

Canberra Evaluation Forum

Evaluation and Performance Audit

Close cousins – or distant relatives?

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Ian McPhee
Auditor-General for Australia

Evaluation and Performance Audit — close cousins or distant relatives ?

Let me start out by thanking Noel Sutton, your convenor, for the opportunity to speak at your February Forum on program evaluation and performance auditing and whether they share any common DNA (or Deoxyribonucleic Acid) — close cousins or just distant relatives?

Introduction

Under the current output-outcomes model adopted in the Australian Public Service (APS), managers are expected to monitor the performance of programs continually. The model is intended to be self-regulating, with action being taken by managers to improve efficiency or effectiveness as required.

Program evaluation is seen as being complementary, if not integral, to program management. Evaluation aids in the assessment of program effectiveness, and may cover both policy and administrative aspects of a program. A performance audit is an independent review of the efficiency or administrative effectiveness of a program (or agency) but does not extend to assessing the policy merit of a program.

Both evaluation and performance auditing provide an opportunity for a holistic review of a program. They share similar approaches and analytical techniques. Both provide a stimulus for better public administration.

Evaluation and performance audits have now been elements of our public sector management landscape for more than two decades. The 1976 Coombs Commission (Royal Commission into Australian Government Administration—RCAGA)¹ was the genesis for program evaluation and performance auditing in the Australian federal sphere, and, as one commentator observed:

‘ Not only did this study [Coombs Report] pave the way for program evaluation, but it was also among the most instructive Australian government inquiries in identifying organisational diagnosis, and a form of benchmarking, as vital aspects of improvement of public sector administration. The Commission’s Task Force on Efficiency described an agenda of reform, including performance audit and new public management...’²

The other catalyst for evaluation came from the then Senate Social Welfare Committee’s 1979 Report *Through A Glass, Darkly : Evaluation in Australian Health and Welfare Services*, referred to as the *Baume Report*.³ This report provided a definition of program evaluation for the whole of government, namely, *the process of thoroughly and critically reviewing the efficiency, effectiveness and appropriateness of any program or group of programs.*⁴ [emphasis added].

With the announcement of the RCAGA, Don Steele Craik, the then Auditor-General, was quick to seize the opportunity to place efficiency audits on the

agenda, arguing that parliamentary scrutiny would be greatly improved if a fresh approach to the role of the Auditor-General could be engineered allowing Parliament to have independent and expert advice on the degree of economy and efficiency achieved in government financial administration.⁵ The then Audit Act was amended in 1979 to provide for the Australian Audit Office to undertake performance audits. Interestingly, the first performance audit conducted by the then Australian Audit Office was the Department of Administrative Services' Domestic Property Function.⁶

With this as a backdrop, I thought the best way to tackle today's topic is to briefly touch on the nature of Performance Auditing and Program Evaluation, including the contribution of both to improving public sector administration and accountability. I then propose to examine some of the similarities and differences, and conclude by making some general observations on the continuing relationship between evaluation, Canberra Evaluation Forum and the ANAO.

Performance Audit - adding value to public administration

Let me start with performance auditing. As Auditor-General my primary role is to report to the Parliament on the performance of public sector entities with performance audits being the main vehicle used to examine their operations, resources, information systems, performance measures, monitoring systems and legislative compliance. Hence, performance audits play an important role in improving the quality of public administration — to do this effectively the ANAO is required not only to assess performance objectively, but also to make constructive recommendations for improvements in program delivery or an agency's performance.

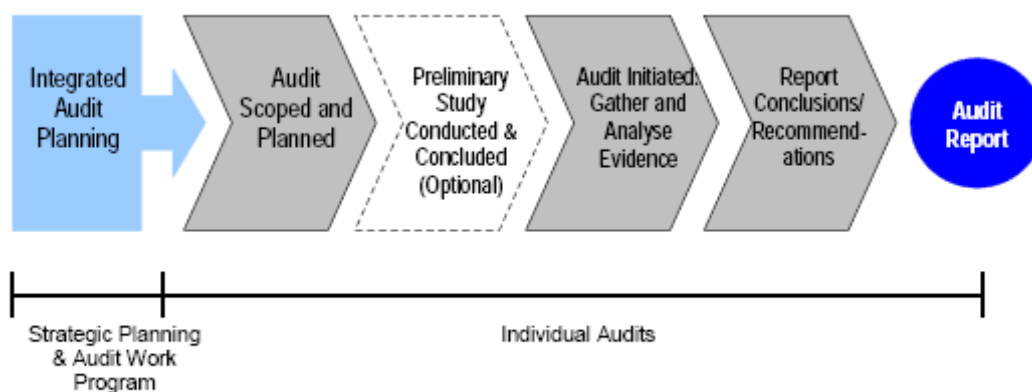
What is a performance audit?

It may be useful to touch on the main features of performance auditing. For this purpose I have drawn on our recently revised *Performance Audit Guide*⁷ which introduces the subject by referring to the *Implementation Guidelines on Performance Auditing* (issued by INTOSAI, an international organisation comprising my counterparts in some 180 countries) which summarise performance auditing in the following terms:

- ✚ Performance auditing examines the economy, the efficiency and the effectiveness of government programs and organisations and answers questions such as:
 - Do the inputs represent the most economical use of public funds?
 - Are we getting the best services from available resources?
 - Are the aims of the policy being fully met, and are the impacts the result of the policy?
- ✚ The perspectives and the objects to be audited may vary and include both individual agencies as well as government-wide undertakings.

- ✚ Although performance audits express opinions about the operations of agencies, performance auditing is not a regular audit with formalised opinions of the kind to be found appended to an agency's financial statements. It is an examination made generally on an ad hoc basis. It is an audit that focuses on performance rather than expenditure and accounting. It has its roots in the requirements for independent analyses of the economy, efficiency, and effectiveness of government programs and organisations. The special feature of performance auditing is partly due to the variety and complexity of questions related to its work.
- ✚ All government activities can be analysed to determine if they achieve their specific objectives. In performance auditing, this is often done by trying to answer two basic questions: Are things being done in the right way? Are the right things being done?

The ANAO's performance audit process is encapsulated in the following diagram which is borrowed from our *Performance Audit Guide*.



The Audit Mandate

The Auditor-General Act 1997 sets out the basic performance audit mandate of the Auditor-General (and the ANAO - established to assist me in the performance of my statutory functions). My statutory functions with regard to performance audit include:

- ✚ conducting a performance audit of an agency at any time [Sect 15(1)];
- ✚ conducting a performance audit at any time of a Commonwealth entity (other than a Government Business Enterprise), or of any of its subsidiaries [Sect 16/17];
- ✚ conducting a performance audit of a Commonwealth entity that is a Government Business Enterprise, or of any of its subsidiaries, if the responsible Minister, the Finance Minister or the Joint Committee of Public Accounts and Audit (JCPAA) requests the audit [Sect 16(2)]. The Auditor-General may ask the responsible Minister to make the request [Sect 16/17];

- ✚ conducting a review or examination, at any time, of a particular aspect of the operations of the whole or part of the Commonwealth public sector, being a review or examination that is not limited to the operations of only one Agency, body or person [Sect 18(1)];
- ✚ entering into an arrangement with any person or body to conduct a performance audit of the person or body (Sect 20(1)(b)), but the Auditor-General must not perform functions under this section for a purpose that is outside of the Commonwealth's legislative power [Sect 20(3)];
- ✚ accepting appointment under Corporations law as the auditor of a subsidiary of a Commonwealth authority [Sect 21 (1)(a)], a Commonwealth Company [Sect (21(1)(b)], or any other company in which the Commonwealth has a controlling interest;
- ✚ providing advice or information to a person or body relating to the Auditor-General's responsibilities, if it is in the Commonwealth's interest to do so [Sect 23 (1)]; and
- ✚ tabling a report, at any time, in either house of the Parliament on any matter [Sect 25].

As you can see, the functions of the Auditor-General potentially embrace most aspects of Australian Government administration, however some areas are exempt from the audit mandate, for example:

- ✚ the Houses of Parliament, its members and committees (Section 30 of the *Audit Act*);
- ✚ staff employed under the *Members of Parliament (Staff) Act 1984*;
- ✚ judicial actions of the courts including actions that are integral to the operations of the court such as operations of the court registrar or the rules of the court (however certain common administrative functions, such as the operation of asset management, privacy, employment of staff under the *Public Service Act 1999*, security and the like may be subject to performance audit); and
- ✚ the processes directly related to government policy undertaken by members of the Government and their personal staff. But, on the other hand, functions performed by agencies that lead to the adoption of policies by the Government or flow from them are functions of the agency and may be subject to audit. I will have some further observations on this issue later.

The development of the performance audit work program is entirely a matter for the Auditor-General, however as a matter of course I do consult with the JCPAA and agencies when framing our program. Additionally, the Parliament or its Committees may request audits for particular purposes, and if the Auditor-General agrees to undertake these audits, the ANAO is accountable to the Parliament for the delivery of them.

As a matter of course, the JCPAA reviews all performance audit reports and the Committees of the Parliament may, if they choose, conduct an inquiry into any aspect of a performance audit.

Auditing standards

All audits undertaken by the ANAO are carried out in accordance with the Australian Auditing and Assurance Standards. The Auditing and Assurance Standards set out the basic principles and essential procedures to be followed, together with related guidance promulgated by the auditing profession (CPA Australia and the Institute of Chartered Accountants in Australia). The inherent qualities of performance audits include: independence, integrity, objectivity, professional competence, due care and professional standards. In addition, audits are required to be undertaken 'with an attitude of professional scepticism.'

The relevant standards that apply to performance auditing are:

- ✚ AUS 806—Performance Auditing which applies to all performance audits, that is, whether a report is published or not, whether the audit is undertaken in the private or public sectors, by an internal or external auditor, or as a one-off project or as part of an ongoing engagement.
- ✚ AUS 808—Planning Performance Auditing which provides guidance on planning a performance audit and makes the point that the audit mandate guides the planning process.

Further, within the family of standards issued by the accounting profession, is a framework for assurance engagements which is intended to cater for the growing assurance industry beyond the audits of financial statements. This material is noteworthy because it provides a framework by which an auditor, or other practitioner, expresses a conclusion on subjects other than financial statements.

The essential elements of this framework for assurance engagements, issued by the International Auditing and Assurance Standards Board, are:

- ✚ A three party relationship involving a practitioner, a responsible party, and intended users;
- ✚ An appropriate subject matter;
- ✚ Suitable criteria or benchmarks to evaluate or measure the subject matter (which may be issued by recognised bodies or embodied in laws or regulations);
- ✚ Sufficient appropriate evidence; and
- ✚ A written assurance report in the form appropriate to a reasonable assurance engagement (positive form of opinion e.g. *In our opinion xxx is effective, in all material respects, based on x,y,z criteria*) or a limited assurance engagement (negative form of opinion e.g. *Nothing has come to our attention that causes us to believe that xxxx is not effective, in all material respects, based on x,y,z criterion*).⁸

Audit powers

The Auditor-General's powers in relation to the performance audit function come from the *Audit Act* — two important powers are:

- ✚ ***To select audits without interference.*** The choice of what is to be audited is entirely a matter for the Auditor-General. Under section 8(4)(c) of the Act the Auditor-General is not subject to direction from anyone as to whether to conduct an audit, how it is to be conducted or the priority to be given to any particular matter. As mentioned previously there are processes of consultation, particularly with the JCPAA for arriving at a program of audits, but ultimately the selection of audits, their scope and objectives are for the Auditor-General to determine.
- ✚ ***Access to information.*** The Auditor-General has very extensive powers to gather information related to an audit with sections 32 and 33 providing the basic information gathering powers of the Auditor-General for performance audits.

Parliamentary Privilege

The parliamentary privilege enjoyed by Senators and members is extended to certain documents prepared for presentation in either chamber — to ensure the independence of my reporting role, audit reports also attract parliamentary privilege.

To conclude this overview, I want to stress an important point I made in my 2004-05 Annual Report, namely, that the ANAO is committed to making a difference through assisting the Parliament, the Government and public sector agencies in enhancing public sector administration.

Program Evaluation

Program evaluation is a significant tool available to government to assess program performance. It is defined as the systematic assessment of the appropriateness, effectiveness and/or efficiency of a program, or part of a program⁹. As such, it is of considerable value both to agency managers, external decision-makers and other stakeholders. The last ANAO performance audit report on program evaluation tabled in 1997 observed that a Department of Finance (Finance) survey showed that *evaluation findings had provided better information to inform Cabinet deliberations, thus indicating one of the key benefits of timely and effective evaluation.*¹⁰

In looking at the development of evaluation in Australia I have drawn on Keith Mackay's paper: *Two Generations of Performance Evaluation in the Australian Public Service.*¹¹ Looking back, while some commentators trace evaluations in the APS back to the Royal Commission on Public Service Administration (1918-19) and the Royal Commission to Consider and Report Upon the Public Expenditure of the Commonwealth of Australia (1918-21)¹², Keith Mackay's paper titled *Two Generations of Performance Evaluation and*

*Management System in Australia*¹³ examines, describes and contrasts performance evaluation in Australia from 1997 and I will more or less limit myself to this period. Mackay's paper divides the evolution of program evaluation into two periods, namely:

- ✚ The first generation — 1987 to 1997 which was centrally-driven, stressed formal requirements, and was principally concerned with ensuring evaluation findings were available to feed into the annual budget process; and
- The second generation system introduced in 1997 entailed a highly devolved approach, stressing principles rather than formal requirements, and largely emphasising the collection and publication of performance information, and its provision to the Parliament.

Let me address each of these two periods in turn, drawing on Mackay's paper.

The First Generation of Evaluation : 1987-97

The Reid Report of 1983 (Review of Commonwealth Administration) promoted the introduction of management by objectives and performance control which gave rise to the Financial Management Improvement Program (FMIP). The effect of these reforms meant devolving responsibility from central agencies down towards the service delivery interface — *'letting the managers manage'* — as well as lifting the importance of program evaluation and internal audit with tighter budgetary accountability¹⁴. The public sector contributed by strengthening the evaluation capability of central agencies (eg. the then Public Service Board's Evaluation Unit) or by agencies developing their own in-house capability (Defence commenced efficiency audits in the early 1980s which evolved into program evaluations with the creation of the Inspector-General's organisation—responsible for both audit and evaluation).

The FMIP fostered an evaluation strategy which mandated annual program evaluation plans and reports for all Commonwealth funded programs. However central agencies, particularly Finance, were not convinced of the ability of agencies to manage their performance and in 1987, the Minister for Finance secured Cabinet's agreement that all budget spending proposals (new policy proposals) should include a statement of objectives, performance measures, as well as proposed arrangements for their future evaluation.

A push by Finance to strengthen evaluation

By 1988 Finance believed that this approach was not working and a more fundamental review was required. The concept of *'letting the managers manage'* was changed to *'make the managers manage'*.

Thus in late 1988 the Minister for Finance secured Cabinet's agreement to a formal evaluation strategy whose underlying principle was that the primary responsibility for determining evaluation priorities, preparation of evaluation plans and conduct of evaluations rested with line departments. The strategy had three main objectives:

- ✚ It provided fundamental information about program performance to aid Cabinet's decision-making and prioritisation, particularly in the annual budget process when a large number of competing proposals are advocated by individual Ministers.
- ✚ It also encouraged program managers within departments to use evaluation for the improvement of their programs' performance; and
- ✚ Lastly, the strategy aimed to strengthen accountability in a devolved environment by providing formal evidence of program managers' oversight and management of program resources.¹⁵

The evaluation strategy to which Cabinet agreed had four formal requirements for departments, namely:

- ✚ every program was to be evaluated every 3-5 years;
- ✚ each portfolio was to prepare an annual portfolio evaluation plan (PEP), with a 3-year forward coverage, and submit it to Finance - these plans were to comprise major program evaluations with substantial resource or policy implications;
- ✚ Ministers' new policy proposals were to include a statement of proposed arrangements for future evaluation; and
- ✚ completed evaluation reports should normally be published, unless there exist important policy sensitivity, national security or commercial-in-confidence considerations, and that the budget documentation which departments table in parliament each year should also report major evaluation findings.¹⁶

Cabinet also agreed that Finance would have the opportunity to make an input to the evaluation plans and to the terms of reference of individual evaluations to ensure their consistency with government-wide policies and priorities. Additionally, Finance would be available, subject to negotiation, to participate directly in selected evaluations. Agencies expressed some concerns with the planned role for Finance, nevertheless, Cabinet endorsed the approach.¹⁷

The feeling at the time seems to be captured by Dr Peter Wilenski (head of the then PSB) who was reported as saying: *formally, evaluation belonged to the Public Service Board which pursued management improvement, now we have lost the battle to the Department of Finance which has taken evaluation over for its purposes of cost cutting.*¹⁸ As a counter, my predecessor, Pat Barrett, observed that in his view *'the success of evaluation at the federal level of government ... was largely due to its full integration into the budget process'*¹⁹.

Further strengthening required

In our 1991 performance audit report²⁰, the ANAO noted the continuing unevenness in the coverage and scope of evaluation activity in departments suggested that Finance should take a more active approach to encouraging departments to plan and undertake evaluations. This resulted in Finance creating a separate branch with responsibilities for the provision of evaluation advice, support, training and encouragement to other departments.

Mackay observed that one limitation of the evaluation strategy was that it paid insufficient attention to the regular collection, use and reporting of performance information and performance indicators. By the mid-1990s Finance was concerned with the poor progress of agencies in articulating clear and achievable objectives for their programs, and in collecting and reporting meaningful performance information on a frequent basis. This seems to be a central theme during this first generation phase. *'Evaluation had been mandated, while collection of performance information had not.'*²¹

Thus, in 1995, Finance secured Cabinet's agreement to a rolling series of comprehensive reviews, staggered over 3 years, of the program objectives and performance information of all programs in all departments. These reviews were conducted jointly by Finance and each department, with the results reported to their respective ministers and to Cabinet as a whole. The reviews laid the basis for a much greater focus on performance information under the second generation of reforms, which commenced in 1997.²²

It is noteworthy that in the same year, the then Secretary of the Department of Finance indicated that: *'...one of the highest priorities for APS management remains, as it has been for a decade or so, to establish a culture of evaluation, not least within line departments because this is where programs are designed and delivered.'*²³

Some positives and negatives

Commenting on the success of this first generation of program evaluations Mackay observed that the requirement that all programs be evaluated every 3 to 5 years was influential in creating a climate of expectation that evaluation is the norm rather than the exception. The concept of regular, comprehensive coverage of programs also encouraged a planned, staged approach to evaluation. The Cabinet-endorsed formal requirement (under the evaluation strategy) that portfolio evaluation plans be prepared and submitted to Finance certainly provided a powerful incentive to departments to prepare plans and to take them seriously.²⁴

However, while the practice may have fallen short of the ideal, the introduction of program evaluation did lead to a reasonably strong focus on evaluation and its role in enhancing program performance. The ANAO's 1997 Audit Report²⁵ relating to evaluations conducted over the period 1995-1997 found that about half examined the delivery of products or services to external clients, and a further 30% were associated with matters internal to the department. Analysed another way, one third of the evaluations examined the appropriateness of new

or established programs, and 15% were directed towards the development of policy advice for the government. The ANAO survey also found that 75% of evaluations conducted in 1995 and 1996 were released to the public and/or available on request.

On the subject of the actual quality of the evaluations the ANAO examined a sample of evaluation reports and found that over a third suffered from methodological weaknesses of one kind or another. Mackay suggests the suspicion being that some were produced for self-serving purposes, such as to provide a justification for the retention or expansion of the program. Finance's own perspective was that the quality of evaluations varied enormously and this would be a significant problem if the intended audience of an evaluation is Cabinet (to aid its decision-making) or the Parliament (for accountability purposes).²⁶

Finally, there was only modest success with the requirement that Ministers' new policy proposals include an evaluation plan of action that would be undertaken if the proposal was accepted. However according to Mackay there is clear evidence that evaluations were used intensively in the budget process and that *'they provided a substantial contribution to the development of policy options and their consideration by Cabinet'*.²⁷

Mackay's overall summary was that the first generation phase was successful in ensuring that evaluations were planned carefully, and that a growing 'library' of evaluation findings was available to support and to influence budget decision-making. However, this system had some weaknesses, including inadequate attention to the collection, use and reporting of performance information concerning government programs.

Second Generation of Evaluation : 1997 to date

With the change of government in 1996 came an increased focus on results rather than on process, a new performance management system and an *outcomes and outputs* framework.

A new approach

A new approach to evaluation was developed by Finance in consultation with other APS agencies aimed at allowing Secretaries and other heads of agencies to take charge of performance management in their organisation. Finance developed a number of principles for agencies to aim for. These were to be used by agencies to improve their performance management approach incrementally and to enable evaluation to become an integral part of a performance management framework across the APS.²⁸ The most relevant of the Good Practice Principles, in regard to evaluation, put forward by Finance in 1994 was:

'Ongoing performance monitoring and periodic program evaluation are balanced and used appropriately: program performance is monitored on an ongoing basis and complemented by periodic program evaluation, generally within at least a five year cycle'.²⁹

This approach allows personnel within the organisation who have a strong working knowledge of the business, the processes, and the culture, to undertake timely evaluation. Ongoing evaluation of business performance, combined reviews of particular programs or issues, should enable organisations to gain a more informed strategic view of the organisation's performance and of any changes that need to be made to improve that performance. The use of information obtained from evaluations at all management levels is crucial to ensure that evaluation remains relevant and adds value to the organisation.

Hence while the formal evaluation requirements of the first generation system were abandoned and the evaluation support provided by Finance was essentially discontinued, Finance still encouraged the evaluation of key policies and programs.

Review of Lapsing Programs

From 2004-05 Ministers who wish to extend program funding for fixed duration programs were required to review the program's performance to ensure that the program is achieving its objectives, however there is no such requirement for the review of ongoing programs.³⁰

A range of Government programs are funded for a specified period to ensure that, after an appropriate period of operation, an assessment can be made as to whether the program is meeting its stated objectives and is still appropriate. An important initiative that complements evaluation is the Government's requirement to review terminating programs (those with a defined end date) and lapsing programs (where the government's commitment is expected to continue but the Government has not provided on-going funding).

Lapsing programs are subject to review before the Government will agree to extend the funding. The reviews are to be completed by October of the fiscal year in which the program lapses to facilitate consideration at the Senior Ministers' Review. It is worth noting that lapsing programs do not usually include those based on legislated entitlements such as age pensions and unemployment benefits.

Under revised arrangements introduced in the 2005-06 budget, the review of lapsing programs take one of two forms:

- ✚ A **major review** where a program involves significant expenditure and/or the merits of its continuation needs to be assessed against government priorities; or
- ✚ A **departmental report** where the aim is to assess how effectively a program is achieving its objectives.

Major reviews are undertaken in consultation with Central Agencies throughout the review process. Consultation includes agreement of the terms of reference which address the program's appropriateness, effectiveness and efficiency. The results of major reviews are considered by the Expenditure Review Committee of Cabinet (ERC). The departmental review is conducted internally but with

consultation with Finance to agree the scope of the report and the nature of Finance involvement. The resulting streamlined report (prepared in consultation with Finance) assesses the effectiveness of the program and is considered by the ERC.

While it is not common for a program to be cancelled following a review, the review of lapsing programs plays a role in providing a systematic process for regular reviews of government programs as well as imposing a standardised approach and terms of reference thus providing a measure of consistency across program reviews.

Astute agencies have regard to the review requirements / template early in the life of a program so that the required information to effectively evaluate it is 'on tap'.

The outcomes and outputs framework

This second generation phase has relied on a more devolved approach to public sector management with the outcomes and outputs framework as the centrepiece of the government's performance system. The purpose of this framework is to provide government and Parliament with information on:

- ✚ the impact that the goods and services purchased are expected to have in terms of government policy goals;
- ✚ what was being purchased with public money;
- ✚ the link between public services and the expected impact; and
- ✚ the accountabilities for performance achieved.

This framework was intended to shift the focus from inputs to results thus allowing for better information for decision-making by government, and also assisting Parliament in its scrutiny of government programs and performance. In May 2004 there were 199 outcomes and 145 agencies.

The Australian Government's outcomes and outputs framework places a strong emphasis on outcomes as the foundation for performance information. Outcomes are the results or consequences of government actions for the community or a specific target group. This emphasis has been a focus for performance measurement in central government for around two decades, but the introduction of outputs as an explicit measure of service delivery to people outside an agency came in the late 1990s.

The early stages of implementation for the framework in the Australian Government differed from the approach taken in other countries and in some of our States. Many jurisdictions placed more emphasis on outputs and efficiency in the early stages of development. More recently, those jurisdictions have begun to place greater emphasis on outcomes and the relationship between outputs and outcomes. There is no evidence to suggest that either approach is more effective in terms of embedding a performance culture. What is clear however is that the initiative is unlikely to be effective if it does not include both

outputs and outcomes as part of an integrated performance information and evaluation framework.

Performance information

Success is mixed in relation to performance information. Annual appropriations in the Commonwealth are presented in terms of the outcomes for each agency. This allows Parliament to identify the results that the Government is working towards and how it proposes to allocate funds to contributing to those results. The information in appropriations is supported by a wealth of supporting detail in portfolio budget statements containing financial statement projections, performance measures and allocation of resources within agencies.

In the Commonwealth there have been several reports over the last five years from Parliamentary committees, the Australian National Audit Office and Finance that have identified some areas in current practice needing improvement, particularly in the specification and measurement of outcomes. The ANAO concluded in its audit of Annual Performance Reporting³¹ that,

'in order to provide accountability and transparency to parliamentarians and other stakeholders, agencies' annual reporting frameworks need to be improved, particularly in relation to:

- *the specification of agencies influence on, and contribution to, shared outcomes;*
- *performance measures relating to quality and effectiveness/impact;*
- *the efficiency of agency operations and the cost effectiveness of outputs delivered; and*
- *targets or other basis for comparison.'*

Information on outputs tends to be much better than for outcomes where the performance measures are generally more appropriate and the methodology for measurement is generally more robust and reliable.

Finance has done some recent work in reviewing outcomes. While this is still work in progress, it is not surprising that some outcome statements are at a very high level, and do not identify a clear, specific result. Also, some outcomes statement are expressed as objectives, for example, 'to contribute to...', rather than explicit impacts, such as, '5 per cent increase in the number of successful (impacts) in 2005'. We do need to recognise, however, that there will be an element of cautious drafting in some of the outcome statements. Using 'intermediate' outcomes can often assist in measuring performance outcomes being sought in the longer term.

The influence of outcomes and outputs information on decision-making and resource allocation appears mixed. There is a standard requirement for lapsing measures to be subject to a review, which considers the results achieved. The positive take out is that agencies with specific performance measures have been able to provide useful information for budget planning and annual reports.

There are many examples of good practice, as illustrated in the Finance and ANAO *Better Practice Guide on Performance Reporting in Annual Reports*, published in 2004³². For example, Customs, Family and Community Services and the National Library of Australia provided very clear and useful performance information in their annual reports, which are illustrated in detail in the Better Practice Guide.

Good performance information can be extremely valuable for a variety of purposes, both internal and external to the agency, eg: knowing whether the program is on track, knowing how well the program is doing, knowing what needs to change and by how much, helping to plan next steps. At the same time, it is also clear that poor performance information is counterproductive. Not only is it unhelpful, but it can be misleading, costly, and create perverse incentives.

Some of the major problems in establishing good performance information are: quality of performance information in relation to agency contributions to outcomes; and the limited use of the reported performance information for policy decisions and resource allocation. The ANAO audit of performance reporting in annual reports identified three areas where performance information needs to improve:

- ✚ specifying the agency's performance framework;
- ✚ measurement and data quality; and
- ✚ quality of reporting results.

To that could be added use of performance information by decision-makers for policy development, refinement and resource allocation. Also, using information in an accountability context is important — if the performance information is not used, there is little reason to expect improvements in it.

Finance, in cooperation with agencies, is planning to review outcomes for all the general government sector agencies. The aim will be to ensure that outcomes information is consistent with the policy framework and appropriate to the needs of government and Parliament. It is expected that as information in relation to any programme reaches sufficient quality to be of use in making decisions on outcomes, strategies and resource allocation, there will be even stronger demand for information on results.

I am in no doubt that the prospect of having better information on results and performance will be of substantial benefit to managers, the government and other stakeholders. At present we have some way to go before that benefit can be fully realised.

Finally, strategies to improve performance reporting need to be developed in sympathy with other Government and organisational strategies to be most effective. As set out in the *Better Practice Guide on Performance Reporting in Annual Reports*³³ referred to previously:

'Organisations that have reliable performance information for both external requirements and internal management and review have achieved good performance reporting though some, or all, of the following strategies:

- *establishing a robust performance culture based on public sector values;*
- *maintaining strong links between reporting, planning and management; and*
- *ensuring strong links between external and internal reporting.'*

The Cabinet Implementation Unit

As part of the second generation of reforms the Cabinet Implementation Unit (CIU) was established late in 2003 (in the Department of Prime Minister and Cabinet) to work with agencies to ensure timely and effective implementation of government decisions. The Unit identifies policy proposals that should include an implementation plan; examine systemic issues that determine the effectiveness of implementation; and identify and support best practice in project management and program implementation. The Unit monitors and report to government on the timeliness and effectiveness of the delivery of key programs and services, but will not evaluate program outcomes against policy objectives.

CIU officers are currently reviewing the implementation of a small number of government initiatives that require complex implementation planning to enable delivery across several departments. The focus of these short, tightly focussed reviews is to:

- ✚ Inform government of the extent to which the policies or programmes have been delivered as intended, and
- ✚ distil essential lessons learned from the implementation approach adopted - what worked and what didn't. ³⁴

Documenting and sharing these lessons will assist in developing better public sector implementation practices. The Unit complements existing review activity, including that by the ANAO, which will remain completely independent. I should flag with you that the ANAO and the CIU are collaborating on producing a Better Practice Guide on the implementation of program and policy initiatives. I anticipate that this guide will be published shortly, around March this year.

Summing up – light at the end of the tunnel

Around 1997 evaluation was in a state of flux. This was also reflected internationally, on one hand some countries were dropping formal mandates, and on the other there was a realisation that only through evaluation could the success of major programs be judged. In some places more effort was being made to link budget process, formal audits and evaluations.³⁵ Mackay draws the conclusion that:

'the genesis of evaluation in the first generation reforms was a response to the difficulties encountered with a simple 'let the managers manage' approach, with the realisation that this devolutionary philosophy needed to be balanced with tighter information requirements to demonstrate performance to support resource allocation decision making in the budget process and for reasons of accountability. The second generation reforms have applied the devolutionary approach to evaluation itself with the unfortunate result that the quality and depth of the information available concerning government performance has actually declined'.³⁶

We have been on the reform road for more than 20 years now, and it still stretches into the future. Despite the changes we have observed, a clear articulation of outcomes and outputs, or programme objectives and deliverables, has been constant elements of the framework. There have been challenges in describing these elements, and in the related measure of effectiveness, and, to a lesser extent, efficiency.

The chances of success are likely to be improved if:

- ✚ both outputs and outcomes are part of an integrated performance information and evaluation framework;
- ✚ the performance information is used for decision making by agencies and Government and scrutiny by Parliament; and
- ✚ programs, and related indicators of performance, are subject to periodic evaluation or review.

While essential elements of any public sector management framework, an outcomes and outputs approach, which provides a focus on results, needs to be supported by the other fundamentals for effective management, including appropriate governance, risk management, evaluation and reporting.

Evaluation and Performance Audits

As I observed in my introduction, evaluation and performance auditing share similar aims, approaches, methodologies and techniques and I will now examine these similarities and how the two concepts can complement each other shortly, but first, I need to flag some differences between the two.

Some Differences in the DNA

The more significant differences as I see them are:

- ✚ Evaluation often has a strong focus on policy and is able to make a qualitative assessment of policy effectiveness where as performance audit is focussed on evaluating economy, efficiency and effectiveness of public administration;
- ✚ Audit is independent, while evaluation is not necessarily so; and

- ✚ In the public sector, independent audit is reported direct to Parliament while evaluations are reported to the relevant Minister or agency head and is not always made public.

Let me now examine these aspects in more depth.

Reviewing Policy

Evaluation may look at the appropriateness of government policy, as mentioned previously, performance audits do not. However, while the ANAO's performance audits can, and do, evaluate how effectively and efficiently government policy has been implemented, there can be at times a perception of an audit commenting on policy, particularly where the implementation performance reflects a problem with the policy itself rather than with its delivery.

One particular challenge that arises from time to time is the tension regarding the role of Auditors-General and the boundaries between government policy and its implementation. The issue was given some prominence following the publication of two performance audits the ANAO undertook — property sales and IT Outsourcing.³⁷ The nub of the issue is summed up by Professor Richard Mulgan:

'The principles of performance auditing allow the Auditor-General to assess whether government policy has been efficiently and effectively implemented but they require him to take government policy as given. Had the Auditor General crossed the line [in these two audits] which bars him from questioning government policy? Certainly the Opposition treated the report as providing ammunition not only against [the Department of] Finance but also against the Minister and government policy. On the other hand, the Auditor General was clearly aware of the potential difficulty and his report takes care to confine the audit to claim that his audit was confined to implementation and administration. Criticism is aimed exclusively at Finance and the substance of its advice to government'...

and

'On the whole, public opinion, as expressed in media comment, seems to side with the Auditor-General. He was exercising his time-honoured role as investigator of government inefficiency and guardian of the public purse. Pointing out that public funds would be wasted by a particular method chosen for selling governments properties could hardly be beyond the purview of the public's financial watchdog'.³⁸

My predecessor, Pat Barrett responded to Professor Mulgan's article, making the point that:

'Policy advising is an output of Finance and it is clearly within the mandate of the Auditor-General to review how effectively the department delivered its output. That the government subsequently may have endorsed a policy based on such advice

does not take away from the mandate of the Auditor-General to review the department's development of the advice nor its possible implications'.³⁹

Clearly, it is Ministers (politicians) not public servants who take responsibility for policy and it is for this reason that performance audits are restricted to the efficiency, effectiveness and propriety with which policy is implemented. They are not extended to cover the merits of the policy itself. However, problems can arise where policy is difficult to separate from implementation, for example:

'What was the policy in this case [that is, property sales] ? To maximise long-term benefit to the Commonwealth by selling buildings only where it is profitable to do so? In this case, the Auditor General, had every right to indicate where financial losses were likely. Such losses would indicate that the policy was badly implemented. Alternatively, the policy may have been to divest the government of a large number of buildings within a stated time, even if the long-term effects on the Commonwealth were doubtful...In this case, the Auditor-General could be seen to be on more dangerous grounds in questioning the criteria for putting buildings on the market or suggesting that prospective sales should have been reconsidered if the price was inadequate'.⁴⁰

One 'positive' to come out of this tension is the recognition that government policy objectives need to be stated in less ambiguous terms with the lines between policy and implementation made reasonably clear.

'Performance audit assumes a clear distinction between policy objectives (set by elected governments) and policy implementation (carried out by servants or contractors). Auditors are assumed to leave the objectives to government and confine themselves to the efficiency, effectiveness and probity with which these objectives have been implemented'.⁴¹

That said, the performance audit mandate has become an essential element in the accountability process of any public jurisdiction, especially the new public management environment. It is not a static process and there will be a continuing emphasis on improving the service to Parliament. Conflict and controversy may be inevitable. However, as one senior Australian bureaucrat remarked in an interview with John Wanna (*From Accounting to Accountability: A Centenary History of the Australian National Audit Office*):

The bulk of performance audits are good at working out what is happening in a field, giving a useful report on it and striking an appropriate balance in not dabbling in policy and seriously discussing how implementation is going.⁴²

Independence and reporting

The objectivity and independence of evaluation is an issue that Mackay believes is difficult to resolve. External evaluations are often regarded as providing objectivity but they can suffer from inadequate program knowledge. Also, the level of ownership by the agency is being evaluated is often low if undertaken by an external party. On the other hand, self examinations are often viewed as lacking objectivity, as being self-serving, and with insufficient evaluation rigor. This is countered to an extent by having specialist in-house units, independent from line management, undertake the evaluations or, for the important evaluations, having a steering committee to guide the process.⁴³

Audit independence provided under the *Auditor-General Act 1997* is the key to the ANAO's effectiveness – it enhances our reputation, credibility and effectiveness. The *Auditor-General Act* is a robust piece of legislation founded on the important notion of audit independence. It establishes the Auditor-General as an 'independent officer of the Parliament' – a title that symbolises the Auditor-General's independence from the Executive government and a unique relationship with the Parliament.

The way in which the ANAO performs its functions further reinforces its independent status. The ANAO operates in an advisory capacity, rather than participating directly in decision-making by public sector managers – thus reducing the risk of conflict of interest issues arising in the course of our work. While ANAO officers are encouraged to '*stand in the managers' shoes*' in order to understand the complexities of the particular business environments under review, it is for the managers themselves to decide whether or not they will act on the ANAO's recommendations.

However, that does not absolve the ANAO from any responsibility to the Parliament for its views and actions and, by tabling our reports in Parliament, we inform the Parliament and the public of our audit findings and recommendations – it also provides a basis for examination by Parliamentary Committees (including the JCPAA). Thus, our audit reports provide an avenue of accountability for agencies and the ANAO itself.

Common areas of the DNA

There are significant similarities though between audit and evaluation and we should be able to build on them to gain maximum synergies from our respective work. Given the size of the task that confronts us in the better targeting of programs and deriving further efficiencies in administration, we cannot afford the luxury of distinctions based on perceptions of a significant gulf between the two groups.

Both audit and evaluation are part of a continuum and rely on the objectivity, integrity and professionalism of those conducting them. Both are diverse in the range of activity they cover. Both have annual planning schedules; employ common methodologies and analytical tools. However, the similarity that is the

most compelling argument in favour of a strong, harmonious approach between the two disciplines is that they have reasonably common goals, namely:

- ✚ both are fundamental links in the accountability chain;
- ✚ both contribute to better program management and accountability for performance by commenting on a program's 'value for money' albeit sometimes from rather different perspectives; and
- ✚ both endeavour to identify better practice.

I would add that both audits and evaluations can range across agencies. Indeed, a strength of many performance audits is that they can be directed to the operation of common functions or activities across a range of public sector entities. And today, both need to deal with whole-of-government approaches, including the effectiveness of inter-agency co-ordination.

In fact, performance auditing may be seen as a type of evaluation, since it focuses on improving program administrative efficiency and operational effectiveness, both of which are important aspects of program evaluation as well. Performance audits may also report on program outputs and outcomes but not canvass the merits of alternative policy options. The distinguishing feature of program evaluation is that it may go one step further along the continuum and make judgements about the appropriateness of the program, and policy, as a means of meeting current government policy and community needs.

Most would agree there is a role for a structured and well-directed program of evaluation in addition to performance audit to meet the Government's and Parliament's need for a comprehensive and effective accountability framework within which to assess the performance of government agencies. It is of paramount importance that agencies undertake proper evaluation of programs, utilising relevant performance measures and reporting frameworks to address the intensifying focus on government accountability by taxpayers and the Parliament. Audit will be most effective where it complements such activity and, indeed, may often review it as a 'meta-evaluation'. Hopefully, the latter will be viewed in a positive manner, first as a means of assurance and second as a means of improvement.

Hence, an integrated approach to audit and evaluation can result in significant benefits by allowing more effective utilisation of available resources as well as generating a better outcome and adding greater value to the organisation's performance. In fact, evaluation activity being undertaken in relation to an agency is considered in the selection and planning of the ANAO's performance audits even though there is currently no central evaluation function in the APS, nor a requirement for agencies to report progress against recommendations made in ANAO audit reports.

Where relevant, as part of our audits we review evaluations and other reviews undertaken on programs, the current audit of the Commonwealth State Housing Agreement is a case in point.

One note of caution though. It is expected that evaluations or reviews not be unreasonably constrained by the terms of reference or resources in reporting on specified objectives. For example, limiting an evaluation of the effectiveness of a program to a review of files and discussion with departmental officials is likely to inhibit an evaluation and may well prejudice the results.

Both auditors and evaluators must stay focussed on identifying and adapting to the ever-changing public sector environment. We both have an ongoing commitment to the development of different practices and procedures in the face of new and emerging issues. We must continue to work to attract and retain staff with the right mix of skills and attributes. To meet the challenges of the future, we need to continually develop new and better strategies to deal successfully with these challenges. Our ability to do so will be enhanced if we can achieve an environment that is conducive to that result, including sustaining the professionalism and commitment of our staff and positive relationships with all our stakeholders, in case of my Office, most notably the Parliament.

Concluding Remarks

Let me now try to draw some threads together that have run throughout my presentation today. Australia, along with a number of other countries, has been at the forefront of public sector reform including placing a greater emphasis on results with managers now being held responsible for results, not just simply for complying with legislation and other rules. The reforms in the Australian public sector have emphasised the importance of a performance culture supported by clear lines of responsibility, with performance information, assessment and reporting being critical tools for monitoring and improving performance.

The shift in focus to results is balanced by our enduring public sector values and principles which have been continually reinforced in recent years. Managing for outcomes/results involves both accountability and trust – achieving the appropriate balance between conformance and performance is a key issue in pursuing results more vigorously. Clearly, managing for results has a much wider connotation than simply financial outcomes or even program outcomes. The concept also embraces issues about how those outcomes are achieved.

Using Keith Mackay's paper I have looked at the development of evaluation the federal government sector where the evaluation strategy under the first generation reforms was centrally driven by Finance and linked to the budget process. In contrast, the second generation saw a more devolved approach with Finance withdrawing from its central role. Mackay made the point that the annual budget cycle provided a powerful vehicle for achieving a focus on public sector performance.⁴⁴ I also touched on the Cabinet Implementation Unit and the review of Lapsing Programs being two important initiatives of the second generation of reforms.

In looking at evaluation and performance auditing I believe that they are close cousins — part of a continuum. Indeed, the benefits derived from evaluation include increased accountability of decision makers, improvement in the decision making process, more efficient use of resources.

In a reasonably recent audit of annual performance reporting by agencies, the ANAO found that most agencies undertook a range of evaluations.⁴⁵ However, it was found that the results of these evaluations were frequently not discussed in agencies' annual reports. Therefore, evaluations were not being used to support performance reporting in the annual report by providing information on quality and effectiveness that was otherwise not available. The audit covered five APS agencies. To assist agencies to develop their annual reporting performance information frameworks and analysis, the ANAO has jointly prepared with Finance, a Better Practice Guide on this subject, as noted earlier⁴⁶.

In my experience, organisations that have reliable performance information for both external requirements and internal management and review have achieved good performance reporting through strategies such as establishing a robust performance culture based on public sector values; maintaining strong links between reporting, planning and management; and ensuring strong links between external and internal reporting.

I see some scope for evaluation in the APS to be given a higher profile. As observers of public sector reform will be aware, evaluation was heavily promoted in the first generation 1987-1997. While obviously still supported and undertaken, emphasising the role of evaluation as an integral element of program management would raise awareness of its benefits for better outcomes and administration.

In some ways this is no different to underlining the importance of cash information in the move to accrual budgeting and accounting; or underlining the importance of compliance with legislation and government policy with the stronger forces on outcomes.

The extent to which evaluation and audit are truly a continuum and the two fields have significant similarities can be evidenced by the activities of the Canberra Evaluation Forum (CEF). The success and value of this forum, to auditors and evaluators alike, demonstrate that a culture of evaluation is persisting and that the approach is becoming increasingly rigorous. I particularly wish to acknowledge the good work of the Canberra Evaluation Forum in fostering discussion and seminars on practical approaches and best practice on major public sector reform and evaluation issues. As Noel would know, the ANAO is a strong supporter of the CEF as well as being a corporate member. I trust that 2006 will be another successful year for the CEF.

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