

ACT Auditor-General's Office

Performance Audit Report

Performance Reporting

April 2010



ACT AUDITOR-GENERAL'S OFFICE



PA08/16

The Speaker
ACT Legislative Assembly
Civic Square, London Circuit
CANBERRA ACT 2601

Dear Mr Speaker

I am pleased to forward to you a Performance Audit Report titled '**Performance Reporting**', for tabling in the Legislative Assembly, pursuant to Section 17(5) of the *Auditor-General Act 1996*.

Yours sincerely

Tu Pham
Auditor-General
13 April 2010

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LIST OF ABBREVIATIONS

ACT	Australian Capital Territory
ACTIA	ACT Insurance Authority
ANAO	Australian National Audit Office
CMD	Chief Minister's Department
COAG	Council of Australian Governments
DECCEW	Department of Environment, Climate Change, Energy and Water
DET	Department of Education and Training
EPC	Exhibition Park Corporation (previously known as Exhibition Park in Canberra – EPIC)
ESD	Ecologically Sustainable Development
FMA	<i>Financial Management Act 1996</i>
FTE	Full time equivalent
KPI	Key Performance Indicator
LSL	Long Service Leave
SoI	Statement of Intent
SoP	Statement of Performance
TAMS	Department of Territory and Municipal Services
Treasury	Department of Treasury

1. REPORT SUMMARY AND AUDIT CONCLUSIONS

INTRODUCTION

- 1.1 This report presents the results of a performance audit that reviewed performance reporting by selected agencies, mainly for the period 2008-09. The agencies reviewed were:
- Chief Minister's Department (CMD);
 - Department of Education and Training (DET);
 - Department of Territory and Municipal Services (TAMS);
 - ACT Health;
 - the former Construction Industry Long Service Leave Authority, and Cleaning Industry Long Service Leave Authority, now combined as the Long Service Leave Authority;
 - Exhibition Park Corporation (EPC); and
 - ACT Insurance Authority (ACTIA).
- 1.2 In addition, Audit consulted Department of Treasury (Treasury) with respect to advice provided to agencies on performance measures.
- 1.3 This report considers the comprehensiveness of accountability and strategic performance indicators and their use by agencies to assess and improve performance. The report assesses the quality of performance indicators, including those stated in the Statements of Intent¹ of selected statutory authorities. The report also covers a limited review of the accuracy and completeness of Annual Reports, including the reporting against the Ecologically Sustainable Development (ESD) requirements of the Annual Report Directions.
- 1.4 This audit commenced in late 2008 and was originally intended to focus on the 2007-08 reporting period. Due to the unexpected staff turnover, the audit was suspended and was recommenced in late 2009. While the audit has updated its focus to the 2008-09 reporting period, some results of 2007-08 were still relevant and were used in this report.
- 1.5 **Appendix A** provides details regarding audit criteria, approach and methodology.
- 1.6 **Appendix B** provides some better practice information on performance reporting.

¹ Statutory authorities have to prepare a Statement of Intent agreed between the Board Chairman or equivalent and the Treasurer. This Statement describes objectives and activities, and also lists performance measures and targets. These performance measures are not named 'accountability indicators' but they are of the same general nature as the departmental accountability indicators. These Statements of Intent are tabled in the Legislative Assembly.

AUDIT OBJECTIVES

- 1.7 The objective of this Audit was to provide assurance to the Legislative Assembly on the accuracy, relevance and completeness of the reporting of performance by selected public sector agencies to Government, the Legislative Assembly and the Australian Capital Territory (ACT) community.

AUDIT CONCLUSIONS

- 1.8 The audit conclusions drawn against the audit objectives are set out below.

Performance reporting by audited agencies was in most cases accurate, and sufficiently covered key activities set out in agencies' Budget Papers.

The relevance and usefulness of agencies' performance measures vary significantly between agencies. In some agencies, many performance measures were still unclear, unhelpful, or were not well aligned to strategic or operational objectives.

The Statements of Intent of some audited statutory authorities lacked clarity, had some poor performance measures, and therefore did not always provide a sound mechanism for reporting of, and accountability for, the discharge of their legislative functions.

Some agencies used the performance indicators to monitor and improve their performance. Others prepared performance indicators only to comply with external reporting purposes, made little use of the reported information and, hence missed opportunities to improve performance.

There is scope for further improvement in reporting on ecologically sustainable development.

KEY FINDINGS

- 1.9 The audit opinion is supported by the following findings:

Performance reporting framework (Chapter 2)

- At the time of the audit, guidance available from ACT Treasury was outdated and limited. However, new and better guidance was issued in January 2010.

Comprehensiveness and use of performance indicators (Chapter 3)

- Performance indicators, in most cases, have sufficiently covered key activities of the audited agencies.
- Agencies are required to develop and report on two types of performance indicators, accountability and strategic. Notwithstanding clear guidelines from ACT Treasury, there seems to be a lack of clarity at agency levels on what should be an accountability indicator or a strategic indicator.
- For some agencies, accountability indicators do not provide a reasonably comprehensive description of each output class.

- Many agencies do not link budget performance indicators with strategic plans.
- There is significant scope for agencies to improve both strategic and accountability indicators, by better linking them to organisational outputs and outcomes.
- Many agencies did not monitor, analyse or use the results of performance indicators for management, and hence missed the opportunity to improve their performance.

Quality of performance measures (Chapter 4)

- The quality of performance indicators varied significantly between agencies.
- In CMD, many performance indicators referred to the conduct of an activity, but not to achievement of practical targets. Only 22 per cent of CMD accountability indicators were assessed by Audit as useful. This partly reflects the difficulty of policy-oriented departments to develop meaningful performance measures.
- Most indicators of the line departments (TAMS, DET and ACT Health) were assessed as clear and useful.
- With the exception of TAMS, most strategic indicators were reasonably stable, and have enabled comparison of performance over time.
- Some strategic indicators need improvement as they are poorly defined, or were merely descriptions of activities or strategies rather than outcome-based and long-term focussed.

Performance reports by statutory authorities (Chapter 5)

- The statutory authorities reviewed did not establish a clear link from their legislation to corporate objectives and then to performance measures in their Statements of Intent.
- Performance measures of the statutory authorities often did not cover sufficiently the full range of their legislative functions, and have considerable scope for improvement.
- Many performance indicators related to administrative activity, workload or descriptions of projects, without additional information on how well the statutory authorities have discharged their legislative functions.
- The low quality of Statements of Intent of some statutory authorities can lead to inadequate performance reporting. This can undermine the purpose of these Statements as a key accountability mechanism to the Assembly.

Annual reports (Chapter 6)

- Annual Reports reviewed were generally accurate and reasonably complete.
- Annual Reports, with few exceptions, generally addressed the commitments and undertakings reported in the preceding year.

Report summary and audit conclusions

- Reporting requirements for Ecologically Sustainable Development (ESD) are complex and unclear.
- Although all agencies audited provided relevant ESD information, the extent of full compliance with ESD reporting requirements remains low.

RECOMMENDATIONS AND RESPONSE TO THE REPORT

- 1.10 The audit made eight recommendations to address the audit findings detailed in this report.
- 1.11 In accordance with section 18 of the *Auditor-General Act 1996*, a final draft of this report was provided to the Chief Executive of each audited agency for consideration and comments. Audit did not receive response from individual Chief Executives. The Chief Executive of the Chief Minister's Department has provided the responses to each recommendation on behalf of those audited agencies.
- 1.12 In addition, the ACT Long Service Leave Authority provided its comments to Recommendation 6.

Recommendation 1 (Chapter 3)

Agencies should, wherever practicable, provide indicators of quality of services as well as quantity, for each output class.

CMD's response:

Agreed in part – Agencies should consider both quality and quantity aspects when determining the most appropriate indicators to set. However, the Government does not support mandating both quality and quantity indicators (where practicable) for each output class as this could lead to a proliferation of indicators. A focus on a small number of key indicators is preferable to a large number of indicators which might provide little additional value in measuring the performance of an agency.

The Government considers it better practice to allow agencies to choose the most useful key indicators rather than specifying the types of indicators required. When guidance to agencies is issued before the next Budget process, the guidance will emphasise that both quality and quantity aspects should be considered when setting the most useful indicators and that the indicators set must present a balanced picture of the agency's performance.

Recommendation 2 (Chapter 3)

Agencies should link their performance indicators in the budget with their corporate objectives, and strategic and business plans.

CMD's response:

Agreed – Performance indicators should be linked to corporate objectives and strategic business plans wherever relevant and appropriate.

Recommendation 3 (Chapter 3)

Departments should seek to integrate the performance indicators with the decision making process to:

- a. use the performance information to inform decisions about the department activities;
- b. regularly assess whether key organisational objectives are being met; and
- c. take timely action as appropriate to meet performance targets and business objectives.

CMD's response:

Agreed - This is already done to a large extent.

Recommendation 4 (Chapter 4)

Chief Minister's Department should improve the usefulness of its accountability indicators by adding appropriate targets, timeliness and quality measures.

CMD's response:

Agreed in part – Chief Minister's Department regularly reviews its performance indicators to ensure that the most useful, relevant and up-to-date information is being provided. Given that the Audit Report does not provide detail on the methodology used to assess clarity and usefulness, it is difficult to respond in full, however, the Report rightly notes the difficulty in providing indicators for a policy-oriented department.

Recommendation 5 (Chapter 4)

Departments should establish strategic indicators in line with Treasury's guidelines, linking the strategic indicators to outcomes, and not merely describing activities.

CMD's response:

Agreed - Agency strategic indicators are reviewed annually and developed in line with Treasury's guidelines.

Recommendation 6 (Chapter 5)

Each statutory authority should:

- a. comprehensively review the performance measures included in its Statement of Intent. This review should ensure that:
 - all objectives are expressed consistently and reflect the legislative functions;
 - the selected performance measures address all of the main objectives of the authority as stated in its Statement of Intent; and
 - the performance measures provide a meaningful indication of how well the authority's planned activities have been performed.
- b. ensure that its Statement of Performance includes sufficient information to enable readers to understand the performance measure, the result being reported and, where appropriate, how it is measured.

CMD's response:

Agreed – Statutory Authorities review their performance measures each year as part of the annual budget process and in line with Treasury's guidelines. This review includes an assessment of relevance, clarity and measurability.

ACT Long Service Leave Authority's response:

Agreed – The Authority accepts the examples of performance indicators assessed as needing improvement and agrees with "The way forward" (refer page 37) and Recommendation 6.

Recommendation 7 (Chapter 6)

Agencies should report in subsequent years on the outcomes of significant activities for which undertakings were made in the previous Annual Report.

CMD's response:

Agreed – The Audit has confirmed that this is presently being undertaken in the majority of cases.

Recommendation 8 (Chapter 6)

- a. The Chief Minister's Department should, in consultation with other agencies, seek to establish a simple and cost-effective set of performance measures and targets for ecologically sustainable development (ESD).
- b. The Chief Minister's Department should improve consistency in the guidance on completing the ESD section of the Annual Report.
- c. All agencies should complete the ESD section of their Annual Report in the format recommended by the Annual Report guidelines. This will ensure better consistency and comparison across government agencies.
- d. Relevant agencies should include discussions on how they use the ESD indicators in implementing government sustainability policies and objectives.

CMD's response:

Agreed in part – Chief Minister's Department will, in conjunction with the Department of Environment, Climate Change, energy and Water, undertake a review of existing ESD indicators and related requirements in the Annual Report Directions.

2. PERFORMANCE REPORTING FRAMEWORK

INTRODUCTION

- 2.1 This Chapter provides some background on the performance reporting framework, currently applied to ACT agencies, the development of performance measures, and discusses better practice approaches, using the details in **Appendix B**.

KEY FINDING

At the time of the audit, guidance available from ACT Treasury was outdated and limited. However, new and better guidance was issued in January 2010.

HISTORY OF PERFORMANCE MEASURES IN THE ACT

- 2.2 In 1995, the ACT adopted an output budgeting and reporting framework and introduced fully audited output-based performance statements.² Up to 2005-06, agencies subject to the *Financial Management Act 1996* (FMA) presented accountability performance measures for quantity, quality/effectiveness, timeliness and cost for each output. At that time, these agencies also presented strategic indicators in their budget statements and reported against these in their annual Statements of Performance.
- 2.3 From November 2005, however, strategic performance measures were no longer subject to audit scrutiny³, partly because strategic measures relate to long term aspirations and outcomes that are not always 'auditable'. Further changes in 2007-08 removed strategic performance measures from the Statement of Performance, but reporting on these measures is still a requirement within Annual Reports.⁴
- 2.4 Since 2004-05, the number of accountability measures has declined substantially, but some departments still have large numbers of measures.

CURRENT REQUIREMENTS FOR PERFORMANCE REPORTING

- 2.5 Most agencies subject to the FMA have to present in their budget papers accountability indicators, with the current-year targets, the current-year estimated outcome and the target for the budget year. The budget papers also list the strategic performance measures.
- 2.6 Statutory authorities have to prepare a Statement of Intent agreed between the Board Chairman or equivalent and the Treasurer. This Statement describes objectives, activities, and lists performance measures and targets. These performance measures are not named 'accountability indicators' but they are

² *Performance and Accountability in the ACT*, The Allen Consulting Group, 2009.

³ Disallowable Instrument DI2005-273 (repealed), 23 November 2005.

⁴ Disallowable Instrument DI2008-63, 19 April 2008.

similar in nature to the departmental accountability indicators. These Statements of Intent are tabled in the Legislative Assembly.

- 2.7 Territory authorities that receive funds specified for a particular output, are defined as ‘prescribed for outputs’. These authorities, in addition to reporting on their Statement of Intent performance measures, must report against the accountability indicators presented in the Budget Papers. If an authority includes strategic indicators in its Statement of Intent, then the Statement of Performance must also address these performance measures.
- 2.8 Statutory authorities do not have to formally define strategic measures; however, there are objectives established for each organisation that provide more information on their strategic intent.
- 2.9 Government agencies report on performance indicators and their targets. Accountability performance indicators are included in the annual Statements of Performance. These are provided with the financial statements for both departments and statutory authorities and are subject to review by the Auditor-General’s Office, as part of the annual audits of financial statements. Strategic performance indicators, if defined, are reported in agencies’ Annual Reports.
- 2.10 Government agencies are required to provide six monthly progress reports on achievement of performance indicators to relevant Ministers for tabling in the Assembly.

Performance indicators, performance measures and performance criteria

- 2.11 Within ACT agencies, different names are used, such as performance measures and performance indicators. For example, the policy and discussion papers ‘Citizen-Centred Governance’ and ‘Performance and Accountability in the ACT’ use both terms interchangeably without definition.
- 2.12 The formal guidelines under the FMA (Disallowable Instrument DI2008-63) are consistent in referring to performance criteria, and then to the specific use of accountability indicators and strategic indicators for departments.
- 2.13 ACT Department of Treasury (Treasury) Memorandum 2008-09 also refers consistently to ‘Accountability and Strategic Indicators’. However, the Treasury Better Practice Guide on preparing budget papers uses both terms without definition. Even the proforma attached to that document suggests that agencies should provide ‘Accountability Indicators’ and then explains them in a footnote called ‘Explanation of measures’. This leads to some Statements of Performance following this pattern.⁵ TAMS used the term ‘Accountability measure’.
- 2.14 Statutory authorities are not covered by this guidance. ACT Insurance Authority (ACTIA) uses the term ‘Statement of Intent Measure’, Exhibition Park Corporation uses ‘performance measure’ and the Cleaning and Construction Industries Long Service Leave Authorities use ‘Key Performance Indicator’.

⁵ For example, CMD.

- 2.15 Audit considers that a more consistent use of terms will assist understanding, and give a whole of Government reporting approach.

REVIEWS OF THE PERFORMANCE MEASUREMENT FRAMEWORK

- 2.16 In July 2008, the Chief Minister's Department (CMD) issued a paper on 'Citizen-Centred Governance'.⁶ In addition to discussing modes of citizen engagement, the paper referred to an 'Accountability in Government' initiative that had the aim to:

- strengthen the Government's capacity to deliver policies and service delivery outcomes;
- promote agency accountability and performance;
- develop a performance and accountability model and outline the first stage of implementation; and
- prepare the ACT for incorporation of the Council of Australian Governments (COAG) performance process in accountability arrangements.

- 2.17 The 'Citizen-Centred Governance' paper stated (page 5) that 'the ACT Government built in more outcome focused modifications in 2005. This was reflected in wider strategic indicators in the Budget Papers, and refinement of output indicators to remove the effort on relatively low level activity measures. The Government recognised that more should be done.' As part of this approach, the paper stated (page 5) that 'Accountability mechanisms that support robust evaluation, reporting and monitoring will also be considered.'

- 2.18 The Government has stated that 'Citizen Centred Governance' has a range of initiatives that include:

- listening to the community and exploring improved communication and engagement mechanisms;
- positioning for improved accountability and reporting; and
- developing frameworks for improved decision-making and coordination.⁷

- 2.19 Following the 'Citizen-Centred Governance' paper, the Government commissioned a report by the Allen Consulting Group on 'Performance and Accountability in the ACT: Towards a New Framework' to inform the development and implementation of a more mature performance and accountability framework for the ACT.⁸ The emphasis of this Report was on whole-of-government accountability and reporting, such as establishing better links between central planning such as the Canberra Plan and individual agency plans. Arrangements would then provide for linking the budgeting process to these plans and for better performance reporting from agencies that could be used

⁶ Chief Minister's Department. 'Citizen-Centred Governance', available from http://www.cmd.act.gov.au/__data/assets/pdf_file/0004/2659/citizen_centred_governance.pdf

⁷ Government response to the Estimates Committee 2009-10, pages 2-3.

⁸ CMD website <http://www.cmd.act.gov.au>

to report performance against these central plans. Establishing such a framework would require a coordinated approach by CMD and ACT Treasury. These issues are beyond the scope of the current audit.

2.20 The Allen Consulting Group report also suggested the government needed to address the following matters, assessed as relevant to the current audit:

- the level of consistency in the way performance is reported between individual agencies;
- clarity about what constitutes an accountability measure and a strategic indicator; and
- timeliness and relevance of progress reporting on agency performance.⁹

PERFORMANCE MEASUREMENT GUIDANCE AND BETTER PRACTICE

2.21 This section discusses a framework for considering performance measures, including better practice and examines ACT guidance for agencies to report performance measures.

Performance measurement framework

2.22 Based on the better practice characteristics listed in **Appendix B**, Audit considers that a good performance measurement system will:

- have clear purposes – focussing on organisational aims;
- be integrated with planning, budgeting and operations;
- provide information on outcomes, outputs and processes;
- be widely supported and stable; and
- be cost-effective – balancing usefulness with costs of collecting information and reporting results.

Guidance on performance reporting

2.23 In January 1998, Treasury issued a substantial Guidance Paper that included advice on how to construct good performance measures.¹⁰ Although many of the features of the outputs and outcomes system described in this paper are now out of date, much of the guidance on performance indicators remains valid. The document is no longer readily available but is nevertheless distributed by Treasury, with appropriate caveats, to provide guidance to agencies. Treasury has commenced preparation of a revised version, but this was put on hold due to the current CMD project to review the performance measurement framework (see paragraph 2.19).

⁹ *Performance and Accountability in the ACT*, The Allen Consulting Group, 2009, page 3.

¹⁰ Guidance Paper No. 1, *Outputs and Output Classes: Guidelines for the ACT*, January 1998.

2.24 This 1998 Guidance (page 23) provided the following advice:

Performance measures are quantifiable units of measurement used to determine and assess the delivery of outputs. They establish how performance will be judged for each output ... Performance measures relate to just one aspect of the output delivery

Useful performance measures should be:

- quantifiable and therefore measurable
- independently verifiable
- a valid measure of one aspect of performance
- clearly stated to avoid differing interpretations
- bias free – independent of stake-holder’s views or opinions
- expressed as a rate, ratio or percentage of a standard or target
- useful for decision makers
- comprehensive
- clearly linked to agency operations
- capable of demonstrating that an agency has earned its Government Payment for Outputs.

2.25 In advising of the 2007-08 changes, Treasury stated that ‘This change more correctly aligns our framework with the nature of strategic indicators - that they are outcomes based and long-term. ... strategic indicators are a meaningful measure to the Government and will still form part of the Budget Papers and department Annual Reports.’¹¹

2.26 In May 2008, Treasury subsequently updated its better practice guideline on statements of performance.¹² This guideline only addressed accountability performance measures, as strategic measures were no longer included in Statements of Performance. This guideline stated that ‘accountability performance indicators measure a department’s effectiveness and efficiency in delivering its outputs, and may be measures of outcomes, outputs or inputs’.

2.27 The document also states that ‘to assist readers in understanding the measures, it is useful to provide an explanation of measures where the terms are difficult to comprehend ... or it is difficult to determine how the measure has been calculated.’¹³

2.28 On 15 January 2010 (after the audit was substantially complete), Treasury issued advice to agencies as follows:

¹¹ Department of Treasury *Memorandum 2008-09*, 30 May 2008.

¹² Department of Treasury, *Statement of Performance for Agencies: Better Practice Guideline for Reporting Periods Ending on or after 30 June 2008*, May 2008.

¹³ Department of Treasury, *Statement of Performance for Agencies: Better Practice Guideline for Reporting Periods Ending on or after 30 June 2008*, May 2008, page viii – ix.

Strategic indicators measure performance against long-term strategic objectives and outcomes which have an impact on the community. Ideally, this information will be focussed and consistent with Government priorities. Although agencies hold some accountability for performance, external factors may influence results, thus these indicators are not subject to audit, however, are reviewed by the Audit Office.

Accountability indicators measure an agency's effectiveness and efficiency in delivering outputs and outcomes. Where appropriate, they may also include input measures that report on the quantum and/or costs of individual services. These measurements are subject to audit, and must be appropriately measurable to quantify achievement.

In developing individual performance measures, the following attributes should be considered:

- measures should be quantifiable and measurable to a reasonable degree of accuracy (particularly for auditable measures);
- measures should be reported on in a timely manner and with reasonable frequency, ensuring information is not out of date;
- measures should be independently verifiable (evidence will be required);
- benefits deriving from collecting and reporting information should outweigh costs;
- measures should be relevant and fit for intended purpose, for the information of Ministers, the Assembly and the community;
- there should be a focus on overall performance and key deliverables. Measures should not be focussed on one single aspect of performance;
- setting of measures should be impartial, ensuring that a balanced perspective is evident;
- measures should be clearly defined and easy to understand; and
- measures should, as far as possible, maintain continuity and comparability of reported results across years.¹⁴

2.29 Audit considers that this advice is appropriate and is consistent with the better practice identified in this audit.

CONCLUSION

2.30 Guidance available from Treasury at the time of audit was either old or limited, but has since been updated to assist in the preparation of the 2010-11 budget. Production of more comprehensive guidance (along the lines of the 1998 paper) may be appropriate to reflect recent changes arising from the CMD initiative to develop an improved performance and accountability framework.

¹⁴ Treasury's advice to agencies dated 15 January 2010 (Treasury Ref:TSY-G10/8).

3. COMPREHENSIVENESS AND USE OF PERFORMANCE INDICATORS

INTRODUCTION

- 3.1 This Chapter provides overall findings on the extent to which performance indicators cover major activities of agencies, and are used in day to day management of the agency. As discussed in **Appendix B**, one of the features of a better practice performance measurement framework is that performance measures are integrated with planning, budgeting and operations.

KEY FINDINGS

- Performance indicators, in most cases, have sufficiently covered key activities of the audited agencies.
- Agencies are required to develop and report on two types of performance indicators, accountability and strategic. Notwithstanding clear guidelines from ACT Treasury, there seems to be a lack of clarity at agency levels on what should be an accountability indicator or a strategic indicator.
- For some agencies, accountability indicators do not provide a reasonably comprehensive description of each output class.
- Many agencies do not link budget performance indicators with strategic plans.
- There is significant scope for agencies to improve both strategic and accountability indicators, by better linking them to organisational outputs and outcomes.
- Many agencies did not monitor, analyse or use the results of performance indicators for management, and hence missed the opportunity to improve their performance.

COMPREHENSIVENESS OF PERFORMANCE MEASURES

- 3.2 This section discusses the extent to which performance measures cover the operations of an agency.
- 3.3 Accountability performance indicators are defined in the budget papers for each output class. This process aims to ensure performance indicators describe each major component of an agency's operations.
- 3.4 Audit reviewed whether strategic and accountability performance indicators were linked with strategic planning documents. Such a link means it is more likely the indicator has relevance to internal operations and decision-making processes.

Comprehensiveness of accountability indicators in describing each output class

- 3.5 Audit found that the extent to which accountability indicators provided a good overall picture of performance within an output class varied considerably within agencies. In some cases,¹⁵ there are indicators of quantity, for example reports of projects completed, without any indications of quality or impact of these projects. In others, there are indicators of quality without information on the quantity of services provided.¹⁶
- 3.6 As discussed in Chapter 2, Treasury has removed the requirement from its guidelines for agencies to have indicators covering cost, quantity, quality and timeliness. Audit considers that a balanced picture will often include indicators of both quality and quantity, to improve the comprehensiveness of performance coverage, and hence accountability.

Recommendation 1

Agencies should, wherever practicable, provide indicators of quality of services as well as quantity, for each output class.

Coverage by strategic indicators of all significant areas of the organisation

- 3.7 The nature of strategic indicators is that they would normally be few in number and refer to overall outcomes of an agency. They may not be specifically relevant to all areas of an agency, but they should, overall, give a view of the main impacts of an agency. Audit's view was that this was achieved for most audited agencies included in this audit.

Linkage with strategic planning

- 3.8 Many agencies develop strategic or business plans to guide decision-making. A close connection between performance measures and the strategic plan would therefore increase the likelihood that performance measures are used for operational purposes.
- 3.9 The Chief Minister's Department (CMD) showed good practice demonstrating a close connection between the accountability indicators, strategic indicators and the Divisional Strategic Priorities that are reported on quarterly. CMD strategic indicators reflect the priorities of the Department's 2009-10 Corporate Plan.
- 3.10 In the Department of Education and Training (DET), there was a high degree of consistency between DET's strategic plan 2008-09 and its strategic indicators for 2008-09.
- 3.11 For other agencies, however, there was not a strong connection between strategic and business plans and the set of indicators published in the budget papers. In

¹⁵ For example, CMD.

¹⁶ For example, DET.

some cases, particularly in Department of Territory and Municipal Services (TAMS), the strategic plans had generated another set of performance measures that were quite different from the accountability and strategic indicators reported publicly. For these agencies, this indicates the risk of a proliferation of performance measures (some overlapping) being collected for different purposes, leading to inefficiency in performance reporting.

- 3.12 Audit's view is that strategic and business plans and similar documents often represent a careful distillation of an agency's intended directions and activities. They can therefore provide a good basis of developing and integrating relevant performance measures.
- 3.13 In TAMS, there was little use of accountability performance measures to assist with organisational performance. At the time of audit, accountability measures were not closely related to strategic or business plans, and even these were not reviewed frequently for progress. Only six-monthly reviews of business plans were scheduled, and because of the changes resulting from the formation of the Department of Environment, Climate Change, Energy and Water, in some areas there was only one review at the end of the 2008-09 year.
- 3.14 As the accountability and strategic indicators are not referenced or reflected in TAMS' strategic and annual plan, they are not likely to be continually monitored, or used for performance improvements.
- 3.15 Audit discussions with TAMS suggest there was a view in TAMS that accountability performance measures were about external reporting, and did not need to be integrated into business plans. Audit considers that such separation does not represent good practice, and reduces the relevance of performance indicators as a means to be accountable for TAMS' business performance.
- 3.16 In relation to strategic indicators, Audit considers they do not necessarily have to address specifically all of an agency's major activities – they can act as a summation of the overall impact. Nevertheless, there should be clear pathways by which each major element of an organisation can be seen to contribute to the strategic achievement. This pathway was not evident in TAMS.
- 3.17 For example, it may be reasonable that the 'Government Services' component of TAMS, such as property, nursery and linen services, as well as the internal services under Shared Services do not have strategic indicators as they either provide support to other administrative functions or are smaller stand-alone services. However, the lack of strategic indicators for Tourism and Events, a major function of TAMS, appears to be a gap.
- 3.18 TAMS is restructuring its performance indicators to align them with the strategic plan. As the Strategic Budget Review of December 2008 by Ernst & Young stated (page 4), 'TAMS has yet to clearly articulate the alignment between its core business activities, government's policy priorities, service delivery objectives,

indicators needed to monitor service delivery performance against these objectives and supporting financial budgeting.¹⁷

3.19 Specific recommendations made by Ernst & Young included :

TAMS should seek agreement from the government on the service levels it must deliver and the KPIs for measuring performance for these services for each Output.¹⁸

3.20 Two other Ernst & Young recommendations, 18 and 19, referred to improving the linkages between business planning and the setting of performance measures.

Recommendation 2

Agencies should link their performance indicators in the budget with their corporate objectives, and strategic and business plans.

Linkage between accountability and strategic indicators

3.21 As mentioned above, all agencies are required to report on their accountability indicators and strategic indicators as set out in budget papers.

3.22 There should be a simple and logical connection between accountability and strategic measures. For example, life expectancy is a relevant strategic measure for ACT Health, to which all parts of ACT Health contribute. Consequently, there is a logical connection from activities measured by ACT Health accountability performance indicators; for example, the number of breast screenings performed, to increasing life expectancy.

3.23 Audit found considerable variation in the linkage between accountability and strategic indicators in the audited agencies.

3.24 While CMD has established a good linkage from strategic to accountability measures, such linkages in other departments is not as clear. For example, in TAMS, some accountability indicators have no apparent contribution to any strategic measure. TAMS is aware of this and has put in place a revised strategic plan that is intended to provide a more structured approach.

3.25 In some departments, there seems to be a lack of clarity on accountability indicators and strategic indicators, and the same information is used for both purposes. For example, in DET, measures of academic performance in schools are used for both purposes. In the area of ACT Health responsible for cancer services, waiting times for breast screening are accountability indicators, while waiting times for radiotherapy are strategic indicators.

3.26 As noted in Chapter 2 (refer paragraph 2.23), Treasury guidance states that strategic indicators are outcomes based, and long-term. Accountability indicators

¹⁷ Ernst & Young 'Strategic Budget Review – TAMS', December 2008.

¹⁸ Recommendation 17, 'Strategic Budget Review – TAMS' by Ernst & Young, December 2008, page 20.

measure a department's effectiveness and efficiency in delivering its outputs. Audit considers this sound guidance can be applied in most circumstances.

- 3.27 Audit acknowledges that on some occasions, an indicator such as timeliness of response can both measure efficiency of delivering outputs and, where speed of response is critical to service, be an indicator of outcomes. Nevertheless, for clarity of reporting, departments should seek to avoid overlaps between accountability and strategic indicators.

REVIEW OF QUALITY OF PERFORMANCE MEASURES

- 3.28 Frequency and thoroughness of review of performance measures are factors that are likely to contribute to improvement in their accuracy, relevance and usefulness. Audit considered the processes for such review used in departments.
- 3.29 All departments audited had processes to review their accountability and strategic indicators as part of the preparation of the annual budget. These included distribution of information on previous measures to relevant senior managers, seeking proposed revisions, and review by the chief executive.
- 3.30 ACT Health adopted a good practice of providing individual briefings to line areas by staff familiar with the performance measurement framework. The Chief Executive of TAMS reviewed the set of measures to provide top-down direction before calling for bottom-up input from line areas.

USE OF PERFORMANCE MEASURES

- 3.31 Audit considered the use of performance measures in agencies in the following ways:
- consideration of performance measures in senior management meetings and periodic briefings to the chief executive or similar process;
 - reference in the text of the Annual Reports; and
 - use of performance measures or related information to make decisions at the operational level.

Managing performance against results of performance indicators

- 3.32 Performance monitoring is about ensuring that an organisation performs as well as possible in meeting its policy and operational objectives.
- 3.33 A well governed agency will have a structured and regular system of performance monitoring in place. Audit considered whether performance measures were discussed by senior executives in regular meetings or briefings, on the grounds that such consideration and oversight was likely to ensure that corrective actions taken as required to achieve the desirable targets.
- 3.34 In addition to the annual budget review process, some agencies had processes that lead to executives and chief executives being briefed about performance against performance measures. These processes can include regular briefing (varying from weekly to quarterly) at both local (Branch or Divisions) and whole of

department level. Senior executives will review performance measures when they are reported in Annual Reports, but this alone does not mean that measures are being regularly reviewed and acted on at the senior executive level.

- 3.35 CMD included its accountability indicators within the larger number of 'Divisional Priorities/Key Projects' that were reported on each quarter in reports to the Chief Executive. CMD divisions self-assess progress as being satisfactory or otherwise, using a system of 'on track', 'emerging risk' and 'major risk'. Reporting is by exception, so that if the status is not 'on track' further information is to be provided.
- 3.36 ACT Health had a good system, where monthly Divisional Finance and Performance meetings discussed performance against accountability indicators. Results from this review were incorporated into the overall ACT Health Finance and Performance meeting.
- 3.37 DET has a comprehensive approach to collecting and using data. It has established a Measuring, Monitoring and Reporting Branch responsible for these activities within the Schools area. Audit reviewed the agenda items considered by the Senior Executive Team (SET) for the financial year 2008-09 and found there was no specific item referring to performance measures, apart from the SET noting the presentation of the National Assessment Program – Literacy and Numeracy (NAPLAN) results (which are the basis for much of DET's performance reporting).
- 3.38 Audit was informed that results would be considered by areas such as Curriculum, for example to improve indigenous schooling, and would be considered by Pedagogy and Human Resources to consider whether class sizes should be adjusted.
- 3.39 In the other agencies reviewed, there was little evidence of monitoring of performance measures by senior executives. Part of the reason for this may have been that performance measures were not as closely connected as they could be to departmental plans. In the case of measures that are only collected once per year, there is little scope for continual review by the executives.

Use in operational decision-making

- 3.40 Consistent with the audit findings in performance monitoring by agencies against the performance indicators, Audit found that the use of the performance measures for decision making varied considerably across agencies.
- 3.41 For example, some ACT Health indicators based on waiting times were used in order to manage the waiting lists on a frequent basis – sometimes as often as weekly.
- 3.42 On the other hand, the DET set of indicators on student performance were only collected yearly. They were based on a comprehensive data set that could be broken down to school level, and were used to assist school management.

- 3.43 There was evidence of the use of performance information at school levels in DET. For example, the NAPLAN results referred to above are distributed to schools for their action. In particular, they are built into 'Accountability and performance sheets', which are used for school board reports to the community.
- 3.44 An earlier section of this report discussed the link with strategic plans. Where the linkage of performance indicators with the strategic and business plans is well established, the regular monitoring of strategic plans leads to these indicators being monitored.
- 3.45 In some departments, however, there is little connection between the accountability indicators and operational use. In these cases, many accountability indicators were not reflected in the priorities of relevant business areas. This reflects the view expressed in some business areas that accountability measures are only for accountability or compliance purposes, and are of little use in the day-to-day running of the department.
- 3.46 Some departments, such as ACT Health, took steps to monitor performance measures and report against findings by the Estimates Committee. The Committee had noted that the ACT per patient costs were the highest in Australia. ACT Health set a target to come within 10 per cent of the benchmark within the next five years, and this was reported as achieved in 2008-09.

CONCLUSION

- 3.47 In only some agencies were indicators regularly reviewed at the senior executive level. The reasons for the lack of review are likely to be related to the lack of relevance of the performance measures to the agency's main businesses. Agencies without a regular review of performance indicators are likely to miss the opportunity to use the reported results to improve their performance.
- 3.48 Where the performance indicators are not relevant to their day to day business performance, agencies should take actions to improve the linkage between performance measures and strategic and business plans.
- 3.49 Some agencies used performance indicators appropriately to assist their operational performance. Certain better practices used in some departments, for example, in ACT Health in reviewing and improve performance indicators should be applied more widely and consistently across all government agencies.

Recommendation 3

Departments should seek to integrate the performance indicators with the decision making process to:

- a use the performance information to inform decisions about the department activities;
- b regularly assess whether key organisational objectives are being met; and
- c take timely action as appropriate to meet performance targets and business objectives.

4. QUALITY OF PERFORMANCE MEASUREMENTS

INTRODUCTION

4.1 Audit assessed the quality of accountability indicators according to the minimum set of good practice factors, namely:

- clearly stated;
- linked to agency operations and objectives;
- valid - bias free, independently verifiable and not susceptible to providing perverse incentives;
- quantifiable and measurable, or at least independently assessable; and
- specific - measures of one aspect of performance.

KEY FINDINGS

- The quality of performance indicators varied significantly between agencies.
- In CMD, many performance indicators referred to the conduct of an activity, but not to achievement of practical targets. Only 22 per cent of CMD accountability indicators were assessed by Audit as useful. This partly reflects the difficulty of policy oriented departments to develop meaningful performance measures.
- Most indicators of the line departments (TAMS, DET and ACT Health) were assessed as clear and useful.
- With the exception of TAMS, most strategic indicators were reasonably stable, and have enabled comparison of performance over time.
- Some strategic indicators need improvement as they are poorly defined, or were merely descriptions of activities or strategies rather than outcome-based and long-term focussed.

QUALITY OF ACCOUNTABILITY INDICATORS

4.2 Audit found the quality of accountability indicators varied significantly. Many indicators produced by the line departments audited (TAMS, DET and ACT Health) were clear and useful, but CMD as a policy-oriented department had more difficulty in producing useful indicators.

4.3 Overall results for understandability and usefulness are presented in Table 4.1.

Table 4.1 Clarity and usefulness of accountability indicators

Department	No. of measures	Clear (easy to understand)		Useful	
		No.	%	No.	%
CMD	36	14	39	8	22
DET	43	42	98	42	98
TAMS	77	71	92	67	87
ACT Health	38	37	97	37	97

Source: Audit Office

4.4 For CMD, Audit reviewed each of the 36 accountability indicators reported, and of these, assessed that only 14 were readily understandable. Of the others, there were 20 where the performance measure did not give adequate information due to the use of vague words such as ‘progress’, ‘deliver’ or ‘support’, without defining success criteria; for example, Indicator 1.1c, ‘Progress (in partnership with the Australian National University) the development of key sites in the City West Precinct.’

4.5 Four of these 20 CMD measures combined multiple activities into a single measure. For example, Indicator 1.2a, ‘Deliver improved policy, legislative and advisory framework for the public sector employment.’ The explanation of this indicator listed a number of activities linked to this indicator. It may have been better to focus on the major output from this process and to develop an indicator or indicators to describe how well the output was produced.

4.6 Similarly, some indicators provided evidence of workload, but not of achievement of practical targets. For example, one indicator related to the number of COAG meetings facilitated. The result was less than the target, but this was due to a political decision not to hold the meeting, not due to any fall in productivity by CMD.

4.7 Many of the accountability indicators used by CMD are assessed as not being useful as they refer only to the conduct of an activity. CMD’s performance indicator table then showed target: ‘1’; result: ‘1’; variance: ‘0’, where the numbers refer to the existence of the activity and did not give much information about performance. This is of little value to the reader, as it gives little information on the quality or timeliness of the activity.

4.8 Another example, indicator 1.1a, ‘Annual Report on achievements against Canberra Plan’, showed that the report was completed, but nothing on its usefulness or timeliness.

Recommendation 4

Chief Minister’s Department should improve the usefulness of its accountability indicators by adding appropriate targets, timeliness and quality measures.

- 4.9 For the line areas of DET, TAMS and ACT Health, it is easier to define measurable and relevant performance indicators. Nevertheless, there was scope for improvement in these agencies. For example, there were instances of agencies only reporting the completion of an activity, failing to define the nature of the activity in terms understandable by the general reader and lack of obvious relevance to the performance of the output class.
- 4.10 Of the 77 accountability indicators for TAMS, Audit assessed that most were understandable and generally useful.
- 4.11 Examples of TAMS indicators that need improved clarity are shown in Table 4.2.

Table 4.2 Assessment of clarity of TAMS indicators

Output class	Description	Audit comment
1.1	Average cost per transaction for web transaction	This is unclear because the detail refers to the number of visits, which is not necessarily the same as the number of transactions.
1.2	Percentage down time of fixed speed cameras	This is unclear because the detail refers to the fact that some periods of time for which the cameras are not operational are not counted as down time.
1.4	Implement tree watering system Implement hazardous tree program	Instead of using 'vague' word such as 'implement', the indicators could have been reworded to express the actual number being measured, e.g. number of trees involved compared to the program target. [TAMS removed these two indicators in the 2009-10 Budget Paper.] ¹⁹
2.2	Number of major events at Canberra Stadium, Manuka Oval & Stromlo Forest Park	There is no indication of what makes an event 'major'.

Source: Audit Office

¹⁹ TAMS 2009-10 Budget Paper No. 4, page 66.

4.12 Some TAMS indicators, while understandable, were assessed not to be useful. Examples of these indicators are outlined in Table 4.3.

Table 4.3 Usefulness of TAMS indicators

Output class	Description	Audit comment
1.4	<ul style="list-style-type: none"> Implement required action from the annual bushfire operation plans Implement identified activities arising from Action Plans for Threatened Species. 	The stated result of 'incomplete' does not give enough information on how incomplete. Percentage figures were given in the explanations, and could have been built in to the indicator itself. [TAMS removed these two indicators in the 2009-10 Budget Paper]. ²⁰
1.6	<ul style="list-style-type: none"> Value of funding to community sport and recreation and national leagues organisations Value of performance agreements provided for delivery of ARU/NRL/AFL games in Canberra. 	For both of these indicators, the amount of funding is a government decision and does not indicate the quality or effectiveness of administration.

Source: Audit Office

4.13 Of the 38 accountability indicators for ACT Health, Audit assessed that all but one, were understandable and useful.

4.14 ACT Health can further improve some of its indicators by more accurate description of the indicators themselves, rather than relying on the 'notes' for information.

4.15 All except one of DET's accountability indicators were assessed as understandable and useful. The Department uses information on student performance from NAPLAN to produce Accountability Indicators relating to Output Class 1, Public School Education. These indicators reported the proportion of public school students scoring above the national minimum standard. Other Output Class 1 indicators refer to completing secondary education, satisfaction rates and cost per student.

4.16 The only DET accountability indicator assessed as not understandable (and therefore not useful) was:

- *3b. Total reported number of training commencements under available programs.* This indicator could be improved by describing what 'available programs' means.

²⁰ TAMS 2009-10 Budget Paper No. 4, page 66.

Conclusion

- 4.17 Most of the accountability indicators from line areas met the minimum set of criteria described in paragraph 4.1. However, there are still opportunities to improve measures by linking them more directly to the key activities that are undertaken by departments and the success criteria for achievement of their objectives.
- 4.18 CMD, as a policy-oriented department, has difficulty in defining suitable performance measures, as both quantity and quality are harder to define. Timeliness is often a key element of quality in both projects and in policy advice, and performance indicators could make greater use of this. Quality can also be assessed through customer feedback, including line agencies and possibly Ministers.

QUALITY OF STRATEGIC INDICATORS

- 4.19 Treasury guidance, consistent with good practice, indicates that strategic measures should be ‘a meaningful measure’ and should be outcome-related. Strategic indicators should be:
- clearly stated;
 - outcomes-based;
 - testable; and
 - long-term.
- 4.20 Strategic indicators are no longer subject to annual audit, and there are currently limited reviews of the way they are constructed and reported. Audit found that strategic performance indicators vary widely in their quality and style of presentation. The number of strategic indicators varied in the four departments sampled from two in DET to 23 in ACT Health, and the style of presentation included textual statements, specific numerical results, graphical presentations and sets of graphs contributing to the same indicator. Some came with targets, others did not.
- 4.21 Some reported strategic indicators are poorly stated and they only report an activity or a set of activities occurred. A strategic indicator should refer to a result, not describe a process. Many of CMD’s strategic indicators do not measure performance. Instead, they simply report that an activity or set of activities occurred and use terms such as ‘building ...’, ‘supporting ...’, ‘improve ...’ etc. This is often repeated in the detail provided under each strategic measure, which tends to present activities, e.g. ‘commissioning ...’, ‘working with ...’ rather than results.
- 4.22 ACT Health had 23 strategic performance measures. Many are strongly influenced by departmental actions, such as quality of and access to health care. Others are less within the control of ACT Health, as they relate to overall health outcomes, such as life expectancy and prevalence of specific conditions. A third category indicates the extent to which the population is involved in health improvement measures, such as reduction of smoking and undertaking breast

screens. Finally, there were some process indicators, such as maintaining consumer participation and increasing the rate of discharge planning.

- 4.23 Although Audit considers that there is a case for each of these to be retained by ACT Health as they all give useful information about health outcomes to some extent, some are more strategic than others. For example, the rate of discharge planning is a process that should help health outcomes that may be measured elsewhere.
- 4.24 TAMS reported on six strategic measures for 2008-09. Of these, three were new for that year, and three of the 2007-08 strategic indicators were dropped, showing a substantial turnover of over 40%. In addition, one strategic measure was transferred during the year as it now referred to the Department of the Environment, Climate Change, Energy and Water activities. For 2009-10, one further indicator was dropped, leaving a total of five.
- 4.25 TAMS should improve the clarity of a number of its strategic indicators. Examples of TAMS indicators are listed in Table 4.4.

Table 4.4 Assessment of the clarity of TAMS strategic indicators

Strategic indicator	Audit comment
Reduction in waste going to landfill and increase in material recovered from the waste stream	The presentation is by a graph from which it is difficult to assess the result, due to the scale and the lack of numerical information. The result presented in the Annual Report does not include the target in the budget papers. It is not satisfactory that a reader can only tell that the target has been met by referring to a separate document.
Percentage of Business Units with asset management plans developed and implemented	This indicator is not understandable in that the reader may not know what is in these plans, the consequence of their existence, or whether all Business Units have such plans.

Source: Audit Office

- 4.26 Some strategic performance indicators in audited departments report on achievements, albeit in a provisional sense. It is accepted that strategic measures, because of their long time lags, will sometimes need to be provisional, e.g.

The Department has achieved [specific output]... which is likely to lead to the achievement of [outcome related to the strategic objective].
- 4.27 Many, but not all, strategic indicators reviewed were assessed as outcomes-based, i.e. related to an impact on the ACT community. Some indicators are at a different level of outcome; for example ACT Health had both life expectancy and rate of discharge planning as strategic indicators. Audit notes that both are connected with health outcomes, and ‘life expectancy’ is at a higher level of outcome.
- 4.28 As for all indicators, there should be a means of comparing results or progress – comparison either with a benchmark, or with previous results. Many, but not all, strategic indicators included such comparisons.

4.29 Most departments' strategic indicators have been reasonably stable. This is an advantage in considering long-term comparisons. However, Audit agreed that indicators that are not useful need to be amended or dropped.

CONCLUSION

4.30 Strategic indicators vary widely in their quality, although most are clearly stated, outcomes-based, long-term and can be comparable with previous results or a benchmark.

Recommendation 5

Departments should establish strategic indicators in line with Treasury's guidelines, linking the strategic indicators to outcomes, and not merely describing activities.

5. PERFORMANCE REPORTING BY STATUTORY AUTHORITIES

INTRODUCTION

5.1 This Chapter examines the quality of the Statements of Intent of selected statutory authorities, and the performance measures contained in them. This Chapter also includes audit findings on the review of the Statements of Performance, conducted as part of the financial audit process.

KEY FINDINGS

- The statutory authorities reviewed did not establish a clear link from their legislation to corporate objectives and then to performance measures in their Statements of Intent.
- Performance measures of the statutory authorities often did not cover sufficiently the full range of their legislative functions, and have considerable scope for improvement.
- Many performance indicators related to basic activity, workload or descriptions of projects, without additional information on how well the statutory authorities have discharged their legislative functions.
- The low quality of Statements of Intent of some statutory authorities can lead to inadequate performance reporting. This can undermine the purpose of these Statements as a key accountability mechanism to the Assembly.

QUALITY OF STATUTORY AUTHORITY PERFORMANCE MEASURES

5.2 Statements of Intent (SoI) are prepared by each statutory authority, signed by the responsible person (usually the Chair or Chief Executive Officer) and agreed to by the Treasurer. The SoI must include, among other things,

- a statement of the objectives of the authority for the year, and each of the next three financial years;
- a statement of the nature and scope of the activities to be carried out by the authority during the year, and each of the next three financial years;
- the performance criteria and other measures by which the performance of the authority may be assessed against its objectives for the year, and each of the next three financial years; and
- an assessment of the performance (or estimated performance) of the authority in the previous financial year against its objectives for that year'.²¹

5.3 Statements of Performance (SoP) are reported after the end of each financial year. Each authority's SoP must assess the performance by reference to the

²¹ *Financial Management Act 1996*, paragraph 61(5).

performance criteria and other measures included in the Statement of Intent.²² In particular, Section 68(3) of the *Financial Management Act 1996* requires an authority's statement of performance to:

- compare the performance of the territory authority in providing each class of its outputs with the forecast of the performance in the authority's budget for the year; and
- to give particulars of the extent to which the performance criteria set out in the budget for the provision of the outputs were met.

5.4 Better practice involves a clear statement from the objectives of the organisation, through longer term strategic direction, to shorter term priorities. Performance measures can assist by providing feedback to the Board and other stakeholders on progress against these priorities and objectives.

Relation between legislative functions, strategies and performance measures

5.5 The statutory authorities reviewed did not establish a clear connection from the legislated functions, to objectives and strategies set out in the Statements of Intent and then to the reported performance indicators.

5.6 As a result, the performance indicators often did not reflect the objectives the authorities were trying to measure.

5.7 The authorities reviewed have three sets of objectives listed in their Statements of Intent, leading to lack of clarity and consistency. There is no straight forward connection between the legislative functions and the three versions of the objectives; some functions related to several objectives, and some objectives connect to more than one function.

5.8 During the audit, Audit had to reconstruct much information provided in the SoI to be able to present connections between the legislative functions, corporate objectives, strategies and performance measures, supported by sets of Key Performance Indicators (KPIs).

5.9 Business strategies can form a good basis for the development of performance measures. In other words, performance measures should be able to give information on how these strategies are being carried out to achieve certain objectives.

Exhibition Park Corporation

5.10 In the SoI of the Exhibition Park Corporation (EPC), all strategies were addressed, at least partially, in the list of performance measures. However, the performance measures themselves need improvement.

5.11 In its 2008-09 Statement of performance, the Corporation presented four 'Statement of Intent Performance Measures' – one for each objective. These

²² *Financial Management Act 1996*, paragraph 68.

‘measures’ are actually of the nature of approaches, strategies or goals rather than measures as there was no clear way of measuring any result against them.

5.12 However, the Corporation also presented 17 ‘Key Performance Indicators’ which were more assessable and can be verified. Of these 17 indicators, Audit assessed that 12 were understandable. The five exceptions all related to indicators describing the extent of capital works performed. For example, ‘Completion of upgrade of parking area and sealing of roadway’ does not define the nature of the upgrade or even which parking area and roadway is being upgraded.

5.13 Similar issues were raised during the 2008-09 financial statement audit process.²³ The Audit Office advised the Corporation of the following performance measures detailed in Table 5.1, which needed to be improved.

Table 5.1 Assessment of EPC’s performance measures

Performance measure	Audit comment
Upgrades to the Terrace Restaurant	This performance measure does not specify what the ‘upgrades’ mean or the planned performance in relation to the upgrades. The measure does not indicate how well this activity was to be performed.
Provision of indoor and outdoor furniture	The performance measure indicates the Corporation intended to provide indoor and outdoor furniture. It does not provide a clear indication of what was intended to be delivered or how well this activity was to be performed.
The creation of recycling and rubbish removal facilities	The performance measure is not clearly defined and it is unclear what was intended to be delivered.
Trade waste disposal modifications	The performance measure is not clearly defined to assess performance in relation to this project.

Source: Audit Office

ACT Insurance Authority

5.14 The ACT Insurance Authority (ACTIA) showed good practice in basing the objectives in its Statement of Intent closely on its legislative functions, but did not show a clear link from legislation to objectives to performance measures.

5.15 Of the ten performance measures of the ACTIA, Audit assessed that eight were clearly stated. However, improvements should be made to the indicators outlined in Table 5.2.

²³ ACT Auditor-General’s Report No. 8/2009 titled *2008-09 Financial Audits*, 2009, pages 86-88.

Table 5.2 ACTIA performance measures that need improvement

Performance measure	Audit comment
Review risk levies for agencies	The measure did not give adequate information and only reported the result of 'one review'. It is not clear what review was conducted, or the outcome of the review.
Work with selected agencies to minimise claim costs	The description is too general to provide information about the quality, usefulness or effectiveness of the activity. Counting the number of agencies worked with is of some value, but reporting on the outcome of the work (e.g. claims savings) may be more useful.

Source: Audit Office

5.16 The usefulness of seven of the ten performance indicators reported by ACTIA could also be improved. Table 5.3 outlines examples of performance indicators that need improvement.

Table 5.3 Assessment of the usefulness of ACTIA's indicators

Performance measure	Audit comment
Insurance invoices issued	The measure does not reflect ACTIA's key objective. A more meaningful indicator would be related to the degree the Authority has fulfilled its objective to be the insurer of the Territory's risks.
Quarterly review of claims	The measure described the activities, but did not reflect the result of the review.
Issue regular newsletter to clients	Use of, or feedback about, the newsletter may be more useful than the number of newsletters. Issuing a newsletter may not be of great significance overall. [ACTIA removed this measure in the 2009-10.]
Conduct an annual customer satisfaction survey	The measure refers only to the conduct of the activity without giving any further information on the quality or timeliness of the activity. It is more appropriate to report the result of the survey.
Placement of Authority's reinsurance program	Reporting that one program was placed is not very informative.

Source: Audit Office

Construction Long Service Leave and Cleaning Long Service Leave Authorities

5.17 By the passage of the *Long Service Leave (Portable Schemes) Act 2009*, the Construction Long Service Leave (LSL) and Cleaning Industry Long Service Leave Authorities (the LSL Authorities), were replaced by a new ACT Long Service Leave Authority (the new Authority) from January 2010. Audit assessed the performance measures reported by the LSL Authorities in 2008-09 and noted there was a high degree of confusion in the reporting of their performance. Audit considers that the audit findings and recommendations in this Report will be of benefit to the new Authority in forming its first combined Statement of Intent.

5.18 Of the eleven performance measures in each of the LSL Authorities, audit assessed that most were understandable, but were not always useful. Examples of performance indicators that need improvement are included in Table 5.4.

Table 5.4 Assessment of LSL Authorities’ performance indicators

Performance measure	Audit comment
Provide training to staff using the Authority’s IT system / Long Service Leave database	As a continuing process, the idea of reporting each year that an annual training program was completed seems unnecessary.
Ensure the legislative compliance checklist is reviewed at audit meetings	Reporting ‘1’ – presumably for one checklist reviewed - is not helpful. Reporting number of issues detected by the checklist would be more useful.
Conduct audit visits on registered employers as required	The Notes to the SoP stated that there was only one case where the employer failed to complete returns and therefore an audit visit was ‘required’. However, there were 34 audit visits overall, so the indicator does not capture full activity.
Board review of performance against budget	The measure recorded that there were five reviews by the Board. This measure represents a basic and ongoing activity of the Board that should be performed routinely as part of the management of the Authority. As a result, the measure does not directly measure the performance of the Authority in achieving its objectives.

Source: Audit Office

The way forward

- 5.19 Audit proposes that each audited statutory authority should simplify and clarify the linkage from legislated functions through to activities and priorities. Performance measures can then be used to assess how various areas of the Authority are performing.
- 5.20 The development of such performance linkage is up for the Authority to decide. The Authority could develop a three-level structure based on the consideration of:
- the overall organisational aim;
 - objectives; and
 - supporting activities.
- 5.21 The organisational aim would be a succinct statement of purpose, based on the legislation. The objectives would relate to the effective delivery of the main products or services (related to the legislative functions) by the Authority to its customers. Supporting activities are likely to relate to matters such as financial, human resource or information technology management that are required to provide for the efficient operation of the Authority.
- 5.22 It would be for the Authority to decide whether the organisational aim needs its own performance measure. Some agencies’ aims can be directly assessed, but others are too broad: in these cases, the overall performance measurement regime relies on measuring against the lower level objectives, which are often easier to assess.

- 5.23 Performance measures should include, if practicable, both a measure of the workload and measures of quality or success. The Authority should endeavour to choose performance measures that are meaningful and where achieving the target is likely to lead to overall success for the Authority.
- 5.24 Finally, the supporting activities, often those relating to corporate services activities, should be monitored as their success is linked to the overall success of the organisation, even though they may not necessarily be part of the public Statement of Performance.

CONCLUSION

- 5.25 For the audited statutory authorities, the link from the legislative mandate through to the performance measures was often inadequate.
- 5.26 Further, all authorities audited had different definitions of objectives in different places in the Statement of Intent. All these 'objectives' were broadly consistent with the purpose of the authority, but it would have been much simpler to maintain consistent definitions of corporate objectives.
- 5.27 Performance measures were not useful and were mainly related to activities, with little information to assess the achievement of the authorities against their legislative objectives, or whether their business was conducted in an efficient and effective manner.
- 5.28 Notwithstanding that the audited authorities have been in operation and well established for a number of years, their annual Statements of Intent, approved by the relevant Ministers and tabled in the Legislative Assembly, and their Statements of Performance, need much improvement. More attention should be given by the responsible parties to the preparation of a sound Statement of Intent which is a key accountability document of these authorities to the Legislative Assembly and the community.

Recommendation 6

Each statutory authority should:

- a. comprehensively review the performance measures included in its Statement of Intent. This review should ensure that:
 - all objectives are expressed consistently and reflect the legislative functions;
 - the selected performance measures address all of the main objectives of the authority as stated in its Statement of Intent; and
 - the performance measures provide a meaningful indication of how well the authority's planned activities have been performed.
- b. ensure that its Statement of Performance includes sufficient information to enable readers to understand the performance measure, the result being reported and, where appropriate, how it is measured.

6. ANNUAL REPORTS

INTRODUCTION

6.1 Performance reporting occurs not only in the formally defined accountability and strategic indicators, but through key accountability documents such as agencies' Annual Reports. It is not practicable to review the entire contents of Annual Reports of audited agencies for their accuracy and completeness, therefore Audit limited its consideration to the following aspects:

- accuracy of Annual Reports – Audit tested a sample of statements from Annual Reports to determine whether there was evidence to support them;
- completeness of Annual Reports - Audit conducted a limited assessment of completeness based on the coverage of major Departmental activities; and
- reporting on ecologically sustainable development - This element was included because it was a component that had been raised in previous audits as requiring improvements.

KEY FINDINGS

- Annual Reports reviewed were generally accurate and reasonably complete.
- Annual Reports, with few exceptions, generally addressed the commitments and undertakings reported in the preceding year.
- Reporting requirements for Ecologically Sustainable Development (ESD) are complex and unclear.
- Although all agencies audited provided relevant ESD information, the extent of full compliance with ESD reporting requirements remains low.

ACCURACY OF ANNUAL REPORTS

6.2 Each agency tested had reasonable processes to prepare and quality test its 2007-08 Annual Report. All of the sample statements selected for review were assessed as accurate. The accuracy of the 2008-09 Annual Reports, which become available toward the end of the Audit, was not re-tested.

COMPLETENESS OF ANNUAL REPORTS

6.3 However, Audit conducted the following limited tests:

- a review of whether commitments in the 2007-08 Annual Report were addressed in the 2008-09 Annual Report;
- a review of whether topics considered as significant enough to be the basis of performance indicators were also raised in the text of the Annual Reports;
- a review of whether all significant organisational elements of the agency were mentioned in the Annual Reports; and

- a review of whether all strategic indicators were included in the Annual Reports.

Addressing previously mentioned commitments

6.4 Audit searched the text of 2007-08 Annual Reports for forward commitments (i.e. statements in the report such as 'in 2008-09 the Department will ...'). Where these were identified as actions planned for 2008-09, the 2008-09 Annual Report was searched for whether the issue was reported. Results of this search are summarised in Table 6.1.

Table 6.1 Addressing commitments in previous Annual Reports

Agency	Commitments made in 2007-08	Issues addressed in 2008-09	Percentage of issues addressed in 2008-09
CMD	13	13	100
DET	26	23	88
ACT Health	23	21	91
TAMS	33	30	91

Source: Audit Office based on agencies' Annual Reports

6.5 Almost all issues identified by audited agencies as ongoing in the 2007-08 reports were mentioned in the respective 2008-09 report.

6.6 Audit acknowledged that there may be reasonable explanations for the omission of previous commitments in subsequent Annual Reports. For example, there may have been a different view from the agency or the Government on the significance of the issue in the subsequent year. However, Audit considers, for all instances where a department undertakes to conduct significant activities in one Annual Report, they should be addressed in the subsequent Annual Report. If the activities are not reported, there is a risk that non-completion of such undertakings will go unnoticed. This approach would enhance accountability to the Legislative Assembly.

Recommendation 8

Agencies should report in subsequent years on the outcomes of significant activities for which undertakings were made in the previous Annual Report.

Addressing performance indicators in the text of the Annual Report

6.7 Audit found that all strategic indicators were reported in the Annual Reports of all agencies reviewed, as required by Annual Reports Directions (the Directions).²⁴

²⁴ Chief Minister's 2007-10 Annual Report Directions issued under the *Annual Reports (Government Agencies) Act 2004*.

- 6.8 Accountability indicators are presented in each agency's Statement of Performance included as part of the Annual Report, as a minimum compliance to Annual Report Directions. Agencies are not required to further discuss the indicators. Audit considered that if an issue was significant enough to be represented by an accountability indicator, it should be significant enough to be discussed more comprehensively in the text of Annual Reports.
- 6.9 Most departments included further discussions about their accountability performance indicators in the Annual Report. CMD adopted the approach of structuring the 'analysis of agency performance' section of the Annual Report, using the accountability indicators as headings – thus ensuring coverage of all accountability indicators.
- 6.10 Audit notes that there are two possible reasons for an issue covered by an indicator not being addressed in the text of an Annual Report :
- the Annual Report may not be complete; or
 - the indicator is not as relevant as it should be.
- 6.11 Audit considers that it is better practice for the agency to discuss matters covered by accountability and strategic performance indicators in Annual Reports.

Addressing all significant parts of the agency

- 6.12 For each agency reviewed, all significant parts of the agency were covered in the respective Annual Report.

REPORTING ON ECOLOGICALLY SUSTAINABLE DEVELOPMENT

- 6.13 Audit considered the completeness of reporting on Ecologically Sustainable Development (ESD) by assessing whether the contents of the Annual Report comply with the requirements set out in the Annual Report Directions.
- 6.14 In making this assessment, Audit only considered whether the information was provided in the Annual Report and did not investigate the accuracy of the reported information, or the evidence to support the information presented.
- 6.15 Requirements for reporting on ESD are laid out in Section C21 of the Annual Report Directions. These require reporting on a total of 29 indicators, or 22 if agencies do not have non-office use of resources. Of these 29 indicators, eight were new for the 2008-09 reporting year.
- 6.16 Attached to section C21 was a table that provided agencies with the preferred format for presenting the required information. The table requires the provision of 52 data elements (or 45 if there is no non-office energy use). Some of these data elements were to be used as input to calculating the ESD indicators described in the instructions. This indicates the complexity of the ESD reporting requirement.

ESD Guidance

- 6.17 Completion of the ESD reporting requirements is made more difficult due to the discrepancies between the information required in the table and the information required in the text of the Annual Reports Directions. For example:
- the text requires agencies to report on ‘electricity use – megajoules / person per annum’. However, the table does not specifically ask for this number, but asks for electricity use and staffing separately, so readers need to calculate the data per person;
 - the text requires agencies to report on ‘total recycled content paper used by percentage of recycled content (A4 equivalent sheets)’. However, this is not in the table; and
 - the table requires information on ‘renewable energy use (Greenpower)’ which is not in the text.

Completeness of reporting

- 6.18 No department provided all the required information. Although Audit assessed the data as providing useful information on ESD, in no case did it fully meet the Direction’s disclosure requirement. For example, many agencies did not report on the use of recycle papers as required.
- 6.19 Completeness of responses to the data elements required for the years 2007-08 and 2008-09 are listed in Table 6.2.

Table 6.2 Completeness of ESD reporting

Agency	Number of ESD indicators required		Number of ESD indicators supplied		Percentage of ESD indicators reported	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
CMD	14	22	13	17	93	77
DET	21	29	5	8	24	28
ACT Health	21	29	14	15	67	52
TAMS	21	29	5	16	24	55
Average (%)					52	53

Source: Audit Office based on agencies’ Annual Reports

6.20 Lack of complete reporting was mostly because the table provided with the Directions was inadequate. If departments only provide the information required in the table, 12 out of 29 indicators would not fully meet the Directions’ requirements.

6.21 For example, one of the requirements in the Directions is:

Agencies are required to report quantitative data for their office energy use against the following indicators:

< electricity use – megajoules /person per annum – number of FTE staff

Agencies did report similar information – for example, ACT Health separately reported the following items:

- electricity use (office);
- occupancy - office staff; and
- energy intensity per person.

Comparison of 2007-08 and 2008-09 ESD reports

6.22 Generally, the departments provided more ESD data and information in the 2008-09 Annual Reports, partly due to the increased requirements for reporting. However, as shown in Table 6.2 above, the average percentage of indicators provided across audited agencies compared to indicators requested increased only slightly in 2008-09 compared to previous year.

Use of standard format

6.23 Only one out of four departments used the Annual Report Directions recommended format in the 2008-09 Annual Reports. It is then harder for readers or users to compare department's ESD reporting.

CONCLUSION

6.24 Reporting on ecologically sustainable development is complex, and departments reviewed did not fully comply with the requirement. Audit notes that the data provided by departments is providing useful information on their resource usage.

6.25 The number of indicators that departments are required to report, some 29 in all, is only slightly less than the number of accountability indicators for the whole department (median of the four departments audited is 41). For some smaller agencies, the number of ESD indicators far exceed the total number of other indicators.

6.26 In these circumstances, it may be appropriate to first reconsider the reporting requirement to ensure that it represents an efficient use of resources in meeting the need for effective reporting on ecologically sustainable development. It is also important to consider whether departments make use of these indicators in their decision making process. On a limited review, Audit observed that there is little evidence that agencies use these ESD indicators.

6.27 Currently, there was no target for these ESD indicators. Where practical, the required indicators should be expressed with an achievable target over a timeframe.

Recommendation 8

- a. The Chief Minister's Department should, in consultation with other agencies, seek to establish a simple and cost-effective set of performance measures and targets for ecologically sustainable development (ESD).
- b. The Chief Minister's Department should improve consistency in the guidance on completing the ESD section of the Annual Report.
- c. All agencies should complete the ESD section of their Annual Report in the format recommended by the Annual Report guidelines. This will ensure better consistency and comparison across government agencies.
- d. Relevant agencies should include discussions on how they use the ESD indicators in implementing government sustainability policies and objectives.

APPENDIX A: AUDIT CRITERIA, APPROACH AND METHODOLOGY

AUDIT CRITERIA

Audit assesses the performance reporting by agencies (the audited agencies are listed in Chapter 1), based on the following criteria:

1. Accountability performance measures are relevant and appropriate
 - accountability performance measures are used within agencies to assess organisational performance;
 - the agency has assured itself that the performance measures adequately describe the agency's performance; and
 - performance measures are, to the extent practicable, reliable, objective, and easily understood.
2. There is evidence to support performance information provided in Annual Reports
 - each agency has established systems to ensure that statements in the Annual Report are supported by evidence; and
 - sufficient evidence for statements in Annual Reports is collected and retained.
3. The Agency has complied with Annual Report Directions on Ecologically Sustainable Development.
4. The Agency does not omit significant issues from its Annual Report.
5. Statements of Intent of selected statutory authorities are clear, and performance information is adequate to determine whether the targets have been met.

AUDIT APPROACH AND METHODOLOGY

For this audit, much of the information is in the public domain such as budget papers and Annual Reports. Therefore, there was less need to conduct on-site fieldwork. The audit approach and methodology consisted of:

- considering previous audits and reviews in the ACT and other jurisdictions with the intention of finding better practices;
- identifying guidance provided to agencies on the definition of and reporting against performance measures;
- reviewing budget statements, Statements of Intent, Statements of Performance and Annual Reports of agencies included in the sample;
- conducting interviews with agency staff, and reviewing of documents held by agencies; and
- preparing issues papers for discussion with each agency.

This audit commenced in late 2008 and was originally intended to focus on the 2007-08 reporting period. Due to the unavailability of staff, the audit was suspended, and when recommenced in late 2009, it was decided to refocus it on the 2008-09 reporting period. Nevertheless, some results for 2007-08 are relevant and were used in this report.

APPENDIX B: BETTER PRACTICE ON PERFORMANCE MEASUREMENT

INTRODUCTION

This appendix discusses a number of sources of better practice information on performance measurement frameworks, and on individual performance measures.

WHAT MAKES A GOOD PERFORMANCE MEASUREMENT SYSTEM?

Purposes of performance measurement

Agencies should clearly define the purposes of their performance measurement systems. Performance measures can have several different functions. Broadly speaking, these functions are accountability and performance improvement.

Performance measurement should provide information that can be used to influence decisions about activities. There are basically two types of action that can be taken: to vary resources for the activity (up or down); or to change the way of doing business to improve efficiency or effectiveness. A performance measure can also provide assurance that activities are proceeding as planned, i.e. that no change is required.

Performance information is only useful if there is a clear objective set for each activity or output.

The Productivity Commission stated that:

Performance measurement can:

- help clarify government objectives and responsibilities;
- promote analysis of the relationships between agencies and between programs, allowing governments to coordinate policy within and across agencies;
- make performance more transparent, allowing assessment of whether program objectives are being met;
- provide governments with indicators of their performance over time;
- inform the wider community about government service performance; and
- encourage ongoing performance improvement.²⁵

Characteristics of a good performance management system

The ideal performance management system, according to an Australian National University (ANU) monograph, has the following characteristics, namely, it:

- has clearly defined purposes and use;
- focuses on outcomes, not just on inputs and outputs;

²⁵ Productivity Commission, *Report on Government Services 2009*, p.1.4

Better practice on performance measurement

- employs a limited, cost effective set of measures;
- uses measures which are valid, reliable, consistent, comparable and controllable;
- produces information which is relevant, meaningful, balanced and valued by the leaders/funders of the organisation;
- is integrated with the planning and budgetary processes; and
- is embedded in the organisation, is stable and is widely understood and supported.²⁶

The Australian National Audit Office (ANAO) derived a similar set of characteristics, noting that features of a good performance reporting framework were to:

- specify desired outcomes (including any intermediate outcomes):
 - address any shared outcomes and provide information on the agency's contribution; and
 - identify the contributing departmental outputs and administered items (usually programmes), and assess their contribution to the outcome(s).
- identify measurable performance indicators for effectiveness at the outcome level, and, at the departmental output and administered item programme level:
 - use valid, accurate and reliable measures and maintain information on methodology and sources;
 - establish links between financial and non-financial performance information and assess the efficiency and cost effectiveness of the agency; and
 - use researched and realistic targets, standards and bases for comparison including multi-year targets where necessary.²⁷

Central agencies in the United Kingdom generated a similar list of attributes for a system of performance information, using the mnemonic FABRIC:

- focused on the organisation's aims and objectives;
- appropriate to and useful for, the stakeholders who are likely to use it;
- balanced, giving a picture of what the organisation is doing, covering all significant areas of work;
- robust, in order to withstand organisational changes or individuals leaving;
- integrated into the organisation, being part of the business planning and management processes; and
- cost effective, balancing the benefits of the information against the costs.²⁸

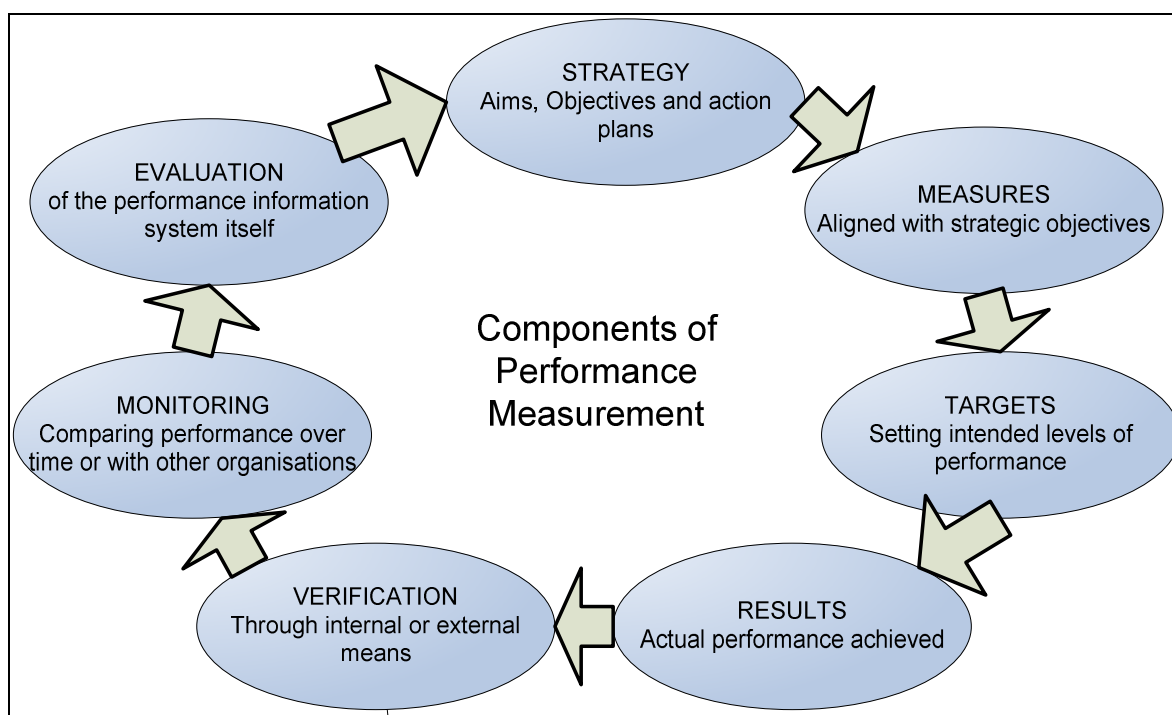
²⁶ Thomas, P.G. *Performance Measurement, Reporting, Obstacles and Accountability – Recent Trends and Future Directions*, Chapter 5, <http://epress.anu.edu.au/anzsog/performance/pdf/performance-whole.pdf>, 2009.

²⁷ Australian National Audit Office, *Better Practice in Annual Performance Reporting*, 2004. p. 8

²⁸ HM Treasury, Cabinet Office, National Audit Office, Audit Commission, Office for National Statistics. *Choosing the right FABRIC: A Framework for Performance Information*, 2001, p.11.

A performance measurement system needs to have a set of activities that starts with the identification of the organisation's strategy, as indicated in Figure 1.

Figure 1: Components of the performance measurement system



Source: HM Treasury, Cabinet Office, National Audit Office, Audit Commission, Office for National Statistics. *Choosing the right FABRIC: A Framework for Performance Information*, 2001, p.23

Conclusion

Based on the above characteristics, Audit considers that a good performance measurement system will:

- have clear purposes – focusing on organisational aims;
- be integrated with planning, budgeting and operations;
- provide information on outcomes, outputs and processes;
- be widely supported and stable; and
- be cost-effective – balancing usefulness with costs of collecting information and reporting results.

WHAT MAKES GOOD PERFORMANCE MEASURES?

Characteristics of good performance measures

A conventional mnemonic for performance measures is that they should be SMART: Specific, Measurable, Achievable, Relevant and Timed. The United Kingdom document referred to above also listed criteria for individual performance measures. They should be:

- relevant to what the organisation is aiming to achieve;
- able to avoid perverse incentives – not encourage unwanted or wasteful behaviour;
- attributable – the activity measured must be capable of being influenced by actions that can be attributed to the organisation, and it should be clear where accountability lies;
- well-defined – with a clear, unambiguous definition so data will be collected consistently, and the measure is easy to understand and use;
- timely, producing data frequently enough to track progress, and quickly enough for the data to be still useful;
- reliable – accurate enough for its intended use, and responsive to change;
- comparable with either past periods or similar programs elsewhere; and
- verifiable, with clear documentation behind it, so the processes that produce the measure can be validated.²⁹

The Productivity Commission also developed criteria for performance indicators:

- significance and relevance;
- comparability over time;
- data availability and cost;
- acceptability and ease of interpretation;
- timeliness; and
- robustness.³⁰

At each of the levels of inputs, processes, outputs and outcomes, there may be key performance measures that will provide relevant information to program managers and stakeholders that help to describe how the program is working.

Comprehensiveness of accountability indicators

There is no simple answer to how many performance measures to collect and report. Agencies will normally collect and use for their internal purposes, a higher number of

²⁹ HM Treasury, Cabinet Office, National Audit Office, Audit Commission, Office for National Statistics. *Choosing the right FABRIC: A Framework for Performance Information*, 2001, p.17

³⁰ The Allen Consulting Group, *Performance and Accountability in the ACT*, 2009, p 47

performance measures than are reported publicly. Reported performance measures should be a subset, or a summary of, the more comprehensive measures reported internally. The ANAO recommended:

[Ensuring strong links between internal and external reporting] ... involves using the same basic indicators and measures for internal and external use. For internal reporting, the measures would usually be more detailed, or disaggregated, for ongoing management purposes, but should allow performance to be aggregated or collated, at a higher level for external reports. This minimises the potential for inefficiencies through a parallel reporting system, that is, having one system for internal decision-making and another for external compliance. It also ensures that incentives for internal and external performance are aligned.³¹

Performance measures presented should give the reader a reasonable confidence that the quantity and quality of outputs provided are consistent with the funds provided in the budget process. There should also be some correlation between the cost of outputs and the extent of performance information for that output.

Performance information should also include both quantity and quality measures. Failure to have both increases the risk of perverse incentives; for example, a performance measure of quantity with no standard on quality may encourage the production of a large volume of low quality work.

A more comprehensive approach would consider both quantity and quality measures, for each of the various steps required to produce outputs, as in Figures 2 and 3. Figure 2 represents a 'logic diagram' for respite care, taken from a previous audit report. Figure 3 is taken from a Productivity Commission report, describing a set of performance measures that includes equity, effectiveness and efficiency indicators.

³¹ Australian National Audit Office, *Better Practice in Annual Performance Reporting*, 2004, p. 5.

Figure 2: Example of a logic diagram

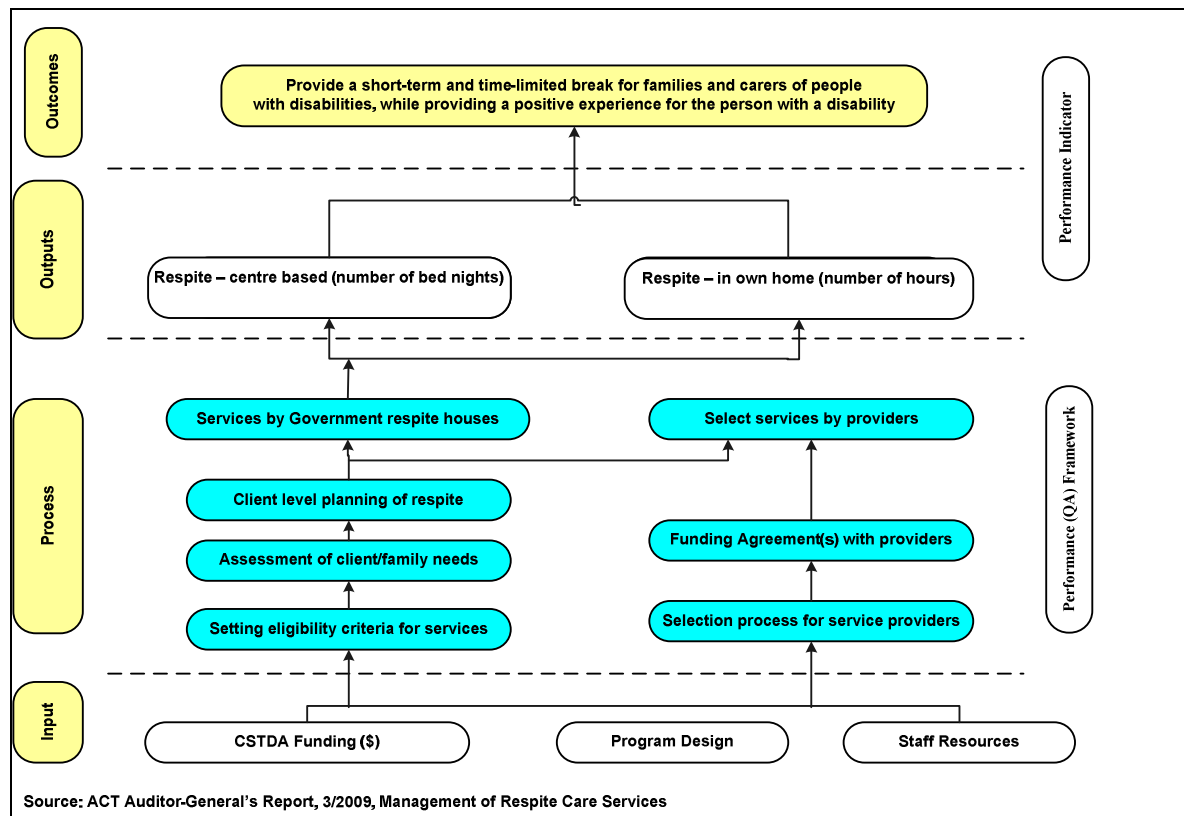
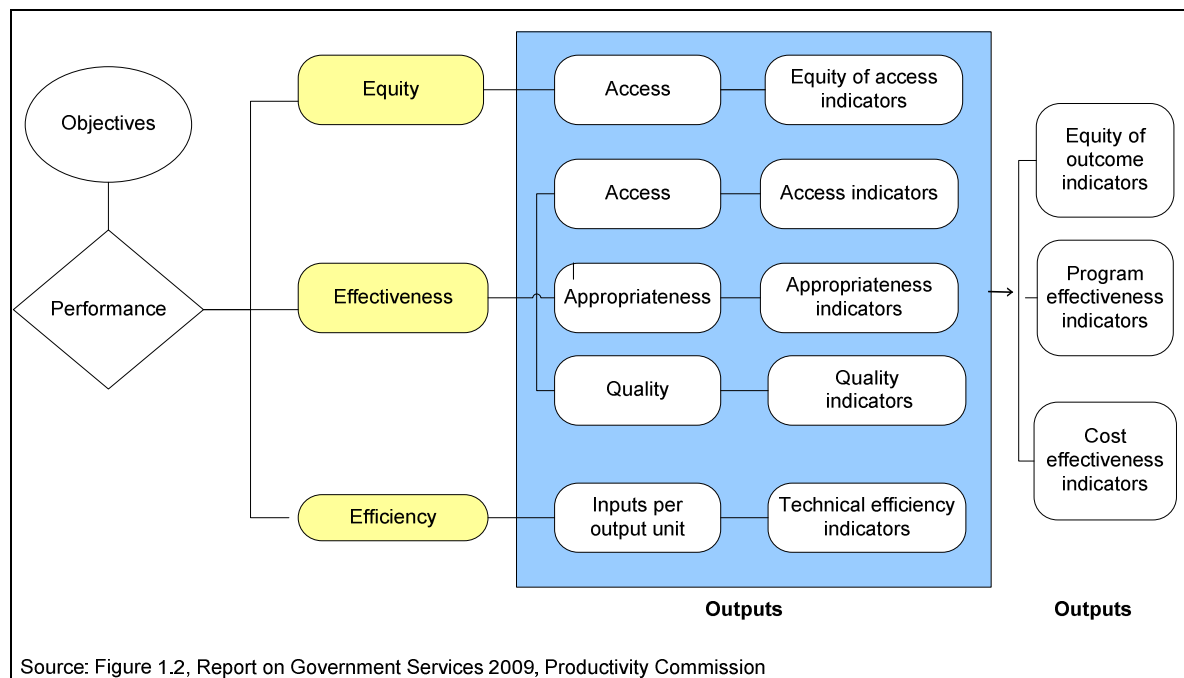


Figure 3: Relationship of objectives to output and outcome indicators



Conclusion

Based on the sources above, Audit considers that a good performance measures will be:

- clearly stated;
- linked to agency operations and objectives;
- valid - i.e. bias free, independently verifiable and not susceptible to providing perverse incentives;
- quantifiable and measurable, or at least independently assessable;
- specific - i.e. measures of one aspect of performance;
- comparable with either past periods or similar programs elsewhere;
- stable - i.e. not likely to have to change with expected changes to programs;
- expressed together with a target over a timeframe, which should be achievable; and
- easily produced, based on available data.

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