

Toward Better Accountability— Quality of Annual Reporting

Each year, our Annual Report addresses issues of accountability—and initiatives to help improve accountability—in government and across the broader public sector. This year, in addition to issues of accountability raised in our value-for-money audits, we have examined the quality of provincial agencies' and broader-public-sector organizations' public reporting on their activities through their annual reports. Thorough, clear and accurate disclosure of operational and financial information is essential to accountability, and is a mandated requirement for provincial and broader-public-sector entities. As this chapter highlights, there is room for improvement by many provincial agencies and broader-public-sector organizations in the quality of reporting in their annual reports.

1.0 Summary

A public-sector organization's annual report, including its audited financial statements, provides details about the organization's activities, and is meant to give the responsible minister, all members of the Legislature and the public a comprehensive view of the organization's operational and financial performance. The annual reporting requirements of provincial agencies and broader-public-sector

(BPS) organizations are typically governed by the statute that created the agency, a Memorandum of Understanding (MOU) between the agency and its responsible minister, and/or a directive of Management Board of Cabinet. (An MOU is an administrative agreement that sets out the relationship between the agency and the responsible minister. It clarifies expectations and policies set out in the statute that established the agency.)

Publicly traded private-sector companies (that is, companies whose stock is traded on the open market) are also required by law to publish an annual report. Those reports are expected to meet high standards, informing shareholders about the company's financial results, spending patterns and overall financial and organizational health. We see no reason why the annual reports of public-sector organizations should be treated any differently—Ontarians support these organizations with their tax dollars and should therefore expect annual reports to contain thorough and useful information.

Most provincial agencies are required to produce their annual reports and submit them to their responsible minister within a specified time period. Ministers are then to review these reports and make them public, either by “tabling” them (officially presenting them) in the Legislature or by approving them for posting on an agency or government website. Similarly, broader-public-sector organizations, such as hospitals, colleges and universities, also

produce annual reports but do not submit them to the government for review. Rather, they are to be posted directly onto the organization's website within six months of the organization's year-end.

Government directives stipulate the mandatory content of most agencies' annual reports. In addition, the Public Sector Accounting Board (PSAB) has issued a Statement of Recommended Practice (SORP) with respect to matters of reporting supplementary information beyond that presented in the financial statements. SORP provides general guidance to organizations, including those that prepare an annual report. These reporting practices are encouraged but not mandatory.

We reviewed how agencies' annual reports adhere to government directives and to SORP's guidelines regarding annual reports. Specifically, we examined one directive that applies to provincial agencies and another that applies to broader-public-sector organizations, and compared their mandatory requirements to the information encouraged by SORP. SORP goes beyond both directives as follows:

- Provincial agencies and broader-public-sector organizations are required by directive to include performance targets in their annual reports. SORP encourages performance measures and their related targets to be “outcome”-based rather than just “output”-based. That is, the measures should not be limited to actions, services or products the entity undertakes (outputs) but should also measure the benefits or positive outcomes that result from those outputs.
- Provincial agencies and broader-public-sector organizations are required by directive to include an analysis of their performance in their annual reports or other information they make available to the public (provincial agencies must analyze both their financial and operational performance; broader-public-sector organizations are required to analyze just their operational performance). SORP encourages that analysis to include the signifi-

cant risks and other factors that affected performance, and explain what that effect was.

- SORP encourages annual reports to inform readers of the costs of the performance results achieved, thus linking financial and non-financial performance information.

We encourage all public-sector entities to include in their annual reports not just the information required by the applicable directive but also the information SORP suggests. This would enhance the usefulness and reliability of their annual reports.

The directive that applies to broader-public-sector organizations has fewer requirements than the directive that applies to provincial agencies. Specifically, the annual reports of broader-public-sector organizations are not required to analyze the organizations' financial performance (including discussing variances between their actual financial results against estimates). We encourage these organizations to incorporate this analysis into their annual reports.

We found that only two of the 28 entities' annual reports that we reviewed contained all the selected SORP criteria as noted in **Figures 1 and 2** (the 28 entities were 15 provincial agencies, 12 BPS organizations and one “Other” organization, while two entities did not produce an annual report). We noted four others that met all but one of the criteria. The remaining annual reports were lacking more of the information that SORP recommends. We noted that the annual reports of one sector, in particular hospitals, would benefit from providing additional and more useful information for their readers.

We found that, overall, the entities' annual reports we reviewed were understandable and written in plain language. However, we did note areas where improvements could be made to strengthen accountability and transparency. Specifically:

- **Performance measures were not always clearly identified.** Four of the 15 provincial agencies, and five of the 12 BPS organizations did not clearly identify performance

Figure 1: Provincial Agencies' Incorporation of Selected SORP Criteria and Compliance with Selected Agencies and Appointments Directive Requirements in Their 2015/16 Annual Reports¹

Prepared by the Office of the Auditor General of Ontario

Provincial Agency	Included in Annual Report?							Risk Discussion ⁶
	Performance Measures ²	Performance Targets ²	Audited Financial Statements ³	Financial Analysis ⁴	Variance Analysis ⁴	Linkages of Financial and Non-Financial Data ⁵	Risk	
AgriCorp	Y ⁷	Y	Y	Y	n/a ⁸	Y	Y	Y
Algonquin Forestry Authority	Y ⁹	Y	Y	Y	Y	Y	Y	Y
Liquor Control Board of Ontario	Y ⁹	Y	Y	Y	Y	N	Y	Y
Ontario Energy Board	Y ⁹	Y	Y	Y	Y	Y	Y	N
Ontario Lottery and Gaming Corporation	Y ⁷	Y	Y	Y	Y	N	Y	Y
Metrolinx	Y ⁷	Y	Y	Y	Y	N	N	N
Northern Ontario Heritage Fund Corporation	Y ⁷	Y	Y	Y	Y	N	N	N
Ontario Clean Water Agency	Y ⁹	Y	Y	Y	Y	N	N	N
Ontario Infrastructure Lands Corporation	Y ⁹	Y	Y	Y	Y	N	N	N
Ontario Securities Commission	Y ⁹	N	Y	Y	Y	N	N	Y
Local Health Integration Network–Toronto Central	Y ¹⁰	Y	Y	N	n/a ⁸	Y	Y	N
Agricultural Research Institute of Ontario	N	N	Y	N	N	N	N	N
Education Quality and Accountability Office	N	N	Y	N	N	N	N	N
Ontario Educational Communications Authority (TVO)	N	N	Y	N	N	N	N	N
Ontario Science Centre	N	N	Y	N	N	N	N	N
% of agencies that included this content	73	67	100	67	69	27	33	33
% of agencies that did not include this content	27	33	0	33	31	73	67	67

1. Provincial agencies are ranked from most to least adherent to SORP criteria and Directive requirements in their 2015/16 annual reports.

2. Performance measures and performance targets relate to Directive requirements of analysis of operational performance as detailed in the Treasury Board Secretariat Guide to Developing Annual Reports for Provincial Agencies as well as SORP criteria to describe actual results and compare them with planned results, explaining any significant variances.

3. Audited financial statements are a Directive requirement.

4. Financial Analysis and Variance Analysis related to the SORP criteria in footnote 2, as well as criteria to provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations where having these comparisons would be useful to users in interpreting and using the information provided. These criteria also relate to the Directive requirement for analysis of financial performance as detailed in the Treasury Board Secretariat Guide noted above.

5. Linkages of Financial and Non-Financial Data relates to the SORP criteria to identify significant lessons learned during the reporting period and the implications arising from them, as well as to include information about key factors critical to understanding performance.

6. Risk Discussion relates to the SORP criteria to identify significant lessons learned during the reporting period and the implications arising from them, as well as to include information about key factors critical to understanding performance.

7. Performance measures include both output-based and outcome-based measures.

8. There was no significant variance requiring analysis.

9. Performance measures are output-based only.

10. Performance measures are outcome-based.

Figure 2: Broader-Public-Sector Organizations' Incorporation of Selected SORP Criteria in Their Annual Reports, 2015/16¹

Prepared by the Office of the Auditor General of Ontario

Broader-Public-Sector Organization	Included in Annual Report?				Linkages of		Risk Discussion ⁵
	Performance Measures ²	Performance Targets ²	Financial Analysis ³	Variance Analysis ³	Financial and Non-Financial Data ⁴	Risk	
Norfolk General Hospital	Y ⁶	Y	Y	Y	N	N	N
Brock University	Y ⁷	N	Y	Y	N	N	N
Cambrian College	Y ⁶	Y	Y	N	N	N	N
Queen's University	N	N	Y	Y	N	Y	Y
Georgian College	Y ⁶	Y	N	N	N	N	N
Muskoka Algonquin Healthcare	Y ⁶	Y	N	N	N	N	N
Seneca College	Y ⁶	Y	N	N	N	N	N
Mohawk College	Y ⁷	N	N	N	N	N	N
Halton Healthcare Services Group	N	N	N	n/a ⁹	N	N	N
Humber River Regional Hospital	N	N	N	n/a ¹⁰	N	N	N
St. Joseph's Health Centre—Toronto	N	N	N	n/a ⁹	N	N	N
Trillium Health Partners	N	N	N	N	N	N	N
McMaster University ¹¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a
University of Toronto ¹¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a
% of organizations that included this content	43	36	43	45	14	14	14
% of organizations that did not include this content	57	64	57	55	86	86	86
Other							
Ontario Power Generation	Y ⁶	N	Y	Y	Y	Y	Y

1. Broader-public-sector organizations are ranked from most to least adherent to SORP criteria and Directive requirements in their 2015/16 annual reports.
2. Performance measures and performance targets relate to SORP criteria to describe actual results and compare them with planned results, explaining any significant variances.
3. Financial Analysis and Variance Analysis related to the SORP criteria in footnote 2, as well as criteria to provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations where having these comparisons would be useful to users in interpreting and using the information provided.
4. Linkages of Financial and Non-Financial Data relates to the SORP criteria to link financial and non-financial information to show how resources and strategies influence results.
5. Risk Discussion relates to the SORP criteria to identify significant lessons learned during the reporting period and the implications arising from them, as well as to include information about key factors critical to understanding performance.
6. Performance measures include both output-based and outcome-based measures.
7. Performance measures are outcome-based.
8. Performance measures are output-based only.
9. There was no significant variance requiring analysis.
10. Not able to determine variance as information was not available to do so.
11. An annual report was not prepared.

measures. Ontario Power Generation included performance measures in its annual report. Many agencies disclose their performance measures in their business plans rather than in their annual reports. Given that the annual report is a summary of an agency's performance during the year, a reader would expect some discussion of the entity's performance measures in this report rather than having to read multiple reports to determine how the entity assesses its performance.

- **Lack of analysis of performance results.** Of the 28 annual reports we sampled (an additional two organizations did not have an annual report), only 15 (54%) disclosed performance targets, and of them, 12 (80%) included a discussion of their reported results or outcomes in relation to their previously set performance targets. This discussion is crucial for the entity to identify where it did not meet targets and the reason why targets were not achieved. It is also an opportunity for the entity to discuss possible strategies to address the shortfall.
- **More outcome-based results are needed.** We noted that there is a need for more outcome-based reporting in annual reports. Outcomes are the consequences of the outputs; in other words, they report on the consequences of actions taken, such as the benefits of a service or program. Generally, output-based measures are easier to compile as they describe an entity's level of activity. Outcomes are more difficult to track and compile but would provide more meaningful information to the public.
- **Financial analysis did not exist in many annual reports.** Overall, five of the 15 provincial agency annual reports and eight of the 12 BPS organizations' annual reports we reviewed did not contain an analysis of financial performance. The other entity in our sample, Ontario Power Generation, included an analysis of financial performance. All prov-

vincial agencies we reviewed included audited financial statements in their annual reports while approximately half of the BPS organizations included audited financial statements in their annual reports. The annual reports of BPS organizations that did not contain audited financial statements posted their audited financial statement on their websites with the exception of one organization. While the inclusion of audited financial statements alone is not considered financial analysis, it does provide a starting point for the reader. Inclusion of some discussion and analysis of financial performance in relation to an entity's goals and objectives is critical to helping the public understand this aspect of performance.

- **Financial and non-financial information not sufficiently linked.** Four of the 15 provincial agency annual reports and none of the 12 BPS organizations had this linkage. Ontario Power Generation has this linkage. The linking of financial and non-financial performance information helps the reader assess how the entity used its resources during the reporting period and what was achieved as a result of the resources expended.
- **Key risks public entities are facing were often not explained.** Ten of the 15 provincial agency annual reports and 11 of the 12 BPS organizations were missing a discussion of or were limited in their discussion of risks. Ontario Power Generation included a risk discussion in its annual report. A thorough discussion of risks provides the Legislature and the public with insight on risks the entities are facing, the consequences, and the entities' plans to address the risks.
- **Lack of performance measures and targets in the Province of Ontario's 2015/2016 Annual Report.** Without a discussion of how the Province measures its performance and the applicable targets, the public has little idea if the Province met its stated goals.

Overall Conclusion

Based on our review of the annual reports of 27 provincial entities, we noted that two 2015/2016 annual reports met all the selected SORP criteria as noted in **Figures 1** and **2**: AgriCorp and Algonquin Forestry Authority. Four other annual reports in our sample met all but one criterion: the Liquor Control Board of Ontario (LCBO), the Ontario Energy Board, Ontario Power Generation and the Ontario Lottery and Gaming Corporation. These six entities included in their annual reports performance measures that were clear and included performance targets. Their annual reports also included thorough financial and variance analysis (except AgriCorp, as no significant variances were identified).

The provincial entities in our sample were ranked based on the SORP criteria as shown in **Figure 3**, using the following ranking system: Very Good (6–7 SORP criteria met); Good (3–5 SORP criteria met); and Fair (0–2 SORP criteria met).

With respect to compliance with the Agencies and Accountability Directive, we noted that nine (60%) of the 15 provincial agencies’ 2015/16 annual reports we reviewed met all the selected Directive criteria, with an additional two (13%) annual reports meeting all but one criterion. All annual reports included audited financial statements as required by the Directive. As shown in **Figure 4**, seven (50%) of the 14 broader-public-sector organization websites we reviewed met the

Figure 3: Ranking of Sampled Entities According to Their 2015/16 Annual Reports’ Incorporation of Selected SORP Criteria

Prepared by the Office of the Auditor General of Ontario

Entity Category	Very Good*	Good*	Fair*
Provincial agency	<ul style="list-style-type: none"> • AgriCorp • Algonquin Forestry Authority • Liquor Control Board of Ontario • Ontario Energy Board • Ontario Lottery and Gaming Corporation 	<ul style="list-style-type: none"> • Metrolinx • Northern Ontario Heritage Fund Corporation • Ontario Clean Water Agency • Ontario Infrastructure Lands Corporation • Ontario Securities Commission • Local Health Integration Network—Toronto Central 	<ul style="list-style-type: none"> • Agricultural Research Institute of Ontario • Education Quality and Accountability Office • Ontario Educational Communications Authority (TVO) • Ontario Science Centre
Broader-public-sector organization		<ul style="list-style-type: none"> • Norfolk Hospital • Brock University • Cambrian College • Queen’s University 	<ul style="list-style-type: none"> • Georgian College • Muskoka Algonquin Healthcare • Seneca College • Mohawk College • Halton Healthcare Services Group • Humber River Regional Hospital • St. Joseph’s Health Centre—Toronto • Trillium Health Partners
Other	<ul style="list-style-type: none"> • Ontario Power Generation 		

Note: McMaster University and the University of Toronto are not ranked as they did not have annual reports.

* Ranking system: Very Good (6–7 SORP criteria met); Good (3–5 SORP criteria met); and Fair (0–2 SORP criteria met).

Figure 4: Broader-Public-Sector Organizations' Compliance with Their Directive's Requirement¹ That They Include Key Criteria on One Webpage on Their Websites

Prepared by the Office of the Auditor General of Ontario

Broader-Public-Sector Organization	Is the information publicly available on one webpage?			
	Key Activities	Performance Targets	Analysis of Operational Performance	Audited Financial Statements
Cambrian College	Y	Y	Y	Y
Georgian College	Y	Y	Y	Y
Halton Healthcare Services Group	Y	Y	Y	Y
Mohawk College	Y	Y	Y	Y
Norfolk General Hospital	Y	Y	Y	Y
Seneca College	Y	Y	Y	Y
Trillium Health Partners	Y	Y	Y	Y
Brock University	Y	N ²	Y	Y
Humber River Regional Hospital	Y	Y	Y	N ²
McMaster University	Y	N ²	Y	Y
Muskoka Algonquin Healthcare	Y	Y	N ²	Y
St. Joseph's Health Centre—Toronto	Y	N ³	Y	Y
Queen's University	Y	N ³	Y	N ³
University of Toronto	Y	N ²	Y	Y
% of organizations that included this content	100	64	93	86
% of organizations that did not include this content	0	36	7	14

1. Broader-public-sector organizations are required to comply with the Broader Public Sector Business Documents Directive's requirement that they include certain key information on one webpage of their websites.
2. This information was not available on the organization's website.
3. We noted that although the information was publicly available, it was not on one webpage as required by the Broader Public Sector Business Documents Directive. The information was located on other webpages within the organization's website.

Broader Public Sector Business Documents Directive's requirement to include certain key information all on one webpage. In total, nine (64%) of the 14 broader-public-sector organizations had all the selected Directive criteria on their websites albeit not always on one webpage.

We encourage provincial agencies and broader-public-sector organizations to go beyond their applicable directives when determining their annual reporting requirements and use the Statement of Recommend Practices #2—Public Performance Reporting to enhance their annual reports.

OVERALL RESPONSE FROM TREASURY BOARD SECRETARIAT

The Treasury Board Secretariat (Secretariat) is committed to enhancing transparency and accountability with respect to the content of annual reports, and appreciates the attention to annual reports and the advice on improvements. The Secretariat is also committed to providing information to members of the public, supporting ease of access to information about how public money is managed. The Secretariat will pursue opportunities to strengthen direction on the content of performance reports, focusing on annual reports. Consideration will be given to the many different means of providing direction

and guidance, including directives, supporting materials, and outreach and education. This may include reviewing formats and channels through which information is dispensed to ensure they reflect modern communication approaches. As a regular part of our work on oversight and governance, the Secretariat engages partners and stakeholders to ensure that we employ an evidence-based approach when selecting the most appropriate and effective route to achieving change.

2.0 Background

2.1 What Is an Annual Performance Report?

An annual performance report, commonly called an annual report, is intended to provide Members of Provincial Parliament (MPPs), the public and other key stakeholders with information about an entity's activities, and the extent to which the entity's objectives and goals were achieved and at what cost. It provides a retrospective look at the fiscal year and is expected to include information on how an entity met its performance targets, outline notable accomplishments, and provide a means for sharing financial statements and other information about the entity's operations.

2.2 Why Are Annual Reports Important in the Public Sector?

Public-sector performance reporting is the main vehicle by which an entity discharges its accountability to the Legislature and the public. It is a fundamental tool of good management. Primary users of government agency annual reports are elected officials, the public and other key stakeholder groups.

Public-sector entities exist to carry out public policy objectives set out in the entities' applicable

legislation or other governing documents. It is in this context that public-sector performance can be reported in order to demonstrate accountability as to how these public policy objectives are being met and how the agency's resources, including public funding and/or self-generated revenue, was used.

As a result, annual reports are a critical part of the accountability relationship between the agencies and the ministries responsible for them. The annual report can provide the public with the information necessary to evaluate the agency's performance, while informing the Legislature, the public and other stakeholders of the agency's direction. Although agencies are not part of a ministry, they are accountable to the responsible minister for fulfilling their legislative obligations, managing their resources and maintaining the appropriate standards for any services they provide. The governing board of an agency is immediately accountable to the responsible minister for the agency's performance. Agency management is responsible for carrying out the board's direction. **Figure 5** illustrates this relationship.

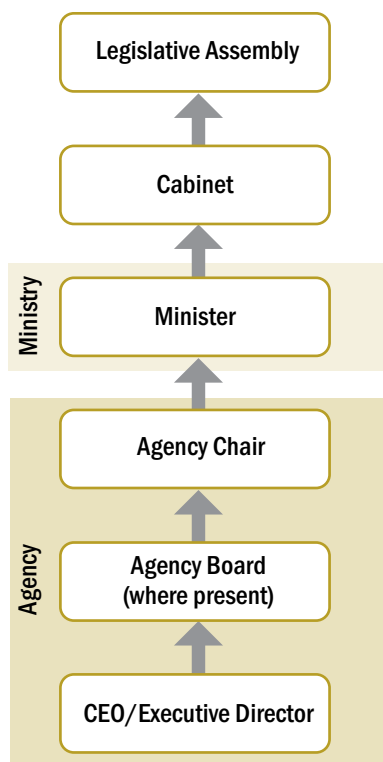
2.3 Are Provincial Agencies and Broader-Public-Sector Organizations Accountable to the Public?

Provincial agencies are established by legislation, regulation or Order-in-Council. A provincial agency is accountable to a minister for fulfilling its legislative obligations, the management of the resources it uses, and its standards for any services it provides. It has the authority and responsibility, granted by the government, to perform ongoing public functions or services that involve adjudicative or regulatory decision-making, operational activity, or advisory functions. Examples of provincial agencies include the Liquor Control Board of Ontario (LCBO), Metrolinx, the Ontario Energy Board and TVOntario (TVO).

Broader-public-sector organizations, as defined under the *Broader Public Sector Accountability Act*,

Figure 5: Accountability Framework for All Provincial Agencies

Source of data: Management Board of Cabinet



include, for example, hospitals, universities, colleges, school boards and Children's Aid Societies.

To ensure that the Legislature and the citizens of Ontario are well served by provincial agencies and broader-public-sector organizations, good governance and accountability practices are essential. Therefore, these entities are ultimately answerable to the Legislature and the public to ensure that they are operating effectively, fulfilling their mandates and meeting their objectives. They are also accountable for how the public funds they receive from the Province are spent.

Ready access to information about entities' operations and finances, including annual reports, is important to open and transparent government. In October 2013, the Premier announced the launch of the Open Government initiative, focusing on finding ways for the government to be more open in its activities, including putting government data online. Although the initiative does not specifically

refer to provincial or broader-public-sector entities, enhancing public accessibility through agency annual reports would be in line with the intent of Open Government.

2.4 What Types of Organizations Are Required to Publish Annual Reports?

Provincial agencies and many broader-public-sector organizations are required to produce annual reports.

Each year, provincial entities spend public funds allocated to them by the Province to undertake activities in the public interest. The annual reports of these entities are expected to detail the entities' activities and expenditures to inform all Members of Provincial Parliament and the public whether the entities have achieved their goals and how they have spent their money. Some provincial entities, such as the Ontario Lottery and Gaming Corporation and the Liquor Control Board of Ontario, generate their own funds for the Province.

In some cases, the legislation, regulation or Order-in-Council that established the provincial entity specifies that the entity must produce an annual report; in other cases, it is the Management Board of Cabinet that formally requires provincial and broader-public-sector entities to prepare these annual reports.

To assist in overseeing the governance of provincial agencies, the Management Board of Cabinet issues the Agencies and Appointments Directive. Under the *Broader Public Sector Accountability Act*, the Management Board of Cabinet also has the authority to issue specific directives for designated BPS organizations and has issued the *Broader Public Sector Business Documents Directive*.

Advisory agencies that provide information and/or advice to assist in the development of programs are not required to publish an annual report given their limited power and authority and lower risk profile. Approximately 125 provincial agencies are required to produce an annual report. Over

270 broader-public-sector organizations are also required to produce business and financial information, which may be included in their annual reports or other documents.

2.5 What Is Contained in an Annual Report?

There are a number of sources that assist provincial entities in determining what to include in their annual reports. The Public Sector Accounting Board (PSAB) has issued a Statement of Recommended Practice (SORP) with respect to matters of reporting supplementary information beyond that presented in the financial statements. SORP is not part of the CPA Canada Public Sector Accounting Handbook but does provide general guidance to organizations that include supplementary information in their annual reports. SORP represents reporting practices that are encouraged but not mandatory. Instead, SORP is intended to provide preparers of such information with a common framework for developing a consistent approach to reporting supplementary information. Therefore, these practices can guide all entities when preparing their annual reports.

For provincial agencies and broader-public-sector organizations, Management Board of Cabinet issued directives that specify annual reporting requirements. The Agencies and Appointments Directive (most recently updated April 2017) and the Broader Public Sector Business Documents Directive (effective January 1, 2016) establish the annual report content requirements for provincial agencies and broader-public-sector organizations, respectively.

The suggested content and requirements for the annual reports are noted in **Sections 2.5.1, 2.5.2 and 2.5.3**. As well, a comparison of SORP and the two Directives is included in **Figure 6**.

2.5.1 Statement of Recommended Practice—Public Performance Reporting (SORP)

The September 2006 Statement of Recommended Practice (SORP) notes that performance is a broad, complex topic with both short- and long-term aspects. The main purpose of an annual report is to explain in a clear and concise manner the extent to which intended goals and objectives were achieved, and at what costs. While what resources were being used and how they were being used continue to be important, there has been an increased focus on what is actually being achieved with the resources consumed, in relation to what was planned. As a result, SORP was directed at addressing non-financial performance information in annual reports, as well as the linkage of financial and non-financial performance information.

To help guide preparers of annual reports in presenting clear and concise information, SORP lists qualitative characteristics of performance information. An annual report should communicate information that is credible and that embodies the characteristics of reliability, validity, relevance, fairness, comparability, consistency and understandability.

In addition to the qualitative characteristics of an annual report, SORP includes recommendations aimed at improving the quality of public performance. Selected SORP recommendations are included in **Figure 6**.

Users of annual reports should not have to consult other documents to understand reported performance. Sufficient detail should be provided so that the analyses and explanations provided are meaningful. The report may include an executive summary and, for readers who need more details, provide reference to companion documents or website links where more detailed information and analysis regarding specific aspects of performance can be accessed.

Figure 6: Comparison of Selected PSAB Recommended Practices for Preparing an Annual Report, Agencies and Appointments Directive and the Broader Public Sector Business Documents Directive

Prepared by the Office of the Auditor General of Ontario

PSAB Statement of Recommended Practice #2	Agencies and Appointments Directive	Broader Public Sector Business Documents Directive
Deciding what to report		
A public performance report should focus on the few critical aspects of performance.	Description of activities over the year.	Description of key activities over the previous fiscal year.
Reporting and explaining results		
The public performance report should describe the strategic direction of the public sector entity.	Discussion of performance target achieved and of action to be taken when not achieved.	Discussion of performance target achieved and of action to be taken if not achieved.
The public performance report should describe the planned results for the reporting period and identify the source of the commitments.	Analysis of operational and financial performance.	Analysis of operational performance.
The public performance report should describe actual results and compare them with planned results, explaining any significant variances.	Names of appointees, including date when first appointed and when the current term of appointment expires.	Audited financial statements.
The public performance report should provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations where having these comparisons would be useful to users in interpreting and using the information provided.	Audited financial statements or, where an audit is not practical, financial statements subject to another appropriate level of external assurance with actual results, variances, and explanations of the variances against estimates.	
The public performance report should identify significant lessons learned during the reporting period and the implications arising from them.		
Reporting on key factors that influence performance and results		
The public performance report should include information about key factors critical to understanding performance, including:	Analysis of operational and financial performance.	A discussion of performance targets achieved and actions to be taken if not achieved.
a) identifying significant risks, capacity considerations and other factors that have had an impact on performance and results; and		Analysis of operational performance.
b) explaining the nature of this impact.		
Linking financial and non-financial information		
The public performance report should link financial and non-financial information to show how resources and strategies influence results.		

Guide to Preparing Public Performance Reports

Public Sector Accounting Board staff developed a guide to preparing public performance reports (commonly referred to as annual reports) that is available to entities to support their public performance reporting efforts. The guide provides a framework for preparing the annual report as it identifies

report features and/or missing information that could influence a user's perception of the report's credibility and usefulness. Selected recommended practices and examples of features that suggest the recommended practice is being applied are included in **Appendix 1**.

2.5.2 Agencies and Appointments Directive for Provincial Agencies

The Agencies and Appointments Directive (formerly named the Agency Establishment and Accountability Directive) stipulates what must be included in a provincial agency's annual report. **Figure 6** shows the annual reporting requirements for board-governed provincial agencies.

Annual reporting requirements for board-governed agencies have been in effect for many years, with the exception of the requirement to communicate achievements in fulfilling expectations set out in the applicable agency mandate letter. This requirement came into effect in July 2016 and therefore would be reflected in an agency's 2016/17 annual report if a mandate letter was issued. (An agency mandate letter is an annual correspondence from the minister responsible for a board-governed agency to the agency's chair outlining the minister's broad expectations with respect to service and performance priorities for the coming fiscal year.) Because this is a relatively new process that began in 2016, not all such agencies currently receive mandate letters.

Guide to Developing Annual Reports for Provincial Agencies

The Treasury Board Secretariat published a guide in June 2016 on developing annual reports for provincial agencies as required by the Agencies and Appointments Directive. **Appendix 2** outlines the purpose and suggested content for each of the mandatory requirements for the annual reports of board-governed provincial agencies.

2.5.3 Broader Public Sector Business Documents Directive for Broader-Public-Sector Organizations

Under the authority of the *Broader Public Sector Accountability Act*, Management Board of Cabinet issued a Directive that sets out the requirement for certain broader-public-sector organizations (speci-

fied in the legislation) to prepare and publish online business plans and other business or financial documents containing specified information. This Directive became effective January 1, 2016.

Some broader-public-sector organizations may already include the required business information in documents with different titles, for example, business plans, strategic plans and accountability agreements. In these cases, the Directive specifies that it is not necessary to rename or create new documents as long as the information required is available to the public. To assist the public, the Directive requires that all documents and information required under the Directive must be available on the same webpage on the organization's website. As a result, organizations may create a webpage that directs visitors to the mandatory accountability information required under the Directive.

Broader-public-sector organizations must post business or financial documents on their websites. Business plans must contain at a minimum the following information:

- an organization's mandate and strategic direction;
- an overview of current and future programs and key activities; and
- performance measures and targets.

As well, broader-public-sector organizations must post additional business or financial documents that contain at a minimum:

- a description of key activities of the organization over the previous fiscal year;
- an analysis of operational performance;
- a discussion of performance targets achieved and actions to be taken if not achieved; and
- audited financial statements.

An organization's annual report may be used to satisfy this requirement if it contains this information.

3.0 What We Looked At

The objective of our review was to assess whether selected provincial agencies and broader-public-sector organizations publicly report the extent to which they achieved their intended goals and objectives and at what cost as recommended by the Public Sector Accounting Board Statement of Recommended Practice (SORP) #2 (Public Performance Reporting Statement). Our review also assessed whether the selected provincial agencies' and broader-public-sector organizations' annual reports included the applicable requirements as established by Management Board of Cabinet's Agencies and Appointments Directive and the Broader Public Sector Business Documents Directive, respectively.

Because the requirement to communicate achievements in fulfilling expectations set out in the applicable agency mandate letter only took effect in July 2016, we did not include this requirement in our review of the 2015/2016 annual reports.

Our objective and review criteria are included in **Appendix 3**.

The objective and scope of our review were discussed with and agreed to by senior management at the Treasury Board Secretariat.

A consolidated entity is a large government-controlled agency or organization with revenues, expenses, assets or liabilities over \$50 million, or with outside sources of revenue, deficit or surplus over \$10 million. The financial results of these entities' operations form part of the Province's consolidated financial statements. Therefore, we focused on these entities when examining annual reports. As well, given the important services delivered by universities, we also reviewed their annual reports. A full listing of provincial agencies can be found at www.ontario.ca/data/provincial-ministries-and-agencies. A listing of consolidated broader-public-sector organizations and Crown-

controlled corporations, like Ontario Power Generation, can be found at www.ontario.ca/page/public-accounts-2016-17-consolidated-financial-statements#section-2. The listing does not include non-controlled and smaller broader-public-sector organizations that are not consolidated, such as long-term-care homes and community mental health organizations.

In addition to reviewing select annual reports of provincial agencies and broader-public-sector organizations, we also reviewed the Province of Ontario's 2015/2016 Annual Report on the Public Accounts of Ontario to see how well they followed SORP. We report on our findings in **Section 4.1.4** but do not include those findings in the statistics we present throughout this report.

Our work was conducted in August and September 2017. Therefore, we examined the 2015/16 annual reports of 15 provincial agencies and 14 broader-public-sector organizations and one other entity for a total of 30 entities. As well, the Province's 2015/2016 annual report on the Public Accounts of Ontario was separately reviewed.

Appendix 4 contains a list of the 2015/16 annual reports we reviewed. We obtained written representation from the Treasury Board Secretariat that, effective November 16, 2017, it has provided us with all the information it was aware of that could significantly affect the findings or the conclusion of this report.

In planning our audit, we reviewed relevant reports completed by the Ontario Internal Audit Division. In April 2016, Ontario Internal Audit reported on its review of business plans and annual reports. Annual reports for 2013/14 were examined during this review to determine if they complied with key Agencies and Appointments Directive requirements. This work was considered in determining the scope of our audit.

4.0 Key Observations and Recommendations

4.1 Statement of Recommended Practice (SORP) Encourages Annual Reports to Include Information beyond Directive Requirements

The Public Sector Accounting Board's (PSAB) Statement of Recommended Practice (SORP) encourages public-sector entities to provide useful information that goes beyond the information their directives require them to include in their annual reports. **Figure 6** shows the additional details SORP encourages against the required information of the two directives—the Agencies and Appointments Directive and the Broader Public Sector Business Documents Directive.

The three types of information that the directives do not include but that SORP encourages annual reports to include are as follows:

- Provincial agencies and broader-public-sector organizations are required by directive to include performance measures and targets in their annual reports. SORP encourages those measures and targets to be “outcome”-based rather than just “output”-based. That is, the measures should not be limited to actions, services or products the entity undertakes (outputs) but should also measure the benefits or positive outcomes that result from those outputs. **Section 4.1.1** expands on this recommended information to include in annual reports.
- Provincial agencies and broader-public-sector organizations are required by directive to include an analysis of their performance in their annual reports or other information they make publicly available (provincial agencies must analyze both their financial and operational performance; broader-public-sector organizations are required to analyze

just their operational performance). SORP encourages that analysis to include the significant risks and other factors that affected performance, and explain what that effect was.

Section 4.1.2 expands on this recommended information to include in annual reports.

- SORP encourages annual reports to inform readers of the costs of the performance results achieved, thus linking financial and non-financial performance information.

Section 4.1.3 expands on this recommended information to include in annual reports.

Section 4.1.4 outlines other gaps we noted in the reporting requirements for public-sector entities.

4.1.1 Outcome-Based Performance Measures Provide More Useful Information Than Output-Based Performance Measures

Output-based performance measures inform the Legislature and the public on the activity of an entity. Outputs are the direct products and services produced by the activities of the entity. However, these measures do not report on whether this activity resulted in positive or negative outcomes. Outcomes are the consequences of those outputs that can be plausibly attributed to them. It is helpful to think of the outputs as the “what” and the outcomes as the “consequence, benefit or value added.” SORP includes the following example of output and outcome measures with respect to road safety:

Output: Posting of road signs indicating dangerous zones.

Outcome: Reduction in the number of accidents on highways resulting in a safer highway system.

SORP suggests the following when it comes to the reporting of performance measures:

- “The public performance report should describe the planned results for the reporting period ...”
- “... Planned results would be stated in terms of outputs and outcomes ...”

Output-based reporting can provide information that is useful to the public. However, in most cases, additional information is needed to inform the reader what the entity actually achieved or the benefits of the products or services delivered.

Outcome-based measures can be difficult to report as they require the entity to determine what it wants to achieve, quantify the measure, link the outcome to the output and track the progress over time. Meaningful outcome-based measures and reporting on them give the reader of an annual report a better sense of the benefits and value added by the agency or broader-public-sector organization.

4.1.2 Risk Analysis Provides Valuable Information to Readers of Annual Reports

SORP suggests that annual reports should include information about key factors critical to understanding performance, including:

- identifying significant risks, capacity considerations and other factors that have had an impact on performance and results; and
- explaining the nature of this impact.

Without a thorough discussion of risks, the Legislature and the public cannot assess what challenges the entity is facing, the impact of those risks on performance and possible mitigating strategies.

The Agencies and Appointments Directive requires that risks and related risk-management plans be included in business plans for provincial agencies. However, it does not require any risk information for annual reports. It also does not require that the business plans discuss how those risks affect performance.

4.1.3 Reporting the Costs of Results Achieved Would Improve the Usefulness of Annual Report Information

Reporting the costs of results achieved meaningfully links financial and non-financial performance information. This enables the Legislature and the

public to assess how an entity used its resources during the year to achieve the outputs and outcomes it is reporting.

SORP suggests the following in this regard:

- “The public performance report should link financial and non-financial information to show how resources and strategies influence results.”
- “It is important to link financial and non-financial performance information to demonstrate to users how entrusted resources were applied during the period and what was achieved as a result.”
- “A balance exists between meeting public needs and keeping the resources used at a reasonable level, since high-quality effective services must be provided with due regard to costs.”

RECOMMENDATION 1

To improve the quality of the annual reports of provincial agencies and broader-public-sector organizations, we recommend that Treasury Board Secretariat propose to Treasury Board/Management Board of Cabinet that the Agencies and Appointments Directive and the Broader Public Sector Business Documents Directive be amended to include the following requirements for annual reports:

- base performance measures and targets on outcomes to be achieved (that is, in terms of improved consequences) rather than solely on outputs;
- identify significant risks and other factors that have impacted performance and results, explain the impacts, and report on plans to mitigate the risks; and
- report on the costs of results achieved.

TREASURY BOARD SECRETARIAT RESPONSE

The Treasury Board Secretariat (Secretariat) will pursue opportunities to strengthen direction

on the content of performance reports, focusing on annual reports, including outcome and output performance measures, significant risks and the costs associated with achieving results. Consideration will be given to the many different means of providing direction and guidance, including directives, supporting materials, and outreach and education; and the Secretariat will use an evidence-based approach to selecting the most appropriate and effective route to achieving change.

4.1.4 Other Gaps in the Reporting Requirements of Public-Sector Entities

Gaps in the Broader Public Sector Business Documents Directive

The Broader Public Sector Business Documents Directive has fewer requirements than the Agencies and Appointments Directive. Specifically, broader-public-sector organizations are not required to analyze the organizations' financial performance in the information available to the public (including discussing variances between their actual financial results against estimates).

As well, the information required by the Broader Public Sector Business Documents Directive does not have to be in an organization's annual report—it just has to be publicly available and on the same webpage on the organization's website. That means the information could be divided up in more than one place—some of it might be on a webpage showing the organization's business plan and some might be in an annual report. SORP specifies that the full range of information it encourages be reported be contained in an annual report (which it calls a “public performance report”). Having a “one-stop shop” in the form of an annual report with all of an organization's financial and operational performance information would be more helpful and useful for stakeholders, Members of Provincial Parliament that hold the organization accountable on behalf of taxpayers and the general public.

RECOMMENDATION 2

To improve the quality of the annual reports of broader-public-sector organizations, we recommend that Treasury Board Secretariat propose to Treasury Board/Management Board of Cabinet that the Broader Public Sector Business Documents Directive be amended to require that these organizations:

- analyze their financial performance in their annual reports, including discussing variances between their actual financial results against estimates; and
- include all other performance information in the annual report rather than allowing the information to be either in an annual report or on a webpage showing the organization's business plan.

TREASURY BOARD SECRETARIAT RESPONSE

The Treasury Board Secretariat (Secretariat) will pursue opportunities to strengthen direction on the content of performance reports, focusing on annual reports, including consideration of an analysis of financial performance and variances, and the approach to providing access to the public. Consideration will be given to the many different means of providing direction and guidance, including directives, supporting materials, and outreach and education. In addition, this may include reviewing formats and channels through which information is dispensed to ensure they reflect modern communication approaches. The Secretariat will use an evidence-based approach to selecting the most appropriate and effective route to achieving change.

Public-Sector Entities outside the Scope of Directives

We also noted that some public-sector entities fall outside the scope of both the Agencies and

Appointments Directive and the Broader Public Sector Business Documents Directive. Ontario Power Generation is an example. In the absence of a directive mandating what its annual report must contain, it has the option of following the guidance available for public-sector organizations but is not required to. Similarly, the Province of Ontario, in preparing its annual report of the Public Accounts of the Province, is not mandated to include specified information.

We noted that, although Ontario Power Generation (OPG) falls outside the scope of both directives, its annual report did include performance measures but not the applicable targets. OPG's audited financial statements were included along with a financial discussion, including variance analysis. The annual report included a discussion on risks and included linkages of financial and non-financial data.

In **Chapter 2, Public Accounts of the Province** of our *2015 Annual Report*, we identified ways in which the Financial Statement Discussion & Analysis (FSD&A) in the Province's annual report could be improved. We observed that applying SORP guidance in the following ways would further support transparency and accountability. For example,

- include a more robust variance analysis that extends to the previous year's actual results; and
- expand on the analysis of material risks and uncertainties.

Overall, the Province's 2015/16 Annual Report has improved and now includes a discussion and analysis of financial performance, including a detailed explanation of variances (both current year to prior year and current year to budget; and a five-year trend analysis of revenues, expenses, assets, liabilities and key financial ratios (sustainability, flexibility and vulnerability). However, it lacks discussion of the Province's performance measures and performance targets. We would expect such a discussion in, for example, the section on "Non-Financial Activities" within the annual report of the Province. While this section describes

the government's achievements in major sectors such as health care, education, post-secondary education and training, and the condition of provincial tangible capital assets, there is no discussion of how the Province of Ontario measures its performance, what its targets are and how the 2015/16 actual results measured up against the targets. Without this additional information, the reader has little idea if the stated achievements were relevant to the Province's goals or any outcomes it may have set to meet.

RECOMMENDATION 3

To ensure that the annual reports of public-sector entities that fall outside the scope of existing directives contain useful and thorough information, we recommend that Treasury Board Secretariat propose to Treasury Board/Management Board of Cabinet that authoritative direction be provided regarding the information they must contain.

TREASURY BOARD SECRETARIAT RESPONSE

The Treasury Board Secretariat (Secretariat) will pursue opportunities to strengthen direction on the content of performance reports, focusing on annual reports, including consideration of entities that fall outside the scope of existing corporate direction. Consideration will be given to the many different means of providing direction and guidance, including directives, supporting materials, and outreach and education. The Secretariat will use an evidence-based approach to selecting the most appropriate and effective route to achieving change.

4.2 Annual Reports Do Not Always Identify How the Entity's Performance Was Measured and the Performance Targets to Be Achieved

Performance measurement is the process of collecting and analyzing information that indicates how well an entity is performing. SORP defines a performance measure as a metric used to directly or indirectly measure a particular aspect of performance, which can include measures of input, output and outcome. To be meaningful, performance measures must be specific, measurable, achievable, results-oriented and time-focused.

Performance should be measured against pre-established goals, or “targets.” Without disclosure or clear identification of the entity’s established performance measures, and applicable targets in the annual report, the Legislature and the public cannot assess what progress management has made in achieving its stated goals. The Legislature and the public also cannot determine where performance fell short of the stated target.

4.2.1 Requirements and Results for Provincial Agencies

The Agencies and Appointments Directive requires that performance measures and targets over three years be included in agencies’ business plans, while in the annual report the agencies must report on the performance targets achieved and the actions to be taken when not achieved. The *Agencies and Appointments Directive Guide to Developing Annual Reports for Provincial Agencies* provides some additional information on what agencies are to report specifically for performance measures. Agencies are to provide to the minister a description of how the agency performed against targets set out in the business plan. They are also to provide actual performance targets in their annual reports so that the minister and the public can assess targets laid out in their business plans against what they actually achieved.

Overall, we noted that four of the 15 provincial agency annual reports we reviewed (27%) did not clearly identify the performance measures of the agency, and four did not disclose or identify the performance target (see **Figure 1**).

4.2.2 Requirements and Results for Broader-Public-Sector and Other Organizations

The Broader Public Sector Business Documents Directive also requires business plans or other financial documents to discuss performance targets achieved and the actions to be taken when not achieved.

Overall, we noted that five of the 12 broader-public-sector organization annual reports we reviewed (43%) did not clearly identify the performance measures of the organization, and seven did not disclose or identify the performance target (see **Figure 2**).

The Directive requires that this discussion be publicly available, but not necessarily in the annual report (it could be elsewhere on the organization’s website or in another document, such as a performance indicator report). As a result, only six included them in their annual reports. Performance targets were publicly available for nine of the 14 organizations we sampled (64%), but only five included them in their annual reports.

Ontario Power Generation, which falls outside the scope of both directives, identified its performance measures but did not disclose any performance targets in its annual report.

4.2.3 Further Analysis

When assessing the selected annual reports for incorporation of SORP guidance, we looked for the following:

- clear performance measures;
- applicable quantifiable target for each performance measure; and
- result or outcome reported.

Performance Measures Not Clearly Identifiable

The annual reports we reviewed generally listed key achievements and activities undertaken during the year. However, it was not clear if these activities were tied to specific performance measures. Some examples include:

- The Education Quality and Accountability Office's (EQAO's) 2015/16 annual report listed four strategic priorities but did not clearly identify the performance measures and targets for these priorities. We did note that its 2016–19 business plan clearly outlined the goals, strategy, performance measures and targets for each priority. However, the performance measures and associated targets are not clearly presented in the annual report. For example, the annual report mentions the testing of online assessments, but it does not state the progress in relation to the target presented in the business plan because the performance measure and target are not identified in the annual report. If the performance measure is not clearly identified, the public cannot assess what measures the entity is using to determine the extent to which it has achieved its stated goals and objectives.
- Many of the universities' 2015/16 annual reports listed statistics such as overall enrolment, international enrolment and revenues. However, it was not clear if this information reflected the organizations' performance measures. The lack of clear measures in the universities' annual reports is likely because these organizations also have a separate agreement with the Ministry of Advanced Education and Skills Development to report on system-wide indicators in the education sector, such as graduate employment rates, percentage of graduates employed in a related field and student satisfaction rates. While this information is not included in the annual reports, it is publicly available through each university's website. Without the performance measures clearly defined in the annual report,

the public cannot determine if the universities have met their intended goals and objectives.

No Performance Targets for Approximately Half the Annual Reports Sampled

In our sample, only 15 of the 28 annual reports (54%) disclosed or identified the performance target. Examples include:

- In TVO's 2015/16 annual report, Digital Learning was an area of focus for TVO. Homework Help, which is one component of Digital Learning, is a free online math-tutoring service available to Grade 7 to 10 students in every publicly funded English-language school board in the province. The annual report does include usage statistics, such as the number of questions asked of teachers via Homework Help. The public would assume that this statistic is how TVO measures its performance; however, without context, such as a target goal, the reader of the annual report would not know if the usage of this service met TVO's expectations.
- The Ontario Science Centre 2015/16 annual report includes many statistics, such as the number of visitors and number of students on school visits. A reader of the annual report would assume these are performance measures of the entity; however, without associated targets, it is uncertain if these results are positive or are in need of improvement.

As noted in **Sections 4.1.4** and **4.2.1**, there are some drawbacks to both directives allowing performance targets to be contained in business plans without a requirement to also include them in the annual report. While business plans look at future targets, the annual report is the vehicle by which to report on the current year's achievements of past targets. The Legislature and the public cannot assess the achievement against the targets if the performance measures and applicable targets are not clearly identified or disclosed in the annual report. As well, there should be sufficient discussion in the annual report so that Members of Provincial

Parliament and the public do not need to refer to the business plan—a separate document—to see what the performance measure and applicable target were in order to assess the progress of the entity in meeting its stated goals.

Discussion of Reported Outcomes

Of the 15 annual reports we sampled that reported performance targets (54% of the 28 reviewed), three (20%) did not include a discussion of the reported result or outcomes. The discussion is crucial for the entity to identify where it did not meet the target and the reason why the target was not achieved. It is also an opportunity for the entity to discuss possible strategies to address the shortfall as well.

For example, we noted that Cambrian College's annual report contained a table that outlined its achievement of 2015/16 goals and objectives. The measures were either completed or in progress. For those that were in progress, there was no discussion as to why the activity was not completed. For example, one activity that was in progress was the creation of an inventory of existing academic courses. This was to have been completed by March 31, 2016, but there was no discussion to inform the public what challenges Cambrian College had encountered preventing it from meeting its timeline.

We did note some examples where there was a detailed explanation of the agencies' performance results. For example:

- The Toronto Central Local Health Integration Network's (LHIN's) 2015/16 annual report includes a table showing its performance indicators with the measurable target and the 2015/16 outcome; as well, the 2014/15 result is provided to show the year-over-year change in the result. This table is followed by a discussion of the results and some of the LHIN's plans for addressing areas where the results did not meet the target.

- The Ontario Clean Water Agency's (OCWA's) 2016 annual report clearly outlines the performance measures, applicable targets and year-end results. The OCWA clearly links its overall goals with the strategy to achieve these goals, the performance target to measure the progress of each goal and the year-end result. For example, one of the OCWA's performance measures and related target was to increase revenue in 2016 by 6.1% over the 2015 forecast. The annual report noted that this target was not achieved as revenue only increased by 1.95% over 2015. The annual report addresses the challenges the OCWA faced in growing its revenue, such as aggressive competition and price reductions. Such detailed discussion clearly identifies to the public the reasons why the performance target was not achieved.

RECOMMENDATION 4

To enable Members of Provincial Parliament and the public to easily assess whether the entity met, exceeded or fell short of its stated targets, we recommend that the Treasury Board Secretariat, in conjunction with ministries, take action to help ensure that:

- entities clearly identify and disclose performance measures, and, as required by the directive, applicable performance targets and results in their annual reports; and
- when targets are not met, as required by the directive, the annual report include planned actions to achieve these targets in the future.

TREASURY BOARD SECRETARIAT RESPONSE

The Treasury Board Secretariat (Secretariat) has developed an enterprise-wide framework for evidence-based decision-making, and is engaged in building capacity for evidence-based, performance and outcome measurement, data analytics and evaluation. Employing this approach, the Secretariat will pursue

opportunities to strengthen direction on the content of performance reports, focusing on annual reports, including consideration of identifying performance measures and targets along with an explanation of the planned actions should targets not be met. Consideration will be given to the many different means of providing direction and guidance, including directives, supporting materials, and outreach and education. In addition, this may include reviewing formats and channels through which information is dispensed to ensure they reflect modern communication approaches.

4.3 Many Annual Reports Lack Reporting on Outcome-Based Measures

Our review of 30 entities' annual reports revealed that some entities reported output-based performance measures, while others reported outcome-based measures. As noted in **Section 4.1.1**, SORP outlines how outcome-based measures provide more valuable information to annual report readers than output-based measures. In **Recommendation 1**, we suggest that outcome-based measures should be incorporated into annual report directives.

4.3.1 Results for Provincial Agencies

Of the 11 of 15 provincial agency annual reports that contained clear performance measures, six (55%) contained strictly output-based measures while five (45%) included outcome-based measures.

Here are two examples of reporting on output measures, or the “what was done,” but not the outcome or benefit provided:

- The Ontario Clean Water Agency's (OCWA's) performance measure and target stated that its process data management system was to be fully implemented by the second quarter of 2016. The OCWA reported that it had fully

implemented its process data management system, but what is the outcome or benefit of that implementation? To indicate an outcome, the OCWA could have provided, for instance, statistics on reduced incidence of contaminants flowing into the Great Lakes as a result of technological improvements in its managed plants.

- Infrastructure Ontario reported how many major and real estate projects were on time and on budget. While the output-based measure is appropriate, an outcome-based measure, such as client satisfaction rates for each type of service performed, would provide enhanced information for the public.

An example of a provincial agency that included outcome measures or benefits attained from services provided is Agricorp. Agricorp reported on customer satisfaction, an outcome measure for its services. This measure also had applicable targets to show the Legislature and the public that the agency was meeting its goal.

4.3.2 Results for Broader-Public-Sector Organizations

Of the seven of 12 broader-public-sector organization annual reports that contained clear performance measures, one (14%) contained strictly output-based measures while six (86%) included outcome-based measures.

An example of a broader-public-sector organization that included outcome measures or benefits attained from services provided is Mohawk College. Mohawk College conducted a graduate and employment satisfaction survey to determine employment rates and whether graduates were working in their field of study. This outcome measure was also compared to a provincial benchmark. This provides valuable information to the Legislature and the public to assess the performance of the entity.

4.4 Financial and Variance Analysis Could Be Improved

Annual reports generally include an entity's audited financial statements. While these statements reflect the financial performance of the entity as a whole, they do not provide information on a program-by-program basis or highlight a particular activity undertaken by the entity. As well, many readers unfamiliar with financial statements may not be able to analyze the financial information on their own. Therefore, inclusion of some discussion and analysis of financial performance in relation to an entity's goals and objectives is critical to helping the public understand this aspect of performance.

4.4.1 Requirements, Suggested Expectations and Results for Provincial Agencies

The Agencies and Appointments Directive for provincial agencies requires that the annual report include audited financial statements and an analysis of financial performance. The *Guide to Developing Annual Reports for Provincial Agencies* also suggests that the annual report contain an analysis of the agency's financial performance, including approved budget as set out in the business plan, year-end actual results and explanations of significant variances.

Inclusion of Audited Financial Statements

All provincial agencies' annual reports we sampled included their audited financial statements in their annual report as required by the Directive (see **Figure 1**).

Inclusion of Analysis of Financial Performance

However, providing only audited financial statements is not enough to be considered a "financial discussion." We noted that five of the 15 annual reports we examined (33%) did not contain an analysis of financial performance (see **Figure 1**). Rather, the audited financial statement was the

only financial information included. Without the analysis, a reader of the annual report would not have sufficient information to determine if the agency's financial performance was in line with expectations.

Inclusion of Explanations of Significant Variances

While reasons for significant variances are to be included in provincial agencies' annual reports, the Agencies and Appointments Directive does not define what a significant variance is. As a result, agencies must determine what they believe is reasonable to include as significant variances. In examining our sample of annual reports, we felt that more than a 20% variance between current-year results and those of the prior year would be of interest to the public. For example, if expenses increased by 40%, the reader of the annual report might well wonder why that occurred.

Of the 15 provincial agency annual reports we sampled, nine (69%) did have a discussion of significant variances (see **Figure 1**). For example, the Algonquin Forestry Authority provided an in-depth variance analysis in its annual report noting that "operating revenues for the year were \$25,759,397, which represents an increase of \$3,719,218 or 17.3 % compared to 2014/15. Demand for our contractor produced forest products increased by 14.9% during the year and slightly higher stumpage and selling prices were achieved resulting in a 17.2% increase in product sales dollars."

The remaining four of the provincial agency annual reports we sampled (31%) did not have any discussion of significant variances. For example, we noted that the Agricultural Research Institute of Ontario's 2015/16 annual report included some significant variances, such as tangible capital assets increasing by approximately \$22 million, or 38%, and research expenditures decreasing by \$1.2 million, or 23%. However, these variances were not explained in the annual report. We noted that two of the 15 provincial agency annual reports in our sample did not have significant variance discussions because there were no significant variances.

Inclusion of Budget Data

Budget information is important as it provides the Legislature and the public with a baseline to compare the actual results against the budgeted plan. Budgets also provide useful information on how resources will be used to achieve goals and strategies over the next two to three years.

We noted that six of the provincial agency annual reports we sampled (40%) included the agencies' applicable financial budget. However, 13 (87%) of these agencies included their financial budgets in their business plans.

Only two of the 15 agencies we sampled did not include their budget in either their annual report or their business plan.

RECOMMENDATION 5

To provide readers of provincial agency annual reports with a thorough understanding of agencies' financial performance, we recommend that Treasury Board Secretariat propose to Treasury Board/ Management Board of Cabinet that:

- the Agencies and Appointments Directive be amended to include a definition of what a significant variance is; and
- in conjunction with ministries, it take action to help ensure that financial performance analysis, including explanations for significant variances, be included in all provincial agency annual reports.

TREASURY BOARD SECRETARIAT RESPONSE

The Treasury Board Secretariat (Secretariat) will pursue opportunities to strengthen direction on the content of performance reports, focusing on annual reports, including consideration of a consistent approach with respect to significant variances, and promoting effective financial analysis. Consideration will be given to the many different means of providing direction and guidance, including directives, supporting materials, and outreach and education. The

Secretariat will use an evidence-based approach to selecting the most appropriate and effective route to achieving change.

4.4.2 Suggested Expectations and Results for Broader-Public-Sector and Other Organizations

The Broader Public Sector Business Documents Directive only mentions that audited financial statements be included on the organization's website but does not require any analysis of financial performance. As noted in **Section 4.1.4**, this is a gap in the directive that we suggest be filled by the implementation of **Recommendation 2**. This should be kept in mind as we review these organizations' annual reports for the quality of their financial information.

Inclusion of Audited Financial Statements

Although organizations are not required by the directive to include audited financial statements within an annual report, seven (or 54%) of the 13 broader-public-sector and other organization annual reports we sampled did include audited financial statements. This includes Ontario Power Generation, which is not bound by any directive requirements for its annual report.

We also noted that when audited financial statements were not included in broader-public-sector organizations' annual reports, they were available as a stand-alone report on the website, with the exception of one organization. (See **Figure 4**.)

For example, the University of Toronto has a stand-alone financial report that includes its audited financial statements and a financial discussion. Halton Healthcare also provides statements separate from its annual report.

As noted in **Section 4.1.4**, the implementation of **Recommendation 2** would improve the quality of the single place where there is enough information for a reader to understand the financial performance of the organization.

Inclusion of Analysis of Financial Performance

Even though not required by the directive, five of the 13 broader-public-sector and other organization annual reports we reviewed (38%) did nevertheless contain a financial analysis (see **Figure 2**). This includes Ontario Power Generation, which is not bound by any directive requirements for its annual report.

Inclusion of Explanations of Significant Variances

As would be expected in the absence of being required to do so, significant variances were not explained in six (60%) of the 10 annual reports we reviewed that had significant variances (see **Figure 2**). For example, in the 2015/16 Mohawk College annual report, we noted that investments increased by \$12.6 million, or 20%, and accounts payable and accrued liabilities increased by \$5.9 million, or 32%. In neither case was an explanation provided as to why there was such a significant change.

Four (40%) of the broader-public-sector and other organization annual reports reviewed that had significant financial variances did contain a discussion of key variances. For example, Brock University provided a thorough financial analysis in its 2015/2016 annual report. Its analysis included explanations of variances for revenues, expenses, assets, liabilities, net assets and other indicators. In addition, beside each indicator, the report provided a bar graph to highlight the change in the last three years for that indicator.

Similar to what we found for provincial agencies, we noted that two broader-public-sector organization annual reports in our sample did not have significant variance discussions because there were no significant variances. In one case, we were not able to determine if there was a variance because the information was not available to do so.

Inclusion of Budget Data

Since the directive does not require organizations to publish financial analysis, we did not expect that

budgets would typically be included in the organization's annual report. Only one of the 12 organizations sampled had included its budget in its annual report. We also examined the applicable business and strategic plans to determine if budgets were included in these documents instead. Overall, six (46%) of the 13 broader-public-sector and other organizations we sampled had financial budget information in a document on their website, while seven (54%) did not. None of the hospitals, which comprise the majority of those organizations without publicly available financial budget information, had budget information on their websites.

4.5 Better Linkages between Financial and Non-Financial Data Would Improve Annual Reports

As noted in **Section 4.1.1**, SORP outlines how linkages between financial and non-financial data crucially include a discussion of *how resources were used* to achieve the desired outcome, enabling the reader to understand *the costs of achieved performance*. In **Recommendation 1**, we suggest that reporting on the link between cost and achievement should be a requirement in annual report directives.

In order to determine if this information encouraged by SORP was included in annual reports, we applied several criteria. Primarily, we looked for a discussion of how resources were used to achieve the desired outcome. We also assessed whether the entity established a link between its costs and the performance information included in the annual report. As well, we examined discussions of how non-financial resources (such as human resources) were involved in the achievement of performance.

In some cases, we noted that the annual reports contained thorough discussions of what the entity accomplished in the year, but financial information was limited to the inclusion of the audited financial statements. There was little to no discussion of the amount of financial resources actually used to achieve specific accomplishments.

4.5.1 Results for Provincial Agencies

Of the 15 provincial agency annual reports we reviewed, only four (27%) linked financial and non-financial information; the majority, 11 (73%), did not (see **Figure 1**).

For example:

- The 2015/16 annual report of the Education Quality and Accountability Office outlined many accomplishments during the year, including four separate pilot tests to assess the online delivery of the Ontario Secondary School Literacy Test. The cost of this accomplishment was not tied to what was achieved.
- The 2015/16 annual report of the Agricultural Research Institute of Ontario highlighted many activities during the year, most notably the commissioning and grand opening of a new dairy research facility and a new pre-commercial research greenhouse complex. The cost of these new facilities was not mentioned in the annual report.

While the audited financial statements for these entities are included in their annual reports, these statements cannot be used to determine the cost related to the accomplishments noted above.

4.5.2 Results for Broader-Public-Sector and Other Organizations

None of the broader-public-sector organizations sampled had full and complete linkages between financial and non-financial information (See **Figure 2**). The one other entity in our sample, Ontario Power Generation, did have linkages between financial and non-financial information.

4.6 Limited Discussion of Risks and the Impact on the Entity

As noted in **Section 4.1.1**, SORP outlines that reporting on significant risks and other factors, and their impact, is critical to for report readers to thoroughly understand an entity's performance. In **Rec-**

ommendation 1, we suggest that discussing risks and their impact should be a reporting requirement in annual report directives.

4.6.1 Requirements, Suggested Expectations and Results for Provincial Agencies

The Agencies and Appointments Directive requires that risks and related risk-management plans be included in business plans for provincial agencies. However, a discussion of how those risks affect performance is not required to be included in these plans. As a result, we expected that the annual reports would be the place where this discussion would be found (as it affected the performance of the current year). However, for the most part, we did not find this to be the case.

For the five of the 15 provincial agencies (33%) that included information in their annual reports on the risks the agency was facing (see **Figure 1**), we noted that the risks were clearly identified and there were explanations on how these risks were managed. For example, the Ontario Securities Commission included a list of risks it is facing, including strategic, system, business continuity, financial and legal risks. The Commission's annual report clearly discusses how it manages the various risks.

4.6.2 Results for Broader-Public-Sector and Other Organizations

The Broader Public Sector Business Documents Directive does not require that the annual report disclose risks affecting the organization, the impact on performance (if any) and related mitigating strategies.

As a result, only one of the 12 (8%) of broader-public-sector organizations annual reports in our sample contained a risk analysis. Ontario Power Generation's 2015/16 annual report also contained a risk analysis. (See **Figure 2**.) For example, we noted that Queen's University's 2015/16 annual report mentions in detail the financial risks the

university is facing: an unsustainable pension plan, deferred maintenance and its reliance on grant support and tuition revenue. The discussion of the pension plan includes some very specific mitigation strategies: “... in September 2015 all units began contributing an additional 4.5% in pension charges to cover the cost of additional going concern payments and the university has negotiated a commitment with employee groups to design and build a new Ontario University Jointly Sponsored Pension Plan.”

While there were a few good examples of risk analysis, for the most part, this analysis was not included in any of the broader-public-sector organizations’ financial or annual reports. A discussion of risk would round out their annual reports and provide insight on risks they are facing, the impacts and their plans to address the risks.

4.7 Annual Reports Are Written in Plain Language

All the annual reports we reviewed were clear, understandable and written in plain language.

SORP states that for performance information to be useful, it must be able to be understood by read-

ers. Explanatory narratives should be precise and clearly stated in plain, non-technical language that focuses on critical facts and matters that enable readers to obtain reasonable insights or draw reasonable conclusions. Care should be taken to avoid oversimplifying or omitting relevant details.

For this recommended practice, we looked to see if the report was written in plain language (that is, it did not use technical language or jargon), was well organized with a good use of graphics and tables, and conveyed what the entity achieved in the year.

A good example of an understandable report is the 2015/16 LCBO annual report. The report was well organized and used graphics and tables throughout to support the written narrative. As well, Cambrian College’s 2015/16 annual report used a table to highlight its accomplishments and concise narratives to discuss its operational and financial performance.

Annual reports that are clear and understandable make it easy for the Legislature and the public to assess the accomplishments of the entity and the steps the entity is taking to address performance and financial shortfalls, if any.

Appendix 1: PSAB Guide to Preparing Public Performance Reports— Selected Recommended Practices with Related Examples of Application

Source of data: Financial Reporting and Assurance Standards Canada

Recommended Practice	Examples of Features That Suggest This Recommended Practice Was Applied
Is the report understandable?	<ul style="list-style-type: none"> The report is concise and written in plain language that a member of the public can readily understand. The number of performance measures appears reasonable.
Does the report focus on the few critical aspects of performance?	<ul style="list-style-type: none"> The report focuses on the entity's key strategies, goals and objectives. Narratives and performance measures support a user's understanding of the entity's few critical aspects of performance.
Does the report describe the entity's strategic direction?	<ul style="list-style-type: none"> The report summarizes information about the entity's high-level priorities and long-term goals so as to provide context for reported performance. The report's description of the entity's goals and objectives helps the user understand how their accomplishment is consistent with the entity's strategic direction.
Does the entity explain actual results for the reporting period and compare them with planned results, explaining any significant variances?	<ul style="list-style-type: none"> The report identifies planned results for the reporting period, stated in terms of outputs and outcomes. Explanations are provided for all significant variances and give the user reasonable insight into their cause(s).
Does the report provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations?	<ul style="list-style-type: none"> The report includes trend information that, at a minimum, presents current period actual results with actual results for at least the two previous periods. Information is provided to allow users to assess plans, relate current achievements to long-term goals, and assess progress over time.
Does the report describe lessons learned and key factors influencing performance and results?	<ul style="list-style-type: none"> Where there are risks that had a significant impact on performance, the report includes outlines of the steps needed to bring actual performance in line with planned results, and progress is evaluated in relation to those steps. Where actions are required in the future to close the current period gap between actual and planned performance, the report describes specific steps and estimated time frames to do so.
Did the entity link its financial and non-financial performance information?	<ul style="list-style-type: none"> The report includes narratives and performance measures that illustrate the entity understands how financial and non-financial resources contributed to actual results. All entity costs are linked to individual performance measures, thereby permitting analysis of the level and type of resources required to produce outputs and (ideally) outcomes.

Appendix 2: Agencies and Appointments Directive’s Annual Report Requirements and Suggested Content for Board-Governed Agencies

Source of data: Treasury Board Secretariat, June 2016

Requirement	Purpose	Suggested Content
Description of activities over the year.	To provide a report on activities during the year.	Provide a high-level description of key programs, activities and highlights over the year that fulfilled the agency’s mandate and government priorities. Describe how the agency’s activities aligned with its corresponding business plan for the year covered in the annual report. Identify any significant changes to the agency’s programs and services, and the impacts of those changes.
Analysis of operational performance.	To provide a report on operational performance focusing on operational results.	Provide an analysis of the agency’s operational performance. This should include how the agency performed against targets in the business plan and applicable industry standards (e.g., effectiveness, productivity)
Analysis of financial performance.	To provide a report on performance with a focus on financial results.	Provide an analysis of the agency’s financial performance, including approved budget as set out in the business plan for the fiscal year of the annual report. Include actual year-end expenditures and explanations of significant variances.
Discussion of performance targets achieved and of action to be taken when not achieved.	To provide a report on whether targets were achieved and any corrective actions taken.	Measures of actual performance targets should be provided so the Minister and the public can compare business plan targets to achievements for the fiscal year of the annual report. Where business plan targets were not met, provide an explanation of the action(s) to be taken to meet the target(s) going forward. The agency’s new, approved business plan is a useful reference for discussion of actions that are being taken to address targets not being met. Include explanations and descriptions for targets that were significantly exceeded.
Names of appointees, including date when first appointed and when the current term of appointment expires.	To provide information on appointees to the board of directors of the agency.	Identify all appointees, positions, dates first appointed and when the current term of appointment expires. Total amount of remuneration for all appointees combine.
Audited financial statements or, where an audit is not practical, financial statements subject to another appropriate level of external assurance with actual results, variances and explanations of the variances against estimates.	To provide financial statements.	Consult with ministry controllership for further specific details.
Any legislatively required content.	To address any legislatively required content set out for agency annual reports.	As stipulated in legislation.

Appendix 3: Review Objective and Criteria

Prepared by the Office of the Auditor General of Ontario

Objective

To assess whether the selected provincial agencies publicly report the extent to which they achieved their intended goals and objectives and at what cost as recommended by the PSAB Statement of Recommended Practice #2 (Public Performance Reporting Statement). Our review will also assess whether the selected provincial agencies' and broader-public-sector organizations' public performance reports included the applicable requirements as established by Management Board of Cabinet's Agencies and Appointments Directive and the Broader Public Sector Business Documents Directive, respectively.

Criteria

1. PSAB Statement of Recommended Practice suggests that public-sector performance reports incorporate the following principles:
 - focus on the few critical aspects of performance;
 - describe the strategic direction of the public-sector entity;
 - describe actual results and compare them with planned results, explaining any significant variances;
 - provide comparative information about trends, benchmarks, baseline data or the performance of other similar organizations where having these comparisons would be useful to users in interpreting and using the information provided;
 - identify significant lessons learned during the reporting period and the implications arising from them;
 - include information about key factors critical to understanding performance, including:
 - identifying significant risks, capacity considerations and other factors that have had an impact on performance and results; and
 - explaining the nature of this impact; and
 - link financial and non-financial information to show how resources and strategies influence results.
2. The performance report must contain the following elements in order to comply with the Agencies and Appointments Directive for board-governed agencies:
 - description of activities over the year;
 - analysis of operational performance;
 - analysis of financial performance;
 - discussion of performance targets achieved and of action to be taken when not achieved;
 - names of appointees, including date when first appointed and when the current term of appointment expires; and
 - audited financial statements or, where an audit is not practical, financial statements subject to another appropriate level of external assurance with actual results, variances and explanations of the variances against estimates.
3. The performance report must contain the following elements in order to comply with the Broader Public Sector Business Documents Directive:
 - a description of key activities over the previous fiscal year of the organization;
 - an analysis of operational performance;
 - a discussion of performance targets achieved and actions to be taken if not achieved; and
 - audited financial statements.

Appendix 4: 2015/16 Annual Reports We Examined

Prepared by the Office of the Auditor General of Ontario

Ministry of Advanced Education and Skills Development

1. Brock University
2. Cambrian College
3. Georgian College
4. McMaster University
5. Mohawk College
6. Queens University
7. Seneca College
8. University of Toronto

Ministry of Agriculture, Food and Rural Affairs

9. AgriCorp
10. Agricultural Research Institute of Ontario

Ministry of Economic Development

11. Ontario Infrastructure and Lands Corporation

Ministry of Education

12. Education Quality and Accountability Office
13. Ontario Educational Communications Authority (TVO)

Ministry of Energy

14. Ontario Energy Board
15. Ontario Power Generation

Ministry of Environment and Climate Change

16. Ontario Clean Water Agency

Ministry of Finance

17. Liquor Control Board of Ontario
18. Ontario Lottery Gaming Corporation
19. Ontario Securities Commission

Ministry of Health and Long-Term Care

20. Halton Healthcare Services Group
21. Humber River Regional Hospital
22. Local Health Integration Network—Toronto Central
23. Muskoka Algonquin Healthcare
24. Norfolk General Hospital
25. St. Joseph's Health Centre—Toronto
26. Trillium Health Partners

Ministry of Natural Resources and Forestry

27. Algonquin Forestry Authority

Ministry of Northern Development and Mines

28. Northern Ontario Heritage Fund Corporation

Ministry of Tourism, Culture and Sport

29. Ontario Science Centre

Ministry of Transportation

30. Metrolinx