

PAA National Conference – Reshaping the Old:  
Charting the New – Public Management in the  
1990s, Melbourne

## **Performance Standards and Evaluation**

20 November 1996

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## PERFORMANCE STANDARDS AND EVALUATION

The benefits of performance monitoring for public services are identified as greater transparency of objectives and accountability for results. This workshop will consider recent experience in developing standards to evaluate efficiency and effectiveness of public services. In broad terms this is being done through performance information which is a much more encompassing concept than standards or indicators.

### 1. The Context

Public Services in Australia are increasingly being required to account for their performance, particularly with the greater emphasis on achieving program outcomes or, simply, results. Performance information is therefore important, not as an end in itself, but in the way it can help us meet the challenges of, among other things, new methods of program provision and quality service delivery. An important lesson from the past decade is that this is not a discretionary activity. The investment in time, effort and resources is considerable, but it is one we have to make because the stakes are so high.

Performance information is a critical tool in the overall management of programs, organisations or work units. It fits within the wider management framework that includes objectives, strategies for achieving objectives and mechanisms for collecting and using performance information. It both identifies or sets standards and assesses their attainment. In 1993 the Management Advisory Board (MAB) and its Management Improvement Advisory Committee (MIAC) issued a guide to assist managers to develop appropriate performance information.<sup>1</sup> In 1994 MAB/MIAC published a report which related mainly to management of people's performance through the integrated use of recognition, rewards and sanctions.<sup>2</sup> While the focus of this address is on program performance, I stress the importance of our people and their effective management in achieving the required results.

Performance information is documented and reported in corporate publications to the Parliament and other stakeholders and managed within the annual corporate cycle. In these respects it is crucial to public sector accountability. Put simply, it is the main means through which assurance is provided transparently to the Parliament and public that the Government's objectives are being met. The 1993 MAB/MIAC report also sets out a number of principles for effective performance reporting.<sup>3</sup>

In the time short available I want to emphasise a number of fundamental issues in relation to performance information and associated monitoring procedures, because experience shows we still often ignore the basics and

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consequently tend to be less effective than we could, or should, be. Firstly, it is important to define performance information, which I will do shortly, so that we have a common understanding of what the concept encompasses and the key role it plays in the management and accountability framework. As well, there are strong links between performance information and risk management which need to be appreciated in order to be less vulnerable to the seemingly inevitable criticisms if we make mistakes.

Another important reform which is currently being implemented throughout the public sector, at both the State and Federal levels, is that of accrual reporting and, more recently, accrual accounting. In the future, at the Federal level, we will be budgeting on an accrual basis. A considerable amount of the quantitative performance information is derived from our accounting systems. Managers will need to rethink their approach to management using accrual based systems, including the nature and scope of performance information necessary for management and accountability purposes. For many, this will also involve consideration of activity-based costing systems to assist in meaningful measurement of program input and outputs and their relationship to outcomes.

The nature and focus of performance information and the manner in which it is monitored will also change with the introduction of various new arrangements aimed at improving service quality and delivery and program provision, such as the introduction of competition, contracting out, commercialisation and private sector provision of public services. The commercialisation process:

‘involves the application of private sector management techniques and structures to government departments, government trading enterprises and statutory corporations’<sup>4</sup>

In many instances this involves adaptation, rather than adoption, reflecting the differing performance requirements of the public sector. We may well learn something from similar experiences in other countries such as Britain, Canada, the United States and New Zealand.

The ANAO is aware of the efforts being made by audit offices in the States and in other countries in pursuing improvements to performance information for accountability purposes. Some selected approaches and developments are discussed to demonstrate the shared perspectives on a range of issues that we have been addressing at the Commonwealth level.

I will conclude with a brief discussion of what the ANAO is doing to help improve performance information in the APS and the ways in which the Office is developing methodologies to assist in deriving such information.

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## Understanding Performance Information

Performance information has a broad focus. It goes beyond the development of performance indicators or standards, difficult though that task may be in itself. In short, it is evidence about performance which is collected, monitored and used systematically. The concept covers the setting of objectives, the development of strategies or means to achieve the objectives, the use of both quantitative and qualitative indicators, targets, standards (including values and ethics) and benchmarking.

Performance information is therefore a much broader concept than indicators even where they relate to key process outcomes. At the highest level, they are a measure which enables you, as a manager, to monitor progress towards achieving the objective, to indicate if you have been successful or how far away you are from achieving the specified objective. The Auditor-General of Alberta recently made the following useful related observation:

‘All too often, people devote disproportionate effort to the mechanics (my underlining) of reporting of performance and neglect the key prerequisite - establishing the target. Without clearly articulated, measurable and understood performance expectations, there is unlikely to be sustainable improvement in programs and services’.<sup>5</sup>

The encompassing nature of performance information includes both a vertical and horizontal approach to business requirements and the key drivers that largely determine outcomes. The key performance drivers focus managers’ attention on what influences performance. In that sense they are an ‘early warning’ system or ‘leading’ indicator.

It is often asserted that performance information is derived from evaluations. In essence, evaluation is a tool which complements other mechanisms used to identify and collect performance information. Evaluations usually start with performance information and provide a test of both the project/program and of the validity and usefulness of the information itself. Because of the timeframes associated with program evaluations (that is, they are usually conducted every three to five years) they are not a substitute for monitoring program performance on an ongoing basis for management purposes. Such evaluations are, however, useful for:

- examining the effectiveness of programs over the longer term;

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- establishing causal links between program outcomes and activities/resources involved; and
- obtaining information which is too expensive or too difficult to collect routinely.

Shorter term reviews or evaluations usually relate to management inputs or particular outputs. Increasingly, benchmarking analysis against identified better or best practice is being employed in such exercises. The more successful and credible comparisons made to date seem to be those based on particular processes rather than, for example, on outputs. This widens the possibilities for potential benchmarking across functions or activities such as reservation and check-in and out arrangements for hotels and hospitals.

More detailed discussions in relation to definitions and characteristics of performance information can be found in Audit Report No.25 of 1995-96<sup>6</sup> covering Performance Information in the Department of Employment, Education, Training and Youth Affairs; and in the Performance Information Guide which will be published jointly by the ANAO and the Department of Finance in the near future. Included as Attachment A to this paper is a brief summary of some of the lessons learned from the experience of both the latter agencies which may be of interest and perhaps generate other ideas and approaches that would enhance our capacity to produce more useful information for both management and broader accountability purposes.

## **2. Developing Accountability and Management through Performance Information**

Performance information is fundamental to credible accountability **and** effective management. It is therefore not discretionary nor simply to be put off as a secondary consideration. No one finds it easy. It can prove to be one's Achilles heel or, alternatively, the best defence of a program and of the people who are responsible for it. I regard it as recognition of a job well done as well as a means of identifying where improvements can/need to be made.

### **Accountability**

Performance information, and particularly outcome information, is one of the principal means of achieving program accountability to the Parliament. There are, however, differing levels of accountability within agencies. For example, local managers of large agencies are immediately accountable to senior managers who may, for example, focus on key process performance indicators. At the national level, agencies are accountable to Parliament and the public and performance information at this higher level should focus on

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overall program impact. Given these different levels of accountability performance information allows the entity to demonstrate its achievements internally and externally.

To accomplish appropriate accountability the performance information used must be of a quality which allows program achievement to be effectively measured or assessed. Particular attention must be paid to:

- \_ the framing of objectives and strategies;
  
- \_ accountability levels and varying timeframes for particular information;
  
- \_ the influence on possible behaviour and outcomes of choosing particular indicators; and
  
- \_ the reporting of performance information.

Objectives should be clear and realistically achievable. The program's area of responsibility and influence should be clearly defined in the objectives. Strategies should articulate the means by which the program objectives will be achieved and should be directly linked to performance indicators. If the indicators are not directly linked to both the identified objectives and related strategies, management will not be able to determine whether the objectives are being met or if the strategies are the appropriate ones for achieving the specified objectives. The better such links, the more likely that internal management and external users will be satisfied with a limited number of high quality initiatives. Quite often a myriad of indicators is a sign of uncertainty and lack of focus in applying the performance information framework. The problem then becomes one of interpretation as to just what do they all mean. The result is usually disappointment and frustration for all concerned.

Dr Paul Walsh of the Graduate School of Business at the University of Sydney makes the link between key indicators and core processes, typically between three and six for an organisation, and notes the latter's importance as follows:

'Core processes are strategic high delivery processes which represent in a succinct and transparent way what an organisation does. They are the ones where break-through improvement will provide significant competitive advantage'.<sup>7</sup>

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Performance information will also reflect the various accountability levels, for example, program or individual, as well as the timeframe for expected results, mainly short or medium term.

We should also be conscious of the likelihood that a selection of performance information in itself would influence the behaviour of managers and staff and consequently outcomes. While this is desirable, it should nevertheless focus the attention of decision-makers on their responsibility and attendant risks in determining that selection as well as ensuring that the information is used in a proper context. The latter is always difficult if users choose to ignore any guidance provided. And it can also be a cause of unnecessary frustration if such guidance is not available.

One of the main vehicles for public accountability is public reporting. For many, transparency is the essence of accountability. Therefore, reports, particularly annual reports, should be a balanced and candid account of both successes and shortcomings. It would be unfortunate if this were regarded as a naive expectation. In short, they should convey sufficient information to allow the Parliament and the public to make informed judgements on an agency's performance. In this respect, we should be sensitive to Parliamentary observations about the volume of material and the capacity of busy Members to cope with the detail that is often produced. Accountability is not determined by the weight test, but mainly by the ability to clearly comprehend the performance assessment.

It should also be appreciated that funding and operational arrangements may result in some diffusion of accountability. Many Government agencies provide only part of the funding for a program, with another organisation being ultimately responsible for the remainder of the funding and program delivery. For example, in 1995-96 the Commonwealth Government provided only 28 per cent of the recurrent funding for colleges of Technical and Further Education, with State Governments being responsible for the balance of the funding and the provision of educational services. Even if overall outcomes can be assessed, it is often not possible for the funding organisations to determine an outcome specifically related to their portion of funding. In such situations performance reports detailing outcomes should consider the performance of the program as a whole and include text explaining the problem of associating outcomes with each of the partial contributions. That said, we need to be as clear as possible about our own accountability. I also touch on this conundrum later in relation to private sector provision of public services.

Performance information, therefore, has an expanded role in these situations in that it can also be a means of protecting the Commonwealth's and the overall public interest. Besides monitoring their own performance, the responsible agencies must be able to assess the performance of each direct provider of goods and services for accountability purposes. It is, therefore,

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good practice to require the supplier to provide output and outcome information against which their performance can be assessed. Indeed, the requirement to supply such performance information should be included in any contract governing the delivery of a program or service. The ability to manage such contracts effectively will be an important part of the performance of many public and private sector managers in the future with marked implications for the efficiency and effectiveness of program delivery.

## Management

Without adequate performance information, particularly in relation to program effectiveness, managers cannot take informed decisions about the allocation, priority and use of program resources or provide sound advice on the appropriateness, success, any shortcomings and future directions of programs. As one of my international colleagues observed: 'management must take the lead to generate and report performance information'<sup>8</sup>. In the absence of appropriate performance information managers will not know:

- if they are undertaking their tasks in the most cost effective manner (in order to do this financial information - the necessary denominator - is required as well as the traditional input and output information);
- whether they are undertaking the strategies and activities which will lead to the achievement of the program objectives;
- whether those objectives are really appropriate to the apparent community needs; and
- whether services to clients are of an appropriate quality.

An appropriate set of performance information focuses attention on the parameters which, inter alia, influence outcomes at the particular manager's level. There may be a hierarchy of objectives and strategies which, at operational levels of the program, would tend to focus on particular processes, inputs and outputs. A hierarchy of objectives and strategies directly facilitates an integrated approach to planning, setting of targets, allocation of resources and the establishment of milestones for the organisation as a whole as well as for individual program areas. Indirectly, the hierarchy also influences behaviour towards the achievement of objectives, targets and milestones.

If, for example, performance information focuses solely on input, output or even outcome targets which are either easy or perhaps difficult to achieve, it



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is possible that client service may be reduced to unacceptable levels. That is, care must be taken to ensure that target setting, for example, does not encourage the more wrong sort of behaviour by decision-makers and/or service deliverers. Such a target could be to achieve a certain number of clients processed but which results in a severe reduction in the quality client service or a large increase in processing errors which need to be redressed at a significant cost. Public service managers are required to take such decisions within the confines of fixed, if not reducing, budgets.

Part of our responsibilities, and a very important part in today's climate, is risk management. In a general environment of continuous change and of limited resources the management of risk is an important issue for consideration in the context of performance assessment and one we all need to be familiar with and be able to confront with a measure of confidence.

Since prevention is better than cure, the key to any risk management approach is being proactive and well informed. Managing risks is far more pervasive than dealing with losses from fraud, theft or inefficiency, important though the latter might be. Less than adequate performance, for example, is also a risk that has to be addressed. Risk-taking is a dynamic exercise. Continued monitoring and review are necessary for successful risk management because risks not only change over time but their relative significance may also change, as may the mechanisms and tools to manage the risks efficiently and effectively. Constant vigilance is the price to be paid where there is a possibility of loss or less than satisfactory use of the public's resources.

One of the important tools to manage risk is performance information. Performance information identifies where you are heading, how you will get there, whether you are heading in the right direction and whether you are using resources in the most cost effective manner. In essence it is a safety net both for informed decision making and an early warning system to make necessary corrections where judgements prove to be wrong or circumstances different to those initially apparent. Systematic monitoring of your performance indicators, for example, provides early warning of potential/actual problems so that prompt remedial action can be taken. Dr Paul Walsh, previously quoted, also points to a particular shortcoming in this latter respect:

'People sometimes fail to act on the data they report not seeing that performance measurement adds value'.<sup>9</sup>

### **3. Performance Information in a more Contestable Environment**

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## Reforms and new service delivery methods

Many countries, including Australia, are currently showing interest in the possible use of different arrangements to produce and deliver Government programs and services. In order to accommodate changing demands and practices there is a widening range of delivery options being pursued for traditional public services. A recent comment by the Minister for Industrial Relations and the Minister assisting the Prime Minister for the Public Service is apposite in this respect: 'It (the APS) has responsibility for implementing the Government's reforms and at the same time must improve its own performance across the board so that it can compete effectively with alternative mechanisms for delivering Government services.'<sup>10</sup>

Among these delivery options are the introduction of competition arrangements, contracting out and contracting in, commercialisation and competitive tendering. Many of these are aimed at providing a greater level of contestability to bring about improvements in efficiency and effectiveness. In some cases contestability will occur as a result of direct competition between public and private entities and, in others, just across private sector providers. Even where there is no direct competition, there will no doubt be an increasing requirement to benchmark performance against identifiable best practice whether in the public or private sectors. Such considerations are seen as common characteristics of the new Public Management which are necessary to secure improvement in performance.<sup>11</sup>

As a result, organisational arrangements are becoming more complex, for example, the separation of the purchaser (the one who decides what is wanted) and the provider (the one who provides what is wanted), managing accreditation and regulatory functions concurrently and dealing with numerous suppliers in new and expanded markets.

Better performance information is required to ensure that savings, achieved by implementing these sorts of arrangements, are not achieved by a reduction in the level of quality of services provided, unless the Government takes a conscious decision that the service versus quality ratio should change. This comparison is more apparent where government endorsed standards are set as opposed to, for example, targets.<sup>12</sup> Greater use of market testing in the delivery of services will also require clear identification of outcomes and outputs and measurement of the efficiency of current public sector service providers. As well, agencies will need to ensure that the information necessary to report on performance will be available even if that agency is itself not the deliverer of the service.

One of the most significant challenges to the public sector and, indeed, to the private sector is to determine meaningful and transparent contract conditions

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and an effective means for managing purchaser/provider arrangements. Undue complexity of the latter is likely to be a recipe for failure. Nevertheless, there has to be assurance that the legal basis of any contract is sound and adequately protects the interests of all parties. A test of its robustness and the confidence of the signatories in their relationship is the extent to which it can be left in the bottom drawer, that is, virtually as reference documentation rather than a stalking horse for either party. From a public sector point of view there needs to be a better understanding of the commercial nature of such contracts and, in particular, the ways in which they are managed successfully. This applies as much to the determination and use of performance information as it does to the day-to-day personal interface with, and oversight of, program operations.

There is a need for **maximum clarity** in performance requirements, their measurement/assessment, the means by which the requirements may be altered and accountability for that performance. As we know, these concepts cannot be divorced from each other. While it will be difficult enough to identify clearly and concisely the nature and detail of performance information for the particular activity or program, it will need considerable skill and negotiating ability to assign unambiguously the concomitant accountability for that performance. I suspect we will have to urge tolerance and a degree of flexibility between the parties for some time in the learning process before we can achieve the necessary confidence not only between them but also of the Parliament. The discipline required, hopefully, will not just be seen as a means of assigning blame, but as a vehicle for quickly identifying and overcoming any deficiencies to ensure that the required levels of performance are achieved.

## Using accrual based information

Accrual accounting is being introduced throughout the APS with entities being required to report on an accrual basis. A number are increasingly being managed on that basis. This has considerable implications for the type of performance information that will be demanded in the future.

The new accrual based statements (which should include financial reports prepared on an ongoing basis as well as the end of year financial reports) should facilitate more effective scrutiny of agency performance and enable questioning of such matters as the efficiency of resource use, the full costs of administration, deployment of assets and their efficient management. For example, accrual accounting recognises the consumption of a depreciable asset's service potential through the depreciation expense calculation. In this regard, the ANAO's recent Financial Control and Administration Audit into Asset Management in Commonwealth entities found that improved asset management would result from the effective attribution of costs for the use and consumption of assets to the program level.<sup>13</sup> The recognition and

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attribution of such costs under accrual accounting assist us to identify the full cost of producing program outputs.

As noted by the Joint Committee of Public Accounts (JCPA): 'The statements will contain a wealth of information which can be used to construct a range of specific performance indicators to monitor and assess the performance of agencies and of programs within agencies. The information can also be used in a predictive sense to help decision makers assess the impact of proposed resource allocations on other programs within an agency or on the whole agency.'<sup>14</sup>

In particular, the statements are designed to be relevant, reliable, comparable and understandable. While the main focus will be on performance in managing resources, the reports will continue to provide accountability for the proper use of public moneys.

As well as assisting the management of individual agencies, the JCPA also observed that the information contained in accrual-based financial reports is presented in such a way as to facilitate comparisons between reporting periods and between different entities. This means it is comparatively easy to establish trends and identify performance benchmarks across the APS.<sup>15</sup>

Traditionally, the performance indicators which have been identified in the APS have focussed on inputs and outputs. It is generally agreed that performance indicators need to become more outcome focussed. This not only includes information on what has actually been achieved but also on the cost effectiveness of these achievements. Obviously, assessing the cost effectiveness of an organisation's activities depends upon the collection of performance information against financial indicators, among other imperatives. Such financial performance information will be increasingly provided through the use of accrual-based accounting systems.

The relevance of accounting information for measuring performance can be further enhanced through the use of activity-based costing systems. Such systems can be used to focus on the factors which drive the costs of those fundamental activities that are needed to produce outputs. The costs of these activities then provide the basis for assigning costs to other cost objects such as products, services or customers. While such systems may involve extra accounting costs, they have potential for improving the accuracy and usefulness of output costing in the public sector.

More broadly, managers will be looking for integrated management information to support their decisions. In essence, there is still a chicken and egg situation in many entities where demands are made for so called executive information systems, but limited use is being made of the

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technology we have and we do not express our requirements with any real clarity. On the other hand:

‘...setting performance expectations presupposes the existence of appropriate information and the systems to deliver that information.’<sup>16</sup>

We cannot expect someone else to virtually second-guess the information we need to run our business or to indicate whether we are successful or not. We need to be involved in decisions about systems and the performance information they can deliver.

## 4. An Audit Perspective

### The use of performance information by Audit Offices

I have talked about the characteristics of good performance information and its growing importance to management. A number of audit offices, both in Australia and overseas, have shown considerable interest in the development and use of performance information in the audit context. The next section of this paper discusses some of the observations on, and involvement with, performance information by some of these offices other than the ANAO. I will then follow with some comments on ANAO performance audit work relating to its examination of performance information in programs under review.

### Australian States

Whenever performance indicators are discussed, reference is almost certainly made to Western Australia (WA) where the Financial Administration and Audit Act (1985) **requires** agencies to report on their performance indicators and also requires the Auditor-General to issue an opinion on them. In a Special Report in December 1994, the WA Office of the Auditor-General stated that:

‘reporting of audited performance indicators by management has become a fundamental part of a new approach to accountability based on assessing what public sector agencies do and how well they do it.’<sup>17</sup>

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Further, the WA Auditor-General reported that:

‘the standard of performance indicators in the public sector has improved considerably in recent years. Between 1990-91 and 1993-94, there has been a significant reduction in the proportion of agencies that either failed to report indicators or reported indicators of a very limited standard.’<sup>18</sup>

However, it is also worth noting that in 1993-94 only 18 per cent of agencies in that State had reported efficiency and effectiveness indicators which were **all** relevant to their objectives and appropriate for assisting users to assess performance. The Auditor-General is not required to comment on whether the indicators are **the** most relevant or **the** most appropriate for any program.

Under the financial reforms in the ACT government departments will be required to produce performance statements to be included with their financial statements. Within these statements departments will be required to report on the quality/effectiveness and cost of departmental outputs. The ACT Auditor-General will be required to audit and provide an opinion on the performance information.

In the recent ACT budget, the ACT moved to budgeting on an accrual accounting basis. The budget included planned outputs, cost of outputs and performance information. This will provide the basis for more meaningful comparisons of actual achievements against budget. These developments reflect the purchaser/provider model of government in which departments will be funded in the budget for the provision of planned outputs. It is similar to the approach taken in New Zealand.

In his report to the Northern Territory Legislative Assembly for the half-year ended June 1996, the Auditor-General referred to his performance management audit methodology which had been used for the first time requiring auditors to ask public sector administrators about goals, strategies, performance targets and outcomes. He pointed to the general lack of monitoring during the year of the achievement of strategies agreed in the entities' corporate and associated Business Unit Plans. His concern is that, without such accountability, there is insufficient discipline over retaining focus on the agreed outcome targets.

## Overseas Audit Offices

As many of you might be aware, the British Government is currently considering the implementation of Resource Accounting and Budgeting. In

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reporting to Parliament on the White paper, the National Audit Office (NAO) stated that:

'Resource accounts will include an output and performance analysis containing key performance data for each departmental objective. Such data are becoming increasingly important to effective Parliamentary scrutiny.'<sup>19</sup>

The report concludes that:

'... key data should be validated and that the next five years provide an opportunity for trials so that a robust system of performance reporting, with validation, can be ready when resource accounting and budgeting are fully introduced early in the next century.'<sup>20</sup>

The National Audit Office's 1996 Annual Report refers to the issue of validation of performance particularly with the emphasis on the importance of quality of service. The Office is responding to requests for validation as well as carrying out further reviews of performance measurement as part of their performance audit activities. The NAO has issued good practice criteria which can be adopted in value for money audits of performance measurement and performance regimes. One item of particular interest given the increased attention by Legislatures to performance is that 'indicators should be capable of independent audit'.

The national publication of local government authority performance indicators has also become an important priority for the UK Audit Commission which is responsible for:

- the appointment of auditors to local authorities and the National Health System; and
- carrying out national studies of value for money.

The Audit Commission considers that publication of such information is critical to enable people to measure the performance of their council's previous year's performance and against other comparable authorities. The Commission's strategy is to develop systems for comparing the performance of audited bodies and to improve access of all interested parties to comparative information.

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The Auditor General of British Columbia in Canada has been extensively involved with the Executive Government in a joint exercise to improve accountability and performance management in the last year or so. In their report, the parties noted the need for a close integration between the performance management system and the accountability framework. They identified the following five accountability levels: Societal, Governmental, Corporate, Program and Individual. At the program level, the report<sup>21</sup> indicated the following practices to improve accountability/performance:

- \_ Performance measures are developed and information systems are realigned to collect appropriate data.
  
- \_ Performance is monitored continuously.
  
- \_ Client surveys are conducted.
  
- \_ Comprehensive program evaluations are undertaken.
  
- \_ Internal and external value-for-money (performance) audits are conducted.
  
- \_ Management contracts, based on accountability for results, with incentives, are established.
  
- \_ Training in results management is provided.

Not surprisingly, the performance information to be reported had to be relevant, complete, timely and verifiable.

Staying in Canada, the Auditor-General for Alberta recently observed that it is important for a set of common standards to be developed for reporting and auditing of performance measures. Importantly, audit staff will be meeting with each of the Ministers to determine the extent of credibility that can be added to ministry performance measures, starting with the March 1997 Annual Reports. Both the audit profession and audit staff are gaining experience in how to audit performance measures. A target is being set for issuing an audit opinion on performance measures:

‘I am proposing that performance measures included in the March 1999 Annual Reports be audited’.<sup>22</sup>



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This reflects the increasing tendency to require an audit of such measures. My current preference is to audit performance information as part of the individual performance audits with, perhaps, a periodic across entity review to identify better practice and any difficulties being experienced, particularly due to the nature of a program, or with the involvement of other parties, for example, other levels of government and/or the private sector.

## **The focus on Performance Information in ANAO Performance Audits**

The ANAO has conducted a number of performance audits which have included an examination of performance information relevant to the programs under review. In addition, I noted earlier an audit which focussed solely on the quality of performance information in the Department of Employment, Education, Training and Youth Affairs (DEETYA). This audit identified a number of good practices and general principles which would apply to other public sector agencies. These principles can be summarised as follows:

- performance information should measure all parts of the objectives set for the program or service;
- there should be an appropriate balance of indicators to address economy, efficiency and effectiveness;
- targets and standards should be developed which motivate appropriate behaviour and assist the achievement of objectives;
- where cost effective, benchmarking exercises should be undertaken to test actual performance; and
- reports, in particular the Annual Report, should include outcome oriented performance information which allows the assessment of program performance.

It is acknowledged that many public service agencies and entities are experiencing difficulties in developing appropriate performance information. It is also generally recognised that it can be very time consuming and, in many cases, resource intensive to develop a full suite of performance indicators for an agency's programs. For these reasons, experienced managers consider it better to concentrate on a relatively small number of high quality measures relating to economy, efficiency and effectiveness rather than a large number which tend to refer to only particular and not well related elements of performance. The latter can consequently be difficult to interpret in terms of overall program performance. However, note should be

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taken of the accountability hierarchy identified by the study in British Columbia.

Given the importance of performance information to effective management and accountability the examination of performance information will generally be an integral part of most performance audits conducted by the ANAO. While the examination may not be as detailed as that undertaken in DEETYA, the ANAO will seek to establish where an agency's performance information is contributing to improvements in management and accountability. The ANAO is also conscious of the extent to which programs across entities are interrelated and, in some cases, are part of a broader set of objectives being served by more than one entity. An even more complicated situation may arise across the three levels of government such as for the previous Better Cities program. Cooperation is essential to determine an appropriate balance of performance information for all users in such situations.

The sorts of issues which the ANAO will examine in relation to performance information includes whether there are:

- \_ links between objectives, strategies and indicators;
  
- \_ a balance of measures, that is, input, process, output, outcome and client service to enable the assessment of economy, efficiency and effectiveness;
  
- \_ measures of significant matters rather than things which are easy to measure;
  
- \_ some degree of continuity over time exists so that trends can be examined;
  
- \_ appropriate mechanisms to monitor progress against the objective in a timely fashion; and
  
- \_ reporting mechanisms which include outcome-focussed information presented in a form which is readily understood and does not mislead readers.

The objectives of the recent audit report on the Better Cities Program (BCP)<sup>23</sup> were to review the effectiveness of the relevant agency's management of the program's performance and to identify best or better practice elements that could be applicable not only to that program but also to other Commonwealth/State programs. It was also an example where the

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performance audit complemented a departmental evaluation with the former focusing on program management and the latter on its delivery and achievements. Commonwealth BCP agreements with States and Territories included designated milestones that served as tangible measures of outputs and progress. Experience in implementing the program since 1991 assisted in refining the distinction between these outputs and the outcomes agreed at the program's inception.

Agreed outcomes were cited in the BCP agreements but only couched in broad terms. In the ANAO's view, greater attention in the agreements to defining specific outcomes could have resulted in a more measurable outcome structure and, hence, more useful information about BCP's performance. Many of the desired outcomes will emerge over time, some over many years. However, the ANAO considered that some, such as better access to employment and improved urban environments, could have early measurable effects. The report indicated examples of how the outcomes sought could be measured by changes in:

- \_ waste water treatment and associated river and harbour water quality;
  
- \_ occupation and population demographics in areas or precincts in which 'an appropriate social mix' was the intended outcome;
  
- \_ air quality in areas where lower rates of usage of private vehicles were intended;
  
- \_ public attitudes to, and public acceptance of, different housing types, densities and modules;
  
- \_ the number of different housing types available;
  
- \_ time taken to obtain planning approvals for housing development;
  
- \_ employment levels and job creation in BCP target areas;
  
- \_ rail and public transport journey times;
  
- \_ levels of public transport usage;
  
- \_ the cost of home construction in BCP areas and other new comparable housing areas; and

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- the level of impact of new BCP housing on public infrastructure and the cost of its provision.<sup>24</sup>

The ANAO also considered that the strategic basis for management would have been much more robust if national performance measures had been determined for the program. Adopting national performance measures for elements such as housing affordability, housing densities, transport improvements, housing development costs and environmental impact would have increased the focus of the program on achieving and measuring outcomes. Performance information on such outcomes would, in the ANAO's view, have substantially enhanced program accountability and reporting at all levels.

BCP was conceived with a focus on outcomes, reflected in the Commonwealth-State agreements and the arrangements for reporting and accountability for results. However, there was no clear agreement on performance information development and reporting. As a consequence, there has been little reporting of information about program performance against the desired outcomes of the program.

The changing focus of Commonwealth-State programs suggests that measuring outcomes will probably be a requirement for accountability purposes. The BCP experience indicates that the design of such programs should include agreement on a suite of appropriate outcomes and ways to measure progress, if effective performance information is to be developed. Included as Attachment B to this paper are some suggestions made in ANAO's BCP report for improving performance information for such programs in the future.

## 5. Conclusion

Given the increasing demands for greater accountability there is an equal pressure for performance information to be audited. In this way we can all work together to improve such information and thus provide greater assurance to the public and the Parliament in relation to the efficiency and effectiveness of government programs. Perhaps the first step in rejuvenating interest and action by entities is the joint development of the Performance Information Guide with the Department of Finance which provides practical definitions and examples of good practices in this area. It is likely to be the first of a series of such joint guides on performance information and related other matters of interest to public sector managers.

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Through the conduct of financial statement, financial control and administration and performance audits and the publication of better practice guides we are keen to work with departments in order to improve performance information and thereby the performance of the public sector as a whole. The effort needs to be integrated and focussed to achieve credible results in a reasonable timeframe. To use an old phrase, we do not want 'paralysis by analysis'. We need understandable, timely and, to the greatest extent possible, measurable outcomes. The real test is whether, and in what ways, such information is actually used by entities to achieve greater accountability for results as well as by other stakeholders to assess those results.

There is an often repeated saying that at the end of the day we will be judged on what we do, not on what we say we do. Results are what ultimately count. There is no doubt that a major asset for any country is a highly performing public sector. With the greater integration of the public and private sectors, it is increasingly being realised that the cost of future public services are an important factor in our international competitiveness. As well, our international reputation depends heavily on the perceived vitality, innovation and overall performance of the public service. We can **all** contribute to that outcome no matter how relatively restricted our responsibilities or the level of our position.

In an environment of devolved authority, we are placing increased emphasis on personal accountability for performance, including effectively managing risks, with guidance rather than instruction. But this simply ups the ante in terms of better performance information.

I have borrowed on the wisdom of the UK National Audit Office (NAO) in preparing this paper and will do so again on the basis that we should be open to the ideas of others and apply them if they are relevant to our situation. The NAO notes the irony that just as the public sector is attempting to focus on results, the private sector has discovered the value of good information on processes and opinions. Their conclusion is one I would support for your consideration:

'We should be careful not to lose sight of traditional public sector strengths in moving to a more results-oriented model.'<sup>25</sup>

It is not simply a matter of process versus outcomes or horizontal versus vertical thinking or even quantitative versus qualitative assessment. Performance information encompasses all these facets of management behaviour and accountability to stakeholders. The issues are basically about how they can be effectively integrated within a framework that is 'owned' by those responsible at all levels of an entity, is easily comprehended, transparent and capable of being efficiently implemented and reviewed, as

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good practice. Standards, including benchmarking, and targets are essential to help ensure a sustainable improvement in performance and achieve the results required. This will increasingly be the basis on which we are judged. Most public servants have no difficulty with being accountable in this way. I will leave the last words to my colleague Denis Desautels, the Auditor-General for Canada:

'For public servants, the challenge is to continue to innovate, to remain motivated and enthusiastic about serving the public interest, even in the face of less job security.'<sup>26</sup>

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## ATTACHMENT A

### PERFORMANCE INFORMATION - LESSONS LEARNED

The following is a brief summary of some of the lessons gained from the experience of the ANAO and the Department of Finance in developing the Performance Information Better Practice Guide in consultation with other public sector agencies:

- The performance information should relate to the objective of the program and enable an assessment as to whether or to what extent the objective is being achieved. It should also enable an assessment of the efficiency and effectiveness of the strategies and initiatives used to achieve these outcomes.
- Objectives should be clearly stated and the performance information should measure **all** parts of the objective.
- Performance indicators (which will help provide the performance information referred to above) should be developed early in the life cycle of the program or project. These indicators may then need to be refined in the light of experience with the program or as a result of evaluations or other similar reviews.
- Performance indicators should assist managers in their decision-making as well as satisfy external accountability requirements.
- A useful tool for the development of performance information is the process of developing and analysing the underlying logic of programs. Program logic helps to clarify program objectives and to identify and describe the major program elements (inputs, processes, outputs, outcomes) and the expected cause-effect relationships between program processes and the outcomes they are meant to produce.
- Collection of information should not be confined to those items which are 'easy to measure' as this will not provide a comprehensive picture of performance. Also, given the general human tendency towards 'what gets measured gets done', the things that are not easy to measure (but which may be important) may not get done.
- Performance information should be differentiated appropriately at different levels of an organisation or program. High level strategic

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performance information for a program is unlikely to be directly relevant or useful to a work unit at the service delivery point. The performance information hierarchy should correspond to the break-down of objectives/outcomes by level of responsibility and control. It is important that agencies do not collect large volumes of performance data which is not cost effective; only key indicators should be established and measured for each level of responsibility.

- The performance information should be balanced, that is, it should encompass a range of measures relating to program aspects such as inputs, outputs, outcomes, quality client service delivery and access and equity issues and measure performance against the key criteria. Often, information will be biased towards measures of process or activities, at the expense of assessments of effectiveness. A program might have extensive information on activities and efficiency (e.g. time and cost to process claims) but nothing on quality. Information might also be biased to the short term at the expense of long term issues. Any of these biases will leave gaps in performance information which may not be understood by management or by external parties.
- Performance information should be robust in that it should measure something that is significant and it should be reliable and valid.
- The appropriate level of disaggregation of information should be identified in order for it to be useful (for example, is the information needed by client group, geographic location or organisational unit).
- Performance should be related to client expectations or requirements. The performance information regime should include a structured approach to identifying client needs which can vary widely, for example program recipients and the Parliament.
- A systematic approach to comparisons of performance should be undertaken. A framework for use of standards, targets, benchmarks and comparisons over time is necessary if performance information is to be useful both for performance improvement and for accountability. Also, where changes are required to the performance information collected, adequate links should be established to allow comparisons over time.
- The performance indicators, targets and standards which are developed should motivate appropriate behaviour in achieving the desired outcomes and not encourage staff to adopt inefficient or ineffective practices which allow them to achieve short-term targets, but endanger the achievement of the long term goals.
- Performance should be reported honestly and presented effectively: reports, particularly annual reports should be a balanced and candid



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account of both successes and shortcomings. Explanations and interpretation should be provided; the basis of statistics should be explained and the reports should be comprehensible to the average reader.

- Performance information should be designed and used to actually improve performance (that is, not used solely for external accountability or control), otherwise it is likely to present a distorted and/or less than complete picture of performance. Similarly, if a 'separate set' of performance information is used for external accountability purposes, there may be a tendency to be biased towards a positive view of performance.
  
- Performance measures should not be imposed on a work unit with no opportunity for input. Where measures are imposed, staff are unlikely to use the information to improve performance, often because it does not take into account the realities of the work actually being done.
  
- Performance information and its functions should be well understood at all levels. Management should appreciate the need to invest in performance information design, plan for performance data needs, set priorities, ensure timeliness and usefulness and achieve staff ownership and commitment.

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## ATTACHMENT B

### BETTER PRACTICE FOR BETTER PERFORMANCE - ANAO SUGGESTED PRACTICES IN ITS REPORT ON THE BETTER CITIES PROGRAM (BCP) -

#### Management by Outcomes

- \_ The number of program objectives should be realistic and achievable.
- \_ National, State and/or project performance indicators are required to enable effective reporting of performance at all levels.
- \_ Agreements between the Commonwealth and States or Territories for an outcome-oriented program should include a strong focus on program outcomes and their measurement. This should include statements of agreed outcomes, together with agreed indicators of performance, baseline data on the factors that the program addresses and a strategy for the collection of data on changes in those factors. Such outcome measures may be required after specific Commonwealth program funding has ceased.

#### Implementation

- \_ Where outcomes are not measurable in the short term (such as environmental improvements or effects on long term community health), decisions on progress and continued funding may need to be determined on the basis of output measures (such as milestones in construction or the delivery of services). Defining these measures is an important function of the relevant agreements.

#### Costs and resources

- \_ Imposing a fixed total cost and agreeing on fixed levels of Commonwealth project funding, has benefits in minimising the financial risk exposure of the Commonwealth, and provides an incentive to States and Territories to control costs and deliver a program efficiently.

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A consequence of this approach is that States and Territories rather than the Commonwealth may benefit from efficiency savings.

- Where outcomes measures are weak, it is especially important that program financial inputs, as well as program outputs, are measured and monitored. That is because input measures can have a role in achieving value for money.

## Accountability

- In managing jointly funded programs, Commonwealth managers should seek arrangements that promote disclosure by States and Territories of the expenditure of Commonwealth funding as well as of their own contributions. This disclosure could take several forms, such as through agency general purpose financial statements or through specific purpose financial statements.
- Specific purpose financial statements and certifications should only be sought where they add value or reduce a significant risk to the Commonwealth.
- Reports by States and Territories, whether on progress or outcomes, should be timely. Reports should be available at the time of the preparation of the Commonwealth Budget to enable effective and timely assessment of program results and to allow reporting of program performance to the Commonwealth Parliament. For outcomes and performance reporting, a period other than the normal financial year may be an appropriate base.

## Monitoring and evaluation

- Specific provisions should be included in agreements to recognise Commonwealth needs for monitoring the implementation of programs and to authorise Commonwealth program managers to seek specific reports and information on programs from State or Territory agencies.
- The extent to which monitoring and reporting takes place should reflect the level of risk to Commonwealth interests if delivery of the program occurs other than as planned. Risks should be identified and the necessary level of control put in place through the identification of outputs and outcomes and an appropriate reporting regimen.

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## Purchaser-provider arrangements

- There are parallels between the management of BCP and the purchaser-provider model for delivery of government programs. Agreements for service provision between the Commonwealth and the States and Territories should be:
  - comprehensive in defining the objectives sought;
  - clear in defining roles and responsibilities;
  - specific in defining the expected outcomes and the way that outcomes may be measured; and
  - specific in defining a reporting regimen.
- Agreements that incorporate these features will support and expedite the adoption of the purchaser-provider model for the delivery of services to the Commonwealth by States and Territories.

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