

The Auditor-General
Audit Report No.11 2003-04
Performance Audit

Annual Performance Reporting

Australian National Audit Office

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Canberra ACT
4 November 2003

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Annual Performance Reporting*.

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



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

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

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Abbreviations

ANAO	Australian National Audit Office
APS	Australian Public Service
Customs	Australian Customs Service
DCITA	Department of Communications, Information Technology and the Arts
DEST	Department of Education, Science and Training
DEWR	Department of Employment and Workplace Relations
DIMIA	Department of Immigration and Multicultural and Indigenous Affairs
FMA Act	Financial Management and Accountability Act 1997
JCPAA	Joint Committee of Public Accounts and Audit
PBS	Portfolio Budget Statements
PM&C	Department of Prime Minister and Cabinet
PS Act	Public Service Act 1999

Summary and Recommendations

Summary

Background

1. Australian Public Service (APS) agencies are required to prepare an annual report that is tabled in Parliament. In accordance with section 63(2) of the *Public Service Act 1999*, annual reports must comply with requirements that have been approved by the Joint Committee of Public Accounts and Audit (JCPAA). The Department of Prime Minister and Cabinet (PM&C) prepares these requirements.
2. The PM&C *Requirements for Annual Reports*¹ define their purpose as follows:

The primary purpose of annual reports of departments is accountability in particular to the parliament.
3. Annual reports should therefore inform Parliamentarians and other stakeholders about the performance of the agency and act as a key reference document.
4. The objectives of this audit were to determine whether agencies had:
 - established a sound annual reporting performance information framework;
 - developed arrangements to ensure performance information is accurate and coherent; and
 - appropriately analysed performance information in their annual reports.
5. The audit focused on whether overall characteristics were demonstrated in annual reports to make them appropriate instruments of accountability.²
6. The audit involved:
 - an assessment of selected sections from the annual reports of five agencies against criteria for sound reporting;
 - review in those agencies of the organisational arrangements for the coordination of the annual report, and data quality and assurance arrangements for performance information in the annual report; and
 - detailed testing of an indicative sample of performance data.

¹ Department of Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, June 2002, Part 2, Section 5.

² The audit criteria, along with a summary of whether they were broadly met by agencies, are listed in tables towards the beginning of chapters 2, 3 and 4.

Key findings

Annual reporting performance information framework (Chapter 2)

7. Generally, outcomes, agency outputs and administered item outputs³ were well specified in the sections of the annual reports reviewed. Outcomes tended to be clearly stated and the expected impact and the target groups were defined. Also, specification of outputs/administered items generally was clear and identified the products and services to be delivered.
8. The achievement of outcomes in each of the agencies examined relied on the efforts of a range of stakeholders, and this was acknowledged in the annual reports. However, there was little or no performance information that related to the individual contributions of each agency, and other stakeholders, to the achievement of the shared outcomes.
9. In a number of instances, agencies did not have suitable performance measures relating to the quality of outputs/administered items or effectiveness/impact indicators for outcomes.
10. However, performance indicators used in the sections of annual reports reviewed were generally appropriately defined. That is, generally, the indicators measured what they purported to measure and had supporting methodologies and assumptions that were clearly identified, including data sources for those indicators.
11. The performance information frameworks of many of the agency reports examined were not structured to allow an assessment of the efficiency of agency operations and the cost effectiveness of outputs delivered.
12. Also, targets or other bases for comparison for performance indicators were not being widely used.

³ The Department of Finance and Administration provides the following definitions of outcomes, outputs and administered items:

Outcomes: The impact sought or expected by government in a given policy arena. The focus is on change and consequences: what effect can the government have on the community, economy and/or national interest.

Outputs: The actual deliverables—goods and services—agencies produce to generate the desired outcomes specified by government.

Administered items: 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. Administered items are identified separately from departmental items (that is, departmental outputs) because they involve different accountability requirements.

(*The Outcomes and Outputs Framework Guidance Document*, November 2000, <http://www.finance.gov.au/budgetgroup/commonwealth_budget_-_overview/the_outcomes___outputs_frameworko.html>; word version—pp. 10, 19 and 16)

Data assurance arrangements (Chapter 3)

13. In each agency reviewed, there was a central coordination area and senior-level approval processes for the annual report that aimed to ensure all levels of information in the annual report were accurate, coherent and consistent. As well as having coordination responsibilities, most of these central areas had implemented specific strategies to review and improve the process for production of the annual report.

14. In addition, to assist with ensuring the accuracy and relevance of performance information, the areas within agencies responsible for the delivery of outputs were also responsible for signing off the performance information in the annual report.

15. Most agencies had not developed standards and procedures in relation to data quality and coherence. This meant that there were no established minimum expectations of, or bases for improvement in, data quality and coherence.

16. However, despite the frequent absence of data quality standards, testing of selected performance indicators by the ANAO found that the agencies had established performance information management arrangements to produce accurate information in internal and external reports. Establishing and monitoring data quality standards would assist agencies to ensure that this situation is maintained. The ANAO suggests, therefore, that agencies consider implementing such arrangements.

17. Each agency reviewed used costing models to attribute costs to outputs and outcomes. The methodology and assumptions in the costing models were appropriate to produce accurate and reliable calculations of output and outcome costs. Also, testing by the ANAO found that the quality assurance control frameworks for costing information in the agencies were adequate.

18. However, costing system documentation and procedures covering such matters as user instructions, administration of the system and backup and recovery had not been compiled for the costing models being used by the agencies. Improvement in agencies' documentation of costing approaches would remove an unnecessary risk to the generation of important financial information by reducing reliance on the knowledge of key individuals.

19. The budgeting approaches in the agencies exhibited appropriate features in line with criteria for sound budgeting.⁴

⁴ These criteria are listed at paragraph 3.19.

20. In a number of agencies, the production of internal and external performance information reports did not use the same systems and processes. During the course of the audit, the ANAO suggested that each of these agencies review their internal and external reporting frameworks with a view to achieving correlation between the two. This would be likely to enhance the accuracy, coherence and consistency of reported performance information, and could lead to operational efficiencies.

Presentation of results (Chapter 4)

21. While annual reports should present results and analyse performance information, the ANAO found that the sections reviewed during the audit generally only provided descriptive information about activities. Agencies also frequently provided performance information in tables and charts but did not specifically analyse this information in their discussions of performance. As well, in one agency, the complex presentation of information in the annual report would, in the ANAO's view, make assessment of its performance difficult for the reader.

22. As targets or other bases for comparison were not being widely used, it was generally not evident whether reported performance was above or below expectations. Where targets or other bases for comparison were included, agencies did not always analyse the relevant performance information in relation to them. Where it was obvious that performance had not met expectations, agencies generally only reported on positives and did not discuss areas where performance had not met expectations.

23. Trend information on non-financial performance was provided in the sections of the annual reports reviewed so that comparisons of some aspects of non-financial performance over time could be made. However, this was mostly high-level industry or sectoral information that, although it was relevant, did not relate directly to the agency's specific performance. That is, the reader would not be able to see trends in performance against agency-specific standards and targets. In addition, agencies did not actually analyse this trend information in the annual report to demonstrate their performance, therefore leaving it to the reader to draw their own conclusions.

24. In relation to financial performance, no information on trends was provided in the annual reports reviewed. As well, in a number of instances, there were problems with the discussion and/or presentation of results to allow comparisons of actual and budgeted expenditure. As a result, it was not possible to determine whether the agency's financial performance was in accordance with expectations, or the implications for the agency's outcomes and outputs.

25. As discussed in paragraphs 8 and 9 above, agencies were experiencing difficulty in measuring and reporting quality and effectiveness/impact indicators. Evaluations can be useful in leading to development of measures in these areas. Although most agencies undertook a range of evaluations, the results of these were frequently not discussed in the annual report. Therefore, evaluations were not being used to support performance reporting in the annual report by providing information on quality and effectiveness that was otherwise not available.

26. The ANAO found that, overall, agencies had linked results reported in the annual report to commitments made in the Portfolio Budget Statements (PBS) and explained changes made in their outcomes and outputs frameworks in their annual reports. They also substantially complied with the *PM&C Requirements for Annual Reports*, although it should be noted in this regard that the audit assessment process provided a satisfactory rating if there was evidence that a particular requirement had been covered in the annual report. The ANAO assessment did not attempt to judge the appropriateness or otherwise of that coverage. However, certain of the PM&C requirements (for example, demonstrating trends in performance and providing an analysis of performance) are covered by some of the other audit criteria used to assess the performance information frameworks and analysis of results in annual reports.

Overall audit conclusion

27. The ANAO concluded, on the basis of the sections of the five 2001–02 annual reports reviewed, that outcomes, agency outputs and administered item outputs were well specified in most instances. However, in order to provide accountability and transparency to Parliamentarians and other stakeholders, agencies' annual reporting frameworks need to be improved, particularly in relation to:

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

28. Performance information generally had not been presented and analysed in annual reports in a way that would allow Parliamentarians and other stakeholders to interpret and fully understand results. Particular issues concerned the need for annual reports to:

- provide an analysis of performance, rather than list activities;
- assess performance against targets or other bases for comparison;

- provide and review trends in non-financial and financial performance; and
 - use the results of evaluations where appropriate to provide performance information on quality and effectiveness.
29. In these circumstances, annual reports did not fully meet their primary purpose of accountability, particularly to Parliament.
30. Agencies had developed arrangements to provide performance information in those areas of the annual reports examined that was accurate, coherent and consistent. However, establishing and monitoring agency data quality standards, improvement in documentation of costing approaches, and a review by particular agencies of the correlation between their internal and external reporting frameworks, would assist agencies to ensure that performance information in future annual reports continues to be accurate, coherent and consistent.

Agency Responses

31. The ANAO made two recommendations to improve accountability for, and transparency of, results in agencies' annual reports. All agencies agreed to the recommendations, except the Department of Employment and Workplace Relations (DEWR). DEWR agreed with qualification to part of Recommendation No.1 made in chapter 2 of this report. The agencies individual responses are as follows.

Australian Customs Service (Customs)

32. Customs agreed to the report's recommendations and made the following comments:

Customs welcomes the draft report. Progress in implementing recommendations which impact on Customs will be reported through the Audit Committee on which the ANAO is represented.

Department of Communications, Information Technology and the Arts (DCITA)

33. DCITA agreed to the report's recommendations in this report and made the following comments:

The Department of Communications, Information Technology and the Arts has developed a new outcome and output structure, including revised performance indicators for the use from 2003–04 onwards. This structure more closely reflects its activities and the new performance indicators will further improve future performance reporting.

In 2002–03, the Department worked towards enhancing accountability and transparency in the Annual Report by improving the reporting of effectiveness for each outcome and increasing the reporting of data which allows comparisons to previous years.

The Department is also working towards reporting which includes greater analysis of performance and less description of activities and increased reporting on the results of evaluations in the 2002–03 report.

Department of Education, Science and Training (DEST)

34. DEST agreed with the two recommendations and made the following comments:

In general, the audit process was found to be very useful in highlighting areas for improvement and alternative approaches to the collection and reporting of performance information. The department has worked closely with ANAO staff to address a number of the issues identified in the report during the preparation of the department's 2003–04 Portfolio Budget Statements and 2002–03 Annual Report.

Department of Employment and Workplace Relations (DEWR)

35. DEWR agreed to the recommendations with the exception of part (b) (iii) of Recommendation No. 1 to which DEWR agreed with qualification. Overall, DEWR made the following comments:

Prior to the conduct of the audit, the DEWR Management Board had reviewed the department's approach to the development of its 2001–02 Annual Report and, as a result implemented a number of changes to further refine the development processes of the 2002–03 Annual Report. In addition, the department had progressed refinements to: the descriptions of outcomes; selection and means of measurement of effectiveness indicators; and, improved output performance information through quality and quantity indicators with measurable targets. These refinements have in part been informed by the results of evaluations undertaken by the department.

Department of Immigration and Multicultural Affairs and Indigenous Affairs (DIMIA)

36. DIMIA agreed with the two recommendations made in this report. DIMIA advised that:

The findings in the performance report were timely and of assistance in reviewing annual reporting in the Agency. DIMIA agrees in general with both recommendations. The issues raised in the report will be considered in future reviews of our annual reporting, mindful that the nature of our business and our operational environment may impact on our capacity to report on performance in line with all of the suggestions made.

Better practice guide

37. To assist agencies to develop their annual reporting performance information frameworks and analysis, the ANAO is jointly preparing, with the Department of Finance and Administration a Better Practice Guide on this subject. The Better Practice Guide is scheduled for publication in early 2004.

Recommendations

The ANAO made two recommendations to improve accountability for, and transparency of, results in agencies' annual reports, with particular reference to their performance information frameworks and presentation and use of performance information to analyse results.

**Recommendation
No.1
Para No. 2.34**

To enhance accountability and transparency, the ANAO recommends that agencies improve their annual reporting performance information frameworks by:

- a) using intermediate outcome and/or explanatory text to better specify their own influence on, and contribution to, broadly stated or shared outcomes;
- b) addressing all aspects of performance, especially:
 - i) the quality of outputs and administered items;
 - ii) indicators of effectiveness/impact; and
 - iii) the efficiency of agency operations and the cost effectiveness of outputs delivered; and
- c) including performance indicators that have targets and/or other bases for comparison.

Customs' response: Agreed.

DCITA's response: Agreed.

DEST's response: Agreed.

DEWR's response: Agreed, with qualification in respect of part b) iii.

DIMIA's response: Agreed.

**Recommendation
No.2
Para No. 4.34**

To enable Parliamentarians and other stakeholders to interpret and fully understand agency results, the ANAO recommends that, in their annual reports, agencies:

- a) provide an analysis of performance, rather than list activities;
- b) assess performance against targets or other bases for comparison;
- c) provide and review trends in non-financial and financial performance; and
- d) use the results of evaluations where appropriate to provide performance information on quality and effectiveness.

Customs' response: Agreed.

DCITA's response: Agreed.

DEST's response: Agreed.

DEWR's response: Agreed.

DIMIA's response: Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter sets out the background to the audit, its objectives, scope and methodology. It also outlines the structure of the report.

Background

1.1 Each year APS agencies are required to prepare an annual report that is tabled in Parliament. The *Public Service Act 1999* (PS Act) sets out the legislative requirement for annual reports⁵ and applies to departments, executive agencies and prescribed agencies.⁶ The *Financial Management and Accountability Act 1997* (FMA Act) supports the PS Act, requiring agencies' annual report to include financial statements and the associated Auditor-General report.⁷

1.2 The PS Act also establishes the basis for the specific requirements for annual reports. In accordance with section 63(2) of the PS Act, annual reports must comply with requirements that have been approved by the JCPAA. PM&C prepares these requirements.

1.3 The *Requirements for Annual Reports*⁸ (outlined in Appendix 1) define the purpose of annual reports as follows:

The primary purpose of annual reports of departments is accountability in particular to the parliament.

1.4 Annual reports should therefore inform Parliamentarians and other stakeholders about the performance of the agency and act as a key reference document.

⁵ PS Act, Sections 63 and 70.

⁶ Prescribed under the FMA Act.

⁷ FMA Act, part 8 section 58.

⁸ Department of Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, June 2002, Part 2, Section 5.

The audit

Reason for audit

1.5 The Parliament has demonstrated an active interest in performance reporting and its importance to accountability. For example, the Senate Finance and Public Administration Legislation Committee, in its November 2000 report on the *Format of the Portfolio Budget Statements*⁹, commented that:

Reporting on performance is a cornerstone of the accountability framework. Taxpayers and their parliamentary representatives have a right to feel confident that their dollars are not being wasted but used prudently by public sector agencies to deliver outcomes equitably, efficiently and cost-effectively.

1.6 Under Senate Standing Order 25(21)¹⁰ each of the legislation committees of the Senate is required to report on their review of the annual reports of departments and agencies. These reviews include: determining if the annual report is apparently satisfactory; reporting to the Senate on any lateness in the presentation of annual reports; reviewing annual reports of departments and budget-related agencies in conjunction with examination of estimates; and drawing to the attention of the Senate any significant matters relating to the operations and performance of the bodies furnishing the annual reports.

1.7 The JCPAA's Report No.388, *Review of the Accrual Budget Documentation*, was released in June 2002. The Review examined the structure of the outcomes and outputs framework, the continuity of financial and performance information,

⁹ The Parliament of the Commonwealth of Australia, Senate Finance and Public Administration Legislation Committee, *The Format of Portfolio Budget Statements, Third Report*, 9 November 2000 p. 37 paragraph 4.57. This can be found on the Australian Parliament House website at: <http://www.aph.gov.au/senate/committee/fapa_ctte/pbs3/report/report.pdf>.

¹⁰ Under Senate Standing Order 25(21) the annual reports of departments and agencies stand referred to legislation committees in accordance with the allocation of departments and agencies in a resolution of the Senate. Each committee is required to:

- (a) examine each annual report referred to it and report to the Senate whether the report is apparently satisfactory;
- (b) consider in more detail, and report to the Senate on each annual report which is not apparently satisfactory, and on the other annual reports which it selects for more detailed consideration;
- (c) investigate and report to the Senate on any lateness in the presentation of annual reports;
- (d) in considering an annual report take into account any relevant remarks about the report made in debate in the Senate;
- (e) if the committee so determines, consider annual reports of departments and budget-related agencies in conjunction with examination of estimates;
- (f) report on annual reports tabled by 31 October each year by the tenth sitting day of the following year, and on annual reports tabled by 30 April each year by the tenth sitting day after 30 June of that year;
- (g) draw to the attention of the Senate any significant matters relating to the operations and performance of the bodies furnishing the annual reports; and
- (h) report to the Senate each year whether there are any bodies which do not present annual reports to the Senate and which should present such reports.

the level of detail in the Portfolio Budget Statements (PBS), and the appropriateness of performance information¹¹. The JCPAA concluded that:

... the overall structure of the accrual budget documentation framework is sound. However, there will need to be continuous refinement and this may take a number of years. The Committee has a keen interest in accountability and transparency of government ...

1.8 The ANAO in its 6 September 2002 response to the JCPAA's Report No.388, indicated that it intended undertaking this audit to assess the quality of performance information in annual reports. The ANAO further advised the JCPAA that the audit was also expected to lead to the development of an approach that would assist agencies in undertaking their own assessment of outputs and outcomes with the aim of improving the quality of annual reporting to the Parliament. Accordingly, the ANAO has concurrently undertaken the development of a Better Practice Guide on annual reporting in conjunction with the Department of Finance and Administration (Finance). The Better Practice Guide is scheduled for publication in early 2004 and will include better practice approaches identified in the course of this audit.

Audit Approach

1.9 During the audit the ANAO examined the 2001–02 annual reports of five APS agencies with the objective of determining whether the agencies had:

- established sound annual reporting performance information frameworks;
- developed arrangements to ensure that performance information is accurate and coherent; and
- appropriately analysed performance information in their annual reports.

1.10 The five agencies included in the audit were the Departments of: Communications, Information Technology and the Arts (DCITA); Education, Science and Training (DEST); Employment and Workplace Relations (DEWR); Immigration and Multicultural and Indigenous Affairs (DIMIA); and the Australian Customs Service (Customs).

1.11 The focus of the audit was to identify whether the selected agencies' annual reports demonstrated the overall characteristics required to make annual reports appropriate instruments of accountability.

¹¹ The review also examined various accounting issues but these are not directly relevant to this audit and are therefore not discussed here.

1.12 The audit criteria were developed following a review of:

- the ANAO's Better Practice Guide on *Performance Information in Portfolio Budget Statements* (May 2002);
- previous ANAO audits on this topic;
- the JCPAA's Report No.388 (June 2002);
- relevant reports by the Senate Finance Public Administration and Legislation Committee;
- the PM&C *Requirements for Annual Reports*;
- Finance's *The Outcomes and Outputs Framework Guidance Document* (November 2000); and
- the Office of the Auditor-General (Canada) report on departmental performance reporting.¹²

1.13 The criteria, along with a summary of whether they were broadly met by agencies, are listed in tables towards the beginning of each of chapters 2 to 4. The audit methodology involved an assessment of selected sections from the annual reports of the five agencies against criteria for sound reporting. As well, the audit sought information on the organisational arrangements for the coordination of the annual report and data quality and assurance arrangements for financial and non-financial performance information in the annual report.

1.14 The ANAO selected an indicative sample of performance data from each agency's outcome and output framework and conducted detailed testing to determine the quality of that data, including examination of the assurance arrangements that surrounded its production. This provided a moderate level of assurance about data quality but the findings are not (generally) able to be extrapolated beyond the specific areas tested. The areas that were examined in detail in the audit are listed at Appendix 2.

1.15 Audit fieldwork was undertaken in each of the five agencies between October 2002 and March 2003. Detailed discussion papers relating to the performance of the individual agencies were provided to the agencies as the examination of the annual report and testing of financial and non-financial performance information was completed. The ANAO met with the agencies to discuss the papers and agencies' responses indicated that many of the issues raised by the ANAO are being addressed.

1.16 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$560 000.

¹² Report of the Auditor-General of Canada to the House of Commons, Chapter 6, *A Model for Rating Departmental Performance Reports*, April 2002.

Assistance to the audit

1.17 Mr Lewis Hawke (Apozema Pty Ltd) assisted with the development of the audit criteria, assessment of annual reports and preparation of the Better Practice Guide, which will be provided separately to this report.

1.18 WalterTurnbull assisted with the development of the audit criteria and detailed testing of costing and performance data, including quality assurance systems. They also assisted with preparation of the report.

The report

1.19 Chapter 2 examines the annual reporting performance information frameworks that agencies specified in their 2001–02 annual reports. Chapter 3 examines whether, in relation to performance information contained in the sections of 2001–02 annual reports reviewed, audited agencies had developed arrangements that produced accurate, coherent and consistent financial and non-financial performance information. Chapter 4 discusses how agencies have used performance information to analyse and present results in their 2001–02 annual reports.

Annual performance reporting

1.20 In undertaking this audit, the ANAO was aware of a number of factors that impact on the preparation and content of annual reports. These include:

- the need to explain the range of departmental responsibilities; and to discuss the quality, quantity and price of outputs delivered and achievements in relation to outcomes, without having a report that runs to several volumes. To achieve this, agencies must decide what are the important aspects of performance and report in relation to those;
- the difficulties of defining and measuring achievements or progress towards some outcomes in a cost effective manner. In a number of cases outcomes can take many years to achieve and the contribution to shared outcomes is both hard to define and to measure;
- the sensitivities of the parties that contribute to shared outcomes about their roles and responsibilities, particularly when different levels of government are involved;
- the difficulties in setting realistic targets or providing a basis for comparison;
- the natural reluctance many agencies have to providing an analysis of both successes and shortcomings. There needs to be an acceptance that it

is appropriate and useful to provide an objective appraisal of performance with an indication of what is being done to improve performance which is below the expected standard; and

- the fact that the annual report is not well integrated with performance reporting within agencies. Many staff, therefore, see it as an additional burden rather than a key public statement of accountability.

2. Annual Reporting Performance Information Framework

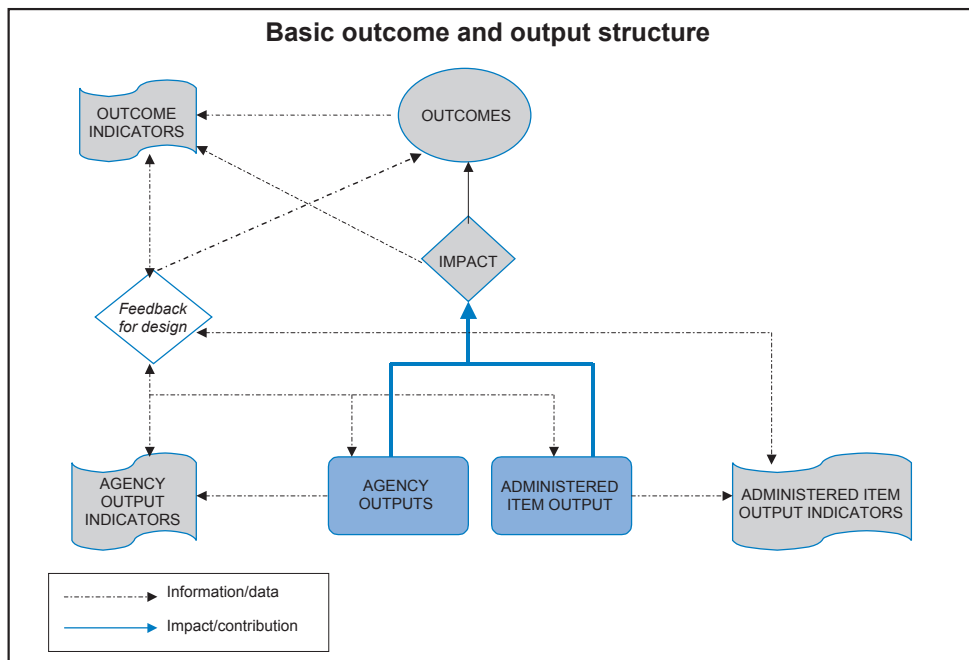
This chapter examines the annual reporting performance information frameworks that audited agencies specified in their 2001–02 annual reports.

Introduction

2.1 An emphasis of reforms in the APS over many years has been on the importance of having a sound performance framework in place to underpin accountability for results. The foundation for agency accountability and transparency is performance information, with the measures and targets presented initially in the PBS and the results provided in the annual report. Finance guidelines state that a sound framework should include clear specification of outcomes, outputs and administered items with associated performance information¹³. Figure 2.1 below sets out the framework.

Figure 2.1

Outcome and output structure and associated performance information



Source: Based on *The Outcomes and Outputs Framework Guidance Document*, Department of Finance and Administration, November 2000, p. 4.

¹³ *The Outcomes and Output Framework Guidance Document*, November 2000, <http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_Overview/the_outcomes_outputs_framework.html>; word version - pp. 10, 19 and 16.

2.2 The findings in this chapter are based on an assessment of a sample of outcomes, agency outputs, administered item outputs, and associated performance information from the 2001–02 annual reports of each of the five agencies audited.

2.3 The criteria against which these samples were tested are set out in Figure 2.2 below along with a summary of whether agencies broadly met these criteria. Following the table is a more detailed discussion against the criteria.

Figure 2.2

Audit criteria—annual reporting performance information framework

Criteria	Agency A	Agency B	Agency C	Agency D	Agency E
The performance information framework of the annual report should:					
• specify outcomes, outputs and administered items;					
• address shared outcomes and provide information on the agency's specific contribution to shared outcomes;					
• contain performance indicators that address quantity, price, quality and effectiveness/impact;					
• provide for assessment of the efficiency of agency operations and the cost effectiveness of outputs delivered; and				Not Assessed ^A	
• use realistically set and researched targets, standards and bases for comparison including multi year targets where necessary.					

Source: The audit criteria were derived from the sources listed at paragraph 1.12.

The criterion is:

- Largely not met
- Partially met
- Substantially met

Note: A—The agency advised, at the beginning of the audit, that it had recognised the need to substantially revise its outcomes and outputs structure and related performance information. Accordingly, the ANAO did not examine data quality assurance arrangements or financial performance information in depth in that agency.

Specification of outcomes, agency and administered item outputs

2.4 A starting point for a robust performance information framework is the sound specification of outcomes, agency outputs and administered item outputs. Outcome statements should provide Parliamentarians and other stakeholders with a clear articulation of an agency's goals.¹⁴ They should also describe the impact that the Government expects from the work the agency undertakes, the agency outputs it delivers and the administered item outputs it manages¹⁵. Clear specification of outcomes is critical to establishing related outputs and measures of effectiveness. The clear specification of appropriate agency/administered item outputs is also essential to agency accountability, as they are the goods and services that are produced either by the agency (agency outputs) or providers on the agency's behalf (administered item outputs).

2.5 Generally, outcomes and agency and administered item outputs were well specified in the sections of the annual reports reviewed. Outcomes tended to be clearly stated and the expected impact and the target groups were defined. Also, the specification of agency/administered item outputs generally was clear and the products and services to be delivered were identified. However, some exceptions were noted, including:

- for one agency the term 'provide statistics' formed part of the outcome statement. However, this term relates to an output, not an outcome, because it describes a product/service rather than an expected impact¹⁶;
- agency outputs from one agency tended to repeat statements from the outcome. For example, the outcome 'effective ... management that, with minimal disruption to legitimate [activities], prevents illegal movement ...' had a related output that was 'facilitation of the legitimate movement of ... while identifying illegal movements'. In this case, both the outcome and agency output state the impact to be achieved. Agency outputs should be stated as the actual goods or services delivered rather than the impact to be achieved; and
- another agency only reported against agency/administered item outputs. This means that the agency did not provide information on the overall achievement of the outcome.

¹⁴ ANAO, *Performance Information in Portfolio Budget Statements Better Practice Guide*, May 2002, p. 7.

¹⁵ Department of Finance and Administration, *The Outcomes and Outputs Framework Guidance Document*, November 2000, <http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/the_outcomes___outputs_frameworko.html>; word version - p. 10.

¹⁶ As a definition of an output, such a statement should be clearer about the particular product to be delivered, therefore making measurement possible in terms of price, quantity and quality.

2.6 The ANAO also noted that an outcome for one agency was a high level aspirational statement ('a rich and stimulating cultural environment'). No target groups were identified for this outcome.

2.7 The ANAO appreciates that a range of agencies may need to make use of such broad statements for a number of reasons. For example, because the Commonwealth is not directly responsible for delivering the outputs which contribute to the outcome or because objectives can only be achieved in the longer term. While these broadly stated aspirational statements do provide an outline of the agency's strategic objective, they do not provide a basis for the formulation of indicators that enable them to measure the degree to which actual agency outputs contribute to the achievement of the desired outcome. However, the use of intermediate outcomes, that is partial outcomes which are achieved in a shorter timeframe, and/or explanatory text would assist agencies with establishing a body of useful effectiveness indicators over time and to better link outputs with outcomes.¹⁷

Contributions to shared outcomes

2.8 Over the past decade there has been an increased emphasis on monitoring achievements against government strategic directions and priorities relating to its desired outcomes on a whole-of-government basis. Outcomes are frequently broad and their achievement is dependant on the contributions, through partnership or other arrangements, of one or more other agencies, including other tiers of government. In such situations, it is necessary to develop a broad framework of performance information to specify the respective contributions of all agencies towards achieving the outcome and responsibilities for reporting on performance.

2.9 The achievement of outcomes in each of the agencies examined depended on a range of stakeholders, and this was acknowledged in the annual reports. For example one agency stated:

Successful achievement of the outcome depends on the efforts of a wide range of stakeholders—Commonwealth, State/Territory and local government, businesses, educators, community organisations, the wider community...

2.10 However, while the annual reports may have acknowledged the roles of other agencies and stakeholders, such as State Governments and non-government organisations, the reports included little or no performance information that related to their individual contribution to the achievement of the shared outcomes. The ANAO accepts that there may be inherent difficulties

¹⁷ These issues are discussed in the ANAO's *Performance Information in Portfolio Budget Statements Better Practice Guide*, May 2002.

in obtaining performance information from some contributors to shared outcomes. However, in the absence of performance information on the contributions of others to shared outcomes, the agency's own contribution is not transparent. This leaves a significant gap in reporting on agency effectiveness/impact and accountability for agency performance.

2.11 Agencies can address this gap by reporting against intermediate outcomes and/or including explanatory text to better specify their own influence and contribution to the shared outcome. This would also facilitate the compilation and explanation of related performance information.

Appropriately defined performance indicators

2.12 External accountability requires performance information that assists Parliamentarians and other stakeholders to assess performance including: the quantity, price¹⁸ and quality of agency and administered items outputs and the impact or effectiveness of contributions to outcomes.¹⁹

2.13 Performance information should provide evidence about performance that is collected and used systematically.²⁰ Performance indicators should, therefore, be appropriately defined so that they are objective and measurable.²¹

2.14 Performance indicators were generally appropriately defined in the sections of annual reports reviewed. That is, generally, the indicators measured what they purported to measure and had supporting methodologies and assumptions that were clearly identified, including data sources for those indicators. There were exceptions and they are discussed in paragraphs 2.20 to 2.21 below.

2.15 While indicators of the price and quantity of outputs were provided by each agency in the annual reports reviewed, the ANAO found that the agencies often did not have suitable performance indicators of the quality and/or

¹⁸ Agencies report on the price, rather than the cost, to government of outputs in accordance with Department of Finance and Administration guidelines. (See, for example Department of Finance and Administration, *The Outcomes and Outputs Framework Guidance Document*, November 2000, <http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/the_outcomes__outputs_frameworko.html>; word version – p. 39.) As defined by the Department of Finance and Administration—'price refers to the market value of a good or product which, while it is influenced by the cost of production, distribution and supply ... is also determined by demand and alternative supply'. In the cases examined during this audit there were no differences between the price and cost of outputs.

¹⁹ Department of Finance and Administration, *The Outcomes and Outputs Framework Guidance Document*, November 2000, <http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/the_outcomes__outputs_frameworko.html>; word version—p. 29.

²⁰ Australian National Audit Office and the Department of Finance and Administration, *Performance Information Principles*, November 1996, p. 3.

²¹ ANAO, *Performance Information in Portfolio Budget Statements Better Practice Guide*, May 2002, p. 17.

effectiveness of agency/administered item outputs, making it difficult to assess performance. This is discussed in more detail below.

Quality indicators

2.16 The quality of an agency/administered item output is directly related to its capacity to contribute to an outcome. Quality indicators should where possible relate to tangible, objective attributes of how well an agency/administered item output has been delivered, such as timeliness, coverage, accuracy and conformity to specifications. Less tangible, but nonetheless significant, criteria such as client satisfaction, peer review and public perception can also be used but these require sound methodologies for collecting the information.²²

2.17 Issues identified by the ANAO included failure to establish quality indicators; incomplete reporting against quality indicators where they had been established; and indicators that did not measure what they purported to measure.

2.18 In the sections of the annual reports reviewed, there was a common assumption that the number of goods or services provided is an indicator of the quality of those goods or services. This is a quantity indicator and does not address how well the goods or services have been delivered. For example, in relation to a performance measure that specified percentage coverage of a particular program the reporting only provided the number of people who participated in the program.

2.19 Some poorly defined quality measures such as 'services provided in line with agreements' were identified. These would not help readers of annual reports make a judgement about the level of performance achieved. In those instances, identifying important attributes of quality such as timeliness, access and customer satisfaction, and measuring and reporting on those, would be of more assistance.

2.20 In relation to measurement against quality indicators, one agency had:

- a quality indicator of 'industry satisfaction' which was measured by the opinion of the head of the industry association, rather than the satisfaction of the industry as a whole; and
- another quality indicator, where the level of satisfaction of users of a service, was measured by the results of a question in a voluntary on-line survey that asked whether the service would be used again. The use of a service does not necessarily equate with satisfaction because, for example, it may be the only service available.

²² ANAO, *Performance Information in Portfolio Budget Statements Better Practice Guide*, May 2002, p. 21.

2.21 Although the agency had not included either of the above two indicators in its 2002–03 PBS, during the course of the audit the ANAO advised the agency that it should ensure that all performance measures actually measure what they purport to measure.

Effectiveness indicators

2.22 The purpose of effectiveness indicators is to allow an assessment of the extent of the contributions agency outputs /or administered item outputs make to specified outcomes and the impact that is being achieved.²³

2.23 Lack of explanation of the specific individual contributions to broadly stated or shared outcomes, as discussed above, makes it difficult for agencies to clearly define their effectiveness. In addition, discussions of effectiveness in annual reports were not always clear because:

- some effectiveness indicators, although identified as such in the PBS and the annual report, were not specifically reported against in the annual report;
- undertaking activities, for example signing a number of contracts or supporting participation in various forums are not measures of effectiveness, although they were reported as such in a number of annual reports; and
- other poorly defined effectiveness measures were observed, such as ‘success of [a particular initiative] is being monitored through ongoing engagement of the business community’. This is a method of measurement, not a measure in itself.

Efficiency of agency operations and the cost effectiveness of outputs delivered

2.24 Sound financial information is an important tool for management and accountability purposes. It should provide, along with non-financial data, a complete picture of an agency’s performance to demonstrate the overall value of outputs²⁴, including the efficiency of operations and the cost effectiveness of outputs delivered. Accordingly, there need to be appropriate links between financial and non-financial performance information.

²³ *ibid*, p. 17.

²⁴ Department of Finance and Administration, *The Outcomes and Outputs Framework Guidance Document*, November 2000, <http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/the_outcomes___outputs_frameworko.html>; word version–p. 29.

2.25 Finance notes that the purpose of output price performance information is to allow judgements to be made about the point of balance between the cost of production, the price of alternatives, and the amount the customer/government is prepared to pay.²⁵

2.26 The ANAO found that many of the agency reports examined did not provide information that would allow an assessment of the cost of individual units of each output. Financial information was provided on the total price of each output in accordance with the Finance guidance.²⁶ In contrast, a finer level of detail was available in relation to non-financial performance information. Non-financial performance information tended to disaggregate outputs into component parts, that is sub-outputs or, further, to particular units of product or service produced. If financial information had been similarly disaggregated then efficiency/cost effectiveness assessments would have been facilitated to allow a clearer demonstration of the overall value of outputs by linking expenditure/revenue to specific activities.

Targets, standards and bases for comparison

2.27 Targets provide the basis for performance assessment and, from an accountability perspective, help Parliamentarians and other stakeholders to assess if an agency is delivering what it set out to achieve.

2.28 Targets should express quantifiable performance levels or changes of level to be attained at a future date, as opposed to the minimum level of performance.²⁷ They should focus on factors that managers can influence and may relate to either the overall outcome or to output performance.²⁸ It may be necessary to have multi-year targets that address the achievement of intermediate outcomes leading to achieving overall outcomes in a specified number of years.²⁹

2.29 Where it is difficult for an agency to set a specific target, it may be possible to provide an alternate basis for comparison, such as trends over time or an international standard.³⁰

²⁵ *ibid*, p. 39.

²⁶ See for example Department of Finance and Administration, *The Outcomes and Outputs Framework Guidance Document*, November 2000, *ibid*, p. 27.

²⁷ Australian National Audit Office and the Department of Finance and Administration, *Performance Information Principles*, November 1996, p. 12.

²⁸ ANAO, *Performance Information in Portfolio Budget Statements*, Audit Report No. 18 2001–02, p. 51.

²⁹ ANAO, *Performance Information in Portfolio Budget Statements Better Practice Guide*, May 2002, p. 26.

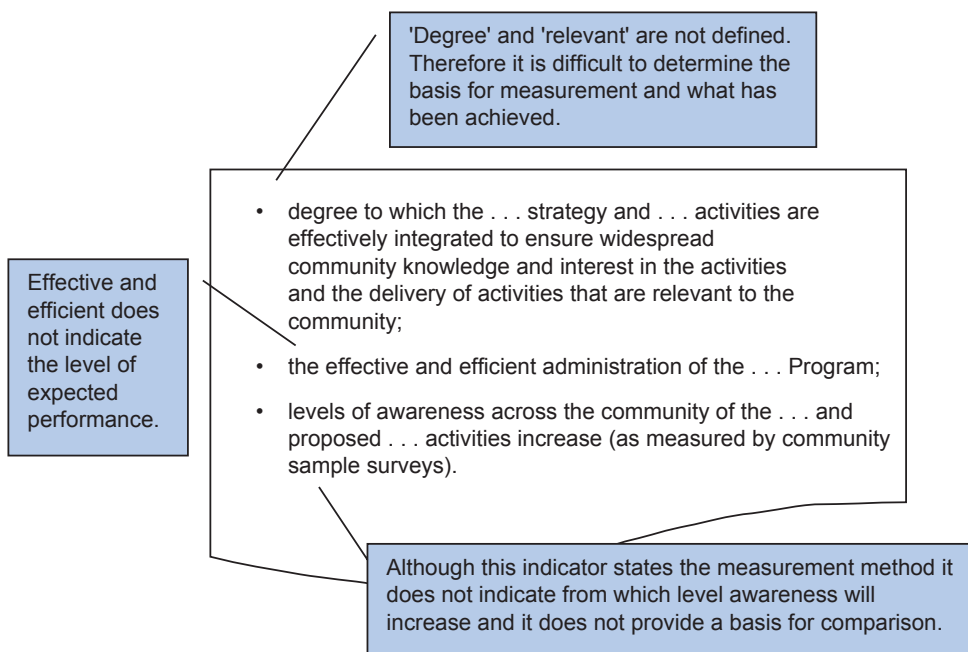
³⁰ Australian National Audit Office and the Department of Finance and Administration, *Performance Information Principles*, November 1996, p. 11.

2.30 The ANAO found that targets, or other appropriate bases for comparison of performance indicators, were not being widely used in the sections of the annual reports examined. This makes an assessment of actual performance by Parliamentarians and other stakeholders difficult, as no benchmark is provided against which to judge performance.

2.31 Figure 2.3 below provides an example of performance indicators that did not have targets or other bases for comparison, making it difficult to assess the level of performance.

Figure 2.3

Extract from an agency annual report listing performance indicators



2.32 Where there were targets, problems with their use included:

- not providing information on whether the target was met; and
- specifying targets only as numbers, that is not specifying the expected level of change or using general statements such as 'improve'.

2.33 These approaches do not provide a basis for Parliamentarians and other stakeholders to judge the level of, or improvements in, performance.

Recommendation No.1

2.34 To enhance accountability and transparency, the ANAO recommends that agencies improve their annual reporting performance information frameworks by:

- a) using intermediate outcomes and/or explanatory text to better specify their own influence on, and contribution to, broadly stated or shared outcomes;
- b) addressing all aspects of performance, especially:
 - i) the quality of agency and administered item outputs;
 - ii) indicators of effectiveness/impact; and
 - iii) the efficiency of agency operations and the cost effectiveness of outputs delivered; and
- c) including performance indicators that have targets and/or other bases for comparison.

Customs' response: Agreed. Customs' detailed response to the recommendation was as follows:

- a) Customs generally uses explanatory text to indicate where we work together with other agencies and what has resulted. Intermediate outcomes would need to be jointly agreed upon with appropriate performance measures. Further guidance, in the better practice guide, would be required.
- b) Cost/benefit considerations would need to be taken into account with an emphasis on key performance indicators that are appropriate to the agency.
 - i. Agreed.
 - ii. Agreed.
 - iii. Agreed.
- c) Agreed.

DCITA's response: Agreed.

DEST's response: Agreed. DEST's detailed response to the recommendation was as follows:

The Department notes that the difficulty of reporting against shared outcomes (refer paragraphs 2.8-2.11) should not be underestimated. The segregation of clear elements of responsibility, for example where this is shared between the Commonwealth and the states, is challenging and the subsequent measurements of the performance of these sub-elements in a meaningful way represents a major hurdle to progress in this regard. The inclusion of some practical advice relating

to this part of the report's recommendations in the forthcoming Better Practice Guide would be welcomed.

DEWR's response: DEWR advised that it agreed to the recommendation except for part b) iii, with which it agreed with qualification. DEWR's detailed response to the recommendation was as follows:

The department notes the ANAO report's recommendations are in line with the action already undertaken by the department. The department's 2002–03 Annual Report features more detailed performance information (including clarification of effectiveness measures) than is provided for in the 2002–03 Portfolio Budget Statements. With respect to intermediate outcomes, as recommended, explanatory text has been provided for the 2002–03 Annual Report, for example, the department's role in the whole of government response to the *Australian Working Together* package.

Qualification in relation to 1.b) iii: As employment services provided through administered appropriations, eg Job Network services, are integrated, it is not appropriate to report the individual service elements as the department pays Job Network providers for outcomes achieved. It is within the discretion of the Job Network provider to use the most appropriate mix of Job Network services in order to maximise outcomes for eligible job seekers. Further, such reporting would be inconsistent with new directions in Job Network implemented under the *Active Participation Model* for July 2003.

DIMIA's response: Agreed. DIMIA's detailed response to the recommendation was as follows:

Our performance information framework already encompasses the majority of the suggestions made to varying degrees. We will consider the issues raised in the report in future reviews of our performance information framework and enhance our existing framework as appropriate.

3. Data Assurance Arrangements

This chapter examines whether, in relation to financial and non-financial performance information contained in the sections of 2001–02 annual reports reviewed, audited agencies had developed arrangements that produced accurate, coherent and consistent financial and non-financial performance information.

Introduction

3.1 Data quality is important for accountability purposes because Parliamentarians and other stakeholders need to know the extent to which they can rely on performance information.³¹ Sound arrangements for coordination and clearance of the annual report and sound data assurance arrangements are measures that support accurate, coherent and consistent performance information in annual reports.

3.2 Furthermore, coherence and consistency of reported performance information is supported if it is derived from information used on an ongoing basis for internal management.³² This is best achieved where agencies have the capability to meet both internal and external performance information requirements from within a single system.

3.3 The findings in this chapter are based on an assessment of a sample of outcomes, agency outputs, administered item outputs and associated performance information from the 2001–02 annual reports of each of the five agencies audited.

3.4 The criteria against which this sample was tested are set out in Figure 3.1 below, along with a summary of whether agencies broadly met these criteria. Following the figure is a more detailed discussion against the criteria.

³¹ ANAO, *Performance Information in Portfolio Budget Statements Better Practice Guide*, May 2002, p. 30.

³² *ibid*, p. 5.

Figure 3.1
Audit criteria—data quality

Criteria	Agency A	Agency B	Agency C	Agency D	Agency E
There should be sound annual report coordination and clearance arrangements.					
There should be sound data assurance arrangements.			^B	Not Assessed ^A	
Performance information in the annual report should be built on information used for ongoing management and decision making.			^B		

Source: The audit criteria were derived from the sources listed at paragraph 1.12.

The criterion is:

Largely not met Partially met Substantially met

Notes: **A**—The agency advised, at the beginning of the audit, that it had recognised the need to substantially revise its outcomes and outputs structure and related performance information. Accordingly, the ANAO did not examine data quality assurance arrangements or financial performance information in depth in that agency.

B—The agency had not defined quality indicators for its output groups nor defined either quality or quantity measures for its generic outputs such as policy advice and research and evaluation. Accordingly, the ANAO could not undertake detailed testing of the performance information that related to the agency's specific contribution and could not assess whether the agency used such information for ongoing management and decision-making purposes.

Annual report coordination and clearance

3.5 An annual report coordination unit and appropriate information ratification and clearance processes can assist in achieving accurate, coherent and consistent information, at all levels, in the annual report.

3.6 The ANAO found that, in each agency reviewed, there was a central coordination area and senior-level approval processes for the annual report. As well as having coordination responsibilities, most of these central areas had implemented specific strategies to review and improve the process for production of the annual report. For example, in November of each year, one agency carries out an evaluation of the previous annual report production process by conducting a survey of the views and experiences of the relevant business areas in the agency. The annual report coordinator then produces an evaluation report that highlights areas for improvement in the next annual report production process.

3.7 The areas within audited agencies that were responsible for the delivery of outputs were also responsible for signing off the performance information in the annual report. The ANAO considers that this is a good practice that should achieve accurate and relevant performance information in the annual report, which is based on an understanding of the business activities of the agency.

3.8 The accuracy, coherence and consistency of annual report performance information in one agency was further enhanced by its requirement for all such information to be reviewed and approved by the agency's central statistics section, before it could be included in the annual report.

Data assurance arrangements

3.9 For agencies to be able to provide assurance to management, Parliamentarians and other stakeholders that data is of appropriate quality, they need to establish agency standards for the quality of performance information and assurance arrangements for the accuracy of performance information.³³ This would include sound costing and budgeting approaches to underpin financial performance information.

Data quality and assurance

3.10 The ANAO reviewed the quality of the data used in each agency's annual report and the adequacy of data assurance arrangements in four of the five agencies included in the audit.³⁴ This included detailed testing of a sample of performance indicators from the sections of the annual reports reviewed to determine whether performance information presented was accurate. The results are not sufficiently broad to enable their extrapolation across each agency as a whole. They do, however, provide a moderate level of assurance about data quality.

3.11 Most agencies had not developed agency standards and procedures in relation to data quality and coherence. This meant that there were no established minimum expectations of, or bases for improvement in, data quality. However, the 'statistical principles' of one agency addressed these areas well. These principles are summarised in Figure 3.2 below.

³³ ANAO, *Performance Information in Portfolio Budget Statements Better Practice Guide*, May 2002, p. 32.

³⁴ Because one agency advised, at the beginning of the audit, that it had recognised the need to substantially revise its outcomes and outputs structure and related performance information, the ANAO did not examine data quality assurance arrangements in depth in that agency. In the other agencies the ANAO selected a sample of performance measures from each of the sections of the annual reports reviewed and:

- tested reported data to source datasets; and
- reviewed the adequacy and implementation of data integrity checks conducted by the agency.

Figure 3.2

Summary of an agency's statistical principles

Relationship to corporate objectives

Statistics should be used to serve a purpose in the management process. They should be linked to the corporate plan and reflect the results the agency is trying to achieve.

Accuracy and reliability of statistics

No statistic should be assumed to be 100% accurate or reliable. Statistics collected and used should be of a sufficient degree of accuracy and reliability to meet their intended purposes.

Common definition of terms

There should be a common and unique set of definitions and usage of key terms across the agency to ensure commonality and lack of ambiguity in interpretation. This includes the definition of the relationship between different terms, and the classification of any term into sub-types.

Breakdown by region and time

All key statistics should be available (at least on request) in any required breakdown by location or time. Time collection should normally be monthly enabling quarterly and yearly presentation. Breakdown by location should be at least to regional level (states and territories).

Accessibility of statistics

Data should be as accessible as possible, to producers and other potential users, including ready availability for further analysis and compilation.

3.12 Despite the frequent absence of established agency standards for data quality, testing of selected performance indicators by the ANAO found that the agencies had established performance information management arrangements to:

- correctly extract and accurately collate performance data;
- test all reports and performance measures so that performance information was complete and accurate; and
- provide a clear audit trail between the source datasets and reported performance results.

3.13 The ANAO found that the performance information contained in the sections of the agencies' annual reports examined was accurate. However, the ANAO also considers that establishing and monitoring agency data quality standards would assist agencies to consistently provide accurate performance information in future annual reports. Accordingly, ANAO suggests that agencies consider implementing such arrangements.

Costing and budgeting approaches

3.14 Each agency reviewed by the ANAO used costing models to attribute costs to outputs and outcomes. These models were assessed to determine whether they incorporated:

- methodologies that appropriately trace full costs (including overhead costs) to outputs and outcomes;
- documentation of approaches to achieve integrity of cost information; and
- an adequate quality assurance framework.

3.15 The methodology and assumptions in the costing models reviewed were appropriate to produce accurate and reliable calculations of output and outcome costs.³⁵

3.16 In one agency, the cost attribution process was considerably simplified as its organisation structure aligned with its outcome and outputs structure, meaning that only corporate costs needed to be attributed.

3.17 Testing by the ANAO found that the quality assurance control frameworks for costing information in the agencies were adequate. These frameworks contained features of sound control, including arrangements for:

- limiting access to costing databases allowing changes to data;
- providing updates to cost and cost driver (cost attribution) databases that were complete, accurate and authorised;
- achieving reported information that was complete and accurate; and
- providing an audit trail between the source datasets and reported performance results.

3.18 However, system documentation and procedures covering such matters as user instructions, administration of the system and backup and recovery had not been compiled for the costing models being used by the agencies. Accordingly, there is room for improvement in agencies' documentation of costing approaches. This would remove an unnecessary risk to the generation of important financial information by reducing reliance on the knowledge of key individuals.

3.19 The budgeting approaches in the agencies exhibited appropriate features in line with criteria for sound budgeting, including:

- documented processes and guidance as to the assumptions upon which the budget was to be based;
- input from financial and non-financial managers;

³⁵ In addition to reviewing the appropriateness of methodology and assumptions in the costing models, the ANAO mapped the costing approach and tested a sample of output prices reported in the annual report of each agency back through the costing model to ensure that:

- there was a clear audit trail between the source datasets and reported information; and
- output prices had been calculated by a satisfactory application of the costing model methodology and assumptions.

- appropriate processes for review and approval; and
- allocations against outputs and outcomes using a reliable approach, that is the same approach used for costing actual expenditure to outputs and outcomes.

Use of performance information on an ongoing basis

3.20 As discussed above, the accuracy, coherence and consistency of reported performance information is best achieved if it is derived from information used on an ongoing basis for internal management. Therefore, when developing a financial and non-financial performance information framework, agencies should consider both internal management and external reporting requirements. This would mean that agencies have, within one system, the means to meet both internal and external performance information requirements.³⁶

3.21 In a number of agencies, the production of internal and external performance information reports did not use the same systems and processes.

3.22 In one agency, for example, the regular internal financial management reporting provided analysis of expenditure by outcomes and outputs. This reporting used the same outcome/output framework and underlying systems and methodologies used for external reporting. This was sound practice but contrasted with the approach taken by the same agency in respect of non-financial performance information where annual report information was compiled separately from the regular management reporting system.

3.23 In another agency, financial reporting against the outcome/output framework was not part of the regular internal management process.

3.24 In a third agency, internal management financial reporting encompassed the outcome/output framework as far as revenue to the agency was concerned. However, reporting of expenditure against the outcome/output framework was not part of the regular internal management financial reporting process.

3.25 During the course of the audit, the ANAO suggested that each of the three agencies referred to above review their internal and external reporting frameworks in order to ensure that there is correlation between the two. This would be likely to enhance the accuracy, coherence and consistency of reported performance information, and could lead to operational efficiencies.

³⁶ ANAO, *Performance Information in Portfolio Budget Statements Better Practice Guide*, May 2002, p. 5.

4. Presentation of Results

This chapter discusses how agencies have used performance information to analyse and present results in their 2001–02 annual reports.

Introduction

4.1 To enable Parliamentarians and other stakeholders to be able to interpret and understand agency performance, annual reports need to present results and analysis of performance information.³⁷

4.2 The findings in this chapter are based on an assessment of a sample of outcomes, agency outputs, administered item outputs and associated performance information from the 2001–02 annual reports of each of the five agencies audited.

4.3 The criteria against which this sample was tested are set out in Figure 4.1 below, along with a summary of whether agencies broadly met these criteria. Following the figure is a more detailed discussion against the criteria.

³⁷ Department of Prime Minister and Cabinet, *Requirements for Annual Reports*, June 2002, <<http://www.pmc.gov.au/publications.cfm>>, p. 6.

Figure 4.1
Audit criteria—presentation of results

Criteria	Agency A	Agency B	Agency C	Agency D	Agency E
In reporting results, the annual report should:					
• present achievements and analysis of performance;	●	●	●	●	●
• assess performance against targets;	●	◐	●	●	◐
• demonstrate trends in performance; and	●	●	●	●	●
• demonstrate that evaluations are conducted and used appropriately.	○	●	●	●	●
The coherence of the annual report should be underpinned by:					
• links to earlier commitments made in the PBS;	○	○	○	◐	○
• demonstrating consistency between years; and	○	○	○	○	○
• addressing all matters required by PM&C guidance ^A .	○	○	○	○	○

Source: The audit criteria were derived from the sources listed at paragraph 1.12.

The criterion is:

- Largely not met
- ◐ Partially met
- Substantially met

Note: ^A—In relation to the criterion ‘addressing all matters required by PM&C guidance’ the audit assessment process provided a satisfactory rating if there was evidence that a particular requirement had been covered in the annual report. The ANAO assessment did not attempt to judge the appropriateness or otherwise of that coverage. Certain PM&C requirements are covered by some of the other audit criteria used to assess the analysis of performance information in annual reports and, therefore, have been considered in more depth under those criteria.

Presentation of results

4.4 The annual report should present achievements and analysis rather than description of activities and processes.³⁸ This would include consideration of whether targets were achieved, the reasons for any non-achievement and, as appropriate, remedial action proposed or undertaken. Trend information and evaluation results should be used appropriately to increase stakeholder understanding of performance.³⁹

³⁸ Department of Prime Minister and Cabinet, *Requirements for Annual Reports*, June 2002, <<http://www.pmc.gov.au/publications.cfm>>, p. 6.

³⁹ Department of Prime Minister and Cabinet, *Requirements for Annual Reports*, June 2002, <<http://www.pmc.gov.au/publications.cfm>>, p. 7.

Achievements and analysis

4.5 The sections of the annual reports reviewed during the audit generally only provided descriptive information about activities, rather than an analysis of results. For example, Figure 4.2 below contains an extract from one agency's report of performance against an outcome. It lists activities, but does not analyse their impact on the outcome.

Figure 4.2

Extract from an agency annual report discussing performance against an outcome

Community relations issues and concerns continued to be managed through building contacts and close consultations with a wide range of community groups by the department's community liaison staff. Key issues on which close liaison was maintained and advice provided to government included...	contributed to positive outcomes from the conference, including dialogue on ...
The department supported participation in the World Conference... The then Parliamentary Secretary to the Minister ... led the Australian delegation, which comprised government and non-government representatives. Australian involvement	An Australian Government-staged multimedia display proved very successful. It was visited by an estimated 4,000 people and attracted favourable comments from participants ... The ... initiative continued to build on the success of earlier work with the announcement of 37 new community grants... Six new partnerships were announced to address issues at a more strategic, national level.

4.6 Agencies also frequently provided performance information in tables and charts but did not specifically analyse this information in their discussion of performance. For example, one agency reported without reference to the relevant table:

For [the program] there were declines in participation numbers for most client groups. Increases were seen for young people.

4.7 This discussion does not provide an assessment of how the declines or increases aligned with expectations, making it difficult to determine if performance was good or bad.

4.8 As well, in one agency, the complex presentation of information in the annual report would, in the ANAO's view, make assessment of performance difficult for the reader. This agency variously discussed performance using:

- three output groups comprised of administered expenses and departmental outputs of the same name;
- five generic departmental outputs such as policy advice and research and evaluation, which were subsets of each of its three output groups although the specific relationships were not apparent; and
- a range of 'strategic priorities' which were only linked to some output groups.

4.9 The results relating to these were then presented in an unstructured way in two chapters and an appendix of the annual report. It was therefore difficult to review and assess the results that had been achieved.

4.10 Overall, because problems with analysis were generally evident in the sections of annual reports reviewed, it was not possible to make a full assessment of whether performance was satisfactory or not.

Assessment against targets

4.11 As discussed in chapter 2, it was generally not clear whether reported performance was above or below expectations as targets were often not included (see paragraphs 2.27 to 2.31).

4.12 Where targets had been established, the performance information was sometimes not analysed in relation to them to present the results for outputs and outcomes. For example, Figure 4.3 below is a good example of an output quality target in one agency.

Figure 4.3

Performance information on a quality indicator from an agency annual report

<p>Quality Indicator Level of satisfaction of clients with services</p> <p>Target 60 per cent satisfied</p> <p>Results The 2001 survey of clients and perceptions about the services showed 90 per cent of clients expressed their satisfaction.</p>

4.13 However, the target for the quality indicator was exceeded by 50 per cent yet there was no discussion of the implications of this in the annual report.

Analysis of this performance information would have enhanced its usefulness to the reader.

4.14 Where it was obvious that performance had not met expectations, agencies generally only reported on positives and did not discuss areas where performance had not met expectations or strategies to improve performance.

4.15 For example, one agency reported that their targeted performance for an output quantity indicator was 91 864 placements in a program, while the actual results were 85 094. There was no explanation or analysis of why the target had not been achieved, the effect of the actual result or what actions, if any, the agency needed to take to address the failure to reach the target.

4.16 There were also problems with the reporting of financial performance information because actual and budgeted (target) expenditure were not always analysed, for example:

- one agency did not include any comparison or assessment in the annual report of budgeted and actual expenditure for departmental outputs;
- another agency did not provide an explanation in the annual report of large variations between budgeted and actual financial performance, which detracts from the usefulness of comparisons of budgeted and actual expenditure; and
- in a third agency, while explanations of large variations between budgeted and actual financial performance were provided in the annual report, these were not analysed together with the discussion of performance in relation to each outcome and output.

4.17 Where these deficiencies in financial performance information occurred, it was not possible to determine whether the agency's financial performance was in accordance with expectations, or the implications for the achievement of the agency's outcomes and the delivery of its outputs.

Trends in performance

4.18 The provision of information that shows performance over time can be an important element contributing to the understanding of Parliamentarians and other stakeholders of how progress is being made in achieving government outcomes. However, trend information is only useful if it is accompanied by appropriate analysis.

4.19 With one exception, trend information on non-financial performance was provided in the sections of the annual reports reviewed so that comparisons of some aspects of non-financial performance over time could be made. However, this was mostly high-level industry or sectoral information that, although it

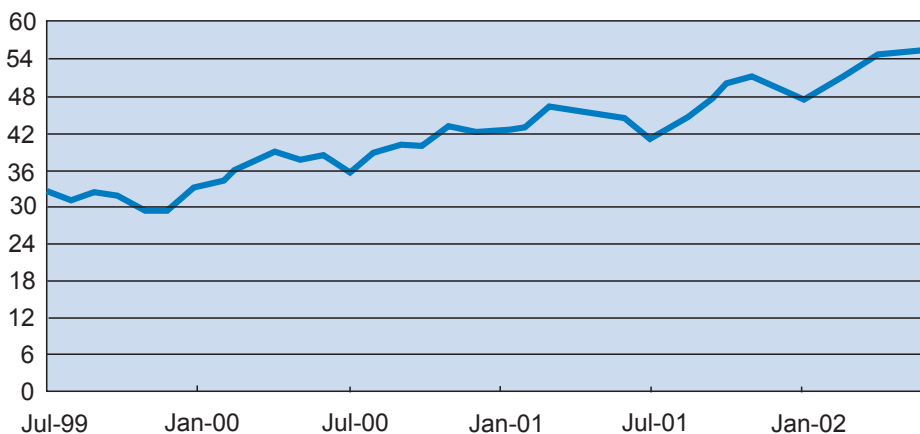
was relevant, did not relate directly to the agency's specific performance. That is, the reader would not be able to see trends in agency performance against agency-specific standards and targets.

4.20 The ANAO found that the annual reports examined did not provide any analysis of trend information provided by agencies to demonstrate their performance. Instead, readers were left to draw their own conclusions.

4.21 For example, the chart at Figure 4.4 below was included in the report of one agency and related to performance of one of its outcomes. The chart provides trend information by tracking the proportion of clients using an agency system over a number of years. However, there is no reference to the chart in the discussion of performance to indicate what is being represented or how it reflects on the performance of the agency. As well, the chart does not include a target, so that it is not possible to determine how the agency performed against expectations.

Figure 4.4

Trend information from an agency annual report



4.22 The annual reports examined also generally provided little analysis of financial performance with no information on trends being provided in the annual reports reviewed. There were varying levels of discussion and/or presentation of results to allow comparisons of actual and budgeted expenditure (see paragraph 4.16 above). There was also an absence of links between financial and non-financial performance information to allow an assessment of the efficiency of agency operations and the cost effectiveness of outputs delivered (see paragraphs 2.24 to 2.26).

Evaluations

4.23 As discussed in chapter 2, the ANAO found that agencies were experiencing difficulty in measuring and reporting quality and effectiveness/

impact indicators. As with all performance information, quality and effectiveness indicators should be objective and measurable.

4.24 Evaluation is the systematic, objective assessment of the appropriateness, effectiveness and/or efficiency of a program or part of a program.⁴⁰ Evaluations can lead to development of effectiveness measures of outcomes and assist in accounting for program performance.

4.25 The ANAO found that most agencies undertook a range of evaluations and listed them in the PBS. However, evaluations were frequently not discussed in the annual report, although the agencies generally listed, in a separate section to the report on performance, what evaluations had occurred and the issues or areas that the evaluation had addressed. In this circumstance, evaluations were not being used to support performance reporting by providing in the annual report information on quality and effectiveness that was otherwise not available.

4.26 For example, one agency reported that an evaluation had found that the implementation of a program had been complex and progress slow due to a range of issues. As a result, the evaluation recommended that the program be extended. However, the evaluation was discussed separately from the review of the results for this program and its contribution towards outputs and outcomes. The performance indicators for the program only addressed quantity, that is, the numbers of activities that had been implemented. The agency had not used the issues identified in the evaluation to discuss quality or effectiveness or to identify remedial action.

The coherence of the annual report

4.27 In accordance with the *PM&C Requirements for Annual Reports*, to provide a coherent contribution to accountability, the annual report should: link to commitments made in the PBS; and facilitate a consistent view between years for outcomes, agency and administered item outputs, and related performance information.

Link to commitments made in the PBS

The purpose of the PBS is to inform members of Parliament of the proposed allocation of resources to government outcomes.⁴¹ Therefore, linking performance information included in the annual report to earlier commitments made in the PBS allows Parliamentarians and other stakeholders to establish whether

⁴⁰ Australian National Audit Office and the Department of Finance and Administration, *Performance Information Principles*, November 1996, p. 14.

⁴¹ ANAO, *Performance Information in Portfolio Budget Statements Better Practice Guide*, May 2002, p. 5.

expected government outcomes have been achieved and planned outputs delivered. In this context, the JCPAA has commented that ⁴²:

Annual reports are primarily historical documents reporting on actual performance over the past year. They should detail the success or otherwise of each agency's achievements against the government's requirement.

4.28 Overall, the ANAO found that agencies had linked results reported in the annual report to commitments made in the PBS. An exception in one agency was that it did not, in every case, report on the same characteristics of performance indicators that had been listed in the PBS. For example, in the PBS, the agency indicated that a measure of effectiveness would be the trends in numbers attending certain events. But, the results in the annual report reflected the number and value of events for the year. Therefore, it was not possible to determine whether performance had changed. Other agencies did not report on every performance measure listed in the PBS.

4.29 The following figure is an adapted example of where an agency clearly mapped annual report performance information to the PBS.

Figure 4.5

Performance indicator index from an agency annual report

Performance indicator index		
Performance indicator	PBS page reference	Annual report page reference
Departmental Outputs		
Output 1	28 PAES 30-32	28
Output 2	40	36
Output 3	52	51
Administered Items		
Program 1	32	29
Federal grant fund	37	37
Program 2	38	50
Service	36	52
Evaluations		
Program 1 evaluation	33	45
Evaluation of delivery of service	41	

⁴² Joint Committee of Public Accounts and Audit, Report 388, *Review of the Accrual Budget Documentation*, June 2002, p. 13 paragraph 2.26.

Consistency between years

4.30 Agencies often face a constantly changing operating environment that makes reporting a consistent view of performance, to allow comparisons over time, an ongoing challenge. If changes to outcomes and agency/administered item outputs and/or associated performance indicators have been made, effective accountability for performance requires agencies to explain and/or map why and where those changes have occurred.

4.31 Each of the agencies reviewed in the audit had changed some aspect of their outcomes and outputs frameworks from that provided in the 2001–02 PBS, for example, because of transfer of responsibilities between agencies or changes in government policy and direction. These changes were adequately explained in the annual reports examined.

Matters required by PM&C guidance

4.32 The PM&C *Requirements for Annual Reports* (outlined in Appendix 1) contain the specific requirements for annual reports approved by the JCPAA. The ANAO undertook a broad assessment of whether these requirements were met in the annual reports of the five agencies reviewed. The audit assessment process provided a satisfactory rating if there was evidence that a particular requirement had been covered in the annual report. The ANAO assessment did not attempt to judge the appropriateness or otherwise of that coverage.

4.33 On this basis, the ANAO found that, overall, the agencies substantially complied with the *Requirements for Annual Reports*.⁴³

Recommendation No.2

4.34 To enable Parliamentarians and other stakeholders to interpret and fully understand agency results, the ANAO recommends that, in their annual reports, agencies:

- a) provide an analysis of performance, rather than list activities;
- b) assess performance against targets or other bases for comparison;
- c) provide and review trends in non-financial and financial performance; and
- d) use the results of evaluations, where appropriate, to provide performance information on quality and effectiveness.

⁴³ Certain of the PM&C requirements, such as demonstrating trends in performance and providing an analysis of performance, are covered by some of the other audit criteria used to assess the performance information frameworks (see Chapter 2) and analysis of results in annual reports (see paragraphs 4.4 to 4.26 of this Chapter) and, therefore, have been considered in more depth elsewhere in this report.

Customs, DCITA and DEST's response: Agreed.

DEWR's response: Agreed. DEWR's detailed response to the recommendation was as follows:

Analysis of performance against targets or other bases of comparisons and trend information in respect of cost of outputs is provided in the 2002–03 Annual Report.

DIMIA's response: Agreed. DIMIA's detailed response to the recommendation was as follows:

Agreed, noting that in order to assist readers of the annual report to interpret and understand agency results, it is useful to have some explanation of the activities of the department. The measures of performance used by DIMIA already include a large number of quantifiable targets and trend data is provided in many instances. We note that some areas of DIMIA business are more amenable to the application of quantifiable targets and comparisons than others. Measurement of trends, while a useful measure of performance in many instances, needs to be used carefully in an environment where policy and operations are subject to considerable change over time, particularly to address emerging issues.

Canberra ACT
4 November 2003



P. J. Barrett
Auditor-General

Appendices

Appendix 1

Requirements for annual reports⁴⁴

Part of Report	Description	Requirement
	Letter of transmittal	Mandatory
	Table of contents	Mandatory
	Index	Mandatory
	Glossary	Mandatory
	Contact officer(s)	Mandatory
	Internet home page address and Internet address for report	Mandatory
Review by Secretary	Review by departmental secretary	Mandatory
	Summary of significant issues and developments	Suggested
	Overview of department's performance and financial results	Suggested
	Outlook for following year	Suggested
	Significant issues and developments—portfolio	Portfolio departments—suggested
Departmental Overview	Overview description of department	Mandatory
	Role and functions	Mandatory
	Organisational structure	Mandatory
	Outcome and output structure	Mandatory
	Where outcome and output structures differ from PBS format, details of variation and reasons for change	Mandatory
	Portfolio structure	Portfolio departments—mandatory

⁴⁴ As issued by the Department of Prime Minister and Cabinet.

Part of Report	Description	Requirement
Report on Performance	Review of performance during the year in relation to outputs and contribution to outcomes	Mandatory
	Actual performance in relation to performance targets set out in PBS/ PAES	Mandatory
	Performance of purchaser/ provider arrangements	If applicable, mandatory
	Where performance targets differ from the PBS/ PAES, details of both former and new targets, and reasons for the change	Mandatory
	Narrative discussion and analysis of performance	Mandatory
	Trend information	Suggested
	Factors, events or trends influencing departmental performance	Suggested
	Significant changes in nature of principal functions/ services	Suggested
	Performance against service charter customer service standards, complaints data, and the department's response to complaints	If applicable, mandatory
	Social justice and equity impacts	Suggested
	Discussion and analysis of the department's financial performance	Mandatory
	Discussion of any significant changes from the prior year or from budget.	Suggested
	Summary resource tables by outcomes	Mandatory
	Developments since the end of the financial year that have affected or may significantly affect the department's operations or financial results in future	If applicable, mandatory
Management Accountability		
Corporate Governance	Statement of the main corporate governance practices in place	Mandatory
	Names of the senior executive and their responsibilities	Suggested
	Senior management committees and their roles	Suggested
	Corporate and operational planning and associated performance reporting and review	Suggested
	Approach adopted to identifying areas of significant financial or operational risk and arrangements in place to manage risks	Suggested
	Certification of fraud measures in place	Mandatory
	Policy and practices on the establishment and maintenance of appropriate ethical standards	Suggested
	How nature and amount of remuneration for senior executive service employees officers is determined	Suggested

Part of Report	Description	Requirement
External Scrutiny	Significant developments in external scrutiny	Mandatory
	Judicial decisions and decisions of administrative tribunals	Mandatory
	Reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman	Mandatory
Management of Human Resources	Assessment of effectiveness in managing and developing human resources to achieve departmental objectives	Mandatory
	Workforce planning, staff turnover and retention	Suggested
	Impact and features of certified agreements and AWAs	Suggested
	Training and development undertaken and its impact	Suggested
	Occupational health and safety performance	Suggested
	Productivity gains	Suggested
	Statistics on staffing	Mandatory
	Certified agreements and AWAs	Mandatory
	Performance pay	Mandatory
Purchasing	Assessment of purchasing against core policies and principles	Mandatory
Assets management	Assessment of effectiveness of assets management	If applicable, mandatory
Consultants and Competitive Tendering and Contracting	Number of consultancy services contracts let and total expenditure on consultancy services. (Additional information as in Attachment C to be available on request or published.)	Mandatory
	Competitive tendering and contracting contracts let and outcomes	Mandatory
	Absence of contractual provisions allowing access by the Auditor-General	Mandatory
	Contracts exempt from Purchasing and Disposal Gazette	Mandatory
Providing access to people with disabilities	Report on performance in implementing the Commonwealth Disability Strategy	Mandatory
Financial Statements	Financial Statements	Mandatory

Part of Report	Description	Requirement
Other Information	Occupational health and safety (section 74 of the <i>Occupational Health and Safety (Commonwealth Employment) Act 1991</i>)	Mandatory
	Freedom of Information (subsection 8(1) of the <i>Freedom of Information Act 1982</i>)	Mandatory
	Advertising and Market Research (Section 311A of the <i>Commonwealth Electoral Act 1918</i>)	Mandatory
	Ecologically sustainable development and environmental performance (Section 516A of the <i>Environment Protection and Biodiversity Conservation Act 1999</i>)	Mandatory
Other	Discretionary Grants	Mandatory
	Correction of material errors in previous annual report	If applicable, mandatory

Appendix 2

Areas examined in each agency

The areas in which detailed testing was conducted by the ANAO are listed below. The ANAO decided to conduct detailed testing in each agency after an examination of current and recent ANAO audit coverage as well as discussions with the agency to determine other activity; and to ensure work conducted was relevant and complementary to other reviews and audits being conducted.

DIMIA

Outcome 2: A society which values Australian citizenship, appreciates cultural diversity and enables migrants to participate equitably.

Output 2.2: Translating and Interpreting Services.

- Sub-output 2.2.1: Document Translating.
- Sub-output 2.2.2: Telephone Interpreting.
- Sub-output 2.2.3: On-Site Interpreting.

DEWR

Outcome 1: An efficient and equitable labour market that links people to jobs and promotes the transition from welfare to work.

- *Output group 1.2: Labour market program management and delivery.*
 - *Output 1.2.1 Job Network Management.*
 - *Output 1.2.3: Australian JobSearch Service.*

CUSTOMS

Outcome: Effective border management that, with minimal disruption to legitimate trade and travel, prevents illegal movement across the border raises revenue and provides trade statistics.

Output 2: The facilitation of the legitimate movement of people across the border, while identifying illegal movements.

DEST

Outcome 1: School systems provide their students with high quality foundation skills and learning outcomes.

- *Output group 1.1: Infrastructure funding for the schools system.*
- *Output group 1.2: Assistance for school students with special needs.*
- *Output group 1.3: Enhance the quality of teaching and learning.*

DCITA

Outcome 1: A rich and stimulating cultural environment and a stronger, sustainable and internationally competitive Australian sports sector.

- *Output 1.1: Strategic policy advice, support and awareness of the cultural and sports sector.*
- *Output 1.2: Increase awareness, knowledge and understanding of the Centenary of Federation and encourage participation in events celebrating the Centenary.*
- *Output 1.3: Understanding and knowledge of Australian history, culture and portraiture through access to Old Parliament House and the National Portrait Gallery.*

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