

The Auditor-General
Report No.21 2013–14
ANAO Report

Pilot Project to Audit Key Performance Indicators

Australian National Audit Office

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Canberra ACT
27 February 2014

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has continued a pilot project to review developments in the Australian Government performance measurement and reporting framework as a basis for implementing a future program of audits, and to further develop and test an audit methodology.

In accordance with the authority contained in section 25 of the *Auditor-General Act 1997*, I present the report of the pilot project to the Parliament. The report is titled *Pilot Project to Audit Key Performance Indicators*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

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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Abbreviations

AFP	Australian Federal Police
ANAO	Australian National Audit Office
ASAE	Australian Standard on Assurance Engagements
ATO	Australian Taxation Office
CFAR	Commonwealth Financial Accountability Review
COAG	Council of Australian Governments
Environment	Department of the Environment
Finance	Department of Finance
JCPAA	Joint Committee of Public Accounts and Audit
KPI	Key Performance Indicator
OECD	Organisation for Economic Co-operation and Development
PBSs	Portfolio Budget Statements
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
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 annual reporting requirements for bodies subject to the <i>Financial Management and Accountability Act 1997</i> , are set out in the <i>Requirements for Annual Reports</i> administered by the Department of the Prime Minister and Cabinet and, for bodies subject to the <i>Commonwealth Authorities and Companies Act 1997</i> , the requirements are set out in the Act and in the accompanying Annual Reporting Orders issued by the Finance Minister.
Australian Government performance measurement and reporting framework	The framework under which Australian Government agencies measure and report their performance.
Key Performance Indicator(s)	Within the context of the current Outcomes and Programs framework, KPIs are indicators of the effectiveness of programs in achieving objectives in support of respective outcomes.
Outcomes	The results, consequences or impacts of government actions on the Australian community.
Outcomes and Programs framework	The Outcomes and Programs framework is the key mechanism in providing the Parliament and the public with information on the intended results and, subsequently, the impacts or consequences of actions by the Government on the Australian community.

Outcome statement	Outcome statements identify those intended results, impacts or consequences of actions by government on the Australian community.
Output	The goods and/or services produced and/or delivered by a program.
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 the Parliament and the public of the proposed allocation of resources to government outcomes.
Program	An activity or activities with a common focus that deliver benefits, services or transfer payments to individuals, industry and/or the community 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 direct resources required to administer a program.
Program support costs	The indirect resources allocated to a program.
<i>Public Governance, Performance and Accountability Act 2013</i>	The <i>Public Governance, Performance and Accountability Act 2013</i> received Royal Assent on 29 June 2013 and replaces the <i>Financial Management and Accountability Act 1997</i> and the <i>Commonwealth Authorities and Companies Act 1997</i> on 1 July 2014.

Summary

Summary

Introduction

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

While measuring government performance has long been recognised as playing an important role in increasing the effectiveness and efficiency of the public administration, following the economic crisis and fiscal tightening in many member countries, good indicators are needed more than ever to help governments make informed decisions regarding tough choices and help restore confidence in government institutions.¹

2. Performance reporting regimes have been receiving increasing attention 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. With the current focus on budget and policy priorities, performance information, particularly concerning the impact of government policies where such information is available, can be expected to be a key input into decisions by both government and government agencies.

3. Measuring the impact of programs, or outcomes, can have many benefits and provides performance information that measurement of inputs (resources invested) and outputs (deliverables) alone cannot. Importantly, outcome measurement provides information about the effectiveness of programs or services and supports the longer-term evaluation of programs. In addition, performance information can also inform decisions on the efficiency of delivery models adopted to achieve desired policy outcomes.

4. In essence, performance measurement can:

- help clarify government objectives and responsibilities;

1 Organisation for Economic Co-operation and Development, *Government at a Glance 2013* [Internet], OECD Publishing, 2013, available from <http://www.oecd-ilibrary.org/governance/government-at-a-glance-2013_gov_glance-2013-en> [accessed 9 January 2014].

- promote analysis of the relationships between agencies and between programs, enabling governments to coordinate policy within and across agencies;
- make performance more transparent, and enhance accountability;
- provide governments with indicators of their policy and program performance over time;
- inform the wider community about government performance; and
- encourage ongoing performance improvements in service delivery and effectiveness, by highlighting improvements and innovation.²

5. Performance measurement and reporting is expected to be an integral component of agencies' governance arrangements, which provides information for both internal management purposes and external accountability. Dr Ian Watt AO, Secretary of the Department of the Prime Minister and Cabinet, has highlighted that:

... we do need to embrace opportunities to be a more effective and smarter public service, and a more stringent fiscal situation is a powerful signal to us for change ...

But we cannot, and should not, simply wait for the [National] Commission [of Audit]³ to do the thinking for us. We should already be adjusting priorities to meet the current fiscal environment and a new government and thinking about major changes that might come. We should be not only assessing the *way* we work, but also *what* we are working on; we should be reviewing our critical functions; and looking at what we can, and should, stop doing.⁴

6. At a time when the demands on government exceed available resources, there is a premium on leadership, effective governance and longer-term planning by government agencies in order to provide sound advice for government and efficiently deliver government policies and programs.

2 Steering Committee for the Review of Government Service Provision, *Report on Government Services 2014, Volume A: Approach to performance reporting*, Productivity Commission, Canberra, 2014, p. 1.4.

3 The National Commission of Audit was announced by the Treasurer, and the Minister for Finance, on 22 October 2013.

4 Dr Ian Watt AO, IPAA National Conference Address, *Remarks given in response to Professor Christopher Pollitt's address: 'The Public Service: Dissolution, Revolution, Evolution?'* [Internet] 20 November 2013, available from <http://www.dpmc.gov.au/media/speech_2013-11-20.cfm> [accessed 19 February 2014].

The Outcomes and Programs framework

7. Since the mid-1980s in Australia, public sector management frameworks have emphasised the importance of measuring program performance. While the frameworks have changed over the years, the fundamental goals have remained largely consistent—to be able to measure and assess the impact of government programs; some frameworks have also included a focus on program efficiency.

8. In 2009–10, the Australian Government’s Outcomes and Programs framework replaced the previous Outcomes and Outputs framework, which was originally introduced as part of the 1999–2000 budget process.⁵ The additional emphasis under the new framework being on agencies identifying and reporting on the impact of 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, deliverables and appropriate key performance indicators (KPIs) to enable users to assess an agency’s progress towards the stated program objectives and collectively, their contribution to stated outcomes. It is not expected that KPIs 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 deliverables⁶) as in the previous framework.⁷

Public Governance, Performance and Accountability Act 2013

9. In 2013 the Australian Government introduced the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) as part of broader reforms to the Commonwealth’s financial framework implemented following the Commonwealth Financial Accountability Review. The PGPA Act includes a number of requirements with respect to planning, budgeting and non-financial performance assessment and reporting. These include:

- the measurement and assessment of the performance of agencies against their corporate plan;

5 The Outcomes and Outputs framework required agencies to specify intended outcomes and to measure and report on agencies’ actual performance in the delivery of their designated outputs.

6 Program deliverables (outputs) are the goods and/or services produced and/or delivered by a program.

7 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012, p. 37.

- the preparation of annual performance statements (to be included in agencies' annual reports); and
- a responsible Minister, or the Finance Minister, may request the Auditor-General to examine and report on the agency's annual performance statement (the report is to be tabled in Parliament).

10. While the Department of Finance (Finance) is still developing the rules to underpin the PGPA Act, they would be expected to continue the focus on measuring program effectiveness, and potentially be complemented by measures to assess the efficiency of program delivery.

Previous ANAO reports

11. The Australian Government performance measurement and reporting framework has been the subject of various Australian National Audit Office (ANAO) performance audits. ANAO Audit Report No.5 2011–12 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, provided an assessment of the development and implementation of KPIs by government agencies. The findings of the audit indicated that many of the agencies reviewed continued to find it challenging to develop and implement effectiveness KPIs to allow for an informed and comprehensive assessment and reporting of progress towards stated objectives.⁸

12. Other performance audits undertaken by the ANAO have also highlighted the need to strengthen program performance measurement. Over the last two financial years (2011–12 and 2012–13), 48 per cent of ANAO performance audit reports included recommendations which focused on the need for better program effectiveness measures.⁹ In addition, audit findings and recommendations have highlighted the importance of developing an evaluation strategy at the outset of program implementation¹⁰; the need for a methodology for collecting and reporting on performance data early in

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

9 Mr Ian McPhee, PSM, Presentation to the Risk Management Institute of Australia; Australasian Compliance Institute at the 2nd Annual GRC Conference, *Public Sector Management—A Scorecard on the Journey* [Internet], 1 November 2013, available from <<http://www.anao.gov.au/Publications/Speeches>> [accessed 9 January 2014].

10 ANAO Audit Report No.1 2013–14 *Design and Implementation of the Liveable Cities Program*, p. 27.

program implementation, including establishing baselines and benchmarks¹¹; ensuring the availability of timely, accessible and comparable data¹²; and the development of interim performance indicators to inform internal and external stakeholders on the progress of a program towards achieving planned outcomes.¹³

13. 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 agencies' key performance indicators and the completeness and accuracy of their reporting. As a consequence, the ANAO initiated a pilot project to audit KPIs (2011–12 Pilot), which is the subject of ANAO Report No.28 2012–13 *The Australian Government Performance Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators* (ANAO Report No.28 2012–13), tabled on 23 April 2013.

14. The 2011–12 Pilot concluded that agencies continued to experience challenges in developing and implementing meaningful KPIs and that the administrative framework supporting the development and auditing of KPIs remained problematic. The report highlighted that the key areas where the administrative framework required further consideration included:

- the suitability of a homogenous framework for application by all Australian Government agencies, without recognition of the variety of agency activity/s;
- cross-agency performance reporting, where one agency is responsible for the development of the policy initiative, and actual delivery of services is carried out by a separate agency;
- the development of intermediate objectives where an overall outcome can only be achieved over the longer-term;
- the development and implementation of 'efficiency' indicators to complement the 'effectiveness' indicator focus within the current model;

11 ANAO Audit Report No.19 2012–13 *Administration of New Income Management in the Northern Territory*, p. 26.

12 ANAO Audit Report No.12 2012–13 *Administration of Commonwealth Responsibilities under the National Partnership Agreement on Preventative Health*, p. 25.

13 ANAO Audit Report No.44 2012–13 *Management and Reporting of Goods and Services Tax and Fringe Benefits Tax Information*, p. 23.

- the need for focused and clear outcome statements and well defined program objectives; and
- the need for greater rigour within the framework to support provision of independent assurance over agencies' performance measurement and reporting.

15. The 2011–12 Pilot also observed that there remained multiple sources of policy and guidance, rather than a single reference document, that consolidated the requirements for the Outcomes and Programs framework.¹⁴

16. In relation to agencies' implementation of the framework, the 2011–12 Pilot also found there was room for strengthening the 2011–12 Pilot agencies' performance measurement and reporting, in order to improve the quality of the performance information contained in the agencies' annual reports, and confirmed that clear outcome statements and well defined program objectives are important for the development of appropriate KPIs.¹⁵

The Joint Committee of Public Accounts and Audit

17. The Joint Committee of Public Accounts and Audit (JCPAA) examines the reports of the Auditor-General which have been tabled in Parliament.¹⁶ The JCPAA's examination includes reviews of reports. The selection is based on a range of factors including: program significance in relation to government policy; public interest and impact on the community; the significance of the Auditor-General's findings; and the value of program expenditure.¹⁷

18. As part of the JCPAA's ongoing focus on the measurement of government performance, and in light of the reforms introduced through the Commonwealth Financial Accountability Review, the Committee reviewed ANAO Report No.28 2012–13. In June 2013, the JCPAA tabled its findings in Report 439, *Review of Auditor-General's Reports Nos.11 to 31 (2012–13)*.

14 ANAO Report No.28 2012–13 *The Australian Government Performance Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*, p. 54.

15 The International Public Sector Accounting Standards Board's Exposure Draft 54—Recommended Practice Guideline on Reporting Service Performance Information, and the Steering Committee for the Review of Government Service Provision's *Report on Government Services 2014* are also additional sources of useful information to assist agencies in enhancing KPIs.

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

17 Joint Committee of Public Accounts and Audit, Report 439, *Review of Auditor-General's Reports Nos.11 to 31 (2012–13)*, JCPAA, Canberra, 2013, p. 1.

19. The Committee reinforced the importance of KPIs for: informing broader evaluations; continuous reporting; and project management discipline, while highlighting the need for other mechanisms such as independent evaluations and capability reviews.¹⁸ The Committee made two recommendations outlined below.

Recommendation 1

The Joint Committee of Public Accounts and Audit recommends that the Department of Finance and Deregulation, in consultation with the Australian National Audit Office, prioritise the review and update of the performance measurement and reporting framework. A goal should be to have clear policy and guidance in place for the 2014–15 financial year that can be used by agencies to produce auditable Key Performance Indicators, irrespective of the passage of the Public Governance, Performance and Accountability Bill 2013.

Recommendation 2

The Joint Committee of Public Accounts and Audit recommends that:

- the Government reinforce the requirements for agencies to incorporate specific performance monitoring, reporting and evaluation activities into the design and costing of their programs;
- agencies be appropriately funded to carry out these activities; and
- monitoring be used to provide assurance that these activities are implemented.

Source: Joint Committee of Public Accounts and Audit, Report 439, *Review of Auditor-General's Reports Nos.11 to 31 (2012–13)*, JCPAA, Canberra, 2013, p. 30.

20. At the time of preparing this report, a response had not been provided to the JCPAA regarding the recommendations made in Report 439. However, Finance advised the ANAO on 13 February 2014, that the department is progressing the development of a more coherent performance management framework through the Public Management Reform Agenda.¹⁹ Further, Finance advised that the department:

... will continue to consult with entity and government representatives on the development of relevant rules and associated guidance materials which will be finalised during 2014. This will include guidance for measuring and assessing entity performance, guidance and templates for entities to produce both Corporate Plans and Annual Performance Statements, and revamped policies for the elements of the Outcomes and Programmes Framework. This material will be presented to the government for consideration during the second half of 2014. Together these near-term measures will lead to an enhanced

18 Joint Committee of Public Accounts and Audit, Report 439, *Review of Auditor-General's Reports Nos.11 to 31 (2012–13)*, JCPAA, Canberra, 2013, pp. 28–9.

19 The Public Management Reform Agenda was announced in December 2010. The Commonwealth Financial Accountability Review and the enactment of the PGPA Act are discussed further in paragraphs 9–10 and in Chapter 2, pp.54–55.

Australian Government monitoring and evaluation framework. The process of developing these materials will itself focus agencies on their current practices, and on bringing these up to a higher standard.²⁰

Pilot project to audit key performance indicators

21. In 2012–13, the ANAO pilot project to audit KPIs was continued with the objective of conducting a review of framework developments, both in terms of the clarity of the policy and guidance issued by Finance and the performance of agencies in applying this policy and guidance, as a basis for implementing a future program of audits; and to further develop and test an audit methodology to address the practical challenges of assessing the appropriateness of KPIs, and their complete and accurate reporting. The pilot project included:

- a cross-agency survey assessing Australian Government agencies' approaches and attitudes towards performance measurement and reporting more broadly, including internal governance arrangements and the extent to which performance measurement is used in agencies' management decision-making processes; and
- an examination of the 2012–13 and 2013–14 Portfolio Budget Statements of the three agencies participating in the pilot project, and the completeness and accuracy of the KPI data and disclosures in the agencies' annual reports.

22. In 2012–13, 16 agencies participated in the cross-agency survey. These agencies were selected from the major Australian Government departments, prescribed FMA Act agencies and included those who participated in the continuation of the pilot project. The results of the survey are discussed in Chapters 2 and 3 of this report.

23. Additionally, three agencies participated collaboratively in the continuation of the pilot project. The Australian Taxation Office, the Department of the Environment, and the Australian Federal Police contributed as agencies with experience in applying the Outcomes and Programs framework. This allowed the ANAO to continue to review different approaches to the implementation of the Outcomes and Programs framework. During the course of the pilot project, Finance was also consulted on range of

20 Finance's comments are included in full at Appendix 1.

matters in view of the department's role in administering the Outcomes and Programs framework.

Overall conclusion

24. Adequate performance information, particularly in relation to program effectiveness, allows agencies to assess the impact of policy measures, adjust management approaches as required, and provide advice to government on the success, shortcomings and/or options for revisions to current policies. This information also allows for informed decisions to be made on the allocation and use of public resources. In addition, performance measurement 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 efficiency.

25. ANAO performance audits have consistently reported that agencies have fallen short in delivering and reporting performance measures that demonstrate the extent of progress against stated program objectives. ANAO Report No.28 2012–13 *The Australian Government Performance Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*, reinforced the issues identified in ANAO performance audits over the last decade. The report concluded that the administrative framework supporting the development and auditing of KPIs remains problematic and that agencies continued to experience challenges in developing and implementing meaningful KPIs.

26. The continuation of the pilot project observed little change within the guidance promulgated by Finance for the 2013–14 financial year and observed that agencies' implementation of performance measurement and reporting requires further development. The need for clearer guidance and greater support for agencies was also a theme in the cross-agency survey undertaken by the ANAO as a part of the pilot project. Consequently, the key findings previously made by the ANAO and the JCPAA remain largely unaddressed at the time of this report.

27. The PGPA Act, which takes effect on 1 July 2014, introduces new requirements for agencies to produce a corporate plan, and to measure and assess their performance and prepare an annual performance statement. While the first of the underpinning rules for the PGPA Act are scheduled to be submitted to the JCPAA in early 2014 for review, they are not expected to take full effect until the 2016–17 financial year. In the interim, to improve the

standard of performance measurement and reporting, there would be considerable benefit in Finance providing enhanced guidance for the Outcomes and Programs framework, noting that agencies will continue to be required to report on performance on an annual basis under the current framework. It would be expected that, in the light of the implementation of the PGPA Act, any revised guidance would support the longer-term developments.

28. The results from the cross-agency survey undertaken by the ANAO support previous findings that there remains substantial work by agencies to implement the performance measurement and reporting framework and that agencies have difficulty developing KPIs that measure the impact or effectiveness of a program's contribution to achieving government outcomes. Agencies identified that the most readily available performance information covered either activities or processes to support the delivery of programs or the quantity of outputs delivered, and not the effectiveness KPIs required by the Outcomes and Programs framework.

29. The results from the cross-agency survey also highlighted that the most commonly identified factors that contributed to an effective Outcomes and Programs framework included: alignment of agencies' frameworks with the objectives of government; having an established, stable and well understood framework; and flexibility to accommodate uncertainty and changes in the operating environment. The most common message in achieving effective implementation of the framework was the engagement of senior leadership. Other areas for improvement identified by agencies included: the need for improved guidance, training/workshops and tools/templates to support agencies in implementing frameworks; the importance of conducting regular reviews of frameworks; careful up-front planning and selection of outcomes and deliverables; and the need for transparent targets that are openly reported.

30. The continuation of the pilot project has confirmed that implementation of performance measurement and reporting requires more focused attention, with mixed results from the review of agencies' frameworks and varied levels of maturity in agencies' development of their own internal processes and reporting. Irrespective of when the full set of requirements being established by the PGPA Act and associated rules come into effect, much more needs to be done by agencies to operationalise the framework and ensure that implementation of any changes result in a tangible improvement, when compared with existing arrangements.

31. The results of the cross-agency survey and the pilot project work performed in conjunction with agencies, highlighted that active engagement by the senior executives within agencies can provide positive results in the area of performance measurement and reporting. Further, stronger outcomes were achieved when focus and appropriate expertise was devoted to bring about improvements.

32. While much has been written on the importance of KPIs to inform the assessment of program performance, making a difference requires leadership, effective governance, and a desire to understand the impact of government programs and how even better outcomes may be achieved. Both government and government agencies have important roles in improving current practices.

33. Although supporting guidance and agency preparedness issues remain largely unaddressed, the completion of the pilot project has resulted in the development of a preliminary methodology to support ongoing audits of KPIs. However, the extent of future work undertaken by the ANAO will need to be agreed and resourced appropriately in order to implement a broader regime of KPI audits. In the longer-term, once an enhanced performance measurement and reporting regime has been established, greater assurance will be provided if agency performance information is subject to audit. Separately, the ANAO performance audit program will continue to include coverage of the performance measurement arrangements that have been established for the program or area being reviewed.

34. We appreciated the involvement of the Australian Taxation Office, the Department of the Environment, the Australian Federal Police and the Australian Government agencies that responded to the cross-agency survey 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. We also appreciated Finance's engagement on matters concerned with the performance measurement and reporting framework.

Pilot Project Findings

1. Background

This chapter provides an overview of the Australian Government Outcomes and Programs framework, the results of previous Australian National Audit Office reports and Parliamentary reviews, and introduces legislative changes arising from the Public Governance, Performance and Accountability Act 2013.

Introduction

1.1 Building on earlier reforms, the Australian Government Outcomes and Programs framework was introduced in 2009–10. The framework is the key mechanism to provide both the Parliament and the public with information on the intended results, impacts or consequences of actions by government on the Australian community.

1.2 Performance reporting in the Australian Government is separated into two phases. Firstly, provision of information on the Government program/s and resources intended to be used to achieve government outcomes, and secondly, the results of agency activities in implementing programs and expending associated resources. These phases are governed by the requirements for presentation of the Portfolio Budget Statements (PBSs), administered by the Department of Finance²¹ (Finance) and the requirements for the presentation of annual reports, administered by the Department of the Prime Minister and Cabinet²² (PM&C).

1.3 The Australian National Audit Office (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). The ANAO and the JCPAA have both recently highlighted areas where the Outcomes and Programs framework and its implementation by government agencies required further attention.

21 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012.

22 Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, PM&C, Canberra, 2013.

1.4 Following recommendations by the JCPAA 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 agencies' key performance indicators (KPIs) and the completeness and accuracy of their reporting. As a consequence, the ANAO initiated a pilot project to audit KPIs (2011–12 Pilot), which is the subject of ANAO Report No.28 2012–13 *The Australian Government Performance Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*, tabled on 23 April 2013. The 2011–12 Pilot was designed to assess the status of Australian Government performance measurement and reporting, and to develop and test a suitable audit methodology within a selection of agencies, as a basis for the implementation of a future program of audits of agencies' KPIs.²³

1.5 The 2011–12 Pilot concluded that agencies continued to experience challenges in developing and implementing meaningful KPIs and that the administrative framework supporting the development and auditing of KPIs remained problematic. In addition, the 2011–12 Pilot observed that there remained multiple sources of policy and guidance, rather than a single reference document, that consolidated the requirements for the Outcomes and Programs framework.²⁴

1.6 The objective of continuing the pilot project in 2012–13 was to review framework developments, both in terms of the clarity of the policy and guidance issued by Finance and the performance of agencies in applying this policy and guidance, as a basis for implementing a future program of audits; and to further develop and test an audit methodology to address the practical challenges of assessing the appropriateness of KPIs, and their complete and accurate reporting.

23 ANAO Report No.28 2012–13 *The Australian Government Performance Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*, p. 17.

24 ANAO Report No.28 2012–13 *The Australian Government Performance Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*, pp. 18–21.

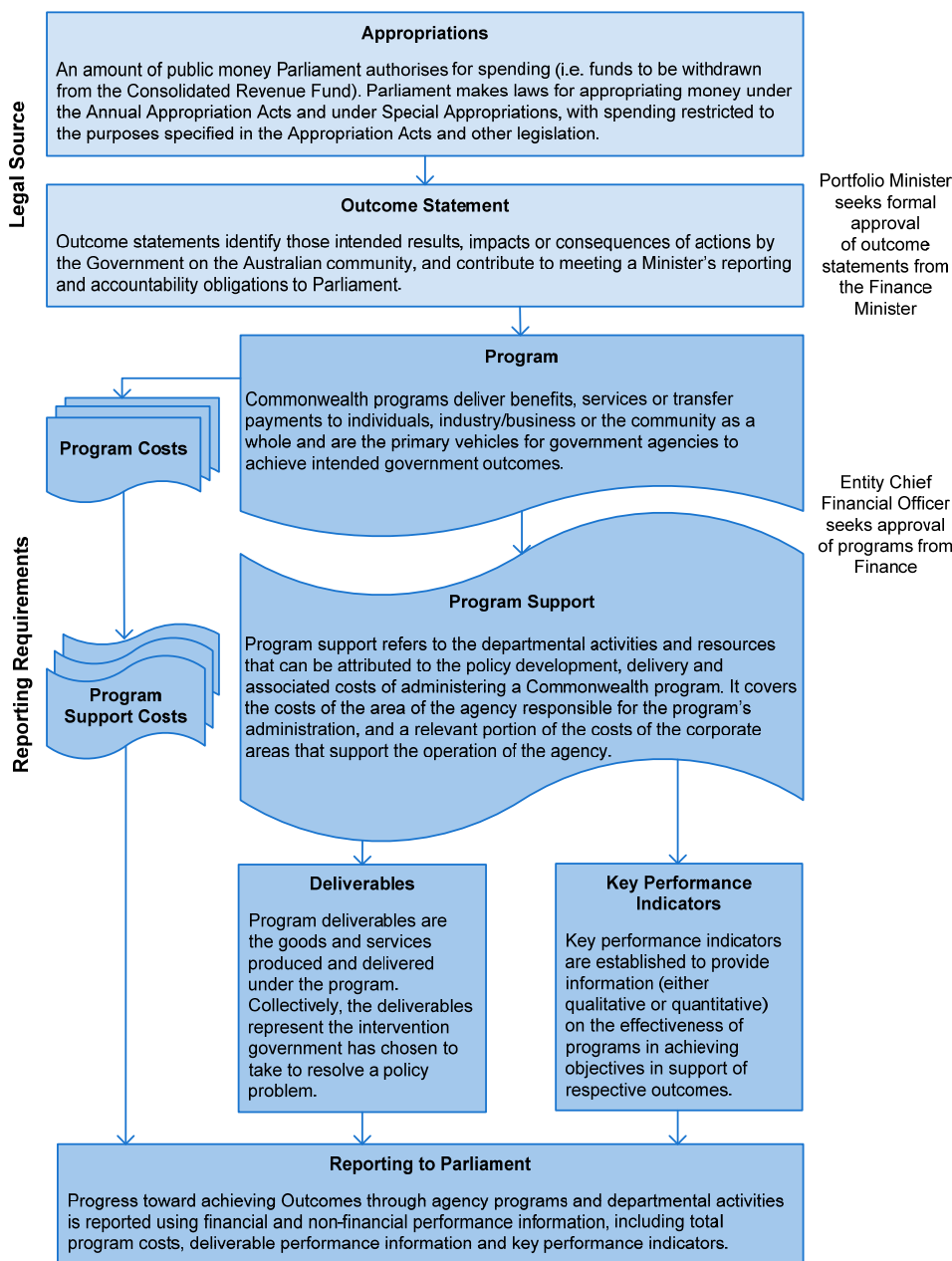
The Outcomes and Programs framework

1.7 The Australian Government's Outcomes and Programs framework requires agencies 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, deliverables and appropriate KPIs.

1.8 Adequate performance information, particularly in relation to program effectiveness, allows agencies to assess the impact of policy measures, adjust management approaches as required, and provide advice to government on the success, shortcomings and/or options for revisions to current policies. In addition, performance measurement 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 efficiency.

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

Figure 1.1: Elements of the Outcomes and Programs framework

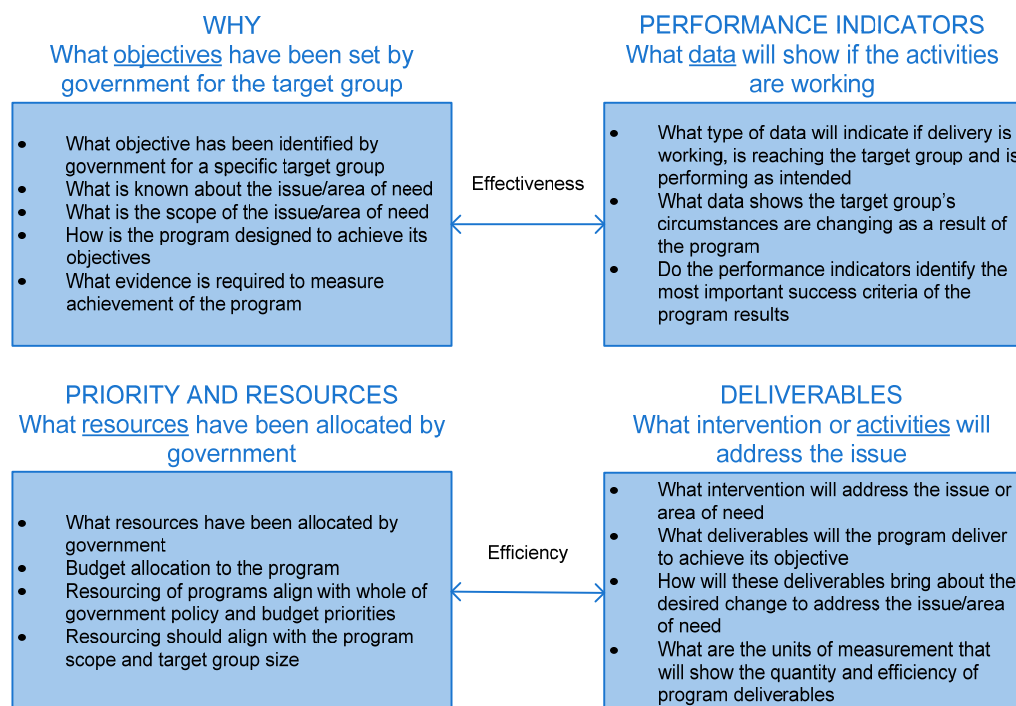


Source: Adapted from the Department of Finance and Deregulation, *Outcome Statements Policy and Approval Process (June 2009)*, Finance, Canberra, 2009, p. 1.

1.10 Within the framework, KPIs are designed to enable users to assess an agency's progress towards the stated program objectives and collectively, the program's contribution to stated outcomes. The 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 deliverables).²⁵ Policy guidance highlights effectiveness KPIs as the method for identifying the achievement of program objectives, as shown in Figure 1.2.

Figure 1.2: Information flow for program reporting



Source: Adapted from Department of Finance and Deregulation, 2009–10, *Budget Portfolio Budget Statements Constructors Kit*, Finance, Canberra, 2009, p. 55.

Department of Finance

1.11 Finance has broad responsibility for the administration of the Outcomes and Programs framework. Published policy and reference material includes *Outcomes Statements Policy and Approval Process (June 2009)*, *Commonwealth Programs Policy and Approval Process (December 2009)* and

²⁵ Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012, p. 29.

Performance Information and Indicators (October 2010). Regular Estimates Memoranda²⁶ supporting the Budget processes are also published.

1.12 Finance also issues annual guidance in relation to the reporting cycle to which it relates; the *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements* was issued in March 2012. Guidance for the 2013–14 reporting cycle was released in March 2013.

Portfolio Budget Statements

1.13 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.²⁷ The Chief Executive of each agency must assist their Minister by providing factual information for the PBSs relating to the operation and administration of their agency²⁸, including KPIs, which demonstrate progress against the program objectives that contribute to the achievement of the program outcome.²⁹

1.14 Australian Government agencies are expected to develop KPIs to inform decisions about the management and effectiveness of programs; and to report KPIs in their PBSs that will demonstrate the effectiveness of programs in achieving their objectives and contribute to outcomes (exclusive of the output information required to be reported in the deliverables section of the PBSs).

1.15 PBSs are formal ministerial documents, tabled to meet Ministers' accountability obligations to Parliament. In the 2012–13 PBSs, *Section 2: Outcomes and Planned Performance* sets out the outcomes and programs of an agency, and its resourcing, deliverables and performance information. Within this section, each outcome is to be described together with its related programs and program deliverables, specifying the KPIs and targets

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

27 Department of Finance and Deregulation, *Portfolio Budget Statements 2012–13 User Guide* [Internet], available from <<http://www.budget.gov.au/2012-13/content/pbs/html/index.htm>> [accessed 16 October 2013].

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

29 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012, p. 37.

used to assess and monitor the performance of the programs against its objectives.³⁰

1.16 Finance guidance includes that agencies should also briefly outline the logic and assumptions that informed the choice of the KPIs. Agencies are also responsible for maintaining records of trend information and changes to the agencies' 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/s, collectively addressing the objective of the program.³¹

Department of the Prime Minister and Cabinet

1.17 PM&C provides administrative support to the Prime Minister, the Cabinet Secretary, the Cabinet and its committees.³² This includes the annual review and update to the *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, for approval by the JCPAA on behalf of the Parliament, in accordance with subsections 63(2) and 70(2) of the *Public Service Act 1999*.

Annual Reports

1.18 The Chief Executive must provide the Minister an annual report for presentation to the Parliament on the agency's activities during the year.³³ The annual report must include a review of how an agency has performed during the year, including its performance against the KPIs published in the PBS.³⁴ Under the current legislation, separate annual reporting requirements apply to agencies governed by the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act).

30 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012, pp. 22–23.

31 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012, pp. 37–38.

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

33 *Public Service Act 1999* (Cth) s. 63(1).

34 Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, PM&C, Canberra, 2013, p. 6.

Financial Management and Accountability Act 1997

1.19 FMA Act agencies are required 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 Key Performance Indicators (KPIs) of the agency's programs and, where possible, indicate the agency's effectiveness in achieving the planned outcomes.³⁵

1.20 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 readers about previous and new KPIs.³⁶

Commonwealth Authorities and Companies Act 1997

1.21 CAC Act bodies must adhere to the 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*.

1.22 The Orders require directors of Commonwealth authorities to prepare an 'Annual Report of Operations' and directors of Commonwealth companies to provide additional information to that required by the *Corporations Act 2001*, for inclusion in annual reports.³⁷ Both orders require that agencies' 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.³⁸

35 Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, PM&C, Canberra, 2013, p. 6.

36 Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, PM&C, Canberra, 2013, pp. 6–7.

37 *Commonwealth Authorities (Annual Reporting) Orders 2011*, Clause 5; *Commonwealth Companies (Annual Reporting) Orders 2011*, Clause 4.

38 *Commonwealth Authorities (Annual Reporting) Orders 2011*, Clause 9; *Commonwealth Companies (Annual Reporting) Orders 2011*, Clause 8.

The Public Governance, Performance and Accountability Act 2013

1.23 On 8 December 2010, the then Minister for Finance and Deregulation, Senator the Hon. Penny Wong, announced the Commonwealth Financial Accountability Review as part of the Australian Government's 'Better Government' agenda. It was intended that the review would examine the Commonwealth's financial framework from first principles and seek to modernise the Commonwealth's financial and performance framework.

1.24 As part of the process of review, Finance undertook consultation on potential reforms, which included the release of a discussion paper in March 2012 and a subsequent position paper in November 2012. A key theme of the discussion paper, *Is Less More? Towards Better Commonwealth Performance*, 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.³⁹

1.25 The position paper, *Sharpening the Focus: A Framework for Improving Commonwealth Performance*, focused on specific options for future reforms. One of the proposals in the position paper included replacing the FMA Act and CAC Act with a single Act, incorporating fundamental elements of the financial framework and enhancing the framework for measuring and reporting performance.⁴⁰

1.26 Following the consultation phase, the Public Governance, Performance and Accountability Bill was introduced into Parliament on 16 May 2013. The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) received Royal Assent on 29 June 2013 and will replace the FMA Act and the CAC Act from 1 July 2014.

39 Department of Finance and Deregulation, *Commonwealth Financial Accountability Review discussion paper, Is Less More? Towards Better Commonwealth Performance*, Finance, Canberra, 2012, p. 3.

40 Department of Finance and Deregulation, *Commonwealth Financial Accountability Review position paper, Sharpening the Focus: A Framework for Improving Commonwealth Performance*, Finance, Canberra, 2012, p. 5.

1.27 The PGPA Act includes a number of requirements with respect to planning, budgeting and non-financial performance assessment and reporting. These include:

- the measurement and assessment of the performance of agencies against their corporate plan;
- the preparation of annual performance statements (to be included in agencies' annual reports and
- a responsible Minister, or the Finance Minister, may request the Auditor-General to examine and report on the agency's annual performance statement (the report is to be tabled in Parliament).

Rules to support the PGPA Act

1.28 The PGPA Act will be supported by rules, which are to be developed by Finance in collaboration with stakeholders, from both within and outside of government. It is intended that the rules will be disallowable instruments and may apply generally to all Commonwealth agencies or companies, a class of Commonwealth agencies or companies, or to a single Commonwealth agency or company.

1.29 Finance has advised that the initial tranche of rules will be submitted to the JCPAA in March 2014 for approval, consistent with the commitment of the then Finance Minister, and as outlined in the Explanatory Memorandum to the PGPA Act. Consequential amendments to affected legislation will also be considered in parallel to the rules. Both the rules and consequential amendments are scheduled to be in place by 1 July 2014.

Previous ANAO reports and Parliamentary reviews

1.30 Over the past decade, the quality of performance measurement and reporting in the Australian Government has been a recurring theme of ANAO audit reports, and the focus of Parliamentary committees, including the JCPAA.

ANAO reports

1.31 Performance audits undertaken by the ANAO continue to highlight the need to strengthen agency performance measurement and reporting. This

includes establishing frameworks within agencies to guide performance measurement activity, and the importance of developing appropriate baselines and benchmarks early in program implementation.⁴¹ Developing and reporting on appropriate KPIs informs internal and external stakeholders on progress and outcomes, and can strengthen program management and accountability.⁴² The ANAO's reports have also highlighted that Finance's administrative framework requires further consideration to assist agencies in their implementation and to provide an enhanced basis from which agencies prepare PBS and annual reporting information. This is discussed further in Chapter 2 of this report.

1.32 The ANAO reports in relation to the Australian Government performance measurement and reporting framework include:

- ANAO Report No.28 2012–13 *The Australian Government Performance Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*;
- 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*; and
- ANAO Audit Report No.11 2003–04 *Annual Performance Reporting*.

1.33 The recommendations made by the ANAO in Audit Report No.5 2011–12, and the responses to those recommendations, are provided at Appendix 2.⁴³

The Joint Committee of Public Accounts and Audit

1.34 The JCPAA examine the reports of the Auditor-General which have been tabled in Parliament.⁴⁴ The JCPAA's examination includes reviews of

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

42 ANAO Audit Report No.30 2010–11 *Digital Education Revolution Program—National Secondary Schools Computer Fund*, pp. 100–101.

43 ANAO Report No.28 2012–13 *The Australian Government Performance Measurement and Reporting Framework* did not provide any formal recommendations however the overall conclusion at pp. 18–21, noted the issues identified in Report No.5 2011–12 and other performance audits remained. The findings of Report No.28 2012–13 are outlined at paragraph 14 of this report.

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

reports, selected based on a range of factors including: program significance in relation to government policy; public interest and impact on the community; the significance of the Auditor-General's findings; and the value of program expenditure.⁴⁵

1.35 As part of the JCPAA's focus on the measurement of government performance, and in light of the reforms introduced through the Commonwealth Financial Accountability Review, the Committee reviewed ANAO Report No.28 2012–13. In June 2013, the JCPAA tabled its findings in Report 439, *Review of Auditor-General's Reports Nos.11 to 31 (2012–13)* (JCPAA Report 439). The Chair noted in his foreword:

With public sector reform happening through the Commonwealth Financial Accountability Review, having a culture of very clear and measurable Key Performance Indicators is important.⁴⁶

1.36 JCPAA Report 439 also noted that the Commonwealth Financial Accountability Review would provide Finance with the opportunity to re-assess the performance measurement and reporting framework, and recommended that:

... the Department of Finance and Deregulation, in consultation with the Australian National Audit Office, prioritise the review and update of the performance measurement and reporting framework. A goal should be to have clear policy and guidance in place for the 2014–15 financial year that can be used by agencies to produce auditable Key Performance Indicators ...⁴⁷

1.37 The Committee also recommended that:

- the Government reinforce the requirements for agencies to incorporate specific performance monitoring, reporting and evaluation activities into the design and costing of their programs;
- agencies be appropriately funded to carry out these activities; and
- monitoring be used to provide assurance that these activities are implemented.⁴⁸

45 Joint Committee of Public Accounts and Audit, Report 439, *Review of Auditor-General's Reports Nos.11 to 31 (2012–13)*, JCPAA, Canberra, 2013, p. 1.

46 Joint Committee of Public Accounts and Audit, Report 439, *Review of Auditor-General's Reports Nos.11 to 31 (2012–13)*, JCPAA, Canberra, 2013, p. v.

47 Joint Committee of Public Accounts and Audit, Report 439, *Review of Auditor-General's Reports Nos.11 to 31 (2012–13)*, JCPAA, Canberra, 2013, p. 30.

48 Joint Committee of Public Accounts and Audit, Report 439, *Review of Auditor-General's Reports Nos.11 to 31 (2012–13)*, JCPAA, Canberra, 2013, p. 30.

1.38 At the time of preparing this report, a response had not yet been provided to the Committee.

1.39 The recommendations made by the JCPAA in Report 439, *Review of Auditor-General's Reports Nos.11 to 31 (2012–13)* and Report 430, *Review of Auditor-General's Reports Nos.47 (2010–11) to 9 (2011–12) and Report Nos.10 to 23 (2011–12)*, and the responses provided to Report 430, are provided at Appendix 3.

Pilot project to audit key performance indicators

1.40 As a consequence of the amendments to the *Auditor-General Act 1997*, the introduction of the PGPA Act and the recommendations made by the JCPAA in the examination of ANAO Report No.28 2012–13, the ANAO continued the pilot project commenced in 2011.

Objective

1.41 In 2012–13, the pilot project to audit KPIs was continued with the objective of conducting a review of framework developments, both in terms of the clarity of the policy and guidance issued by Finance and the performance of agencies in applying this policy and guidance, as a basis for implementing a future program of audits; and to further develop and test an audit methodology to address the practical challenges of assessing the appropriateness of KPIs, and their complete and accurate reporting. The pilot project included:

- a cross-agency survey assessing Australian Government agencies' approaches and attitudes towards performance measurement and reporting more broadly, including internal governance arrangements and the extent to which performance measurement is used in agencies' management decision processes; and
- an examination of the 2012–13 and 2013–14 PBSs of the three agencies participating in the pilot project, and the completeness and accuracy of the KPI data and disclosures in the agencies' annual reports.

1.42 Sixteen agencies participated in the cross-agency survey. These agencies were selected from the major Australian Government departments, prescribed FMA Act agencies and included those who participated in the continuation of the pilot project. The results of the survey are discussed in Chapters 2 and 3 of this report.

1.43 Additionally, three agencies participated collaboratively in the continuation of the pilot project. The Australian Taxation Office, the Department of the Environment, and the Australian Federal Police, contributed as agencies with experience in applying the Outcomes and Programs framework. This allowed the ANAO to continue to review different approaches to the implementation of the Outcomes and Programs framework. We also appreciated Finance's engagement on matters concerned with the performance measurement and reporting framework.

Criteria

1.44 As part of the ongoing pilot project's aim to develop and test an audit methodology, and while outstanding issues within the administrative framework for the development and implementation of the performance measurement and reporting framework are addressed, the ANAO developed criteria to evaluate the appropriateness of Australian Government agencies' KPIs, and the completeness and accuracy of their reporting.

1.45 The requirements of the Australian Standard on Assurance Engagements (ASAE) 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the Australian Auditing and Assurance Standards Board and other relevant standards and guidance were considered in the development of the audit criteria. The criteria also make reference to the material issued by Finance including: *Outcome Statements Policy and Approval Process (June 2009)*, *Commonwealth Programs Policy and Approval Process (December 2009)*, *Performance Information and Indicators (October 2010)* and *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements (March 2012)*, as well as the *Requirements of Annual Reports for Departments, Executive Agencies and FMA Act Bodies (June 2013)* issued by PM&C.

1.46 The ANAO's criteria to evaluate the appropriateness of an agency's KPIs are included in Table 1.1.

Table 1.1: 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) For KPIs, agencies should include an indication of the desired level of achievement (target) and an expected timeframe, in the format prescribed by Finance guidance.
 - (3) In line with the guidance, agencies 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.

1.47 The ANAO's criteria to evaluate the completeness and accuracy of an agency's reporting of KPIs are included in Table 1.2.

Table 1.2: Criteria for the evaluation of the completeness and accuracy of KPIs

Criteria	Explanation
Data Completeness and Accuracy ⁴⁹	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 ⁵⁰	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 (ASA) 315 *Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment*.

Report structure

1.48 The structure of the report is outlined in Table 1.3.

Table 1.3: Structure of the report

Chapter title	Chapter overview
1. Background	This chapter provides an overview of the Australian Government Outcomes and Programs framework, the results of previous Australian National Audit Office reports and Parliamentary reviews, and introduces legislative changes arising from the <i>Public Governance, Performance and Accountability Act 2013</i> .
2. Administration of the Performance Measurement and Reporting Framework	This chapter reviews the Department of Finance's role in the administration of the performance measurement and reporting framework, including developments in the Australian Government's Outcomes and Programs framework, and the introduction of the <i>Public Governance, Performance and Accountability Act 2013</i> .
3. Measurement and Reporting of Indicators	This chapter summarises the results from the cross-agency survey on performance measurement and reporting undertaken as part of the pilot project.
4. Pilot Project to Audit Key Performance Indicators	This chapter summarises the results from the 2012–13 pilot project's assessment of three agencies' implementation of the Outcomes and Programs framework against Finance policy and guidance and the audit methodology and criteria developed by the ANAO.

49 Auditing and Assurance Standards Board, Australian Auditing Standard (ASA) 315 *Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment*, paragraph A111(a).

50 Auditing and Assurance Standards Board, Australian Auditing Standard (ASA) 315 *Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment*, paragraph A111(c).

2. Administration of the Performance Measurement and Reporting Framework

This chapter reviews the Department of Finance's role in the administration of the performance measurement and reporting framework, including developments in the Australian Government's Outcomes and Programs framework, and the introduction of the Public Governance, Performance and Accountability Act 2013.

Introduction

2.1 The Department of Finance (Finance) has broad responsibility for the administration of the Outcomes and Programs framework, including:

- providing guidance and advice to agencies on the Outcomes and Programs framework and the requirements for Portfolio Budget Statements (PBSs)⁵¹;
- vetting agencies' outcome statements prior to Ministerial approval⁵²;
- approving agency programs⁵³; and
- undertaking a systematic program of evaluation of performance indicators against targets⁵⁴ and targeted reviews of major areas of Australian Government spending or of significant areas of government policy.⁵⁵

2.2 Finance therefore has an important role in ensuring the effective implementation and application of the Outcomes and Programs framework across Australian Government agencies. This includes ensuring that agencies satisfy the three key principles for outcome statements that; they are specific, focused and easily interpreted; they identify the intended results of the agency;

51 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012.

52 Department of Finance and Deregulation, *Outcome Statements Policy and Approval Process (June 2009)*, Finance, Canberra, 2009.

53 Department of Finance and Deregulation, *Commonwealth Programs Policy and Approval Process (December 2009)*, Finance, Canberra, 2009.

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

55 Department of Finance and Deregulation, *Introduction to the Financial Framework, Participant Guide, Financial Management and Budget Training Program, Part 1*, Finance, Canberra, 2013, p. 38.

and the target groups and the activities to be undertaken (via agency programs).

The design of the Outcomes and Programs framework

2.3 An effective performance measurement and reporting framework should have a clear objective, logical structure and key performance indicators (KPIs) which inform agencies and key stakeholders of the performance of government programs.

2.4 Within the Outcomes and Programs framework each element needs to be developed in conjunction with the others, for example, program objectives need to be developed with a reasonable understanding for how achievements in terms of the objectives will be assessed. This in turn requires consideration of performance information sources which will contribute to this assessment. Accordingly, it is important that agencies are provided with clear guidance on the interrelationship between the components of the framework. The cascading impact of not clearly explaining the interrelationship of each element of the Outcomes and Programs framework was observed in ANAO Report No.5 2011–12 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, which highlighted that where program objectives were not clearly defined, it was difficult for agencies to identify the most appropriate effectiveness KPIs.⁵⁶

2.5 Currently, the policies and guidance promulgated by Finance deal separately with the concepts and requirements for outcomes, programs, deliverables and performance information, without clearly defining the overarching purpose and structure of the framework.

56 ANAO Report No.5 2011–12 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, p. 50.

Methodology to develop key performance indicators

2.6 Developing KPIs without using a sound methodology potentially leads to KPIs that do not enable assessment against a program's objectives, and its eventual outcomes.

2.7 In Report 430, the JCPAA commented that:

... clear methodologies presented to agencies would provide a tool to improve the quality and usefulness of KPIs ... providing at least an option for a structured starting point may be helpful to agencies.⁵⁷

2.8 Further, the JCPAA recommended:

That the Department of Finance and Deregulation include at least one recognised Key Performance Indicator methodology in its written guidance to government entities about the preparation of key performance indicators.⁵⁸

2.9 Finance advised the JCPAA that it would take time for agencies to familiarise themselves with the guidance provided, and that Finance planned to have guidance, including methodologies for drafting KPIs, available in advance of the 2013–14 Budget.⁵⁹ The ANAO notes that the guidance issued by Finance for the 2012–13 and 2013–14 budgets did not contain a methodology for the development of the KPIs.

The performance measurement and reporting cycle

2.10 The performance measurement and reporting cycle is an ongoing process that involves planning, implementation and reporting on performance. This cycle commences with the preparation and publication of PBSs, outlining the planned performance for the coming financial year and three forward years, and concludes with the publication of annual reports, setting out the extent of achievement against the intended objectives. A single performance measurement and reporting cycle can span up to nearly two years.⁶⁰ The

57 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)*, JCPAA, Canberra, 2012, p. 16.

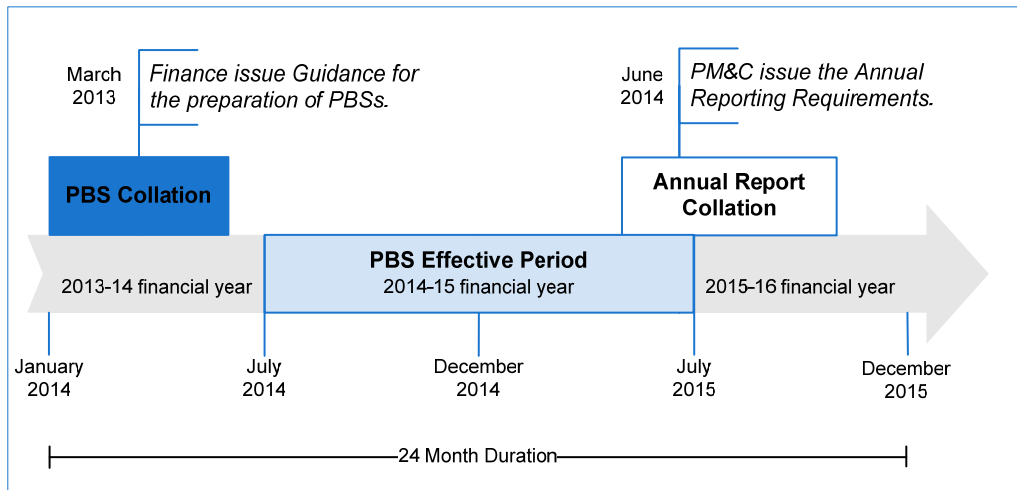
58 Joint Committee of Public Accounts and Audit, Report 430, *Review of Auditor-General's Reports Nos.47 (2010–11) to 9 (2011–12) and Reports Nos.10 to 23 (2011–12)*, JCPAA, Canberra, 2012, p. 16.

59 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)*, JCPAA, Canberra, 2012, p. 10.

60 ANAO Report No.28 2012–13 *The Australian Government Performance Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*, p. 30.

guidance on the development of agencies' PBSs is issued annually by Finance, in March of the year prior to the related reporting cycle commencing 30 June. Figure 2.1 depicts the performance measurement and reporting cycle.

Figure 2.1: Australian Government performance measurement and reporting cycle



Source: ANAO analysis.

2.11 Results from the cross-agency survey reflect, on average, agencies commencing the planning and preparation of their PBSs five months before they are due to be published, with some agencies commencing preparation up to 12 months earlier. The survey also indicated that many agencies start planning and preparing their annual reports, on average, six months prior to publication, with many starting preparation prior to the release of the *Requirements of Annual Reports for Departments, Executive Agencies and FMA Act Bodies* (Annual Reporting Requirements).

2.12 There would be value in Finance and PM&C considering the timing of issuing guidance in order to support agencies in the planning, implementation and reporting of performance. Timely issue of guidance for the Outcomes and Programs framework will assist in the consistency, completeness and accuracy of performance information by agencies.

Guidance as a basis for an assurance audit process

2.13 A significant feature of the pilot project involves the development of a methodology to support a future program of assurance audits of agencies' KPIs. Audit of the performance information included in PBSs and annual

reports and provision of an independent opinion, based on an examination of supporting evidence of the appropriateness and completeness and accuracy of KPIs, allows users of performance information to focus on assessing reported performance, rather than the utility of the information provided.

2.14 The material promulgated by Finance should provide the foundation for assessing the appropriateness of agencies' KPIs. Key to the assurance process is policy and guidance that clearly establishes minimum requirements with which agencies need to comply. Currently, Finance's guidance developed to support the Outcomes and Programs framework contains a combination of principles, requirements and suggested approaches, however it does not clearly specify minimum requirements with which agencies need to comply. As such, the current framework and accompanying guidance does not provide a fully effective framework against which agencies' KPIs can be reliably evaluated through an assurance process.

Other sources of guidance on performance measurement and reporting

2.15 In December 2013, the International Public Sector Accounting Standards Board (IPSASB) released Exposure Draft 54—Recommended Practice Guideline on Reporting Service Performance Information. The proposed Recommended Practice Guideline (RPG) 'aims to support the provision of high quality service performance information' by developing 'a consistent framework for reporting service performance information that focuses on meeting the needs of users'.⁶¹ The proposed RPG provides guidance on better practice and sets out six recommended characteristics of service performance information. The qualitative characteristics outlined are: relevance; faithful representation; understandability; timeliness; comparability; and verifiability.⁶²

2.16 IPSASB has invited comments on the Exposure Draft which are due on 31 May 2014. Once finalised, the RPG could be used by agencies to support their development and implementation of the Australian Government's performance measurement and reporting framework.

61 International Public Sector Accounting Standards Board, *Exposure Draft Summary—Recommended Practice Guideline on Reporting Service Performance Information*, IPSASB, New York, 2013, pp.1– 2.

62 International Public Sector Accounting Standards Board, *Proposed Recommended Practice Guideline on Reporting Service Performance Information*, IPSASB, New York, 2013, pp. 7–12.

2.17 Another source of guidance on performance measurement and reporting is available from the *Report on Government Services 2014*, released by the Steering Committee for the Review of Government Service Provision (Steering Committee).⁶³ The Steering Committee's report makes the point that performance measurement is a 'means of shifting the focus from the level of resources to the efficient and effective use of those resources'.⁶⁴ The report is a comparison of performance information across 16 Government service areas and outlines guiding principles, including comprehensiveness, meaningfulness, comparability, timeliness, understandability and accuracy which could be drawn on by agencies to enhance the quality of performance information.

Oversight of the Outcomes and Programs framework

2.18 The Australian Government Outcomes and Programs framework requires agencies to identify, implement and 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, deliverables and appropriate KPIs.

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

- specification of the outcomes the Australian Government is seeking to achieve in the community⁶⁵;
- identification of programs and their associated deliverables (for example, benefits, services or transfer payments provided to individuals, business or the community)⁶⁶;
- establishment of a performance management regime that enables the measurement and assessment of the impact of the program on the

63 Steering Committee for the Review of Government Service Provision, *Report on Government Services 2014, Volume A: Approach to Performance Reporting*, Productivity Commission, Canberra, 2014.

64 Steering Committee for the Review of Government Service Provision, *Report on Government Services 2014, Volume A: Approach to Performance Reporting*, Productivity Commission, Canberra, 2014, p. 1.4.

65 Department of Finance and Deregulation, *Outcome Statements Policy and Approval Process (June 2009)*, Finance, Canberra, 2009.

66 Department of Finance and Deregulation, *Commonwealth Programs Policy and Approval Process (December 2009)*, Finance, Canberra, 2009.

selected population and its contribution to the broader respective outcome⁶⁷; and

- annual performance reporting on the delivery of programs and achievement against a set of KPIs.⁶⁸

2.20 The Outcomes and Programs framework is governed by the requirements for presentation of the PBS, administered by the Department of Finance (Finance)⁶⁹ and the requirements for the presentation of annual reports, administered by the Department of the Prime Minister and Cabinet (PM&C).⁷⁰

Review of the framework by Finance

2.21 Although the primary responsibility for the implementation and application of the Outcomes and Programs framework rests with agencies, Finance is expected to maintain an awareness and oversight of agencies' implementation. This involves engagement in the approval of outcome statements through to the evaluation of agencies' published results.

2.22 In response to ANAO Audit Report No.5 2011–12, Finance advised it was undertaking an initial review of certain aspects of the framework, with a view to identifying issues that will be targeted for further review over time and that they would 'look to undertake a review of the development and implementation of effectiveness KPIs'.⁷¹

67 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012.

68 Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, PM&C, Canberra, 2013.

69 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012.

70 Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, PM&C, Canberra, 2013.

71 ANAO Audit Report No.5 2011–12 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, p. 27.

2.23 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.⁷²

2.24 Further, the JCPAA wished to see Finance take ownership of this issue with a sense of urgency.⁷³ In February 2013, in response to JCPAA Report 430, Finance noted that it ‘has a work program to improve the systems and processes for performance measurement and reporting at the Commonwealth-level in Australia’.⁷⁴ Finance also advised that ‘to identify the best options for improving the development and integration of KPIs and the reporting of performance information’⁷⁵, the department had undertaken several discrete pieces of work including:

- a stocktake of whether agencies had implemented program-level KPIs following the transition to the Outcomes and Programs framework and whether there were any systemic reasons for agencies not achieving them;
- 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, which provided a broad sample of the types of activities performed by Commonwealth 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 (IGA)

72 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)*, JCPAA, Canberra, 2012, p. 18.

73 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)*, JCPAA, Canberra, 2012, p. 19.

74 Department of Finance and Deregulation, *Executive Minute on JCPAA Report No 430 Review of Auditor-Generals’ Reports Nos. 47 (201–11) to 9 (2011–12) and Reports Nos. 10 to 23 (2011–12)*, Finance, Canberra, 2013, p. 2.

75 Department of Finance and Deregulation, *Executive Minute on JCPAA Report No 430 Review of Auditor-Generals’ Reports Nos. 47(201–11) to 9 2011–12) and Reports Nos. 10 to 23 (2011–12)*, Finance, Canberra, 2013, p. 4.

with the performance information reported in the PBSs and annual reports of Australian Government agencies.⁷⁶

2.25 However, this analytical and review work is not available publicly and has not been assessed by the ANAO. Additionally, there has been little change to the guidance promulgated by Finance from this work for the 2013–14 financial year to reflect the findings and learnings from the work conducted. Consequently, the key findings previously made by the ANAO and JCPAA remain largely unaddressed at the time of this report.

Guidance material supporting the framework

2.26 As part of its role in administering the Outcomes and Programs framework, Finance has published separate policies on both the outcome statements and program policy and approval processes to assist agencies meet the requirements for the preparation and approval of outcome statements and when determining if new programs or changes to existing programs are required.

2.27 Finance also issues annual guidance in relation to the reporting cycle to which it relates; the *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements* was issued in March 2012. Guidance for the 2013–14 reporting cycle has been released since this time, in March 2013.

2.28 ANAO Report No.28 2012–13 highlighted that, since the introduction of the Outcomes and Programs framework in 2009–10, Finance had not significantly updated the policies and guidance available for agencies and that there remained multiple sources, rather than a single reference document that consolidated the requirements for the Outcomes and Programs framework.⁷⁷ Further, the current suite had not been updated to assist agencies address the contemporary measurement and reporting of issues, such as reporting on cross-agency outcomes or performance reporting for programs delivered through national agreements.

2.29 The need for clearer guidance and greater support for agencies was also a theme in the cross-agency survey of 16 agencies, undertaken by the ANAO as

76 Department of Finance and Deregulation, *Executive Minute on JCPAA Report No 430 Review of Auditor-Generals' Reports Nos. 47(201–11) to 9 2011–12) and Reports Nos. 10 to 23 (2011–12)*, Finance, Canberra, 2013, p. 5.

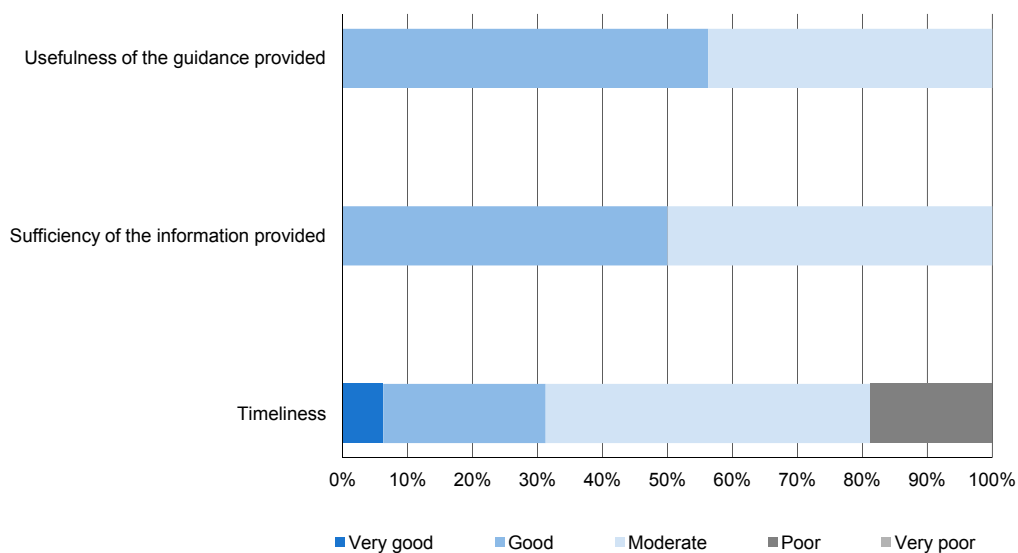
77 ANAO Report No.28 2012–13 *The Australian Government Performance Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*, p. 54.

part of the 2012–13 pilot project. In the survey agencies were asked to rate written guidance issued by Finance on the following aspects:

- usefulness of the guidance provided;
- sufficiency of the information provided; and
- timeliness.

2.30 Agencies were relatively positive in relation to the usefulness of the written guidance provided by Finance, with 56 per cent of agencies giving this aspect of the guidance a rating of ‘good’. Half of the agencies surveyed also provided relatively positive ratings for the sufficiency of the information provided, while only 31 per cent of the agencies rated the timeliness of the guidance as ‘good’ or ‘very good’, with 19 per cent rating the timeliness of the guidance as ‘poor’. The results are provided in Figure 2.2.

Figure 2.2: Ratings of written guidance issued by Finance



Source: ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government, Report on Survey Findings*, ANAO, Canberra, 2013.

Notes: Sixteen material Commonwealth agencies rated the written guidance issued by Finance.

2.31 In addition, the level of instruction provided in the material issued by Finance varies. For example, the policy guidance provided to assist agencies in preparing new, or revising existing outcome statements (*Outcome Statements Policy Approval Process June 2009*), provides high level guidance to agencies on the purpose, key principles, and construction of outcome statements, including

drafting tips. In contrast, the policy guidance provided to agencies on programs (*Commonwealth Programs Policy and Approval Process December 2009*), focuses on the characteristics of a program and how programs fit within the Central Budget Management System, but does not offer information on the key principles or construction of a suitable program objective.

Finance's advice to agencies

2.32 In addition to written guidance, Finance also provides advice and support to agencies in relation to reporting responsibilities under the Outcomes and Programs framework through two functional units—the Budget Framework Branch (BFB) and Agency Advice Units (AAUs).⁷⁸

2.33 In 2012, Finance advised the JCPAA that the:

[BFB] is responsible for the guidance that Finance produces on how KPIs should be developed and how Portfolio Budget Statements should be developed.

[AAUs] have a role in providing advice to government on costing proposals but also on the opportunities related to new policy proposals, costings and the like that present themselves at a whole-of-government level.⁷⁹

2.34 Previous ANAO and JCPAA reports have also highlighted the need for Finance to provide more adequate direct support and advice to agencies.⁸⁰ In particular, JCPAA Report 430 emphasised the need to improve the relationship between agencies and their relevant AAUs in terms of communication and interaction, and that a more proactive stance on the part of Finance should be taken.⁸¹

2.35 In response, Finance advised on 4 February 2013, that the department will work directly with agencies to develop and review their program level KPIs and:

78 Source 1: ANAO Audit Report No.5 2011–12 *Development and Implementation of Performance Indicators to Support the Outcomes and Programs Framework*, p. 81; Source 2: 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)*, JCPAA, Canberra, 2012, p. 11.

79 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)*, JCPAA, Canberra, 2012, p.11.

80 ANAO Audit Report No.23 2006–07 *Application of the Outcomes and Outputs Framework*, p. 89; ANAO Audit Report No.5 2011–12 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, pp. 81–82.

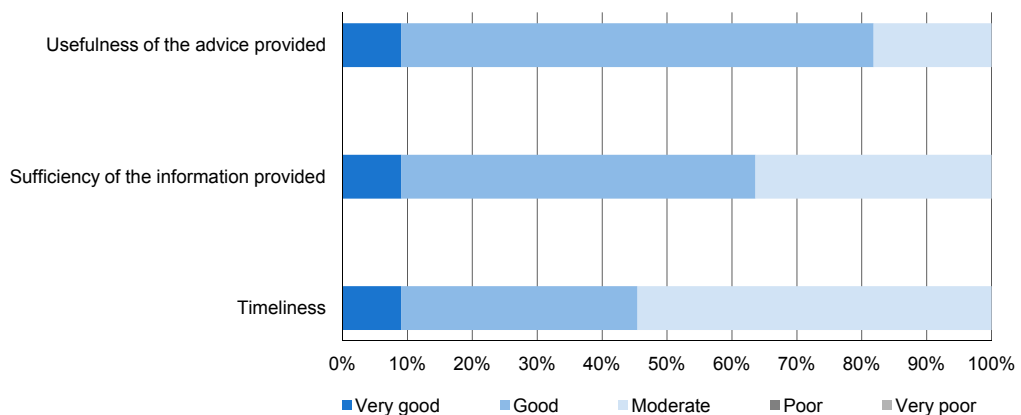
81 Joint Committee of Public Accounts and Audit, Report 430, *Review of Auditor-General's Reports Nos.47 (2010–11) to 9 (2011–12) and Reports Nos.10 to 23 (2011–12)*, JCPAA, Canberra, 2012, p. 17.

... is concerned to ensure work to improve the quality and availability of program-level performance information provides a sound basis for the ANAO in auditing the appropriateness of agency performance indicators and the completeness and accuracy of agency performance reporting.⁸²

2.36 Finance accepted that the department ‘will need to increase the practical support it provides to agencies on performance management, including on developing and disclosing relevant and appropriate performance information. Mechanisms could include comprehensive guidance and a web-based assessment tool’.⁸³

2.37 In the cross-agency survey, 82 per cent of agencies provided positive feedback in terms of the usefulness of the advice provided by Finance and 62 per cent provided favourable ratings of the sufficiency of the information provided. Again, agencies were less positive about the timeliness of the advice provided, with only 45 per cent rating it as ‘good’ or ‘very good’.⁸⁴ The results of the survey are summarised in Figure 2.3.

Figure 2.3: Ratings of advice provided by Finance



Source: ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government, Report on Survey Findings*, ANAO, Canberra, 2013.

Notes: Eleven of the 16 material Commonwealth agencies rated the advice provided by Finance.

82 Department of Finance and Deregulation, *Executive Minute on JCPAA Report No 430 Review of Auditor-Generals’ Reports Nos. 47(2011–11) to 9 2011–12) and Reports Nos. 10 to 23 (2011–12)*, Finance, Canberra, 2013, p. 5.

83 Department of Finance and Deregulation, *Commonwealth Financial Accountability Review position paper, Sharpening the Focus: A Framework for Improving Commonwealth Performance*, Finance, Canberra, 2012, p. 17.

84 ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government, Report on Survey Findings*, ANAO, Canberra, 2013, p. 36.

2.38 The survey also asked agencies to identify actions that would assist to improve agency performance with respect to KPIs. Comments and suggestions from surveyed agencies included improved training, guidance and feedback. Two examples are included below.

‘Some investment across the APS (perhaps coordinated and funded through a central agency such as DoF) in training activities/workshops to improve skills of officers involved in developing the outcomes and programs framework in their agencies may be beneficial to help in improving practice and quality of frameworks produced across the APS- suggest this target ELs and SES in program areas who are developing them on the ground and then approving them and also for corporate staff in Finance and Governance areas that are overseeing and quality assuring the process for the organisation.’

‘All agencies are different. We recognise the value in a flexible approach, which would allow agencies to develop an outcomes and performance framework that meets the specific needs of that agency. The use of templates and guidance could allow for consistency, without enforcing a prescriptive approach. Constructive feedback from Finance would also be welcome to assist in continuous improvement.’

Source: ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government, Report on Survey Findings*, ANAO, Canberra, 2013.

2.39 It should be noted that Finance recently updated its approach to supporting the financial management and budget framework training across the Australian Government. This included the:

- establishment of a Community of Practice focused on financial framework training and skills development;
- development of the Financial Management and Budget Training Program designed for use by all Australian Government agencies. The training program comprises of three modules that introduce the key aspects of the budget and financial management framework, including information on the way that government activities are measured, evaluated and reported on, according to the Outcomes and Programs framework; and
- establishment of a panel of training providers who can support training on the financial management and budget framework.⁸⁵

2.40 While the introduction of additional training is positive, the cross-agency survey also highlighted the scope for Finance to provide clearer

85 Department of Finance and Deregulation, *Financial Management and Budget (FMB) Training Program* [Internet], Finance, Canberra, 2013, available from <<http://www.finance.gov.au/financial-framework/training/fmb-program.html>> [accessed 10 January 2014].

guidance and advice to enhance understanding of the framework, improve the consistency of implementation, and to help streamline processes. This will become increasingly important during the implementation of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

Reforms and legislative change

2.41 In December 2010, the Commonwealth Financial Accountability Review (CFAR) was announced by the then Minister for Finance and Deregulation. The objective of CFAR was to examine opportunities for reforming the Commonwealth financial management framework with a view to improving performance, accountability and risk management across government.⁸⁶

2.42 As part of the consultation process, Finance released a discussion paper, *Is Less More? Towards Better Commonwealth Performance*, in March 2012 and, subsequently, a position paper, *Sharpening the Focus: A Framework for Improving Commonwealth Performance* in November 2012, which outlined proposed reforms.

2.43 One of the key proposals was replacing the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act) with a single piece of legislation. Other proposed reforms with respect to performance assessment and reporting included: fostering greater consistency across sources of performance reporting; recognising the increasing importance and use of multi-agency service delivery models; recognising the high-level stages of the resource management cycle in the financial management legislation; and acknowledging the importance of evaluation, by making it a systematic part of performance monitoring.⁸⁷

86 Department of Finance, *Media Fact Sheet: Commonwealth Financial Accountability Review* [Internet], Finance, Canberra, available from <<http://www.finance.gov.au/media-centre>> [accessed 26 November 2013].

87 Source 1: Department of Finance and Deregulation, *Commonwealth Financial Accountability Review discussion paper, Is Less More? Towards Better Commonwealth Performance*, Finance, Canberra, 2012, pp. 3–4; Source 2: Department of Finance and Deregulation, *Commonwealth Financial Accountability Review position paper, Sharpening the Focus: A Framework for Improving Commonwealth Performance*, Finance, Canberra, 2012, pp. 5 and 12.

2.44 The documents also explored Finance taking a greater role in fostering financial literacy through enhancing its training and guidance materials⁸⁸, and the possibility of a more integrated accountability framework being developed, that reflected the Government's key priorities and allowed performance to be compared across the public service.⁸⁹

2.45 As a consequence of the CFAR process, the PGPA Act was enacted and received Royal Assent on 29 June 2013. The PGPA Act is intended to bring the fundamental elements of the Commonwealth financial framework together under one piece of legislation and the key provisions of the Act are expected to commence on 1 July 2014.⁹⁰

The Public Governance, Performance and Accountability Act 2013

2.46 The PGPA Act includes provisions dealing with the obligations of agencies to measure, assess, and report on performance. In particular, the PGPA Act requires each Commonwealth agency to measure and assess performance and to prepare an annual performance statement for inclusion in its annual report that is tabled in the Parliament. The Act also includes provisions for the audit of agencies' annual performance statements if requested by the responsible Minister or the Finance Minister.⁹¹ The proposed benefits of this approach include:

- fostering a strong focus on performance management and reporting; and
- achieving a clear line of sight between the information in Appropriation Bills, corporate plans, PBSs and annual reports—agencies will need to define, structure and explain their purposes and achievements to create a clear read across these documents.⁹²

2.47 The specific requirements under the legislative framework will be incorporated in supporting rules currently under development. The first of the

88 Department of Finance and Deregulation, *Commonwealth Financial Accountability Review position paper, Sharpening the Focus: A Framework for Improving Commonwealth Performance*, Finance, Canberra, 2012, p. 6.

89 Department of Finance and Deregulation, *Commonwealth Financial Accountability Review discussion paper, Is Less More? Towards Better Commonwealth Performance*, Finance, Canberra, 2012, p. 5.

90 *Public Governance and Accountability Act 2013* (Cth) s. 2.

91 *Public Governance and Accountability Act 2013* (Cth) ss. 37, 38, 39 and 40.

92 Explanatory Memorandum, *Public Governance, Performance and Accountability Bill 2013*, p. 8.

rules are scheduled to be submitted to the JCPAA in early 2014 for the Committee's review.

2.48 Finance intends that the PGPA Act rules will reflect the resource management cycle and that matters to be addressed include:

- the introduction of corporate planning for all Commonwealth agencies; and
- an increased emphasis on improved reporting and evaluation by Commonwealth agencies, with the introduction of performance reporting standards and the need to provide annual performance statements.⁹³

2.49 In addition, Finance 'will also develop comprehensive training and guidance material to assist officials to implement the new PGPA framework'⁹⁴ and prepare updated guidance for the preparation and presentation of the PBSs, due for release in early 2014. This guidance will support the delivery of the PBSs by agencies until the requirements in the PGPA Act and supporting rules are implemented. Implementation of the new package of requirements will require focused attention and an investment of resources by Australian Government agencies and provide the opportunity to renew their focus on the performance measurement and reporting framework in preparation for the full implementation of the PGPA Act.

Conclusion

2.50 The continuation of the pilot project observed little change within the policy and guidance supporting the Outcomes and Programs framework promulgated by Finance for the 2013–14 financial year. Consequently, the key findings previously made by the ANAO and JCPAA remain largely unaddressed at the time of this report. Timely guidance and advice that supports the development and reporting of KPIs by agencies is also important in ensuring the Outcomes and Programs framework provides the Parliament and the public with the information necessary about the performance of agencies.

93 Department of Finance, *PGPA Rules* [Internet], Finance, Canberra, available from <<http://www.pma.finance.gov.au/legislation-pgpa-act/pgpa-rules/>> [accessed 22 January 2014].

94 Department of Finance, *PGPA Rules* [Internet], Finance, Canberra, available from <<http://www.pma.finance.gov.au/legislation-pgpa-act/pgpa-rules/>> [accessed 22 January 2014].

2.51 It is clear from the pilot project that the current framework and accompanying guidance does not provide an effective framework against which agencies' KPIs can be reliably evaluated through an assurance audit process, as it does not include clear minimum requirements. Additionally, in a public sector environment that is becoming increasingly interconnected, it is important that Finance, as the central agency with primary responsibility for administering the framework, ensures that the guidance supports and informs agencies on the implementation of better practices that recognise contemporary developments in public administration.

2.52 The cross-agency survey also highlighted the scope for Finance to provide clearer guidance and advice to enhance understanding of the framework, improve the consistency of implementation and to help streamline processes. This will become increasingly important during the implementation of the PGPA Act.

2.53 The PGPA Act introduces new requirements for agencies to produce a corporate plan, and to measure and assess their performance and prepare an annual performance statement. The first of the underpinning rules for the PGPA Act are scheduled to be submitted to the JCPAA in early 2014 for review, however, are not expected to take full effect until the 2016–17 financial year. To improve the standard of performance measurement and reporting, there would be considerable benefit in Finance providing enhanced guidance for the Outcomes and Programs framework, noting that agencies will continue to be required to report on performance on an annual basis under the current framework. It would be expected that, in the light of the implementation of the PGPA Act, any revised guidance would support the longer-term developments.

2.54 However, the structure and content of the new framework will not be clear until the PGPA Act rules have been finalised and the supporting guidance has been developed. Therefore, it is difficult to assess how the changes will impact performance measurement and reporting in the Australian Government and whether the changes being introduced through the PGPA Act will result in any significant improvements in performance measurement and reporting.

3. Measurement and Reporting of Performance Indicators

This chapter summarises the results from the cross-agency survey on performance measurement and reporting undertaken as part of the pilot project.

Introduction

3.1 A mature and robust performance measurement and reporting framework is important to agencies' effective measurement and reporting of performance. Performance information supports program management, assists performance improvement and identifies whether agencies are using resources in the most effective manner.

3.2 Within agencies' performance measurement and reporting frameworks, there are different types of performance information that provides information on the performance of programs both in terms of program effectiveness and program efficiency. As each element of performance information provides a different perspective of program performance, it is important that agencies have a balanced set of performance indicators to inform ongoing management and decision-making, and for external accountability purposes.

Survey: Measurement and Reporting of Performance Indicators in the Australian Government

3.3 The pilot project included the conduct of a cross-agency survey of selected Australian Government agencies' approaches and attitudes towards performance measurement and reporting. The Australian National Audit Office (ANAO) invited 16 major agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act) to complete the survey.⁹⁵

3.4 A specialist research firm⁹⁶ was engaged to design and conduct the cross-agency survey and to analyse the results. The survey was designed to

95 Major FMA Act agencies that represent some 95 per cent of total General Government Sector revenue and expenses are identified in ANAO Report No.49 2013–14 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2013*. In recognition of the recent Machinery of Government changes, major agencies significantly affected by the changes were excluded from the survey, and other agencies that participated in the 2012–13 pilot project were included.

96 ORIMA Research.

assist the ANAO’s understanding of agencies’ approaches and practices in performance measurement and reporting to support their implementation of the Outcomes and Programs framework, including:

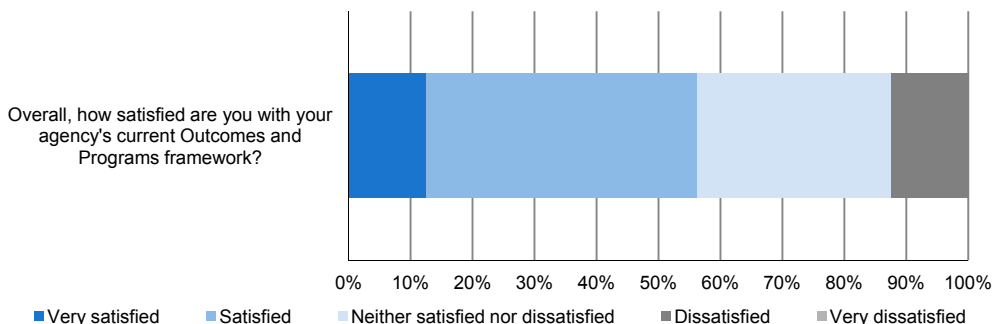
- agencies’ internal governance arrangements;
- the processes and practices in place for the development of key performance indicators (KPIs);
- the extent to which performance information is used in management decision-making processes; and
- agencies’ views on the quality, sufficiency and timeliness of guidance provided by central agencies.

3.5 The cross-agency survey commenced on 14 October 2013 and concluded on 13 November 2013. All 16 agencies invited to participate responded. The key results of the survey are summarised below.

Agencies’ overall satisfaction with their Outcomes and Programs framework

3.6 The 16 agencies that participated in the cross-agency survey were asked to rate their overall satisfaction with the effectiveness of their implementation of the current Outcomes and Programs framework. The results indicated a mixed overall satisfaction. While just over half (56 per cent) of agencies were ‘satisfied’ overall with their frameworks, 31 per cent recorded neutral ratings and 13 per cent (two agencies) were ‘dissatisfied’ (see Figure 3.1).

Figure 3.1: Agencies satisfied with their implementation of the Outcomes and Programs framework



Source: ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government, Report on Survey Findings*, ANAO, Canberra, 2013.

Note: Sixteen agencies responded.

3.7 Agencies that recorded higher satisfaction with their Outcomes and Programs framework also indicated greater use of effectiveness indicators; higher involvement of senior executives in the oversight of framework reporting; more comprehensive usage of evaluation plans for their programs; and higher usage of internal guidance in preparing performance information for Portfolio Budget Statements (PBSs).

3.8 A comparison of the broader cross-agency survey results, based on overall satisfaction levels, highlights several key differences between the agencies. In particular:

- the two 'dissatisfied' agencies indicated that only some of their indicators were effectiveness indicators, in contrast, 71 per cent of other agencies indicated that most or all of their indicators were;
- neither of the 'dissatisfied' agencies indicated that their Chief Executive Officer/Secretary or Board of Management/Executive Committee was responsible for reporting on outcomes, programs, deliverables and KPIs. This compares with 71 per cent of other agencies that indicated this responsibility was held at one or both of these levels;
- the two 'very satisfied' agencies indicated all of their programs were supported by an evaluation plan. This compares with only 14 per cent of other agencies; and
- the two 'dissatisfied' agencies were the only agencies that indicated they did not use internal guidance for preparing performance information for their PBSs.

Strengths and weaknesses of Outcomes and Programs frameworks

3.9 Agencies were asked to describe the strengths, weaknesses, areas for improvement and lessons learnt related to their Outcomes and Programs frameworks. The most commonly identified theme related to the importance for frameworks to closely align with the objectives of the agency and the Government and for performance measures to reflect these objectives. In the cross-agency survey, 12 of the 16 agencies indicated a close overall alignment of their frameworks with their objectives and those of the Government – the most commonly identified strength. Other strengths commonly identified by agencies included having:

- an established, stable and well understood framework that allows tracking over time; and

- flexibility to accommodate uncertainty and changes in the operating environment.

3.10 There were, however, also weaknesses and areas for improvement identified in this area for several agencies, including having KPIs and targets that do not adequately reflect success in the achievement of objectives (in some cases because the objectives are too broad, too rigid/unrealistic, or do not adequately reflect current priorities or risks). Other weaknesses identified by agencies included:

- lack of targets or poorly specified KPIs, targets or outcomes that limit the effectiveness of the framework in measuring performance;
- the nature of the agencies' work which made it difficult to define or measure appropriate performance targets;
- inconsistencies in approaches taken across agencies; and
- the structure of programs negatively impacting on the usability or usefulness of the framework (for example, not specific enough).

3.11 The need for a framework that is clear, comprehensive and easy to understand/administer was also commonly identified as important and seen as a key area of strength for nine of the 16 agencies. Several agencies also acknowledged, however, that there was scope to improve understanding of their frameworks and to simplify them through providing clearer guidance/training and by streamlining processes (for example, for updating KPIs).

3.12 The importance of engagement of senior leadership in the Outcomes and Programs framework was the most common lesson learnt and was also seen as a strength by several agencies. Other areas for improvement included:

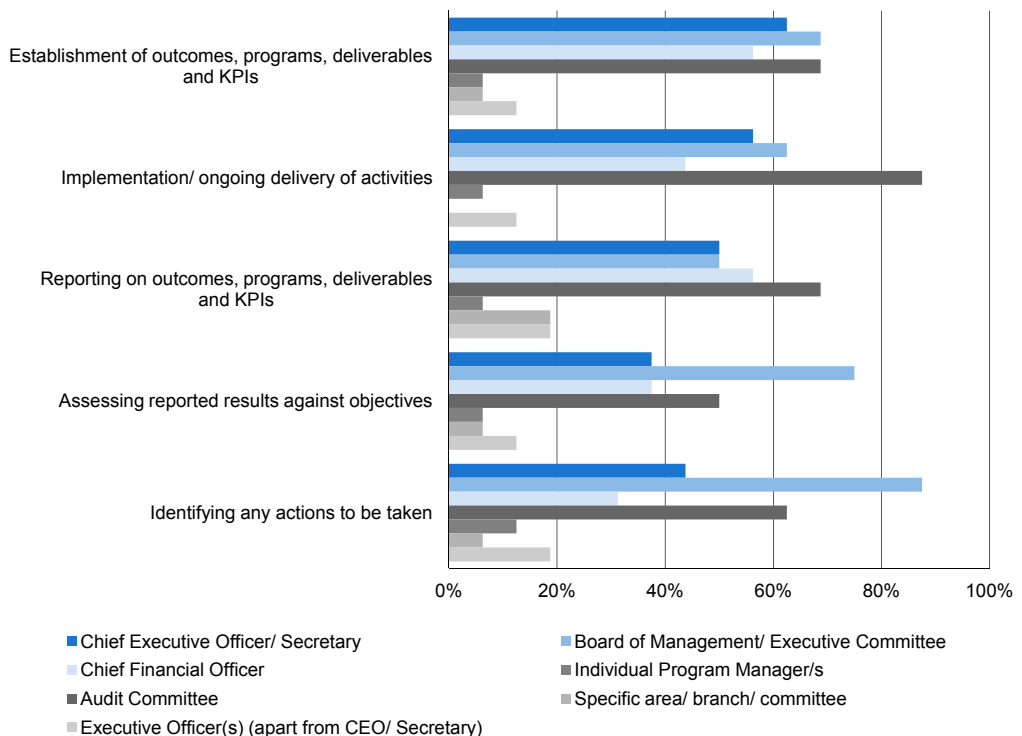
- the need for improved guidance, training/workshops and tools/templates to support agencies in implementing their frameworks, including by improving the skills and understanding of staff with responsibility for the development and oversight of frameworks;
- the importance of conducting regular reviews of agency Outcomes and Programs frameworks;
- the importance of careful up-front planning and selection of outcomes and deliverables; and
- the need for transparent or consistent targets that are openly reported.

Agencies' management of performance measurement and reporting

3.13 As previously mentioned, one of the major determinates of better practice performance reporting is leadership. There is a direct relationship between the quality of performance reporting and the importance placed on it by the highest-level executives in an agency. The main responsibility for achieving good performance reporting is with the agencies' senior executives.

3.14 The ANAO asked agencies to identify how oversight responsibilities in relation to outcomes, programs, deliverables and KPIs have been assigned. The results indicate that primary oversight responsibilities were frequently assigned to multiple levels and most commonly rested with CEOs/Secretaries, Management Boards/Executive Committees, individual Program Managers and Chief Financial Officers. As demonstrated in Figure 3.2, the CEO/Secretary and/or Board of Management are mostly responsible for the high-level management of performance measurement and reporting within agencies.

Figure 3.2: Oversight responsibilities in relation to outcomes, programs, deliverables and KPIs



Source: ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government, Report on Survey Findings*, ANAO, Canberra, 2013.

3.15 In most agencies, a single individual or committee had responsibility for several aspects of the oversight of Outcomes and Programs frameworks and this occurred at the most senior levels of leadership. In total, eight of the 16 agencies indicated that their CEO/Secretary and/or their Board of Management/Executive Committee has responsibility for all five aspects of their Outcomes and Programs frameworks (establishment, implementation, reporting, assessment of reported results, and identifying actions to be taken).

Outcomes, programs, deliverables and key performance indicators

3.16 A soundly designed outcome and program structure, which is supported by a clear rationale, and with objectives supported by how they will be measured and assessed, is important in a well functioning performance information system. KPIs and deliverables are an important part of this process and, if implemented properly, can be valuable in improving the achievement of outcomes. KPIs should highlight those aspects of performance that are integral in providing insights on performance and how it can be improved.

3.17 The cross-agency survey asked agencies to advise the total number of outcomes, program deliverables and KPIs that are reported in the PBS. The results are included in Table 3.1.

Table 3.1: Number of outcomes, programs, deliverables and KPIs

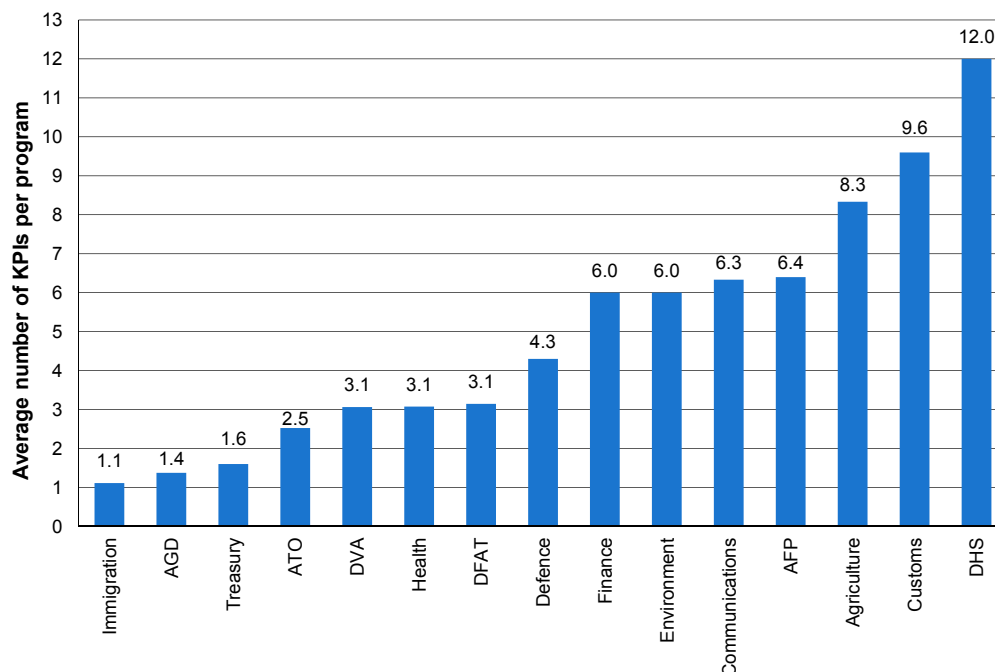
Department	Outcomes	Programs	Deliverables	KPIs
Attorney-General's Department (AGD)	1	8	40	11
Australian Customs and Border Protection Service (Customs)	1	5	65	48
Australian Federal Police	2	5	55	32
Australian Taxation Office	1	21	90	53
Defence Materiel Organisation (DMO)	1	3	6	596
Department of Agriculture (Agriculture)	2	15	125	125
Department of Communications (Communications)	1	3	16	19
Department of Defence (Defence)	3	20	165	86
Department of Finance	3	7	59	42
Department of Foreign Affairs and Trade (DFAT)	3	7	34	22
Department of Health (Health)	14	41	144	126
Department of Human Services (DHS)	1	2	15	24
Department of Immigration and Border Protection (Immigration)	6	62	96	69
Department of the Environment	6	10	100	60
Department of the Treasury (Treasury)	1	10	13	16
Department of Veterans' Affairs (DVA)	3	16	58	49
Total	49	235	1081	1378

Source: ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government, Report on Survey Findings*, ANAO, Canberra, 2013; and departmental PBSs for 2012–13.

3.18 There was considerable variation between agencies in the number of outcomes, programs, deliverables and KPIs within each of their Outcomes and Programs frameworks. For example, five of the 16 agencies had outcomes that were measured through a single program. In addition, eight of the 16 agencies had programs which were measured through a single KPI. In total, 39 of the 235 programs (17 per cent) were measured through a single KPI and nine (four per cent) had no KPIs.

3.19 The variability in the number of KPIs per program is outlined in Figure 3.3, which shows that the average number of KPIs that agencies had per program ranged from 1.1 to 12.0.

Figure 3.3: Average number of KPIs per program



Source: ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government, Report on Survey Findings*, ANAO, Canberra, 2013; and departmental PBSs for 2012–13.

3.20 A contributing factor to the variation among agencies is the limited guidance given to agencies in the overall design of the Outcomes and Programs framework. An example of a comment from one agency included:

Framework appears to be too focussed on outputs rather than on outcomes with the Programs not fitting neatly together. This could be improved by an increase in the number of Outcomes with a more strategic focus.

3.21 Finance guidance advises that agencies should briefly outline the logic and assumptions that informed the choice of the KPIs. There would be value in agencies reviewing frameworks to ensure they have been developed logically and provide additional information on the relationships between each element.

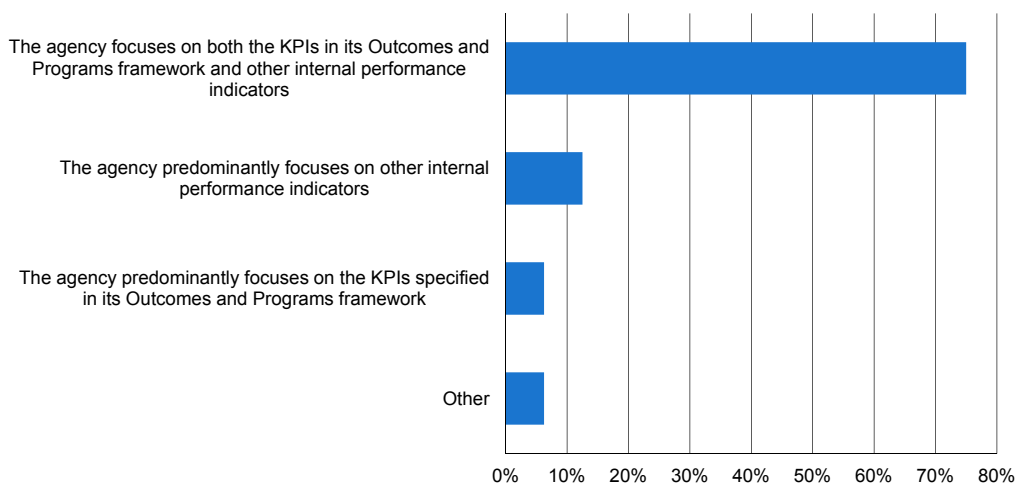
Integration with agency operations

3.22 Within agencies, data used to report performance information externally should be built on information used for ongoing management and

decision-making. By establishing strong links between internal and external reporting, agencies minimise the potential for inefficiencies that arise when an agency has one system for internal decision-making and another for external compliance.

3.23 In the survey, a majority of the agencies (75 per cent) responded that they focus on both the KPIs in their Outcomes and Programs framework and other internal performance indicators (see Figure 3.4).

Figure 3.4: Agencies’ use of KPIs in their Outcomes and Programs frameworks



Source: ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government, Report on Survey Findings*, ANAO, Canberra, 2013.

3.24 Additionally, 88 per cent of agencies indicated that they conduct internal reporting on the outcomes, programs, deliverables and KPIs as part of their Outcomes and Programs framework and 81 per cent of agencies indicated that the KPIs were also used internally in corporate, business or divisional plans. However, only 38 per cent of agencies indicated that KPIs externally reported in PBSs and annual reports were used in the agencies’ strategic plans. One agency reported that the:

... visibility of [the agency’s] Outcome and Program deliverables and KPI’s in key strategic documents (e.g. corporate Plan, Strategic Plan) could be improved.

3.25 Despite the reported integration by agencies, it is not always apparent how the Outcomes and Programs framework aligns with internal measurement and reporting processes. Overall, there is limited information

contained in agencies' PBSs or annual reports on how the Outcomes and Programs framework aligns to reflect an agencies' internal measurement and reporting mechanisms.

3.26 Effective performance reporting is supported by strong links to strategic planning and operational management. By integrating these elements of performance management, and using performance reporting to inform decision-making in support of strategic objectives, agencies are well placed to leverage the information gained through performance monitoring to promote efficiency and effectiveness in the delivery of programs.

3.27 While a number of changes to performance measurement and reporting are expected to be introduced through the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), these are unlikely to affect the importance of having a meaningful architecture for analysing performance across a portfolio or across government, as well as when analysing any specific area of government (such as an individual program or sub-program).

Reviewing the Outcomes and Program framework

3.28 Agencies were asked how frequently they conducted reviews of their Outcomes and Programs frameworks and about the process undertaken for these reviews. All agencies indicated that they conduct reviews at least once every two to three years, with 87 per cent conducting them more frequently than once a year or once a year (44 per cent).

3.29 These reviews were reported to be undertaken as part of the PBS or Additional Estimates cycle or through dedicated executive meetings focused on the assessment of the framework. Through ongoing monitoring and review, agencies are better placed to assess the ongoing progress and risks associated with a program and are able to make informed decisions about whether an initiative is still achievable, or whether its scope, timing, or resourcing needs to be reviewed.⁹⁷ Also, by considering arrangements for monitoring and reviewing the implementation of the Outcomes and Programs framework, agencies are better placed to determine the extent to which the implementation approach adopted contributes to achieving the intended policy objectives.⁹⁸

97 ANAO and Department of Prime Minister and Cabinet Better Practice Guide—*Implementation of Programme and Policy Initiatives Making Implementation Matter*, October 2006, Canberra, pp. 51–52.

98 ANAO and Department of Prime Minister and Cabinet Better Practice Guide—*Implementation of Programme and Policy Initiatives Making Implementation Matter*, October 2006, Canberra, pp. 51–52.

Agencies' measurement of impact and effectiveness

3.30 Within the Outcomes and Programs framework, agencies are expected to measure the performance of programs at two levels, deliverables and KPIs (which focus on effectiveness). Deliverables provide information on the goods and/or services produced and/or delivered, and KPIs provide information on how effective the program has been in achieving respective outcomes. For example, where an agency is funded to address a need in the community, it produces goods or services (deliverables) to meet that need and then measures the impacts and results through KPIs.⁹⁹

Developing performance information for programs

3.31 The cross-agency survey asked a series of questions relating to the types of indicators used by agencies within the Outcomes and Programs framework. Firstly, agencies were asked how many of the KPIs reported in their PBSs were considered to be measures of effectiveness, as required. Twenty-five per cent of agencies responded that all of their KPIs were effectiveness indicators, with 37.5 per cent advising that most were effectiveness indicators, and the remainder (37.5 per cent) advising that only some of the reported KPIs were actually effectiveness indicators. This result is consistent with those reported previously by the ANAO in Audit Report No.5 2011–12 and Report No.28 2012–13 on the development and implementation of the Outcomes and Programs framework by agencies.

3.32 Where indicators were not considered to be effectiveness indicators, the survey then asked agencies to provide a breakdown of the approximate number of KPIs that were considered to be measures of: output quality; output quantity; output timeliness; efficiency; or unsure and other.

3.33 As shown in Table 3.1, the survey covered a total of 1 378 KPIs. Of these, agencies indicated that 301 (22 per cent) were effectiveness indicators, 451 (33 per cent) were output measures or efficiency indicators, and 626 (45 per cent) were 'other' types of indicators.

3.34 The breakdown of the number of indicators by output measures and efficiency indicators is included in Table 3.2.

⁹⁹ Department of Finance and Deregulation, *Portfolio Budget Statement Constructors Guide 2009–10*, Finance, Canberra, 2009, p. 15.

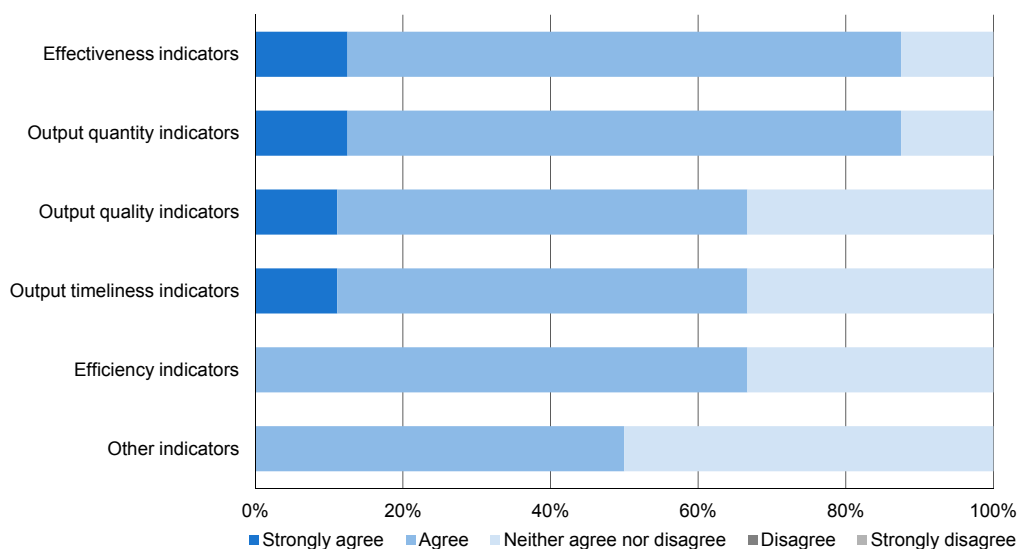
Table 3.2: Number of output measures and efficiency indicators

Indicator/measure	Agencies	Indicator number and per cent
Output quality	10	120 (27%)
Output quantity	9	188 (42%)
Output timeliness	10	78 (17%)
Efficiency	7	65 (14%)
Total		451 (100%)

Source: ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government, Report on Survey Findings*, ANAO, Canberra, 2013.

3.35 Three agencies also indicated that their KPIs were of an ‘other’ type, that is, predominantly measures of internal management processes or milestones to be achieved for individual projects through agreement with another Australian Government agency.

3.36 Finally, agencies were asked to rate the extent to which they agreed or disagreed that the KPIs developed and reported by the agency were appropriate for the programs being managed. The results are reflected in Figure 3.5.

Figure 3.5: The extent that agencies agree or disagree that the KPIs are appropriate for the programs being managed

Source: ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government, Report on Survey Findings*, ANAO, Canberra, 2013.

3.37 Again, the results from the cross-agency survey support the conclusions from prior ANAO reports on the application of the framework, with one agency providing the following comment:

There is a broad diversity of work undertaken by the Department and KPIs are not always necessarily the best mechanism for monitoring and reporting on performance. While they work well for some areas of the department their use is not consistent. For example, output quality measures for policy matters do not generally generate quantifiable results. Furthermore, KPIs can be underdeveloped (occasionally described in terms of deliverables) and do not always reflect the multi-year nature of many of the portfolio's activities. This can result in some difficulties assessing and reporting on annual progress.

3.38 Analysis of agency responses shows that six of the 16 agencies surveyed (37.5 per cent) advised that indicators reported in the PBSs were both 'effectiveness' indicators and 'output' or 'efficiency' indicators. Again, this highlights previous ANAO findings that agencies are having difficulty developing and implementing meaningful KPIs.

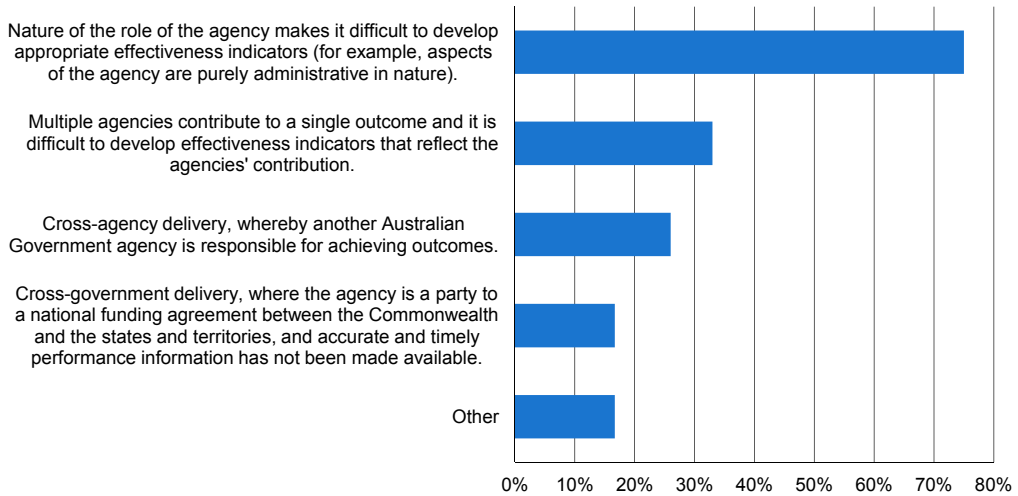
Challenges in developing indicators that measure effectiveness

3.39 ANAO Report No.28 2012–13 identified that agencies experienced difficulties in developing KPIs that measured the impact or effectiveness of a program where:

- the nature and role of the agency made it difficult to develop appropriate effectiveness indicators (for example, aspects of the agencies activities are purely administrative);
- the agency was involved with cross-government delivery, for example where an agency was a party to a national funding agreement between the Commonwealth and the states and territories; and
- multiple agencies contributed to a single outcome and it was difficult to develop effectiveness indicators that reflect the agencies' contributions.

The results of the cross-agency survey also highlighted the difficulties agencies experience in designing KPIs that are measures of program effectiveness. The survey asked agencies to identify whether KPIs had been used in their PBSs that were not effectiveness indicators and to provide reasons as to why (if they had been used). Of the 16 survey participants, 12 (75 per cent) responded that they used KPIs in their PBSs that were not measures of effectiveness. The reasons participants gave are outlined in Figure 3.6.

Figure 3.6: Reasons for having KPIs that are not effectiveness indicators



Source: ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government, Report on Survey Findings*, ANAO, Canberra, 2013.

3.40 As shown in Figure 3.6, agencies indicated that the main challenge faced in developing appropriate KPIs that measure the impact of a program, is the nature of the role or main activities of the agency. To assist agencies in achieving best practice in KPI design, one agency suggested that:

It would be useful to have clear, practical guidance, support and feedback from Finance in order to establish more useful and consistent performance indicators across Government. This could include training and a guide with examples of better practice.

3.41 As concluded in ANAO Report No.28 2012–13, a homogenous framework for application by all Australian Government agencies, without recognition of the variety of agency activities, has compounded the challenges that agencies have in implementing the Australian Government performance measurement and reporting framework. Further, the development of a framework that accommodates the diversity of public administration, and provides agencies with the ability to report appropriate performance information regardless of role, is critical.

Using proxy measures to measure effectiveness

3.42 Proxy measures are indirect measures of effectiveness and, where more direct measures cannot be identified, Finance guidance suggests the use of proxy measures is acceptable.¹⁰⁰ While the Finance guidance provides one example of a proxy measure and suggests that specialists can advise on their use, the guidance does not contain information on when and how proxy measures can be used by agencies to best support their performance reporting.¹⁰¹

3.43 The Council of Australian Governments (COAG) has developed a conceptual framework to support effective performance reporting under the Intergovernmental Agreement on Federal Financial Relations. The conceptual framework specifically states that outcomes are sometimes difficult to measure and, in certain situations, output-level performance indicators (or proxy measures) can reasonably be used to demonstrate performance. One situation in which the COAG conceptual framework suggests the use of proxy measures may be appropriate, is where there is no readily available data on outcomes, and the cost of obtaining the data would ‘substantially outweigh the benefits in terms of public accountability’. The conceptual framework also suggests that proxy measures may be used to demonstrate performance where there is a lag between outputs (or deliverables) and an improvement in outcomes. In this situation, the conceptual framework states it is ‘important to consider performance indicators that can measure progress against relevant outputs in the short term’.¹⁰²

3.44 The Steering Committee for the Review of Government Service Provision’s *Report on Government Services 2014* (RoGS) also supports the idea that proxy measures can reasonably be used to demonstrate performance. The report states:

While the aim of the Review is to focus on outcomes, they are often difficult to measure. RoGS therefore includes measures of outputs (which are often easier to measure), with an understanding that there is a relationship between those outputs and desired outcomes, and that the measures of outputs are, in part,

100 Department of Finance and Deregulation, *Performance Information and Indicators (October 2010)*, Finance, Canberra, 2010, p. 3.

101 Department of Finance and Deregulation, *Performance Information and Indicators (October 2010)*, Finance, Canberra, 2010, pp. 3 and 12.

102 Council of Australian Governments, *Conceptual Framework for Performance Reporting*, COAG, Canberra, 2011, pp. 7–9.

proxies for measures of outcomes. Output information is also critical for efficient and effective management of government services, and is often the level of performance information that is of most interest to individuals who access services.¹⁰³

3.45 Where more direct measures of the effectiveness of a program cannot be identified, proxy measures are useful tools in supporting public accountability.¹⁰⁴ There would be value in Finance providing additional guidance to agencies regarding the circumstances in which proxy measures (whether as output indicators or other forms of less direct measures) could reasonably be used to support their application of the Outcomes and Programs framework. The current reference to the use of proxy measures:

- does not require agencies to clearly specify when proxy measures are used or the underlying reason for not using more direct KPIs;
- is limited to a reference in Finance guidance; and
- does not provide worked examples to assist agency implementation.

Links to evaluation

3.46 ANAO Report No.28 2012–13 highlighted that the diverse range of Australian Government programs makes the development of appropriate effectiveness KPIs challenging.¹⁰⁵ Over a third of the agencies surveyed during the pilot project indicated that they report output and efficiency indicators as KPIs in their annual performance reporting which, despite providing valuable information to the Parliament, falls short of addressing whether relevant programs are meeting their objectives. In this situation, program evaluation can provide complementary information. Performance indicators can measure the different stages of a program's results (inputs, processes/activities, outputs and outcomes) while evaluation is designed to demonstrate the causal relationships.¹⁰⁶

103 Steering Committee for the Review of Government Service Provision, *Report on Government Services 2014, Volume A: Approach to performance reporting*, Productivity Commission, Canberra, 2014, p. 1.16.

104 Council of Australian Governments, *Conceptual Framework for Performance Reporting*, COAG, Canberra, 2011, p. 7.

105 ANAO Audit Report No.28 2012–13 *The Australian Government Performance Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*, p.19.

106 K Mackay, 'The Performance Framework of the Australian Government, 1987 to 2011', *OECD Journal on Budgeting*, 2011(3), 2011, p. 23.

3.47 Currently, there is no formal requirement for agencies to undertake evaluations for individual programs, making evaluation activity dependent on individual portfolios. Of the 16 agencies surveyed during the pilot project: eight indicated that most or all of their programs were supported by an evaluation plan; four indicated that some of their programs were supported by an evaluation plan; two indicated that none of their programs were supported by an evaluation plan; and two indicated that they were unsure whether their programs were supported by an evaluation plan.¹⁰⁷ Additionally, the availability of useful evaluation information varies, with many agencies conducting evaluations for internal decision-making and management purposes rather than to support the Australian Government's overall decision-making or accountability.¹⁰⁸

3.48 While the importance of evaluation as part of a broader performance measurement and reporting framework has been acknowledged by Finance¹⁰⁹, the ANAO has observed a low level of formal evaluation activity across the Australian Government. The ANAO has recommended in earlier reports that 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 outcomes¹¹⁰, and the importance of developing an evaluation strategy at an early stage of program design so that necessary information and data can be captured to give an accurate picture of the success, or not, of the program in achieving its objective.¹¹¹

3.49 A number of the agencies surveyed during the pilot project also identified that it is important to develop a robust evaluation and performance framework as early as possible in the design of a program, and for these to be supported by adequate systems and data. Some observations made by agencies during the cross-agency survey regarding the use of evaluation are set out below.

107 ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government Survey, Agency Response Table*, ANAO, Canberra, 2013, p. 8.

108 K Mackay, 'The Performance Framework of the Australian Government, 1987 to 2011', *OECD Journal on Budgeting*, 2011(3), 2011, p. 36.

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

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

111 ANAO Audit Report No.1 2013–14 *Design and Implementation of the Liveable Cities Program*, p. 139.

‘Performance evaluation is likely to occur after projects and activities have been completed and staff may have moved to other roles. For some strategic initiatives, this may occur over a period of several years. Therefore, performance evaluation needs to be considered early in the planning phases and defined as a distinct activity.’

‘Key performance indicators should be developed as early as possible in the design of a program and should be able to answer key evaluation questions at the end of the program, in four to five years’ time.’

‘Effective performance evaluation relies upon access to meaningful data (both qualitative and quantitative). This could be supported by better whole-of-government approaches to data collection, management, sharing, analysis and reporting, especially in regard to key social, environmental and economic indicators.’

Source: ANAO, *Measurement and Reporting of Performance Indicators in the Australian Government, Report on Survey Findings*, ANAO, Canberra, 2013.

3.50 Information gained from agencies’ annual monitoring and reporting on performance through KPIs can assist in providing base information required for longer-term evaluations.¹¹² As noted by the JCPAA:

... evaluating program and agency effectiveness is about more than just KPIs ... there is a role for other mechanisms such as independent evaluations and capability reviews. However, KPIs remain an essential tool for informing these broader evaluations, for continuous reporting and for project management discipline.¹¹³

3.51 Similarly, the Commonwealth Financial Accountability Review (CFAR) has identified the importance of improving the quality of performance information and re-establishing evaluation as an integral part of agencies’ resource management.¹¹⁴ CFAR also recognised the need for evaluation to be more systematic and better linked to the budget process, to assist in identifying good practice and areas for improvement in a more timely way, and emphasised Finance’s role in fostering a culture that values more systematic evaluation.¹¹⁵

112 Department of Finance and Deregulation, *Specifying Outcomes and Outputs*, Finance, Canberra, 1998, p. 43.

113 Joint Committee of Public Accounts and Audit, Report 439, *Review of Auditor-General’s Reports Nos.11 to 31 (2012–13)*, JCPAA, Canberra, 2013, p. 28.

114 Department of Finance and Deregulation, *Commonwealth Financial Accountability Review discussion paper, Is Less More? Towards Better Commonwealth Performance*, Finance, Canberra, p. 5.

115 Department of Finance and Deregulation, *Commonwealth Financial Accountability Review position paper, Sharpening the Focus: A Framework for Improving Commonwealth Performance*, Finance, Canberra, p. 18.

Conclusion

3.52 A well designed and administered Outcomes and Programs framework is important to the effective measurement and reporting of performance information. The results of the cross-agency survey suggest that the majority of agencies are not completely satisfied with the guidance or their implementation of the Outcomes and Programs framework and elements of both could be refined to foster greater transparency and accountability.

3.53 The results from the cross-agency survey highlighted that the most commonly identified factors that contributed to an effective Outcomes and Programs framework included: alignment of agencies' frameworks with the objectives of the Government; having an established, stable and well understood framework; and flexibility to accommodate uncertainty and changes in the operating environment. The most common message in achieving effective implementation of the framework was the engagement of senior leadership. Other areas for improvement identified by agencies included: the need for improved guidance, training/workshops and tools/templates to support agencies in implementing frameworks; the importance of conducting regular reviews of frameworks; careful up-front planning and selection of outcomes and deliverables; and the need for transparent targets that are openly reported.

3.54 The results of the survey also highlighted that agencies experienced difficulties in designing KPIs that are measures of effectiveness and that many of the KPIs adopted by agencies were measures of program outputs. This was particularly the case where the nature of the role of the agency and its programs were not amenable to quantification, where multiple agencies contributed to a single outcome, and where cross-agency and cross-government delivery models were in place. While output measures can provide useful information to external stakeholders as to the implementation of a program, they do not provide a basis on which the effectiveness of a program can be assessed.

3.55 Additional guidance to support the use of proxy measures would provide agencies with the opportunity to develop a more complete performance framework and underpin program evaluations. Further development of these areas of the framework would also accommodate the diversity of public administration and provide agencies with greater scope to report appropriate performance information while continuing to develop more direct performance measures.

4. Pilot Project to Audit Key Performance Indicators

This chapter summarises the results from the 2012–13 pilot project’s assessment of three agencies’ implementation of the Outcomes and Programs framework against Finance policy and guidance, and the audit methodology and criteria developed by the ANAO.

Introduction

4.1 In 2012–13, the Australian National Audit Office (ANAO) continued the pilot project to assist in further developing and refining the audit methodology to provide assurance in relation to agencies’ key performance indicators (KPIs). Three agencies participated collaboratively in the continuation of the pilot—the Australian Taxation Office (ATO), the then Department of Sustainability, Environment, Water, Population and Communities¹¹⁶ (Environment), and the Australian Federal Police (AFP).

4.2 The ANAO selected one outcome and program from each agency, and performed an assessment of the appropriateness, and completeness and accuracy of the reporting, of the associated KPIs. In particular, the ANAO:

- assessed the outcome statements, program objectives and deliverables published in the three agencies’ 2012–13 and 2013–14 Portfolio Budget Statements (PBSs) against the relevant Finance guidance;
- reviewed the KPIs published in the three agencies’ 2012–13 and 2013–14 PBSs for appropriateness, using criteria developed by the ANAO;
- reviewed whether the agencies had procedures in place designed to support the completeness and accuracy of data and information used to measure performance;
- analysed the actions and activities of the agencies in monitoring and managing against the reported results of programs over the year; and

¹¹⁶ On 18 September 2013, an Administrative Arrangements Order was issued renaming the Department of Sustainability, Environment, Water, Population and Communities to the Department of the Environment.

- reviewed the processes, procedures and accompanying documentation for compilation of the agencies' budget statements and annual reports against the completeness and accuracy criteria developed by the ANAO.

4.3 The criteria developed by the ANAO for the assessment of the appropriateness, and completeness and accuracy, of KPIs are outlined in Chapter 1. The following sections outline the ANAO's assessment of the individual elements of the three agencies' implementation of the Outcomes and Programs framework, including the overall alignment of the elements within the framework.

Assessment of outcome statements, program objectives and deliverables

4.4 The ANAO examined the relationship between each of the three agencies' outcome statements, program objectives, deliverables, and KPIs for the programs under review. The number of outcomes, programs, deliverables, and KPIs varied between each of the agencies, as demonstrated in Table 4.1.

Table 4.1: Agency outcomes, programs, deliverables and KPIs

Element	ATO 2013–14	Environment 2012–13	AFP 2012–13
Outcomes	1	6	2
Programs	21	10	5
Deliverables	90	100	55
KPIs	53	60	32

Source: Agency PBSs.

Note: For the continuation of the pilot project the ANAO agreed to select outcomes and programs for review in conjunction with agencies. For Environment and AFP this consisted of information published within the 2012–13 PBSs, however, for ATO this consisted of information published within the 2013–14 PBSs.

Assessment of outcome statements

4.5 Outcome statements are required to be included in agencies' PBSs to identify the intended results, impacts or consequences of actions by the Government on the Australian community¹¹⁷, and contribute to meeting a

117 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012, pp. 22–23.

Minister’s reporting and accountability obligations to the Parliament. All General Government Sector¹¹⁸ agencies are required to have at least one outcome statement¹¹⁹, against which performance is reported through KPIs.

4.6 In June 2009, Finance issued the *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. A summary of this guidance is outlined in Table 4.2.

Table 4.2: 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 (for example, ‘Women’, ‘Indigenous Australians’, ‘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*, Finance, Canberra, 2009, p. 3.

4.7 As outcome statements are part of a framework that aims to inform parties external to the agency of the Government’s policy objectives, and provide the basis for program objectives, deliverables and KPIs, it is important that the outcome statement is specific, focused and able to be easily

118 The agencies 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.

119 Department of Finance and Deregulation, *Outcome Statements Policy and Approval Process (June 2009)*, Finance, Canberra, 2009, p. 2.

interpreted.¹²⁰ Finance guidance further advises that outcome statements should not be so abstract as to be without meaning and should not be generic or open to having multiple interpretations.¹²¹

4.8 The three agencies' outcome statements addressed the requirements of Finance policy guidance. The outcome statements reflected the intended results, the target groups, and the activities undertaken by the agencies to contribute to the achievement of the intended results. These results are in contrast to the 2011–12 Pilot, where only one of the three outcome statements examined aligned to the key principles of the policy.

4.9 The design of outcome statements was an area identified for further consideration in the 2011–12 Pilot, particularly where a diverse range of programs are captured under a single outcome. The need for further consideration was reinforced during the continuation of the pilot in 2012–13. To assist in the design of subsequent program objectives and KPIs, each outcome statement should be specific enough to provide users with a clear understanding of the intended results of key activity/s, rather than being broad or abstract. Where an outcome statement does not capture the essential focus of the programs to be administered, the development of other outcome/s more reflective of the intended results delivered by the programs should be considered.

4.10 The outcome strategy section, which is required to follow the outcome statements within the PBSs, is designed to provide additional context to assist users' understanding of how the intended results outlined in the outcome statement are to be achieved. All three agencies in the pilot project included additional information through the supplementary strategies and were considered to provide beneficial additional information for users.

Assessment of program objectives

4.11 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

120 Department of Finance and Deregulation, *Outcome Statements Policy and Approval Process (June 2009)*, Finance, Canberra, 2009, p. 2.

121 Department of Finance and Deregulation, *Outcome Statements Policy and Approval Process (June 2009)*, Finance, Canberra, 2009, p. 3.

primary vehicles for government agencies to achieve the intended results of Government outcomes.¹²²

4.12 The Finance policy guidance in relation to programs is not structured in the same manner as the policy guidance in relation to outcomes. For example, the policy guidance for outcomes provides high level information to agencies on the purpose, key principles, and construction of outcome statements, including drafting tips, whereas the policy guidance for programs does not offer information on the key principles or construction of a good program objective, or include drafting tips. Agencies and other users are required to access separate publications for guidance on the development of program objectives, which adds to the complexity of implementing the framework requirements.

4.13 Program objectives outline the major 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 reflect the achievement of the program objectives¹²³, as distinct from the program outputs (deliverables).

4.14 In March 2012, Finance issued *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, which provides guidance for developing program objectives. This guidance is outlined in Table 4.3.

122 Department of Finance and Deregulation, *Commonwealth Programs Policy and Approval Process (December 2009)*, Finance, Canberra, 2009, p. 1.

123 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012, p. 29.

Table 4.3: Finance guidance for program objectives

Finance guidance for program objectives	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.
Identify the scope of the issue or area of need that the program intends to address.	<ul style="list-style-type: none"> The program objective should allow users to identify what aspect of the issue or area of need will be a focus of the program.
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.

Source: Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012, p. 29.

4.15 Each of the three agencies' program objectives specified how the programs had been designed to meet the intended results. Additionally, two of the program objectives also identified the areas of need, the specific target groups and known matters in relation to the issues, and the objectives could be linked directly to the intended results of the outcome statement. However, one agency's program objective was not clear in identifying the issue or area of need the program intended to address.

4.16 ANAO Report No.28 2012–13 also identified the clarity and specificity of program objectives as an area for improvement.¹²⁴ By outlining the issues, or areas of need the program intends to address, users are provided the opportunity to better understand the program objective, and agencies are better placed to more clearly demonstrate the link between the program and intended results outlined in the outcome statement.

Assessment of program deliverables

4.17 Program deliverables (outputs) are the goods, services and/or activities produced and/or delivered by a program. Collectively, deliverables represent

¹²⁴ ANAO Report No.28 2012–13 *The Australian Government Performance Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*, p. 68.

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.¹²⁵ The guidance for program deliverables, as outlined in *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, issued by Finance, are outlined in Table 4.4.

Table 4.4: Finance guidance for program deliverables

Finance guidance for program deliverables	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 2012–13 Portfolio Budget Statements*, pp. 35–36.

4.18 Finance guidance advises that, where practical, agencies should include quantitative information in the deliverables section of their performance reports, as well as contextual and qualitative information. In addition, deliverables should be measurable and presented in quantifiable units or activities to allow for consistent estimation over the Budget and forward years¹²⁶, and to allow users to determine whether the intended results outlined in a program objective have been achieved. The use of targets and estimated timeframes for the achievement of deliverables also assists in building an agency’s performance story.

4.19 The three agencies’ program deliverables represented the major activities of the programs. However, each agency had program deliverables

125 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012, p. 35.

126 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012, p. 35.

that could be more clearly described to provide a more useful basis for measurement. The agencies used broad descriptions of activities such as ‘targeting’, ‘manage’ and ‘implementing’ which are not specific enough to allow for the measurement of the products or services delivered through the implementation of the agencies’ programs. For example, one deliverable was described as ‘Developing ... plans and ... advice for ... processes’.

4.20 In addition, the pilot agencies had not assigned targets to the program deliverables or estimated timeframes for their completion. Similarly, ANAO Report No.28 2012–13 also stated ‘two of the agencies’ deliverables could be improved with the inclusion of targets or estimated timeframes for achievement’.¹²⁷ The provision of targets or estimated timeframes provides information for users to draw comparisons between planned and actual results, and assess program delivery.

Appropriateness of key performance indicators

4.21 Within the context of the Outcomes and Programs framework, KPIs are measures of the effectiveness of programs in achieving the stated objectives in support of outcomes. 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).¹²⁸ As stated in guidance issued by Finance, 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.¹²⁹

4.22 Across the three agencies, a total of 18 KPIs were included in the scope of the pilot project. The pilot project assessed whether the KPIs published in the agencies’ PBSs met the definition of a KPI, rather than indicators of other elements within the Outcomes and Programs framework for example, outputs or deliverables. A summary of the ANAO’s assessment is included in Table 4.5.

127 ANAO Report No.28 2012–13 *The Australian Government Performance Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*, p. 69.

128 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012, p. 29.

129 Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012, p. 28.

Table 4.5: Assessment of the pilot project indicators

Type of indicator	Finance definition	No. of indicators assessed to be in each category
Program inputs	Program inputs are the resources that can be attributed to the policy development, delivery and associated costs of administering a Commonwealth program.	-
Program activities and support processes	Internal activities and support processes are the actions or processes attributable to the management of program inputs and/or the program activities and support activities that manage and deliver the program.	5
Program deliverables	Deliverables are the goods, services and/or activities produced and/or delivered under the program.	10
KPIs	KPIs are a direct measure of the effectiveness of programs in achieving objectives in support of the respective outcome.	3
Total no. of indicators assessed		18

Source: Adapted from Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012.

4.23 The ANAO's assessment found that only three of the KPIs met the Finance definition of a KPI as a measure of the 'effectiveness of the program in achieving its objective'.¹³⁰ Five of the indicators measured internal activities and support processes, and ten measured program deliverables. The ANAO then assessed the 15 indicators not considered to meet Finance's definition of a KPI, to evaluate whether agencies had used these as proxy measures.

4.24 The assessment identified that seven of the remaining 15 KPIs were considered relevant proxy measures.

4.25 As discussed in Chapter 3, proxy measures are indirect measures of effectiveness and, where more direct measures are unable to be identified, Finance guidance suggests the use of proxy measures is acceptable.¹³¹ As proxy measures are not direct measures of effectiveness of a program, it is necessary that proxy measures can be clearly linked to the performance of the program in support of an outcome in order to demonstrate effectiveness.

130 Department of Finance and Deregulation, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, Finance, Canberra, 2012, p. 29.

131 Department of Finance and Deregulation, *Performance Information and Indicators (October 2010)*, Finance, Canberra, 2010, p. 3.

4.26 Table 4.6 presents the number of KPIs and the number of proxy measures, which were either measures of program activities and support processes, or program deliverables.

Table 4.6: Program indicators that measure effectiveness

Type of effectiveness indicator	No. of proxy measures or KPIs
KPIs	3
Program activities and support processes (proxy measures)	3
Program deliverables (proxy measures)	4
Total measures of effectiveness	10

Source: ANAO analysis.

4.27 Although proxy measures are useful as indicators, agencies should be discouraged from relying solely on indirect measures of effectiveness where more direct measures can be developed. A higher degree of correlation between an indicator and program provides more useful information for users to assess the progress of a program towards its objective, and contribution to the outcome.

Appropriateness of KPIs

4.28 The ANAO assessed those indicators that met the Finance definition of a KPI, and those assessed as proxy measures, against appropriateness criteria originally developed by the ANAO in the 2011–12 Pilot. Under the appropriateness criteria, each indicator is assessed individually against the characteristics of relevance and reliability, before the set of indicators are assessed against completeness criterion.

4.29 While each of the agencies’ sets of indicators were assessed as being relevant and reliable, two of the individual indicators did not meet the characteristic of ‘understandable’ and four did not meet the characteristic of ‘free from bias’. Table 4.7 provides a summary of the ANAO’s assessment.

Table 4.7: Indicators meeting the relevance and reliability criteria

Criteria	Characteristics	Met	Did not meet	Total indicators
Relevant	Focused	10	0	10
	Understandable	8	2	10
Reliable	Measurable	10	0	10
	Free from bias	6	4	10

Source: ANAO analysis.

Relevant

4.30 In assessing the indicators against the ‘relevant’ criterion, the ANAO considered whether they were appropriately focused on significant aspects of the program objectives and easily understandable. All of the indicators demonstrated the ‘focused’ characteristic, as the connection between significant aspects of the program and achievement of the program objectives was clear.

4.31 Two of the ten indicators were assessed as not meeting the characteristic of ‘understandable’. When indicators include terms that are not easily understood, the ability of users to determine how the indicator might demonstrate the program’s effectiveness is diminished. The remaining indicators were ‘understandable’, in that they were clear, concise and clearly signalled the impacts of the programs.

4.32 The difficulty of designing readily understandable KPIs was highlighted in ANAO Report No.28 2012–13. Of the 26 KPIs assessed, 21 did not meet all elements of the ‘understandable’ characteristic. Agencies should continue to consider how best to develop KPIs that are easily understood by non-specialist readers, through the use of plain English and the provision of sufficient additional information where necessary to explain technical terms.

4.33 Additionally, where agencies use proxy measures, it is important to provide users with sufficient information on how that measure demonstrates progress towards the program objective. This will provide users with an understanding of the relevance of the indicator for the agency, the Parliament and the public.

Reliable

4.34 In assessing the indicators against the ‘reliable’ criterion, the ANAO considered whether they were ‘measurable’, and if the results reported against the KPIs could be consistently interpreted by users. All of the indicators were

'measurable', in that they are able to report a quantitative result. Six of the indicators were considered to be 'free from bias' as the results reported against them allowed for a reasonably consistent assessment of the program and its contribution to the outcome by users.

4.35 The remaining four indicators relied on users' interpretation of targets, for prior, current and forward years, to determine whether an increase or decrease in the measure was a positive or negative result. Leaving users to interpret the desired direction of indicators through trend information, without providing additional contextual information, increases the likelihood of the inconsistent interpretation of results and affects the reliability of the indicators.

Complete

4.36 To provide a basis on which to assess the effectiveness of a program, a set of indicators must be 'complete' demonstrating the characteristics of 'balanced' and 'collective'. Completeness is demonstrated through a mixture of qualitative and quantitative measures to provide an overall performance story, and measures which are collectively representative the overall program objective.

4.37 Only one of the pilot agencies' indicators were assessed as meeting the 'complete' criterion, as they provided a reasonable basis for a 'balanced' assessment and were considered to be representative of the program objective. Neither of the remaining two agencies' indicators met the balanced characteristic as the indicators were either all qualitative or all quantitative, while only one of the two remaining agencies' indicators collectively addressed the program objective.

4.38 These results are consistent with those of the 2011–12 Pilot, where only one agency met the overall criterion of 'complete', while the remaining two agencies only satisfied one of the two characteristics of 'balanced' or 'collective'.

Completeness and accuracy of key performance indicators

4.39 The objective of external performance reporting is to present users with information providing an accurate and succinct picture of agency 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 in the Annual Reporting Requirements, the value of that information is diminished.

4.40 As described previously, to assess the completeness and accuracy of the underlying data supporting the KPIs and their disclosures in the annual reports, the ANAO developed criteria based on the principles of the Australian Auditing Standards, the Annual Reporting Requirements issued by PM&C, and guidance issued by Finance.

4.41 In assessing the completeness and accuracy of the three agencies' KPI data and disclosures against the ANAO's criteria, the pilot project determined whether sufficient processes were in place to support the completeness and accuracy of data used to report performance, reviewed the processes and procedures used for compiling of the PBSs and annual reports, and confirmed whether the agencies' annual report disclosures met the Annual Reporting Requirements issued by PM&C.

Completeness and accuracy of data

4.42 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 appropriate measurement systems provide agencies with confidence in the integrity and validity of the results reported against their KPIs.

4.43 In October 2010, Finance issued guidance to assist agencies 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 and collection arrangements;
- the measurement frequency and 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.¹³²

¹³² Department of Finance and Deregulation, *Performance Information and Indicators (October 2010)*, Finance, Canberra, 2010, p. 3.

4.44 The data sources and collection methods varied across the three agencies participating in the pilot project, largely due to their differing operations. However, common among the three agencies was the opportunity to improve current quality assurance processes for data sourced from parties separate to those collating the information. For example, where data is only sourced from a single system, without any means of validating the data, there should be robust processes and procedures to assure the completeness and accuracy of information when it is entered, transformed within the system, and then extracted for reporting purposes.

4.45 In all three agencies, KPIs were reported more frequently internally than the external reporting requirements of PBSs and annual reports. The frequency of measurement and internal monitoring and reporting increases the likelihood that issues affecting the completeness and accuracy of data are identified in a timely manner. This increases confidence in the consistency and accuracy of information presented externally by Australian Government agencies.

4.46 However, the pilot project concluded that opportunities existed for the agencies to increase the frequency of measurement and internal monitoring and reporting of certain KPIs and proxy measures and provide greater quality assurance over data, for both internal decision-making purposes, and external users.

4.47 One agency had developed business rules and procedural manuals to assist in the collection of data to support internal and external KPI reporting. These documents reflected the Finance advice outlined above, setting out the sources, collection methods, frequency of reporting and any known limitations associated with the reporting. By developing and implementing these manuals, the agency had increased confidence of data consistency in KPI reporting and as a result could place reliance on the completeness and accuracy of results.

4.48 The strengthening of documented processes and procedures to provide greater assurance over the completeness and accuracy of KPI data was also an area for improvement in two of the three agencies.

Coordination and collation of Portfolio Budget Statements and annual reports

4.49 A central coordination area and senior-level approval processes for the formulation of PBSs and annual reports can assist agencies in the presentation

of accurate, coherent and consistent information in both documents. Within all three agencies, responsibility for the coordination of PBS program information and the annual report was assigned to a centralised division and accompanied by senior-level approval processes. The approach of each of the agencies in coordinating the PBSs and annual reports was reviewed during the pilot project and are discussed in the following sections.

Collation of the Portfolio Budget Statements

4.50 All three agencies begin collating their PBSs within the first three months of the calendar year, in order to provide sufficient time for the collation and review of information prior to publication of the PBSs in May, in the budget context. To assist in meeting this deadline, the three agencies used pre-populated templates. These templates provided step-by-step instructions for the compilation of information for the PBSs and were also pre-populated with information from the previous year to assist in completion of relevant sections by business areas.

4.51 All three agencies had also developed reference materials to assist in a consistent approach to the development of KPIs aligned to outcomes and program objectives. One agency provided examples of better practice with the templates to encourage business areas to consider how their contributions, including KPIs, might be improved.

Preparation of the annual reports

4.52 The ANAO reviewed the three agencies' supporting processes and documentation for the preparation of annual reports. Each of the agencies had sound internal processes for the centralised collation and coordination of annual reports. Guidance promulgated by each agency was in line with the Annual Reporting Requirements and included pre-populated templates. The implementation of suitable processes and procedures manuals by each agency to support the compilation of the annual report contributes to the presentation of complete and accurate information for users.

Completeness and accuracy of disclosures

4.53 Implicit in the framework is the expectation that KPIs will be appropriately disclosed by agencies in their annual reports. The Annual Reporting Requirements state that annual reports are the means by which an agency 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 agency has progressed towards outcomes'.¹³³

4.54 The agencies' annual reports generally met the Annual Reporting Requirements. One of the agencies did not include trend information to demonstrate the agency's performance over time. The provision of trend information assists users' understanding of a program's previous, current and expected effectiveness. Additionally, providing further contextual information within annual reports alongside KPIs assists users' understanding of an agency's overall performance and contributes to meeting an agency's accountability obligations to the Parliament.¹³⁴

Conclusion

4.55 Performance reporting is most effective when based on clearly expressed outcome statements, program objectives, deliverables and KPIs. An agency's outcome statement is the foundation for program development and the clarity of outcome statements assists users to understand the intended results, impacts or consequences of government actions. The program objectives provide insight to the intended contribution of the selected programs, and deliverables provide tangible measures of the results of activities undertaken.

4.56 One of the goals of the pilot project was to develop and test an audit methodology to address the practical challenges of assessing the appropriateness of KPIs and their complete and accurate reporting. The pilot project approach included refining the ANAO's audit methodology, developed during the 2011–12 Pilot, through an assessment of outcome statements, program objectives, deliverables and KPIs.

4.57 The pilot project highlighted that while agencies were making some progress, there was room for strengthening the three agencies' performance reporting frameworks in order to enhance transparency and accountability, and to improve the quality of the performance information contained in the agencies' annual reports. The agencies engaged in the pilot project were

133 Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, PM&C, Canberra, 2013, p. 6.

134 Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, PM&C, Canberra, 2013, p. 3.

receptive to the ANAO's feedback and planned to revisit their current approach.

4.58 The implementation of systematic audits of the appropriateness of agencies' KPIs, and the completeness and accuracy of reporting, remains a process that will take time as agencies continue to invest resources to develop and refine their KPIs and systems, particularly in the light of the *Public Governance, Performance and Accountability Act 2013*. However, the continued focus of the ANAO in this area can be expected to lead to greater improvements in the quality of performance information provided to the Parliament and the public in the longer-term.



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Canberra ACT
27 February 2014

Appendices

Appendix 1: Department of Finance Update on Developments in the Performance Measurement and Reporting Framework

1. On 13 February 2014, Finance provided the following comments on the developments and planned activities that the department is progressing in relation to performance measurement and reporting within the Australian Government:

Finance is progressing the development of a more coherent performance management framework through the Public Management Reform Agenda, which includes the Commonwealth Financial Accountability Review and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In this context, Finance considers that it is important that any incremental changes to the previous framework be consistent with likely new framework and not create short-term or unnecessary red tape.

To enable the new framework to be put in place and to drive the intended improvements in performance management, Finance will continue to consult with entity and government representatives on the development of relevant rules and associated guidance materials which will be finalised during 2014. This will include guidance for measuring and assessing entity performance, guidance and templates for entities to produce both Corporate Plans and Annual Performance Statements, and revamped policies for the elements of the Outcomes and Programmes Framework. This material will be presented to the government for consideration during the second half of 2014. Together these near-term measures will lead to an enhanced Australian Government monitoring and evaluation framework. The process of developing these materials will itself focus agencies on their current practices, and on bringing these up to a higher standard.

In addition, to support short-term improvements, within the current framework, Finance is considering the development of an internet library of finished Australian Government monitoring and evaluation-related products. Giving monitoring and evaluation information a higher profile is likely to lead to improvements in the quality and sophistication of non-financial performance information over time.

The new and revised guidance and policies will complement Finance's day-to-day engagement with Commonwealth entities on activities to develop and implement outcomes and programmes in a coherent and informed manner, and to review and redevelop their programme-level KPIs. Through its regular contact with agencies, Finance makes its expertise available to agencies seeking to make changes to their outcomes and programmes structures. Finance is also currently working to increase the level, quality and targeting of evaluation activity by Commonwealth entities.

Appendix 2: Audit Report No.5 2011–12 Recommendations and Agency Responses

ANAO Audit Report No.5 2011–12 Development of Key Performance Indicators to Support the Outcomes and Programs Framework

Recommendation No.1

To develop more meaningful and measurable effectiveness Key Performance Indicators (KPIs), the ANAO recommends that entities build into their business planning processes the requirement to:

- periodically review program objectives to provide assurance that they are clearly defined and well suited for their purpose; and
- develop KPIs that have an appropriate emphasis on quantitative and measurable indicators, including targets.

Agencies' responses to Recommendation No.1

Australian Customs and Border Protection Service: Agreed. As part of our work in transitioning to an enhanced Multi-year Strategic Planning and Budgetary Framework, Customs and Border Protection will be reviewing its current performance measures and our approaches in developing these measures. The information contained in this audit will be useful in undertaking this work.

Fair Work Australia: Agreed. FWA agrees that meaningful KPIs are valuable measures in the evaluation of program performance and resourcing. As observed in the ANAO's findings the KPIs identified by FWA in the 2009-10 Portfolio Budget Statements and subsequently reported against in our 2009-10 annual report are target based qualitative measures for a number of the program deliverables. The 2009-10 annual report also presented additional information on workflow under the Fair Work Act 2009. FWA will look to add quantitative outcomes with the reporting of its KPIs in future annual reports.

FWA will continue to monitor progressive achievement of the KPI measures as part of established business planning processes and to periodically review the KPIs.

National Film and Sound Archive: Agreed. The NFSA has an appropriate range of KPIs and we will continue to ensure that program objectives are clearly defined and that KPIs are both quantitative and measurable.

Department of Resources, Energy and Tourism: Agreed. For publication in the 2010–11 Portfolio Additional Estimates Statements, RET undertook a complete review of the KPIs, assessing them against the SMART criteria. This review will be undertaken on an annual basis, for publication in the Portfolio Budget Statements.

Recommendation No.2

The collection and use of information on costs associated with the delivery of individual programs is an important component of the Government's Outcomes and Programs Framework. To support this reform the ANAO recommends that entities assess the extent that they currently use relevant costing information to identify program support costs, and take steps to allocate these costs to applicable programs.

Agencies' responses to Recommendation No.2

Australian Customs and Border Protection Service: Agreed. Customs and Border Protection recognises that this is an important aspect of the Government's financial framework. As noted in the report, Customs and Border Protection only has departmental programs in support of its single departmental outcome. All departmental costs in support of these programs are fully allocated and are outlined in our budget documents (Portfolio Budget Statement and Portfolio Additional Estimates Statement) and Annual Report. Customs and Border Protection believes

the framework would benefit from greater clarity from the Department of Finance and Deregulation on the treatment and presentation of support costs for departmental versus administered programs.

Fair Work Australia: Agreed. FWA agrees with the ANAO recommendation recognising the importance of identifying program costs as part of the Government's Outcomes and Programs Framework.

As noted in the report FWA has a single outcome with a single program whereby the estimates in the Portfolio Budget Statements reflect the cost of FWA delivering the program.

National Film and Sound Archive: Agreed. The NFSA's appropriation is for one program and we will ensure that this is noted in the PBS.

Department of Resources, Energy and Tourism: Agreed. RET already uses relevant costing information (internal budget allocations) as the mechanism for attributing program support costs to program.

Recommendation No.3

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.

Agency response to Recommendation No.3

Department of Finance and Deregulation: Agreed-in-principle.

Finance will look to undertake a review of the development and implementation of effectiveness KPIs.

As part of its ongoing review of guidance provided to agencies on performance reporting, Finance will consider including a diagnostic tool and methodology to assist agencies in reviewing and evaluating their KPIs.

In assessing which diagnostic tool and methodology to include in its guidance, Finance will consult the ANAO, given the ANAO's anticipated role in reviewing agency compliance with their KPIs.

Finance will consider the inclusion of further guidance to agencies on how to reference performance reporting for programs delivered through national agreements as part of this review.

Appendix 3: JCPAA Recommendations and Finance Responses

JCPAA Report 439 *Review of the Auditor-General's Reports Nos.11 to 31 (2012–13)*

Recommendation 1

The Joint Committee of Public Accounts and Audit recommends that the Department of Finance and Deregulation, in consultation with the Australian National Audit Office, prioritise the review and update of the performance measurement and reporting framework. A goal should be to have clear policy and guidance in place for the 2014–15 financial year that can be used by agencies to produce auditable Key Performance Indicators, irrespective of the passage of the Public Governance, Performance and Accountability Bill 2013.

Recommendation 2

The Joint Committee of Public Accounts and Audit recommends that:

- the Government reinforce the requirements for agencies to incorporate specific performance monitoring, reporting and evaluation activities into the design and costing of their programs;
- agencies be appropriately funded to carry out these activities; and
- monitoring be used to provide assurance that these activities are implemented.

Note: At the time of preparing this report, a response had not been provided to the JCPAA regarding the recommendations made in Report 439.

JCPAA Report 430 *Review of the Auditor-General's Reports Nos.47 (2010–11) to 9 (2011-12) and Reports Nos.10 to 23 (2011–12)*¹³⁵

Recommendation 1

That the Department of Finance and Deregulation include at least one recognised Key Performance Indicator methodology in its written guidance to government entities about the preparation of Key Performance Indicators.

Finance's Response to Recommendation 1—Agree

The Department of Finance and Deregulation (Finance) will revise its policy and guidance materials for the development, monitoring and reporting of program-level Key Performance Indicators (KPIs). To ensure its relevance and applicability, this work will be undertaken in consultation with Commonwealth agencies.

There are various methodologies for developing KPIs and key desirable characteristics of non-financial performance measures. In revising the Commonwealth policy for the development and reporting of non-financial performance information covering program-level KPIs, Finance will look to emphasise the inclusion of practical, user-based materials, which outline a clear approach for the construction of KPIs.

The issue of whether a single methodology is promoted for constructing program-level KPIs that suits all Commonwealth agencies, across their varying functions and responsibilities, will be reviewed. Finance's preference is not for crude prescription in this area. Informed by relevant international literature, the focus will be on developing policy

135 The Executive Minute in Response to JCPAA Report No.430 *Review of the Auditor-General's Reports 47 (2010–11) to 9 (2011–12) and Reports Nos. 10 to 23 (2011–12)*, February 2013, is available at <http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committee?url=jcpaa/auditgen11_11/govresponses.htm>.

and guidance materials that meaningfully and usefully assist agencies in their work to monitor and measure their performance.

Finance will ensure that the revised policy and guidance materials include references to appropriate resource materials and where appropriate, links to information developed by the Australian National Audit Office. We would seek to brief the Joint Committee of Public Accounts and Audit on this work after the 2013-14 Budget.

Recommendation 2

The Joint Committee of Public Accounts and Audit recommends that:

- the Department of Finance and Deregulation provide advice to all government entities that when providing new or amended Key Performance Indicators (KPIs) to their relevant Agency Advice Unit, the methodology used in the preparation of the KPIs must also be available for review; and
- 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.

Finance's Response to Recommendation 2—Noted

Going forward, the Department of Finance and Deregulation (Finance) will work directly with agencies to develop and review their program-level Key Performance Indicators (KPIs). Further, with the release of the revised Commonwealth policy for the development and management of KPIs, which will incorporate a practical user guide, the methodology for the construction of program-level KPIs will be clearer.

Finance has consulted with the Department of the Prime Minister and Cabinet (PM&C) on the issue of requiring agencies to state their program-level KPI methodology in their Annual Reports. The proposed revised Commonwealth policy for the development and management of KPIs will set the standards for developing KPIs, therefore this information will be available in the policy.

KPIs are hard to implement and there are particular problems in trying to measure all public activities in a meaningful way because the achievement of most outcomes in the public domain inevitably extends beyond the boundaries of an individual body. Further, the multi-level nature of government complicates an analysis of performance because so many areas of public activity take place at several levels of government simultaneously. The limitations of KPIs need to be understood. KPIs are, at best, pointers of good or bad performance only; they do not measure performance precisely or provide a substitute for detailed evaluation. Performance measurement and its wider use in performance management, is worthwhile as long as it is done in full knowledge of its limitations within the context of broader performance-related reporting.

Recommendation 3

That the Department of Finance and Deregulation, in consultation with the ANAO, report to the Joint Committee of Public Accounts and Audit in six months from the tabling of this report on:

- progress being made on guidance for agencies to improve the development and integration of effective Key Performance Indicators (KPIs) in program design, Portfolio Budget Statements, and annual reports;
- improvements to the KPI guidance aimed to enhance cross-agency and cross-jurisdictional KPI development, use and reporting; and
- how the ANAO's audit methodology is envisaged to fit within and support the overall KPI framework, and support ongoing policy enhancements.

Finance's Response to Recommendation 3—Agree

Since early 2012, the Department of Finance and Deregulation (Finance) has worked with the Australian National Audit Office (ANAO) to improve the reporting of program-level Key Performance Indicators (KPIs) at the Commonwealth level in Australia. This has included ongoing meetings between senior officers in the two agencies.

As agencies, we have agreed to:

- support improvements to current practices in the short term;*
- develop a common understanding of how the performance management system can best demonstrate achievement against the outcomes pursued by the Australian Government; and*
- where possible and appropriate, promote consistent and coherent messaging to Australian Government agencies on the importance of rigorous performance management practices.*

To identify the best options for improving the development and integration of KPIs and the reporting of performance information, Finance has undertaken several discrete pieces of work:

- for the 2009–10 financial year (FY), Finance collated the performance information for the KPIs of 321 Commonwealth programs across 42 material agencies governed by the Financial Management and Accountability Act 1997, based on information publicly-available from the Portfolio Budget Statements and the Annual Reports of the agencies. The main objective of the 2009-10 review was to undertake a stock-take of whether agencies had implemented program-level KPIs following the transition to the Outcomes and Programs Framework and whether there were any systemic reasons for agencies not achieving them;*
- for the 2010-11 FY, Finance undertook 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, which provided a broad sample of the types of activities performed by Commonwealth agencies. This work complemented our understanding of the issues facing the development of robust KPIs following the release of Audit Report No.5 of 2011 Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework; and*
- Finance did 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 (IGA) with the performance information reported in the Portfolio Budget Statements (PBSs) and Annual Reports of Commonwealth agencies. This work scoped the opportunities to improve the consistency and clarity of information across reporting documents.*

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