

The Auditor-General
Audit Report No.46 2000–2001
Performance Audit

ATO Performance Reporting under the Outcomes and Outputs Framework

Australian Taxation Office

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of Australia 2001
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Canberra ACT
6 June 2001

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Australian Taxation Office in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *ATO Performance Reporting under the Outcomes and Outputs Framework*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. J. Barrett', is positioned below the text 'Yours sincerely'.

P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

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For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone (02) 6203 7505
Fax (02) 6203 7519
Email webmaster@anao.gov.au

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Audit Team

Victoria Walker

Mark Rogala

Peter White

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Abbreviations

ABS	Australian Bureau of Statistics
AUSTRAC	Australian Transaction Reports and Analysis Centre
ANAO	Australian National Audit Office
ATO	Australian Taxation Office
BSL	Business Service Line
CSA	Child Support Agency
DETYA	Department of Education Training and Youth Affairs
Finance	Department of Finance and Administration
GST	Goods and Services Tax
HECS	Higher Education Contribution Scheme
MOU	Memorandum of Understanding
PAYG	Pay-As-You-Go
PBS	Portfolio Budget Statements
PMB	Program Management and Budgeting
SHAR	Superannuation Holding Accounts Reserve
OCTC	Office of the Chief Tax Counsel

Summary and Recommendations

Summary

Background and context

Introduction

1. The Australian Taxation Office (ATO) is part of the Treasury portfolio. It is the Commonwealth's principal revenue collection agency, responsible for collecting total tax revenue of \$150.9 billion in 1999–2000.¹
2. In April 1997, the Government decided that from 1999–2000, it would implement an accrual-based outcomes and outputs framework for managing resources in the public sector. Prior to 1999–2000, the Commonwealth Budget was prepared using a Program Management and Budgeting (PMB) framework.
3. Under PMB, program objectives were specified and performance indicators were intended to measure results against these objectives. The outcomes and outputs framework places more discipline on measurement and assessment of the extent to which outputs are delivered to achieve desired outcomes, in accordance with government policy. Essentially, the outcomes and outputs framework is aimed at improving how the work of government is measured (through the application of the accrual-based budgeting and reporting), and also what is measured (through specifying outcomes, administered items and outputs).²
4. Under the new outcomes and outputs framework, all Commonwealth agencies, including the ATO, are required to specify their outcomes and outputs. Relevant performance information must also be identified for outcomes, outputs and administered items.³ Agencies, through their chief executives, are ultimately responsible for delivering outputs that contribute to outcomes consistent with Government policy.

¹ Commissioner of Taxation Annual Report 1999–2000, p. 141.

² Department of Finance and Administration, The Outcomes and Outputs Framework Guidance Document, November 2000, p. 6. Chapter 1, paragraph 1.7 of this report provides definitions of outcomes, outputs and administered items.

³ Outcome performance information relates to the specific impact that an agency's outputs and administered items have had on the community.

Accountability requirements

Legislative provisions

5. The Commissioner of Taxation is a statutory officer appointed by Parliament.⁴ The Commissioner's powers derive directly from Parliament through a number of Tax Acts, for example the *Income Tax Assessment Act 1936*. The Commissioner is accountable to Parliament for his or her performance via an Executive Government Minister,⁵ that is, the Treasurer.

6. Included in taxation legislation are requirements for the Commissioner to provide reports to the Minister on the operation of the *Taxation Administration Act 1953*⁶ and the *Income Tax Assessment Act 1936*.⁷ The Minister is required to table the reports in Parliament. They are included as part of the ATO Annual Report.

Portfolio Budget Statements

7. Portfolio Budget Statements (PBS) were first produced for the 1995–96 Budget to explain the provisions of the Budget Bills to Senators and Members and assist in their consideration of Budget estimates prior to voting on the Budget Bills. This remains the prime function. Under the outcomes and outputs framework the PBS should therefore sufficiently explain the proposed allocation of resources for agency outputs to achieve Government agreed outcomes.

Performance information

8. Commonwealth agencies are required to publish performance information in key accountability documents such as the PBS⁸ and Annual Reports⁹ including the following information:

- Outcomes: indicators of effectiveness in terms of the contributions of relevant departmental outputs and administered items to the achievement of the outcome;

⁴ Section 4 of the *Taxation Administration Act 1953* provides that there shall be a Commissioner of Taxation and three Second Commissioners of Taxation, who shall be appointed by the Governor-General. Section 4A provides that:

- *the staff necessary to assist the Commissioner are engaged under the Public Service Act 1999; and*
- *for the purposes of the Public Service Act 1999, the Commissioner and Australian Public Service employees assisting the Commissioner together constitute a Statutory Agency.*

⁵ Joint Committee of Public Accounts, Report 326, *An Assessment of Tax*, November 1993, p. 46.

⁶ *Taxation Administration Act 1953*, s. 3B.

⁷ *Income Tax Assessment Act 1936*, s. 14.

⁸ The Department of Finance and Administration Government Finances, Portfolio Budget Statements, [Online], Available: http://www.dofa.gov.au/budgetgroup/portfolio_budget_statements_p.html [14 March 2001].

⁹ Department of Prime Minister and Cabinet, *Requirements for Annual Reports*, May 2000.

- Outputs: indicators of the price, quantity and quality of the output; and
- Administered items: indicators relating to the achievement of the objectives of the items as indicated in associated legislation, policy statements or inter-governmental agreements.

Parliamentary reviews of the PBS and budgetary arrangements

9. The Senate has shown considerable interest in developments to the format of Budget documents particularly for estimates review purposes. Since 1997, the Senate Finance and Public Administration Legislation Committee has tabled three reports on the format and contents of the PBS.

10. A key finding of the Committee's most recent report¹⁰ was that Senators sought greater consistency and comparability of the pricing and performance information contained in the PBS. The Committee also noted that one weakness of the new system was a lack of reporting on progress towards outcomes. The report noted, in particular, that few of the 'effectiveness indicators' used were particularly robust. Many agencies had indicated to the Committee that they had more work to do in this area.

11. In April 2001, the Joint Committee of Public Accounts and Audit (JCPAA) announced a wide-ranging review of accrual budget documentation, to inquire into the effectiveness of, and options for enhancing, the format and content of current Budget documentation including the PBS and Annual Reports, as the basis for Parliamentary scrutiny.

Finance Review of Budget Estimates Production Arrangements

12. Following the 1999–2000 Budget, the first time an accrual-based outcomes and outputs framework was used for managing resources, the Secretaries of Treasury and Department of Finance and Administration (Finance) commissioned Dr Michael Vertigan to review budget production arrangements. He reported to the Secretaries of Prime Minister and Cabinet, Treasury and Finance in July 1999.

13. The 'Vertigan Report'¹¹ recommended that departments and agencies review the outcomes and outputs specified in the 1999–2000 Budget to ensure their appropriateness for continued use. Portfolio secretaries generally endorsed the review's recommendations.

¹⁰ Senate Finance and Public Administration Legislation Committee, *The Format of the Portfolio Budget Statements Third Report*, November 2000.

¹¹ Department of Finance and Administration, *Review of Budget Estimates Production Arrangements* (the Vertigan Report), 1999.

Annual reporting

14. Annual Reports and PBS are the principal external reports produced by agencies. Annual Reports are reports from agency heads to the portfolio minister, for tabling in the Parliament.¹² Annual Reports are formal accountability mechanisms between government and agencies and from agencies through government to Parliament.¹³ From May 2000, agencies were required to report on their performance against their defined outcomes and outputs framework.

Pricing Agreements

15. As part of the new resource management framework, Finance has implemented 'purchaser/provider' arrangements in the form of Pricing Agreements with a number of budget-funded agencies, including the ATO. The new accrual framework requires agencies to price their outputs. The aggregate price to be appropriated for each output is specified in the Budget papers. Where previously the Government 'funded programs', the new resource management framework now provides for it to purchase outputs through defining the price of outputs (products and services) at a particular level. Prior to the introduction of Pricing Agreements, Finance utilised resource agreements to assist its budgetary planning with agencies. The introduction of Pricing Agreements was designed to contribute to the development of a more commercial approach required by Government.

16. Finance and the ATO reached an early Pricing Agreement for the period 1999–2000 to 2001–2002. The purpose of the ATO Pricing Agreement was to establish the appropriate level of resourcing for the ATO to administer Australia's national taxation, excise and superannuation system. One of the main intentions of the three year agreement was to provide the ATO with a degree of certainty over its future appropriation revenue, whilst at the same time avoiding the need to approach Government for additional resources for minor policy variations.¹⁴ The ATO outcome and outputs structure was developed through the specification of the ATO Pricing Agreement. While not forming part of the audit, the ANAO examined the Pricing Agreement in this context.

¹² Department of Prime Minister and Cabinet op. cit.

¹³ *ibid.*

¹⁴ *ATO Pricing Agreement 1999–2000 to 2001–2002.*

Audit objective and scope

17. The objective of the audit was to report to Parliament on the ATO's management of its performance reporting within its outcome and outputs framework and to identify potential areas for improvement in specifying, measuring, assessing, administering and reporting under the framework.

18. The audit reviewed the ATO outcome and outputs framework published in ATO PBS for 1999–2000, including the measures used to assess ATO performance in achieving its outcome. The audit examined the alignment of the ATO outcome and outputs framework with internal corporate and business planning and reporting documents. Within this framework, the audit also reviewed the link between information contained in the ATO PBS and its Annual Report, including the ATO's approach to collection, measurement and reporting of its performance in its Annual Report.

19. The 1999–2000 financial year was the first year that all agencies budgeted and reported on their performance under the outcomes and outputs framework. Finance provided direction and guidance to assist agencies in their move to the outcomes and outputs reporting framework.

20. The ANAO conducted this performance audit at this early stage in the development of performance reporting under the new framework, in response to a request by the Senate Finance and Public Administration Legislation Committee to review agency performance information during the course of an audit program. The ATO was selected because of the significance of its performance, to assist the ATO in reviewing its performance reporting under its outcome and outputs framework, as well as to assess progress being made and lessons learnt. However, it is expected that all agencies will improve their performance information over time as they obtain more experience with the new framework.

21. At the commencement of the audit, the ATO advised that it was also reviewing its performance reporting under its outcome and outputs framework. The ATO has advised the ANAO that the conduct of the audit has provided useful input to the review of ATO performance measures and feedback to support improvement of both internal and external performance reporting.

22. In undertaking the audit, the ANAO developed a number of principles of better practice in relation to specifying performance measures, and to measuring, assessing and reporting performance. In consultation with Australian Bureau of Statistics (ABS), the ANAO developed a set of criteria based on a methodology used by Statistics Canada¹⁵ to review ATO performance measures. It is envisaged that the audit, while focused on the ATO, can also provide timely and relevant advice to other APS agencies. In this regard, the ANAO is also conducting a performance audit of Defence, Education Training and Youth Affairs, Employment Workplace Relations and Small Business, Family and Community Services, Industry Science and Resources, and Transport and Regional Services to assess performance information in the PBS 2000–2001 and Annual Reports for 1999–2000. Both audits will provide material for the preparation of a better practice guide for performance information in PBS and Annual Reports.

Overall conclusions

The ATO outcome¹⁶

23. The audit found that, while the ATO has established an outcome and outputs framework, there was scope for the ATO to improve the specification, clarity and measurability of its outcome, outputs and performance measures and assessments and to enhance its performance monitoring and reporting arrangements.

24. The audit concluded that, in order to better support increased transparency and accountability, the ATO could:

- better define its role in relation to tax collection and its desired relationship with the community in its outcome statement. In this way it could enhance stakeholders understanding of the ATO's core business objectives;
- revise the language used in its outcome statement to more clearly and simply define its core objectives; and
- use intermediate outcomes to better define the link between its outcome and outputs as part of its transition to the full framework.

¹⁵ Statistics Canada, *Survey Methodology*, December 1999, Vol.25, No.2, pp. 139–149.

¹⁶ The ATO has one outcome as follows: 'Effectively managed and shaped systems that support and fund services for Australians and give effect to social and economic policy through the tax system.'

25. The ATO PBS 2000–01 suggests that delivery of the four identified ATO outputs¹⁷ will not be sufficient to achieve its defined outcome and that six additional outcome deliverables¹⁸ are also required for the ATO to achieve its outcome. This may indicate that ATO outputs may not adequately reflect all the goods or services the ATO produces to achieve its outcome at this time.

26. The audit found that the ATO could improve the design of its outcome and outputs framework to better reflect the work of the ATO by integrating its outcome deliverables (and performance measures) with associated price estimates into its outputs framework instead of identifying separately its outcome deliverables. The ATO can also refine its performance measures and assessments and improve accountability for its performance by more clearly defining the performance to be measured or assessed and levels of performance to be achieved.

ATO outputs

27. In relation to ATO outputs, the audit concluded that the ATO could improve its transparency and accountability by:

- providing disaggregated price information in its PBS for the *Provide revenue* output to compare performance with expectations;
- defining the terminology used in specifying its performance measures and assessments;
- reviewing its performance measures to ensure relevance, accuracy, timeliness, accessibility, interpretability and coherence;
- including target levels of performance in its performance measures or assessments; and
- ensuring that the link between the output *Support other agencies* and the achievement of the ATO outcome is more apparent to stakeholders.

¹⁷ The ATO has specified four outputs under its outcome and outputs framework including: *Contribute to policy advice and legislation*; *Provide revenue*; *Provide transfers*; and *Support other agencies*.

¹⁸ The ATO PBS includes a table identifying performance information for its outcome. The table provides information on the measures chosen by the ATO to deliver its outcome and includes the ATO's four outputs and six additional areas of activity or 'outcome deliverables'. The ATO's outcome deliverables include *Maintain overall compliance*; *Tax design capability*; *Tax reform*; *Maintain community confidence*; *Minimise compliance costs* and *Efficient and adaptive organisation*.

28. The ANAO is aware that the ATO, like many other agencies, faces significant ongoing change in both its external and internal environments. In such a volatile environment, the ATO Executive requires the flexibility to deal with new and emerging issues and risks, and to adapt and respond to unforeseen matters that require action or intervention. Such matters do not always fit neatly into the outcome and outputs framework developed in its current resource management context.

29. The Vertigan Report noted that outputs were intended as a management tool. To realise this benefit, the ATO could redesign its management reporting to better align with its outcome and outputs framework. This would enable it to take advantage of the framework context, which defines the ATO's role within overall Government objectives and identifies linkages with other agencies, and to connect and strengthen management reporting with robust connections to its output-based financial information flow.

ATO management within its outcome and outputs framework

30. Ideally, budgeted outputs will reflect key agency deliverables. Regular performance reporting against outputs will assist management to deliver their commitments efficiently and effectively.

31. The ANAO found that the ATO Executive routinely monitored a much broader range of performance than that captured by its four budgetary outputs. Internal reporting to ATO management by Business Service Lines (BSLs)¹⁹ was driven, not by progress against outputs, but by ATO progress against a more broadly defined framework. From the wealth of additional management reporting produced by BSLs for the Executive, it would appear that the ATO outputs may be too narrowly defined to fully reflect the range of services and risks managed by the ATO. The ANAO considers that the ATO could usefully review and revise its output framework if this proves to be the case.

32. The ANAO is conscious that the ATO output framework is still relatively new. Nevertheless, the audit indicated that there was still work to be done to define and specify more clearly the components of outputs and to ensure consistent interpretation of performance measures and assessments both within the ATO and by external stakeholders.

¹⁹ The ATO employs approximately 19 000 staff and is structured into 12 divisions known as business, service and production lines.

ATO annual reporting on outputs

33. The ANAO considered that, by specifying performance targets and reporting on them in its PBS and Annual Report, the ATO could provide a more focused analysis of its progress against outputs and more readily identify areas for ongoing improvement.

34. The ANAO concluded that the ATO could improve its external reporting on outputs in its Annual Report by:

- reporting against each performance indicator identified in the PBS and preferably in the same order for ease of cross reference;
- focusing more on results and discussing results against expectations;
- explaining changes clearly over time; and
- ensuring that graphic presentation of performance information is relevant, clearly labelled and annotated where necessary to ensure clarity for users.

Key Findings

Overview of ATO outcome and outputs framework

ATO outcome statement

35. The audit found that, to assist stakeholders²⁰ in understanding the ATO outcome statement, the ATO could be more specific in describing the results it seeks in regard to revenue collection, and to its relationship with the community to achieve voluntary compliance with the tax law.

36. We also found that the ATO outcome statement could be improved to more completely reflect the purpose of its *'Effectively managed and shaped systems'*.

37. The ATO could consider using intermediate outcomes as a transition strategy to better define the link between its outcome and the outputs it produces, to support increased accountability and to enhance outcome reporting.

38. The ATO specified four outputs and six 'outcome deliverables' in the ATO PBS 2000–01. The ANAO considers that ATO outputs listed in its PBS may not reflect all key goods or services produced to achieve its outcome. In this case, the ATO could specify additional outputs, prices and performance measures and assessments including the 'outcome deliverables' to more completely reflect the work it does. Alternatively, if the ATO considers its four outputs accurately reflect the work it does to achieve its outcome, it could integrate the 'outcome deliverables' into its existing output structure.

ATO outputs

Output alignment

39. The audit found that three of the four ATO outputs are clearly aligned with its outcome statement. However, the link between the *Support other agencies* output and the ATO's outcome appears less clear.

Output aggregation

40. The ANAO considers that, with the exception of the *Provide revenue* output, the level of detail provided in relation to ATO outputs is adequate for PBS purposes.

²⁰ Various ATO stakeholders are listed in Chapter 4—Annual Reporting of Outputs, para. 4.6.

41. The ATO PBS describes the different types of revenue that comprise the output. However, it does not provide associated price estimates. Given that this output comprises approximately 85 per cent of the total price of ATO outputs, the ANAO considers that the ATO could improve transparency and accountability by providing more detailed price information in its PBS. For example, the ATO could provide aggregate price information:

- for each revenue stream collected, that is, by nominating the type of revenue being collected. For example, the ATO could nominate the aggregate price for collecting Pay-As-You-Go revenue. The ANAO notes that the ATO already collects data by revenue stream; or
- by organisational structure. The ATO is already structured by Business, Service and Production lines, as previously described.

42. Either of these options could be implemented in a cost-effective manner given the current ATO organisational structure, accounting systems and data collections.

Output performance measures

43. The audit found that performance measures specified for ATO outputs in the PBS could be made more robust by improving their relevance, accuracy, timeliness, accessibility, interpretability and coherence.²¹

44. The ANAO found that a gap in the ATO performance framework was a general lack of targets set for the delivery of outputs. None of the ATO output performance measures specified targets for the level of performance to be achieved. Targets for performance would assist the ATO to better monitor its progress towards meeting output commitments set out in the PBS and Pricing Agreement. The ANAO considers that ATO accountability for its performance would be significantly enhanced by specification of performance targets and subsequent external reporting of actual performance levels compared to these targets.

²¹ Developed with the Australian Bureau of Statistics from methodology discussed in Statistics Canada, *Survey Methodology*, December 1999, Vol.25, No.2, pp. 139–149.

ATO internal and external reporting against its outcome and outputs framework

Measuring performance

45. While Finance provided advice and guidelines to agencies in the lead-up to the new budget framework, agencies have been required to develop effective ways to accurately measure agency-wide progress against this framework.

46. The audit noted that ATO measurement of output performance was most effective in relation to *Provide revenue* output, where data are derived directly from the ATO financial accounting systems. There was less evidence of ATO-wide measurement methodologies, counting rules and audit trails being in place to ensure accurate measurement of progress against the other three outputs.

Performance monitoring and reporting

47. The audit found that not all of the ATO output performance measures published in the PBS were monitored and reported by the ATO in its Annual Report.

48. In examining ATO Memorandums of Understanding (MOUs) used for measuring performance of the ATO *Support other agencies* output, the audit noted that MOUs could be improved to ensure that they made ATO strategic partnerships with other agencies more effective.

49. The audit found internal management reporting on outputs was uneven and that there were certain key performance measures that were not measured, assessed or reported on by any BSL. Reporting on the *Provide revenue* output was the most consistent and robust.

50. The ANAO found reporting on ATO delivery of outputs in its Annual Report 1999–2000 was also uneven. A number of measures specified in the PBS were not reported. There was scope for improvement in alignment of internal and external performance reporting.

Recommendations

The ANAO's recommendations arising from this report, with report paragraph references and the ATO abbreviated responses are set out below. More detailed responses are shown in the body of the report. Recommendations 2, 3, 5 and 6 have the highest priority.

Recommendation No.1
Para. 2.13

The ANAO recommends that, to improve clarity and completeness, the ATO consider rephrasing its outcome statement to specify more clearly its role in revenue collection and in management of its relationship with the community.

ATO response: Agreed with qualification.

Recommendation No.2
Para. 2.18

The ANAO recommends that, to better define the link between its outcome and outputs, the ATO consider specifying intermediate outcomes that will influence the achievement of its outcome.

ATO response: Agreed.

Recommendation No.3
Para. 2.28

The ANAO recommends that, to ensure its stakeholders clearly understand the ATO's core objectives, and to enhance accountability, the ATO consider rephrasing its outcome statement in plain English.

ATO response: Agreed with qualification.

Recommendation No.4
Para. 2.42

The ANAO recommends that, to improve the structure and completeness of its outcome and outputs framework, the ATO integrate its 'outcome deliverables' within its output framework.

ATO response: Agreed with qualification.

**Recommendation No.5
Para. 2.78** The ANAO recommends that the ATO review quality and quantity measures for its outputs to ensure that the measures are relevant and can be assessed accurately; and that performance information required is available, accessible, can be readily interpreted, and used coherently with other sources of performance information.

ATO response: Agreed.

**Recommendation No.6
Para. 2.80** The ANAO recommends that, to improve transparency and accountability, the ATO disaggregate its *Provide revenue* output and publish price estimates for its key components in the PBS.

ATO response: Agreed with qualification.

**Recommendation No.7
Para. 3.24** The ANAO recommends that, to support accountability, and to define appropriate performance goals for staff, the ATO:

- publish clear targets for the delivery of each output measure in the PBS; and
- report on its performance in the Annual Report against targets, including the extent to which targets have been reached; the scale of any deviation from targets; possible reasons for deviation; and action necessary to achieve its targets.

ATO response: Agreed with qualification.

**Recommendation No.8
Para. 3.35** The ANAO recommends that, to improve the clarity and accuracy of its performance measurement, the ATO develop a data dictionary of the terminology used in its outcome and outputs framework; promulgate ATO-wide measurement methodologies and counting rules; and ensure appropriate audit trails are maintained of its progress against outputs.

ATO response: Agreed with qualification.

**Recommendation No.9
Para. 3.52** The ANAO recommends that, to ensure effective governance of its strategic partnerships with other agencies, the ATO develop suitable guidelines for the design and content of its Memorandums of Understanding (MOUs), including requirements for performance standards, measurement and reporting.
ATO response: Agreed.

**Recommendation No.10
Para. 4.20** The ANAO recommends that, to ensure that information on its performance measures is complete, and that it can be readily aggregated for inclusion in its Annual Report, the ATO realign its internal performance monitoring and data collection to address the quantity and quality measures specified in the PBS.
ATO response: Agreed with qualification.

Audit Findings and Conclusions

1. Introduction

This chapter provides background information on the ATO, the Commonwealth's budgetary framework, the Portfolio Budget Statements (PBS), Parliamentary reviews of the PBS and budgetary arrangements, Annual Reporting and Pricing Agreements.

Background and context

ATO structure

1.1 The Australian Taxation Office (ATO) is part of the Treasury portfolio. It is the Commonwealth's principal revenue collection agency, accounting in 1999–2000 for total tax revenue of \$150.9 billion.²²

1.2 The ATO employs approximately 19 000 staff²³ and is structured into 12 divisions known as business, service and production lines. Each business line is responsible for a major market segment, such as individuals, small business or large business. Excise and Superannuation lines have responsibility for compliance with excise and superannuation laws across all market segments. Service lines provide internal support in areas such as information technology, financial support, marketing and communication, and human resource management.²⁴ The ATO has one production line responsible for processing returns and other taxpayer information for ATO business lines.

The Commonwealth's budgetary framework

Background

1.3 In April 1997, the Government decided that from 1999–2000 it would implement an accrual-based outcomes and outputs framework for managing resources in the public sector. Prior to 1999–2000, the Commonwealth Budget was prepared using a Program Management and Budgeting (PMB) framework.

²² Commissioner of Taxation, *Annual Report 1999–2000*, p. 141.

²³ *ibid* p. 98.

²⁴ Commissioner of Taxation, *Annual Report 1998–99*, p. 3.

1.4 Under PMB, program objectives were specified and performance indicators were intended to measure results against these objectives. The outcomes and outputs framework places more discipline on measurement and assessment of the extent to which outputs are delivered to achieve desired outcomes, in accordance with government policy. Essentially, the outcomes and outputs framework is aimed at improving both how the work of government is measured (through the application of the accrual-based budgeting and reporting) and what is measured (through specifying outcomes, administered items and outputs).

Outcomes and outputs framework—purpose

1.5 The Department of Finance and Administration (Finance) describes two basic objectives of the outcomes and outputs framework, as being to:

improve agencies' corporate governance and enhance public accountability. Managing through outcomes and outputs helps improve decision making and performance... It can also help improve the understanding and knowledge of those outside the agency who have an interest in its performance, including ministers, parliament and external accountability bodies such as the Auditor-General.²⁵

Specifying outcomes and outputs

1.6 Under the new outcomes and outputs framework, all Commonwealth agencies are required to specify their outcomes and outputs. Relevant performance measures must also be identified for outcomes, outputs and administered items. Agencies, through their chief executives, are ultimately responsible for delivering outputs that contribute to outcomes consistent with Government policy.

1.7 Finance has defined outcomes, outputs and administered items as follows:

*An **outcome** is the impact sought or expected by government in a given policy arena. The focus is on change and consequences: what effect can government have on the community, economy and/or national interest? Outcome statements also perform a specific legal function by describing the purposes of appropriated funds.*

*Some portfolios have one or more outcomes covering all the agencies within the portfolio. A portfolio may have one '**overall outcome**',*

²⁵ The Commonwealth Budget, Department of Finance and Administration Budget Group, Structuring Outcomes & Outputs, [Online], Available: <http://www.dofa.gov.au/budgetgroup/bandrfwk/oandofwk/oandofwk.asp> [24 November 2000].

under which each portfolio agency has specific, differently worded outcomes against which it is appropriated (i.e., the 'overall outcome' does not appear in the Appropriation Acts).

***Outputs** are the actual deliverables—goods and services—agencies produce to generate the desired outcomes specified by government. Users of these goods and services can include members of the general public, industries or sectors, ministers, members of Parliament, other agencies or even, in some instances, interests (e.g., the national interest). A client, in other words, can be anyone outside the agency who benefits from the work of the agency.*

***Administered items** are those resources administered by the agency on behalf of the Government (such as transfer payments to the States, grants and benefits) to contribute to a specified outcome. They are identified separately from departmental items (that is, departmental outputs) because they involve different accountability requirements.²⁶*

1.8 Finance guidelines require agencies to state outcomes in terms of the impact intended by Government on the Australian community. Outcome statements express the Government's objectives and priorities. Parliament appropriates money to a specific outcome. This means that an agency cannot transfer appropriation funds between its outcomes. Where an agency seeks to change an outcome, development of the proposal needs to involve the portfolio Minister and the Minister for Finance and Administration. Agencies can vary their mix of outputs within a given outcome.

1.9 Finance advised agencies that when specifying their outputs and determining an appropriate output level they should take note of the specific nature of the products or services being delivered under the output, including:

- how well defined is the client or target group;
- how uniform and tangible are the products or services delivered under the output; and
- is there a well-defined market or commonly recognised description or standard for the product or service?²⁷

²⁶ Department of Finance and Administration, *The Outcomes and Outputs Framework Guidance Document*, November 2000.

²⁷ The Commonwealth Budget, Department of Finance and Administration Budget Group, Structuring Outcomes & Outputs, [Online], Available: http://www.dofa.gov.au/budgetgroup/bandrfwk/bandofwk/specifying_outputs.asp [24 November 2000].

Alignment of outputs with outcomes

1.10 Agencies need to ensure that outputs are aligned with outcomes in order to ensure that the production of specified outputs will result in the achievement of desired outcomes. Without this alignment the production of outputs may result in unintended outcomes. Finance provided advice to agencies concerning the alignment of outputs with outcomes.²⁸

1.11 The audit considered the ATO alignment of its outputs with its stated outcome in Chapter 2—ATO Outcome and Outputs Framework.

Accountability requirements

1.12 The Commissioner of Taxation is a statutory officer appointed by Parliament under legislation with administrative powers.²⁹ These powers derive directly from Parliament through numerous Tax Acts, for example the *Income Tax Assessment Act 1936*. The Commissioner is accountable to Parliament for his or her performance via an Executive Government Minister,³⁰ that is, the Treasurer.

1.13 Included in taxation legislation are requirements for the Commissioner to provide reports on the operation of the *Taxation Administration Act 1953*³¹ and the *Income Tax Assessment Act 1936*.³² The Minister is required to table the reports in Parliament. They are included as part of the ATO Annual Report.

1.14 Tax law is silent on the functions of the Commissioner and Second Commissioners and the objectives of the tax system. Thus in developing its outcomes and outputs framework, the ATO did not have the benefit of explicit directions set by Parliament.

²⁸ *One of the objectives of public sector management is to ensure that what agencies do fits with the Government's policy agenda. Because ministers must now expressly articulate the policy agenda in terms of the outcomes they wish to achieve, agencies have explicit and precise guidance as to the results expected of them. In consultation with their Minister(s), they can therefore set about delivering the outputs required to achieve the specified outcomes.*

²⁹ *Taxation Administration Act 1953*, s.4.

³⁰ Joint Committee of Public Accounts, Report 326, *An Assessment of Tax*, November 1993, p. 46.

³¹ *Taxation Administration Act 1953*, s. 3B.

³² *Income Tax Assessment Act 1936*, s. 14.

Portfolio Budget Statements (PBS)

Background

1.15 PBS were first produced for the 1995–96 Budget to explain the provisions of the Budget Bills to Senators and Members and to assist them in their consideration of Budget estimates prior to voting on the Budget Bills. This remains their prime function. The PBS should therefore sufficiently explain the proposed allocation of resources to Government outcomes by agencies within the portfolio. Previously, the PBS were set out in program format.

1.16 The format of the PBS has been of continuing and considerable interest to Parliament and its Committees and has been the subject of some criticism.

1.17 In its 2000 review of the *Financial Management and Accountability Act 1997* and *Commonwealth Authorities and Companies Act 1997*,³³ the Joint Committee of Public Accounts and Audit (JCPAA) noted some concern among Members of Parliament regarding the impact of the new budget format on their ability to scrutinise proposed government expenditure.

1.18 In April 2001, the JCPAA announced a wide ranging review of accrual budget documentation, to inquire into the effectiveness of, and options for enhancing, the format and content of current Budget documentation including the PBS and Annual Reports, for the purposes of Parliamentary scrutiny.

1.19 The Senate Finance and Public Administration Legislation Committee has conducted three inquiries into the format of the PBS. The Committee's third report, *The Format of the Portfolio Budget Statements Third Report*, tabled in November 2000, noted:

*The PBS are also used as the agenda for estimates hearings, in which the provisions of the Appropriation Bills are examined by eight Senate legislation committees...The achievement of outcomes, while undoubtedly important, is not the only issue—Senators look to the PBS for an explanation of inputs and an indication that the processes involved were proper.*³⁴

³³ Joint Committee of Public Accounts and Audit, Report 374, *Review of the Financial Management and Accountability Act 1997 and the Commonwealth Authorities and Companies Act 1997*, March 2000.

³⁴ Senate Finance and Public Administration Legislation Committee, *The Format of the Portfolio Budget Statements Third Report*, November 2000, p. 2.

1.20 The report also commented on the usefulness of the new outcomes and outputs PBS format to Senators at estimates hearings in relation to the 2000–01 PBS:

- *the overwhelming emphasis in estimates questioning was still on inputs and processes, but some attention was paid to performance indicators,³⁵ and*
- *that ‘input’ and ‘process’ issues are likely to continue being asked in that forum, even though the appropriations are now directed to outcomes. And the structure of the PBS does not assist in the formulating of questions on input and process.³⁶*

1.21 The audit reviewed the ATO PBS 1999–2000.³⁷ In particular, it considered the specification and clarity of the ATO outcome and outputs in the PBS and their usefulness to readers external to the ATO. The ANAO is aware that agencies are still adjusting to the budgeting and reporting under their new outcomes and outputs framework and that the ATO PBS 2000–01 represents only the second year that the ATO has reported in this format.

Performance information

1.22 Commonwealth agencies are required to publish performance information in key accountability documents such as the PBS³⁸ and Annual Reports³⁹ including:

- Outcomes: indicators of effectiveness in terms of the contributions of relevant departmental outputs and administered items to the achievement of the outcome;
- Outputs: indicators of the price, quantity and quality of the output; and
- Administered items: indicators relating to the achievement of the objectives of the items as indicated in associated legislation, policy statements or inter-governmental agreements.

1.23 The ATO PBS 2000–01 identifies one ATO outcome and four outputs. It also includes, between the ATO description of its outcome and its outputs, a set of ‘*measures chosen to deliver*’⁴⁰ the outcome. These

³⁵ *ibid*, p. 3.

³⁶ *ibid*.

³⁷ The framework used by the ATO in its PBS in 1999–2000 was repeated in the 2000–2001 PBS.

³⁸ The Department of Finance and Administration Government Finances, Portfolio Budget Statements, [Online], Available: http://www.dofa.gov.au/budgetgroup/portfolio_budget_statements_p.html [14 March 2001].

³⁹ Department of Prime Minister and Cabinet, *op. cit*.

⁴⁰ Treasury, Portfolio Budget Statements 2000–01, Budget Initiatives and Explanations of Appropriations specified by Outcomes and Outputs by Agency, Budget Related Paper No.1.16, p. 155.

'measures' include the four ATO outputs and six other areas of ATO activity. The PBS also details both quantitative and qualitative measures of performance against which the ATO will manage the delivery of its outputs and report its performance. Against each output is a price that the Government commits to pay through the Budget appropriation. The PBS sets out the total estimated resourcing for the ATO outcome comprising the total price of agency outputs and total of administered expenses.

1.24 The specification of the ATO outcomes and outputs structure is discussed in detail in Chapter 2—ATO Outcome and Outputs Framework.

Parliamentary review of the PBS and budgetary arrangements

1.25 As previously mentioned, the Senate has shown considerable interest in developments to the format of Budget documents. Since 1997, the Senate Finance and Public Administration Legislation Committee has tabled three reports on the format and contents of the PBS.

1.26 Its first report in 1997 presented general principles for PBS preparation. In anticipation of significant change expected with the move to an accrual budget and an outcomes and outputs reporting framework in 1999–2000, this report did not recommend any specific changes.

1.27 The Committee's second report in 1999 found difficulties associated with the mechanics of accrual budgeting and with the new reporting framework. It noted in particular that Senators wanted:

- less aggregated financial information;
- more standardisation across PBS; and
- forward estimates for outcomes and outputs.

1.28 The Government agreed with most recommendations contained in the report. Although it did not agree to the publication of more detailed forward estimates, it agreed to:

- publish a best practice outcomes and outputs guide on the Finance website;
- disaggregate appropriations to output level in the PBS;
- itemise administered expenses;
- disclose variations from budget predictions to actual expenses; and
- include explanations of the capital user charge.

1.29 Some key findings in the Committee's third report⁴¹ tabled in 2000 were that Senators were seeking greater consistency and comparability of the pricing and performance information contained in the PBS. The Committee sought the provision of forward estimates information and noted that, in relation to performance information, the time lapse between the setting of indicators and reporting against them was too long. The Committee suggested that agencies provide part-year performance information in the PBS for those quantifiable indicators for which the information was readily available. The Committee also noted that reporting on progress towards outcomes was a weakness of the new system. In particular, few of the 'effectiveness indicators' used were particularly robust and many agencies had indicated that they had work to do in this area.

1.30 The audit examined among other things, the robustness of the ATO outcome effectiveness indicators. This is discussed in Chapter 2—ATO Outcome and Outputs Framework.

Finance Review of Budget Estimates Production Arrangements

1.31 Following the 1999–2000 Budget, the first to use an accrual-based outcomes and outputs framework for managing resources, the Secretaries of Treasury and the Finance commissioned Dr Michael Vertigan to review budget production arrangements. He reported to the Secretaries of Prime Minister and Cabinet, Treasury and Finance in July 1999.

1.32 The review was to report on:

- how accountability between departments and agencies for producing the budget estimates could be clarified;
- the management of budget estimates, both expenses and revenue (taxation and non-taxation);
- the scope for improvement to systems, process and documentation; and
- arrangements to manage the risks and to reduce the costs associated with these processes.

⁴¹ Senate Finance and Public Administration Legislation Committee, op. cit., p. 1.

1.33 The *Vertigan Report* found that:

...it is evident that the information produced for budget-related decision making and the information contained in budget documentation can be improved considerably to meet the needs and expectations of those who rely upon it.

The complexity of the task of specifying outcomes in a way in which government and external stakeholders find useful and of specifying outputs in a way in which agency management finds contributes to their management tasks makes it highly improbable that it will have been completed to the satisfaction of all interested parties on the first attempt. Experience suggests that it may take two or three attempts before there is an acceptable level of satisfaction with the specification of outcomes and outputs in each agency.

1.34 The report also noted that continuing modification of outcome and output specifications during this transitional period was far from satisfactory for Members of Parliament, noting that:

For ERC⁴² and Cabinet decision-making, stable outcome and output specifications are required as well as reliable unit prices for outputs. Once these conditions are in place, genuine assessments of performance, benchmarking, market testing and pricing reviews can be implemented leading to greater confidence in, and more effective, resource allocation. Attempts to apply these tools before the integrity of the information produced by the accrual-based, outcomes and outputs framework has been established could in fact damage the credibility of the framework in the longer term.

1.35 The *Vertigan Report* recommended that departments and agencies review the outcomes and outputs specified in the 1999–2000 Budget to ensure their appropriateness for continued use. Portfolio secretaries generally endorsed the review’s recommendations.

1.36 This audit reviews the ATO outcomes and outputs framework for budget years 1999–2000 and 2000–2001.⁴³

⁴² Expenditure Review Committee.

⁴³ The framework used by the ATO has remained constant over these two years.

Annual reporting

1.37 Annual Reports and PBS are the principal external reports produced by agencies. Annual Reports are reports from agency heads to the portfolio minister, for tabling in the Parliament. They are formal accountability mechanisms between government and agencies and from agencies through (or on behalf of) government to Parliament.⁴⁴

1.38 The *Requirements for Annual Reports* are designed to ensure that Annual Reports contain a core set of information to ensure that accountability requirements are met and to provide consistency for stakeholders. *Revised Requirements*, issued in May 2000, required agencies to include in their Annual Report:

- the agency's outcome and output structure;
- as a transitional requirement for 1999–2000, include a guide showing how the new outcomes and outputs framework aligns with the previous program based structure; and
- a report on performance against specific performance measures and assessments set out in the PBS.

1.39 The audit examined the Commissioner of Taxation Annual Report 1999–2000, the first full year of outcomes and outputs reporting.⁴⁵ The audit assessed the Report against the revised guidelines, and evaluated ATO performance reporting of outputs against performance measures published in the PBS. This is discussed in Chapter 4—ATO Annual Reporting of Outputs.

⁴⁴ Department of Prime Minister and Cabinet, op. cit.

⁴⁵ Prescribed agencies including for example the ATO, are required to prepare an Annual Report under section 5 of the *Financial Management and Accountability Act 1997*.

Pricing Agreements

1.40 As part of the new resource management framework, Finance has implemented 'purchaser/provider' arrangements in the form of Pricing Agreements with some budget-funded agencies, including the ATO. The new accrual framework requires agencies to price their outputs. The aggregate price to be appropriated for each output is specified in the Budget papers. Where, previously, the Government 'funded programs', the new resourcing management framework now provides for it to purchase outputs through defining the price of outputs (products and services) at a particular level. Prior to the introduction of Pricing Agreements, Finance utilised resource agreements to assist its budgetary planning with agencies. The introduction of Pricing Agreements was designed to contribute to the development of a more commercial approach required by the Government.

1.41 Finance and the ATO reached an early Pricing Agreement for the period 1999–2000 to 2001–02. The purpose of the ATO pricing agreement was to establish the appropriate level of resourcing for the ATO to administer Australia's taxation, excise and superannuation system. One of the main intentions of the three year agreement was to provide the ATO with a degree of certainty over its future revenue, at the same time averting the ATO's need to approach Government for additional resources for minor policy variations.⁴⁶

1.42 As shown in Figure 1, the single appropriation for ATO departmental items for 2000–01, of \$1.713 billion, represents the total revenue from Government (appropriations) contributing to the price of agency outputs. The total price for ATO outputs includes an additional \$87 million of revenue from other sources.

⁴⁶ ATO Pricing Agreement 1999–2000 to 2001–2002.

Figure 1:
Total Resources for Outcome 1⁴⁷

	<i>Estimated Actual 1999–2000 (\$'000)</i>	<i>Budget Estimate 2000–01 (\$'000)</i>
Administered appropriations		
Special appropriations	1 720 200	2 898 646
Total administered expenses	1 720 200	2 898 646
Agency appropriations		
Output group 1.1		
Output 1.1.1 — Contribute to policy advice and legislation	86 544	89 768
Output 1.1.2 — Provide revenue	1 437 371	1 532 885
Output 1.1.3 — Provide transfers	87 132	89 850
Output 1.1.4 — Support other agencies	89 424	87 872
Subtotal output group 1.1	1 700 471	1 800 375
Total revenue from Government (appropriations) contributing to price of agency outputs	1 657,012 97.4%	1 713,118 95.2%
Revenue from other sources		
Output 1.1.1 — Contribute to policy advice and legislation	1 700	1 700
Output 1.1.2 — Provide revenue	-	-
Output 1.1.3 — Provide transfers	12 874	17 855
Output 1.1.4 — Support other agencies	69 343	67 702
Total revenue from other sources	83 917	87 257
Total price of agency outputs <i>(Total revenue from Government and from other sources)</i>	1 740 929	1 800 375
Total estimated resourcing for outcome 1 <i>(Total price of outputs and admin expenses)</i>	3 461 129	4 699 021

Source: Treasury portfolio, Portfolio Budget Statements 2000–01, Budget related paper No.1.16, Part C: Agency Budget Statements—ATO, p. 154.

1.43 The ATO outputs structure was developed through the specification of the ATO Pricing Agreement. The ATO Pricing Agreement specifies performance measures for outputs that replicate measures in the ATO PBS. Assessment of the ATO's performance in this regard is based on information contained in its Annual Report.⁴⁸

⁴⁷ op. cit., p. 154.

⁴⁸ The Pricing Agreement includes provision that 'In the event of a dispute between the parties, all efforts will be made to resolve it at officer level. It is not intended that disputes be resolved at CEO or Ministerial level.' ATO Pricing Agreement 1999–2000 to 2001–2002, p. 8.

Audit objective and scope

1.44 The objective of the audit was to report to Parliament on the ATO's management of its performance reporting within the outcomes and outputs framework and to identify potential areas for improvement in specifying, measuring, assessing, administering and reporting performance under the outcomes and outputs framework.

Audit approach

1.45 The audit reviewed the ATO outcome and outputs framework published in ATO PBS for 1999–2000, including the measures used to assess ATO performance in achieving its outcome. The audit examined the alignment of the ATO outcome and outputs framework with internal corporate and business planning and reporting documents. The audit also reviewed the link between information contained in the ATO PBS and its Annual Report including the ATO's approach to collection, measurement, assessment and reporting of its performance in its Annual Report within this framework.

1.46 The audit team met with the Secretary of the Senate Finance and Public Administration Legislation Committee to discuss the Committee's views contained in three reports on the *Format of the Portfolio Budget Statements* tabled since 1997.

1.47 Fieldwork was conducted with ATO corporate planning and assurance teams in all ATO business, service and production lines.

1.48 The audit team consulted with the Victorian and Western Australian State Audit Offices and with the State Revenue Office, Victoria and the State Revenue Department of Western Australia.

1.49 ANAO audit fieldwork also included discussions held in New Zealand with:

- the State Services Commission;
- Treasury Department;
- Inland Revenue Department; and
- the Office of the Auditor General; to gain an understanding of the outcomes and outputs model used in New Zealand for its Inland Revenue Department.

1.50 The 1999–2000 financial year represented the first year that all agencies budgeted and reported on their performance under the outcomes and outputs framework. Finance provided direction and guidance to assist agencies in their move to the outcomes and outputs reporting framework.

1.51 The ANAO conducted this performance audit at this early stage in the development of performance reporting under the new framework, in response to a request by the Senate Finance and Public Administration Legislation Committee to review agency performance information during the course of an audit program. The ANAO selected the ATO because of the significance of its performance, being the Commonwealth's principal revenue collection agency. However, it is expected that all agencies will improve their performance information over time as they obtain more experience with the new framework.

1.52 At the commencement of the audit, the ATO advised that it was also reviewing its performance reporting under its outcome and outputs framework. The ATO has advised the ANAO that the conduct of the audit has provided useful input to the review of ATO performance measures and feedback to support improvement of both internal and external performance reporting.

1.53 In undertaking the audit, the ANAO developed a number of principles of better practice in relation to specifying performance measures, and to measuring, assessing and reporting performance. In consultation with Australian Bureau of Statistics (ABS) we developed a set of criteria to review ATO performance measures based on a methodology used by Statistics Canada. It is envisaged that the audit, while focused on the ATO, can also provide timely and relevant advice to other APS agencies.

1.54 Mr Christopher Conybeare AO was engaged to provide expert advice to the audit team. The ABS provided advice on best practice in performance measurement and statistical reporting.

1.55 The audit was conducted in accordance with ANAO auditing standards and cost approximately \$240 000.

Structure of report

1.56 Chapter 1 provides background information on:

- the ATO;
- the Commonwealth's budgetary framework;
- accountability requirements;
- the PBS;
- Parliamentary and Finance reviews of the PBS and budgetary arrangements;
- Annual Reporting; and
- Pricing Agreements.

1.57 Chapter 2 examines the ATO outcome and outputs framework described in its PBS for 2000–01 and considers the:

- specification of the ATO outcome statement concerning its completeness, clarity and measurability;
- alignment of ATO outputs with the ATO outcome;
- specification of outputs at an appropriate level (output aggregation) for transparency and accountability purposes; and
- adequacy of ATO output performance measures.

1.58 Chapter 3 reviews ATO internal reporting on its outputs and considers the extent to which its definition of outputs and measurement of output performance has been incorporated into the ATO cycle of planning and management reporting.

1.59 Chapter 4 reviews ATO reporting on performance of its outputs in its 1999–2000 Annual Report, examining both the quality of reporting and the extent to which such reporting was consistent with the schedule of quantity and quality performance measures published in the 1999–2000 PBS.

2. ATO Outcome and Outputs Framework

This chapter examines the ATO outcome and outputs framework described in its PBS for 1999–2000, it considers the specification of the ATO outcome statement, particularly its completeness, clarity and measurability; alignment of ATO outputs with the ATO outcome; specification of outputs at an appropriate level (output aggregation) for transparency and accountability purposes; and adequacy of ATO output performance measures.

ATO outcome statement

Overview

2.1 The purpose of outcome statements is to:

- define the impacts Government expects from the work of the agency;
- articulate the purpose of the relevant appropriations under the Appropriation Acts of the Commonwealth Budget;
- define the impacts Government expects from agency administered items; and
- delineate the parameters for departmental outputs.⁴⁹

ATO outcome statement

2.2 The ATO has one outcome as follows:

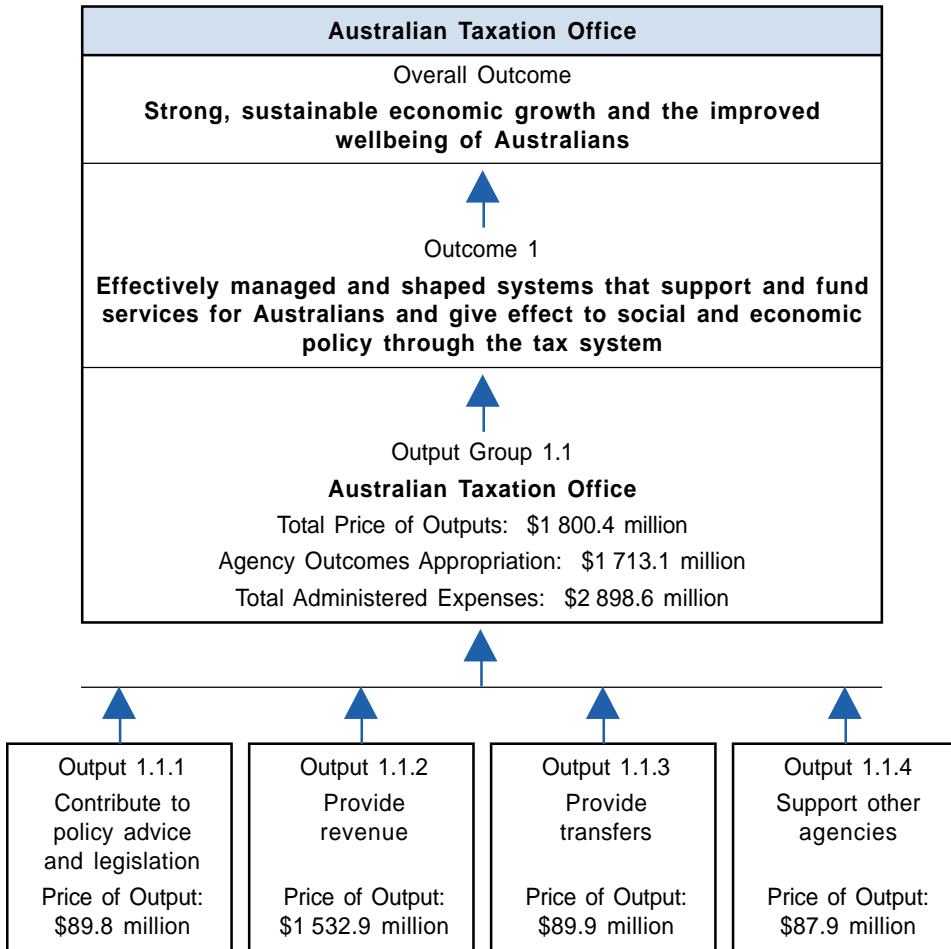
Effectively managed and shaped systems that support and fund services for Australians and give effect to social and economic policy through the tax system.

2.3 The ATO outcome is designed to align with the Treasury portfolio's overall outcome as follows:

Strong, sustainable economic growth and the improved wellbeing of Australians.

2.4 The ATO outcome and outputs structure is reported in the Treasury PBS and is reproduced in Figure 2 below. That figure also shows, under Output Group 1.1, the relationship between the ATO outcome and ATO contributing outputs.

⁴⁹ Department of Finance and Administration, *The Outcomes and Outputs Framework Guidance Document*, op. cit., p. 10.

Figure 2**ATO outcomes and outputs framework⁵⁰**

2.5 For purposes of transparency, and to meet legal, management and accountability requirements, the ANAO considers that it is important that outcome statements:

- specify the key business objectives of the agency;
- are clear and simple, making it easy to understand what the agency seeks to achieve; and
- are measurable or assessable, to the maximum practical extent, to assist stakeholders in forming an opinion on the extent to which an outcome has been achieved.

⁵⁰ Treasury, Portfolio Budget Statements 1999–2000, Budget Initiatives and Explanations of Appropriations 1999–2000, Budget related paper No.1.16, p. 76.

2.6 The ANAO examined the ATO outcome statement against these criteria, mindful that the 1999–2000 PBS was the first full year of ATO budgeting and reporting on performance under the outcomes and outputs framework.

ATO outcome specification

2.7 Outcome statements need only specify core agency objectives. In some cases agencies can be guided by their enabling legislation in defining their key objectives. However, this is not possible in the case of the ATO as no legislative statement of tax roles and functions exists.

2.8 The ANAO recognises that the Australian tax system is used to achieve outcomes other than tax collection. However, given that approximately 85 per cent of the appropriation for ATO outputs is for the output *Provide revenue*, it is clear that a core business in the ATO is to collect tax.

2.9 This primary role of tax collection is recognised in the ATO Taxpayers' Charter as follows:

The Australian Taxation Office (the Tax Office) administers the federal tax system. Its responsibility is to collect the revenue that is correctly payable under the law.

2.10 In administering tax law the ATO seeks the voluntary compliance of taxpayers with tax law to assist it in collecting the correct amount of revenue in a timely manner from those liable to pay. The strength of the ATO's relationship with the community is therefore crucial to its success in obtaining voluntary compliance with the tax law. The ATO has described the relationship it seeks with the community in the ATO Taxpayers' Charter as being a relationship based on mutual trust and respect.⁵¹ The ATO Taxpayers' Charter also advises among other things, that taxpayers can expect the ATO to make fair and equitable decisions in accordance with the law. This highlights the importance to the ATO of administering the tax system in a fair and equitable manner.

⁵¹ The ATO Taxpayers' Charter also outlines taxpayers rights under the law; the service standards taxpayers can expect from the ATO; what taxpayers can do if they are dissatisfied with the ATO's decisions, actions or service, or if they wish to complain; and taxpayer obligations.

2.11 The ANAO considers that the ATO outcome statement would be clearer and more complete for the purposes of transparency and accountability if the ATO were more specific in describing:

- its primary role in revenue collection; and
- its role in managing its relationship with the community to achieve voluntary compliance with the tax law.

Recommendation No.1

2.12 The ANAO recommends that, to improve clarity and completeness, the ATO consider rephrasing its outcome statement to specify more clearly its role in revenue collection and in management of its relationship with the community.

ATO response

2.13 Agreed with qualification.

The ATO outcome statement reflects the ATO's purpose and broader role in shaping and managing the taxation, superannuation and excise systems that enable revenue collection and revenue transfer to implement Government social and economic policy. During the review of the outcome and outputs framework for the 2002–2005 ATO Resourcing Agreement, the ATO will be reviewing the form of its outcome statement.

Management of ATO's relationship with the community may be more appropriately reflected in the ATO Vision.

2.14 The audit identified the following better practices in specifying agency outcome statements:

Better practice in specifying outcome statements:

- state the agency's key objectives;
- are clear and simple, ensuring the objectives are easy to understand; and
- are measurable to the maximum practical extent, to assist Parliament and stakeholders to assess the extent to which outcomes have been achieved.

Intermediate outcomes

2.15 The ANAO recognises that the ATO outcome involves the achievement of a desired state of affairs over a longer term and that it may not be possible to report meaningfully against all aspects of this in the shorter term. The ANAO considers that the benefits of shorter term reporting could be realised by the ATO specifying intermediate outcomes. For example, the implementation of GST could have been an appropriate intermediate outcome during 1999–2000. Such intermediate outcomes could assist the ATO to identify clear, deliverable, short-term objectives related to the achievement of its agency level outcome as a transition strategy.⁵²

2.16 The ANAO considers that the ATO could benefit from using intermediate outcomes to better:

- assist executive management in articulating and communicating short-term objectives across the organisation;
- demonstrate the link between the outputs it produces and its agency level outcome; and
- assist in planning, monitoring and performance reporting in relation to its long-term objectives.

2.17 The audit concluded that, to support increased performance and accountability, enhance outcome reporting, and provide clearer linkage between the defined outcome and outputs, the ATO could consider the use of intermediate outcomes that define key short-term objectives.

Recommendation No.2

2.18 The ANAO recommends that, to better define the link between its outcome and outputs, the ATO consider specifying intermediate outcomes that will influence the achievement of its outcome.

⁵² The importance of having meaningful statements concerning the overall effects (the outcomes) of government spending was noted in the Office of the Controller and Auditor General of New Zealand, Third Report for 1999, *The Accountability of Executive Government to Parliament*, as follows:

At present, the Government's statements about the overall effects (the outcomes) of its spending are generally high level and vague. The Public Finance Act does not say how outcomes are to be specified or measured, nor does it require any indication of their strategic priority. Successive governments have recognised this gap and have developed other ways to indicate priorities, such as publishing 'strategic result areas' or 'strategic priorities and overarching goals'.

*ATO response***2.19** Agreed.

During development of the 2002–05 Pricing Agreement the ATO will be reviewing its outcome and outputs framework. We will incorporate the ANAO recommendation as part of that review.

2.20 The audit identified the following advantages in specifying intermediate outcomes:

Advantages of specifying intermediate outcomes

Intermediate outcomes can:

- assist agencies to identify transition strategies towards their ultimate outcomes;
- assist management to articulate and communicate achievable short-term objectives across the organisation;
- demonstrate practical linkages between outputs and desired outcomes;
- assist agencies to report meaningfully on their achievement of outcomes in the shorter term; and
- assist planning, monitoring and performance reporting of long-term objectives.

Clarity

2.21 The audit assessed the clarity of the ATO outcome statement to determine whether users could understand its meaning easily, and whether it advanced ATO accountability.

2.22 The ANAO considers that the outcome statement does not clearly explain the objectives the ATO seeks to achieve. This is partly because the language used in the outcome statement is not in clear, plain English.⁵³

⁵³ Plain English is written or spoken English that attempts to eliminate jargon and technical terms, and to simplify structure and syntax etc., in order to make a document or communication more understandable to the general public.

2.23 The ANAO considers that the meaning of the term *‘Effectively managed and shaped systems’* is unclear, as *‘shaping systems’* is not a phrase or concept widely understood by the general public. The ATO has recognised this and attempted to clarify its terminology by providing the following explanation in its PBS:

- in this context, ‘effectively managed and shaped’ means how well the ATO manages and shapes:

- *compliance;*
- *costs of compliance; and*
- *community confidence;*

within the taxation, excise and superannuation systems while doing so as an efficient and adaptive organisation.

2.24 However, the ANAO considers that the ATO explanation does not completely remove the vagueness of the terminology. Consequently, PBS readers may be unsure of the meaning of the phrase *‘Effectively managed and shaped’* and the overall ATO outcome statement.

2.25 The ANAO also considers that the ATO could elaborate on the *‘systems’* it is referring to in its outcome statement. The audit noted that, under the former PMB framework, the ATO described the systems it sought to manage and shape as follows:

Manage and shape systems (Taxation, Child Support Agency, Superannuation and Australian Valuation Office)...

2.26 The ATO could enhance stakeholder understanding of its outcome statement by once again broadly specifying the systems it manages.

2.27 The audit concluded that the ATO could revise the language used in its outcome statement to more clearly and simply describe its objectives.

Recommendation No.3

2.28 The ANAO recommends that, to ensure its stakeholders clearly understand the ATO’s core objectives, and to enhance accountability, the ATO consider rephrasing its outcome statement in plain English.

ATO response

2.29 Agreed with qualification.

During the review of the ATO outcome and outputs framework for the 2002–2005 Pricing Agreement, consideration will be given to rephrasing the ATO outcome statement to communicate the ATO’s purpose more

clearly, recognising that it is often difficult to fully express a complex purpose in a brief statement.

The ATO notes an alternative may be to provide further detail in the PBS and Annual Report.

ATO outcome measurability

2.30 The Senate Finance and Public Administration Legislation Committee *Third Report on the format of Portfolio Budget Statements* noted that agencies are required to demonstrate their efficiency in producing outputs by reporting price, quantity and quality information: the extent to which outcomes are achieved is to be assessed through effectiveness indicators. It also noted that:

Reporting on progress towards outcomes is at present a weakness of the new system. Few narrative 'effectiveness indicators' proffered to date are particularly robust and many agencies have indicated that they have work to do in this area. Given that funding is now directed to outcomes, the importance of assessing progress towards outcomes is of paramount importance.⁵⁴

2.31 Finance advice to agencies is that outcome performance information relates to the specific impact that an agency's outputs and administered items have had on the community. Outcomes are often long-term in nature, and performance information in this area must focus on effectiveness. It needs to achieve a balance between addressing progress against milestones, intermediate targets and ultimate long-term impacts.⁵⁵

2.32 The audit examined the ATO outcome and outputs framework described in its 1999–2000 PBS for evidence of sound outcome effectiveness indicators. It includes a table Performance Information for Outcome 1 (reproduced as Figure 3 below) which provides information on the measures chosen to deliver Outcome 1. Figure 3 includes:

- the four ATO outputs; plus
- six additional areas of activity hereafter referred to as the ATO's 'outcome deliverables'. The ATO's outcome deliverables include *Maintain overall compliance, Tax design capability, Tax reform, Maintain community confidence, Minimise compliance costs and Efficient and adaptive organisation*. Each of the outcome deliverables has a list of detailed descriptions of ATO tasks. For example, in relation to *Tax design capability*, the ATO plans to '*Build an end-to-end capability which integrates the policy, legislative and administrative aspects of systems design.*'

⁵⁴ Senate Finance and Public Administration Legislation Committee, op. cit., p. 41.

⁵⁵ Department of Finance and Administration, *The Outcomes & Outputs Framework Guidance Document*, op. cit., p. 29.

Figure 3

Performance Information for Outcome 1⁵⁶

Performance Information 2000–01	
Effectiveness — Overall achievement of the outcome	
Deliver to Government	
Agreed outputs	Quantity, quality and cost measures for: - Contribution to policy advice and legislation; - Revenue; - Transfers; and - Cross Agency Support.
Maintain overall compliance	Collection of budgeted revenue; Develop and implement maintenance strategies in a range of compliance areas while targeting improvements in 'hot spots'; Target and integrate compliance activities; Embed compliance with GST and use intelligence to support other compliance activities; Maintain Superannuation Guarantee compliance activities; and Enter into co-operative arrangements with other agencies for cross agency support and transfers.
Tax design capability	Build an end-to-end capability which integrates the policy, legislative and administrative aspects of systems design.
Tax Reform	Educate and support the community in getting ready for tax reform; Co-design new tax systems with key stakeholders; and Tax reform is effectively implemented on time.
Maintain community confidence	Leverage community understanding of ATO and the tax system; and Meeting ATO commitments in the Taxpayers' Charter to deliver fair and equitable administration of the law.
Minimise compliance costs	Minimise client compliance costs (within the ATO's control); and Advise Government of the cost of compliance impact of legislative design.
Efficient, adaptive organisation	Manage financial resources and investments to build an efficient and adaptive ATO; Deliver quality products and services to internal customers; Excel at those processes that are key to achieving ATO goals and outputs; and Continue to learn, and develop our people, culture, supporting systems and a safe workplace.

⁵⁶ Treasury Portfolio Budget Statements 1999–2000, Budget Initiatives and Explanations of Appropriations 1999–2000, budget related paper No.1.16, p. 78.

2.33 Four of the ATO's outcome deliverables—*maintain overall compliance, maintain community confidence, minimise compliance costs, and efficient and adaptive organisation*—form key pillars of ATO cultural values. They articulate fundamental ATO objectives at the organisational level and cascade through planning and management at all levels, including individual performance assessment. Under the earlier PMB framework, performance of sub-programs was judged:

*according to goals established around improving compliance, reducing compliance costs, winning community confidence in administration of laws, being an efficient adaptable organisation and successfully implementing government initiatives.*⁵⁷

2.34 The ANAO considers that the inclusion in the PBS of the table *Performance Information for Outcome 1*, shown in Figure 3, suggests that:

- delivery of the four ATO outputs will not be sufficient to achieve its outcome; or
- ATO outputs may not adequately reflect all the goods or services the office produces to achieve its outcome.

2.35 The audit noted that the PBS does not include price information on the outcome deliverables. As a result, Parliament and stakeholders are unable to assess how the outcome deliverables will be funded and to evaluate the ATO's performance against them.

2.36 The ANAO also suggests that Figure 3 outlines how the ATO might achieve its outcome rather than just specifying effectiveness indicators against which it can measure its progress towards achieving its outcome.

2.37 To provide a more complete and accurate picture of its cost structure, the ATO could specify additional outputs, prices and performance measures that include the outcome deliverables. This would provide a more complete description of the action taken by the ATO to achieve its outcome.

⁵⁷ Treasury Portfolio, Portfolio Budget Statements 1997–98, Programme Four, Taxation Administration, p. 109.

2.38 Alternatively, if the ATO considers its four outputs do accurately reflect its work to achieve its outcome, it could usefully integrate the outcome deliverables into its existing output structure. For example:

- *Maintain community confidence* and *Minimise compliance costs* could be included in performance measures for the *Provide revenue* output;
- *Maintain overall compliance* could be included as a measure of performance for the *Provide revenue* and *Transfers* outputs; and
- *Tax design capability* could be included as a measure of performance for the *Contribute to policy advice and legislation* output.

2.39 *Tax reform* might best be specified as an intermediate outcome contributing to the achievement of the overall ATO outcome. The ANAO considers the outcome deliverable *Efficient and adaptive organisation* is not an outcome or an output but relates to evaluating overall administrative performance.

2.40 The detailed activities accompanying the ATO outcome deliverables could also be integrated into the existing ATO outputs framework. For example in the case of *Maintain overall compliance*:

- *Collection of budgeted revenue, Develop and implement maintenance strategies in a range of compliance areas while targeting improvements in 'hot spots' and Target and integrate compliance activities* could be used to measure performance against the *Provide revenue* output;
- *Embed compliance with GST and use intelligence to support other compliance activities* could also be used to measure performance against the *Provide revenue* output. Alternatively, if the ATO developed an intermediate outcome addressing the implementation of the GST, then the GST could be linked to the new intermediate outcome;
- *Maintain Superannuation Guarantee compliance activities* could be used to measure performance against the *Transfers* output; and
- *Enter into co-operative arrangements with other agencies for cross agency support and transfers* could be used to measure performance against the *Cross Agency Support* output.

Conclusion

2.41 The audit concluded that the ATO can improve the design of its outcome and outputs framework to better reflect the work of the ATO by integrating its outcome deliverables (and performance measures) with associated price estimates into its outputs framework instead of identifying separately its outcome deliverables. The ATO can also refine its performance measures and improve accountability for its performance by more clearly defining performance to be measured and/or assessed and levels of performance to be achieved.

Recommendation No.4

2.42 The ANAO recommends that, to improve the structure and completeness of its outcome and outputs framework, the ATO integrate its 'outcome deliverables' within its output framework.

ATO response

2.43 Agreed with qualification.

The 'outcome deliverables' listed include new work for the ATO since development of the current outcome and outputs framework. The outcome and outputs framework for the next ATO Pricing Agreement is expected to reflect our current outputs completely.

ATO outputs

Introduction

2.44 The ATO specified four outputs in its outcome and outputs structure as shown in Figure 4 below.

Figure 4
ATO outputs

Output 1.1.1 Contribute to policy advice and legislation Price of Output: \$89.8 million	Output 1.1.2 Provide revenue Price of Output: \$1 532.9 million	Output 1.1.3 Provide transfers Price of Output: \$89.9 million	Output 1.1.4 Support other agencies Price of Output: \$87.9 million
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2.45 The audit examined each of the ATO outputs shown in Figure 4 above and considered the extent to which each output:

- aligns with the ATO outcome to assess whether delivery of the outputs would likely contribute to the achievement of the desired outcome;
- is described at an appropriate level (output aggregation) for both transparency and accountability purposes to assist stakeholders to:
 - understand the proposed output to be purchased through identification of output components, their characteristics and relevant client groups;
 - determine the reasonableness of the aggregated price estimate. Where an output is specified at a highly aggregated level, it is desirable that agencies provide appropriate detail concerning the output's composition;
 - assess ATO performance concerning the price of the output on an on-going basis; and

- compare performance information for the output across jurisdictions and sectors where relevant;⁵⁸ and
- has robust performance measures and/or assessments.

2.46 To assist the ATO enhance its performance information over time the ANAO reviewed ATO performance measures for its four outputs using the following quality framework:⁵⁹

- relevance (ensuring measurement of what the users are interested in);
- accuracy (measuring accurately what the ATO sets out to measure);
- timeliness (ensuring information is available within acceptable time periods);
- accessibility (ensuring information is available to users through delivery mechanisms they can use and in formats that suit them);
- interpretability (ensuring that users can understand the information provided and use it appropriately); and
- coherence (ensuring that the information can be validly used in combination with other sources of information).

2.47 The audit found that none of the ATO PBS output performance measures explicitly specified target levels of performance to be achieved. Performance targets assist performance assessment based on comparisons, standards, targets, benchmarks and milestones which all provide a basis for comparisons. Targets express quantifiable performance levels or changes of level to be attained at a future date, as opposed to minimum levels of performance.⁶⁰ The importance of setting performance targets for outcomes and outputs is discussed further in Chapter 3—ATO Management within its Outcome and Outputs Framework.

⁵⁸ The issue of aggregation was addressed in the Senate Finance and Public Administration Legislation Committee, *The format of the Portfolio Budget Statements – Second Report*, pp. 2–3. The report noted that Senators wanted less aggregated financial information.

⁵⁹ Methodology developed with the Australian Bureau of Statistics based on work of Statistics Canada op. cit.

⁶⁰ Australian National Audit Office Better Practice Guide, *Performance Information Principles*, November 1996, Themes: Accountability and governance, p. 13.

ATO output: Contribute to policy advice and legislation

Figure 5

ATO PBS 2000–01—Performance information for agency outputs

<p>Output 1.1.1 — Contribution to policy advice and legislation</p> <p><i>Includes conducting strategic research/risk assessment</i></p> <p><i>Provide policy advice, design and develop legislation</i></p> <p><i>Provide Ministerial and Parliamentary Services.</i></p>	<p>Quantity Measures Capacity to predict and manage risks; legislation delivered according to government programmes; costings/ estimates delivered to anticipated volume; and volume of services delivered.</p> <p>Quality Measures Strategic intelligence — no significant risks remain unaddressed; quality of legislation including consistency with policy, legislation and administration principles; accuracy of revenue estimates — current standard maintained; and client satisfaction with services provided.</p>
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Alignment

2.48 The audit found this output clearly aligned with the role of the ATO in administering tax law. However, this role is not made explicit in the ATO outcome statement.

Aggregation

2.49 The ATO PBS description of this output for readers is shown in Figure 5 above. The level of information provided in relation to the composition of this output is considered to be appropriate.

Performance measures—quantity measures

2.50 The audit considered that two of the quantity measures provided for this output could be better defined to assist readers in understanding the performance parameters to be measured. These measures are:

- costings/estimates delivered to anticipated volume. The ATO could specify what it is that the costings/estimates relate to.
- volume of services delivered. The ATO could specify the services that are to be delivered.

Performance measures—quality measures

2.51 The clarity, transparency and definition of several quality measures could be improved as follows:

- *Quality of legislation including consistency with policy, legislation and administration principles.* The ATO could explain which *administration principles* are to be referred to.
- *Accuracy of revenue estimates—current standard maintained.* This quality measure would be made more robust by quantifying what the *current standard* is. The accuracy/usefulness of the measure is limited by the accuracy of the benchmark.
- *Client satisfaction with services.* This measure would be more definitive if it identified the clients or groups of clients it is targeting, the services involved and the level of satisfaction the ATO seeks to provide to its clients.

ATO output: Provide revenue⁶¹

Figure 6

ATO PBS 2000–01—Performance information for agency outputs

<p>Output 1.1.2 — Revenue <i>Includes Direct Revenue which includes Gross PAYG, Medicare Levy, Individual refunds, companies superannuation funds (including Superannuation Contributions Surcharge), withholding taxes, petroleum resource rent tax and Fringe Benefits Tax. Indirect Revenue includes Sales Tax^(a) (including Alcohol Surcharge), Excise, GST, Wine Equalisation Tax and Luxury Car Tax.</i></p>	<p>Quantity Measures Tax collected as a percentage of estimate — current standard maintained.</p> <p>Quality Measures Percentage of tax collected on time — current standard maintained, the level of overdue debt as a percentage of total collectable debt is reduced, technical quality of advice maintained, Charter service standards maintained, improved professionalism in field operations and debt collection and maintenance of community confidence.</p>
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(a) abolished 1 July 2000.

Alignment

2.52 This output clearly aligns with the ATO role of tax collection in accordance with the tax law. However, this role is not made explicit in the ATO outcome statement.

⁶¹ The *Provide revenue* output refers to the revenue collection service provided by the ATO to the Government.

Aggregation

2.53 The ATO PBS describe the different types of revenue that comprise the *Revenue* output as shown in Figure 6 above. However, it does not provide associated price estimates. Given that this output comprises approximately 85 per cent of the total price of ATO outputs, the ANAO considers that the ATO could improve transparency and accountability by providing more detailed price information in its PBS. For example, the ATO could provide aggregate price information:

- for each revenue stream collected, that is, by nominating the type of revenue being collected. For example, the ATO could nominate the aggregate price for collecting Pay-As-You-Go revenue. The ANAO notes that the ATO already collects data by revenue stream; or
- by organisational structure. The ATO is already structured by Business, Service and Production lines as previously described. Under the previous PMB framework, the sub-program, *Income and other Taxes*, was disaggregated by ATO business lines.

2.54 Either of these options could be implemented in a cost-effective manner given the current ATO organisational structure, accounting systems and data it collects.

Performance measure—quantity

2.55 The ATO has one quantity measure for this output, *Tax collected as a percentage of estimate—current standard maintained*.

2.56 The budget estimate of collectable tax is used as a benchmark to gauge the success of tax collection. There are two issues in assessing the relevance of this performance measure:

- how well the Budget estimates are formed. The current measure assesses the relationship between the amount of tax collected, and the Budget estimate of this. If the Budget estimates are poor, they do not form a useful benchmark. However, if they are of a good quality, they form a useful benchmark. Thus it is essential to consider whether the purpose of the measure is to evaluate the amount of tax collected or to assess the quality of the Budget estimates; and
- whether the current standard is sufficient.

2.57 The ANAO considers that the terminology used in describing this performance measure in the PBS would not be clear to many stakeholders. For example:

- there is no definition of the term *estimate* to confirm which estimate is to be used for performance measurement;

- *current standard* could be better defined to provide more certainty as to the target level of performance to be achieved. In relation to some measures, the current standard may relate to a standard set in a previous year that has continued to be adopted in subsequent years; and
- *maintained* is not defined. The ATO could clarify what is meant by maintaining the standard and what, if any, constitutes an acceptable deviation.

2.58 To reduce the risk of stakeholders misinterpreting the meaning of the performance measure, the ATO could better define for readers the terms used through provision of a data dictionary or glossary accompanying its PBS.

2.59 The accuracy of the performance measure would be made more robust by quantifying the acceptable level of tax collection as a percentage of the estimate. An example of a robust measure could be:

Tax collected in 1999–2000 with a target of at least 95 per cent of the May 1999 Budget estimate of collectable tax.

2.60 The audit considers that, in relation to ATO revenue data, the performance measure:

- is likely to meet the criterion of timeliness;
- is readily accessible from the ATO’s financial systems;
- is largely derived from the ATO financial systems and lends itself to objective interpretation; and
- can be readily combined with data from other sources, for example data on timeliness of collection.

Performance measures—quality

2.61 This section considers quality measures for the output *Provide revenue*, and focuses on the key strengths and weaknesses of these measures within the quality framework described earlier in paragraph 2.46.

2.62 *Maintain the current standard for percentage of tax collected on time.* The audit found that this performance measure could be improved by:

- more clearly defining the benchmark for the measure, *tax collected on time*; and
- quantifying what an acceptable level of tax paid on time is.

2.63 The audit also noted that the usefulness of the measure is limited by the accuracy of the benchmark.

2.64 *Reduce the level of overdue debt as a percentage of total collectable debt.* The reduction in overdue debt is an ambiguous measure of performance.⁶² Simply increasing the amount of debt written off can reduce debt. Unless it is known that reduction in overdue debt is not a result of increases in the amount of debt written off, it remains an ambiguous measure of performance. Reductions in both overdue debt and debt written off would be a more valid way of measuring performance than using the current ATO performance measure.

2.65 *Maintain the technical quality of advice.* This quality measure would be more robust:

- by identifying the target audience for ATO technical advice; and
- by quantifying an acceptable level of the quality of technical advice.

2.66 The audit also noted that the measure makes an implicit assumption that the current quality of technical advice is of a sufficient standard and that the ATO is not seeking further performance improvement.

2.67 *Maintain service standards of the Taxpayers' Charter.* The Charter aims to define the desirable qualities of the ATO's relationship with the community. It makes explicit commitments to achieving these qualities, and so would seem a relevant measuring device. It was noted that the Charter complies with requirements for Government service charters and results from extensive consultation, thus giving support to its relevance. There is, however, an implicit assumption in this measure that both the current level of service and the quality of the ATO relationship with taxpayers are sufficient.

2.68 *Improve professionalism in field operations and debt collections.* This measure could be made more robust by quantifying levels or standards of professionalism that the ATO seeks to achieve. The reference period for the data is not specified, meaning that it is difficult to assess against the criterion of timeliness. Data accessibility, interpretability and coherence could be improved by the ATO describing what it means by professionalism.

⁶² As noted in The Auditor-General Audit Report No.23 1999–2000, Performance Audit, *The Management of Tax Debt Collection, Australian Taxation Office*, p. 67.

ATO output: Provide transfers

Figure 7

ATO PBS 2000–01—Performance information for agency outputs

<p>Output 1.1.3 — Transfers <i>Includes all movement of moneys (value) that are not classed as Revenue including tax expenditures, diesel fuel rebate, Family Assistance Initiatives (Private Health Insurance, Family Tax Benefit and Aged Persons Savings Bonus), HECS, Retirements Incomes Framework (including Compulsory Super, SHAR, Choice, Lost Members), Self Managed Super Funds , refund garnishees – transfers for example, Centrelink, DETYA and the CSA; and wool tax.</i></p>	<p>Quantity Measures Monetary value of expenditure, outlay, transfers, refunds, number of obligated employers and the number of funds regulated (from 2000–01).</p> <p>Quality Measures As for revenue (same measure), Charter service standards maintained, technical quality maintained and achievement of measures as specified in MOUs with other agencies.</p>
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Alignment

2.69 This output is aligned with the ATO role of administering transfers described in taxation legislation. However, this role is not made explicit in the ATO outcome statement.

Aggregation

2.70 The ATO PBS description of this output for readers is shown in Figure 7 above. The level of information provided in relation to the composition of this output is considered to be appropriate.

Performance measures—quantity

2.71 The ANAO considered that the terminology used in describing these performance measures in the PBS would not be clear to many external stakeholders. For example, there is no definition provided of the distinctions between *Monetary value of expenditure, outlay, transfers and refunds* in relation to transfers. The ATO could assist readers' understanding of the terminology by defining these terms in a data dictionary or glossary accompanying its PBS.

Performance measures—quality

2.72 The ATO has specified that its quality measures for this output are *As for revenue*. The ANAO understands this to refer to timeliness of transfers and management of debt. These measures have the same weaknesses identified in regard to similar measures of performance associated with the *Provide revenue* output. Timeliness in relation to

transfers should address both timeliness of collection and of interagency transfers of funds.

2.73 The ATO also specifies the quality measure *achievement of measures as specified in MOUs with other agencies*. The audit identified numerous Memorandums of Understanding (MOUs) between the ATO and other agencies, with a variety of performance measures. The ATO has not specified the performance measures contained in all MOUs within the context of its PBS. Consequently, the ANAO considers this particular performance measure is not useful to PBS readers as they are unaware of the measures contained within the MOUs the ATO has with other agencies.

ATO output: Support other agencies

Figure 8

ATO PBS 2000–01—Performance information for agency outputs

<p>Output 1.1.4 — Cross Agency Support <i>Includes services to other organisations that do not involve movement of moneys (administered funds). Includes the transfer of statistical information, data matching, information to law enforcement agencies, tax technical advice to other Government agencies, support for tax agents board and CSA.</i></p>	<p>Quantity Measures Quantity of output is as determined by agreement with clients and measures as specified in MOUs with other agencies.</p> <p>Quality Measures Measures as specified in MOUs with other agencies.</p>
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Alignment

2.74 This output appears to be only loosely aligned with the ATO outcome statement.

Aggregation

2.75 The ATO PBS description of this output is shown in Figure 8 above. The level of information provided in relation to the composition of this output is considered to be appropriate.

Performance measures

2.76 The ATO performance measures for this output *are as specified in MOUs with other agencies*. The ANAO found that the ATO has a variety of performance measures in MOUs with other agencies. None are specified in the PBS. Without such information being provided, it is impossible for users of the PBS to assess ATO performance of this output.

Conclusion

2.77 The audit concluded that the ATO could improve its transparency and accountability within its outcomes and outputs framework by:

- providing disaggregated price information in its PBS for the *Provide revenue* output to compare performance with expectations;
- defining the terminology used in specifying its performance measures (discussed further in Chapter 3—ATO Management within its Outcome and Outputs Framework);
- reviewing its performance measures to ensure relevance, accuracy, timeliness, accessibility, interpretability and coherence;
- including target levels of performance in its performance measures (discussed further in Chapter 3—ATO Management within its Outcome and Outputs Framework); and
- providing information on performance measures relevant to the output *Support other agencies*.

Recommendation No.5

2.78 The ANAO recommends that, the ATO review quality and quantity measures for its outputs to ensure that the measures are relevant and can be assessed accurately; and that performance information required is available, accessible, can be readily interpreted, and used coherently with other sources of performance information.

ATO response

2.79 Agree.

The ATO already regularly reviews its current management information framework and performance measures as part of normal continuous improvement activity. The ATO accepts the need to make changes and will use the quality framework at paragraph 2.46 to assist with these reviews.

Recommendation No.6

2.80 The ANAO recommends that, to improve transparency and accountability, the ATO disaggregate its *Provide revenue* output and publish price estimates for its key components in the PBS.

ATO response

2.81 Agreed with qualification.

ATO revenue delivery is highly integrated at the system and business process levels. The ATO will work towards implementing the ANAO recommendation and will incorporate this action as part of the preparation for the Pricing Agreement.

2.82 The audit identified the following better practices in specifying agency outputs:

Better practice in specifying outputs

Well specified outputs:

- are aligned with agency outcomes, to ensure that delivery of the outputs will result in achievement of the outcomes;
- are aggregated at an appropriate level, to support transparency and accountability. This can assist the Parliament and stakeholders to:
 - understand the components of outputs, and client groups relevant to each component;
 - determine the reasonableness of budgetary estimates;
 - assess ATO performance against the price of each output component; and
 - compare prices paid for output components across jurisdictions; and
- have robust performance measures and/or assessments.

2.83 The audit identified the following better practices in specifying agency performance measures:

Better practice in specifying performance measures

Robust performance measures are:

- relevant, to ensure measurement of what the users are interested in;
- accurate, to ensure accurate measurement of what the agency sets out to measure;
- timely, to ensure information is available within acceptable time periods;

continued next page

- accessible, to ensure information is available to users through delivery mechanisms they can use and in formats that suit them;
- interpretable, to ensure that users can understand the information provided and use it appropriately;
- coherent, to ensure that the information can be validly used in combination with other sources of information. Performance indicators should be consistent in the concepts and definitions they refer to. This can be achieved through the use of data dictionaries, classifications and standards;
- clear, using simple language to assist readers to understand what is being measured; and
- specific, identifying agency clients or groups of clients that receive the product or service being measured or assessed.

Performance measures need regular review and updating to ensure optimum performance reporting.

3. ATO Management Reporting within its Outcome and Outputs Framework

This chapter reviews ATO internal reporting on its outputs and considers the extent to which its definition of outputs and measurement of output performance has been incorporated into the ATO cycle of planning and management reporting.

Introduction

3.1 Performance information is a critical tool in the overall management of organisations. At the highest level of the organisation it provides a structure for management information to enable the agency's executive to assess progress of the agency in achieving its goals, to make informed decisions and, where necessary, to take remedial or preventative action.

3.2 The ANAO is aware that the ATO, like many agencies, faces significant ongoing change in both its external and internal environments. In this dynamic environment, the ATO Executive requires the flexibility to deal with new and emerging issues and risks, and to adapt and respond to unforeseen matters that require action or intervention. Such matters do not always fit neatly into the outcome and outputs framework developed in its resource management context.

3.3 Finance has identified certain benefits to agencies of managing their performance information within their outcomes and outputs framework:⁶³

Under the new framework, agency managers will have better and more complete information on which they can manage their operations and be accountable to government and Parliament for their performance...

The new focus will provide agency managers with a clear picture of how their agency is performing, how its performance is changing over time, and how it is performing comparatively (both within different areas of the organisation and with other public sector providers delivering similar services). This is essential information if agencies are to stay competitive and manage the change from solely providing services in-house to purchasing services and managing contracts from a range of providers.

⁶³ Department of Finance and Administration, *Specifying Outcomes and Outputs*, 1999, p. 9–10.

3.4 The Vertigan Report⁶⁴ also noted that outputs were intended as a management tool. To realise this benefit, it may be that the next step for the ATO will be to redesign its management reporting to better align with its outcome and outputs framework. This could enable it to take advantage of the framework context, which defines the ATO's place within overall Government objectives and identifies linkages with other agencies, and to strengthen management reporting with firm connections to its output-based financial information flow.

3.5 Within this context, and appreciating that the ATO Executive requires strategic level information, and that its requirements could vary to meet changing risks and external demands, the ANAO looked at the extent to which ATO strategic planning and management reporting had adopted an outcomes and outputs focus. The period reviewed was the first full year of Australian Public Service financial resourcing and reporting against outcomes and outputs. The ATO had adapted and redesigned its financial systems to implement accrual reporting and to align recording and reporting on financial transactions with the new outcome and outputs framework.

ATO internal planning and reporting

3.6 The audit reviewed the degree to which the ATO outcome and outputs framework had been incorporated into strategic ATO internal planning and reporting processes. To ascertain this, the audit examined:

- ATO Strategic Statement 2000–2003;
- Strategic/business plans prepared by all Business and Service Lines (June 2000);
- Monthly performance reports prepared for the ATO Executive by Business and Service Lines (May to September 2000); and
- Biannual governance reports prepared for the ATO Executive by Business and Service Lines (February and August 2000).

ATO Strategic Plans

3.7 The ATO Strategic Statement 2000–2003, was issued in July 2000 and circulated throughout the organisation and to external stakeholders. With a foreword by the Commissioner, it is a statement of corporate directions designed to influence the culture of the ATO and provide a sense of common purpose and direction.

⁶⁴ *ibid*, p. 10.

3.8 The Strategic Statement places the ATO outcome in the context of the Treasury's over-arching outcome:

Strong, sustainable economic growth and the improved wellbeing of Australians.

Through our outcome of:

Effectively managed and shaped systems that support and fund services for Australians and give effect to social and economic policy through the tax system.

3.9 The four ATO outputs listed below the first dot point form part of the Strategic Plan's ten *Indicators of Success* as follows:

- performance against quantity, quality and cost measures for:
 - contribution to policy advice and legislation;
 - provide revenue;
 - transfers; and
 - cross agency support.

3.10 The ATO's remaining nine *Indicators of Success* are as follows:

- lodgment and payment compliance;
- improved quality of stakeholder interactions with the systems we administer;
- tax reform is effectively implemented on time;
- community perceptions of the ATO;
- taxpayer compliance costs;
- viability of our financial position as indicated by the Balance Sheet, Operating Statement and investment expenditure;
- efficiency of our key processes;
- satisfaction of internal customers with products/services delivered; and
- degree to which we have delivered our people, culture, supporting systems and a safe workplace.

3.11 This approach taken in the Strategic Statement, of integrating budgetary outputs within the broader cultural objectives of the ATO, was replicated in the next level of ATO planning, the strategic and business plans of business and service lines. It was also reflected in the format of internal reporting of the lines to the ATO Executive.

Internal reporting of outputs—ATO Monthly Executive Reports

3.12 During the period under review, all ATO BSLs prepared monthly performance reports and bi-annual governance reports for the ATO Executive. Governance reports were presented in the same format as monthly reports, but where monthly reports generally reported events that occurred in the previous month, governance reports also reported on trends over the half-year and the full year.

3.13 The reports followed a common format and reporting was by exception, that is, omission of an item indicated nothing to report for the period. The period covered was always to the end of the previous month.

3.14 ATO performance was reported to the executive under five categories: maintaining compliance; maintaining community confidence; minimising clients' compliance costs; building an efficient organisation; and building an adaptive organisation. The four ATO outputs (shown in blue) were included as sub-categories, as follows:

- Maintaining Compliance
 - Revenue
 - Debt
 - Transfers
 - Other ATO Plan Measures
 - Major Risk Management
- Maintaining Community Confidence
 - Taxpayers' Charter Standards Performance
 - Public Assistance/Communication/External Initiatives/Community Relationships
 - Contribution to Policy Advice and Legislation
 - Cross Agency Support
- Minimising Clients' Compliance Costs
- Building an Efficient Organisation
 - Financial Position
 - Cross Line Interdependencies/Shared Services
- Building an Adaptive Organisation
 - Individual Performance Management
 - Cultural Work
 - Staffing sustainability
 - Significant people issues.

3.15 The ANAO found that the ATO Executive routinely monitored a much broader range of performance than that captured by its four budgetary outputs. Internal reporting to ATO management by BSLs was driven, not by progress reports on outputs, but by its progress against the broader ATO framework of ‘outcome deliverables’ shown in Figure 3, Chapter 2—ATO Outcome and Outputs Framework.

3.16 As discussed earlier in this report, ideally, outputs should reflect key agency deliverables. In reality, the ATO has grafted output reporting, from a narrower financial and budgetary context, onto a richer management reporting format that deals with a much more diverse range of ATO products and services.

Reporting output performance

3.17 The ATO PBS includes quantity and quality measures by which ATO delivery of each of its four outputs is to be assessed. The ANAO reviewed how each of these measures was reported in monthly performance reports and bi-annual governance reports. Ideally, the quantity and quality of outputs would be monitored and reported at intervals during each year and these reports aggregated into an Annual Report on performance.

3.18 The ANAO found internal management reporting on outputs was uneven and that there were certain measures that were not reported on by any BSL. Reporting on the *Provide revenue* output was the most consistent. Nonetheless, the ANAO considers that the ATO could benefit from monitoring, managing and reporting its revenue collection on a full accrual basis, consistent with its reporting of revenue in its Annual Report financial statements. Reporting on the outputs *Transfers* and *Cross Agency Support* was weakest.

3.19 Measures that were not reported by any BSL included areas of performance that the ANAO considered to be important. Examples include:

- under the output, *Contribute to policy advice and legislation*, the quality measure *accuracy of revenue estimates current standards maintained* was not reported;
- under the output, *Provide revenue*, the quality measure: *Percentage of tax collected on time—current standard maintained* was not reported; and
- none of the quality measures for the output *Transfers* was reported on.

3.20 Reporting was also uneven against the output *Provide revenue*. For example, under Revenue, the level of overdue debt was reported in a variety of ways that were not comparable across BSLs.

3.21 The ATO Executive sets the parameters for reporting by BSLs. From the range of management reporting by BSLs to the Executive, it would appear that the outputs may be too narrowly defined to fully reflect the range of services and risks managed by the ATO. This would indicate, as discussed in Chapter 2, that the current ATO budgetary outputs do not provide a complete picture of key ATO activities. As discussed earlier in the report, in order to provide Parliament with a more complete summary of its key activities and expenditure, the ATO needs to consider a more complete description and more detailed disaggregation of its outputs.

Output Targets

3.22 The ANAO found that a significant gap in the ATO performance framework was a general lack of targets set for the delivery of outputs. Targets for performance would assist the ATO to better monitor its progress towards meeting output commitments set out in the PBS and Pricing Agreement.

3.23 The ANAO considered that specifying performance targets could provide the ATO with a more focused analysis of its progress in delivering outputs and help it identify underlying areas for improvement. Reporting against targets should include:

- the extent to which targets have been reached;
- the scale of any deviations from given targets;
- possible reasons for deviations; and
- action necessary to correct a deviation to reach a given target.

Recommendation No.7

3.24 The ANAO recommends that to support accountability, and to define performance goals for staff, the ATO:

- publish clear targets for the delivery of each output measure in the PBS; and
- report on its performance in the Annual Report against targets, including the extent to which targets have been reached; the scale of any deviation from targets; possible reasons for deviation; and action necessary to achieve its targets.

*ATO response***3.25** Agreed with qualification.

The ATO agrees that performance targets assist with planning, resource allocation and performance management. In view of the demands of tax reform, 'maintain performance' in relation to the previous year has been set as a global target for 2000–01, with some exceptions where specific targets have been set. The ATO will continue this approach for 2001–2002.

Where possible, the ATO monitors and reports achievement through trend data and this indicates the direction and magnitude of deviation from the target.

The ATO agrees that the Annual Report should outline key strategies in place to achieve performance and explain any deviation from expected performance.

ATO measurement of outputs

3.26 As part of the audit, the ANAO examined the way in which the ATO manages the monitoring and measurement of outputs. It also reviewed a sample of its output measures. Based on the ABS' expertise and experience in conducting national statistical collections, the ANAO contracted this organisation to provide advice on this aspect of performance reporting.

ATO coordination of performance measurement

3.27 A team in ATO Corporate Directions coordinates the overall design of annual strategic plans, the format for performance reporting in monthly and governance reports to the ATO Executive, and the content of the Annual Report. At the divisional level there are assurance teams in each BSL responsible for overall reporting/assurance processes for each line.

3.28 Sound performance information allows managers to determine whether resources are being directed towards the achievement of desired outcomes and outputs in the most efficient and effective manner. As well as providing a basis for informed decision making, it is also an early warning system enabling managers to undertake preventative action. If the performance information being collected does not assist with improving performance and accountability then it becomes a costly exercise with no return.

3.29 For performance information to be coherent and useful, it generally needs to be able to be used in concert with other sources of information. Therefore, performance indicators should be consistent in their concepts and definitions. This can be achieved through the use of data dictionaries, classifications and standards. Defining terms referred to in the definitions of the performance indicators, such as Budget estimates, not only ensures readers' understanding of the measure, but ensures comparability over time through using the same way of measuring at different time points.

3.30 While the ATO has not developed specifications, such as a glossary of terms or a data dictionary, to ensure consistent interpretation of outcome and output performance indicator terminology, a common format or template for reporting, listing specific performance measures required, has been disseminated to ATO assurance teams by Corporate Directions.

3.31 As discussed earlier, the ANAO considers that there would be considerable benefit in defining and specifying more clearly the components of outputs and to ensure consistent interpretation of performance measures and/or assessment both within the ATO and by stakeholders.

3.32 The audit observed that measurement of output performance is most effective in relation to Revenue, where both quantity and quality measures specified in the PBS have long-standing linkages to the ATO financial recording systems. There was less evidence of ATO-wide measurement methodologies, counting rules and audit trails being in place to ensure accurate measurement of progress against the other three outputs.

3.33 In relation to some output measures, Corporate Directions, in consultation with BSLs, has identified and promulgated methodologies to be used for measurement of performance against outputs.

3.34 The ANAO suggests that, to support transparency and accountability, ATO Corporate Directions identify Business, Service and Production Lines' contributions to each ATO output, and in consultation with assurance teams develop appropriate measures of output performance to be reported consistently by all relevant Lines.

Recommendation No.8

3.35 The ANAO recommends that, to improve the clarity and accuracy of its performance measurement, the ATO develop a data dictionary of the terminology used in its outcome and outputs framework; promulgate ATO-wide measurement methodologies and counting rules; and ensure appropriate audit trails are maintained of its progress against outputs.

*ATO response***3.36** Agreed with qualification.

The ATO agrees to develop a data dictionary of terminology used in its outcome and outputs framework. For new performance measures, ATO-wide measurement methodologies and counting rules will be promulgated. For existing measures, data may come from a number of different systems and the systems changes required to ensure uniformity may not be practicable. This will be addressed to the extent possible, given the resource implications.

Robust audit trails are in place through our financial systems for our Revenue and Transfers outputs.

This recommendation will be incorporated into the review of the ATO outcome and outputs framework for the 2002–05 Pricing Agreement.

ATO output performance measurement

3.37 As part of the audit the ANAO examined how the ATO measured a sample of specific quantity and quality measures. One measure was selected from each of three of the four outputs:

- from the *Contribute to policy advice and legislation* output, measurement of the quality of client satisfaction was reviewed;
- from the *Provide revenue* output, the quantity measure: *Tax collected as a percentage of estimate—current standard maintained*, was examined; and
- from the *Support other agencies* output, both quantity and quality measures included in MOUs were reviewed.

Contribution to policy advice and legislation—client satisfaction

3.38 The audit found that client satisfaction was assessed only in relation to one component of this output, that is, services to Ministers and Parliament by ATO Ministerial and Parliamentary Services Unit. The quality of client satisfaction with other elements of the output—conduct of strategic research/risk assessment, provision of policy advice and design and development of legislation, were not measured or assessed.

3.39 A review of client satisfaction with ministerial and parliamentary services was managed by the Office of the Chief Tax Counsel (OCTC) Service Line. The findings were reported to ATO Corporate by the assurance team including in summary form through monthly, governance and annual reporting.

3.40 The ANAO noted that this review of client satisfaction was in line with the better practices recommended by the ANAO in 1999.⁶⁵ The Parliamentary Business Branch in OCTC had redesigned its systems to meet better practice standards suggested by ANAO.

3.41 Ministerial staff in the Treasurer and Assistant Treasurer offices were sent a questionnaire at the end of every parliamentary sitting, asking them to indicate their level of satisfaction with services provided against agreed standards of presentation, content and timeliness. They were asked to rate the provision of ministerials, minutes/briefings, Question Time briefs, questions on notice, material provided for estimates/committees, follow-up from Question Time, general support and service for parliamentary business, and professionalism. Ratings were Poor, Good or Excellent.

3.42 Department of Prime Minister and Cabinet was also surveyed to ascertain its level of satisfaction with ATO material and coordination.

3.43 The ANAO considered that the methodology for these surveys, their frequency and reporting was of a high standard. Similar measures could be developed to provide assurance of client satisfaction with strategic research/risk assessment, provision of policy advice and design and development of legislation.

3.44 The ANAO also undertook compliance testing in relation to the ATO's performance reporting in its Annual Report concerning its Ministerial and parliamentary services under the output *Contribution to policy advice and legislation*. The audit found that the ATO had adequate audit trails in place concerning its performance and had accurately reported performance.⁶⁶

Revenue—quantity measure of tax collected as a percentage of estimate

3.45 Although calculation of this measure of quantity is a relatively simple matter, the audit found that ATO reporting against this measure in its Annual Report lacked transparency. The budget estimate used by the ATO to calculate its performance against this measure in its Annual Report 1999–2000⁶⁷ could not be found in the ATO PBS 1999–2000.

⁶⁵ Australian National Audit Office, *Better Practice Guide to Managing Parliamentary Workflow*, 1999.

⁶⁶ The ANAO noted that the Commissioner of Taxation, *Annual Report 1999–2000* reported a figure of 3800 ministerials produced in 1999–2000 (page 42) however, the actual audited figure was 2800 ministerials. The ANAO accepted ATO advice that this was a typographical error.

⁶⁷ Commissioner of Taxation; *Annual Report 1999–2000*, p. 32, Table 3.5 Comparison of 1998–99 results, 1999–2000 Budget estimates and actual results.

3.46 The ANAO recognises that there are numerous ways to present budget information. However, in the interests of transparency, consistency and accountability, the ANAO suggests that information in ATO Annual Reports be presented in a format that Parliamentarians can easily compare with information contained in Budget papers.

Cross Agency Support—quantity and quality measures in Memorandums of Understanding (MOUs)

3.47 An area of increasing strategic importance in the APS is that of cross-portfolio cooperation between agencies working towards common or shared outcomes. There are a number of agencies with whom the ATO co-operates to deliver shared outcomes. These include Australian Customs Service (ACS); Australia Post; Centrelink; ABS; AUSTRAC; Child Support Agency; Wool Board; Departments of Family and Community Services, Education Training and Youth Affairs, Immigration and Multicultural Affairs, and Veterans Affairs, and various law enforcement agencies. An essential mechanism for developing effective partnerships with these diverse agencies has been the exchange of MOUs.

3.48 The audit found that ATO Corporate Directions did not keep copies of MOUs, instead MOUs were managed within individual BSLs. There were no guidelines in the ATO covering the design and content of MOUs, or the inclusion in them of requirements for reporting on performance.

3.49 The ANAO examined six current MOUs. Five of these (those with Centrelink, AUSTRAC, ABS, CSA and Immigration and Multicultural Affairs) did not specify performance standards, performance measurement and reporting or measurement review.

3.50 In some instances the timetables included in MOUs for reporting performance were not aligned with the ATO reporting cycle, for example, in one MOU, Small Business BSL undertook to report to CSA every three months on payments of child support. While there may be sensible reasons for this cycle, data collection on MOUs could be better aligned with the ATO monthly/bi-annual reporting cycle to provide timely and consistent data on performance.

3.51 The ANAO noted that MOUs could be improved to ensure that they made partnerships between agencies more effective and encouraged the partners to be more responsive to new developments. MOUs could be used as a strategy to improve overall performance whilst managing individual, as well as shared risks, corporate governance and reporting of performance information.

Recommendation No.9

3.52 The ANAO recommends that, to ensure effective governance of its strategic partnerships with other agencies, the ATO develop suitable guidelines for the design and content of its Memorandums of Understanding (MOUs), including requirements for performance standards, measurement and reporting.

ATO response

3.53 Agreed.

The ATO is developing standard terms and conditions for MOUs and managing the MOU process. This will increase transparency of performance reporting for Cross Agency Support.

The audit identified the following better practices in framing MOUs:

Better practice in framing Memorandums of Understanding (MOUs)

An effective MOU will:

- focus on clearly setting out the agreed arrangement between agencies;
- recognise that while the MOU is not legally binding on the parties, its objective is to establish a clear working framework for the arrangement between agencies;
- specify the objective of the MOU and the shared outcomes that are sought through the partnering arrangement;
- avoid the overuse of legalistic language;
- name the parties to the agreement;
- define terms used in the MOU;
- set out the objectives and shared outcomes;
- identify relevant legislation and policies;
- specify the period of the agreement;
- describe the arrangements, services or goods to be covered by the MOU;
 - set out the arrangements, services or goods;
 - service levels and performance standards, for example, quality, quantity, frequency, response times, service delivery targets, any specific data requirements and communication links;
 - method of operation; and

- define and agree on measurements and monitoring of performance;
- describe any financial arrangements including:
 - financial or cost recovery arrangements;
 - penalties or sanctions - for poor or non-performance; and
 - payment terms;
- describe administrative arrangements including:
 - specifying procedures and conditions about secrecy, security, access to data, privacy and return of documents; and
 - delegations and authorisations;
- describe a review of services including:
 - periodic review, variation and amendment;
 - review arrangements against service levels and agreed performance measures;
 - evaluation and feedback;
 - objectives for continuous improvement; and
 - external performance reporting for example, in the PBS and Annual Report;
- provide for problem solving including:
 - nominating agency representatives;
 - the method and timetable for resolution; and
 - an escalation path;
- termination;
- nominate contact officers; and
- schedules (for example of services and service levels).

4. ATO Annual Reporting of Outputs

This chapter reviews ATO performance reporting in its 1999–2000 Annual Report, examining both the quality of reporting and the extent to which it was consistent with the performance reporting framework published in the 1999–2000 PBS.

Introduction

4.1 Annual Reports and PBS are the principal external reports produced by agencies to report on their performance and to demonstrate accountability for their expenditure of public monies. They form part of the spectrum of reporting, accountability and best practice management requirements prescribed for agencies.

4.2 PBS are authorised by Ministers for use by the Parliament in consideration of the Budget. PBS set out performance targets for agency outcomes and outputs when funds are appropriated. Annual Reports report on achievement of these targets.

4.3 The Department of Prime Minister and Cabinet has issued *Requirements for Annual Reports* (approved by the Joint Committee of Public Accounts and Audit).⁶⁸ The requirements apply to Annual Reports for departments of state pursuant to the *Public Service Act 1999*.⁶⁹ As a matter of policy, they also apply to prescribed agencies including for example the ATO, under the *Financial Management and Accountability Act 1997*.⁷⁰

4.4 Requirements for Annual Reports⁷¹ are designed to ensure that they contain a core set of information to ensure that accountability requirements are met and to provide consistency for readers. Revised guidelines, issued in May 2000, required agencies to include in their Annual Report:

- the department’s outcomes and outputs structure;
- as a transitional requirement for 1999–2000, a map from the former

⁶⁸ Annual report requirements prepared pursuant to subsections 63(2) and 70(2) of the *Public Service Act 1999* were approved by the Joint Committee of Public Accounts and Audit on 5 April 2000.

⁶⁹ *Public Service Act 1999*, s. 63(2) and s. 70 (2).

⁷⁰ *Financial Management and Accountability Act 1997*, s. 5.

⁷¹ Department of Prime Minister and Cabinet, op. cit.

program structure and how it aligns with the new outcomes and outputs structure; and

- a report on performance against the specific performance measures or assessments set out in the PBS.

4.5 The ANAO views annual reporting by agencies as a key component of their accountability to stakeholders. As previously stated, it considers that external reporting by agencies should give priority to the requirements of its stakeholders as follows:

the purpose of external financial reports and annual reports is to disclose to users, who are not in a position to command special purpose reports, information for decision making and accountability purposes.⁷²

4.6 ATO stakeholders are many and varied, including:

- Parliament—which represents citizens and passes legislation;
- Ministers—Treasurer and Assistant Treasurer, responsible to Parliament for the ATO;
- central agencies, in particular Treasury and Finance whose operations rely on the ATO collection of tax in line with estimates;
- international interests—tax treaties impose obligations on the signatories;
- citizens—the achievement of the ATO outcome and outputs have an impact on the whole Australian community;
- taxpayers—the ATO needs to deliver efficient and effective tax collection services for taxpayers;
- tax professionals—ATO information flows, processes and regulatory policy will influence the viability of tax professionals in a number of disciplines;
- employees—successful performance by the ATO will impact on job security and professional development of its employees;
- external review bodies such as the ANAO and Ombudsman—high quality reporting of performance by the ATO will enable a more efficient and reliable accountability process;
- ATO management—has a vital role in the implementation of decisions made by the ATO Commissioners and the daily running of the ATO; and
- ATO Commissioners—legally responsible and ultimately accountable for the performance of the ATO.

⁷² *Implementing Best Practice External Reporting*, speech by Ian McPhee, Deputy Auditor-General, 18 May 1998.

4.7 The ATO Annual Report is a key mechanism for assessment of ATO performance under its Pricing Agreement with Finance. Section 6 of the ATO Pricing Agreement, *Obligations on the Australian Taxation Office*, sets out obligations relating to the level of detail of reporting in the Annual Report as follows:

Performance information for the ATO's outcome and four outputs will be detailed in the annual Portfolio Budget Statements. Reporting of the ATO's achievement against the outcome and the four outputs will be provided to Government in the ATO's Annual Report.

4.8 Annual Reports endeavour to provide succinct and sufficient information to meet the needs of a wide range of users. While meeting these various requirements, agencies have discretion on the level of emphasis and of detail they give to specific areas of content.

4.9 The audit reviewed ATO performance reporting in its 1999–2000 Annual Report against the revised guidelines for reporting on outcomes and outputs included in the *Requirements for Annual Reports* issued in May 2000. We examined the extent to which ATO reporting on outputs in its Annual Report corresponded with quantity and quality measures published in the PBS, and also the quality of ATO reporting.

ATO reporting under revised annual reporting guidelines

4.10 ATO Annual Report 1999–2000 conformed to revised guidelines for reporting under the new framework. It included a map of the ATO outcome and outputs structure against one of the former program structure, showing the relationship between the two. The Annual Report included a report on ATO performance against measures set out in the PBS, discussed in more detail in the following section.

ATO reporting on PBS performance measures in the Annual Report

4.11 The ANAO found reporting in the ATO Annual Report 1999–2000 on output performance measures specified in the PBS was uneven and incomplete. The quality of reporting in some instances could be improved.

4.12 Chapter 3 of the ATO Annual Report, *Performance*, sets out the ATO's four budgetary outputs and the quantity and quality measures published in the PBS. The opening paragraph states:

this chapter reports the ATO's performance in 1999–2000 in relation to our single outcome and its four related outputs.

4.13 The audit found that, while the performance measures specified in the PBS were listed at the beginning of a section on each output, in numerous instances there was no further mention or report on performance against that measure. A number of those were quantity and quality measures that had not been reported in monthly and governance reports to the ATO Executive (previously discussed in Chapter 3—ATO Management within its Outcome and Outputs Framework).

4.14 Under the *Contribution to policy advice and legislation* output, the measure *Accuracy of revenue estimates—current standard maintained*, is not reported. The Annual Report limits these estimates to costings associated with tax reform, noting that ‘it is too early to tell the degree to which the estimated costings associated with tax reform are accurate.’⁷³ However, the ANAO noted that, in ATO monthly executive reports, BSLs routinely report on the progress of revenue collection against estimates.

4.15 The audit also found that reports on performance of output measures were included in other parts of the Annual Report and were not cross-referenced to the chapter on *Performance*, making it difficult for the reader to find, or put together, a complete report on performance against outputs. For example, information on key measures such as *Tax collected as a percentage of estimate*; *Percentage of tax collected on time*; and *Improved professionalism in field operations and debt collection* was presented in the Commissioner’s Overview without cross-reference to the chapter on performance against outputs.

4.16 Some performance indicators were reported in graphs. Several key graphs were ambiguous in that it was not clear what the data were representing. Many had only minimal explanatory commentary. For example: *Tax collected as a percentage of estimate—current standard maintained*.⁷⁴ The title of this graph does not specify clearly the data being presented. A more appropriate title might be ‘Variation in percentage difference between tax collected and Budget estimates’. The graph shows data ranges from less than 1 per cent in 1996–97 to more than 4 per cent in 1991–92, and the Report comments that the ‘ATO continued to improve its ability to predict revenue collections’. This claim is based on a trend line through the data. However, the audit found that the variations shown in the graph demonstrate a steady increase from 1996–97 to 1999–2000. More importantly, the performance measure does not actually refer to trend levels, and so cannot be assessed using a trend line. *Improved professionalism in field operations and debt collection* is reported by a graph showing survey results of ATO professionalism. It does not refer to field operations and debt collection.

⁷³ Commissioner of Taxation, *Annual Report 1999–2000*, p. 41.

⁷⁴ Information in relation to this performance measure is provided in the Commissioner of Taxation, *Annual Report 1999–2000* as *Figure 1.4 – Variation from budget estimates* on page 10.

4.17 A number of performance measures referred to maintaining standards of particular outputs. While it is appreciated that many of the performance indicators are quality measures, their usefulness would be greatly enhanced by quantifying acceptable standards. Maintaining a low standard, for example, is not necessarily a good performance, whereas maintaining a high standard is. These two situations are not differentiated by the measures as they stand.

4.18 Another key omission in reporting on performance of outputs in the Annual Report was that where the report indicated that an ATO output had not met a specific target, the reasons were not provided.

4.19 The ANAO considers that the ATO could improve the usefulness of its annual reporting on outputs by:

- reporting against each performance indicator set down in the PBS and in the same order;
- focusing on results and discussing results against expectations;
- explaining changes over time; and
- ensuring that graphic presentation of performance information is relevant, clearly labelled and annotated where necessary to ensure clarity.

Recommendation No.10

4.20 The ANAO recommends that to ensure that information on its performance measures is complete, and that it can be readily aggregated for inclusion in the Annual Report, the ATO realign its internal performance monitoring and data collection to address the quantity and quality measures specified in the PBS.

ATO response

4.21 Agreed with qualification.

The ATO is undertaking an internal review of its governance process and is preparing to implement the recommendations. This ANAO recommendation will be taken into account as part of that review.

4.22 The audit identified the following better practices in annual reporting on performance:

Better practice in annual reporting on performance

Annual Reports provide clear information on:

- agency objectives, outcomes and outputs;
- programs and strategies the agency has in place to deliver outputs and achieve outcomes;
- performance targets
- performance achieved over the twelve month period;
- reasons for any variations between expected and actual performance; and
- strategies to improve performance.

Better practice in annual reporting on performance

A useful guide to performance information for annual reports was published by the Audit Office of New South Wales in 2000. It emphasises that annual reports should:

- *report objectives that are clear and measurable;*
- *focus on results and outcomes;*
- *discuss results against expectations;*
- *be complete and informative;*
- *explain changes over time;*
- *provide evidence of value for money; and*
- *discuss risks, strategies and the external operating environment.*⁷⁵

⁷⁵ The Audit Office of New South Wales, *Better Practice Guide Reporting performance: a guide to preparing performance information for annual reports*, 2000, p. 2.

Better practice in annual reporting on performance

Graphs need:

- a title showing the population, time frame and data being presented;
- labels on both horizontal (X) and vertical (Y) axes;
- labels specifying units of measurement used for X and Y axes;
- a legend, where more than one category is being presented;
- footnotes, as applicable; and
- acknowledgment of the source of the data.



Canberra ACT
6 June 2001

P. J. Barrett
Auditor-General

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