public service providers are to define general and specific quality and quantity standards for the services they provide. The former of these standards represent quality objectives that refer to all of the services provided. The latter refers to each of the individual services provided to users, who can verify directly whether they are being complied with or not.
- 3 The standards are accompanied by an explanatory report which describes, amongst other things, how these standards are expected to be achieved; the principal factors external to the public service providers and outside their control, which could significantly affect their ability to comply with the standards; the methods of evaluation used to set and review the standards, with a forecast relating to future evaluations. In the report, public service providers also determine the indices to be used to measure or evaluate the results achieved.

They are also a basis of comparison on which to compare the actual results with the objectives set previously; they describe the instruments to be used in verifying and validating the values that are measured.
- 4 The standards are to be submitted to verification with the users at public meetings.
- 5 Observation of the standards cannot be subject to conditions. Exceptions can only be made if the results are more favorable.
- 6 The standards are to be revised periodically, to reflect the current needs of users. The new rules have to be adopted and followed, but amendments should not require users to make significant changes.
- 7 Each year public service providers are to adopt plans designed to improve steadily the standards of the service that they provide.

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