

The Auditor-General
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The Australian Government Performance Measurement and Reporting Framework

Pilot Project to Audit Key Performance Indicators

Australian National Audit Office

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Canberra ACT
23 April 2013

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken a pilot project to assess the status of the Australian Government performance measurement and reporting framework as a basis for implementation of a future program of audits of entities' key performance indicators, and to develop a suitable audit methodology.

In accordance with the authority contained in section 25 of the *Auditor-General Act 1997* and pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this pilot project to the Parliament. The report is titled *The Australian Government Performance Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely



Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Contents

Abbreviations.....	7
Glossary	8
Auditor-General's Foreword	11
Summary	13
Summary	14
Introduction	14
KPI audit pilot project	17
Overall conclusion	18
Key Performance Indicators Audit Pilot Project Findings	23
1. Background	24
Introduction	24
The Outcomes and Programs framework	25
The performance measurement and reporting cycle	30
The role of the Auditor-General	33
Previous ANAO reports and Parliamentary reviews	34
Performance measurement and reporting in other jurisdictions	36
KPI audit pilot project objective and scope	40
2. The Administration of Australian Government Performance Measurement and Reporting.....	42
Introduction	42
Considerations for performance measurement and reporting	43
Guidance material to support the Outcomes and Programs framework.....	52
The Commonwealth Financial Accountability Review	57
Conclusion	58
3. Key Performance Indicators Audit Pilot Project	61
Introduction	61
Criteria for the audit of key performance indicators	62
Outcome statements, program objectives and deliverables	65
Appropriateness of key performance indicators	70
Completeness and accuracy of key performance indicators	76
Conclusion	78
Index.....	80
Series Titles.....	83
Current Better Practice Guides	87

Tables

Table 3.1	Criteria for the evaluation of the appropriateness of KPIs.....	63
Table 3.2	Criteria for the evaluation of the completeness and accuracy of KPIs	64
Table 3.3	Total number of 2011–12 outcomes, programs, deliverables and KPIs	65
Table 3.4	Key principles for outcome statements	66
Table 3.5	Guidance for program objectives	68
Table 3.6	Guidance for program deliverables	69
Table 3.7	Number of KPIs that met, met some elements of, or did not meet the characteristics for being ‘relevant’ and ‘reliable’	71

Figures

Figure 1.1	Elements of the Outcomes and Programs framework	26
Figure 1.2	Australian Government Performance Measurement and Reporting Cycle	31
Figure 1.3	Trends from 2008/09 to 2010/11 in service performance grades for New Zealand entities that were audited in 2010/11	39
Figure 2.1	CFAR Sharpening the Focus: A Framework for Improving Commonwealth Performance	58

Abbreviations

ANAO	Australian National Audit Office
ASAE	Australian Standard on Assurance Engagements
ATO	Australian Taxation Office
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CFAR	Commonwealth Financial Accountability Review
COAG	Council of Australian Governments
DEEWR	Department of Education, Employment and Workplace Relations
DoHA	Department of Health and Ageing
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
JCPAA	Joint Committee of Public Accounts and Audit
KPI	Key Performance Indicator
OECD	Organisation of Economic Co-operation and Development
PBSs	Portfolio Budget Statements
PM&C	Department of the Prime Minister and Cabinet

Glossary

Agency	An organisation governed by the <i>Financial Management and Accountability Act 1997</i> , which may be a Department of State, a Department of the Parliament or a prescribed agency.
Annual reporting requirements	The Department of the Prime Minister and Cabinet's <i>Requirements for Annual Reports for Departments, Executive Agencies and Financial Management and Accountability (FMA) Act Bodies</i> (July 2012), approved by the Joint Committee of Public Accounts and Audit under subsection 63(2) and 70(2) of the <i>Public Service Act 1999</i> . The annual reporting requirements for <i>Commonwealth Authorities and Companies (CAC) Act</i> bodies are set out in that Act, and in the Finance Minister's Operations Orders (the Orders), which are referenced in the CAC Act.
<i>Commonwealth Authorities and Corporations Act 1997</i>	Regulates certain aspects of the corporate governance, financial management and reporting of Commonwealth authorities, which are in addition to the requirements of their enabling legislation; and the corporate governance and reporting of Commonwealth companies which are in addition to the requirements of the <i>Corporations Act 2001</i> .
Australian Government performance measurement and reporting framework	The framework under which Australian Government entities measure and report their performance.
Entity	An organisation subject to the <i>Financial Management and Accountability Act 1997</i> or the <i>Commonwealth Authorities and Companies Act 1997</i> .

<i>Financial Management and Accountability Act 1997</i>	Specifies the financial management, accountability and audit obligations of agencies (including departments), particularly for managing public resources efficiently, effectively and ethically; and for maintaining proper accounts and records of the receipt and expenditure of public money.
Financial framework	Underpins the appropriation, expenditure and use of money and resources within the Australian Government. The financial framework includes financial management legislation and policy, performance reporting guidance, and outcome and programs policy guidance for government entities.
General Government Sector	The entities that comprise the General Government Sector implement public policy through the provision of primarily non-market services and the redistribution of income and wealth, with both activities supported mainly by compulsory levies on other sectors.
Key Performance Indicator(s)	Within the context of the current Outcomes and Programs framework, KPIs as stated in agencies' PBSs, are established to provide information (either qualitative or quantitative) on the effectiveness of programs in achieving objectives in support of respective outcomes.
Outcome Statement	Outcome statements identify those intended results, impacts or consequences of actions by the Government on the Australian community, and contribute to meeting a Minister's reporting and accountability obligations to Parliament.

Portfolio Budget Statements	Budget related papers setting out budget measures and explanations of appropriations by outcome and program for each agency within a portfolio. Portfolio Budget Statements inform Senators and Members of Parliament and the public of the proposed allocation of resources to government outcomes.
Program	Activity or activities with a common focus that deliver benefits, services or transfer payments to individuals, industry and/or the community as a whole and which contribute to intended government outcomes.
Program effectiveness	The extent to which program objectives are achieved.
Program efficiency	The extent to which the delivery of a government program has been maximised for a given level of resources.
Program expenses	The total resources required to administer a program.
Program support costs	The agency running costs allocated to a program and which are funded by the agency's departmental appropriation.

Auditor-General's Foreword

The establishment and reporting of entity key performance indicators is a fundamental underpinning of the Australian Government's performance measurement and reporting framework. Key performance indicators are expected to inform entities and government about the performance of programs including their impact and cost-effectiveness, and signal opportunities for improvements. Key performance indicators also provide the basis for entities and ministers informing the Parliament and the public of the effectiveness and efficiency of government programs.

Reflecting on the work of my office and program evaluations undertaken by government, it is apparent that the systematic review of key performance indicators makes a positive contribution to the overall quality and credibility of the indicators themselves, and the reliance that can be placed on entities' reporting against them by the Parliament and the public. All entities in the public sector with responsibilities for the delivery of government programs are expected to have in place key performance indicators which assist them to assess the impact of government programs, and whether programs might be better targeted to achieve more cost-effective outcomes, given the demands on government today. Measures to periodically review the relevance and reliability of these indicators by entities, or more broadly within government, can only be beneficial.

The recent review of the *Auditor-General Act 1997* by the Joint Committee of Public Accounts and Audit was timely given developments in public administration since the legislation was introduced. The Committee's Report 419 *Inquiry into the Auditor-General Act 1997* recommended the Auditor-General's mandate be enhanced in several aspects including that the Auditor-General be given explicit authority to undertake audits, at his or her discretion, of the appropriateness of entities' key performance indicators and the reporting by entities against those indicators. Legislation to give effect to this mandate was passed by the Parliament in December 2011.

Against the background of these amendments to the *Auditor-General Act 1997*, my office has commenced the development of a suitable methodology to audit key performance indicators in a systematic way, in consultation with the Department of Finance and Deregulation, the Australian Taxation Office, the Department of Education, Employment and Workplace Relations, and the

Department of Health and Ageing. Prior to these recent legislative amendments, our audit approach has been to assess key performance indicators, as appropriate, in the context of individual performance audits of government programs or initiatives. The *Auditor-General Act 1997* now provides for a more focused approach to the audit of key performance indicators and the reporting of audit results to complement the ongoing contribution of our performance audit program. The intention is to test our approach to the systematic audit of these indicators by conducting a pilot project in 2012–13 and 2013–14. Expansion of the pilot project will be pursued in the light of experience and the provision of appropriate resources to my office.

This report presents a summary of the work completed to date. We appreciate the involvement of the above-mentioned entities in this pilot project and their contribution to informing the development of our audit processes, and also to informing their own initiatives to improve their performance measurement and reporting.

A handwritten signature in black ink, appearing to read 'Ian McPhee', with a long horizontal flourish extending to the right.

Ian McPhee
Auditor-General

23 April 2013

Summary

Summary

Introduction

1. The Organisation for Economic Co-operation and Development (OECD) has observed that:

Measuring government performance has long been recognised as necessary for improving the effectiveness and efficiency of the public sector. Following the fiscal and economic crisis that began in 2008, however, accurate and timely data are needed more than ever to help governments make informed decisions about how and where to prioritise spending, reduce costs and promote innovation in the public administration.¹

2. Adequate performance information, particularly in relation to program effectiveness, allows entities to assess the impact of policy measures, adjust management approaches as required, and provide advice to government on the success, shortcomings and/or future directions of programs. This information also allows for informed decisions to be made on the allocation and use of program resources. In addition, performance information and reporting enables the Parliament and the public to consider a program's performance, in relation to both the impact of the program in achieving the policy objectives of the government and its cost effectiveness.

3. Performance reporting regimes have been in place in many OECD countries, including Australia, since the mid-1980s. Over time, there has been a trend to move away from a narrow focus on reporting on financial inputs, towards integrated models that are intended to provide a clearer picture of the results or outcomes that have been achieved from the expenditure of public money—in other words, whether the outcomes or the impacts sought by government are being realised.

4. As the demands for better quality information about public sector performance increase, the need for the ongoing development and refinement of performance measurement and reporting frameworks has continued. The Australian Government's Outcomes and Outputs framework was introduced as part of the 1999–2000 budget process, requiring entities to specify intended outcomes, and to measure and report on actual performance. While the

¹ Organisation for Economic Co-operation and Development, *Government at a Glance*, 2011.

requirement for entities to clearly specify and report against ‘outcomes’, ‘programs’, ‘deliverables’, and ‘key performance indicators’ has been maintained over the last decade, implementation within entities continues to require more focus and attention. The Outcomes and Outputs framework was replaced in 2009–2010 by the Outcomes and Programs framework, with the new emphasis being on entities identifying and reporting against the programs that contribute to government outcomes over the Budget and forward years. The transition to a programs focus was intended to improve entity reporting and to clearly demonstrate entities’ achievement against pre-defined program objectives.

The Outcomes and Programs framework

5. The Australian Government Outcomes and Programs framework requires entities to firstly identify, and secondly report against, the programs that contribute to government outcomes over the Budget and forward years. A central aspect of this approach is the development of clearly specified outcomes, program objectives and appropriate key performance indicators (KPIs).

6. KPIs are expected to enable users to assess the achievements of the entity against the stated program objectives and collectively, their contribution to stated outcomes.

7. The Outcomes and Programs framework provides a focus on KPIs that measure the effectiveness of government programs. It is not expected that KPIs, within the context of the Outcomes and Programs framework, will measure inputs to a program (resources provided to administer the program), or the outputs (that is, quantity and quality indicators which are related to the deliverables²).³

Previous ANAO reports

8. The Australian Government performance measurement and reporting framework has been the subject of various Australian National Audit Office (ANAO) performance audits. Audit reports have identified that the

² Program deliverables (outputs) are the goods and services produced and delivered through the implementation of a program.

³ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements March 2011* [Internet], Finance, p. 29. available from http://www.finance.gov.au/budget/budget-process/docs/Guidance_for_the_Preparations_of_the_2011-12_Portfolio_Budget_Statements.pdf [accessed 21 March 2013].

development of performance indicators, including implementing effective systems and practices to capture, monitor and report against them, is an area that requires ongoing management attention, particularly with respect to the clarity of the specification of outcomes and program objectives and the measurement of entities' impact.

9. In ANAO Audit Report No.5 2011–12 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework* (ANAO Audit Report No.5 2011–12), the ANAO provided an assessment of the development and implementation of KPIs by government entities. The findings of the audit indicated that many of the entities reviewed continued to find it challenging to develop and implement effectiveness KPIs which are intended to provide quantitative and measurable information, to allow for an informed and comprehensive assessment and reporting of achievements against stated objectives.⁴

10. Other performance audits undertaken by the ANAO have also highlighted the need to strengthen program performance measurement. This includes establishing frameworks within entities to guide performance measurement activity, the importance of developing appropriate baselines and benchmarks early in program implementation⁵, informing internal and external stakeholders on progress and outcomes, and strengthening program management and accountability.⁶

The Joint Committee of Public Accounts and Audit inquiry into the Auditor-General Act 1997

11. In February 2009, the Joint Committee of Public Accounts and Audit (JCPAA) resolved to 'review whether the provisions of the *Auditor-General Act 1997* remained adequate in the modern public sector environment'⁷, noting at the time that eight years had passed since the Committee's last such review. A key recommendation of this inquiry was

⁴ ANAO Audit Report No.5 2011–12, *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, p. 17.

⁵ ANAO Audit Report No.2 2012–13, *Administration of the Regional Backbone Blackspots Program*, p. 23.

⁶ ANAO Audit Report No.30 2010–11, *Digital Education Revolution Program—National Secondary Schools Computer Fund*, p. 100.

⁷ Joint Committee of Public Accounts and Audit, *Report 419 Inquiry into the Auditor-General Act 1997*, JCPAA, Canberra, December 2010, p. vi.

directed at 'enhancing the Auditor-General's role in reviewing the adequacy of agencies' performance indicators'.⁸

12. In light of the report by the JCPAA, in December 2011, Parliament amended the *Auditor-General Act 1997* to provide the Auditor-General with explicit authority to undertake audits of both the appropriateness of entities' KPIs and the reporting by entities against those indicators.

13. The amendments to the legislation reflect Recommendation 3 of the JCPAA Report 419 *Inquiry into the Auditor-General Act 1997*, which stated:

That the Act be amended as necessary to enable the Auditor-General to review an agency's compliance with its responsibilities for a sub-set of performance indicators. Proposed performance indicators should be identified annually by the Auditor-General and forwarded to the Parliament, via the JCPAA for comment, in a manner similar to the annual performance audit work program for the ANAO (p. 25).

14. To respond to Parliament's interest in KPIs, ANAO performance audits will continue to include coverage of the performance measurement arrangements that have been established for the area being reviewed.⁹ In addition, as a consequence of the amended legislation, the ANAO has also invested in a pilot project, the subject of this report.

KPI audit pilot project

15. The KPI audit pilot project (the Pilot) was designed to assess the status of the Australian Government performance measurement and reporting framework as a basis for implementation of a future program of audits of entities' KPIs, and to develop a suitable audit methodology. At the time of conducting the Pilot the ANAO recognised that the development of a full KPI assurance audit methodology and its implementation will take some time, and financial support.

16. To date the Pilot has been funded by the ANAO from its existing resource base. The Pilot project is expected to conclude in 2013–14. The future development and implementation of a broader ANAO KPI audit work program will require the ANAO to be appropriately resourced and in light of proposed enhancements to the Australian Government performance

⁸ *ibid.*

⁹ ANAO, *Audit Work Program July 2012* [Internet], ANAO, p. 14. available from <http://www.anao.gov.au/About-Us/-/media/D24BDF8177594975AC6AA2B8FFA77686.pdf> [accessed 10 April 2013].

measurement and reporting framework, as presented by the Department of Finance and Deregulation (Finance) Commonwealth Financial Accountability Review (CFAR) discussion paper (March 2012) and subsequent position paper (November 2012).

17. This report presents the ANAO's response so far to the legislative amendments of the *Auditor-General Act 1997*. The Pilot included:

- assessing the Australian Government performance measurement and reporting framework as a basis for implementation of a future program of audits of entities' KPIs;
- reviewing the approaches taken by other relevant jurisdictions in the implementation of KPI audit methodologies;
- working with the responsible Australian Government central agencies; and
- testing a KPI audit approach and methodology within three entities.

18. Four entities participated collaboratively in the Pilot. The Department of Finance and Deregulation contributed in view of its role in being responsible for administering the Outcomes and Programs framework. The Australian Taxation Office, the Department of Education, Employment and Workplace Relations, and the Department of Health and Ageing, contributed as entities with experience in applying the principles of the Outcomes and Programs framework. For these three entities, one outcome and program from each was selected for assessment.

19. The Pilot also benefited from the experiences of a number of audit offices that have work programs with a performance information focus. In particular, the Office of the Auditor General for Western Australia and the Office of the Auditor-General of New Zealand have provided information and support.

Overall conclusion

20. Non-financial performance information allows entities to assess the impact of policy measures, adjust management approaches as required and provide advice to government on the success, shortcomings and/or future directions of programs. Non-financial performance information also assists the Parliament and the public in assessing whether policy goals have been achieved and how effectively the public sector has performed. The capacity to

undertake this analysis is dependent on the provision of high-quality and robust performance information. Australian Government entities currently report against some 650 government programs that are measured by approximately 3 500 KPIs. However, it is still difficult to get an accurate picture of the performance of programs across the public sector.¹⁰

21. The results of the Pilot, conducted in the light of the amendments to the *Auditor-General Act 1997*, reinforced the issues identified in ANAO Audit Report No.5 2011–12 and other ANAO performance audits. The assessment of entity performance measurement and reporting identified that entities continue to experience challenges in developing and implementing meaningful KPIs, and that the administrative framework supporting the development and auditing of KPIs remains problematic. This is similar to the experience of some other jurisdictions where a robust system of KPI reporting and auditing has taken some years to develop.

22. The broad range of roles and activities undertaken by Australian Government entities highlights that while some entities' programs suit the development of relatively straightforward performance information, the less tangible nature of the objectives of some other programs is more of a challenge.¹¹ A homogenous framework for application by all Australian Government entities, without recognition of the variety of entity activity/ies, has compounded the challenges that entities have in implementing the Australian Government performance measurement and reporting framework. For example, in a purchaser/provider model one entity will be responsible for the oversight of a policy initiative/s and be better suited to measuring the impact through KPIs, while another entity is responsible for the delivery of services and will be better suited to a focus on measuring deliverables. The development of a framework that accommodates this diversity, providing entities the ability to develop and report appropriate performance information regardless of their role, is critical.

23. It is also apparent that the Outcomes and Programs framework would benefit from consideration of intermediate objectives where an overall outcome can only be achieved over the longer-term. In these circumstances it may be necessary to relate targets associated with effectiveness indicators to

¹⁰ Department of Finance and Deregulation, Commonwealth Financial Accountability Review, position paper, *Sharpening the Focus: A Framework for Improving Commonwealth Performance*, November 2012, p. 16.

¹¹ ANAO Audit Report No.5 2011–12, *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, p. 52.

milestones that demonstrate progress towards the program objective. This has been an issue which has been raised by the ANAO over many years, but where greater emphasis is required to obtain a stronger focus on the impact of programs.

24. Additionally, a more comprehensive model for performance measurement and reporting in the Australian Government would include consideration of the development and implementation of 'efficiency' indicators to complement the 'effectiveness' indicator focus within the current model.

25. The promulgation of updated, comprehensive guidance will be central to supporting the development and implementation of appropriate KPIs by public sector entities. It is also clear from the Pilot that the current framework and accompanying guidance does not provide an effective framework against which entities' KPIs can be reliably evaluated through an assurance audit process, as it does not specify clear standards or criteria that KPIs should satisfy. That said, it does need to be recognised that the current framework was not designed with this specific purpose in mind.

26. Performance reporting is most effective in informing the government, the Parliament, and the public when based on clearly expressed outcome statements, program objectives, deliverables and KPIs. The Pilot found there was room for strengthening the Pilot entities' performance reporting frameworks which may require a further investment in resources in order to improve the quality of the performance information contained in the entities' annual reports.

27. The Pilot also confirmed the need for focused and clear outcome statements and well defined program objectives as important in allowing the development of appropriate KPIs. Entities' periodic review of both outcomes and objectives, together with adherence to Finance guidance, will contribute to meeting the need for focus, clarity and well defined outcome statements and program objectives. The entities engaged in the Pilot were receptive to the ANAO's feedback and planned to revisit their current approaches where required.

28. Implementation of a systematic assurance audit of the appropriateness of entities' KPIs, and the completeness and accuracy of their reporting is a process that will take time as entities continue to develop and refine their KPIs. The focus of the ANAO in this area through both performance audits and the specific audits of KPIs can be expected to lead to improvements in the quality

of performance information provided to the government, the Parliament, and the public in the longer-term.

29. The Australian Government is taking steps to address the long-standing performance measurement and reporting challenge. On 8 December 2010 the Minister for Finance and Deregulation announced the CFAR initiative with the purpose to ‘analyse the Commonwealth financial framework from first principles and consider options to ensure the framework supports high quality resource management’.¹² CFAR provides the opportunity to consider how to position the current performance measurement and reporting framework to respond to a range of contemporary issues in public administration.

30. Our audit reports and the Pilot show it is time for greater attention, investment and resourcing to be given to the quality and integrity of KPIs used by public sector entities to inform decisions about the performance of government programs. This requires a stronger and sustained focus by entities to enhance KPIs, and support provided by Finance through improved guidance. Entity leadership will be critical to success here. Encouragement to achieving better performance measurement can also be given by the Government and the Parliament through reviews, inquiries and the questions asked about the changes being brought about by specific programs having regard to the program’s objectives.

31. The timetable for the development of a suitable approach for the formal audit of KPIs is subject to consultation with the JCPAA, the Government and the appropriate resourcing of the ANAO. In 2013–14, the ANAO will continue to invest resources in developing and refining the approach for the systematic audit of the appropriateness of entities’ KPIs, as part of the pilot project.

¹² Department of Finance and Deregulation, *Commonwealth Financial Accountability Review, Introduction* [Internet], Finance, available from <http://www.cfar.finance.gov.au/2012/03/22/introduction/#more-39> [accessed 10 April 2013].

Key Performance Indicators Audit Pilot Project Findings

1. Background

This chapter introduces the Outcomes and Programs framework, the roles and responsibilities of key agencies, the results of previous Australian National Audit Office (ANAO) reports and parliamentary reviews, and introduces the ANAO's response following amendments to the Auditor-General Act 1997, providing the Auditor-General with the explicit authority to conduct audits of key performance indicators.

Introduction

1.1 The Australian Government Outcomes and Programs framework was introduced in 2009–10 building on earlier reforms, and is the key mechanism providing both the Parliament and the public with information on the intended results, impacts or consequences of actions by the Government on the Australian community. The requirements for performance reporting in the Australian Government are broadly separated into the requirements for presentation of the Portfolio Budget Statements (PBSs), which are administered by the Department of Finance and Deregulation (Finance) and the requirements for the presentation of annual reports which are administered by the Department of the Prime Minister and Cabinet (PM&C).

1.2 The ANAO has previously examined components of the Outcomes and Programs framework in the course of its performance audit function, as have parliamentary committees, including the Joint Committee of Public Accounts and Audit (JCPAA), in the context of their inquiries. Both the ANAO and JCPAA have highlighted shortcomings in the Outcomes and Programs framework and its implementation by government entities, prompting consideration of the need for an increased focus in this area.

1.3 In December 2011, amendments to the *Auditor-General Act 1997* provided the Auditor-General with the explicit authority to conduct audits of the appropriateness of entities' key performance indicators (KPIs) and the completeness and accuracy of their reporting. In response, the ANAO established a KPI audit pilot project (the Pilot).

1.4 The Pilot aimed to develop an audit approach and methodology for the audit of KPIs, through observing similar developments in other jurisdictions, working closely with Finance and PM&C, and testing the audit approach by

reviewing three programs in three other major Australian Government agencies.

The Outcomes and Programs framework

1.5 The Australian Government's Outcomes and Programs framework requires entities to measure the intended results, impacts or consequences of actions by the Government on the Australian community.

1.6 The key elements of the Outcomes and Programs framework are:

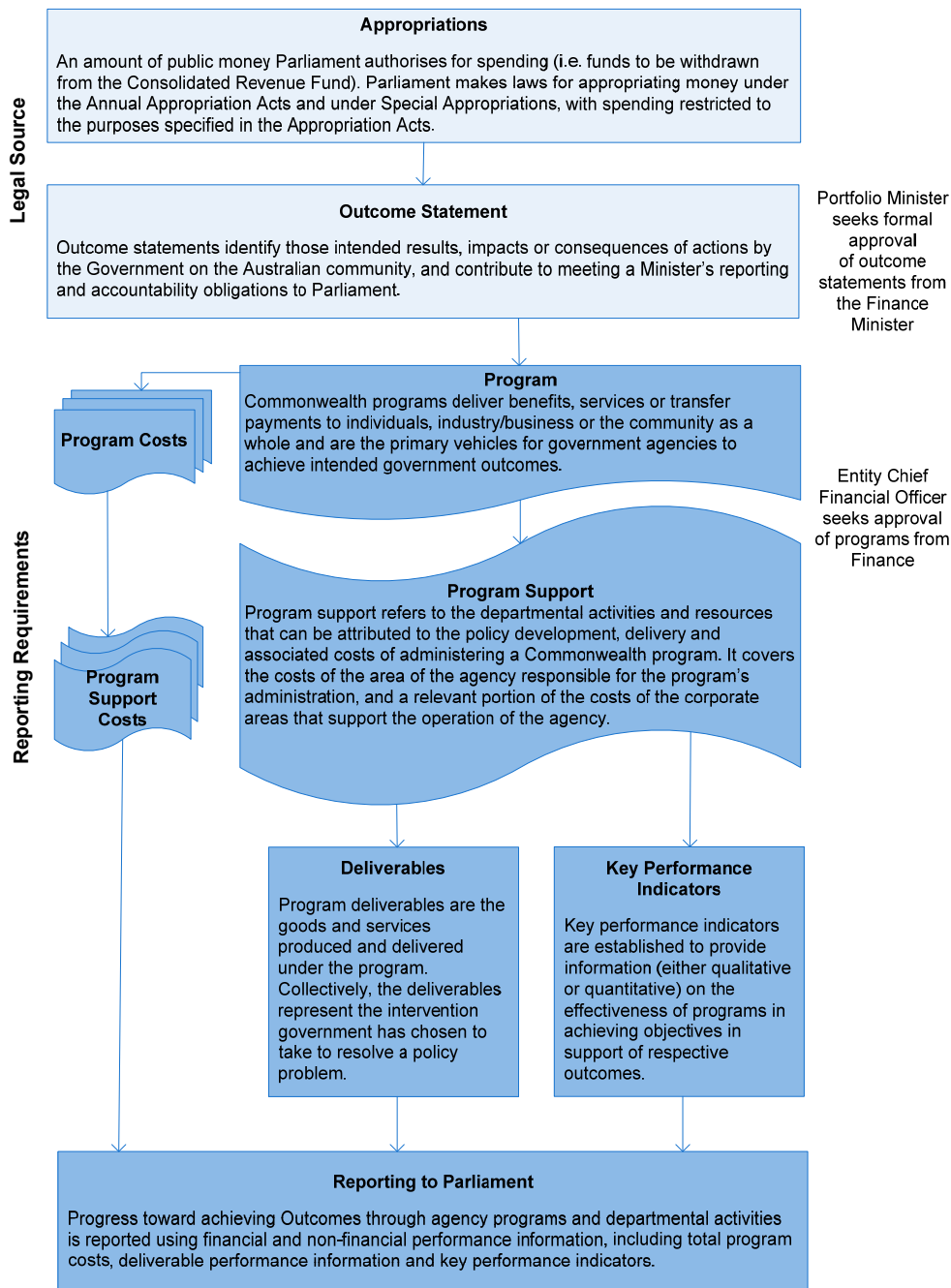
- specification of the outcomes the Government is seeking to achieve;
- identification of programs and their associated deliverables (for example, benefits, services or transfer payments provided to individuals, business or the community);
- establishment of a performance management regime that enables the measurement and assessment of the impact of the program on the selected population and its contribution to the broader respective outcome; and
- annual performance reporting on delivery of programs and achievement against a set of KPIs.¹³

1.7 Figure 1.1 represents the main elements of the Outcomes and Programs framework.

¹³ ANAO Audit Report No.5 2011–12 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, pp. 36–37.

Figure 1.1

Elements of the Outcomes and Programs framework



Source: Adapted from the Department of Finance and Deregulation *Outcome Statements Policy and Approval Process*, March 2009, p. 1.

Department of Finance and Deregulation

1.8 Finance has broad responsibility for the administration of the Outcomes and Programs framework. This role includes:

- providing guidance and advice to entities on the administration of the Outcomes and Programs framework including requirements for PBSs;
- actively vetting entities' outcome statements and to ensure cross-government consistency; and
- undertaking a systematic program of evaluation of performance indicators against targets.¹⁴

1.9 Finance therefore plays an important part in ensuring the effective implementation and application of the Outcomes and Programs framework across Australian Government entities. Guidance is issued annually by Finance in advance of the reporting cycle to which it relates; the *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements* was issued in March 2011 and was the focus of the Pilot and this report. Guidance for the 2012–13 and 2013–14 reporting cycles have been released since this time, in March 2012 and April 2013 respectively, with only minor updates occurring between each release. Finance has advised that the guidance will undergo significant change in advance of the 2014–15 reporting cycle.

1.10 Finance has also published additional reference material, including *Performance Information and Indicators* (October 2010), *Commonwealth Programs Policy and Approval Process* (December 2009), and *Outcomes Statements Policy and Approval Process* (June 2009). Regular Estimates Memoranda¹⁵ supporting the Budget processes are also published.

Portfolio Budget Statements

1.11 PBSs, required by the Outcomes and Programs framework, are submitted annually by Portfolio Ministers to the Parliament to provide information, explanation and justification as to the purpose of each outcome identified in the Annual Appropriation Bills.¹⁶ The Chief Executive of each entity must assist their Minister by providing factual information for the PBS

¹⁴ The *Operation Sunlight* discussion paper and the Government Response in June 2008 to the Murray Review committed Finance to a range of responsibilities.

¹⁵ Estimates memoranda are published by Finance where additional policy guidance is required by entities and made available through the Central Budget Management System.

¹⁶ Department of Finance and Deregulation, *Portfolio Budget Statements 2011–12 User Guide* [Internet], available from <http://www.budget.gov.au/2011-12/content/pbs/html/index.htm> [accessed 10 April 2013].

relating to the operation and administration of their entity¹⁷, including KPIs, which demonstrate progress against the program objectives that contribute to achievement of the program outcome.¹⁸

1.12 Australian Government entities are expected to develop KPIs to inform decisions about the management and effectiveness of programs; and to report KPIs in their PBSs that demonstrate the effectiveness of programs in achieving their objectives and contributing to outcomes (exclusive of the outputs required to be reported in the deliverables section of the PBSs).

1.13 PBSs are formal ministerial documents, tabled to meet Ministers' accountability obligations to Parliament. In the 2011–12 PBSs, *Section 2: Outcomes and Planned Performance* sets out the outcomes and programs of an entity, and its resourcing, deliverables and performance information. Within this section, each outcome is to be described together with its related programs, specifying the KPIs and targets used to assess and monitor the performance of the entity in achieving Government outcomes.¹⁹

1.14 Finance guidance includes that entities should also briefly outline the logic and assumptions that informed the choice of the KPIs. Entities are also responsible for maintaining records of trend information and changes to the entities' performance indicators (footnoted to the KPI table), and are to use data sources and measurable samples of the relevant target groups to show the impact of the program, collectively addressing the objective of the program.²⁰

Department of the Prime Minister and Cabinet

1.15 PM&C provides administrative support to the Prime Minister, the Cabinet Secretary, the Cabinet and its committees.²¹ This includes the compilation, annual review and update to the *Requirements for Annual Reports for Departments, Executive agencies and FMA Act Bodies* (Annual Reporting Requirements), for endorsement by the JCPAA on behalf of the Parliament in accordance with subsections 63(2) and 70(2) of the *Public Service Act 1999*.²²

¹⁷ *Public Service Act 1999* (Cth) s 57(2).

¹⁸ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements* [Internet], Finance, March 2011, p. 29.

¹⁹ *ibid.*, pp. 22–23.

²⁰ *ibid.*, pp. 37–38.

²¹ Department of the Prime Minister and Cabinet, *About Us* [Internet], PM&C, available from http://www.dpmc.gov.au/about_pmc/index.cfm [accessed 10 April 2013].

²² *Public Service Act 1999* (Cth) s 63(2), 70(2).

Annual Reports

1.16 The Chief Executive must provide to their Minister an annual report for presentation to the Parliament on the entity's activities during the year.²³ The annual report is prepared in accordance with guidelines approved on behalf of the Parliament by the JPCAA²⁴ and includes a review of how an entity has performed during the year, including its performance against the KPIs included in the PBSs.²⁵

1.17 Different annual reporting requirements apply to entities governed by the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act).

Financial Management and Accountability Act 1997

1.18 The PM&C Annual Reporting Requirements require FMA Act agencies to publish an annual report which includes a 'Report on performance' section, including:

... a review of how the agency has performed during the year in relation to the deliverables and KPIs of the agency's programs, and, where possible, indicate the agency's effectiveness in achieving planned outcomes.²⁶

1.19 Agencies must report actual results for all deliverables and KPIs set out in the PBSs, Portfolio Additional Estimates Statements or other portfolio statements, and provide details where KPIs have changed to fully inform the readers, of previous and new KPIs.²⁷

Commonwealth Authorities and Companies Act 1997

1.20 CAC Act bodies must adhere to the annual reporting requirements outlined in the CAC Act and the corresponding Finance Minister's Orders. Commonwealth authorities refer to the *Commonwealth Authorities (Annual Reporting) Orders 2011* and Commonwealth companies refer to the *Commonwealth Companies (Annual Reporting) Orders 2011*.

²³ *Public Service Act 1999* (Cth) s 63.

²⁴ The approved JCPAA guidelines are the *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies* issued by the Department of Prime Minister and Cabinet, 8 July 2011.

²⁵ Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies* [Internet], PM&C, 8 July 2011, p. 6, available from <http://www.dpmc.gov.au/guidelines/> [accessed 10 April 2013].

²⁶ *ibid.*

²⁷ *ibid.*, pp. 6-7.

1.21 The Orders specify the requirement for directors of Commonwealth authorities to prepare an 'Annual Report of Operations' for inclusion in the annual report, and for directors of Commonwealth companies to provide information additional to that required by the *Corporations Act 2001* in annual reports.²⁸

1.22 Both orders require that entities' annual reporting must have regard to the interests of the Parliament and other users, and the information presented must be relevant, reliable, concise, understandable and balanced.²⁹

The performance measurement and reporting cycle

1.23 Performance measurement and reporting is an ongoing process for entities, commencing with the preparation and publication of PBSs that outline planned performance for the coming financial year and three forward years, and concluding with the publication of annual reports setting out the actual performance of an entity for that same financial year. During the Pilot the ANAO observed, in some cases, a single performance measurement and reporting cycle can span up to 22 months.

1.24 Figure 1.2 highlights that entities are monitoring and reporting across at least two performance measurement and reporting cycles at any one time. For example, an entity that commences the collation of PBSs for the 2013–14 financial year in January 2013, is still operating within the current 2012–13 budget and it will be nine months prior to reporting actual results of the previous financial year (2012–13) in its annual report in October 2013.

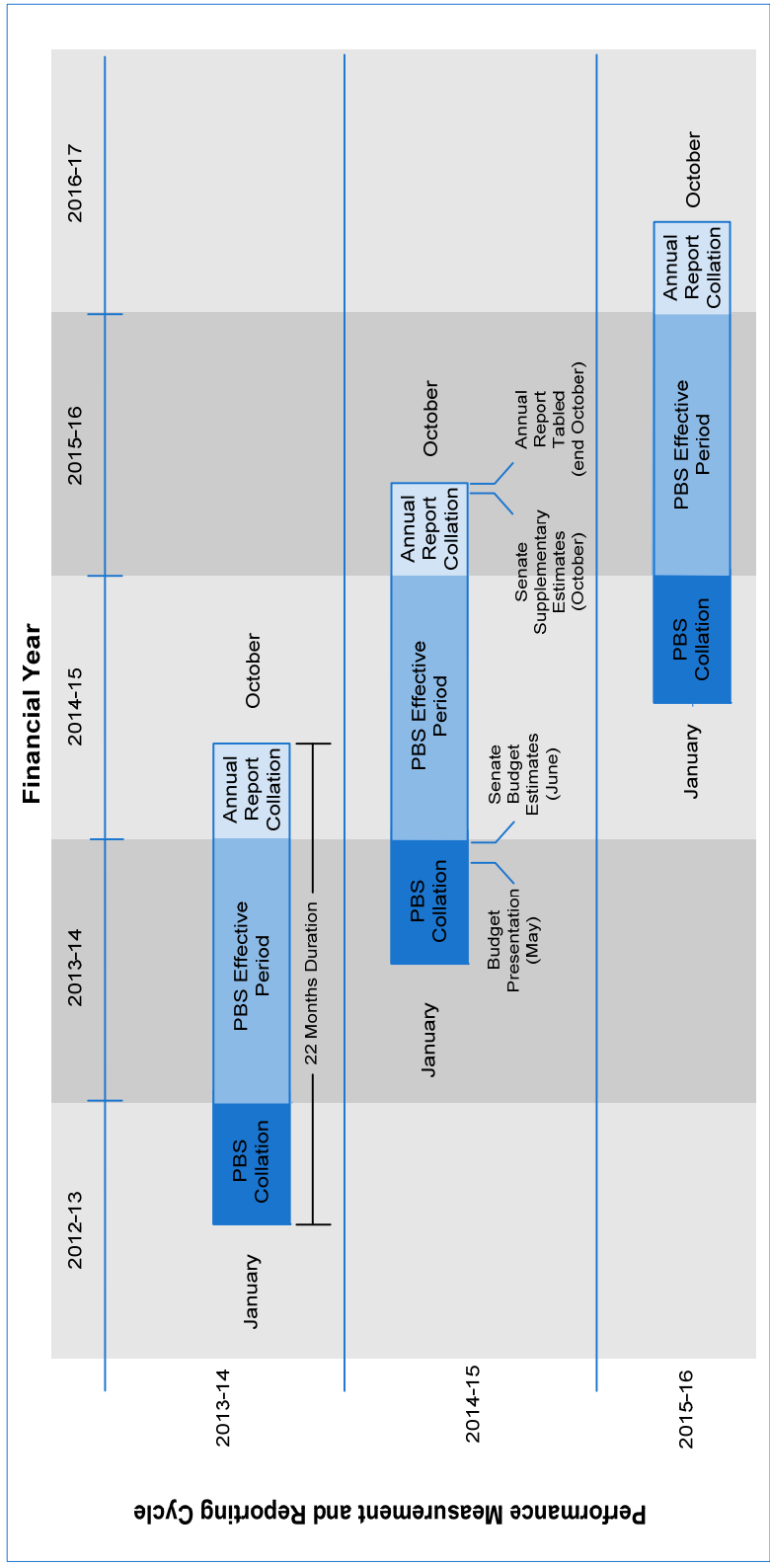
1.25 Where entities do not have strong administrative processes to effectively review program performance on an ongoing basis, the likelihood of providing the Government, the Parliament, and the public with a well informed picture of planned entity performance for the coming financial year is likely to be reduced.

²⁸ *Commonwealth Authorities (Annual Reporting) Orders 2011*, Section 4 and *Commonwealth Companies (Annual Reporting) Orders 2011*, Section 4.

²⁹ *Commonwealth Authorities (Annual Reporting) Orders 2011*, Section 9 and *Commonwealth Companies (Annual Reporting) Orders 2011*, Section 8.

Figure 1.2

Australian Government Performance Measurement and Reporting Cycle



Source: ANAO.

Portfolio Budget Statements and the Senate estimates process

1.26 PBSs are published annually, providing estimates for the three forward years and estimated actuals for the previous financial year, to allow users to assess the expected performance of the entity against the estimated prior year results. These are published in support of Appropriation Bills No. 1 and No. 2, which provide the basis for entities' funding.

1.27 Appropriation bills are first passed through the House of Representatives and then the Senate. To assist the efficient deliberation of the appropriation bills, the Senate is provided with PBSs for consideration at the same time as the House of Representatives.

1.28 This process provides the Senate with the basis for informed debate when the appropriation bills pass the House of Representatives and move to the Senate, and also provide Senators an 'un-paralleled opportunity to gather information on the operations of government'.³⁰ Most importantly, the estimates process provides a level of Parliamentary scrutiny of the performance of the executive branch of government.³¹

1.29 As noted by the Department of the Senate:

It is through the twice-yearly consideration of estimates by Senate committees that accountability is most directly manifested. And this is because accountability is as much about explanation as it is about information. The provision of facts and figures is a necessary but not sufficient condition of accountability. What is needed to complete the picture is for the relevant officials to explain, not only the details of the 'what' and the 'how' but also the 'why' of departmental administration.³²

Annual reports and the Senate estimates process

1.30 Each entity's annual report is important in the Senate's consideration of entities' funding estimates. Entities begin the annual report collation process

³⁰ Department of the Senate, Senate Brief No 5—*Consideration of Estimates by the Senate's Legislation Committees* [Internet], Senate, February 2012 pp. 5–6, available from http://www.aph.gov.au/About_Parliament/Senate/Powers_practice_n_procedures/briefs/brief05#3 [accessed 10 April 2013].

³¹ *ibid.*

³² *ibid.*

generally in May of the financial year to which the annual report refers and are required to be tabled by 31 October each year.³³

1.31 Annual reports provide the opportunity for the Senate to compare and evaluate government entities' performance during their consideration of additional funding via Appropriation Bills No. 3 to No. 6.³⁴ In accordance with Senate Standing Order 25(20), the annual reports of entities are also referred to Senate legislation committees for examination.³⁵ Reports on the findings of these examinations are tabled twice yearly by each committee.

The role of the Auditor-General

1.32 The Auditor-General is responsible, under the *Auditor-General Act 1997*, for providing auditing services to the Parliament and public sector entities. The ANAO assists the Auditor-General, who is an independent officer of the Parliament. The ANAO's primary client is the Australian Parliament, providing an independent assessment of selected areas of public administration, and assurance about public sector financial reporting, administration, and accountability.

1.33 ANAO audit reports act as a stimulus for better public administration and, in dealing with contemporary issues, provide the wider community with information on the operations of government.³⁶

1.34 In order to provide assurance to the Parliament and the public, the ANAO applies ANAO Auditing Standards which incorporate, by reference, the Australian Auditing and Assurance Standards. The purpose of the ANAO Auditing Standards is to establish mandatory requirements and provide explanatory guidance for persons performing the functions specified in the *Auditor-General Act 1997*.

1.35 The two significant functions specified by the *Auditor-General Act 1997* are performance audits and financial statement audits. Performance audits are an independent, objective and systematic assessment of public sector entities' programs, resources, information systems, performance measures, monitoring

³³ Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies* [Internet], PM&C, 8 July 2011, p. 2.

³⁴ Department of the Senate, op. cit., p. 4.

³⁵ The Department of the Senate, *The Senate Standing Orders and Other Orders of the Senate* [Internet], The Senate, s. 25(20), available from http://www.aph.gov.au/binaries/senate/pubs/standing_orders/standingorders.pdf [accessed 10 April 2013].

³⁶ ANAO, *Audit Work Program July 2012* [Internet], p. 10.

systems and legal and policy compliance. Financial statement audits are an independent examination of the financial accounting and reporting of public sector entities, and are supported by well established and widely recognised frameworks for both the preparation, and audit, of financial reporting.

1.36 Amendments to the *Auditor-General Act 1997* in December 2011 provided the Auditor-General with the explicit authority to audit the appropriateness of entities' KPIs and the completeness and accuracy of their reporting. This report presents the ANAO's early response to the legislative amendments.

Previous ANAO reports and Parliamentary reviews

1.37 Over the past decade, the quality of performance measurement and reporting in the Australian Government has been a recurring theme not only of ANAO audit reports, but also the focus of parliamentary committees, including the JCPAA.

ANAO reports

1.38 Performance audits undertaken by the ANAO have highlighted the need to continue to strengthen program performance measurement and reporting. This includes establishing frameworks within entities to guide performance measurement activity, and the importance of developing appropriate baselines and benchmarks early in program implementation.³⁷ Developing and reporting on appropriate KPIs informs internal and external stakeholders on progress and outcomes, and can strengthen program management and accountability.³⁸

1.39 The ANAO has undertaken the following performance audits in relation to the Australian Government performance measurement and reporting framework:

- ANAO Audit Report No.5 2011–12 *Development of Key Performance Indicators to Support the Outcomes and Programs Framework*;
- ANAO Audit Report No.23 2006–07 *Application of the Outcomes and Outputs Framework*;

³⁷ ANAO Audit Report No.2 2012–13, *Administration of the Regional Backbone Blackspots Program*, p. 23.

³⁸ ANAO Audit Report No.30 2010–11, *Digital Education Revolution Program—National Secondary Schools Computer Fund*, p. 100.

- ANAO Audit Report No.11 2003–04 *Annual Performance Reporting*; and
- ANAO Audit Report No.18 2001–02 *Performance Information in Portfolio Budget Statements*.

1.40 The ANAO has also published two related Better Practice Guides:

- ANAO Better Practice Guide–*Annual Performance Reporting*, April 2004 (prepared jointly with Finance); and
- ANAO Better Practice Guide–*Performance Information in Portfolio Budget Statements*, May 2002.

Parliamentary reviews

1.41 The JCPAA, as required by the *Public Accounts and Audit Committee Act 1951*, examines all of the reports of the Auditor-General tabled in Parliament.³⁹ As part of the JCPAA's increased focus on transparency and accountability and ongoing interest in performance measurement, the Committee reviewed ANAO Audit Report No.5 2011–12.

1.42 In May 2012, the JCPAA tabled its Report 430 *Review of Auditor-General's Reports Nos. 47 (2010–11) to 9 (2011–12) and Reports Nos. 10 to 23 (2011–12)* (JCPAA Report 430), where the Chair noted in his foreword:

... of significant concern to the Committee was that although the Outcomes and Programs Framework is in its third year, the audit showed the majority of agencies reviewed continued to find it challenging to develop Key Performance Indicators (KPIs) that provide measurable information on a program's progress. Only one third of 50 agencies reviewed by the ANAO had developed meaningful and measurable KPIs to evaluate their work.

... the Committee concluded that Finance needs to do more to support agencies by providing improved guidance with best practice models for developing KPIs and taking a proactive role in agency engagement during the development phase. Further, work needs to be done to improve the integration of KPIs into key accountability documents, such as portfolio budget statements and agency annual reports to ensure a clear read on program performance at an agency level ...⁴⁰

³⁹ *Public Accounts and Audit Committee Act 1951* (Cth) s 8(1)(c).

⁴⁰ Joint Committee of Public Accounts and Audit, Report 430 *Review of Auditor-General's Reports Nos. 47 (2010–11) to 9 (2011–12) and Reports Nos. 10 to 23 (2011–12)*, May 2012, Canberra, p. vii.

1.43 In late 2010, the JCPAA released Report 419 *Inquiry into the Auditor-General Act 1997* (JCPAA Report 419), following the Committee's resolution in February 2009 to review and report on whether the provisions of the *Auditor-General Act 1997* remain adequate in the modern public sector environment.

1.44 JCPAA Report 419 noted that it would be appropriate for the Auditor-General to play a role in auditing performance information, and included Recommendation 3:

That the Act be amended as necessary to enable the Auditor-General to review an agency's compliance with its responsibilities for a sub-set of performance indicators.⁴¹

1.45 Amendments to the *Auditor-General Act 1997*, arising from the JCPAA's recommendation, now provide the Auditor-General with the explicit authority to audit the appropriateness of entities' KPIs, and the completeness and accuracy of their reporting.

Performance measurement and reporting in other jurisdictions

1.46 A range of jurisdictions, both internationally and in the Australian States, have implemented models for the audit of performance information and KPIs. One such model is to audit the 'appropriateness' of KPIs concurrently with financial statement audits. This particular approach is adopted in New Zealand, South Africa, and the Western Australian Government. Other models include the consideration of KPIs in the context of performance audits.

1.47 To develop an audit strategy for the audit of KPIs in conjunction with financial statement audits, and to enhance the ANAO's understanding of other jurisdictions' performance measurement and reporting frameworks, the ANAO focused on the experience of those jurisdictions whose approaches most closely aligned to the aims of the Pilot: Western Australia and New Zealand.

⁴¹ Joint Committee of Public Accounts and Audit, Report 419 *Inquiry into the Auditor-General Act 1997*, December 2010, p. 21.

Legislative and regulatory framework

1.48 Successfully promoting government transparency and accountability through improved public sector performance measurement and reporting is reliant on a sound legislative and regulatory framework. The reporting of performance information in Western Australia and New Zealand are based on legislative and regulatory frameworks which mandate the:

- development and reporting of ‘appropriate’ indicators⁴²;
- provision of an audit opinion on those indicators; and
- subsequent reporting against those indicators in a published annual report.

1.49 The Western Australian framework mandates the preparation of KPIs through the *Financial Management Act 2006* (WA), and the subsequent audit of KPIs through the *Auditor General Act 2006* (WA). These are supported by the Treasurer’s Instructions which provide further detail and guidance on the development and presentation of the KPIs.

1.50 Similarly, New Zealand’s Public Finance Act 1989 (NZ), mandates the development and reporting of performance information by departments in a ‘statement of service performance’, including the requirement to forward both annual financial statements and statement of service performance to the Auditor-General for audit and provides the authority for the Auditor-General to prepare an audit report on the information presented.⁴³

1.51 From an Australian Government perspective, the *Auditor-General Act 1997* provides the Auditor-General with the explicit authority to audit public sector entities’ KPIs. However, a common element of both Western Australia and New Zealand’s legislative and regulatory frameworks that is not currently present is the mandatory presentation of KPIs by entities to the Auditor-General for audit, and the requirement for entities to publish the resulting audit opinion in annual reports.

1.52 Increased confidence of the Parliament and the public in regard to the transparency and accountability of performance measurement and reporting by public sector entities could be enhanced by providing more specific

⁴² The Western Australian performance measurement and reporting framework describes KPIs as having to be relevant, appropriate and free from bias. New Zealand KPIs are to be relevant, complete and reliable.

⁴³ Public Finance Act 1989 (NZ) ss 45–45D.

legislative or regulatory support to the provisions of the *Auditor-General Act 1997*. In particular, the establishment of requirements for entities to present KPIs to the Auditor-General for audit, and to publish the Auditor-General's opinion in entities' annual reports would provide greater assurance to the Government, the Parliament and the public of the appropriateness, and completeness and accuracy, of public sector entities' KPIs.

1.53 The Australian Government's consideration of an overarching performance management framework as part of the Commonwealth Financial Accountability Review (CFAR) provides an opportunity for refining the current approach. CFAR's particular focus to improve performance and transparency is to establish obligations for chief executives and directors of public sector entities in relation to the quality and reliability of performance information.⁴⁴

Auditing performance measurement and reporting frameworks

1.54 The performance measurement and reporting frameworks for Western Australian and New Zealand public sector entities have matured over a number of years (from 1985 in Western Australia and 1989 in New Zealand). The Western Australian Auditor General's Report, *Audit Results Report – Annual 2011-2012 Assurance Audits*, noted that the results of assurance audits of KPIs demonstrated that 'data collection and integrity was the most commonly identified KPI control area needing improvement over the last three years' (2009–10 to 2011–12).⁴⁵

1.55 Similarly, Audit New Zealand, which has been issuing formal audit opinions on the appropriateness of performance information for a number of years, advised that its current model is more effective at a local government level, given its predominant focus on outputs, while difficulties remain in developing and auditing appropriate performance information at a central government level. The New Zealand experience also highlighted that additional effort is required to form an opinion on the completeness and accuracy of entities' performance where mature performance measurement and reporting frameworks do not exist within an entity.

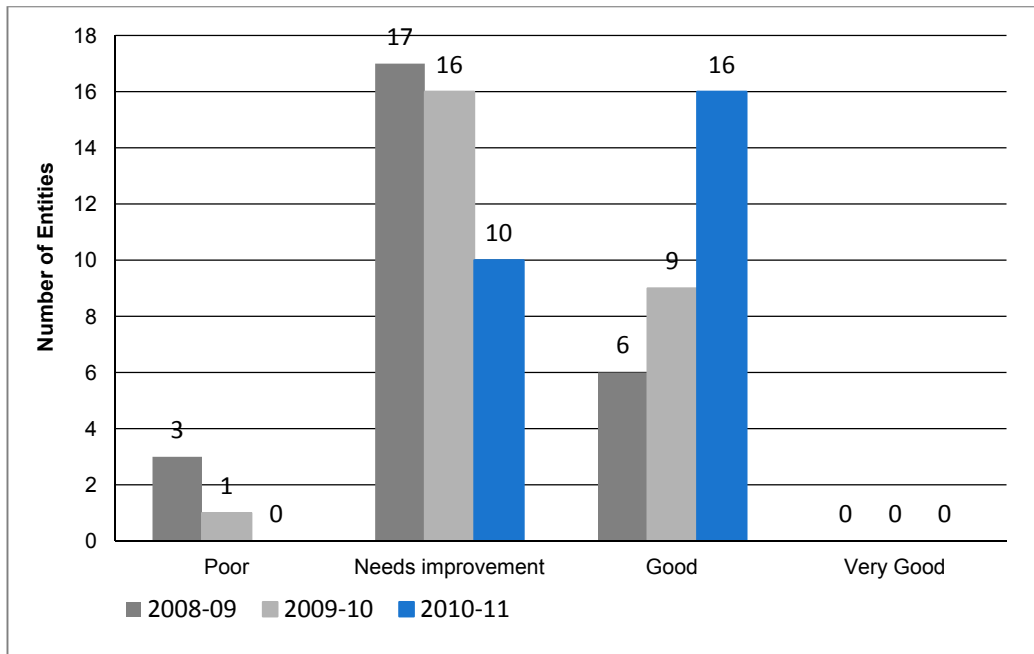
⁴⁴ Department of Finance and Deregulation, Commonwealth Financial Accountability Review, position paper, *Sharpening the Focus: A Framework for Improving Commonwealth Performance*, November 2012, p. 16.

⁴⁵ Auditor General for Western Australia, *Audit Results Report – Annual 2011-12 Assurance Audits*, Report 14, November 2012, p. 20.

1.56 A considerable and sustained effort is required to produce quality indicators that are ‘appropriate’ as demonstrated by New Zealand’s KPI audit results in Figure 1.3.

Figure 1.3

Trends from 2008–09 to 2010–11 in service performance grades for New Zealand entities



Source: New Zealand Office of the Auditor-General, *Central government: Results of the 2010–11 audits (Volume 1)*, December 2011, p.73.

1.57 The experiences of audit offices in Western Australia and New Zealand demonstrate that even with mature performance measurement and reporting frameworks, there remain challenges in auditing KPIs. These challenges include quality and the complexity of developing KPIs for government programs, and ensuring the completeness and accuracy of data supporting KPIs.

KPI audit pilot project objective and scope

1.58 Following the amendments to the *Auditor-General Act 1997*, the ANAO developed an audit approach as part of the Pilot to test the provision of assurance over entities' KPIs. The objective of the Pilot was to:

- build an understanding of experiences from other jurisdictions currently performing audits of KPIs as part of their financial statement audit processes, including the development of an approach and methodology;
- initiate and maintain ongoing discussions with Finance and PM&C in regard to strengthening the administrative framework relating to performance measurement; and
- develop and test an audit methodology and criteria to address the practical challenges of auditing the appropriateness of KPIs and the completeness and accuracy of reporting against them.

1.59 Four entities participated collaboratively in the Pilot. Finance contributed in view of its role in being responsible for administering the Outcomes and Programs framework. The Australian Taxation Office, the Department of Education, Employment and Workplace Relations, and the Department of Health and Ageing, contributed as agencies with experience in applying the principles of the Outcomes and Programs framework. For these three entities one outcome and program from each was selected for assessment.

KPI audit pilot project approach

1.60 To provide an informed understanding of the design and implementation of an ongoing audit approach and methodology, the ANAO conducted research into other jurisdictions' approaches. The research included: a study visit to the New Zealand Office of the Auditor-General and Audit New Zealand; holding discussions on the experiences of the Office of the Auditor General for Western Australia; and reviewing the reports of both these offices and other jurisdictions to provide insight to the challenges experienced in the development and audit of entity performance information.

1.61 Throughout the Pilot, the ANAO worked co-operatively with Finance to enable a consistent approach to the strengthening of the administrative framework and the development of the audit approach and methodology. During the course of the Pilot, Finance's key activities relating to KPIs included:

- the systematic program of evaluation of performance indicators against targets, including a review of entities' development and implementation of effectiveness KPIs;
- the development of the Commonwealth Financial Accountability Review (CFAR), which includes a section on the current performance measurement and reporting framework in the Australian Government; and
- the preparation of a response to Government in regard to Recommendation 3 of JCPAA Report 430.⁴⁶

1.62 To address the practical challenges, the ANAO also worked in a consultative manner with the three agencies previously mentioned, to develop and test KPI audit processes, and assist them in further enhancing their performance information.

⁴⁶ Joint Committee of Public Accounts and Audit, Report No.430 *Review of Auditor-General's Reports Nos. 46 (2010–11) to 9 (2011–12) and Reports Nos. 10 to 23 (2011–12)*, May 2012, p. 19.

2. The Administration of Australian Government Performance Measurement and Reporting

This chapter discusses the development of the Australian Government's performance measurement and reporting framework, the Department of Finance and Deregulation's administration of the policy in relation to the Outcomes and Programs framework including the preparation of guidance material for entities, and the steps being taken to achieve improvements through the Commonwealth Financial Accountability Review.

Introduction

2.1 A mature and robust performance measurement and reporting framework is important to the effective measurement and reporting of performance information, and the ANAO's ability to efficiently undertake KPI audits. Performance information is intended to act as a signalling device which provides assurance that programs are on track, highlights issues that require attention, and conveys information that allows the government, the Parliament and the public to consider a program's performance.

2.2 The Organisation for Economic Co-operation and Development (OECD) has observed that:

Measuring government performance has long been recognised as necessary for improving the effectiveness and efficiency of the public sector. Following the fiscal and economic crisis that began in 2008, however, accurate and timely data are needed more than ever to help governments make informed decisions about how and where to prioritise spending, reduce costs and promote innovation in the public administration.⁴⁷

2.3 At present, the most readily available and independently assured information in the public sector tends to be financial in nature, which, of itself, does not provide insights into whether publicly funded programs and activities are achieving their objectives and outcomes. Assessing performance in the public sector requires relevant, reliable and complete non-financial information. Such information has not been consistently available under the

⁴⁷ Organisation for Economic Co-operation and Development, *Government at a Glance*, 2011.

previous and current frameworks, and requires greater focus from public sector entities.

Considerations for performance measurement and reporting

2.4 The core elements of performance measurement and reporting frameworks have been in place in similar forms in the Australian Government since the introduction of the Outcome and Outputs framework in 1999, which built on earlier reforms. In 2009–10, with the introduction of the Outcomes and Programs framework two changes were made to entity reporting structures for the 2009–10 financial year:

- the number and specificity of outcome statements for entities; and
- the introduction of reporting on entities' programs in place of the previous output group/outputs reporting structures.

2.5 The focus of the Outcomes and Programs arrangements was to improve entity reporting of their contributions toward the intended results described in outcome statement(s).⁴⁸ Additionally, the separation of deliverables from performance information recognised that where an entity is funded to address a need in the community, the entity produces deliverables to respond to that need, and then measures the impacts and results through KPIs.

2.6 Program reporting is intended to focus on the objectives of a program, its resourcing, the deliverables it produces and the KPIs that measure effectiveness. The distinction between the production of deliverables and the measurement of KPIs was intended to separate the reporting of entities' activities from the results and the impacts achieved.⁴⁹

2.7 An important consideration in establishing and maintaining a performance management framework is that it remains relevant, informative and useful to a range of internal and external stakeholders.⁵⁰

⁴⁸ Department of Finance and Deregulation, *Guidance for the Preparation of the 2009–10 Portfolio Budget Statements*, Finance, March 2009, p. 8.

⁴⁹ *ibid.*, p.54.

⁵⁰ *ibid.*

Timeframes for and contributions to achieving outcomes

2.8 In the Australian Government public sector, the outcomes sought by the Government range from those with a short-term focus to those that will only be achieved in the longer-term. Further, the achievement of outcomes will often depend on a number of factors and may include the contribution of up to three levels of government and multiple entities.⁵¹

Intermediate outcomes/objectives

2.9 Many outcomes, particularly those related to social or health policy, can only be achieved over the longer-term. In these circumstances it may be necessary to relate targets associated with effectiveness indicators to milestones that demonstrate progress towards the program objective. The ANAO, in *Better Practice in Annual Performance Reporting*, outlined that:

An intermediate outcome is a shorter term 'milestone' of progress...which is both significant to the agency and for which its contribution to the outcome can be clearly defined and controlled.

The specification of intermediate outcomes allows clear understanding of an agency's contribution to important results. They can also help to improve understanding and explanation for outcomes that are set at a high level or which can only be achieved in the long term.⁵²

2.10 An example of a long-term outcome would be an improvement in the overall health of the population. To report against this long-term outcome, multi-year targets that focus on the achievement of intermediate objectives, such as the implementation of programs encouraging healthier lifestyle choices, may be used. These intermediate objectives collectively contribute to the achievement of the overall outcome over the longer-term. The New Zealand Government also introduced the concept of intermediate outcomes to take account of those desired results or changes in the general state of well-being in the community that are sometimes of a longer-term nature.⁵³

2.11 The Outcomes and Programs framework would benefit from further consideration of intermediate objectives where an overall outcome can only be

⁵¹ ANAO Audit Report No.23 2006–07, *Application of the Outcomes and Outputs Framework*, p. 16.

⁵² ANAO Better Practice Guide—*Annual Performance Reporting*, April 2004, Canberra, p.11.

⁵³ New Zealand Financial Reporting Standards Board, *Technical Practice Aid No. 9 Service Performance Reporting*, September 2002.

achieved over the longer-term. This approach would enable entities to effectively demonstrate progress towards long-term outcomes.

Cross-entity delivery and performance reporting

2.12 Over the past decade there has been an increasing emphasis on multiple entities contributing to the delivery of services. This requires entities to work together to develop budgeting and reporting arrangements that meet both the accountability obligations of individual entities and also contribute to the collective achievement of, and accountability for, 'whole-of-government' outcomes.⁵⁴ In the public sector, the development of a relevant and informative performance budgeting and management regime, characterised by multiple objectives and stakeholders is inherently difficult.⁵⁵

2.13 In 2004, the Management Advisory Committee published *Connecting Government: Whole of Government Responses to Australia's Priority Challenges*.⁵⁶ The report commented that identifying resourcing and performance of whole-of-government measures from year-to-year through budget documentation was difficult.

2.14 The ANAO's audit of the implementation of the Outcomes and Outputs framework in 2006–07 also identified that the concept of cross-entity outcomes had not been adopted by entities as none of the entities surveyed in the audit included cross-entity outcomes. However, approximately one-third of the entities surveyed for the audit identified that they had purchaser-provider arrangements in place, of these less than half specified performance information relating to these arrangements in their PBS.⁵⁷ The report also considered that there was a need for Finance to enhance its guidance material and suggested that the concept of cross-entity outcomes be reviewed in light of its lack of application by entities.⁵⁸

2.15 The current Outcomes and Programs framework has a strong focus on the traditional vertical accountability of individual entities. Finance has highlighted that:

⁵⁴ ANAO Audit Report No.23 2006–07, *Application of the Outcomes and Outputs Framework*, p.16.

⁵⁵ *ibid.*, p.17.

⁵⁶ Management Advisory Committee, MAC Report 4, *Connecting Government: Whole of Government Responses to Australia's Priority Challenges*, 2004, pp. 2, 9.

⁵⁷ ANAO Audit Report No.23 2006–07, *Application of the Outcomes and Outputs Framework*, pp. 46, 88.

⁵⁸ *ibid.*, p. 89.

...The existing framework emphasises entity-based, vertical accountability. It operates with a significant level of devolution at the entity level. The framework's focus on entity performance has contributed to some fragmentation of the whole-of-government perspective and collective responsibilities of entities and places less emphasis on joining up and systemic efficiency. What is needed is a more judicious balance between devolution and central coordination, whole-of-government perspectives and agency perspectives, along with appropriate levels of accountability.⁵⁹

2.16 Cross-entity performance reporting is typically required in cases of joint service delivery by two or more entities. While one entity will be responsible for the development of the policy initiative, actual delivery of services will be carried out by a separate entity. Such arrangements divide responsibilities, and in many cases, the accountability of various stakeholders is not clearly understood by all parties.

2.17 In ANAO Audit Report No.41 2009–10 *Effective Cross-Agency Agreements*, the ANAO examined 200 cross-agency agreements spanning 21 agencies. The objective of the report was to assess the extent to which agreements between Australian Government agencies reflected sound administrative practices. The report identified that in many cases the agreements provided only a perfunctory basis for building interagency collaboration, overlooking key provisions and important aspects of relationship management, risk management, outcome reporting and review. Approximately half of the agreements did not have performance indicators, and those that did seldom linked their indicators to broader outcomes.

2.18 The report noted that the absence of this information could reduce the usefulness of the agreements in providing a clear focus of what is to be achieved.⁶⁰ The ANAO observed that there was limited guidance available for the development and management of cross-agency agreements. While innovations such as the National Collaboration Framework have attempted to address these shortcomings, at the time of the audit, the ANAO noted that the tools provided by the Outcomes and Programs framework had not seen widespread use by agencies.⁶¹ The current model of assigning responsibility to a single entity for reporting on deliverables and KPIs, based on an outcome

⁵⁹ Department of Finance and Deregulation, Commonwealth Financial Accountability Review, position paper, *Sharpening the Focus: A Framework for Improving Commonwealth Performance*, November 2012, p. 26.

⁶⁰ ANAO Audit Report No.41 2009–10, *Effective Cross-Agency Agreements*, p. 17.

⁶¹ *ibid.*

where delivery is shared by several organisations, will also become increasingly difficult in a more collaborative environment.

The Council of Australian Governments and COAG Reform Council

2.19 The Council of Australian Governments (COAG) promotes policy reforms that are of national significance, or which need co-ordinated action by all Australian governments.⁶² In 2008, COAG agreed to the Intergovernmental Agreement on Federal Financial Relations, a new framework for the Commonwealth's financial relations between the States and Territories.⁶³ As part of these reforms the COAG Reform Council was established, to assist COAG in driving its reform agenda.

2.20 The COAG Reform Council publishes annual reports that outline COAG's progress in achieving its reform targets. COAG has committed to a 'rigorous focus on the achievement of outcomes', including the establishment of performance indicators that inform the community about government's progress.⁶⁴ The most recent report, published in December 2012, noted that while progress is still being made towards achieving reform targets, 'change is not easy and it can take longer than expected'.⁶⁵

2.21 The COAG Reform Council is one of two mechanisms by which the Australian Government can gain information about the operation of national funding agreements; the other is via the PBSs.⁶⁶ Under the Outcomes and Programs framework payments to States and Territories appear in the Treasury's PBS due to that agency's central role in releasing payments from Australian Government funds, while policy responsibility for the relevant program would generally reside with other Australian Government entities.

2.22 There is currently no guidance for these entities on how to present KPIs in their PBS or how to report against them in annual reports to determine the performance of programs funded under national funding agreements. As a result, there is variability in whether entities include performance indicators

⁶² Council of Australian Governments, *About COAG* [Internet], COAG, available from http://www.coag.gov.au/about_coag [accessed 11 October 2012].

⁶³ Council of Australian Governments, *Intergovernmental Agreement on Federal Financial Relations* [Internet], COAG, available from <http://www.coag.gov.au/node/98> [accessed 10 April 2013].

⁶⁴ Council of Australian Governments Reform Council, *COAG Reform Agenda: Report on Progress 2012*, 12 December 2012, p. 13.

⁶⁵ *ibid.*, p. 9.

⁶⁶ ANAO, Submission to the Joint Committee for Public Accounts and Audit inquiry into National Funding Agreements, *Submission No.1* [Internet], ANAO, 8 April 2011, p. 5, available from http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=jcpaa/natagree/subs.htm [accessed 10 April 2013].

for those programs in their own publications, and reporting is often either at a very high level or, in some cases, non-existent.⁶⁷

2.23 Reporting requirements for PBSs and national funding agreements do not intersect as their focus can often be different. The JCPAA recently made a number of recommendations, in Report 427 *Inquiry into National Funding Agreements*, relating to the improvement of performance reporting for national funding agreements, including:

Recommendation 14

The Committee recommends that the Department of the Prime Minister and Cabinet and central agencies investigate steps so that Portfolio Budget Statements and annual reporting requirements provide a more comprehensive picture of the performance and outcomes of programs under national partnerships across government.⁶⁸

2.24 On 16 August 2012 the Minister for Finance and Deregulation responded to Recommendation 14:

The Department of Finance and Deregulation is already taking steps to improve the guidance it provides agencies on performance reporting in the Portfolio Budget Statements as part of its response to a recent ANAO Performance Audit Report (No.5) 2011–12: *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*. The Department is also considering the inclusion of further guidance on how to reference performance reporting for programs delivered through NAs [National Agreements].⁶⁹

2.25 While COAG Reform Council's annual report and the PBSs and associated annual reports have different purposes, it is important that the information contained in each is consistent and provides a clear line of sight on the overall performance of the expenditure of funds through national agreements. The challenge for Australian Government entities, at the performance measurement and reporting level, remains 'how to satisfy itself

⁶⁷ ANAO, Submission to the Joint Committee for Public Accounts and Audit inquiry into National Funding Agreements, *Submission No.1* [Internet], ANAO, 8 April 2011, p. 5. available from http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=jcpaa/natagree/subs.htm [accessed 10 April 2013].

⁶⁸ Joint Committee of Public Accounts and Audit, Report 427 *Inquiry into National Funding Agreements*, November 2011, p. 98.

⁶⁹ Commonwealth, *Parliamentary Debates*, Senate, 16 August 2012, P Wong, Minister for Finance and Deregulation.

that the principles underpinning the use of Commonwealth resources are being adhered to, and value-for money outcomes are being achieved'.⁷⁰

Developing and measuring performance information for programs

2.26 Australian Government entities undertake many roles including: policy development and/or review; revenue collection; the provision of payments and services to organisations and the public; and the exercise of regulatory authority. In fulfilling these roles, entities administer a range of programs. Programs deliver benefits, services or transfer payments to individuals, industry/business or the community as a whole and are the primary vehicles for government entities to achieve the intended results of outcome statements.⁷¹

Measuring impact and effectiveness

2.27 Within the Outcomes and Programs framework, entities are expected to measure the performance of programs at two levels:

- through the goods and services produced and delivered under the program (deliverables); and
- the effectiveness of the programs in achieving objectives in support of respective outcomes (KPIs).

2.28 There are particular types of activity/ies undertaken by public sector entities that are not necessarily amenable to measuring the impact of programs through KPIs. The current design of the Outcomes and Programs framework, which requires entities to develop indicators for measuring both deliverables and the impact or effectiveness of programs in achieving objectives, presents challenges in developing and adopting KPIs that adequately measure activities and the impact of programs for which the entities are responsible. This has led to many entities not having in place KPIs that adequately meet the principles of the framework.

2.29 During the Pilot, the ANAO identified entities that had experienced difficulties in developing KPIs that measured the impact or effectiveness of a program where the entity was responsible for making payments in accordance

⁷⁰ ANAO, Submission to the Joint Committee of Public Accounts and Audit *Inquiry into National Funding Agreements, Submission No. 1*, p. 5.

⁷¹ Department of Finance and Deregulation, *Commonwealth Programs Policy and Approval Process* [Internet], Finance, December 2009, p. 1.

with legislation, but did not have any specific responsibility for the overarching policy. As a result the entities listed KPIs in their PBSs that were essentially deliverables rather than measures of a policy's effect or impact.

2.30 The Auditor General for Western Australia has noted that:

The 'one-size-fits-all' approach of the outcomes-based and compulsory KPI framework might no longer be the most effective way for all agencies to report on their performance. In trying to meet the framework and report on outcomes, some agencies have ended up with KPIs that on the surface seem irrelevant or unhelpful. Such cases run the risk of reducing confidence in the overall KPI system.⁷²

2.31 The development of a framework that accommodates the diversity of public administration, and provides entities with the ability to report appropriate performance information regardless of role, is critical. The current policies and guidance promulgated by Finance require entities to develop KPIs measuring the effectiveness of a program in achieving its objective and contribution to government outcomes. However, it would be desirable for the framework to recognise that the primary function of some entities is the delivery of services whereas other entities' responsibilities include assessing the impact on the Government's outcomes by those deliverables. In other words, the framework could better accommodate the diversity of entities' responsibilities in the Australian Government public sector.

Measuring and reporting on efficiency

2.32 Under the Outcomes and Outputs framework, entities were required to establish and measure performance relating to both the effectiveness of an entity's contribution to outcomes and the efficiency of its activities. Efficiency was expected to be measured by assessing the quality, quantity and price of entity goods or services.⁷³

2.33 Finance has described efficiency in government by stating that it is:

... about the change in the relationship of inputs to outputs at current prices in specific areas of public service. Put simply, improvements in the relationship can be claimed as efficiencies if proportionally less of a resource is used to

⁷² Auditor General for Western Australia, Report 3 *Beyond Compliance: Reporting and managing KPIs in the public sector*, April 2012, p. 7.

⁷³ Department of Finance and Deregulation Outcomes and Outputs guidance identified that efficiency was assessed through a combination these indicators. Department of Finance and Administration, *Outcomes and Outputs Guidance 2003, Performance Reporting Under Outcomes and Outputs* and ANAO Audit Report No.23 2006–07, *Application of the Outcomes and Outputs Framework*, p. 17.

deliver a particular service and if there is no decline in the quality of relevant services or outputs or there are improvements in the quality or quantity, or both, of output.

2.34 The way entities manage ongoing programs is central to the efficient delivery of government initiatives, and it is a requirement of the Outcomes and Programs framework that entities allocate departmental expenses in support of program delivery to the relevant program. While not a direct indicator of efficiency, when used appropriately, such information can inform decisions about the efficient allocation and use of entity resources.

2.35 ANAO Audit Report No.5 2011–12 identified that program support costs were not consistently identified in PBSs. While nearly all the entities reviewed included details of the deliverables associated with their programs, that is, the goods and services provided, 73 per cent of the programs examined did not specifically identify program support costs as is required by Finance guidance.

2.36 The focus of a more comprehensive model for performance measurement and reporting in the Commonwealth would include consideration of the development and implementation of ‘efficiency’ indicators to complement the ‘effectiveness’ indicator focus within the current model.

The importance of evaluation

2.37 The Secretary of the Department of Finance and Deregulation has noted the importance of program evaluation in the Commonwealth, as it:

- contributes to improved accountability to the Parliament and the public;
- provides a better information base to assist managers in improving program performance;
- assists government decision making and setting priorities, particularly in the Budget process; and
- is of considerable value to agency managers, external decision makers and other stakeholders. It is also a critical tool in assessing performance and in this way contributes to sound management practice.⁷⁴

⁷⁴ David Tune, PSM, Speech to the Canberra Evaluation Forum, Evaluation: Renewed Strategic Emphasis, August 2011.

2.38 Similarly, CFAR has identified the importance of evaluation as part of the improvements required to the current performance measurement and reporting framework;

The quality of performance monitoring and evaluation across agencies, policies and programs is variable. While there are some programs (particularly some large ones) that benefit directly from good evaluation practices, average quality appears to be low. Even where good evaluation and review exists, this information is not readily available to inform government decision making, especially on cross-portfolio matters.⁷⁵

2.39 In recent audits the ANAO has observed a low level of evaluation activity across the Australian Government and has recommended agencies consider the contribution that KPIs make to future evaluation activity, including the extent to which they address the overall effectiveness of the program against its program objectives and outcomes.⁷⁶

2.40 Low levels of evaluation activity may have contributed to less than optimal collection, use and reporting of performance information concerning government programs, impacting the value of performance information provided to the Parliament and the public. Having appropriate KPIs in place assists with evaluations that are based on performance information that is relevant, reliable and complete, and should continue as a focus for Finance in their consideration of Australian Government performance measurement and reporting going forward.

Guidance material to support the Outcomes and Programs framework

2.41 Robust guidance and advice that promote and support the development and reporting of KPIs by entities, are important in ensuring the Outcomes and Programs framework provides the Parliament and the public with the information necessary to inform decisions about the performance of entities.

2.42 A key point raised in ANAO Audit Report No.23 2006–07 *Application of the Outcomes and Outputs Framework* was that Finance guidance for the Outcomes and Outputs framework contained a combination of principles,

⁷⁵ Department of Finance and Deregulation, Commonwealth Financial Accountability Review, position paper, *Sharpening the Focus: A Framework for Improving Commonwealth Performance*, November 2012, pp. 17–18.

⁷⁶ ANAO Audit Report No.44 2011–12, *Administration of the Primary Care Infrastructure Grants Program*, p. 23.

requirements, suggested and better practices and as such did not clearly specify mandatory or minimum requirements within which agencies needed to comply.⁷⁷ The report also identified that guidance had not been kept up-to-date, was difficult to navigate and was not maintained in one location and this had led to some staff in agencies having limited knowledge of the guidance.⁷⁸

2.43 Under the Outcomes and Programs framework, ANAO Audit Report No.5 2011–12, noted that a number of policy guidance documents had been developed by Finance to support the Outcomes and Programs framework. The guidance included: the application of the framework; how to develop and implement KPIs; and the mechanical instructions required to construct the PBS documents. The report provided the following recommendation, which was agreed in principle by Finance (page 87):

To ensure the ongoing currency and appropriateness of the Outcomes and Programs Framework, the ANAO recommends that the Department of Finance and Deregulation:

- reviews the development and implementation of effectiveness KPIs to determine the extent to which expected improvements in the measurement and achievement of program objectives is being realised;
- includes in its guidance to entities a suggested diagnostic tool and methodology, such as the SMART criteria, to further assist entities to review and evaluate the usefulness of their KPIs; and
- develops more expansive policy guidance for entities on how to reference performance reporting for programs delivered through national agreements.

2.44 Since the introduction of the Outcomes and Programs framework in 2009–10, Finance has not significantly updated the guidance available for entities, and there continues to be no single comprehensive source of guidance. There are a number of reference documents which each contain some form of guidance or policy for entities, including:

- *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements March 2011;*
- *Performance Information and Indicators October 2010;*

⁷⁷ ANAO Audit Report No.23 2006–07, *Application of the Outcomes and Outputs Framework*, p. 28.

⁷⁸ *ibid.*, p. 86.

- *Commonwealth Programs Policy and Approval Process December 2009;*
- *Outcomes Statements Policy and Approval Process June 2009;* and
- Regular Estimates Memoranda⁷⁹ supporting the Budget processes published on an ad-hoc basis.

2.45 By maintaining multiple sources of policy and guidance, rather than consolidating the requirements of the Outcomes and Programs framework into a single reference document, the likelihood of entities consistently and effectively applying the Outcomes and Programs framework is likely to be reduced. Additionally, the current suite of guidance has not been updated to address how entities should address the measurement and reporting of contemporary issues in public administration, such as reporting on cross-entity outcomes or performance reporting for programs delivered through national agreements.

Portfolio Budget Statements and annual reports—a clear read

2.46 The Annual Reporting Requirements issued by PM&C, and approved on behalf of the Parliament by the JCPAA, for use by agencies in the preparation of their annual reports, highlights that:

The clear read between PB Statements and annual reports is an essential part of the accountability system ... and places a strong emphasis on compatibility between the two documents regarding budget and performance information...⁸⁰

2.47 Annual reports, prepared in accordance with the Annual Reporting Requirements are to contain a 'Report on Performance' which includes a review of how the entity has performed during the year. In this section, entities are required to report actual results for deliverables and KPIs set out in the PBSs.⁸¹ The extent to which other non-financial performance information is included and the order in which it is presented, is at the discretion of agencies.⁸²

⁷⁹ Estimates memoranda are published by Finance where additional policy guidance is required by entities and made available through the Central Budget Management System.

⁸⁰ Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies, and FMA Act Bodies*, p. 3.

⁸¹ *Ibid.*, pp. 6-7.

⁸² *Ibid.*, pp. 5.

2.48 The interpretation by agencies of the PBS and Annual Reporting Requirements has led to ‘a wide array of approaches and significant variation in the quality and usefulness of performance information at the agency level’.⁸³ The varying approaches reduce the comparability of reported information between years for individual agencies and more broadly across the public sector.

2.49 The JCPAA has also noted that:

KPIs should be drafted in a way that allows for direct comparison with data contained in PBSs and departmental annual reports. Providing the user with a ‘clear read’ through these documents constitutes best practice for government entities.⁸⁴

2.50 In support of the need for alignment, the JCPAA also recommended that:

Finance consult with the Department of the Prime Minister and Cabinet to consider a requirement for agencies to state the ‘KPI methodology used’ in their annual reports.⁸⁵

2.51 Expansion of the mandatory Annual Reporting Requirements to reflect the presentational requirements of the PBSs, will contribute to promoting consistency of performance reporting, and achievement of the ‘clear read’ principle. This will assist both the Parliament and the public in their understanding of government activities and provide a basis for comparison of Australian Government programs’ performance across agencies.

Oversight of the Outcomes and Programs framework

2.52 The ANAO has previously highlighted that although the primary responsibility for the application of the Outcomes and Programs framework rests with entities, Finance is expected to maintain an awareness and oversight of entities’ implementation.⁸⁶ In response to Recommendation No. 3 of ANAO Audit Report No.5 2011–12, Finance advised that they would ‘look to

⁸³ Dr Lewis Hawke, ‘Australian public sector performance management: success or stagnation?’, *International Journal of Productivity and Performance Management*, Vol. 61 Issue: 3, 2012, p. 318.

⁸⁴ Joint Committee of Public Accounts and Audit, Report 430 *Review of Auditor-General's Reports Nos. 47 (2010–11) to 9 (2011–12) and Reports Nos. 10 to 23 (2011–12)*, p. 6.

⁸⁵ *ibid.*, p. 17.

⁸⁶ *ibid.*, p. 86.

undertake a review of the development and implementation of effectiveness KPIs'.⁸⁷

2.53 In reviewing ANAO Audit Report No.5 2011–12, the JCPAA noted Finance's review of approximately 10 per cent of KPIs currently active in the Australian Public Service, and commented that the JCPAA:

... believes the findings of this review will enable Finance to better engage entities that are not currently preparing KPIs that conform to best practice.⁸⁸

2.54 Further, the JCPAA wished to see Finance take ownership of this issue with a sense of urgency.⁸⁹ In response, Finance advised the JCPAA that they have undertaken several discrete pieces of work, including:

- for 2009–10, collation of performance information for the KPIs of 321 Commonwealth programs across 42 material agencies;
- for 2010–11, an analysis of KPIs, targets, and performance outcomes of a range of Commonwealth agencies covering publicly-available data for 1,107 KPIs across 187 programs of 20 agencies; and
- a desk-top review of the alignment of the performance information collected and reported through the national agreements of the *Intergovernmental Agreement on Federal Financial Relations* with the performance information reported in the PBS and Annual Reports.⁹⁰

2.55 Finance further advised:

While Finance will work to drive improvements in the performance measurement and reporting of Commonwealth agencies, changes will only become apparent over a several-year period.⁹¹

⁸⁷ *ibid.*, p. 87.

⁸⁸ Joint Committee of Public Accounts and Audit, Report 430 *Review of Auditor-General's Reports Nos. 47 (2010–11) to 9 (2011–12) and Reports Nos. 10 to 23 (2011–12)*, p. 18.

⁸⁹ *ibid.*, p. 19.

⁹⁰ Department of Finance and Deregulation, *Executive Minute on JCPAA Report No 430 Review of Auditor-General's Reports Nos. 47 (2010–11) to 9 (2011–12) and Reports Nos. 10 to 23 (2011–12)*, February 2013, pp. 4–5.

⁹¹ *ibid.*

The Commonwealth Financial Accountability Review

2.56 On 8 December 2010, the Minister for Finance and Deregulation announced CFAR as part of the Australian Government's 'Better Government' agenda. It was intended that CFAR would examine the Commonwealth's financial framework from first principles and seeks to modernise the Commonwealth's financial and performance framework.

2.57 In March 2012, the CFAR discussion paper, *Is Less More? Towards Better Commonwealth Performance* was released by the Minister for Finance and Deregulation. The discussion paper received 67 written submissions. A key theme of the discussion paper was the need to develop mechanisms to improve clarity, readability, and consistency across different sources of performance reporting. The discussion paper also noted the need for appropriation bills, PBSs, annual reports and financial statements to be clearly comparable, and allow budgeted and actual expenditure and performance information to be easily contrasted.⁹²

2.58 In November 2012, Finance released an updated CFAR position paper, *Sharpening the Focus: A Framework for Improving Commonwealth Performance*. Finance state that this phase of CFAR focuses on prioritising the reforms needed with firmer propositions for consideration. Key elements of CFAR, as they relate to the auditing of KPIs and the performance measurement and reporting framework, are summarised in Figure 2.1.

⁹² Department of Finance and Deregulation, Commonwealth Financial Accountability Review, position paper, *Sharpening the Focus: A Framework for Improving Commonwealth Performance*, November 2012, p. 3.

Figure 2.1

CFAR Sharpening the Focus: A Framework for Improving Commonwealth Performance

CFAR *Sharpening the Focus: A Framework for Improving Commonwealth Performance* (propositions from paper relevant to the auditing of KPIs)

- To increase clarity, the high-level stages of the resource management cycle should be recognised in the financial management legislation, with appropriate links to the Budget framework. (p. 15)
- Given its importance, explicit obligations should be placed on chief executives and directors in legislation for the quality and reliability of performance information. (p. 16)
- Evaluation should be more systematic and better linked to the budget process. (p. 18)
- Finance should play a stronger role in fostering a culture that values more systematic evaluation. (p. 18)
- There should be a clear line of sight between appropriations, Portfolio Budget Statements and the information contained in annual reports to allow comparison of planned and actual performance. (p. 18)
- Legislation should make it clear that the responsibilities of public officials can extend beyond their individual organisations to include wider government objectives. (p. 26)
- Consideration should be given to expanding the menu of options available for structuring entities to facilitate increased collaboration and collective responsibility. (p. 27)
- Finance should enhance the training it provides and improve the quality of its guidance material. (p. 30)

Source: Department of Finance and Deregulation, Commonwealth Financial Accountability Review, position paper, *Sharpening the Focus: A Framework for Improving Commonwealth Performance*, November 2012.

2.59 CFAR provides the Government with the opportunity to consider how to position the current performance measurement and reporting framework to respond to contemporary issues in public administration, including the confluence of the framework with those of the various jurisdictions with which the Australian Government collaborates.

Conclusion

2.60 A mature and robust performance measurement and reporting framework is important to guide the effective measurement and reporting of performance information by public sector entities, and to provide the criteria for the ANAO to assess the appropriateness of KPIs in its audit role. At present, the most readily available and independently assured information in the public sector tends to be financial in nature, which, of itself, does not provide insights into whether publicly funded programs and activities are achieving their objectives and outcomes. Non-financial performance information is important for the Parliament and the public in assessing

whether policy goals have been achieved and how effectively the public sector has performed.

2.61 The broad range of roles and activities undertaken by Australian Government entities highlights that while some entities' programs suit the development of relatively straightforward performance information, the less tangible nature of the objectives of some other programs is more of a challenge.

2.62 A homogenous framework for application by all Australian Government entities, without recognition of the variety of entity activity/ies, has compounded the challenges that entities have in implementing the Australian Government performance measurement and reporting framework. For example, in a purchaser/provider model one entity will be responsible for the oversight of a policy initiative/s and be better suited to measuring the impact through KPIs, while another entity is responsible for the delivery of services and will be better suited to a focus on measuring deliverables. The development of a framework that accommodates this diversity, providing entities the ability to develop and report appropriate performance information regardless of their role, is critical.

2.63 Additionally, a more comprehensive model for performance measurement and reporting in the Australian Government would include consideration of the development and implementation of 'efficiency' indicators to complement the 'effectiveness' indicator focus within the current model.

2.64 It is also apparent that the Outcomes and Programs framework would benefit from consideration of intermediate objectives where an overall outcome can only be achieved over the longer-term. In these circumstances it may be necessary to relate targets associated with effectiveness indicators to milestones that demonstrate progress towards the program objective. This has been an issue which has been raised by the ANAO over many years, but where greater emphasis is required to obtain a stronger focus on the impact of programs.

2.65 The promulgation of updated, comprehensive guidance will be central to supporting the development and implementation of appropriate KPIs by public sector entities. It is also clear from the Pilot that the current framework and accompanying guidance does not provide an effective framework against which entities' KPIs can be reliably evaluated through an assurance audit process, as it does not specify clear standards or criteria that KPIs should

satisfy. That said, it does need to be recognised that the current framework was not designed with this specific purpose in mind.

2.66 The Australian Government has gone some way towards addressing this performance measurement and reporting challenge, with the Minister for Finance and Deregulation's announcement of CFAR with the purpose to 'analyse the Commonwealth financial framework from first principles and consider options to ensure the framework supports high quality resource management'.⁹³ CFAR provides the Government with the opportunity to consider how to position the current performance measurement and reporting framework to respond to contemporary issues in public administration.

⁹³ Department of Finance and Deregulation, *Commonwealth Financial Accountability Review, Introduction* [Internet], Finance, available from <http://www.cfar.finance.gov.au/2012/03/22/introduction/#more-39> [accessed 10 April 2013].

3. Key Performance Indicators Audit Pilot Project

This chapter discusses the criteria and approach the Australian National Audit Office has developed to assess the appropriateness of entities' KPIs and the completeness and accuracy of their reporting. The chapter also includes the results from the assessment of three entities' implementation of the Outcomes and Programs framework.

Introduction

3.1 Following amendments to the *Auditor-General Act 1997*, the ANAO developed an audit approach and criteria for assessment of the appropriateness of entities' KPIs, and the completeness and accuracy of their reporting. The intention of the ANAO is to develop an approach which would allow for the audit of KPIs concurrent with the audit of financial statements, and to test this approach through a KPI audit pilot project (the Pilot).

3.2 Observations made by the ANAO of other jurisdictions that have implemented programs for the audit of performance information concurrent with the audit of financial statements, have highlighted the similarities in the objectives of financial and non-financial performance information frameworks to meet the common information needs of a wide range of users, particularly the Parliament. The provision of financial and performance information to the Parliament through budget papers, annual reports and committee inquiries is fundamental to the executive government discharging its accountability obligations to the Parliament.

3.3 The audit of financial and performance information provides assurance to the Parliament that information is fairly presented. The ANAO has a long history of auditing the financial statements of all Commonwealth controlled entities. The recent extension of the audit mandate to specifically include KPIs is a positive development that can be expected to lead to improved information being presented to the Parliament in the longer-term. This Pilot was developed with the aim of the ANAO developing an approach to provide reasonable assurance on entities' reporting of KPIs, through an audit report, similar to that provided by a financial statement audit.

3.4 In the longer-term, the number of programs to be covered, and the timetable for the development of a suitable approach for the audit of KPIs

related to these programs, is subject to consultation with the JCPAA and other key stakeholders, and the appropriate resourcing of the ANAO.

Criteria for the audit of key performance indicators

3.5 The ANAO developed criteria for the audit of KPIs to evaluate the appropriateness of Australian Government entities' KPIs, and the completeness and accuracy of their reporting. The requirements of the Australian Standard on Assurance Engagements (ASAE) 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and other relevant standards and guidance were considered in the development of the audit criteria.

3.6 The criteria also make reference to the *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements (March 2011)*, other guidance issued by the Finance including: *Performance Information and Indicators (October 2010)*, *Outcome Statements Policy and Approval Process (June 2009)* and *Commonwealth Programs Policy and Approval Process (December 2009)*, and the *Requirements of Annual Reports for Departments, Executive Agencies and FMA Act Bodies* issued by PM&C.

Appropriateness

3.7 As defined by Finance, KPIs are established to provide information (either qualitative or quantitative) on the effectiveness of programs in achieving objectives in support of respective outcomes. The criteria developed to evaluate the appropriateness of an entity's KPIs are included in Table 3.1.

Table 3.1

Criteria for the evaluation of the appropriateness of KPIs

Criteria		Characteristics ⁽¹⁾	Explanation
Individual Assessment ⁽²⁾	Relevant <i>Relevant KPIs contribute to conclusions that assist users' decision making.</i>	Focused <i>The KPI should address a significant aspect/s of the program objective.</i>	The KPI should assist significantly in informing whether the program objective is being achieved.
		Understandable <i>The KPI should provide sufficient information in a clear and concise manner.</i>	The KPI should be stated in plain English and signal the impacts of program activities to inform users.
	Reliable <i>Reliable KPIs allow for reasonably consistent assessment of a program.</i>	Measurable <i>The KPI should be quantified (allowing for results to show trends when measured over time).</i>	The KPI should be capable of being measured to demonstrate the performance of the program.
		Free from bias <i>The KPI should be free from bias, and where possible, benchmarked against similar activities.</i>	The KPI should allow for clear interpretation of results.
Overall Assessment	Complete⁽³⁾ <i>A set of KPIs that allow for the overall assessment of a program to inform users' decision making.</i>	Balanced <i>The set of KPIs should provide a balanced examination of the overall performance story, both quantitatively and qualitatively.⁽⁴⁾</i>	The set of KPIs should provide an overall picture of the impact of a program on the target group/s.
		Collective <i>The set of KPIs should be representative of the program objective.</i>	The set of KPIs should demonstrate the extent of achievement against the program objective.

Source: ANAO.

Notes:

- (1) The table design reflects the relationship between the criteria and the primary characteristics, however, these characteristics may be attributable to more than one criterion.
- (2) Entities should include, for KPIs, an indication of the desired level of achievement (target) and an expected timeframe, in the format prescribed by Finance guidance.
- (3) In line with Finance Guidance, entities should provide context, and an overview of the program's performance, in support of the KPIs reported.
- (4) Quantitative data expresses a certain quantity, amount or range, and is usually associated with some form of measurement unit. Qualitative data describes attributes or properties, which may be categorised into classes and assigned numeric values. For example, as a measure of the effectiveness of a program in achieving its objectives, where the program objective is to find and retain jobs for unemployed Australians, a quantitative measure could be the number of job-seekers who are employed following participation in an employment service, and a qualitative measure could be the number, or percentage, of job-seekers' satisfied with the service provided.

Completeness and accuracy

3.8 The presentation of KPIs in annual reports is set out in Annual Report Requirements issued by PM&C and approved on behalf of the Parliament by the JCPAA. The criteria to evaluate the completeness and accuracy of KPIs are set out in Table 3.2.

Table 3.2

Criteria for the evaluation of the completeness and accuracy of KPIs

Criteria	Explanation
Data Completeness and Accuracy ⁹⁴	KPIs should be reported on the basis of data and information that reflects accurately and completely all events that should have been recorded.
Disclosures Completeness and Accuracy ⁹⁵	All disclosures relating to KPIs that should have been included in the annual report have been included (in accordance with PM&C's Annual Reporting Requirements), and all KPIs and information relating to them in the annual reports is disclosed fairly and, where applicable, at the appropriate amounts.

Source: Adapted from Australian Auditing Standard 315 *Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment*.

3.9 In addition to developing the above-mentioned criteria to assist in the evaluation of the appropriateness of entities' KPIs, and the completeness and accuracy of their reporting, the ANAO began work to develop an appropriate form of audit report as the basis for opining formally on entities' KPIs.

KPI audit pilot project

3.10 The KPI audit pilot project (the Pilot) reviewed the processes and systems the three Pilot entities had in place to develop and implement KPIs to measure achievement against program objectives in support of Government outcomes. The Pilot assessed whether the Australian Taxation Office (ATO), the Department of Education, Employment and Workplace Relations (DEEWR), and the Department of Health and Ageing (DoHA) had developed KPIs that were appropriate for the programs selected as part of the Pilot, that is, the KPIs were relevant, reliable and complete. The Pilot also assessed whether reporting against KPIs in the entities' annual reports was complete and accurate. In particular, the ANAO:

⁹⁴ Auditing and Assurance Standards Board, Australian Auditing Standard 315 *Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment*, para. A111(a).

⁹⁵ *ibid.*, para. A111(c).

whether reporting against KPIs in the entities' annual reports was complete and accurate. In particular, the ANAO:

- examined the outcome statements, program objectives, deliverables and KPIs published in the three entities' 2011–12 PBSs;
- reviewed whether the entities had procedures in place designed to support the completeness and accuracy of data and information used to measure performance; and
- reviewed the processes, procedures and accompanying documentation for compilation of the entities' annual reports.

Outcome statements, program objectives and deliverables

3.11 The ANAO examined the relationship between each of the three entities' outcome statements, program objectives, deliverables and KPIs for the programs under review. In practice, the number and complexity of the entities' outcome statements, programs, deliverables and KPIs was highly variable. This variability is demonstrated in Table 3.3.

Table 3.3

Total number of Pilot 2011–12 outcomes, programs, deliverables and KPIs

Component	ATO	DEEWR	DoHA
Outcomes	1	5	14
Programs	20	29	42
Deliverables	80	95	455
KPIs	41	70	227

Source: ANAO.

Outcome statements

3.12 Outcome statements are required to be included in PBSs identifying the intended results or impacts of actions by the Government on the Australian community.⁹⁶ All General Government Sector entities are required to have at

⁹⁶ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements* [Internet], Finance, March 2011, pp. 22–23.

least one outcome statement⁹⁷, against which performance is reported through KPIs.

3.13 In June 2009, Finance issued the guidance *Outcome Statements Policy and Approval Process*, highlighting that the clear specification of outcome statements is critical for establishing a basis for related program objectives and KPIs. The key principles are outlined in Table 3.4.

Table 3.4

Key principles for outcome statements

Key principles	Explanation
Identify the <i>intended result(s)</i> of the agency, with the level of achievement against the intended result(s) capable of being measured;	<ul style="list-style-type: none"> The intended results should be distilled from the Government's international and domestic policy goals and objectives for the department or agency (be they relating to economic, social, environmental, national security or industrial relations), and the Government's expectations of what the agency is to achieve.
Specify the <i>target group(s)</i> where this group is narrower than 'Australia' or 'Australians'; and	<ul style="list-style-type: none"> The target group need not be specified if it is implied that this outcome benefits Australians generally. Otherwise, the specific target group should be identified (e.g. 'Women', 'Indigenous Australians', and 'foreign countries'). Agencies should only define a target group if it is clear that the results will only relate to that group and no others.
Specify the <i>activities</i> undertaken by the agency that contribute to the achievement of the intended result(s).	<ul style="list-style-type: none"> Agencies should be able to describe the major actions, policy processes, events or business processes undertaken to bring about the intended result for the target group. Agencies should be careful not to unduly limit the range of activities specified.

Source: Department of Finance and Deregulation, *Outcome Statements Policy and Approval Process*, June 2009, p. 3.

3.14 As outcome statements are part of a framework that aims to inform parties external to the entity of the government's policy objectives and provide the foundation for selected program objectives, deliverables and KPIs, it is important that the outcome statement is specific, focused and can be easily interpreted.⁹⁸ Finance guidance further advises that outcome statements

⁹⁷ Department of Finance and Deregulation, *Outcome Statements Policy and Approval Process* [Internet], Finance, June 2009, p. 2.

⁹⁸ *ibid.*, p. 3.

should not be so abstract as to be without meaning and should not be generic or open to having multiple interpretations.⁹⁹

3.15 The Organisation for Economic Co-operation and Development, in a recent paper, *Value for Money in Government: Australia 2012*, found:

In the Australian case, it has been noted that outcome definitions are brief and broad, hence vague, widely different between agencies in terms of their nature and specificity, subject to permanent reformulation, hence not comparable over time. Furthermore, it has been noted that the information provided by agencies concerning the connection between outputs and outcomes as well as the output and outcome information itself is often of low quality.¹⁰⁰

3.16 Of the three outcomes reviewed for the Pilot, one entity had addressed all of the key principles in its outcome statement. The outcome statements for the other Pilot entities could be improved by specifying the target groups and clearly specifying the intended results that are relevant for the program objectives, deliverables and KPIs.

Program objectives

3.17 As stated within Finance's *Commonwealth Programs Policy and Approval Process*, December 2009:

Commonwealth programs deliver benefits, services or transfer payments to individuals, industry/business or the community as a whole and are the primary vehicles for government agencies to achieve the intended results of Government outcomes.¹⁰¹

3.18 Program objectives highlight the activities to be undertaken to achieve the intended results included in the outcome statement. The objectives need to be clear and use measurable terminology to allow the program KPIs to assess achievement of the program objectives, as distinct from the program outputs (deliverables).

3.19 In March 2011, Finance issued *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements* and the key guidance for program objectives is outlined below in Table 3.5.

⁹⁹ *ibid.*, p. 4.

¹⁰⁰ Organisation for Economic Co-operation and Development, *Value for money in Government: Australia*, OECD, 2012, p. 135.

¹⁰¹ Department of Finance and Deregulation, *Commonwealth Programs Policy and Approval Process December 2009* [Internet], Finance, December 2009, p. 1.

Table 3.5**Guidance for program objectives**

Guidance	Explanation
Demonstrate how the program has been designed to meet the intended result outlined in the outcome statement.	<ul style="list-style-type: none"> As a collective, program objectives should demonstrate their contribution to the intended results outlined in an agency's outcome statement.
Identify the issue, or area of need, and the specific target group(s) affected that the program intends to address.	<ul style="list-style-type: none"> Agencies should make clear what issue, or area of need, the program intends to address. The target group need not be specified if it is implied that it benefits Australians generally.
Outline the known matters in relation to the issue or area of need the program intends to address.	<ul style="list-style-type: none"> Providing a clear description of the current environment in relation to the issue, or area of need, provides a point of reference for users in understanding the program.
Identify the extent to which the issue or area of need will be addressed by the program.	<ul style="list-style-type: none"> Program objectives should demonstrate the extent to which the issue, or area of need, will be addressed by program activities.

Source: Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011, p. 29.

3.20 Each of the program objectives reviewed were broadly consistent with Finance guidance. The links between the entities' program objectives and outcome statements were generally clearly established and outlined the issue or area of need, and how that issue would be addressed by the activities of the program.

3.21 Improvements could be made by identifying, in specific terms, the target groups and including references that outline the known matters or issues that the program intends to address. These improvements would assist users to understand the issue or area of need that the program intends to address. Information on the current environment also provides users with a point of reference to understand the program objective.

Deliverables

3.22 Program deliverables (outputs) are the goods and services produced and delivered by a program. Collectively, deliverables represent the intervention government has chosen to take to further a policy objective. They are intended to bring about results outlined in the objective and can be

identified and measured through the program performance indicators.¹⁰² The key principles for program deliverables, as outlined in Finance's *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, are in Table 3.6.

Table 3.6

Guidance for program deliverables

Guidance	Explanation
Represent tangible products: the measurable and quantifiable units or activities produced and delivered by a program in meeting its objective.	<ul style="list-style-type: none"> • Deliverables should allow for consistent estimation over the Budget and forward years. • Where quantitative information is not available, agencies are to include the information in succinct dot points.
Include both direct program activities and the support activities that deliver and manage the program.	<ul style="list-style-type: none"> • While including both direct and support activities, focus should remain on the impacts the program will be making in the community more so than the support activities.
Capture the entirety of the program's major activities.	<ul style="list-style-type: none"> • This will ensure the measurement of efficiencies, as a function of resourcing to the production of goods and services, is accurate.

Source: Department of Finance and Deregulation, *Guidance for the Preparation of 2011–12 Portfolio Budget Statements*, March 2011, p. 35.

3.23 Finance guidance states that, where practical and beneficial, entities should include quantitative information in the deliverables section of their performance reports, as well as contextual and qualitative information.¹⁰³ In addition, deliverables should be measurable and quantifiable in nature to allow for consistent estimation over the current and forward years.¹⁰⁴ The use of targets and estimated timeframes for the achievement of deliverables also assists in building an entity's performance story.

3.24 In all cases, the three entities' deliverables were measurable and quantifiable, and clearly identified the tangible products to be produced to meet the program objective. However, two of the entities' deliverables could be improved with the inclusion of targets or estimated timeframes for achievement. The user could then understand the extent to which the deliverables are estimated to be achieved, and whether the entity was able to meet the stated timeframes.

¹⁰² Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011, p. 35.

¹⁰³ *ibid.*

¹⁰⁴ *ibid.*

3.25 It was unclear whether one entity's program deliverables captured all of the major activities stemming from the program objective. If all of a program's major functions are not captured by the deliverables, users are not able to gain a full understanding of entity performance across the program.

Appropriateness of key performance indicators

3.26 Within the context of the Australian Government performance measurement and reporting framework, KPIs are a measure of the effectiveness of a program in achieving the stated objective in support of its respective outcome.

3.27 Under the framework, KPIs are not measures of the inputs to a program (resources provided to administer the program), or their outputs (that is, quantity and quality indicators which are included in the deliverables section).¹⁰⁵ As stated in Finance guidance, KPIs:

... are the basis on which to assess the effectiveness of the program in achieving its objectives and involve measuring the impacts of these activities on the target group.¹⁰⁶

3.28 There were 31 KPIs for the programs selected. Of the 31 KPIs examined, five clearly did not meet the Finance definition, and as a result were not assessed further against the appropriateness criteria for KPIs. Those KPIs not meeting the definition were either descriptions of activities and therefore an input indicator, or output indicators.

3.29 The remaining 26 KPIs were assessed against the appropriateness criteria set out in Table 3.1, that is, relevant and reliable on an individual basis, and complete on a collective basis. In particular, the ANAO assessed the KPIs against those specific characteristics (focused, understandable, measurable, free from bias, balanced and collective) that contribute to appropriate KPIs.

3.30 The assessment also considered whether the individual indicators were targeted, provided a defined timeframe, and made reference to benchmarks or other standards for comparative purposes.

¹⁰⁵ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011, p. 29.

¹⁰⁶ *ibid.*, p. 28.

Relevant and reliable

3.31 Only one KPI met all of the characteristics outlined in the criteria.¹⁰⁷ Of the remaining 25 KPIs assessed, 22 KPIs met at least one of the characteristics and three of the KPIs partially met all but one. These results are detailed in Table 3.7.

Table 3.7

Number of KPIs that met, met some elements of, or did not meet the characteristics for being ‘relevant’ and ‘reliable’

Characteristic	Met	Met some elements	Did not meet	Total
Focused	23	3	-	26
Understandable	5	21	-	26
Measurable	21	-	5	26
Free from bias	17	8	1	26

Source: ANAO.

¹⁰⁷ The KPI assessed as meeting all of the characteristics was used to inform management of the Department of Health and Ageing’s Hearing Services program and was described as ‘Percentage of clients fitted with a hearing aid who have hearing loss greater than 23 decibels’.

Focused

3.32 Finance guidance states that:

Agencies should focus on reporting a strategic and meaningful level of performance indicators, demonstrating the link between the program performance indicators and the outcome.¹⁰⁸

3.33 Results of the analysis of the entities' KPIs against the 'focused' characteristic were varied. One entity had developed KPIs which allowed a link to be established between the KPIs and the program objective. The remaining entities' KPIs did not adequately establish this link and did not capture all of the major activities undertaken through the program.

3.34 By establishing clearer links between KPIs and program objectives, and capturing the major activities undertaken by the entity, a users' understanding of the level and contribution by the program to the outcome via the KPIs would be enhanced.

Understandable

3.35 KPIs should provide sufficient information in a clear and concise manner that allows them to be easily understood. Understandable KPIs are stated in plain English and signal the impacts of program activities to inform users. In most cases, the KPIs reviewed were clearly stated using plain English.

3.36 To assist in ensuring that KPIs are accessible to non-specialist readers it also is important that technical terms are clearly defined.

Measurable

3.37 Program KPIs should be capable of being measured in order to effectively demonstrate entity performance. Measurable indicators also allow KPI data to show trends when measured over time. Finance guidance states that:

Agencies are to use data sources and measurable samples of the relevant target groups to show the impact of the program and chosen indicators.¹⁰⁹

3.38 The analysis of the entities' KPIs showed that some of the KPIs adopted did not incorporate a clear measurable unit that could be used to demonstrate progress towards the program objective, or entity performance over time. For

¹⁰⁸ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011, p. 38.

¹⁰⁹ *ibid.*

example, the use of terms such as ‘progress’, ‘improve’ and ‘maintain’, which were incorporated into one of the entities’ KPIs, do not provide a useful basis for the measurement of performance.

Free from bias

3.39 Finance guidance states:

There should be no ambiguity about whether an increase or decrease in the indicator value is meant to be interpreted as a positive or negative impact.¹¹⁰

3.40 One entity’s KPIs documented a clear link between the KPIs and the outcome statement and positive results against the program KPIs were easily interpreted as assisting the entity in achieving its objective. Analysis of the other two entities’ KPIs demonstrated the potential for different conclusions to be drawn based on the results reported. The use of clearer definitions, additional contextual information and further information regarding the relationship between KPIs and program objectives would minimise this risk.

Complete

3.41 KPIs, when viewed as a collective, should allow for an overall assessment to be made as to the effectiveness of a program. The ANAO reviewed the entities’ KPIs to assess whether they were:

- balanced – the set of KPIs should provide a balanced examination of the overall performance story, both quantitatively and qualitatively; and
- collective – the set of KPIs should be representative of the program objective.

3.42 The group of KPIs for each entity partially met the characteristics of balanced and collective.

Balanced

3.43 Part of providing a balanced picture through reporting against KPIs is incorporating sufficient data to support an accurate representation of entity

¹¹⁰ Department of Finance and Deregulation, *Performance Information and Indicators*, October 2010, p. 3. Available from: <http://www.finance.gov.au/financial-framework/financial-management-policy-guidance/docs/KPI-guidance.pdf>, [accessed 10 April 2013].

performance. To achieve this, Finance recommends the use of both qualitative and quantitative KPIs to measure program performance.¹¹¹

3.44 Two of the entities examined had both qualitative and quantitative KPIs. However, the supporting information could have been expanded to allow users to more easily measure the impact of the program on the target population.

3.45 The third entity used only quantitative indicators. This may limit the value of the performance information that the entity reports for the program and does not provide a holistic picture of entity performance in relation to the program objective.

Collective

3.46 The ANAO examined the entities' KPIs for their collective demonstration of the achievement of the program objectives in support of the entities' outcomes. Finance guidance advises that the group of indicators chosen for a program should collectively address the program objective.¹¹²

3.47 With the exception of one entity's KPIs, which had the scope to be broadened, the other two entities' KPIs provided a reasonable basis on which to assess achievement against the overall program objective. Of the two, one entity's KPIs did not demonstrate the full extent of the entity's achievements in terms of the program and the other entity's KPIs did not capture the quality of the services the entity delivered furthering the program's objective. A review of KPIs by each of the entities to ensure they more closely reflect Finance guidance would provide a clearer picture of overall program performance.

Other areas of consideration for KPIs

3.48 The ANAO assessment of KPIs also considered whether KPIs were targeted, provided a defined timeframe for achievement, and made reference to benchmarks or other standards for comparative purposes.

Targeted

3.49 Targets are useful tools that signal the progress an entity intends to achieve in addressing a policy objective. They provide a goal that entities can

¹¹¹ Department of Finance and Deregulation, *Performance Information and Indicators*, October 2010, p. 7.

¹¹² Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011, p. 38.

work towards, and a point of reference against which achievement can be assessed.

3.50 Finance guidance states:

If a program's objectives are quantitative in nature, agencies are encouraged to consider the use of target indicators.¹¹³

3.51 One of the entities examined incorporated targets into all of their KPIs, including forward years. The targets the entity adopted were specific and regularly reviewed, providing useful targets for the entity to work towards. The other two entities either neglected to use targets or, where used, were too ambiguous for performance to be assessed against, as the target did not clearly describe a specific level of achievement.

Expected timeframe

3.52 The use of timeframes for the achievement of KPIs allows entities to develop an informed picture of performance and facilitate comparisons between planned and actual achievement by users. Finance guidance includes a KPI template that provides for the presentation of timed attributes for the previous financial year, the current year, and the forward three financial years, as appropriate.¹¹⁴ Not all of the entities examined adopted this template or included timeframes for the achievement of KPIs.

3.53 One entity incorporated timed KPI targets for the previous, current and forward years, another did so only for its quantitative targets and the remaining entity did not use timed targets for any KPI.

Benchmarked

3.54 The absence of benchmarks means non-specialist readers do not necessarily have a point of comparison against which entity performance can be gauged.

3.55 Where possible, KPIs should make reference to appropriate standards or similar activities for comparison. The inclusion of benchmarks enables assessments to be made as to the extent of achievement over time, between target groups, or across similar programs and jurisdictions.¹¹⁵

¹¹³ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011, p. 37.

¹¹⁴ *ibid.*

¹¹⁵ *ibid.*, p. 2.

3.56 The KPIs of one entity allowed for year-to-year comparisons of the entity's own performance but did not include benchmarks as an external reference point for readers. The other two entities examined did not include benchmarks in their PBSs but did include them in their annual reports.

Completeness and accuracy of key performance indicators

3.57 The objective of external performance reporting is to provide information that provides an accurate and succinct picture of entity performance in achieving stated objectives. If the data on which performance reporting is based is incomplete or inaccurate, or the disclosures do not meet the presentational requirements set out by the Parliament, the value of that information is diminished.

3.58 To assess the completeness and accuracy of the underlying data supporting the KPIs and their disclosure in annual reports, the ANAO developed audit criterion based on the principles of the Australian Auditing Standards and the Annual Reporting Requirements issued by PM&C, and approved on behalf of the Parliament by the JCPAA.

3.59 The Pilot included an assessment of the three entities to determine whether procedures were in place to support the completeness and accuracy of information and data used to report performance, and review the processes and procedures used for compilation of the PBSs and annual reports.

Completeness and accuracy of data

3.60 Given the importance of KPIs as a measure of the effectiveness of a program, the accuracy of the data used to report against KPIs is critical. Complete and accurate data sources, well designed collection arrangements, and frequent measurement (in addition to annual reporting processes) provide entities with confidence in the integrity and validity of the results reported against their KPIs.

3.61 In October 2010, Finance issued guidance to assist entities in formulating KPIs and collating performance information. The guidance included advice on the design of KPIs, including the ability to clearly specify:

- what the KPI is intended to show and why it is important;
- the data source;

- the collection arrangements;
- the measurement frequency;
- the statistical techniques for calculating performance, including any baseline or historical data; and
- the limitations of the data, including any factors which may be beyond the control of government.¹¹⁶

3.62 In analysing the entities' processes for collating KPI data, a number of areas where improvements could be made were identified including the use of manual data entry, reliance on unverified external data sources and a lack of formally documented processes. Limited quality assurance practices or procedures and in-frequency of KPI data measurement were also consistent areas where entities could improve KPI data collation practices.

Coordination and collation of the portfolio budget statements and the annual reports

3.63 A central coordination area and senior-level approval processes for the formulation of PBSs and annual reports assist entities in presenting complete and accurate information within their PBS and annual report.

3.64 During the course of the Pilot, one entity was unable to provide the ANAO with internal guidance material for the collation and preparation of information for their PBS. The guidance material of the other two entities was reviewed, and an outline of the results of this review is provided below.

Coordination of the portfolio budget statements

3.65 The two entities had templates in place for the preparation of their PBSs. The templates provided step-by-step instructions for compiling the information required. They were pre-populated from the previous year, and included instructions on how to complete the relevant sections, definitions of key terms, as well as examples of better practice.

3.66 The analysis did, however, identify some inconsistencies between the entities' templates and Finance guidance. The analysis also identified inconsistencies with the Finance guidance in regard to program deliverables and expenses, highlighting that improved guidance for entities from Finance

¹¹⁶ Department of Finance and Deregulation, *Performance Information and Indicators*, October 2010, p. 3.

may assist consistency of reporting under the performance measurement and reporting framework.

Coordination of the annual reports

3.67 The ANAO also reviewed the three entities' supporting documentation for the preparation of annual reports. Each of the entities had sound internal processes for the centralised collation and coordination of annual reports. Guidance promulgated by each entity was in line with PM&C's Annual Reporting Requirements and provided useful support for compiling annual report sections on performance measurement and reporting.

Completeness and accuracy of disclosures

3.68 PM&C's Annual Reporting Requirements state that annual reports are the means by which an entity reports on the achievements of program objectives, as set out in their PBSs. The guidance also notes that 'descriptions of processes and activities should be avoided. Rather, reporting should be aimed at providing an assessment of how far the entity has progressed towards outcomes'.¹¹⁷

3.69 Implicit in the framework is the expectation that KPIs will be appropriately disclosed by entities in their annual reports. Accordingly, the ANAO developed criteria, based on the principles of completeness and accuracy from the Australian Auditing Standards, to assess the disclosures as outlined in Table 3.2.

3.70 The entities' annual reports generally met PM&C's Annual Reporting Requirements. One of the entities did not identify whether its KPIs had been met. The other two entities did not provide explanations where KPIs were reported as not achieved. Additional information, including greater contextual information, would be beneficial to assist readers and to meet the entities' accountability obligations to the Parliament.¹¹⁸

Conclusion

3.71 Performance reporting is most effective when based on clearly expressed outcome statements, program objectives, deliverables and KPIs.

¹¹⁷ Department of the Prime Minister and Cabinet, *Requirements for annual reports for departments, executive agencies and FMA Act bodies*, July 2011, p. 6.

¹¹⁸ *ibid.*, p. 3.

Suitable processes and systems should support the collation and presentation of KPI information and data. The Pilot found there was room for strengthening the Pilot entities' performance reporting frameworks in order to enhance transparency and accountability, and to improve the quality of the performance information contained in the entities' annual reports. The entities engaged in the Pilot were receptive to the ANAO's feedback and planned to revisit their current approach where possible.

3.72 Implementation of a systematic audit of the appropriateness of entities' KPIs, and the completeness and accuracy of reporting is a process that will take time as entities continue to invest resources to develop and refine their KPIs. The continued focus of the ANAO in this area can be expected to lead to improvements in the quality of performance information provided to the Parliament and the public in the longer term.

3.73 The number of programs to be covered, and the timetable for the development of a suitable approach for the audit of KPIs related to these programs, are subject to consultation with the JCPAA and the appropriate resourcing of the ANAO.



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23 April 2013

Index

A

annual report, 8, 20, 24, 29–30, 32–33, 35, 37–38, 47–48, 54–55, 5765, 76–79

appropriateness of key performance indicators, 20, 34, 52, 59, 70

Australian Government Outcomes and Programs framework, 6, 9, 15, 18–19, 24–27, 40, 44–47, 49, 51–55, 59, 61

Australian Government performance measurement and reporting framework, 3, 15, 17–19, 59, 70

Australian Taxation Office, 7, 12, 18, 40, 64–65

B

balanced, 30, 63, 70, 73

benchmarks, 16, 34, 70, 74–76

C

CFAR discussion paper, Is Less More? Towards Better Commonwealth Performance, 18, 27, 57

CFAR position paper, Sharpening the Focus A Framework for Improving Commonwealth Performance, 57

COAG Reform Council, 47–48

collective, 45–46, 58, 63, 68, 70, 73–74

Commonwealth Authorities and Corporations Act 1997, 7–8, 29

Commonwealth Financial Accountability Review, 6–7, 18–19, 21, 38, 41–42, 52, 57–60

Commonwealth financial framework, 21, 60

complete, 63, 73, 76

completeness and accuracy of data, 39, 64

completeness and accuracy of disclosures, 64, 78

coordination of the annual reports, 78

Council of Australian Governments, 7, 47, 48

cross-entity outcomes, 45

D

deliverables, 6, 15, 19–20, 25, 28–29, 43, 46, 49–51, 54, 59, 65–70, 77–78

Department of Education, Employment and Workplace Relations, 7, 11, 18, 40, 64–65

Department of Finance and Deregulation, 7–8, 11, 15, 18–21, 24, 26–29, 35, 37–38, 40–43, 45–46, 48–63, 65–77

Department of Health and Ageing, 7, 12, 18, 40, 64–65, 71

Department of the Prime Minister and Cabinet, 7–8, 24, 28–29, 33, 40, 48, 54–55, 62, 64, 76, 78

E

effectiveness, 9, 11, 14–16, 19–20, 28–29, 41–44, 49–53, 56, 59, 62–63, 70, 73, 76

efficiency, 11, 14, 20, 32, 42, 46, 50–51, 59

F

financial framework, 9, 57

Financial Management and Accountability Act 1997, 7–9, 28–29, 33, 54, 62, 78

focused, 12, 36, 63, 66, 70–72

free from bias, 37, 63, 70, 73

G

Guidance for the Preparation of the 2011–12 Portfolio Budget Statements, 20, 28, 51–52, 63, 66, 68–70, 72–75, 77

I

intended results, 9, 24–25, 43, 49, 65–68

intermediate outcome, 19, 44, 59

J

Joint Committee of Public Accounts and Audit, 7–8, 11, 16–17, 21, 24, 28–29, 34–36, 41, 48, 54–56, 62, 64, 76, 79

K

KPI audit methodologies, 18

M

measurable, 67, 72

O

Organisation for Economic Co-operation and Development, 7, 14, 42, 67

outcome statements, 6, 9–11, 14–16, 20, 25–29, 34, 42–50, 52, 54, 56, 58, 62, 64–68, 74, 78

P

Portfolio Budget Statements, 7, 9–10, 15, 24, 27–30, 32, 35, 43, 47–49, 51, 53–58, 62, 65, 67–70, 72, 74–78

program, 3, 6, 9–12, 14–21, 24, 25, 27–30, 33–35, 40–44, 47, 48–56, 58–59, 61–79

program effectiveness, 10, 14

program objectives, 6, 9–10, 14–16, 19–21, 28, 42–45, 49, 52–53, 58–59, 61–8

Program reporting, 43

program support costs, 10, 51

programs, 11–12, 15–16, 18, 19, 21, 24–25, 27–28, 34–35, 39–40, 42–43, 48–49, 52–54, 62, 65, 67

Public Accounts and Audit Committee Act 1951, 35

Q

qualitative, 9, 62–63, 69, 74

quantitative, 9, 16, 62–63, 69, 74, 75

R

relevant, 2, 6, 18, 28, 30, 32, 37, 42–43, 45, 47, 50–52, 58, 62, 64, 67, 70–72, 77

reliable, 6, 30, 37, 42, 52, 64, 70, 71

Report 419 Inquiry into the Auditor-General Act 1997, 11, 16, 17, 36

Report 430 Review of Auditor-General's Reports Nos. 47 (2010–11) and reports Nos. 10 to 23 (2011–12), 35, 41

reporting cycle, 6, 27, 30, 31

Requirements for Annual Reports for Departments, Executive agencies and FMA Act Bodies, 8, 28–29, 54–55, 64, 78

T

target group, 28, 67–68, 72, 75

targeted, 19, 27, 28, 41, 44, 47, 56, 59, 69, 74–75

U

understandable, 30, 63, 70–72

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Communities

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Agreement on Preventive Health

Australian National Preventive Health Agency

Department of Health and Ageing

ANAO Audit Report No.13 2012–13

The Provision of Policing Services to the Australian Capital Territory

Australian Federal Police

ANAO Audit Report No.14 2012–13

Delivery of Workplace Relations Services by the Office of the Fair Work Ombudsman

Education, Employment and Workplace Relations

Office of the Fair Work Ombudsman

ANAO Audit Report No.15 2012–13

2011–12 Major Projects Report

Defence Materiel Organisation

ANAO Audit Report No.16 2012–13

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2011

Across Agencies

ANAO Audit Report No.17 2012–13

Design and Implementation of the Energy Efficiency Information Grants Program

Department of Climate Change and Energy Efficiency

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Family Support Program: Communities for Children

Department of Families, Housing, Community Services and Indigenous Affairs

ANAO Audit Report No.19 2012–13

Administration of New Income Management in the Northern Territory

Department of Human Services

ANAO Audit Report No.20 2012–13

Administration of the Domestic Fishing Compliance Program

Australian Fisheries Management Authority

ANAO Audit Report No.21 2012–13

Individual Management Services Provided to People in Immigration Detention

Department of Immigration and Citizenship

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Administration of the Tasmanian Forests Intergovernmental Contractors Voluntary Exit Grants Program

Department of Agriculture, Fisheries and Forestry

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Department of Defence

ANAO Audit Report No.26 2012–13

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Department of Defence; Defence Material Organisation

ANAO Audit Report No.27 2012–13

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