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The problems,  
progress, and  
potential of  
performance  
reporting



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# The problems, progress, and potential of performance reporting

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# Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

Public organisations are responsible for reporting their performance to Parliament and the public in a way that meaningfully reflects their organisation's aspirations and achievements. This is an important aspect of New Zealand's public accountability system.

It is reasonable to expect that New Zealanders want the opportunity to understand what has been achieved with their rates and taxes. Our own research supports this.

Over the past three decades, considerable time and effort has been spent providing regular reports on the performance of public organisations to Parliament and the public. Significant resources are invested in ensuring that reports are carefully prepared, audited, and published. Despite this, there are still criticisms about the relevance, accessibility, and usefulness of publicly reported information.

In the work my Office does, we regularly see public organisations struggle to clearly explain what they do and how well they do it. Much of the reporting about performance is focused on what is important to the organisation rather than on what matters to the people they serve.

In my view, the first step in preparing a meaningful story about public sector performance is to understand what people want to know about public organisations, their services, and their contribution to New Zealanders' well-being. The next step is being able to clearly describe (and ideally measure) the difference that each public organisation is seeking to achieve in terms of improved outcomes for the communities it serves.

Although this paper is focused on the quality of reported performance, it also points to an underlying question about the management of performance. If public resources are being directed and managed well, public organisations should be able to tell a clear and compelling story about how they deliver value and contribute to the outcomes that are important to New Zealanders.

Good performance information is required at an organisational level, across sectors, and at a whole-of-government level. Those who lead and manage public organisations, those who are charged with monitoring public organisations, those who prepare performance information, and those who audit it all play a part in developing better performance information.

Those who have responsibilities in supporting the whole system also need to do more to ensure that the legislation, standards, and guidance provide an adequate framework and the right incentives to drive good performance reporting.

The current plans to reform public services (including for example to the health system and water management) provide an important opportunity to make improvements.

Changes that make it easier to deliver services are not enough – the services themselves need to contribute to improved outcomes for New Zealanders. Parliament and the public will only know that this is being achieved if it is measured, monitored, and reported in a way that is relevant and accessible.

In my view, improving public accountability must be a key consideration in any reform.

This discussion paper explores five areas for improvement:

- ensuring that performance information is focused on the issues that matter to New Zealanders;
- ensuring that performance information is tailored to different audiences to make it more accessible;
- better integrating and aligning performance information so it is clear how the activities of public organisations contribute to outcomes;
- improving monitoring and scrutiny of the performance information that is produced to encourage continuous improvement; and
- building demand for good quality performance information, strengthening system leadership, and investing in the capability to do it well.

I also encourage Parliament to reflect on its own role in supporting these improvements. Parliament can require more from public organisations. It can demand better quality information that is focused on what matters to New Zealanders.

Improved performance reporting must be seen as a priority if we are to address the many complex, long-term, and difficult problems facing New Zealand and improve accountability of the public sector.

Nāku noa, nā



John Ryan  
Controller and Auditor-General  
20 October 2021

# Introduction

- 1.1 Performance reporting is the main way that public organisations explain to Parliament and the public how well they have used public money to deliver services and achieve outcomes, and ultimately create value for New Zealand.
- 1.2 Therefore, effective performance reporting plays an important role in maintaining public trust and confidence in the public sector and the government. This is important for our representative democracy.
- 1.3 In this Part, we explain:
- what we mean by performance reporting;
  - why we are writing this paper;
  - the purpose of this paper; and
  - our research approach.

## What is performance reporting?

- 1.4 Performance in the public sector can often be a “blurry, elusive concept”.<sup>1</sup> Sometimes, performance just means how well something is done.
- 1.5 When we use the term “performance”, we mean how well public organisations make the best use of public money and resources to achieve certain objectives.
- 1.6 Reporting on that performance is a critical part of the process of providing effective public accountability.<sup>2</sup> Performance reporting provides the building blocks for demonstrating the competence, reliability, and honesty of the public sector to Parliament and to the public. It is also fundamental to good management, governance, and decision-making.
- 1.7 In line with statutory obligations, public organisations must report annually to Parliament and the public on their performance as part of a regular performance management cycle.
- 1.8 Explaining performance includes describing:
- how an organisation spends money on necessary resources (such as people or equipment);
  - how it uses those resources to deliver services or other outputs (such as elective surgery or improved road signs); and
  - how those services or outputs impact on planned outcomes (such as healthier communities or safer roads).

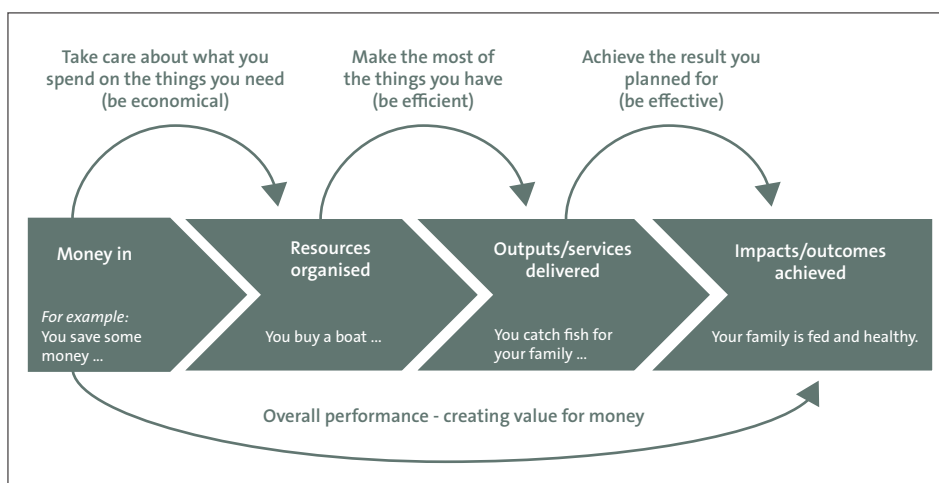
1 Summermatter, L and Siegel, JP (2009), *Defining performance in public management: Variations over time and space*, paper for International Research Society for Public Management XXIII conference, Copenhagen, 6-8 April 2009, pages 3 and 19. For an overview of the complexities in defining performance, see Ghalem, A, Okar, C, Chroqui, R, El Alami, S (2016), *Performance: A concept to define!*, Logistiqua Conference, Morocco.

2 See Office of the Auditor-General (2019), *Public accountability: A matter of trust and confidence* at [oag.govt.nz](http://oag.govt.nz).

1.9 Figure 1 shows a common model of bringing these steps together to explain and account for performance.<sup>3</sup> Each step assesses different dimensions of performance – the economy of using resources, the efficiency of delivering outputs, and the effectiveness of generating outcomes.<sup>4</sup>

1.10 In this model, overall performance is a combination of these three dimensions. It is about understanding whether the money spent (economically) on delivering services (efficiently) to achieve the desired outcomes (effectively) has resulted in value for money.

**Figure 1**  
**A common approach to describe and report performance**



Source: Adapted from Pollitt

1.11 The model described in Figure 1 is useful for explaining and accounting for the performance of an organisation with resources, outputs, and outcomes that:

- are controllable;
- are easily and clearly defined; and
- have few external influences.

<sup>3</sup> Smith notes that Pollitt was one of the first to conceptualise this model. See Smith, S (2014), *Performance management as ritual in the New Zealand public sector*, Doctoral thesis submitted to Auckland University of Technology, page 28. Also see Pollitt, C (1986). *Beyond the managerial model: the case for broadening performance assessment in government and the public sector*. *Financial Accountability and Management*. 2(3).

<sup>4</sup> Productivity is another measure to help describe performance. It is measured by the rate of outputs per unit of inputs.



- 1.12 However, this production-line model of performance has limitations.<sup>5</sup> By itself, it cannot always capture the full range of public sector activities or the attributes that Parliament and the public look for in the public sector's performance. For example, the model is not well suited to describing the performance of networks of organisations and people who, to meet complex social challenges, need to deliver shared outcomes.<sup>6</sup>
- 1.13 The model cannot always demonstrate whether an organisation (and its employees) has behaved in the way the public might expect. It cannot help to describe whether an organisation has acted respectfully, fairly, honestly, and with integrity or whether it has worked collaboratively and is inclusive.
- 1.14 The model also does not describe whether an organisation's outputs, services, or outcomes:
- are the right ones;
  - have public support;
  - are resilient to shocks (such as a pandemic); or
  - are sustainable over time.
- 1.15 In our view, the wider attributes set out in paragraphs 1.12-1.14 are all fundamental to describing public sector performance. Reporting these clearly helps a public organisation to effectively demonstrate its trustworthiness and how well equipped it is to be a long-term steward of public resources. Stewardship is about how the public sector works and behaves for the long-term benefit of the public, not just about what services it delivers.
- 1.16 Another approach to reporting performance that tries to incorporate some of these wider attributes of public sector value or success was proposed by the Auditor-General in 2002. This model included:
- the results a public organisation achieves (including any impacts on communities);
  - the level and quality of a public organisation's interactions with the public (including ethical behaviours); and
  - the costs associated with these results and interactions.<sup>7</sup>
- 1.17 Another example of an alternative approach is the Public Value Framework that Her Majesty's Treasury in the United Kingdom developed in 2019. This framework

5 See Smith, S (2014), *Performance management as ritual in the New Zealand public sector*, Doctoral thesis submitted to Auckland University of Technology, pages 28, 29, and 37.

6 See Vitalis, H and Butler, C (2019) "Organising for complex problems – beyond contracts, hierarchy and markets", presentation at the XXIII International Research Society for Public Management Annual Conference.

7 Office of the Auditor-General (2002), *Reporting public sector performance*, pages 5-6.

redefines what value for money means to a government department and how it should be reported.

- 1.18 Rather than focusing on quantifying inputs and outputs, the Public Value Framework measures success by how a public organisation pursues and monitors its overall goals, manages its financial inputs, supports long-term sustainability, and engages with people to understand their needs and gain their support. We discuss this model in more detail in Part 4.

### The purpose of our work

- 1.19 The public's trust and confidence in the public sector and the government is an important foundation of our democracy. To help build and maintain that trust, the public sector needs effective public finance, management, and accountability systems. These systems need to be cohesive and mutually reinforcing.
- 1.20 Today, these systems are undergoing significant change. Increased public expectations and a range of reforms are shifting the way the public sector thinks and works. Some reforms focus on supporting the public sector to work in ways that can better serve people and, in doing so, support a broader range of intergenerational well-being outcomes.
- 1.21 In our view, the information that the public sector uses to understand and manage its performance – and that is used to hold it to account – is of central importance to meeting these objectives.
- 1.22 We continue to have a strong interest in improving performance reporting and, in turn, helping to improve public sector performance and accountability. We also play an important role in improving performance reporting through our independent audit work, Controller function, and support of Parliament's scrutiny.
- 1.23 This paper builds on our recent research about the future of public accountability. It considers performance reporting in its entirety – from collecting information to its reporting and use. Although this paper primarily focuses on performance reporting for public accountability purposes, we also consider, where relevant, the implications of this reporting for effective governance and management in public organisations.
- 1.24 The main purpose of this paper is to provide insights into how the public sector can improve its approach to reporting performance in a way that is useful to Parliament and to the public. A secondary aim is to inform our own thinking about our role and how we can better support improvements to performance reporting.

## Our approach

- 1.25 This paper draws from a mix of qualitative and quantitative research. We collected information about the annual reporting process by analysing annual reports, interviewing staff at public organisations, reviewing auditor findings, and looking at other related research.
- 1.26 Our work also considered findings from two recent discussion papers we have published: *Public accountability: A matter of trust and confidence* and *Building a stronger public accountability system for New Zealanders*.<sup>8</sup>

## Analysing annual reports

- 1.27 To help us understand performance reporting from a reader's or user's perspective, we analysed performance information from the annual reports of 33 public organisations that were published between 2016 and 2018.
- 1.28 The annual reports we looked at came from a range of sectors, including health, education, transport, justice, and local government.
- 1.29 We recently developed a database of performance data from the annual reports of about 300 public organisations from 2016 to 2019. We have also drawn on this resource to help inform this work.
- 1.30 It is important to note that drawing broad conclusions from this data is difficult because of its uniqueness and changeability. A degree of judgement is needed when interpreting how some annual reports describe and present performance information.

## Interviews with staff of public organisations

- 1.31 To help us understand the public sector's perspective, we interviewed a small number of senior officials from public organisations in a range of sectors. Their responsibilities included preparing annual reports and monitoring other public organisations.
- 1.32 The interviews were semi-structured. We asked questions about the challenges and opportunities that people experienced when developing and using performance frameworks, operating in the planning and reporting cycle, and monitoring other public organisations.
- 1.33 We used the findings from these interviews to collate common themes that reflected the strengths and weaknesses of the performance reporting and monitoring processes.

8 See our website at [oag.govt.nz](http://oag.govt.nz).

### **Reviewing audit findings on performance reporting**

- 1.34 Our annual audits of public organisations routinely assess the appropriateness of service performance measures and verify the reported results.
- 1.35 To help us understand the auditor's perspective on performance reporting, we reviewed the main findings from our audits of 51 public organisations in a range of sectors from 2015 to 2018. We chose the public organisations based on their size, their representation of different sub-sectors, and geographical spread.

### **Other research**

- 1.36 To understand the perspectives of other commentators on this topic, we reviewed research and studies about the quality of performance reporting in the public sector. These included publicly available reports and papers from the Productivity Commission, private sector consultants, and academics.
- 1.37 We also looked at the different approaches that New Zealand and international public organisations are taking to performance reporting. We also reviewed the many previous reports about performance reporting and public accountability that we have published.

### **Scope and limitations**

- 1.38 Although this research draws on several sources, the qualitative and quantitative data we have gathered represents a sample only of the total population of each of these sources.
- 1.39 The Auditor-General does not comment on government policy except to review how well particular policies are implemented (for example, their effectiveness and efficiency). Therefore, because the options to improve the system of performance reporting are mostly matters of government policy, this paper is limited in what it can say about these.
- 1.40 When we discuss options for improvement, we present a range of examples, some of which are from public organisations in New Zealand. The examples are intended to illustrate different approaches and do not represent a view by the Auditor-General that these constitute best practice.

# Changes in performance reporting in the last 30 years

# 2

2.1 To help build and maintain trust, the public sector needs effective public finance, management, and accountability systems. These three systems all depend on regular financial and non-financial reporting about the performance of public organisations, sectors, and the whole of government.

2.2 In this Part, we discuss:

- the various initiatives to improve performance reporting since the late 1980s and comments made about them; and
- what has been learned since the 1980s' reforms.

## A story of reform followed by incremental change

2.3 The performance reporting system involves a complex network of various organisations and people. These include:

- governments, Parliament, and select committees;
- central agencies and sector advocacy groups – for example, the Treasury, Te Kawa Mataaho Public Service Commission (Te Kawa Mataaho), and Taituarā – Local Government Professionals Aotearoa (Taituarā);
- independent standard-setters (for example, the External Reporting Board and the Office of the Auditor-General);
- audit service providers (for example, Audit New Zealand);
- monitoring agencies (for example, the Education Review Office and the Tertiary Education Commission); and
- people who read the performance reports and use them to make decisions.

2.4 An equally complex framework of legislation, standards, guidance, and convention defines many of the relationships between these people and organisations. Changes in the network of people and public organisations, and the frameworks surrounding them, mean that the performance reporting system is constantly evolving.

2.5 The last comprehensive review of the performance reporting system was part of wider reforms of the public finance, management, and accountability systems in the late 1980s. These reforms were a response to a perception that the public sector was inefficient, unresponsive, and increasingly ineffective.<sup>9</sup>

2.6 The reforms focused on improving the transparency and performance of public organisations. They were achieved by enacting the State Sector Act 1988, the Public Finance Act 1989, and the Local Government Amendment Act 1989.

2.7 The rest of this Part outlines how the current system of performance reporting came about. We also discuss the various initiatives to improve performance

<sup>9</sup> For a summary of, and background to, these reforms, see Centre for Public Impact (2019), “New Zealand’s Public Financial Management Reforms”.

reporting since the late 1980s and comments made about them. Most of the initiatives and comments relate to central government.

### **From 1987 to 2000**

- 2.8 In 1987, the Treasury successfully argued that building a better public management and finance system needed:
- clear performance expectations;
  - an effective assessment of performance; and
  - adequate information flows.<sup>10</sup>
- 2.9 At the time, the Treasury recognised that a one-size-fits-all approach to assessing public sector performance would not work for most public sector activities. For example, the Treasury observed that organisations delivering social services needed to define the expected work and identify performance targets. However, that could not “be done in a mechanistic way with precise numerical measurement of all areas of activity”.<sup>11</sup> Various forms of performance assessment and reporting would be needed.
- 2.10 The then Auditor-General also developed new ways of auditing performance information to support these reforms.
- 2.11 New monitoring agencies were created to review performance in some sectors. For example, the Education Review Office was set up in 1989 to review school performance, and the Crown Company Monitoring Advisory Unit was set up in 1993 to monitor various public organisations. These included State-owned enterprises, health provider companies, and Crown research institutes.
- 2.12 Between 1988 and 1995, the state sector changed its approach to performance reporting. These changes were designed to improve the public sector’s efficiency and responsiveness. They introduced accrual accounting, outputs-based budgeting, and performance-based employment contracts.
- 2.13 In 1992, forward-looking statements of intent were launched, and the first set of whole-of-government accrual-based financial statements were published.<sup>12</sup> In 1995, strategic result areas and key result areas were introduced to help agencies work towards government priorities.

10 The Treasury (1987), *Government Management: Brief to the incoming Government 1987 volume I*, background papers on social policy, pages 55-57.

11 The Treasury (1987), *Government Management: Brief to the incoming Government 1987 volume I*, background papers on social policy, page 469.

12 See Office of the Auditor-General (2000), *Performance reporting for accountability purposes – lessons, issues, future*.

- 2.14 The Local Government Amendment Act (No. 2) 1989 required local authorities to implement accrual accounting. It also introduced a requirement for local authorities to report on “... performance targets and other measures by which performance may be judged in relation to the objectives, outputs and outcomes”.<sup>13</sup>
- 2.15 There were also several reviews of the public management system during this time. A review of state sector reforms in 1991 commented that, although there had been improvements in public sector performance, there had also been a loss of government-wide co-ordination of strategy and an adverse effect on the collective interest of the government.<sup>14</sup>
- 2.16 In 1996, another report on the state of the public management system noted that the 1980s’ reforms had led to improvements in efficiency, productivity, and responsiveness. However, it also noted that many public officials, especially those in smaller departments, were concerned about the increasing burden of complying with the demands for information and reporting from central agencies and Parliamentary committees.<sup>15</sup>

### From 2000 to 2010

- 2.17 In 2001, a *Report of the Advisory Group on the review of the centre* was presented to the Ministers of State Services and Finance. This report identified many areas for improving the performance reporting system.
- 2.18 These included addressing the lack of information about whether outcomes had been achieved, the quality of monitoring, the costs of compliance, and inconsistencies in reporting performance. The report observed that “our system needs to be able to assess performance in terms of overall objectives (outcomes), service delivery (outputs) and ownership”.<sup>16</sup>
- 2.19 In 2002, we published comprehensive guidance for reporting on the public sector’s performance. The guidance emphasised that, for external accountability reporting, all elements of performance must be taken into consideration, particularly performance indicators that stakeholders want to know about.
- 2.20 The guidance used case studies and literature to illustrate good practice in measurement and reporting. It also discussed ideas that were innovative at the

13 See Office of the Auditor-General (2000), *Performance reporting for accountability purposes – lessons, issues, future*, page 5.

14 The Review of State Sector Reforms is also known as the Logan Review. This review is discussed in the Office of the Auditor-General (2000), *Performance reporting for accountability purposes – lessons, issues, future*, page 5.

15 Schick, A (1996), *The spirit of reform: Managing the New Zealand State Sector in a time of change*, Executive Summary, pages 7 and 81.

16 The Advisory Group (2001), *Report of the Advisory Group on the review of the centre*, page 16.

time, such as Balanced Scorecard and Triple Bottom Line reporting.<sup>17</sup> Both of these ideas provide different ways of measuring and reporting multiple attributes of performance, such as financial, social, and environmental, and the perspective of the customer.

- 2.21 Between 2002 and 2004, many of the statutory provisions about performance reporting were reviewed. There was a particular focus on the medium to longer term context, requirements for outcome information, and increasing the number of public organisations required to report on their performance.<sup>18</sup>
- 2.22 During this time, a new initiative called “managing for outcomes” was introduced. The intention of the initiative was for public organisations to focus more on achieving results for New Zealanders.
- 2.23 The initiative included new guidance on planning, reporting, and assessing performance. The guidance observed that outcome performance measures needed to be used with caution, particularly where there was no clear attributable links to organisational outputs.<sup>19</sup>
- 2.24 The Local Government Act was amended in 2002 to require local authorities to prepare long-term plans. Part of this process involves local authorities consulting with communities. The purpose of this change was to strengthen local authorities’ long-term planning, community consultation and participation, and public accountability. The long-term plans had to include financial and non-financial performance measures.
- 2.25 However, despite these reforms, we still found in 2008 that the quality of performance reporting remained a significant weakness in the public sector’s accountability to its stakeholders. Much more needed to be done to improve that quality.<sup>20</sup>
- 2.26 In 2009, the then State Services Commission and the Treasury released substantial guidance for public organisations on preparing good performance measures and reporting frameworks.<sup>21</sup>

17 Office of the Auditor-General (2002), *Reporting public sector performance*.

18 Office of the Auditor-General (2008), *The Auditor-General’s observations on the quality of performance reporting*, page 3.

19 The Treasury (2002), *Managing for Outcomes: Output plans guidance for departments*, page 13.

20 Office of the Auditor-General (2008), *The Auditor-General’s observations on the quality of performance reporting*, pages 3 and 7.

21 State Services Commission and the Treasury (2009), *Performance Measurement: Advice and examples on how to develop effective frameworks*.



- 2.27 In 2010, the Treasury published its first Investment Statement. Its aim was to help people understand the performance of the whole of government's assets and liabilities, and to support better balance sheet management.<sup>22</sup>

### From 2011 to today

- 2.28 Criticism of performance reporting continued in 2011, when the then Auditor-General called for public organisations to improve four aspects of annual reporting:<sup>23</sup>
- measuring and reporting on effectiveness and cost-effectiveness;
  - more analysis and evaluation of their performance;
  - more analysis of longer-term trends; and
  - better reporting of results (the outputs and the cost of service delivery).
- 2.29 In 2011, the Better Public Services Advisory Group released a report advising Ministers on state sector reform.<sup>24</sup> The two main recommendations were to:
- reconfigure the system to focus much more directly on those results or outcomes that matter most to New Zealanders; and
  - improve the quality, responsiveness, and value for money of state services.
- 2.30 In 2011, Gill published the findings of a comprehensive three-year research project into New Zealand's performance management system and its evolution.
- 2.31 Gill described a case for change that was based on a threat to the credibility of reported performance information. This threat arose from a "vicious cycle of low demand, limited use and poor quality of supply for non-financial performance information". Gill observed that: "In a world of faster and less predictable change, performance information should play an increasingly important role."<sup>25</sup>
- 2.32 In 2013, the State Sector Act, Public Finance Act, and the Crown Entities Act were amended to:
- promote the performance reporting system as a whole to better deliver results;
  - encourage better services and value for money;
  - strengthen leadership at the system, sector, and agency level; and

22 The Treasury (2010), *2010 Investment Statement of the Government of New Zealand*. Note in 2013, the Public Finance Act 1989 was amended to require the Treasury to report to Parliament with an Investment Statement at least every four years.

23 Office of the Auditor-General (2011), *Central government: Cost-effectiveness and improving annual reports*, page 5.

24 New Zealand Government (2011), *Better Public Services Advisory Group Report*, [www.publicservice.govt.nz](http://www.publicservice.govt.nz).

25 Gill, D, et al (2011), *The Iron Cage Recreated – The performance management of state organisations in New Zealand*, Institute of Policy Studies, Victoria University of Wellington, page 479.

- support more meaningful information so that Parliament and the public can more easily see what the use of public money has achieved.<sup>26</sup>
- 2.33 Other initiatives were introduced during this period to improve how performance information was assessed, reported, and used. These included:
- **Better public services** – an initiative built on developing a number of measurable sector-wide results that reflected government priorities;
  - **Performance improvement framework** – an initiative to help senior leaders in the public sector lead performance improvement in their agencies and throughout the system;
  - **Living standards framework** – a policy advice tool that helps the public sector to consider New Zealanders’ well-being in four “capitals” – physical/financial capital, social capital, natural capital, and human capital – and 12 well-being domains;
  - **service performance reporting standards** – the External Reporting Board (XRB) has recently published new accounting and auditing standards for performance reporting that are due to come into effect in 2021 and 2022, respectively; and
  - **various reporting frameworks** – for example, Extended External Reporting is a term that the XRB adopted to refer to various broader types of reporting beyond that presented in an entity’s statutory financial statements (which can include integrated reporting and sustainability reporting).
- 2.34 The Treasury is currently working to modernise the public finance and accountability system to support a focus on well-being.<sup>27</sup> As part of this work, the Treasury published a guide for central government agencies on how they could incorporate a well-being approach into their external planning and performance reporting.
- 2.35 However, despite these many initiatives, there continue to be concerns about the quality of performance reporting and its contribution to effective public management, finance, and accountability. We outline three examples of these concerns in the following paragraphs.
- 2.36 In 2017, the Productivity Commission found that system-wide accountability and performance requirements encouraged “a costly scramble for resources, siloed thinking, the appearance of being busy, risk averse behaviour and short-termism” throughout the state sector.<sup>28</sup>

26 The Treasury (2013), *State Sector, Public Finance and Crown Entity legislative changes overview & summary*.

27 Robertson, G (July 2019), “Bringing Wellbeing into the Public Finance Act”, speech published at [www.beehive.govt.nz](http://www.beehive.govt.nz).

28 The Productivity Commission (2017), *Efficiency and performance in the New Zealand state sector: Reflections of senior state sector leaders*, page 40.

2.37 In 2019, we wrote a letter to chief executives of central government organisations summarising our reflections on the 2017/18 central government audit results. In the letter, we said that there was considerable scope to improve the value of performance reporting.<sup>29</sup> In the appendix, we noted:

- the need to have strong links between strategy and performance measures;
- the weak or non-existent links between outcomes and outputs or no clear description of attribution between impacts and outcomes;
- that performance monitoring and reporting for external accountability purposes does not always align with internal management reporting;
- unclear or undocumented reporting methodology and data definitions;
- the need for agencies that use client satisfaction measures to make sure that those measures are based on robust methodologies and use appropriate data;
- a lack of robust systems to report actual results;
- not enough quality, quantity, and efficiency measures for each group of outputs; and
- not enough assurance that third-party data is correct and verifiable.

2.38 In 2020, Dormer and Jahan reviewed a selection of New Zealand’s central government departments’ annual reports. Consistent with our concerns in 2019, they found that:

*... while New Zealand’s central government departments provide a large amount of information, this tends to lack a consistent and coherent structure that combines both financial and non-financial performance information.*<sup>30</sup>

2.39 Dormer and Jahan concluded that reported performance information “does not provide a meaningful insight into ‘what is going on inside’ public organisations”.<sup>31</sup>

## What can we learn from the past 30 years?

2.40 Achieving effective performance reporting has been an important issue for decades, and there continues to be a strong interest in improving it. Despite many thoughtful initiatives, public organisations still struggle to tell their performance story easily or clearly, and criticisms about the analysis, reporting, and use of performance information continue to be made.

2.41 The various initiatives to improve performance reporting appear to have been introduced in an incremental and siloed way, with many ideas reflecting the latest

29 Office of the Auditor-General (2019), *Insights and reflections: Our 2017/18 central government audit work*.

30 Dormer, R and Jahan, A (2020), “Reporting Service Performance – A Message in a Bottle?” *Centre for accounting, governance, and taxation research Working Paper series*, Working Paper no. 118, page 32.

31 Dormer, R and Jahan, A (2020), “Reporting Service Performance – A Message in a Bottle?” *Centre for accounting, governance, and taxation research Working Paper series*, Working Paper no. 118, page 33.

innovation and/or the interest of the government of the day. There appears to have been little long-term co-ordination of their implementation.

2.42 It is also not clear how much thought has been given to understanding what New Zealanders, as citizens, want and need to know about the performance of the public sector and its organisations.

2.43 We discuss some of these initiatives and concerns further as part of our assessment of the current system in Part 3.

# The current state of performance reporting

- 3.1 Although legislation, standards, and guidelines have been developed to better support performance reporting, criticisms of how public sector performance is analysed and reported on continue to be made.
- 3.2 Performance reporting is part of a public organisation's regular performance management cycle. Public organisations mainly report performance information in their annual reports. The Treasury describes annual reports as "one of the most important ways the department is accountable to members of Parliament and the public they represent".<sup>32</sup>
- 3.3 In total, the public sector prepares and publishes about 3400 annual reports each year. About 70% of these are from schools, which are not required to report on their service performance.
- 3.4 In this Part, we consider the state of performance reporting today and draw on information from people we interviewed, our analysis of annual reports, auditors' findings, and the findings of other researchers.

## Public organisations take their performance reporting obligations seriously

- 3.5 Everyone we interviewed understood the importance of performance reporting and wanted to improve it. Some people expressed the need for different approaches to performance reporting. These included alternatives to hard-copy annual reports, reporting at different times, and more focus on sector-wide performance.
- 3.6 People in the public sector meet regularly to discuss performance reporting. For example, a group of central government public sector officials – called the Planning and Performance Network – share their knowledge and experience about public sector planning and reporting matters.
- 3.7 Our research indicated that people involved in performance reporting take their obligations seriously, and the many reports they prepare largely comply with the relevant rules and regulations.
- 3.8 Our review of 33 public organisation's annual reports found that the outcomes that public organisations report on are broadly appropriate for their sector. We also found that public organisations do try to use performance frameworks to explain how their activities contribute to the outcomes they seek.
- 3.9 Some public organisations try to go beyond the statutory requirements for reporting. They explore different ways of tailoring their performance reporting to meet the expectations of the people who most value the information.

<sup>32</sup> The Treasury (2019), *Year end reporting: Departmental annual reports and end-of-year performance information on appropriations*, page 6.

- 3.10 For example, the Ministry of Housing and Urban Development publishes a dashboard of information that tracks progress on various aspects of the Government's housing programme. This includes:
- how many families have bought their first home;
  - how many people need warm, safe, and sustainable housing; and
  - people's movement through the public housing system.<sup>33</sup>
- 3.11 The New Zealand Customs Service is another example. It includes in its annual report information and indicators about its ongoing programme to safeguard integrity and prevent corruption, such as data on the outcomes of investigations into allegations of unacceptable behaviour and what type of corrective action was necessary.<sup>34</sup>

### **Performance reporting is not always meaningful or understandable**

- 3.12 Our research found that performance reporting can still be difficult to understand and confusing for readers, despite the considerable time and resources public organisations spend each year collecting information about, describing, and reporting their performance.

### **The way performance information is described can be incomplete, changeable, and overly complicated**

- 3.13 Some of the people we interviewed told us that performance information was too complicated, technical, and prescribed. Others we interviewed said that performance information did not properly capture the overall performance of their public organisation and did not show what was really important or meaningful.
- 3.14 Our observations from reviewing annual reports are consistent with what people told us. Our analysis suggests that, at times, readers of annual reports must grapple with large amounts of narrowly focused performance information that can change significantly from year to year.
- 3.15 The larger data set we compiled includes annual report information collected from about 300 public organisations between 2016 and 2019. Of the annual reports we included, the length of these documents ranged from eight pages to 358 pages. The average length was about 110 pages.
- 3.16 Looking at output indicators in the annual reports of 33 organisations:
- From 2016 to 2018, the annual reports had 50 output indicators on average.
  - In 2016, the annual reports had a total of 1849 output indicators. By 2017,

<sup>33</sup> See [www.hud.govt.nz](http://www.hud.govt.nz).

<sup>34</sup> See New Zealand Customs Service, *Annual report 2020*, page 42.

30% of them were new or had changed their description. By 2018, almost 50% of them were new or had changed their description. One entity reported 187 output indicators in 2016 but had removed or changed the description of about 119 (64%) of these by 2018.

- In 2018, there were a total of 1650 output indicators. Of these, only about 3% related to fairness and integrity, about 1% incorporated a regional perspective, and about 4% related to Māori or Pasifika communities. Less than 1% related to concepts of collaboration, inclusion, or participation.

3.17 From our larger database of output indicators, we found that, from 2016 to 2019, 109 annual reports had more than 100 output indicators and 28 annual reports had more than 200 output indicators. One public organisation had 340 output indicators in a single annual report.

3.18 Looking at reporting about wider outcomes in 2018, we found that 15 of the 33 organisation's used either qualitative or quantitative outcome indicators in their annual reports – but not both.

3.19 Over the years, our auditors have raised various issues with public organisations about the performance information in the annual reports. Our auditors have observed annual reports with:

- too many measures, which makes it difficult to identify what is important;
- too few measures and targets to properly understand performance; and
- a lack of up-to-date information or information from previous years, which makes it difficult to understand performance over time.

3.20 These findings are consistent with other research. For example, in 2019, the Productivity Commission found that:

*The current performance-reporting requirements on local authorities, including the financial and non-financial information disclosures, are excessively detailed, inappropriately focused and not fit for purpose.*<sup>35</sup>

3.21 One reason why performance information does not always properly capture overall performance is that the model commonly used to describe performance is not well suited to describing more complex situations or what is important for Parliament and the public.

3.22 For example, Vitalis and Butler argue that seeking to understand and describe performance in terms of a linear and logical production-line process (see Figure 1) might work for some public sector activities (such as issuing passports).

However, it does not work well for many other more complex activities (such as collaboratively managing complex social problems).<sup>36</sup>

### **The way performance information is presented can be difficult to follow and understand**

- 3.23 The people we interviewed as part of our research told us about issues with how performance information is presented and reported. These included reporting that:
- did not always meet the needs of its audiences;
  - was too rigidly structured; and
  - was at times adjusted to avoid explaining non-performance.
- 3.24 Our observations from reviewing 33 organisation's annual reports from 2016 to 2018 were consistent with what people told us. These observations suggest that, at times, readers of performance reports are faced with fragmented information that can be inadequate and confusing. For example:
- For 14 of the organisations, we could not clearly identify how the indicators of outcomes aligned with the indicators of outputs in their annual reports.
  - For 23 of the organisations, we could not clearly identify the money spent on planned outcomes in their annual reports.
  - Seven public organisations did not include a performance framework, and there was no clear link between the outcomes they wanted to achieve, the impact they were trying to make, and their reported output performance indicators.
  - We found many instances of indicators being presented in an overly abbreviated or technical way, with little accompanying explanation. Some were very difficult to understand.
  - There was little analysis of overall performance. Only seven of the 33 organisation's mentioned value for money, cost-effectiveness, or productivity when reporting against their outcomes in their annual reports.
- 3.25 Some of those interviewed also commented about having little choice about what they can report and that the timing, scope, and format of reporting needed to be more flexible. One particular concern was the time and cost of the reporting exercise and the ever-increasing reporting requirements placed on the people who prepare the performance information.
- 3.26 Our auditors regularly identify improvements needed to the performance reporting of public organisations. From 2015 to 2018, these matters mainly related to the way public organisations set out and explained their performance framework and the systems and controls associated with performance reporting.

<sup>36</sup> Vitalis, H and Butler, C (2019) "Organising for complex problems – beyond contracts, hierarchy and markets", presentation at the XXIII IRSPM Annual Conference.



- 3.27 Our auditors have also made suggestions to public organisations about how they can link outputs, impacts, and outcomes together to tell a more coherent performance story. They have also suggested that performance frameworks and the associated performance measures can better reflect an organisation's strategic intentions or outcomes.
- 3.28 These findings are consistent with other research we have seen. For example, a 2020 study by the McGuinness Institute observes that New Zealand's public and private sector reporting framework is complex, fragmented, inefficient, and lacks a stewardship lens.
- 3.29 The McGuinness Institute study noted that private and public sector annual reports are not being used to their full potential, and that users' demands for reporting exceed preparers' provision of information. There were many differences in what users and preparers considered to be important performance information. On the whole, users believed that annual reports did not report information well.<sup>37</sup>
- 3.30 Understanding what services and outcomes public money is spent on at a whole-of-government level can be just as difficult. For example, in 2020, we published a report on government department spending on managing natural hazards.<sup>38</sup> Our main finding was that it is extremely difficult to obtain a meaningful picture of what the government spends on managing natural hazards.
- 3.31 The Financial Statements of the Government provide a comprehensive picture of the financial health of the whole of the government (excluding local government). Accompanying these statements with a set of whole-of-government service and outcome information could provide a more integrated, comprehensive, and useful story of the government's performance.
- 3.32 It could also better inform people about what the government is spending money on, how much it is spending, and what they are getting in return.
- 3.33 Insights could be drawn from the way that the Treasury shows financial statement projections alongside wider living standards in *He Tirohanga Mokopuna – 2016 Statement on the Long-Term Fiscal Position*.
- 3.34 We acknowledge that there are challenges in bringing an integrated picture together. For example, the way public organisations capture financial and service performance information, and the way appropriations are designed, do not always align meaningfully with the services that an organisation provides.

37 McGuinness Institute (2020), *Report 17 – ReportingNZ: Building a reporting framework fit for purpose*, pages 41-47, 87, and 94.

38 Office of the Auditor-General (2020), *Analysing government expenditure related to natural hazards*.

## Performance reporting is not always audited in a helpful way

- 3.35 Effective independent assurance is fundamental to good performance reporting. It provides public organisations, Parliament, and the public with the confidence they need to rely on that reported information.
- 3.36 A public organisation is responsible for preparing reports about its performance. An auditor provides an independent opinion on whether that reported information fairly reflects the public organisation’s performance.
- 3.37 As we mentioned in paragraphs 3.26-3.27, auditors can raise issues with, or improvements needed in, performance reporting with public organisations. A 2018 study found evidence that the Auditor-General had raised such issues in reporting on local government in New Zealand, and it improved subsequent service performance reporting in local authorities’ long-term plans.<sup>39</sup>
- 3.38 Figure 2 shows that, in the past five years, only a small number of public organisations have received “modified” audit opinions for their performance information. An auditor gives a modified opinion when:
- the information is inappropriate for the purpose of the activity being reported on;
  - the information is not a fair reflection of what happened;
  - there is not enough supporting evidence for the reported performance; and/or
  - the information is not consistent with generally accepted accounting practice.

**Figure 2**  
**Number and percentage of modified audit opinions, from 2015 to 2019**

The table shows the number and percentage of audit opinions that were modified for selected public organisations. Not all public organisations are required to report on service performance.

	2015	2016	2017	2018	2019
Selected public organisations*	637	607	561	530	532
Number of modified opinions	27	26	18	4	10
Percentage modified	4.2%	4.3%	3.2%	0.8%	1.9%

\*Data includes local authorities, council-controlled organisations, government departments, Crown entities (excluding schools and Crown Research Institutes), and energy companies.

Source: Office of the Auditor-General.

- 3.39 Despite the small number of modified opinions, there are clear signs that reported information is not properly explaining performance, as we discussed in

<sup>39</sup> Keerasuntonponga, P and Cordery, C (2018), “How might normative and mimetic pressures improve local government service performance reporting?”, *Accounting and Finance*, Vol 58, page 1193.

paragraphs 3.12-3.34. This suggests that complying with minimum reporting and auditing standards is not enough to report performance effectively.<sup>40</sup>

- 3.40 However, public organisations can view the audit opinion as an indicator of success in performance reporting or success in performance generally. This can lead to a situation where public organisations focus on meeting the minimum standard that they think will satisfy the auditor.
- 3.41 Auditors have sometimes received criticism that their approach to auditing has made reporting and innovation in reporting difficult. Although it is dated, an example of this type of criticism appeared in a 2007 review of the engagement and decision-making provisions in the Local Government Act 2002.
- 3.42 As part of this review, the Local Government Commission considered the process involved in the first round of long-term council community plans. A comment from the review said:
- ... there needs to be a balance found between Audit's desire for detailed control over the interpretation of legislative provisions and the form of the [long-term council community plans] and allowing local authorities room to exercise reasonable discretion.*<sup>41</sup>
- 3.43 In practice, the nature of the audit process might not always incentivise public organisations to try new approaches or innovate in how they report performance information. However, in our view, public organisations should not think of audits as a barrier to improving the way they report performance information. Some organisations are already exploring different ways to improve their performance reporting (see paragraphs 3.9-3.11).
- 3.44 Public organisations should invest in the systems and processes needed to understand organisational performance. This not only helps them to manage their performance effectively but also enables them to be accountable to Parliament, the public, and the communities they serve.

### **Monitoring functions are not leading to significant improvements in performance reporting**

- 3.45 New Zealand's public management and accountability systems rely heavily on regular monitoring and scrutiny of public organisations' reported performance information.
- 3.46 Monitoring can be carried out by teams in organisations that have many other functions (for example, the Treasury) or can be more dedicated monitoring entities.

40 See the appendix for a summary of these performance standards.

41 MWH and JHI consultancy (2007), *Review of Local Government Act 2002 engagement and decision-making provisions*, page 15.

- 3.47 These monitors provide regular checks on the process of reporting performance. They assess whether that performance reporting supports Ministerial and Parliamentary scrutiny and assist where necessary.
- 3.48 Schick has observed that this reliance on organisational monitoring is a particular feature of our public management and accountability systems.<sup>42</sup> He observes that some other countries do not rely as much on regularly monitoring and assessing a public organisation's performance. Instead they place more emphasis on evaluating the performance of specific programmes of work.
- 3.49 Despite the importance of this monitoring function to the system of performance management, people we interviewed told us that there can be confusion about the roles and responsibilities between the public organisations that are monitored, the monitoring agencies or teams, and the users of the monitoring information.
- 3.50 People also talked about capability and capacity issues in monitoring teams, the need for a broader and more integrated picture of performance, and the desire for a more strategic and forward-looking approach to monitoring performance.
- 3.51 These responses suggest that some people are not clear about the purpose of monitoring an organisation's performance, the meaningfulness of the measures used, and the value that this type of monitoring has for Ministers, Parliament, the public, and public organisations.
- 3.52 Gill noticed similar issues with the monitoring function in 2011.<sup>43</sup> He reflected on why outcome-oriented performance monitoring was underdeveloped and observed that "it seems as if most New Zealand government departments do not understand the role and character of monitoring and evaluation".
- 3.53 In the context of regulatory (special purpose) reporting, the Productivity Commission observed in 2014 that:
- Monitoring plays an important part in New Zealand's accountability framework for regulators. However, current practice and gaps in capability are limiting the potential of monitoring to assure ministers, Parliament and the public that regulators are effectively and efficiently pursuing their regime's objectives or that risks of failure are being appropriately managed.*<sup>44</sup>
- 3.54 The effectiveness of the monitoring function can impact on the usefulness of, and demand for, better performance reporting. Confusion or tensions in the roles and responsibilities of the parties involved, however, can mean that

42 Schick A (1996), *The spirit of reform: Managing the New Zealand State Sector in a time of change*, page 80.

43 Gill, D, et al (2011), *The Iron Cage Recreated – The performance management of state organisations in New Zealand*, Institute of Policy Studies, Victoria University of Wellington, page 451.

44 The Productivity Commission (2014), *Regulatory institutions and practices*, page 372.

opportunities to improve performance reporting through the monitoring relationship might be missed.

- 3.55 In 2020/21, we began a performance audit to examine the effectiveness of statutory monitoring arrangements for Crown entities throughout central government. We expect to finish this audit in 2021/22.

### Performance reporting is not always used appropriately

- 3.56 The way performance information is described, presented, audited, and monitored can be disjointed, confusing, and unhelpful. This might be why performance reporting practice has not progressed in the way that it should. It might also be why it is not valued or demanded in many cases.

- 3.57 As Dormer observed in 2018:

*... governments, and individual government agencies, often publish significant amounts of information that is neither read nor understood by those to whom they are accountable.<sup>45</sup>*

### Many New Zealanders want to understand public sector performance

- 3.58 Our recent research into the state of our public accountability system suggests that people are interested in learning more about the services public organisations deliver and how they spend public money to make a difference in communities.
- 3.59 However, many people we surveyed did not know why annual reports were prepared and few read or used them. We asked how public organisations could better communicate what they do. A one-stop government website was the most preferred option out of the seven possible options. Annual reports were the least preferred.
- 3.60 The people we surveyed expected public organisations to provide services in an efficient, reliable, and responsive way. They also expected them to act, and be seen to act, with respect, integrity, openness, and honesty. They were also clear that public organisations need to provide relevant, convenient, easily found, and accessible information.
- 3.61 The need to provide relevant and accessible information to New Zealanders and their communities is clearly important to understanding and using performance information. However, this does not always happen in practice.
- 3.62 For example, as part of a wider report about health services and outcomes, the Waitangi Tribunal sought views on the way health organisations are held to

<sup>45</sup> Dormer, R (2018), *Accountability and public governance in New Zealand*, unpublished research paper for the Office of the Auditor-General, pages 31-32.

account and the importance of effective measures and reporting for reducing Māori health inequities.

- 3.63 Claimants to the Tribunal highlighted many issues, including:  
*... that public information on the effectiveness of Government policies and programmes is insufficient, denying Māori communities any real opportunity to monitor the Crown's performance.*<sup>46</sup>
- 3.64 The Tribunal also found that:  
*... there are few measures in place that can be used to hold district health boards to account effectively for the persistence of Māori health inequity.*<sup>47</sup>
- 3.65 The Tribunal considered that, to be useful, measures “... need to be visible and easily understood both by the sector and by the wider public”.<sup>48</sup>

### **The public sector does not always use performance information well**

- 3.66 Some have suggested that the public sector makes limited use of performance information. For example, in 2011, Gill found the following issues with the use of organisational performance management information:<sup>49</sup>
- Legislatures do not want or do not directly or systematically use performance information.
  - Ministers' use of performance information is variable and limited.
  - Central agencies use performance information like a fire alarm – they ignore it until it goes off.
  - In public organisations, managers' use of performance information varies according to their function, level, and role.
  - Public organisations use performance information more for internal “control” purposes and less for seeking external legitimacy and organisational learning.

46 Waitangi Tribunal (2019), *Hauora: Report on Stage One of the health services and outcomes Kaupapa inquiry*, page 64.

47 Waitangi Tribunal (2019), *Hauora: Report on Stage One of the health services and outcomes Kaupapa inquiry*, page 122.

48 Waitangi Tribunal (2019), *Hauora: Report on Stage One of the health services and outcomes Kaupapa inquiry*, page 125.

49 Summarised from Gill, D, et al (2011), *The Iron Cage Recreated – The performance management of state organisations in New Zealand*, Institute of Policy Studies, Victoria University of Wellington, page 474.

- 3.67 A report by the New Zealand Institute of Economic Research about the role and limits of performance measures in New Zealand also noted that:
- ... empirical research provides a generally negative view of how parliamentarians, cabinets, councils and citizens use performance information and a mixed view on usage by managers and individual politicians.*<sup>50</sup>
- 3.68 In 2012, the then Auditor-General observed that the information and processes that should help central government organisations understand how well they transform their financial resources into outcomes or results (referred to in the report as “value management”) were not in place or not widely used.<sup>51</sup>
- 3.69 In 2017, the Productivity Commission found that, too often, “the wrong performance information was provided to central agencies or the information provided was used in the wrong way or not at all”.<sup>52</sup>
- 3.70 In 2018, a Productivity Commission paper on improving state sector productivity noted that “the lack of demand for productivity-related performance information by agency leaders may also reflect the low importance placed on this information by Ministers”.<sup>53</sup>
- 3.71 We do not expect public organisations to use performance information just to demonstrate performance externally. We also expect them to use it routinely to inform effective management and governance.
- 3.72 Using performance information internally might involve more detailed information and analysis, but it should also start with what is important to the organisation’s external stakeholders. Understanding how well a public organisation is managing its financial resources, capability, and risks to achieve its overall strategic goals is as relevant to the organisation’s leadership team as it is to Parliament and the public.
- 3.73 A clear understanding of how an organisation’s activities and services deliver value and contribute to the outcomes that are important for New Zealand is needed for public resources to be directed and managed well. To be useful for public accountability, that story must also be told in a way that is meaningful and accessible for Parliament and the public.

50 New Zealand Institute of Economic Research (2012), *Role and limits of performance measures – Report of the Performance Measurement Research Project for the Technical Working Group*, pages 6 and 35.

51 Office of the Auditor-General (2012), *Reviewing financial management in central government*, page 5.

52 The Productivity Commission (2017), *Efficiency and performance in the New Zealand State Sector: Reflections of Senior State Sector Leaders*, page 40.

53 The Productivity Commission (2018), *Improving state sector productivity: Final report of the measuring and improving state sector productivity inquiry, volume 1*, page 14.

# 4

## Opportunities to improve performance reporting

4.1 Our work suggests that the “vicious cycle” Gill described in 2011 still exists today (see paragraphs 2.30-2.31). Many well-considered initiatives have been tried, but they often still focus on what is important to public organisations and not on what is important to Parliament and the public.

4.2 In this Part, we consider changes that might help to improve the usefulness and value of performance reporting for those who need it. We also look at some performance reporting innovations from New Zealand and other countries.

### Five areas of focus that could help improve performance reporting

4.3 Our research suggests that performance reporting is not contributing to effective public management, finance, or accountability as well as it could be. There is no one, single problem with performance reporting. The issues involved are complex. Furthermore, because there is not just a single problem with performance reporting, there can be no single answer.

4.4 Performance information must be meaningful to Parliament and the public if we want them to read, understand, and use it. There are already signs that public organisations understand the need for new approaches. However, in our view, systemic change is needed for performance reporting to fully realise its potential.

4.5 In our view, there are five areas where improvements could be considered. These are:

- focusing performance reporting more on the issues that matter to New Zealanders;
- more tailored reporting of performance;
- integrating and aligning information better;
- providing more support to assist with monitoring and scrutiny; and
- building demand, leadership, and capability.

### Shift the perspective towards New Zealanders

4.6 In the last few decades, the legislation, policies, and guidance that underpin the public finance, management, and accountability systems have largely focused on improving the effectiveness and efficiency of public organisations.

4.7 This is likely to have improved the service delivery of public organisations. It has also helped maintain the high level of trust that most people have in public services based on their personal experiences.<sup>54</sup>

4.8 However, New Zealand is changing. As we observed in our recent discussion papers *Public accountability: A matter of trust and confidence* and *Building a*



*stronger public accountability system for New Zealanders*, public organisations today are facing a new set of complex and longer-term challenges.

- 4.9 Managing these will require public organisations to act as stewards of New Zealanders' intergenerational well-being. To support this focus, new approaches to public accountability are needed.
- 4.10 Boston, Bagnall, and Barry recognise this shift in focus and note that "if Parliament is to scrutinise the performance of the executive, assessing departmental stewardship in its various forms must be a core feature of such oversight".<sup>55</sup>
- 4.11 The response to Covid-19 indicates that government action alone is not always enough to achieve successful outcomes. People's buy-in and trust is also needed. The long-term success of the public sector's response to Covid-19 is not just about delivering services and outcomes effectively and efficiently, but also about the public sector maintaining a trusted partnership with communities.
- 4.12 This might mean it is time to reconsider the way public sector performance is thought about, analysed, and reported on to better reflect what is important to the public. This might mean public organisations:
- working more closely with Parliament, select committees, and other public stakeholders to understand what information is important to them;
  - developing new ways of reporting on the management of complex long-term issues that matter to the public;
  - reporting on a wider set of behavioural-related attributes, such as respect, integrity, sustainability, collaboration, participation, and inclusion;
  - accounting for a broader range of the public organisation's assets and liabilities that support the stewardship of New Zealanders' intergenerational well-being;
  - explaining more clearly how the public organisation uses public money to generate value for the public;
  - integrating and sharing results between public organisations to describe performance in a way that includes outcomes, sectors, and the whole of government; and
  - aligning the public organisation's funding requirements to the services and outcomes that are important to people's well-being rather than only to the inputs and outputs of its activities.
- 4.13 Integrated reporting is one method that attempts to account for a broader range of organisational assets and liabilities. This focuses on the relationships between

<sup>55</sup> Boston, J, Bagnall, D, and Barry, A (2019), *Foresight, insight and oversight: Enhancing long-term governance through better parliamentary scrutiny*, Institute for Governance and Policy Studies, Victoria University of Wellington, page 23.

a broad base of organisational capitals, including financial, manufactured, intellectual, human, social and relationship, and natural.

- 4.14 Integrated reporting is designed to clearly show how an organisation's strategy, governance, performance, and prospects, in the context of its external environment, create value in the short, medium, and long term.<sup>56</sup>
- 4.15 There are also examples in other countries that might be useful to consider. For example, in 2019, Her Majesty's Treasury asked departments and other public bodies in the United Kingdom to use their Public Value Framework<sup>57</sup> to guide their planning, everyday decision-making, and reporting processes.
- 4.16 Instead of focusing on quantifying the inputs and outputs of departments and observing the relationship between them, the framework focuses on the process of improving the value of public money.
- 4.17 Success is defined by four broad organisational activities or pillars. These are how the department:
- pursues and monitors its overall goals;
  - manages its financial inputs;
  - supports long-term sustainability by developing system capability; and
  - engages citizens and users to understand their needs and gain their support.
- 4.18 Guidance on the framework recognises that most organisations will find engaging with the public and demonstrating that engagement new and challenging. However, the guidance also says that:
- By collating insights from citizens and users, it becomes possible for government to focus its efforts on activities that will result in genuine improvements to people's lives and thus, maximise public value.*<sup>58</sup>
- 4.19 Figure 3 provides one example of how Historic England<sup>59</sup> draws on the Public Value Framework to assess and report on the public value of the outcomes it achieves with public money.

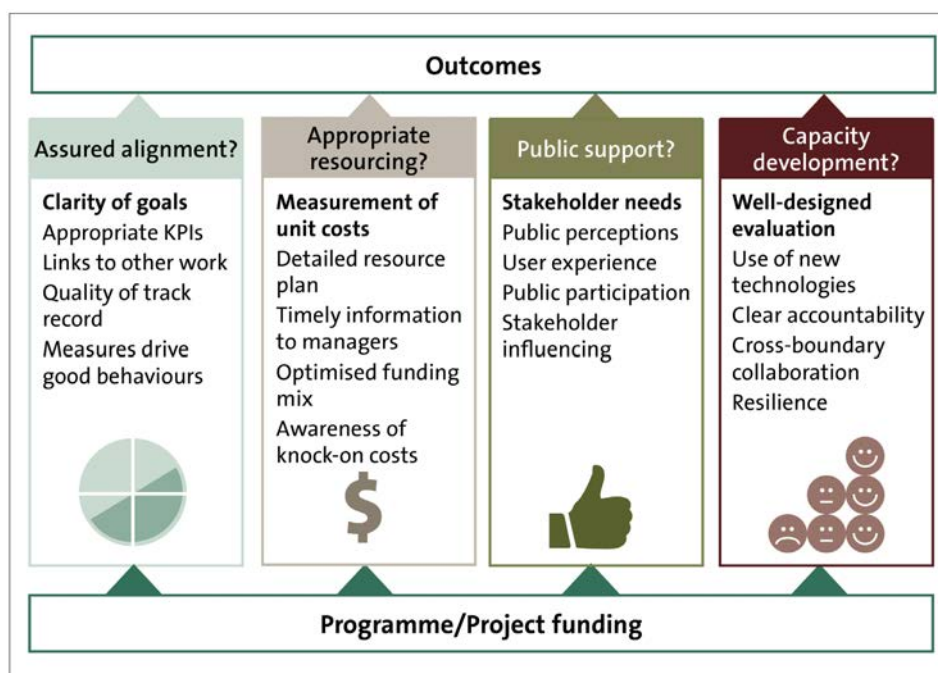
<sup>56</sup> See [integratedreporting.org](https://integratedreporting.org).

<sup>57</sup> HM Treasury (2019), *The Public Value Framework: with supplementary guidance*, at [www.gov.uk](https://www.gov.uk).

<sup>58</sup> HM Treasury (2019), *The Public Value Framework: with supplementary guidance*, page 33, at [www.gov.uk](https://www.gov.uk).

<sup>59</sup> Historic England is a public organisation that promotes England's historic environment. See [historicengland.org.uk](https://historicengland.org.uk).

**Figure 3**  
Historic England’s public value framework



Source: Adapted from the Historic England, Public value framework, at [historicengland.org.uk](http://historicengland.org.uk).

4.20 In New Zealand, initiatives such as the Policy Project support many public organisations to engage with communities when designing and developing policies.<sup>60</sup> Using a similar process to develop more relevant and accessible reporting to those communities could be useful.

### More tailored performance reporting

4.21 Although legislation gives public organisations flexibility in what performance information they present,<sup>61</sup> that information is not always analysed and presented in a relevant and accessible way.

4.22 A new balance might need to be struck between what public organisations are formally required to report to Parliament and what the public and communities need to know to better understand public sector performance.

60 The Policy Project is an initiative by the Department of the Prime Minister and Cabinet that seeks to promote good policy design and development throughout the Government.

61 The Treasury (2020), *Improving external performance reporting – Treasury update*, page 6, at [www.treasury.govt.nz](http://www.treasury.govt.nz).

- 4.23 Making performance reporting more useful and valuable will require public organisations to move away from the largely one-size-fits-all exercise that exists today. For example, it could mean:
- reporting performance through more accessible channels (not just in annual reports);
  - a greater focus on what it means to be stewards of New Zealanders' intergenerational well-being; and
  - different ways of analysing and presenting performance.
- 4.24 Different users of performance information have different needs. For example, in the context of the transport sector:
- communities might focus on the quality of roads in their region, how quickly road damage is fixed, and whether roads are open and safe for pedestrians, drivers, and cyclists;
  - industry bodies might be interested in how well the public sector works with the industry, and the progress and value for money of government investment in motorways; and
  - Parliament might be interested in how well public organisations are funded and whether they work well, individually and collectively, to deliver the government's transport priorities.
- 4.25 In terms of their relevance and usefulness to particular audiences, how measures are determined can be as important as what they measure. Co-developing indicators and reporting with the public could help ensure that there is a well-informed and generally accepted way of demonstrating performance. Recent research also suggests that collaborating with stakeholders to develop performance measures can achieve more meaningful and useful accountability information.<sup>62</sup>
- 4.26 Some agencies prepare additional information to assist people to understand their performance. For example in 2018/19 Te Puni Kōkiri prepared documents to accompany its annual report, including a short A5 booklet and a folded A4 leaflet with highlights, photos, and infographics from the main report. The A5 regional summary booklet features a regional breakdown of investment spending to give whānau a view by rohe.<sup>63</sup>
- 4.27 Standard-setters and those that provide guidance might also need to better understand what performance means to the public and encourage public organisations to prepare and present performance information in ways that are more relevant and accessible to people.

62 Yang, C and Northcott, D (2019), "Together we measure: Improving public service outcomes via the co-production of performance measurement", *Public money and management*, Vol. 39, No. 4, page 253.

63 See Te Puni Kōkiri, *He whakarāpopoto o ngā tūmahi ā-rohe: Regional snapshot of achievements in 2018/19*.

## Improve the integration and alignment of reporting

- 4.28 In central government, the general approach to performance reporting involves public organisations:
- setting out their strategic intentions at least once every three years; and
  - reporting on a separate annual cycle that starts with the authorisation of funding and ends with reporting on what they have achieved with that funding, including their progress against their strategic intentions.
- 4.29 This approach provides strong visibility of, and detailed control over, a public organisation's intentions and allocated spending. However, it can also result in a fragmented performance story that explains only what individual organisations do to fund and deliver their own planned services and outcomes.
- 4.30 This says little about how well the public sector collectively delivers those services and outcomes, and how people receive, experience, and value them.
- 4.31 In our view, performance reporting should tell an integrated and aligned story that starts with what outcomes the government as a whole wants to achieve for New Zealanders. This should then be clearly reflected in public organisations' strategic intentions and operational plans.
- 4.32 This could involve public organisations identifying which objectives are relevant to these wider outcomes. They could then better describe how their activities, services, and outputs align with these objectives.
- 4.33 In our view, more time needs to be spent on defining the intervention logic between activities, services, outputs, and outcomes.
- 4.34 Public organisations also need to acknowledge and understand external influences that are difficult to control or attribute. They need to explain uncertainties that will affect whether they achieve their planned outcomes, particularly when a wider network of stakeholders is involved (including other public organisations, non-governmental organisations, and communities).
- 4.35 Technologies that bring together organisational, sector, or whole-of-government performance could help public organisations to understand and communicate that integrated story.
- 4.36 Insights could be found by looking at the Canadian Government's "GC InfoBase", a web-based interactive tool that summarises complex government data into simple visual stories.<sup>64</sup> It brings together information from more than 500 government reports, including public accounts, estimates, departmental plans, and quarterly financial reports.

64 The GC InfoBase can be viewed at [www.tbs-gc.ca](http://www.tbs-gc.ca).

- 4.37 GC InfoBase was developed in 2013 after Canada's Parliament requested better access to information on government finances. It was also designed to meet public demand for simpler government reporting.
- 4.38 Agencies such as the Parliamentary Budget Officer, which provides independent analysis on the state of the nation's finances to Canada's Parliament, recognise GC InfoBase as an easy to use source of information about government spending.
- 4.39 The options that GC InfoBase offers for understanding the performance of the public sector and the government include an overall summary of how resources flow throughout the government, comparing the spending of public organisations, and exploring information about a specific subject, such as indigenous relations, veterans' affairs, or health.
- 4.40 Performance.gov in the United States of America is another example of a website that provides whole-of-government performance information. The website communicates the goals and outcomes the Federal Government is working on, how it seeks to achieve them, and how agencies are performing.<sup>65</sup>
- 4.41 Simply put, the performance of government and the public sector is not evident in the sum of its individual parts. Describing that performance means telling a comprehensive story about what services and outcomes are important and how public organisations, individually and collectively, use public money to provide them.
- 4.42 Taking a whole-of-government perspective will mean clearly demonstrating how the government's strategic ambitions connect to the individual public organisations that deliver on those ambitions.

### **Extend assurance and monitoring support**

- 4.43 Auditing and monitoring functions are critical to the supply of, and demand for, good performance reporting. However, these functions are not always carried out in a way that drives improvement of performance reporting to better meet the needs of Parliament, the public, and the public organisations being monitored.

#### **Broadening the assurance toolkit**

- 4.44 The Public Service Act 2020 and other public sector reforms seek to encourage the public sector to be stewards of New Zealanders' intergenerational well-being.
- 4.45 As a result, what public sector information is considered relevant and important is also changing. For example, there are already new legislative requirements in central government for periodic well-being reports and long-term insight

briefings. There is also a greater focus on baseline reviews that look at total spending and not just the marginal spending in each budget.<sup>66</sup>

- 4.46 Broadening the suite of assurance products and tailoring their use to where they are most beneficial might also build confidence in performance information. For instance, regular and standardised audit processes might be useful when seeking assurance about recurring allocations of funding. However, longer-term and more uncertain outcome performance might need less standardised and more targeted evaluation – performance audits are an example of this.
- 4.47 Sweeney argues that public sector performance audits could act as a transformational mechanism. He found that auditing performance:
- ... has the capacity and potential to move beyond a purely deficit-based role, to positively promote improvements and collaborative learning between institutions and stakeholders.*<sup>67</sup>
- 4.48 However, to achieve this, performance auditing will need to become a more “proactive, collaborative, participatory activity”.<sup>68</sup>
- 4.49 We are trying to do this in our own work. Some of our recent work has been designed to look at programmes in their early stages to provide insights to public organisations that they can act on in a timely way. Examples include our work related to the firearms buy-back and amnesty scheme, the joint venture on family and sexual violence and the nationwide roll-out of the Covid-19 vaccination programme.<sup>69</sup>

#### **Broadening the monitoring function**

- 4.50 Not only is there evidence of a lack of clarity about the effectiveness of existing monitoring functions (see paragraphs 3.45-3.55) but two of our recent reports also highlight issues with how information about larger areas of public sector work are analysed, reported, and reviewed.
- 4.51 In our report *Managing the Provincial Growth Fund*, we found that “no clear responsibility was assigned for reporting to Parliament on the performance

66 The Treasury describes a baseline review as “a ‘deep dive’ into a ministry’s financial performance and is completed jointly by The Treasury and the relevant ministry. The outcome of a baseline review is to get a better understanding of the current spend, assist in assessing reprioritisations and future funding needs. It’s particularly relevant to assisting the Minister of Finance in completing the annual Budget allocation.” See [www.treasury.govt.nz](http://www.treasury.govt.nz) for more information.

67 Sweeney, J (2018), *Beyond a deficit-based approach: Public sector audit as a transformative mechanism for positive change*, PhD Thesis, London Metropolitan University, page i.

68 Sweeney, J (2018), *Beyond a deficit-based approach: Public sector audit as a transformative mechanism for positive change*, PhD Thesis, London Metropolitan University, page i.

69 All of these reports are available on our website at [www.oag.parliament.nz](http://www.oag.parliament.nz).

of the Fund's investments".<sup>70</sup> As we mentioned in paragraph 3.30, our report *Analysing government expenditure related to natural hazards* found it extremely difficult to obtain a meaningful picture of what the government spends on managing natural hazards.<sup>71</sup>

- 4.52 The monitoring function might need to be broadened and deepened so that Parliament and the public are better able to understand public sector performance throughout regions, for specific programmes of work, across sectors, and the whole of government over the short, medium, and long term.
- 4.53 The monitoring function could also do more to analyse value for money and follow the money into private organisations that provide public services. We acknowledge that assessing value for money can sometimes be difficult, but we think is important to understand whether what is spent is reasonable compared to what has been achieved.
- 4.54 The monitoring function could also consider how well public organisations interact with Parliament and the public, and/or analyse how resilient sectors are to possible short-term shocks (such as another pandemic) or long-term changes (such as climate change).
- 4.55 Currently, the monitoring function focuses on public organisations within sectors. As the public sector increasingly works in a more unified and collaborative way to manage longer-term issues and outcomes, there may be value in more sector-based or outcomes based monitoring and reporting.

### **Build demand, co-ordinated leadership, and capability**

- 4.56 Currently, leadership of central government's performance reporting rests somewhere between the Treasury, Te Kawa Mataaho, and public organisations. The Office of the Auditor-General, Taituarā, independent standard-setters, and other monitoring agencies also play important roles in supporting the effectiveness of performance reporting.
- 4.57 In our view, more co-ordinated leadership throughout the public sector is needed for the legislation, standards, and guidance to provide the right incentives to support good performance reporting.
- 4.58 Insights to help develop more co-ordinated leadership throughout the public sector could be found in the Well-being of Future Generations (Wales) Act 2015. This Act provides a shared vision and purpose for improving the economic, social, environmental, and cultural well-being of Wales.

<sup>70</sup> Office of the Auditor-General (2020), *Managing the Provincial Growth Fund*, page 33.

<sup>71</sup> Office of the Auditor-General (2020), *Analysing government expenditure related to natural hazards*.



- 4.59 The Act establishes a co-ordinated framework that shifts the focus of how public bodies plan and track what they do towards well-being outcomes at a population level and away from outputs at an organisational (performance) level.<sup>72</sup>
- 4.60 Although the Act allows public bodies to be flexible when setting well-being objectives, these objectives must clearly align with the contribution the public body makes to the national well-being goals. There are also clear guidelines for planning and reporting on how the public body will contribute to these national goals, the progress made, the review of that progress, and the objectives of annual reporting and assurance.<sup>73</sup>
- 4.61 Effective performance reporting in New Zealand needs business acumen, strategy and analysis skills, and accounting and auditing knowledge. A good understanding of internal governance practices and the legislative environment that the public organisation operates in is also needed.
- 4.62 Senior leaders in public organisations need to demand performance information that informs and reflects the aspirations of their organisation. If public resources are being directed and managed well, public organisations should be able to tell a clear and convincing story about how their activities and services deliver value and contribute to the outcomes that are important for New Zealand.
- 4.63 Committed leadership, adequate resources, and strong professional networks that continue to encourage the transfer of knowledge and best practice are all required to tell that performance story well. Public organisations might need to raise the profile of the performance reporting function and locate the function closer to strategy teams rather than accounting teams.
- 4.64 Above all, performance information must be meaningful and accessible if we want users to value it. For this to happen, systemic change and co-ordinated leadership throughout the performance reporting system is needed.

72 Welsh Government (2016), "SPFS 1: Core guidance", *Shared purpose: Shared future – Statutory guidance on the well-being of future generations (Wales) Act 2015*, page 14.

Welsh Government (2016), "SPFS 2: Individual role", *Shared purpose: Shared future – Statutory guidance on the well-being of future generations (Wales) Act 2015*, page 4.

73 Welsh Government (2016), "SPFS 2: Individual role", *Shared Purpose: Shared Future – Statutory guidance on the Well-being of Future Generations (Wales) Act 2015*, pages 3, 4, and 7.

# Appendix

## A summary of current performance reporting requirements and guidance

Numerous pieces of legislation, guidance, and standards define or influence public organisations' preparation of their performance reporting. They also influence the subsequent monitoring and auditing of that reporting.

### **An overview of the main legislative requirements for performance reporting**

#### **For central government**

The Public Finance Act 1989 requires departments and departmental agencies to submit an annual report that reports on their progress against their strategic intentions at the end of each financial year. Departments are statutorily required (by section 38 of the Public Finance Act) to set out their strategic intentions at least once in every three-year period.

Section 45 of the Public Finance Act states that the annual report:

*... must provide the information that is necessary to enable an informed assessment to be made of the department's performance during the financial year.*

The annual report must include an assessment of progress against the public organisation's strategic intentions; an assessment of its overall organisational health, capability, and operations; and the annual financial statements. Public organisations are also required to report on their end-of-year performance for their appropriations.

Parliament recently amended the Public Finance Act to embed a focus on well-being at a whole-of-government level. The Public Finance (Wellbeing) Amendment Act 2020 introduces new requirements for the government to set out its well-being objectives and how these and its fiscal objectives will guide its Budget decisions.

The amendments also introduced a requirement for the Treasury to report on well-being performance indicators alongside macroeconomic and fiscal indicators. There is no requirement for independent assurance of this reporting.

Alongside these changes and to support the Government's focus on well-being, the Treasury has encouraged departments and agencies to incorporate a well-being approach into their external planning and performance reporting.

#### **For Crown entities**

The Crown Entities Act 2004 requires Crown entities to submit an annual report at the end of every financial year. The annual report must report against the entity's strategic objectives, which are set in its Statement of Intent (section 138 of the

Crown Entities Act), and its annual performance objectives, which are set in its Statement of Performance Expectations (section 149B of the Crown Entities Act).

Section 151(2) of the Crown Entities Act states that the:

*... annual report must provide the information that is necessary to enable an informed assessment to be made of the entity's operations and performance for that financial year, including an assessment of the entity's progress in relation to its strategic intentions as set out in the most recent statement of intent.*

### **For local government**

The Local Government Act 2002 requires local authorities to submit an annual report at the end of each financial year.

Section 98 of the Local Government Act states that one of the two purposes of an annual report is:

*... to compare the actual activities and the actual performance of the local authority in the year with the intended activities and the intended level of performance as set out in respect of the year in the long-term plan and the annual plan.*

Part 3 of Schedule 10 of the Local Government Act states that an annual report must include:

- the main groups of activities of a local authority;
- the community outcomes the activities contribute to;
- any measurement of progress towards the achievement of those outcomes; and
- any effects that those activities have on the social, economic, environmental, or cultural well-being of the community.

Clause 25 of Schedule 10 of the Local Government Act requires an annual report to include an audited Statement of Service Provision that, among other things, compares the level of service achieved for a group of activities with the performance target or targets for the group of activities.

In addition to these broad legislative requirements, a public organisation's enabling Act can set performance reporting requirements and obligations that are specific to a particular kind of organisation.

## **An overview of the guidance and standards for performance reporting**

The Treasury and Te Kawa Mataaho have published guidance and supporting material on performance reporting in the public sector. For example:

- In 2009, the then State Services Commission and the Treasury published guidance on performance measurement that provided advice and examples to help develop effective performance frameworks.<sup>74</sup>
- In July 2019, the Treasury updated two guidance documents on annual reporting and end-of-year performance information on appropriations for government departments and Crown entities.<sup>75</sup>
- In November 2019, the Treasury prepared new guidance for government agencies and Crown entities to incorporate a well-being approach into their external planning and performance reporting.<sup>76</sup>
- In December 2020, the Treasury updated its guidance on improving external performance reporting in response to Covid-19 and the new standard on non-financial performance reporting (that is, PBE FRS 48, which we discuss further below).<sup>77</sup>

Taituarā has published guidance for financial and non-financial performance reporting under the Local Government Act 2002.<sup>78</sup> The Auditor-General has also published good practice guidance on performance reporting and reports on improving the usefulness of local authorities' annual reports.

In 2013, the Department of Internal Affairs developed a mandatory set of standard non-financial performance measures that local authorities must incorporate into their long-term plans and report against in their annual reports. These include measures about water supply, sewage treatment, stormwater drainage, flood protection, and roads and footpaths. One of these, "customer satisfaction", is measured by the number of complaints received.<sup>79</sup>

<sup>74</sup> State Services Commission and the Treasury (2009), *Performance measurement: Advice and examples on how to develop effective frameworks*.

<sup>75</sup> The Treasury (2019), *Year end reporting: Departmental annual reports and end-of-year performance information on appropriations* and The Treasury (2019), *Preparing the annual report and end-of-year performance information on appropriations: Guidance for Crown entities*.

<sup>76</sup> The Treasury (2019), *Information on applying a wellbeing approach to agency external planning and performance reporting*.

<sup>77</sup> The Treasury (2020), *Improving external performance reporting – Treasury update*.

<sup>78</sup> New Zealand Society of Local Government Managers (2010), *Performance Management Frameworks: Still your side of the deal – Performance Management in Local Government* and New Zealand Society of Local Government Managers (2014), *SUPPLEMENT: Performance Management Frameworks: Still your side of the deal – Performance Management in Local Government*.

<sup>79</sup> The rules for non-financial performance measures are available at [www.dia.govt.nz](http://www.dia.govt.nz).

The Auditor-General currently has a standard on auditing performance reports (*Auditor-General's auditing standard 4: The audit of performance reports*). The standard sets out requirements for auditors to audit and form an opinion on whether the performance that the public organisation reports fairly presents what the public organisation has achieved and whether it complies with generally accepted accounting practice. The standard refers to four qualitative attributes of performance information – relevant, reliable, understandable, and comparable.<sup>80</sup>

In the public and private sectors, the XRB sets independent standards for general purpose financial and non-financial reporting and auditing. The XRB has recently issued new accounting and auditing standards for reporting service performance. These apply for reporting periods beginning or after 1 January 2022.

These new standards are written for the preparers (PBE FRS 48) and auditors (NZ AS 1) of service performance information in annual reports. The Auditor-General has had their own auditing standard for service performance information (AG-4) for many years.

One of the main objectives of the new service performance standard for preparers (PBE FRS 48) is to present service performance information that is useful for “users to make assessments of the entity’s performance”.<sup>81</sup>

The Standard notes that service performance information for public organisations should provide users with enough information to understand what the public organisation intends to achieve over time, how it is going about this, and what it has done in the last year.<sup>82</sup>

The explanatory note to the Standard says that public organisations often want to know whether what they do works and what they could do better. Although the Standard does not require a public organisation to report on this, the explanatory note lists various ideas to help improve service performance information. These include collecting information about who is being served, listening and responding to the experiences of users, and evaluating and better understanding client needs.

Other international standard-setters, such as the International Auditing and Assurance Standards Board, are also considering how to gain assurance about information, including performance information, contained in different external reporting products, such as integrated reporting, sustainability reporting, and other environmental, social, and governance reporting by public organisations. The International Auditing and Assurance Standards Board has recently issued

80 Office of the Auditor-General (2020), *The Auditor-General's Auditing Standard 4: The audit of performance reports* (2020), pages 8307 and 8321 to 8324.

81 External Reporting Board (2017), *PBE FRS 48 Service Performance Reporting*, page 6.

82 External Reporting Board (2017), *PBE FRS 48 Service Performance Reporting*, page 8.

proposed guidance on this called *Non-Authoritative Guidance – Extended External Reporting (EER) Assurance*.<sup>83</sup>

Figure 4 lists the main documents that regulate the preparation and publication of annual reports and the reporting of performance information in them.

**Figure 4**  
**Documents that regulate the preparation and publication of annual reports and the reporting of performance information in them**

Central government	Local government
The Public Finance Act 1989	The Local Government Act 2002
The Crown Entities Act 2004	Taituarā – Performance Management Frameworks
Other sector specific legislation, such as the Education and Training Act 2002	Generally accepted accounting practice
Treasury circulars and guidance	
Te Kawa Mataaho guidance and frameworks – for example, “Performance measurement: advice and examples on how to develop effective frameworks” (2008)	
Treasury and Te Kawa Mataaho guidance on monitoring performance	
Standing Orders of the House of Representatives (2017) govern select committee scrutiny functions and powers	
Generally accepted accounting practice	

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