

## **Providing Assurance on Performance Reports:**

### **Two jurisdictions compared**

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#### **Introduction**

Providing assurance on performance reports is an emerging role for public sector auditors (Mayne and Wilkins forthcoming). Barzelay (1997) calls this "performance information audit".

Performance information auditing can be located on a spectrum someway between assurance on financial information and reporting on value-for-money (vfm). It shares a focus on performance with vfm studies and has the particular benefit of helping Parliamentarians, the Government, agencies and the community focus their attention on areas where performance and accountability can be improved. It also shares with the financial assurance role the purpose of assuring the quality of core information.

Western Australia is the earliest known case where the Parliament formalised a requirement for the Auditor General to provide Opinions on the performance indicators reported by agencies. The Federal Parliament of Canada has more recently required the Auditor General to provide assessments of the performance reports of three agencies.

This paper overviews the audit approaches in these two jurisdictions and makes some observations on some of the significant similarities and differences, and their implications. It is based on the observations of the authors and reports such as Auditor General of Western Australia 1994, 1996, 1999 & 2000; Auditor General of Canada 2000.

Information on the experiences in other jurisdictions can be obtained from reports such as Auditor General of Australia 2001a, 2001b; General Accounting Office 2000; Auditor General of Victoria 2001; Controller and Auditor General of New Zealand 2001; National Audit Office 2000, 2001; Office of the Auditor General of British Columbia 2001.

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\* The authors wish to acknowledge the contribution of their colleagues in audit offices and elsewhere who have moved the field of assurance audits of performance reports forward and who have provided many useful comments and suggestions. The content of the creport reflects the views of the authors.

## **Performance information auditing in Western Australia<sup>2</sup>**

### **Context**

The use of the word "indicator" to characterise the performance information reported helps to make clear the role that the information is expected to have: a guide to organisational performance and providing an insight into an organisation's achievement rather than providing a precise measure of performance.

The Act came into effect in 1986 and during the next five years the public sector made relatively little progress in developing performance indicators has required under the legislation and the Auditor General reported to Parliament that he was unable to fulfil the audit requirements of the Act. In 1989 and 1990 the Auditor General expressed concern to Parliament regarding progress with the development of performance indicators, and in 1990 recommended the repeal of the requirement to audit performance indicators until criteria had been developed and until the role of audit had been reassessed (Auditor General of Western Australia 1990).

In 1991 the new Auditor General decided to play a proactive role by articulating to the public sector his expectations regarding the implementation of the audit mandate. This involved the preparation of guidance material and the staging of seminars. For the reporting year 1991-92 he commenced the process of reviewing key performance indicators against the agency's objectives. In a 1992 report "Review of performance indicators in 1990-91" he concluded that some agencies had made considerable progress in the development of there are performance indicators and noted that he expected that it would take sometime before the indicators of all agencies reached the standard where they would fulfil their intended role.

A particular challenge during this period and subsequently has been to have agency objectives articulated in a way that leads to measurable outcomes. Without this the development of acceptable indicators cannot proceed.

The approach sought to provide constructive comment wherever possible. By segmenting agency activity into programs with their related objectives it was possible to provide positive feedback on areas of progress even where the entirety and agency's activities were not adequately reported. Given the very negative associations of a qualified audit Opinion, in the first instance informal Assessments/certifications that included recognition of progress made were issued.

In 1993 the Auditor General signalled his intention to issue some formal Opinions for the reporting year 1992-93. Where the agencies indicators had not been sufficiently well-developed to conduct the audit required by legislation, the Auditor General would continue to issue an assessment. This stepwise approach avoided issuing a vast number of qualified Opinions and thereby risking a

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<sup>2</sup> Primary sources for this Appendix are reports by the Auditor General of Western Australia (1994 and 1997).

devaluation of the significance of qualified Opinions in both the financial statement and performance areas.

In 1994 the Auditor General tabled in Parliament a Special Report "Public sector performance indicators 1993-94". This report reviewed agency progress in developing performance indicators and offered guidelines for their development. The report concluded that significant progress had been made since 1990-91. The Auditor General signalled that the hybrid approach of a mixture of assessments and Opinions would end after three years, and that as of 1995-96 the issuing of audit assessments would cease and that only unqualified or qualified formal audit Opinions would be issued.

A process of reporting to Parliament each year on agency progress was instituted after the 1994 report. In addition, two reports were produced focusing on the hospital sector which faced particular difficulties in presenting acceptable performance indicators. The 1996 report was titled "Under wraps!: performance indicators in the Western Australian hospitals" and "Getting better all the time – Health sector performance indicators " was tabled in Parliament in 1999.

In 1998 a report was produced on performance indicators based upon customer satisfaction surveys, titled "Listen and Learn: Using customer surveys to report performance in the WA public sector" and this was followed up in 2000 and 2001 to provide further information in this area.

Significant changes to the preparation of performance indicators arose from the Government's introduction of Output Based Management (OBM) for the 1997-98 year. For budget purposes OBM required agencies to specify and measure there are outputs using indicators of quantity, cost, timeliness, and quality. The Treasurer's Instructions were amended so that from 1998-99 the key efficiency indicators had to be reported for each output. While this did not prevent the reporting of more global efficiency indicators, it did shift the reporting of efficiency indicators to a more specific and at times fragmentary level. The reporting of key effectiveness indicators continued, with their relevance being tested against the outcomes specified under OBM rather than the previous program objectives. As its name suggests, OBM has shifted the public sector management focus to outputs and made it more difficult to keep effectiveness indicators as a focus of central concern.

Throughout this period the audit office coordinated its efforts with the relevant central agencies of the executive arm of government. In 1997 it jointly issued with two central agencies the updated publication "Preparing performance indicators: A practical guide" which is consistent with OBM.

Since 1996, approximately ten years after the coming into operation of the legislation, the vast majority of the State's expenditure has been covered by performance indicators which have been entirely or largely acceptable in the audit terms. The figures have been somewhat lower in terms of the proportion of agencies with acceptable performance indicators given the relatively large number of small entities and the difficulties some of these continue to encounter in the preparation of their performance indicators. For instance, in 1991 3% of agencies' received unqualified opinions, which rose to 19% in 1994, and to 40%

in 1997. More importantly, in 1997 the unqualified opinions related to 76 per cent of expenditure of the public sector subject to reporting requirements.<sup>3</sup> In 2000, the most recent statistics available indicate that up to December 1, 2001 over 90 percent of agencies submitted acceptable performance indicators (185 unqualified opinions were issued in respect of the 191 agencies that submitted performance indicators, seven further agencies not having submitted indicators (Auditor General of Western Australia 2001b).

It has been difficult at times for agencies and the wider community to accept the evolutionary approach to performance reporting adopted. Information reported at one time that may receive an unqualified opinion may at a later date be queried and ultimately subject to qualification as standards, knowledge and skills are raised. Added to this is the potential that agencies that are making good progress in some aspects of their performance reporting, and yet have significant weaknesses in other areas. This is illustrated by two reports tabled in Parliament in 1999, on reporting in the health sector – one identified positive progress at the level of the reporting framework whereas a second report raised significant queries about the quality of the data being reported (1999a and 1999b).

### **Implementation of the performance indicators mandate**

The Western Australian Auditor General highlights the need for planning by the auditor and ongoing assessments that the appropriate mix of skills is available for the conduct of the audit.. Skill areas identified include “understand issues in performance measurement, derivation of performance indicators and practical development of suitable information systems. In addition, auditors should be aware of current corporate and business planning issues and related social, economic and environmental factors. In auditing non-financial performance information auditors will be required to exercise judgement and express opinions on areas that involve disciplines other than accounting.”

The WA Auditor General’s Standard identifies audit techniques that could be used including:

- Compliance testing and evaluation of the systems, processes and controls that capture, record, analyse and monitor the information;
- Performing rigorous analytical procedures over the information; and
- Performing a combination of those substantive tests considered necessary to gain the required level of assurance.

and notes that “as with any other aspect of auditing the auditor must exercise judgement in obtaining sufficient appropriate audit evidence to enable reasonable conclusions to be drawn.”

It notes that there is often no "correct" measure of performance, for instance the quality aspects of effectiveness may have two meanings - a customer-based

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<sup>3</sup> In addition, the Auditor General has reported aspects of progress with PIs to Parliament on several occasions. For instance, the first General Report for 1997 (August) indicated that of 291 formal performance indicators audit Opinions issued, 116 were unqualified, a considerable improvement on the 70 unqualified Opinions issued in 1994-95. More importantly, the unqualified Opinions related to 76 percent of expenditure of the public sector subject reporting requirements.

meaning (for example, user perceptions of water clarity and taste), and a technical meaning (for example, technical standards for water quality). Neither dimension is of itself "correct", and proper measurement of quality should include both dimensions.

A supporting document and training provided to staff provides technical guidance in areas such as:

- Surveys including questionnaires including a consideration of the survey design, sample size, its administration and data analysis.
- The formulation of indices as a summary measure that groups related items, including the basis of the weightings applied, application of inflation adjustments and the interpretations applied to the data.
- Scientific and technical data including the suitability of the equipment, its calibration and use, sampling strategies, data processing.
- Data from external sources including research studies, the Bureau of Statistics which would require a review of the suitability of the measures, the status of the external body and where necessary to be methods used.
- Management information systems including a review of the any work by internal audit and where necessary and assessment of the control environment for factors such as access to the system, segregation of duties and qualifications and training of staff using the system.
- Graphical presentations to ensure they are free from bias and are not misleading to a general reader.
- Materiality, including identification of the error level which by itself or together with other errors would impact on the interpretation of performance or decisions made by users of the information.
- Linkage between any qualifications on the financial statements and the Opinion on the performance indicators.

### **Performance Information Auditing at the Federal Level in Canada**

Starting in 1995, the government of Canada revised its reporting of performance information to Parliament through its *Estimates* for all departments and agencies. It replaced the existing Part III of the Estimates with two documents for each department and agency:

- a *Report on Plans and Priorities*, tabled in the Spring along with Parts I and II of the Estimates which outlined spending plans for the upcoming fiscal year and two years out, and
- a *Performance Report* tabled in the fall, intending to provide information on what had been actually achieved by government policies and programs.

The performance reports involved self-reporting by the organizations; no role for the legislative auditor was identified.<sup>4</sup>

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<sup>4</sup> The Auditor General has reported on these initiatives in two reports: Chapter 5 of his 1997 report and Chapter 19 of his 2000 report.

The 1996 Budget announced the intention to establish 3 new service agencies:

- a new food inspection agency, bringing together parts of four existing departments involved in inspection services;
- a national parks agency from the existing parks component of an existing department; and
- a customs and revenue agency from the existing department.

The Canadian Food Inspection Agency was the first to be established, in 1997.<sup>5</sup> Discussion on how it should be set up led to it being provided greater autonomy from administrative rules and regulations, especially with respect to human resource matters, in exchange for enhanced accountability to Parliament. This enhanced accountability to Parliament included the requirement the tabling in Parliament of audited financial statements as well as an annual report on its performance. This report was to contain an assessment by the legislative auditor on the fairness and reliability of the performance information reported against its corporate objectives.

Legislation for the Canada Parks Agency (Parks) and the Canada Customs and Revenue Agency (CCRA) contained similar requirements for an annual assessment of performance information by the Auditor General.

By the fall of 2002, the Auditor General had completed 5 assessments for the CFIA, 3 for Parks and 2 for the CCRA.<sup>6</sup> The differing numbers simply reflecting the different timing of the first annual report of each agency.

#### **Audit Criteria for the Assessment**

Faced with this legislative requirement, the Office set about developing an approach to providing the needed 'assessment' of fairness and reliability. The Office by then had considerable experience in examining performance reports (Auditor General 1997) and was able to benefit from the performance information audit experience developed in Western Australia.

The phrase 'fair and reliable' was taken to mean that performance reporting ought not to mislead readers and report a reasonably balanced, complete and accurate picture of the performance achieved. The basic elements of good performance reporting were becoming well established by that time with many jurisdictions setting out similar good reporting characteristics. A review of a number of jurisdictions lead the Office to propose five criteria to operationalize 'fair and reliable':<sup>7</sup>

**Relevance**     The performance information should report in context, tangible and important accomplishments against objectives and costs.

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<sup>5</sup> The creation of this agency is discussed in Auditor General of Canada (1998).

<sup>6</sup> These can all be found in the respective annual reports, available on the web pages of each agency.

<sup>7</sup> The criteria are presented here in their current version. As experience with their use was gained, they have been modified and the sub-criteria re-organized, although significantly changed.

<b>Meaningful</b>	The performance information should tell a clear performance story, describing the expectations and benchmarks against which performance is compared.
<b>Attributable</b>	The performance information should demonstrate in a reasonable fashion the contribution made by the activities undertaken to the reported accomplishments.
<b>Accurate</b>	The performance information should adequately reflect facts to an appropriate level of accuracy.
<b>Balanced</b>	The performance information should provide a representative yet clear picture of the full range of performance, which does not mislead the reader.

Annex A<sup>8</sup> provides further elaboration on the criteria, including sub-criteria.

### **The Assessment Approach**

In developing an audit approach, there was considerable discussion within the Office on how best to proceed. The issues discussed included:

- To what extent should the assessment be akin to a financial opinion? What form should the auditor's report take?
- Given that early performance reports will likely have a number of shortcomings when compared to the ideal set out in the criteria, what should be the Office's strategy?
- Which audit standards ought to apply to the audit work?
- What level of assurance ought to aimed for?

In the end, the Office adopted a number of principles to be applied in developing its approach:

1. The purpose of the assessment would be to help readers of the annual reports to understand the strengths and weaknesses of the information reported;
2. Given the developing state of performance reporting in the agencies, the Office would, to the extent possible, be supportive of performance reporting; and
3. Given the newness of this type of audit work, flexibility in the audit approach was sought, all the while mindful of its need to meet its professional and legislative obligations to produce an objective assessment of the annual reports.

As a result of the first principle, a long form report was adopted rather than the more traditional financial opinion form of several standard paragraphs. This, it was felt, provided better information to readers, especially in light of the fact that there were not as yet generally accepted performance reporting principles.

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<sup>8</sup> See Office of the Auditor General (1998).

The developing nature of performance reporting ensured that for some time it was unlikely that the auditor could provide an unqualified assessment, i.e. say that the report was (fully) fair and reliable. To indicate and support the evolving nature of performance reporting in an agency, based on the second principle, the Office would also provide an assessment on the progress being made towards fair and reliable reporting. In this way, good efforts and good progress could be recognized, even if there remained some way to go.

Finally, the Office recognized that how it went about carrying out and reporting on its assessment work would evolve over time as experience in performance information audit was gained. With each round of assessments, it reviewed its practice and modified it as better approaches were learned. It used the fact that different audit teams were carrying out the work under the general guidance of a central team to allow different approaches to be used within a general audit framework.

The general approach used involves:

- the *desk review*, wherein the assessor reviews the report to assess the performance information presented, according to the five criteria and sub-criteria in Annex A, indicating whether the information meets the sub-criteria, needs some modification or needs major modification. Typically several different individuals carry out this work, including outside experts, and their findings compared to enhance consistency.
- a *fieldwork* stage to, for the most part, analyze and verify the accuracy of the data used in the report, as well as to enhance the auditor's knowledge of the business. Thus the fieldwork mostly focuses on the accuracy criterion, but could consider other criteria as well if they cannot be adequately assessed through the desk review. This is often the most resource intensive aspect of the assessment since it often requires visits to the entity in question and an examination of the systems used to produce the data. There are different approaches that can be used here from relying on work of the entity's internal auditor to assessing the controls in place in the relevant data systems to actually testing data gathering and analyses methods used in the entity. In practice, depending on the case at hand, either a review level of audit level of assurance was provided.
- drafting the assessment report, summarizing the findings and discussing them with the entity. The final assessment reports were signed by the Auditor General.

While the approach continues to evolve, its has become more standardized as experience has been gained.

An example assessment for Parks Canada can be found at [http://www.parkscanada.gc.ca/library/DownloadDocuments/DocumentsArchive/P CA\\_99\\_00report\\_e.pdf](http://www.parkscanada.gc.ca/library/DownloadDocuments/DocumentsArchive/P CA_99_00report_e.pdf)

By the fall of 2002, there was considerable effort underway in Canada to develop a common set of performance reporting principles. The legislative auditors had earlier set out a set of such principles, and in 2001, 'management' representing several governments developed a document on reporting principles. In the fall of

2002, the Canadian Comprehensive Auditing Foundation had issued a merged set of reporting principles – a move towards generally accepted reporting principles.

Depending on the results of this work, the office might further modify its audit criteria and approach.

### **Some observations, similarities and differences**

The Western Australian mandate has been phased in over time, with the Auditor General providing since 1996, opinions on the performance indicators of all agencies. These opinions are in addition to an opinion on the agencies' financial statements and controls and are tabled in Parliament as part of the agencies' annual reports along with the performance indicators.

In Canada, the mandate for providing assurance through assessments was only for three agencies and the methodology revised over time as experience was gained.

A distinction between the two mandates is the nature of the information which is subject to audit -- in Western Australia the information is restricted to "performance indicators" whereas the Canadian legislation uses the wider term "performance information". As a result, the Western Australian Opinions focus on specific indicators whereas the Canadian assessments cover a more comprehensive filed: performance indicators and accompanying narrative that make up the performance report.

A balance needs to be struck between the quality of the performance measures and consistency from one period to another. In the early years of implementing a reporting regime, improvement in the quality of a significant performance measure may be considered more important than inter-period consistency. Where changes are being made, it is desirable to have data sets that overlap with both measures collected in one period.

Consistency over time is a key criterion for reporting financial statements. However, a focus on providing year-to-year comparisons can inhibit improvements to the nature and methods used to measure the reported performance information. In the early years this was an informal emphasis in the Western Australian approach whereas now that indicator sets are generally well established, there is a greater emphasis on maintaining inter-period comparisons and a year of overlapping of old and new measures is encouraged.

In Western Australia the focus on the "performance indicators" (as distinct from performance information), and the wording in the audit mandate "having regard to their purpose" is interpreted by the Auditor General to confirm that the information is to provide an "indication" as distinct from a definitive measure of performance. Often, a reading of an agency's performance indicators would be expected to lead to additional questions about the agency's performance, and to this extent they will have provided an important role as indicators of that performance. While, the focus on "indicators" over definitive measures means

that a lower reporting standard is being set, reaching and maintaining even this standard has posed significant challenges for agencies.

This performance information audit role has been sought of the Western Australian and Canadian Auditors General even though there were no established standards for precedents to guide these roles. It has thus required these Auditors General to develop and publicise the standards against which they will audit.

In Canada, the national audit office adheres to auditing standards promulgated by the Canadian Institute of Chartered Accountants. The standards developed for this assurance audit practice were based on these Canadian professional assurance auditing standards. This both provided guidelines for audit practice but also required flexibility in their interpretation since performance information auditing had not been developed when these standards were issued.

In Western Australia, auditing standards are set by the Western Australian Auditor General who was thus able to develop his own standards for this audit practice.

In both cases, auditing standards for performance information auditing continue to evolve, based on the actual experience gained over the years.

The extent of continuing support for these assurance mandates is likely to depend on a complex interaction of the use or non-use of the information for decision-making and accountability, and the influence it has on Parliamentary and public debates.

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## ANNEX A

**Audit Criteria for the Assessment of the Fairness and Reliability of  
Performance Information**

**Office of the Auditor General of Canada**

<b>Criteria</b>	<b>Sub-criteria</b>
<p><b>Relevant</b></p> <p>The performance information reports in context, tangible and important accomplishments against objectives and costs</p>	<ul style="list-style-type: none"> <li>• <i>Program context</i> includes the mission, mandate, and major priorities/strategies and partners used in relation to the objectives and explains the external environment including risks and challenges faced</li> <li>• <i>Logical relationships</i> and alignment between mandates, objectives and accomplishments are presented</li> <li>• <i>Tangible and important</i> accomplishments are reported in a timely manner, and their significance is explained</li> <li>• Reported results are <i>focused on outcomes</i> with related program activity types and outputs identified</li> <li>• <i>Cost information</i> on the resources used and revenues received in delivering the results is presented</li> </ul>
<p><b>Meaningful</b></p> <p>The performance information tells a clear performance story, describing expectations and benchmarks against which performance is compared</p>	<ul style="list-style-type: none"> <li>• <i>Expectations</i> are set out which are               <ul style="list-style-type: none"> <li>– clear and concrete</li> <li>– consistent with the objectives</li> <li>– explained</li> <li>– focused on outcomes with relevant activities and outputs identified, and</li> <li>– consistent with previously stated plans</li> </ul> </li> <li>• <i>Comparisons</i> are provided between actual reported <i>accomplishments</i> and expected performance with a realistic interpretation of the gap between the two</li> <li>• <i>Comparisons</i> are provided with relevant <i>benchmarks</i>, such as similar activities, programs or organizations, or trends over time</li> <li>• <i>Future plans</i> are discussed as to what will change as a result of what has been learned from past performance; major challenges are identified</li> <li>• <i>Selective and concise</i> information is presented</li> </ul>
<p><b>Attributable</b></p> <p>The performance information</p>	<ul style="list-style-type: none"> <li>• The <i>contribution</i> that has been made by the program to the reported results is demonstrated in a reasonable fashion, including evidence regarding attribution</li> </ul>

demonstrates in a reasonable fashion, why the program has made a difference

- The *role of key partners* and other external factors is discussed

### **Accurate**

The performance information adequately reflects the facts, to an appropriate level of accuracy

- *Valid measures* of performance are used
- *Reliable data* are used
- Performance accomplishments and conclusions are supported by *adequate evidence*
- *Appropriate methods* of data collection and analysis, have been implemented
- *Information sources and limitations* of data collection, analysis and presentation are explained
- The *basis for confidence* in the reliability of the information being reported is disclosed

### **Balanced**

A representative yet clear picture of the full range of performance is presented, which does not mislead the reader

- Both *strong and weak accomplishments* are reported as are significant unintended impacts
- There is *coverage of all objectives*
- There are *no distortions of information* through presentation or tone, or through omission of information or context
- The *emphasis* on information presented is proportional to its importance and materiality