

The Auditor-General
Audit Report No.5 2011–12
Performance Audit

Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework

Australian National Audit Office

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Canberra ACT
8 September 2011

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit across agencies with the authority contained in the *Auditor-General Act 1997*. Pursuant to *Senate Standing Order 166* relating to the presentation of documents when the senate is not sitting, I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*.

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

Yours sincerely

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

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Contents

Abbreviations	7
Glossary	8
Summary and Recommendations	11
Summary	13
Introduction	13
Audit objective and scope	16
Overall conclusion	17
Key findings	20
Summary of agencies' responses	25
Recommendations	28
Audit Findings	31
1. Introduction	33
Background	33
Previous reports	42
Audit approach	43
2. Key Performance Indicators	47
Background	47
Linking KPIs to a program's objective	48
Use of qualitative and quantitative KPIs, including targets	51
Underpinning characteristics of KPIs	56
Overall appropriateness of KPIs	58
Annual reporting against KPIs	62
3. Program Deliverables and Program Support Costs	67
Background	67
Program deliverables	68
Collecting and monitoring program support costs	70
4. The Role of the Department of Finance and Deregulation	77
Background	77
Guidance material and advice	77
Cross-government consistency	83
Evaluation of performance indicators against targets	86
Appendices	89
Appendix 1: SMART criteria	91
Appendix 2: ANAO desktop review of 50 entities: program selection	93
Appendix 3: Outcomes statements and program objectives for the four audited entities	95
Appendix 4: Reference material	98

Appendix 5: Additional Agency Response	101
Index.....	102
Series Titles.....	103
Current Better Practice Guides	104

Tables

Table 1.1	Underpinning characteristics of KPIs	45
Table 2.1	Effectiveness indicators for particular types of programs.....	49
Table 2.2	Adherence to Finance's guidance on logical linkages (50 GGS entities)	50
Table 2.3	Adherence to Finance's guidance on KPIs (Customs, FWA, NFSA, RET).....	54
Table 2.4	Overall assessment of effectiveness KPIs (Customs, FWA, NFSA, RET).....	59
Table 3.1	Typical program deliverables.....	69
Table 3.2	Total number of programs, deliverables and KPIs for the four entities	70
Table 4.1	Comparison of the KPI information provided in Finance's guidance to entities from 2009–10 to 2010–11	79
Table A 1	Consideration of the SMART criteria.....	91
Table A 2	Sample selection and approach	94
Table A 3	Outcome statements and total resources from all sources	95
Table A 4	Total number of programs, deliverables and KPIs for the four entities	96
Table A 5	Program objectives for the audited programs	97
Table A 6	Reference material	98

Figures

Figure 1.1	Elements of the Outcomes and Programs Framework	38
Figure 1.2	Information flow for program reporting	39
Figure 2.1	Adherence to Finance's guidance on KPIs (50 GGS entities)	53
Figure 2.2	Assessment of 89 programs using the SMART criteria (50 entities)	56
Figure 2.3	Trends in the use of appropriate KPIs (50 entities).....	58
Figure 3.1	Reporting on deliverables and program support costs (50 entities)	73

Abbreviations

ANAO	Australian National Audit Office
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CBMS	Central Budget Management System
CEO	Chief Executive Officer
COAG	Council of Australian Governments
Customs	Australian Customs and Border Protection Service
Finance	Department of Finance and Deregulation
FFR	Federal Financial Relations
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FWA	Fair Work Australia
GGs	General Government Sector
IGA	Inter-Governmental Agreement
JCPAA	Joint Committee of Public Accounts and Audit
KPI	Key Performance Indicator
NFSA	National Film and Sound Archive
PBSs	Portfolio Budget Statements
PM&C	Department of the Prime Minister and Cabinet
RET	Department of Resources, Energy and Tourism
SMART	Specific, Measurable, Achievable, Relevant and Timed

Glossary

Accountability	The extent to which individuals or organisations are held responsible for achieving particular results and for the management of the resources used. To be effective, accountability relies on performance information being sufficient and able to support assessments of the results achieved and the resources used.
Annual reporting requirements	PM&C's <i>Requirements for Annual Reports for Departments, Executive Agencies and Financial Management and Accountability (FMA) Act Bodies (June 2006)</i> , approved by the Joint Committee of Public Accounts and Audit under subsection 63(2) and 70(2) of the <i>Public Service Act 1999</i> . The annual reporting requirements for <i>Commonwealth Authorities and Companies (CAC) Act</i> bodies are described in that Act, and in the Finance Ministers Operations Orders (the Orders), which are referenced in the CAC Act.
Central Budget Management System	CBMS is the Australian Government's central budget and financial management information system administered by Finance It contains the Commonwealth program list and produces the draft Appropriation Bills.
Clear read principle	The Outcomes and Programs Framework is designed to provide a clear link between the Appropriation Bills, the Portfolio Budget Statements (PBSs), the Portfolio Additional Estimates Statements (PAES), and the annual reports of entities. Information should be consistent across these and other budget documents. This is described as a 'clear read' between the different documents. Under this

	<p>principle, actual performance is to be provided on the same basis as planned performance. Entities should take this into account in designing their performance reporting arrangements.</p>
The General Government Sector	<p>The primary function of the GGS is to provide public services which are mainly non-market in nature, are mainly for the collective consumption of the community, involve the transfer or redistribution of income or are financed mainly through taxes and other compulsory levies.</p>
Key Performance Indicator(s)	<p>Within the context of the current Outcomes and Programs Framework, KPIs are established to provide information (either qualitative or quantitative) on the effectiveness of programs in achieving objectives in support of respective outcomes.</p>
Outcome	<p>The results or impacts on the target group, community or the environment that the Government intends to achieve.</p>
Outcome statement	<p>An outcome statement:</p> <ul style="list-style-type: none"> • articulates the Government's objectives; • explains the purposes for which annual appropriations are approved by the Parliament; • provides a basis for budgeting and reporting against the use of appropriated funds; and • allows for the measurement and assessment of entity and program non-financial performance.
Portfolio Budget Statements	<p>PBSs inform Senators and Members of Parliament and the public of the proposed</p>

allocation of resources to government outcomes.

Program	Programs are the building blocks of government financial and non-financial reporting, management and analysis and provide a tangible link between government decisions, government activities and the impacts of those actions.
Program deliverables	Deliverables are the goods and services produced by a program in meeting its objective. They are the tangible, quantifiable products of a program.
Program effectiveness	The extent to which program objectives are achieved, as measured by effectiveness KPIs.
Program efficiency	The extent to which program deliverables are produced for a given level of program resources.
Program support costs	An entity's administrative costs allocated to a program. This is funded as part of an entity's departmental appropriations and includes the costs incurred by entities to support programs such as those for program management and delivery.

Summary and Recommendations

Summary

Introduction

1. The Organisation for Economic Cooperation and Development (OECD) has observed that:

How government activities are measured matters. ... Citizens are entitled to understand how government works and how public revenues are used.¹

2. Performance reporting regimes have been place in many OECD countries, including Australia, since the mid-1980s. Over time, there has been a trend to move away from a focus on reporting on financial inputs to models that are intended to provide a clearer picture of what governments achieve for their expenditure on inputs—in other words the outcomes or the impact sought or expected by government.

3. Adequate performance information, particularly in relation to program effectiveness, allows managers to provide sound advice on the appropriateness, success, shortcomings and/or future directions of programs. This information also allows for informed decisions to be made on the allocation and use of program resources. Importantly, the Parliament and the public's consideration of a program's performance, in relation to impact and cost effectiveness, rely heavily on reliable and appropriate performance information.

Outcomes and Outputs Framework: 1999–2000 to 2008–09

4. In Australia, an Outcomes and Outputs Framework was introduced as part of the 1999–2000 Commonwealth Budget process. Entities² were required to specify intended outcomes, and to measure and report on actual performance. The outcomes were the results or impacts of government policy measures on the Australian community. The Portfolio Budget Statements (PBSs) were required to include entities' outcomes by output group, specifying the indicators and targets used to assess and monitor performance.

¹ Organisation for Economic Cooperation and Development, *Measuring Government Activity*, 2009.

² Entities refers to those bodies within the General Government Sector governed by the *Financial Management and Accountability Act 1997* or *Commonwealth Authorities and Companies Act 1997* that are required to report publicly in accordance with the Outcomes and Programs Framework.

5. In 2006–07, the Australian National Audit Office (ANAO) examined the application of the Outcomes and Outputs Framework by government entities.³ The audit concluded that the development of a comprehensive, relevant and informative regime of performance indicators, including cost-effective systems and processes to capture, monitor and report complete, accurate and relevant entity performance, continued to be challenging for many entities. In particular, the audit identified that many performance indicators did not enable an assessment to be made as to whether desired results were achieved, as the indicators did not incorporate targets, benchmarks or other details of the extent of achievement expected.⁴

6. Parliamentary committees also identified that a sustained effort and commitment by all entities was required to ensure a relevant, informative and useful range of performance indicators that can be tracked over time. In 2002 the Joint Committee of Public Accounts and Audit (JCPAA) made the following comment in regard to the aggregation of information as presented in entities' PBSs:

The Committee considers that high levels of aggregation in some agency outputs is a major problem making it difficult for the Parliament and the community to track the level of funding of particular organisations and what they are doing with those funds.⁵

7. More recently, the JCPAA noted that: 'Measuring key aspects of an agency's performance is a critical part of the Government's Outcomes Framework'.⁶

Outcomes and Programs Framework: from 2009–10

8. Beginning in 2009–10, all entities in the General Government Sector (GGS) were required to report in accordance with the Outcomes and Programs Framework. This resulted in a number of revisions being made to the budget

³ ANAO Audit Report No.23 2006–07, *Application of the Outcomes and Outputs Framework*.

⁴ Over a number of years a range of ANAO audits have identified areas where the quality of performance indicators and reporting against them could be improved. See, for example, Audit Report No.18 2001–02 *Performance Information in Portfolio Budget Statements*; and Audit Report No.11 2003–04 *Annual Performance Reporting*.

⁵ Joint Committee of Public Accounts and Audit, Report 388, *Review of the Accrual Budget Documentation*, June 2002, p. 41.

⁶ Joint Committee of Public Accounts and Audit, Report 419, *Inquiry into the Auditor-General Act 1997*, December 2010, p. 20.

and reporting framework. A central element of the new framework is that entities are required to identify and report against the programs that contribute to government outcomes over the Budget and forward years, rather than the output group that contributed to government outcomes.⁷

9. Programs are now the building blocks of government budgeting and reporting, and are expected to provide a tangible link between government decisions, activities and their impacts (that is, the actual outcomes).⁸ The new focus is intended to improve entity reporting, clearly demonstrating entities' achievement against pre-defined program objectives.

10. Government policy relating to the Outcomes and Programs Framework is delivered and evaluated by the Department of Finance and Deregulation (Finance), and requires that the outcome statements used by entities in their PBSs are the most current statements agreed to by the Minister for Finance and Deregulation (Finance Minister), and are consistent with relevant Appropriation Bills.⁹

11. As part of Finance's role in administering the Outcomes and Programs Framework, it has developed policy guidance to support entities' transition to the new Outcomes and Programs Framework, and to amend their PBSs' information. The guidance includes information on developing effectiveness KPIs to be included in an entity's PBSs.¹⁰

12. Current literature provides a range of approaches to the successful development, implementation and review of Key Performance Indicators (KPIs). Because effectiveness KPIs are statements of the pre-defined and expected impacts of a program, it is important that they are:

- specific—so as to focus on those results that can be attributed to the particular intervention/program;

⁷ A report by Senator Andrew Murray, *Review of Operation Sunlight: overhauling budgetary transparency* (the Murray Review), and the Government's response to the 45 recommendations made in the review, was released in June 2008. Notably, the Government agreed to the implementation of Recommendation 9, stating that 'PBSs are to include financial and non-financial information on agency programs with effect from the 2009-10 Budget'.

⁸ Department of Finance and Deregulation, *2009–10 Budget Portfolio Budget Statements Constructors Kit*, March 2009, p. 6.

⁹ Department of Finance and Deregulation, *Guidance for the Preparation of the 2010–11 Portfolio Budget Statements*, March 2010, p. 4.

¹⁰ In the context of the framework, KPIs focus on effectiveness, not efficiency.

- measurable—include quantifiable units or targets that can be readily compared over time;
- achievable—realistic when compared with baseline performance and the resources to be made available;
- relevant—embody a direct link between the program’s objective and the respective effectiveness KPI; and
- timed—include specific timeframes for completion.

13. Collectively, these characteristics are commonly known as the SMART criteria.¹¹

14. In advice to entities on developing KPIs, Finance has recommended that entities use both qualitative and quantitative KPIs to measure program performance and, if a program’s objectives are quantitative in nature, agencies are encouraged to consider the use of targets. To the extent that this advice promotes the use of quantitative approaches and targets, it aligns with the ‘measurable’ characteristic of the SMART criteria.

Audit objective and scope

15. The objective of this audit was to assess how effectively entities had developed and implemented appropriate KPIs to support stated program objectives. To address the audit objective, the ANAO:

- undertook a desktop review of the published effectiveness KPIs for 89 programs across 50 *Financial Management and Accountability Act* and *Commonwealth Authorities and Companies Act* entities within the General Government Sector (GGS)¹²;
- supplemented this desktop review with more detailed analysis of four entities—the Australian Customs and Border Protection Service (Customs); Fair Work Australia (FWA); the National Film and Sound Archive (NFSA); and the Department of Resources, Energy and

¹¹ Professor Rufus Black’s *Review of the Defence Accountability Framework*, January 2011, references the use of SMART, particularly where he recommends Defence establish a framework on which it can hold its personnel accountable for delivery of outcomes.

¹² Details of the program selection approach are contained in Appendix 2.

Tourism (RET)—including the reporting of performance in each entity’s annual report; and

- assessed the role of Finance in administering the Outcomes and Programs Framework, including the preparation of guidance material for entities.

Overall conclusion

16. Since the mid-1980s, reforms have been progressively introduced into the Australian Public Service with the specific aim of making it more responsive to community needs, more efficient and more accountable. A constant theme of the reforms has been that monitoring, reviewing and reporting on the effectiveness of government policies and programs, and the efficiency of their delivery, are expected to be part of an ongoing process that is undertaken in the ordinary course of business in the public sector to inform decisions about the impact of programs, their targeting and administration.

17. The importance of effective management at the program level is a particular focus of the Outcomes and Programs Framework, designed to improve the link between government outcomes and the responsibilities of entities for the delivery of effective and efficient services. The foundation for entity accountability and transparency in the context of the new framework is performance information, with the measures and targets presented initially in PBSs and the results provided in entities’ annual reports.

18. Over a number of years, ANAO audits have identified areas where the quality of performance information and its reporting in annual reports required improvement. While the Outcomes and Programs Framework is in its third year, the findings in this audit indicate that many entities continue to find it challenging to develop and implement KPIs; in particular, effectiveness KPIs that provide quantitative and measurable information, allowing for an informed and comprehensive assessment and reporting of achievements against stated objectives.

19. The ANAO’s review of the publicly available performance information, including effectiveness KPIs for 50 entities across the GGS, identified that most of the entities examined have scope to improve the development of effectiveness KPIs and the reporting against them, in some cases significantly so. Overall, a third of the entities reviewed had effectiveness KPIs that were appropriate in terms of being specific, measurable, achievable, relevant and

timed, a third were mixed (often differing significantly at the program level), and a third required much further development.

20. Generally, where entities had clearly defined program objectives, this initial level of precision translated into meaningful and quantitative effectiveness KPIs. However, with 45 per cent of the 89 programs reviewed specifying quantitative KPIs, and only 30 per cent based on KPIs that included clearly stated targets, the majority of the KPIs reviewed were largely descriptive in nature and unmeasurable. As a result, they did not allow for an informed assessment of the achievement of program objectives.

21. The tendency for entities to rely on qualitative effectiveness KPIs reduces their ability to measure the results of program activities over time. A mix of effectiveness KPIs that place greater emphasis on quantitative information and targets would provide a more measurable basis for performance assessment. While quantitative indicators are not necessarily always more objective, their precision is beneficial in gaining agreement on the interpretation of evidence-driven data, and for this reason are usually preferable. On the whole, quantitative indicators are also more easily recorded, more readily compared, and allow trends over time to be identified. Where appropriate, they can be supplemented with relevant qualitative information that provides insights into those factors responsible for the success, or otherwise, of a program.

22. In the annual reports reviewed by the ANAO, the information provided by entities to give an account of the impact of their programs was also largely qualitative and descriptive in nature, and generally consisted of listings of activities undertaken during the course of the year. Trends over time were not provided. Tracking and reporting against KPIs that include targets would provide a useful frame of reference for external stakeholders, and allow them to make an assessment of an entity's progress toward achieving stated program objectives.

23. The way entities manage ongoing programs is central to the efficient delivery of government initiatives, and it is a requirement of the Outcomes and Programs Framework that entities allocate departmental expenses in support of program delivery to the relevant program. Used appropriately, such information allows informed decisions to be made about the efficient allocation and use of entity resources.

24. However, the audit identified that program support costs are not consistently identified in PBSs. While nearly all the entities reviewed included details of the deliverables associated with their programs, that is, the goods and services provided, 73 per cent of the programs examined did not specifically identify program support costs, as is required by Finance's guidance.

25. The collection and use of information on costs associated with the delivery of individual programs is an important component of the Government's Outcomes and Programs Framework. Over time, accurate and consistent identification of program support costs will provide a credible basis to allow assessments to be made about the cost of program administration and to inform an assessment of whether there are more efficient ways of achieving program objectives.

26. Increasingly, whole-of-government delivery of services requires departments to work together and across jurisdictions to develop budgeting and performance reporting arrangements that meet both the accountability obligations of individual departments and also contribute to the collective achievement of whole-of-government outcomes.

27. In this context, a new federal financial framework has been in place since 1 January 2009, following the signing of the *Intergovernmental Agreement on Federal Financial Relations*. Under this new framework, the Commonwealth is directing funding to the achievement of outcomes and outputs through national agreements. At this stage in the evolution of the new framework, the reporting requirements for Commonwealth entity PBSs and those for national agreements do not always intersect, as their foci can be different. There is currently little guidance for entities on how to assess and report in PBSs or annual reports on the performance of programs funded under national agreements. To assist in ensuring appropriate linkages, the Finance guidance could be enhanced by including additional advice on how to incorporate the performance of programs funded under national agreements into PBSs and annual reports.

28. The ultimate objective in preparing quality performance information is to inform stakeholders and decision-makers of the extent to which Australian Government resources are being used efficiently and effectively in improving the outcomes for the community. Consistent with this position, an OECD study identified the need for a government to 'quantify its promises and

measure its actions in ways that allow citizens, managers and politicians to make meaningful decisions about increasingly complex state activities'.¹³

29. The findings of this audit suggest that it is timely for entities to refocus efforts to improve the quality and relevance of performance information and reporting for the benefit of the Government and the Parliament. In pursuing the further development of KPIs, it is important that entities take a strategic approach to the selection of indicators, both effectiveness and efficiency, so that information that will assist in evaluating program performance is reported over time. The real benefits of entities improving indicators of program effectiveness and efficiency is that government is better placed to allocate resources to programs that demonstrably make a difference to achieving policy outcomes, and entities are better placed to provide advice on policy options for government and to identify opportunities for improving program delivery.

Key findings

Key Performance Indicators (Chapter 2)

30. A required element of the Outcome and Programs Framework is the use of effectiveness KPIs that enable the measurement and assessment of the achievement of program objectives in support of respective outcomes. Program KPIs should be designed to allow managers to provide sound advice on the appropriateness, success, shortcomings and/or future directions of programs.

Use of qualitative and quantitative KPIs, including targets

31. In its review of 50 entities of the GGS, the ANAO examined whether entities used an appropriate mix of qualitative and quantitative KPIs including targets against which progress towards program objectives could be assessed. The majority of program KPIs reviewed were not constructed in such a way to allow an assessment of likely progress, especially for those programs where targets were not identified. In particular:

- 58 per cent of programs had qualitative indicators;
- 45 per cent of programs had quantitative indicators (a small percentage had both qualitative and quantitative indicators); and

¹³ Organisation for Economic Cooperation and Development 2009, op.cit., p. 15.

- only 30 per cent of programs identified targets.

32. Of the four audited entities, NFSA and FWA included targets for KPIs, which allowed readers to assess progress independently of any statement by the entity. Customs and RET did not set targets for KPIs for the programs examined in this audit.

33. The greater use of quantitative KPIs, including the use of targets, is required to improve the basis for assessing entity performance. Targets express quantifiable performance levels or changes of level to be attained at a future date and, as such, allow entity managers and external stakeholders including the Parliament to determine the progress being made in meeting pre-determined program objectives.

34. Targets should be based on factors that entities can influence and relate directly to either the overall program objective or the specific factors that will lead to success. Commonly, information for some indicators will be readily available; information for others may take time to collect, in which case intermediate indicators should be considered. As for most areas of public administration, executive leadership is critical in emphasising the importance of performance information for decision-making, and in ensuring work is commissioned to assess the effectiveness of KPIs.

Underpinning Characteristics of KPIs

35. For the 89 programs included in its desktop review, the ANAO used the SMART criteria to assess whether the KPIs were specific, measureable, achievable, relevant and timed. The analysis of the 89 programs identified that approximately:

- 40 per cent of the programs had non-specific KPIs, usually associated with the use of very broad program objectives;
- 45 per cent of the programs had KPIs that were not measurable, usually associated with an absence of quantifiable units of measurement or targets;
- 55 per cent of the programs had KPIs that were not clear as to whether they were achievable, usually associated with the KPI not being specific or measurable;
- 10 per cent of the programs had KPIs that were not relevant, usually associated with not being clearly linked to the program's objective or the broader respective outcome; and

- 50 per cent of the programs had KPIs that were not timed, usually associated with no timeframe being specified for achieving the KPI.

36. The ANAO also used the SMART criteria to examine effectiveness KPIs for six programs—two programs from Customs; two programs from RET; one program from FWA; and one program from NSFA—to make an overall assessment of their appropriateness.

37. Although performance information of the four audited entities contained some of the elements required by the Outcomes and Programs Framework, each entity had aspects that required improvement. While each of the audited entities had developed KPIs to measure the effectiveness of the program in achieving a stated objective, there was wide variation in their usefulness as a basis for measuring and tracking performance over time. A particular weakness was the use of effectiveness KPIs that were activity-based rather than designed to measure the impact of a program. Generally where there was a lack of specificity in program objectives, this was associated with effectiveness KPIs that were also unclear and not measurable.

Annual reporting against KPIs

38. The performance information in the annual reports assessed by the ANAO was not sufficient to allow external stakeholders to understand the progress being made by entities in meeting their program objectives. When considering the effectiveness KPIs used to support 2009–10 annual reports, the four audited entities included reporting of achievements against KPIs, but generally reported on activities undertaken, with little analysis of the effectiveness of the program in meeting its stated objective or its contribution to the relevant outcome. Entity annual reports were more useful when they reported progress against quantitative and measurable KPIs.

39. The inclusion of trend data over time would also assist stakeholders to make a comparison and assess whether performance is on track, or is better or worse than previous years. Tracking performance over time, and including relevant historical data and commentary, is an established method for providing stakeholders with contextual information in which to assess whether the intended results were obtained. This approach was not apparent in the annual reports for the four audited entities.

Program deliverables and program support costs (Chapter 3)

40. Improving the operational efficiency of public sector entities has been a key driver of public sector reform over several decades. An important part of this reform process is ensuring that officials who scrutinise, manage and allocate resources direct their attention to the cost and efficiency of the resources used in achieving government objectives.

41. Finance guidance for entities on the preparation of the information to be contained in PBSs identifies a number of required elements including that:

entities are to outline the deliverables that will be produced over the budget and forward years to achieve the program objectives;

departmental expenses in support of program activities are to be allocated to 'Program Support'; and

entities need to determine the units that will be used to show the quantity of program deliverables and will be used to determine the program's efficiency when measured against the resourcing provided.¹⁴

42. Nearly all 50 entities reviewed by the ANAO included details of the deliverables associated with their programs in their PBSs. However, 73 per cent of the programs reviewed did not identify or otherwise reference program support cost information. Of the four audited entities, RET identified separately its departmental program support costs for its administered programs. Understanding the program support costs assists in the assessment of the cost of administering programs, and ascertaining whether there are more efficient ways of achieving program objectives.

43. For both FWA and NFSA, the total entity appropriation reflected the agencies' cost of delivering one program. Similarly, for Customs, departmental costs were fully allocated across its five programs. These costs represented the program support costs for these programs, although this was not clearly stated. From the perspective of the reader, it would be beneficial for entities to more clearly reference the allocation of departmental expenses to programs as program support costs, consistent with the Finance Guidelines.

¹⁴ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011, pp. 32, 35 and 36.

The role of the Department of Finance and Deregulation (Chapter 4)

44. The preparation of PBSs is undertaken by entities, using guidance provided by Finance. The following policy documents have been developed by Finance to support the Outcomes and Programs Framework: *Commonwealth Programs Policy and Approval Process*, December 2008; *2009–10 Budget Portfolio Budget Statements Constructors Kit*; *Outcome Statements Policy and Approval Process*, June 2009; *Guidance for the Preparation of the 2010–11 Portfolio Budget Statements*, March 2010; and *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011.

45. To improve the usability of existing guidance, in October 2010 Finance separated its existing policy guidance into two documents—one that focuses on the mechanical construction and printing requirements of the PBSs, and a second that provides guidance on the application of the Outcomes and Programs Framework, and the development and implementation of KPIs.¹⁵

46. In previous versions of guidance to entities, Finance identified that consideration should be given to whether effectiveness KPIs and targets were specific, measureable, achievable, relevant and timed.¹⁶ Given the findings of this audit that many entities are yet to develop and implement effectiveness KPIs that provide quantitative and measurable information, it would be beneficial if Finance revisited this previous guidance and suggested a diagnostic tool and methodology, such as the SMART criteria, to further assist entities to review and evaluate the usefulness of their KPIs. Any additional emphasis that could be given to the importance of this work would be beneficial.

47. In oversighting the development and use of outcome statements and performance information, Finance is also required to promote cross-government consistency. Under new federal financial arrangements, traditional accountability mechanisms are evolving as a shift to outcomes measurement requires performance indicators that link directly to outcomes, and a greater focus on the capture of robust and timely performance data.

¹⁵ Department of Finance and Deregulation, *Performance Information and Indicators*, October 2010.

¹⁶ Department of Finance and Deregulation, *2008–09 Portfolio Budget Statements Constructors Kit*, March 2009, p. 93.

48. Increasingly, a significant portion of Commonwealth funding is provided to State and Territory Governments through national agreements. These payments are included in the Department of the Treasury (Treasury) PBSs, and the PBSs for Treasury include KPIs associated with these payments. The Treasury KPIs for these payments are solely concerned with the process of providing the payments, and do not measure the objectives associated with the programs for which the payments are made.

49. While the funding provided for national agreements is included in Treasury's PBSs, with a link to the relevant entity's program, there is variability in the way entities include KPIs for those programs in their own PBSs. As such, reporting is often either at a very high level or, in some cases, non-existent. Given the growing importance of cross-government initiatives, there is a role for Finance to provide additional guidance for entities on how to reference performance reporting for programs delivered through national agreements.

50. Although the primary responsibility for the application of the Outcomes and Programs Framework rests with entities, Finance is expected to maintain an awareness and oversight of entities' implementation. Government policy commits Finance to a number of activities, including a systematic program of evaluation of performance indicators against targets.

51. Finance advised that the Department will be preparing a report to government which compares entities' reported performance information from 2009–10 and 2010–11 annual reports to the KPIs included in the 2009–10 and 2010–11 PBSs to assess the achievement of entities performance targets over time.

52. There is also scope for Finance to undertake reviews of other aspects of the implementation of the Outcomes and Programs Framework, particularly in terms of the development and implementation of effectiveness KPIs. Such reviews would serve to provide feedback to both government and entities on areas that would benefit from greater attention.

Summary of agencies' responses

53. The agencies' comments on the recommendations are contained in the body of the report following the relevant recommendation. Agencies' responses are provided below.

Australian Customs and Border Protection Service

54. Customs and Border Protection welcomes the opportunity to contribute to the ANAO's performance audit on the Development of Key Performance Indicators to Support the Outcomes and Programs Framework. Customs and Border Protection agrees with all three of the recommendations arising from the Audit.

Fair Work Australia

55. FWA welcomes the opportunity to participate and contribute in the ANAO's *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework* particularly as a new agency having commenced operations in July 2009.

56. FWA notes the views formed by the ANAO, agreeing in general with recommendations provided in the report. The report will be of value to the FWA in the regular review of our key performance indicators and in the reporting of performance.

National Film and Sound Archive

57. The National Film and Sound Archive was recently part of an Australian National Audit Office (ANAO) audit to assess how effectively entities' had developed and implemented appropriate key performance indicators (KPIs) to support stated program objectives. The NFSA was selected as one of four agencies subject to detailed analysis.

58. Overall, the audit found that the NFSA has a robust performance framework, with SMART (specific, measurable, achievable, relevant and timely) performance indicators. The report recognises that the NFSA is one of the few agencies which uses both targeted qualitative and quantitative KPIs. Overall assessment of effectiveness KPIs illustrates how well the agency meets these criteria. The findings in relation to effectiveness KPIs states:

NFSA's effectiveness KPIs were specific, measurable (with identified targets), had the potential to be achieved, and were relevant and timed. The KPIs clearly articulated how the impact of the program objective would be assessed. As such, these KPIs were sufficient to demonstrate the intended contribution of NFSA's program 1.1 to the respective outcome.

59. The National Film and Sound Archive (NFSA) recognises the importance of adequate performance information in managing program effectiveness. We pride ourselves in having performance information which is specific, measurable, achievable, relevant and timely (SMART). The NFSA

acknowledges that it can further improve annual reporting by including reasons why KPIs are not achieved. We also agree that our definition of what is considered to be an interaction with the national collection could be made more explicit.

60. We consider the report to be a fair representation of our performance framework, and support the audit findings. The NFSA will continue to undertake ongoing improvements to our framework, including the use of trend data and analysis in our annual reports.

Department of Resources, Energy and Tourism

61. RET note that there are significant challenges in a policy department for developing SMART criteria for this body of work. This difficulty impacts upon reporting for a significant component of work which RET undertakes. RET would welcome both the ANAO's and Department of Finance and Deregulation's views on how to improve KPI development in this area.

62. RET supports the application of the SMART criteria in the development of KPIs, and has implemented a process to improve the KPIs and other reporting for the Department. A complete review of RET's KPIs has been undertaken, and these were reported in the 2010–11 Portfolio Additional Estimates Statements. There are challenges with the development of SMART KPIs for policy development and advice, which makes up a large portion of RET's activities, and further advice and assistance in this area from the ANAO and the Department of Finance and Deregulation would be useful.

Department of Finance and Deregulation

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

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

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

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

Recommendations

Recommendation No.1

Paragraph 2.54

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

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

Agencies' Responses:

Customs, FWA, NFSA, RET: *Agreed.*

Recommendation No.2

Paragraph 3.32

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

Agencies' Responses:

Customs, FWA, NFSA, RET: *Agreed.*

**Recommendation
No.3****Paragraph 4.36**

To ensure the ongoing currency and appropriateness of the Outcomes and Programs Framework, the ANAO recommends that the Department of Finance and Deregulation:

- reviews the development and implementation of effectiveness KPIs to determine the extent to which expected improvements in the measurement and achievement of program objectives is being realised;
- includes in its guidance to entities a suggested diagnostic tool and methodology, such as the SMART criteria, to further assist entities to review and evaluate the usefulness of their KPIs; and
- develops more expansive policy guidance for entities on how to reference performance reporting for programs delivered through national agreements.

Finance Response: *Agreed-in-principle.*

Audit Findings

1. Introduction

This chapter details the background to the Outcomes and Programs Framework, as administered by the Department of Finance and Deregulation. It also describes the audit objective and methodology.

1.1 Since the mid-1980's, the Commonwealth has introduced budgetary and reporting mechanisms designed to, among other things, allow citizens to better understand government operations and how public funds are being used to achieve government policy objectives. The trend has seen a move from an approach that was heavily oriented to inputs to models designed to provide citizens and parliaments with a clearer picture of what governments achieve for the expenditure of public funds—in other words, a more balanced picture of the outcomes or the impact sought by government for the funds appropriated. These models use performance indicators as a way of measuring how well the deliverables have contributed to an outcome.

Background

The Outcomes and Outputs Framework (1999–2000 to 2008–09)

1.2 The program management framework, within which government policy measures are managed and resources are budgeted, has evolved since the introduction of program management and budgeting in the mid-1980's to the Outcome and Outputs Framework in 1999–2000 to the current Outcomes and Programs Framework that was introduced in 2009–10.

1.3 The stronger focus on outcomes, evident in the adoption of the Outcomes and Outputs Framework, was designed to give more prominence to the results, impacts or consequences of policy measures on the Australian community.

1.4 At the time, entities were required to identify the various output groups that contributed to government outcomes during the budget period. The Portfolio Budget Statements (PBSs) included entities' outcomes by output groups, specifying the indicators and targets used to assess and monitor performance.

1.5 The ANAO assessed the application of the Outcomes and Outputs Framework in government agencies in the ANAO Audit Report No.23 2006–07 *Application of the Outcomes and Outputs Framework*, and identified that:

- there was a broad spread in the number of outcomes and outputs, and a wide variation in approaches taken in describing outcomes and outputs;
- a number of outcomes statements were expressed in broad terms and did not specify the target group or the result or impact to be achieved;
- the absence of direct linkages between outcomes and outputs reduced reporting disclosure of informative and relevant information to stakeholders;
- the use of more disaggregated program information could improve consistency in agency reporting and assist in meeting the needs of stakeholders;
- integration of the framework into agencies' operations varied; and
- the development of comprehensive, relevant and informative performance indicators remained challenging for many agencies—particularly, that many of the performance indicators did not enable an assessment to be made on whether desired results were achieved, as the indicators did not incorporate targets, benchmarks or other details of the extent of achievement expected.¹⁷

Operation Sunlight and the Murray Review

1.6 In October 2005, Mr Lindsay Tanner, MP, then Shadow Minister for Finance released a discussion paper, *Operation Sunlight: enhancing budgetary transparency*.¹⁸ The discussion paper noted some issues with the Outcomes and Outputs Framework that were limiting budget transparency. In particular, the paper noted:

The government's outcomes and outputs framework was intended to shift the focus of financial reporting from inputs (programs, expenses and recipients) to outputs and outcomes i.e. actual results. While this is worthy in theory, it has

¹⁷ ANAO Audit Report No.23 2006–07, *Application of the Outcomes and Outputs Framework*, pp. 21–22.

¹⁸ The Hon. Mr Lindsay Tanner, Minister for Finance and Deregulation, *Operation Sunlight: enhancing budgetary transparency*, May 2007. The discussion paper was originally released in October 2005 and then re-released in April 2006. Following the Murray Report of June 2008, the discussion paper was again revised and subsequently released in December 2008.

not worked. Basic information on inputs was lost in the changeover, and reporting of outcomes is seriously inadequate.¹⁹

1.7 Following the change of government in November 2007, the then Senator Andrew Murray was requested by the Hon. Lindsay Tanner, then Minister for Finance and Deregulation, to undertake a review of the *Operation Sunlight* discussion paper. The terms of reference for the review included:

- the consideration of existing Department of Finance and Deregulation (Finance) reporting arrangements and the reforms announced in the discussion paper;
- recommendations made by the Senate Finance and Public Administration Committee in the report *Transparency and Accountability of Commonwealth in Public Funding and Expenditure*, March 2007; and
- identification of any elements of the existing arrangements that should be simplified or removed, where that could occur without detriment to appropriate levels of accountability.

The report by Senator Andrew Murray, *Review of Operation Sunlight: overhauling budgetary transparency* (the Murray Review)²⁰, was released in June 2008.

1.8 The Murray Review and the Government's response to the 45 recommendations made in the review were released in June 2008.²¹ One of the recommendations (Recommendation 9) flowing from the Murray Review was that the Government introduce reporting of expenditure at the program level by no later than 2009–10.²² The Government agreed to the implementation of this recommendation, stating that 'PBSs are to include financial and non-financial information on agency programs with effect from the 2009–10 Budget'.²³

¹⁹ *ibid.*, p. 4.

²⁰ Senator Andrew Murray, *Review of Operation Sunlight: overhauling budgetary transparency*, June 2008.

²¹ The Government's response indicated where the recommendations were: agreed (17); agreed in part (2); agreed with qualification (1); agreed in principle (1); noted (20); or not agreed (4).

²² *ibid.*, p. 26.

²³ *ibid.*, p. 6.

The Outcomes and Programs Framework (from 2009–10)

1.9 Following the release of the Government's response to the Murray Review, advice regarding the policy workings of the new Outcomes and Programs Framework was introduced in late 2008, in time to allow entities to prepare PBSs for the 2009–10 Commonwealth Budget.

1.10 Improvements to outcome statements, along with the introduction of program reporting, were aimed at enhancing the transparency and accountability of government spending through an increased emphasis on performance management, measurement and reporting.²⁴

1.11 Under the new framework, entities are still required to measure the intended results, impacts or consequences of actions by the Government on the Australian community. As the Organisation for Economic Cooperation and Development (OECD) has noted:

How government activities are measured, matters. Given the size of government and its role in the economy, the contribution of government to national economic growth is of great significance, especially when looking at change rates over time.²⁵

1.12 A central element of the new framework is that entities are required to identify and report against the programs that contribute to government outcomes over the Budget and forward years, rather than the output group that contributed to government outcomes.

1.13 The key elements of the Outcomes and Programs Framework are:

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

²⁴ Department of Finance and Deregulation, *2009–10 Budget Portfolio Budget Statements Constructors Kit*, 2009, p. 6.

²⁵ Organisation for Economic Cooperation and Development, 2009, op.cit., p. 15.

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

- annual performance reporting on delivery of programs and achievement against a set of Key Performance Indicators (KPIs).

1.14 The focus on outcomes and programs is intended to improve entity reporting of their contributions toward the planned results described in their outcome statements as measured by performance information.

1.15 Performance information should inform understanding of government decisions and assessments of program performance. Variation of application, lack of consistency and non-specific statements can impair the ability of external stakeholders, including the Parliament, to make judgements as to the achievement of outcomes. As is noted by the OECD:

The notion of performance is seen as fundamental to the modern state. This has led to significant reforms with government...These developments are based around the notion that, as the state is responsible for such a large and changing array of services and regulatory tasks, it must quantify its promises and measure its actions in ways that allow citizens, managers and politicians to make meaningful decisions about increasingly complex state activities.²⁶

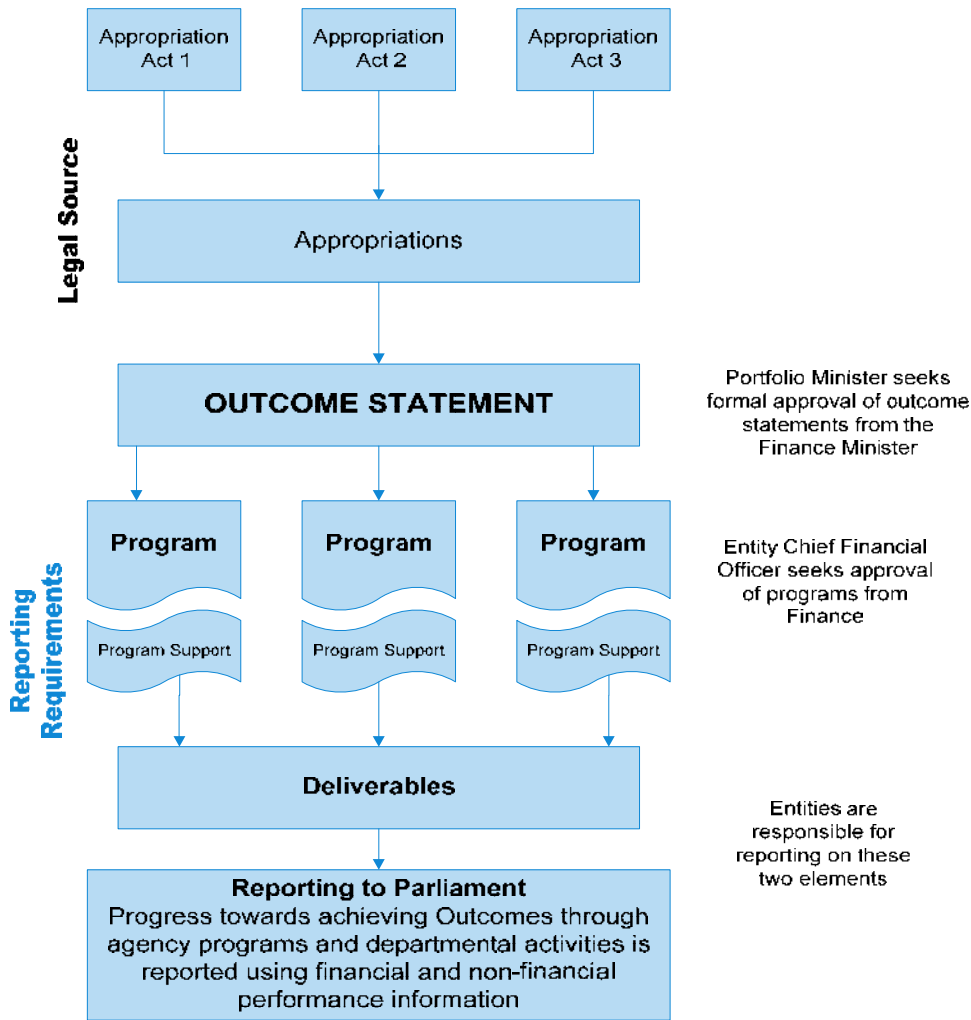
1.16 Performance indicators should signal to the public and the Parliament the relative success of a program in meeting a stated objective. Furthermore, entities are required to report deliverables which are the tangible activities and ‘outputs’ of the program.²⁷ Figure 1.1 represents the main elements of the Outcomes and Programs Framework.

²⁶ Organisation for Economic Cooperation and Development, *Measuring Government Activity*, 2009, p. 15.

²⁷ Department of Finance and Deregulation, 2009, op.cit., pp. 14–15.

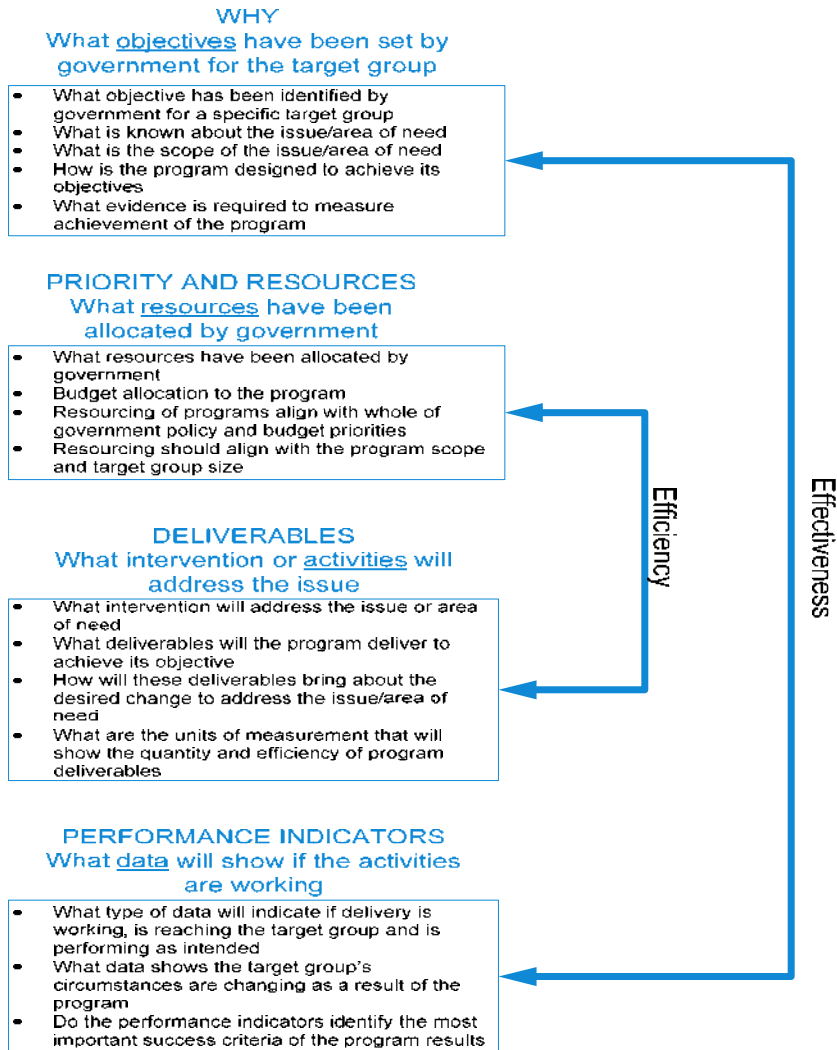
Figure 1.1

Elements of the Outcomes and Programs Framework



Source: Adapted from Finance guidance in the 2009–2010 Budget Portfolio Budget Statements Constructors Kit, p. 55.

1.17 Finance developed policy guidance to support entities’ transition to the new framework, including the mechanical process of populating explanatory tables for the preparation of PBSs. The guidance also includes information relating to effectiveness KPIs as the method for identifying the effective achievement of program objectives, as shown in Figure 1.2 below.

Figure 1.2**Information flow for program reporting**

Source: Finance guidance in the 2009–2010 Budget Portfolio Budget Statements Constructors Kit, p. 55.

Effectiveness KPIs

1.18 The purpose of KPIs within the framework is to provide information that is capable of telling an accurate but succinct performance story of the results of government actions, as described in the *Guidance for the Preparation of the 2010–11 Portfolio Budget Statements*:

Programs represent the primary means by which agencies address and achieve Government outcomes. Reporting on the performance of programs therefore

provides readers and the Government with an indication of the relative success of particular programs in achieving its outcomes.²⁸

1.19 Finance policy guidance states that performance information will be used by:

- the public to hold government to account as to whether they are living up to their commitments;
- the government to identify potential opportunities for continuing or ending a program; and
- program investors to identify potential opportunities for program improvement or modification.²⁹

1.20 Entities are required to report against the approved list of programs for which they are responsible in PBSs, Portfolio Additional Estimates Statements (PAES) and annual reports, as well as any ad hoc Appropriation Bills.³⁰ The introduction of the framework aimed to increase the alignment between budget reporting and annual reports, therefore it is important for entities to be mindful of year-end reporting obligations when preparing their PBSs.³¹

1.21 The Finance policy guidance identifies that KPIs should be used to measure the effective achievement of program objectives. Under the framework there is no specific requirement for entities to develop KPIs to demonstrate their efficiency. Instead, efficiency can be assessed by linking the deliverables (delivery of items or activities undertaken) to the actual program expenditure, as is shown in Figure 1.2.

1.22 Entities are, however, required to identify their program support costs by detailing the resources required for each program in their PBSs. In the context of the 2010–11 Budget, Finance indicated that:

Departmental expenses in support of program activities are to be allocated to Program Support, indicating the full cost to government of delivering a specific program. As Program Support (and some departmental programs) will typically include an apportionment of corporate/overhead expenses (in

²⁸ Department of Finance and Deregulation, *Guidance for the Preparation of the 2010–11 Portfolio Budget Statements* 2010, p. 38.

²⁹ Department of Finance and Deregulation, 2009, op. cit., p. 124.

³⁰ *ibid.*, pp. 14–15.

³¹ *ibid.*, p. 19.

addition to direct costs), it is important that the allocation methodology used by agencies best reflects the cost drivers related to departmental expenses to give an accurate representation of funding by program.³²

1.23 Collecting and monitoring program support cost performance information over time will allow judgements to be made about the cost of administration and to ascertain whether there are more efficient ways of achieving program objectives. The use of program support costs is considered in Chapter 3.

Link to annual report requirements

1.24 The Department of the Prime Minister and Cabinet (PM&C) outlines the various reporting requirements for Financial Management and Accountability (FMA) Act agencies in the guidance *Requirements for Annual Reports*.³³ PM&C's guidance identifies the purpose of annual reports as a means of accountability, particularly to the Parliament:

Annual reports serve to inform the Parliament (through the responsible Minister), other stakeholders, education and research institutions, the media and the general public about the performance of departments in relation to services provided. Annual reports are a key reference document and document for internal management. They form part of the historical record.³⁴

1.25 The PM&C guidance states that annual reports are the means by which an entity reports on the achievements of program targets (objectives) as set out in their PBSs. The PM&C guidance defines performance information as 'evidence about performance that is collected and used systematically which may relate to appropriateness, effectiveness and efficiency and the extent to which an outcome can be attributed to an intervention'.³⁵

1.26 The PM&C guidance also identifies mandatory requirements for performance reporting. The guidance notes that 'descriptions of processes and

³² Department of Finance and Deregulation, 2010, op. cit., p. 32.

³³ Department of the Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, [Internet] June 2010, available from <www.dpmc.gov.au/guidelines/index.cfm> [accessed 1 October 2010].

³⁴ *ibid.*, p. 3.

³⁵ *ibid.*, p. 18. (It is noted that the Finance guidance related to the preparation of PBSs for 2009–10 delinks the requirement for performance indicators to assess efficiency, as shown in Figure 1.2.)

activities should be avoided. Rather, reporting should be aimed at providing an assessment of how far the agency has progressed towards outcomes'.³⁶

1.27 Commonwealth Authorities and Companies (CAC) Act entities are not required to comply with the PM&C guidance but must adhere to the annual reporting requirements outlined in the CAC Act and the corresponding Finance Minister's *Commonwealth Authorities and Companies (Report of Operations) Orders* (the Orders).³⁷ The Orders stipulate that the report of operations must include performance information that makes clear the links 'between outcomes, strategies for achieving those outcomes and the principle outputs'.³⁸ The Orders make reference to the previous Outcomes and Outputs Framework and require updating if they are to align with the current Framework.

Previous reports

1.28 The ANAO has undertaken previous audit reports in relation to performance information and reporting:

- ANAO Audit Report No.23 2006–07 *Application of the Outcomes and Outputs Framework*;
- ANAO Audit Report No.11 2003–04 *Annual Performance Reporting*; and
- ANAO Audit Report No.18 2001–02 *Performance Information in Portfolio Budget Statements*.

1.29 The ANAO has also published two Better Practice Guides related to this topic:

- ANAO Better Practice Guide—*Annual Performance Reporting*, April 2004 (prepared jointly with Finance); and
- ANAO Better Practice Guide—*Performance Information in Portfolio Budget Statements*, May 2002.

³⁶ Department of the Prime Minister and Cabinet, op. cit., pp. 6–7. Audit Report No.23 2006–07 *Application of the Outcomes and Outputs Framework* identified that agencies' annual reports included a narrative discussion on activities and recent changes or initiatives; however they generally did not include a discussion or an analysis of overall performance relating to outcomes, outputs or administered items.

³⁷ *Commonwealth Authorities and Companies (Report of Operations) Orders 2008*. <<http://www.comlaw.gov.au/Details/F2008L02092/Html/Text#param0>> [accessed 21 January 2011].

³⁸ *Commonwealth Authorities and Companies (Report of Operations) Orders 2008*, Section 10 (2).

1.30 Consistent, clear reports of performance provide an important record of an entity's progress towards meeting government policy objectives, how well public money is being spent, and whether planned achievements are on track. Given the importance of entities' performance reporting regimes, a review of these regimes is commonly a key aspect of ANAO audits of government programs and entity activities. For some time, audit reports have identified that the development of performance indicators, including effective systems and practices to capture, monitor and report against them, is an area that requires ongoing, and in some cases increased, management attention.³⁹

1.31 More recently, the Joint Committee of Public Accounts and Audit (JCPAA) noted that: 'Measuring key aspects of an agency's performance is a critical part of the Government's Outcomes Framework'.⁴⁰ Further, the JCPAA has recommended that the *Auditor-General Act 1997* be amended to: 'enable the Auditor-General to review an agency's compliance with its responsibilities for a sub-set of performance indicators to provide assurance around the integrity of performance information attached to programs or areas the Parliament sees as a priority'.⁴¹

Audit approach

Audit objective and criteria

1.32 The objective of this audit was to assess how effectively entities had developed and implemented appropriate KPIs to support stated program objectives. To address the audit objective, the ANAO:

- undertook a desktop review of the published effectiveness KPIs for 89 programs across 50 *Financial Management and Accountability Act* and *Commonwealth Authorities and Companies Act* entities. These entities are within the GGS⁴²;

³⁹ Australian National Audit Office, *AUDITFocus*, [Internet] May 2010, available from <http://www.anao.gov.au/uploads/documents/ANAO_Audit_Focus_May_2010.pdf> [accessed 10 September 2010].

⁴⁰ Joint Committee of Public Accounts and Audit, Report 419, *Inquiry into the Auditor-General Act 1997*, December 2010, p. 20.

⁴¹ *ibid.*, pp. 24–25.

⁴² Details of the program selection approach are contained in Appendix 2.

- supplemented the desktop review with more detailed analysis of four entities—the Australian Customs and Border Protection Service (Customs); Fair Work Australia (FWA); the National Film and Sound Archive (NFSA); and the Department of Resources, Energy and Tourism (RET)—including the reporting of performance in each entity’s annual report; and
- assessed the role of Finance in administering the framework, including the preparation of guidance material for entities.

Audit methodology

1.33 The ANAO conducted the majority of the fieldwork between July and December 2010. The ANAO:

- reviewed Finance’s policy documentation and entity guidance relating to the framework;
- reviewed relevant audits and papers, both national and international (refer to Appendix 4);
- examined the 2009–10 and 2010–11 PBSs of 50 selected entities and undertook a desktop review of the KPIs of 89 programs against an established methodology—the SMART criteria, as summarised in the section below; and
- examined KPIs and supporting procedures for their development and implementation in four selected entities as stated in each entity’s 2009–10 and 2010–11 PBSs and reported against in annual reports.

SMART criteria

1.34 In previous versions of guidance to entities, Finance identified that consideration should be given to whether effectiveness indicators and targets were specific, measureable, achievable, relevant and timed.⁴³ As mentioned earlier, these characteristics—collectively known as SMART—have also been referenced in ANAO Better Practice Guides (see Table 1.1 below).

⁴³ Department of Finance and Deregulation, *2008–09 Portfolio Budget Statements Constructors Kit*, March 2009, p. 93.

1.35 SMART is one of a number of methodologies that can be used to determine if the group of selected indicators contain a range of characteristics that allow for the identification of effective delivery of a program objective.⁴⁴

Table 1.1

Underpinning characteristics of KPIs

Underpinning characteristics of KPIs		
Specific	Clear and concise to avoid misinterpretation of what is to be achieved.	These five characteristics are collectively known as the 'SMART criteria'.
Measureable	Can be quantified and results can be compared to other data and able to show trends if measured over time.	
Achievable	Practical, reasonable and credible given available resources and expected conditions.	
Relevant	Informative and useful to stakeholders having regard to the context in which the entity operates.	
Timed	Specifies a timeframe for achievement and measurement.	
Benchmarks	Reference to appropriate standards for comparison where possible.	
Targets	Includes an indication of the desired level of achievement.	

Source: ANAO.⁴⁵

1.36 The Australian Bureau of Statistics was consulted during the conduct of this audit, specifically in the development of an appropriate sampling rationale for the selection of the 50 entities to allow broadly indicative results to be provided.

1.37 The audit was conducted pursuant to section 18 of the *Auditor-General Act 1997* and in accordance with the ANAO Auditing Standards. The cost of the audit to report tabling was approximately \$347 000.

⁴⁴ This methodology has most recently been used in Professor Rufus Black's *Review of the Defence Accountability Framework*, January 2011. The use of SMART is referenced in the report, particularly where he recommends Defence establish a framework on which it can hold its personnel accountable for delivery of outcomes, specifically:

"Using the outputs of the enterprise-wide corporate plan to cascade SMART outcome-based measures down each Group/Service and enshrining them in simplified business performance documentation aligned precisely with individual performance agreements and the enterprise-wide corporate plan." (P. 10.)

⁴⁵ ANAO Audit Report No.23 2006–07, *Application of the Outcomes and Outputs Framework*, p. 57.

Report structure

1.38 In addition to this introductory chapter, this report has three other chapters:

- Chapter 2: *Key Performance Indicators* assesses the arrangements put in place by entities to measure and report the effectiveness (or impact) of programs using appropriate KPIs;
- Chapter 3: *Program Deliverables and Support Costs* examines whether entities identify program deliverables and program support costs, and provide details in their PBSs of the resources required to deliver individual programs; and
- Chapter 4: *The Role of the Department of Finance and Deregulation* examines that department's administration of the policy in relation to the Outcomes and Programs Framework, including the preparation of guidance material for entities.

2. Key Performance Indicators

This chapter assesses the arrangements put in place by entities to measure and report the effectiveness (or impact) of programs using appropriate Key Performance Indicators.

Background

2.1 The Outcomes and Programs Framework introduced in 2009–10 provides the structure for the presentation of outcomes sought by government through its policies; the basis for the Parliament to appropriate funds in the budget context; and the means by which public sector entities plan and report on program performance.

2.2 A required element of the framework is the use of KPIs that enable the measurement and assessment of the achievement of program objectives in support of respective outcomes. Program effectiveness KPIs should be designed to allow managers to provide sound advice on the appropriateness, success, shortcomings and/or future directions of programs.

2.3 To assess the progress made by entities in developing appropriate performance measurement and assessment regimes that focus on programs, the ANAO examined whether entities' effectiveness KPIs were:

- established with a clear and direct link to a program's objectives;
- qualitative (descriptive) or quantitative (numerical) and a target had been identified;
- specific, measurable, achievable, relevant and timed;
- sufficiently appropriate, when examined collectively, to demonstrate the achievement of program objectives in support of respective outcomes; and
- reported appropriately against in annual reports.

2.4 To obtain a broad perspective of trends across the Australian Public Service, as well as identifying entity-specific arrangements, the ANAO:

- undertook a desktop review of the published effectiveness KPIs for 89 programs across 50 *Financial Management and Accountability Act* and *Commonwealth Authorities and Companies Act* entities within the General Government Sector (GGS)⁴⁶; and
- supplemented this desktop review with more focused work within four entities—the Australian Customs and Border Protection Service (Customs); Fair Work Australia (FWA); the National Film and Sound Archive (NFSA); and the Department of Resources, Energy and Tourism (RET).

Linking KPIs to a program's objective

2.5 Finance guidance identifies the purpose of effectiveness KPIs as follows:

Within a broader measurement framework that includes evaluation, performance audits and strategic reviews, KPIs provide an overview at the highest level of program efforts. While their use should not be overstated, KPIs must be carefully designed to be capable of signalling to government, Parliament and the community whether programs are delivering intended results and whether value for public money is being obtained.⁴⁷

Effectiveness KPIs and the 'type' of program

2.6 Useful effectiveness KPIs assists entity managers and external stakeholders to better understand the value of a program and, in particular, the intended impact and contribution to respective outcomes. To be well placed to assess the success, or otherwise, of a program it is important that entities identify the most appropriate effectiveness KPIs against which to report.

2.7 Australian Government entities undertake many roles including: policy development and/or review; revenue collection; the provision of payments and services to organisations and the public; and the exercise of regulatory authority. In fulfilling these roles, entities administer a range of programs. To support the development of effectiveness KPIs, Finance has developed a 'Program Classification Matrix' that draws on the United Nations System of

⁴⁶ Details of the program selection approach are contained in Appendix 2.

⁴⁷ Department of Finance and Deregulation, *2009–10 Budget Portfolio Budget Statements Constructors Kit*, p. 124.

National Accounts and its classification of the functions of government. The Matrix was developed in consultation with working groups with membership from Australian Government entities and contains examples of effectiveness KPIs for particular types of programs (see Table 2.1).

2.8 While it will depend on how a particular program objective is expressed, the type of program will influence the selection of effectiveness KPIs.

Table 2.1

Effectiveness indicators for particular types of programs

Program type	Examples of effectiveness KPIs suggested by Finance
Supporting Programs: that support individuals through the provision of benefit and transfer payments, subsidies, waivers of debts, tax rebates and allowances.	Take-up of support payments; community awareness of a specific rebate, subsidy or allowance; timely and accurate payment or processing of rebate or subsidy.
Assisting programs: that provide or direct the provision of goods or services (professional) to assist individuals.	Direct versus third-party provision; take-up of goods/services; timely delivery of goods/services; satisfaction of client.
Educating programs: that provide or direct the provision of services that educate, train and/or increase the acquisition of skills and knowledge through both formal and informal processes.	Direct versus third-party provision; engagement of participants; take-up of educating programs.
Advising/Informing programs: that advise people of an issue in order to alter their behaviour or actions, or informing people on a particular topic to improve their decisions and choices.	Direct versus third-party provision; acceptance and take-up of advice by specific target group(s); take-up of informing programs.
Regulating programs: that design and implement laws and regulations to an optimal level to shape behaviour and actions, and arbitration to ensure compliance.	Breaches of regulation; timely response to breaches of regulation; appropriateness of regulation; design and implementation of new regulation/deregulation.
Protecting programs: that protect the community through maintaining capability, directing actions and enforcement of the law to ensure physical safety, promoting security, ongoing compliance and law and order.	Protection as deterrence; timely response to government request.

Source: Department of Finance and Deregulation, *Performance Information and Indicators*, October 2010.

Effectiveness KPIs and logical links to program objectives

2.9 Finance guidance highlights that the development of program effectiveness KPIs requires agreement on the intended results that government is seeking and a definition of program success, and that:

There should be a coherent logic between the problem the program seeks to address, the program intervention and the intended result. To demonstrate that the program is effective in achieving the intended result, the result should be attributable to the program and the program should exert an influence over the result.⁴⁸

ANAO desktop review of 50 entities in the GGS

2.10 In its desktop review of 89 programs of 50 GGS entities, the ANAO identified that entities generally did not provide an explanation of the logic and assumptions that had influenced the choice of KPIs (see Table 2.2).

Table 2.2

Adherence to Finance’s guidance on logical linkages (50 GGS entities)

Finance guidance	ANAO assessment of adherence
Entities should briefly outline the logic and assumptions that influenced the chosen KPIs. ⁴⁹	Entities generally did not provide an explanation of the logic that had influenced the choice of these KPIs. Where this was done well, the reader was provided with useful information on the objective and intended impact of the program. The reader was also better equipped in these instances to understand an entity’s view of success in achieving the program’s objectives and, therefore, was better informed when considering annual report information.

Source: ANAO analysis, 2010–11 PBSs.

2.11 Those entities that had clearly defined program objectives tended to have more meaningful and quantitative effectiveness KPIs. In cases where program objectives were not clearly defined, it was difficult to identify the most appropriate effectiveness KPIs. The use of program objectives such as ‘to improve capacity’ are too broad; and it is more instructive for the development of KPIs for the objective of a program to focus on those tangible aspects of the program that have been designed to make the greatest contribution to

⁴⁸ Department of Finance and Deregulation, *Performance Information and Indicators*, October 2010, p. 2.
⁴⁹ Department of Finance and Deregulation, *2010–11 Budget Portfolio Budget Statements Constructors Kit*, March 2010, p. 38.

achieving the intended results, for example, the ‘uptake of skills development and training’.

2.12 The ANAO’s desktop review also identified that good effectiveness KPIs assisted internal managers and external stakeholders to better understand the impact of a program when they: established a clear and direct link between the program objective and the effectiveness KPI; provided an explanation as to why the effectiveness KPI had been selected; and clearly demonstrated how the program would be shown to be achieving its objective.

2.13 Executive involvement in the development and implementation of effectiveness KPIs is an important factor in driving and sustaining a successful performance management regime. An entity’s executive will be aware of events occurring at the strategic level and be able to provide context for the development of appropriate effectiveness KPIs that inform their decisions and stakeholder understanding of the entity’s performance. Ongoing commitment can be shown by an executive through involvement at specific review or development stages of the performance measurement process. Engagement can also be included through clear internal reporting arrangements that are linked to performance agreements for entity staff.

Use of qualitative and quantitative KPIs, including targets

2.14 In advice to entities on developing effectiveness KPIs, Finance has recommended that entities: ‘use both qualitative and quantitative information to measure program performance in their PBSs.’⁵⁰ The Finance advice provides the following definitions for qualitative and quantitative effectiveness KPIs:

Qualitative: this type of reporting is represented by narrative text. Agencies should identify aspirational goals or milestones that are intended to be achieved by the program.

Quantitative: this type of reporting is represented by numbers or percentages in a table.

2.15 Finance has also identified the importance of providing a target to assist in determining whether program objectives have been met:

⁵⁰ Department of Finance and Deregulation, *Performance Information and Indicators*, October 2010, p. 7.

If a program's objectives are quantitative in nature, agencies are encouraged to consider the use of targets.⁵¹

ANAO desktop review of 50 entities in the GGS

2.16 In its review of 50 entities in the GGS, the ANAO examined whether entities used an appropriate mix of qualitative and quantitative KPIs, including targets against which progress towards program objectives could be assessed. The majority of program KPIs reviewed were not constructed in such a way to allow an assessment of likely progress, especially for those programs where targets were not identified. As illustrated in Figure 2.1 below:

- 58 per cent of programs had qualitative indicators;
- 45 per cent of programs had quantitative indicators (a small percentage had both qualitative and quantitative indicators); and
- only 30 per cent of programs identified targets.

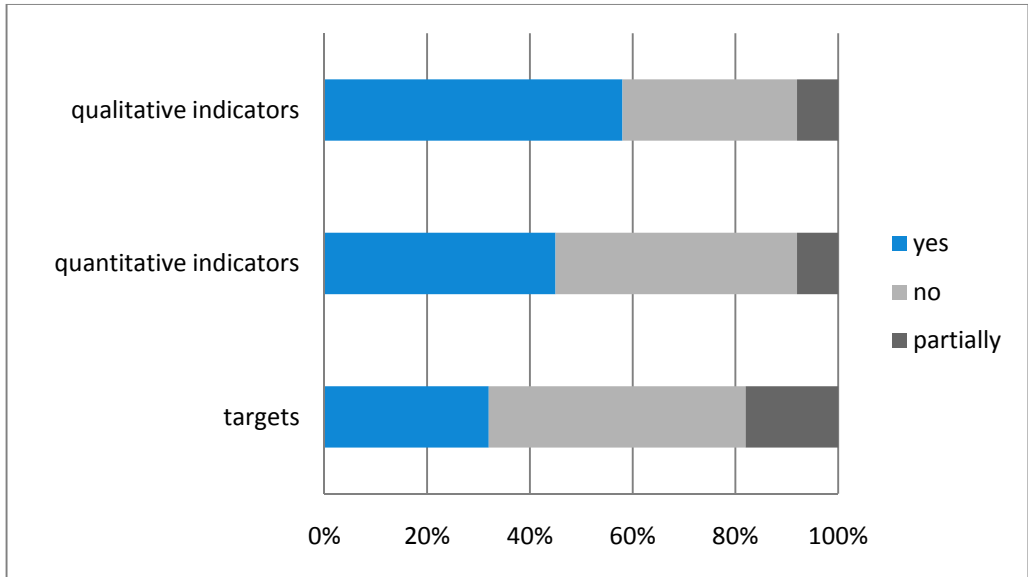
2.17 Some of programs reviewed by the ANAO suited the development of relatively straightforward effectiveness KPIs. For example, programs with tangible products that focused on the delivery of payments, grants, or the allocation of places to the public, lend themselves to the development of quantitative KPIs. The less tangible nature of other programs made the development of appropriate KPIs more challenging. For example, programs concerned with influencing, providing advice, or coordinating outcomes often relied on more qualitative KPIs.

2.18 While quantitative indicators are not necessarily always more objective, their precision is beneficial in gaining agreement on the interpretation of evidence driven data, and for this reason are usually preferable. On the whole, quantitative indicators are also more easily recorded, more readily compared, and allow trends over time to be identified. Where appropriate, they can be supplemented with relevant qualitative information that provides insights into those factors responsible for the success, or otherwise, of a program.

⁵¹ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011, p. 37. Note: Finance guidance in 2008 stated that 'All KPIs are required to have measurable targets' (see Department of Finance and Deregulation, *Portfolio Budget Statements Constructors Kit*, March 2008, p. 34).

Figure 2.1

Adherence to Finance’s guidance on KPIs (50 GGS entities)



Note: ‘Partially’ indicates that some entities had KPIs that incorporated targets for one or more indicators, but not for others. When evaluating entities’ KPIs the ANAO first considered the intended result of the related outcome statement and secondly the intent of each program KPI. For example, where quantitative measures may not have been readily available, entities use of proxy measures in support of the intended result of the outcome statement was considered an appropriate qualitative approach.

Source: ANAO analysis, 2010–11 PBSs.

2.19 The tendency for entities to rely on qualitative KPIs reduces their ability to measure the results of program activities over time. A mix of effectiveness KPIs, that place greater emphasis on quantitative KPIs and targets, would provide a more measurable basis for performance assessment. Targets, in particular, should be used more often to express quantifiable performance levels to be attained at a future date. By enabling a more direct assessment of performance, the greater use of targets would assist to clarify and simplify the process of performance monitoring.

2.20 In some cases, program objectives can only be achieved over a long time. It may, therefore, be necessary to relate targets associated with effectiveness indicators to milestones that demonstrate progress towards the objective over time. An example of this would be multi-year targets that address the achievement of intermediate objectives leading to the achievement of the overall outcome in a specified number of years. This approach would

enable entities to effectively demonstrate progress towards long-term outcomes.

ANAO examination of Customs, FWA, NFSA and RET

2.21 The ANAO examined the effectiveness KPIs for two programs from both Customs and RET, and one program from both FWA and NFSA to assess whether qualitative and/or quantitative indicators had been developed and whether a target had been identified.

2.22 The following table provides an overview of the characteristics of a sample of effectiveness KPIs in the four audited entities. This analysis considers these KPIs individually—later in this chapter an assessment is made as to whether these KPIs, taken collectively, could reasonably allow a reader to determine the achievement of program objectives in support of overall outcomes.

Table 2.3

Adherence to Finance’s guidance on KPIs (Customs, FWA, NFSA, RET)

Sample of entity KPIs	Qualitative?	Quantitative?	Target provided?
Australian and Customs Border Protection Service			
Program 1.1: End-to-end passenger and crew processing that supports legitimate travel and the interventions needed to prevent illegal movement of people and the goods they bring across the border.			
KPI: Passengers understand their obligations, entitlements and processes for entry and exit.	✓	-	×
Program 1.4: To protect Australia’s national interests by generating awareness of activity in Australia’s maritime domain and responding to mitigate, or eliminate, the risks posed by security threats.			
KPI: Number of illegal, unregulated and unreported vessels sighted and identified in Australia’s Exclusive Economic Zone in the Southern Ocean.	-	✓	×
Fair Work Australia			
Program 1: To exercise powers under the <i>Fair Work Australia Act 2009</i> : a) in accordance with the objects of the Act; and b) in a manner that is efficient, fair and just, quick, informal and avoids unnecessary technicalities, open and transparent and promotes harmonious and cooperative workplace relations.			
KPI: Improve or maintain the time elapsed from lodging applications to finalising conciliations in unfair dismissal applications (target of 34 days).	✓	-	✓

Sample of entity KPIs	Qualitative?	Quantitative?	Target provided?
KPI: Improve or maintain average time taken to list applications relating to industrial action (target of 3 days).	✓	-	✓
National Film and Sound Archive			
Program 1.1: The establishment of the NFSA with a mandate to collect, preserve and share the national collection is in recognition of the importance that maintaining a collection of Australia's audiovisual heritage is to providing an understanding of our past, present and future and place in the world.			
KPI: Interactions with the national collections (target of 152 000).	✓	-	✓
KPI: Increased digital collection items available to users online via 'Search The Collection' (target of over 14 000).	-	✓	✓
Department of Resources, Energy and Tourism			
Program 2: Develop and maintain Australian Government policy and programs in relation to resources industries. The key objective of the program is to enhance Australia's economic prosperity by ensuring that Australia maintains its international competitiveness and responds to increasing globalisation and technology developments of the resources industry.			
KPI: Maintenance of effective regulatory regime for offshore petroleum minerals exploration and production, addressing resource management, safety and environment.	✓	-	×
Program 4: The key objective of this program is to maintain and develop policies and programs to maximise the net economic benefit of tourism to the Australian economy.			
KPI: Extent to which tourism interests are considered and reflected in the broader context of Australian Government policy development and implementation, including in relation to labour skills, investment, infrastructure development and regulatory issues that impact on tourism.	✓	-	×

Source: ANAO analysis of 2010–11 PBSs.

2.23 The four audited entities used a range of effectiveness KPIs. NFSA and Customs used both qualitative and quantitative KPIs, although Customs did not generally provide targets against which performance could be measured. RET and FWA used qualitative KPIs, with FWA identifying targets.

2.24 Customs and RET would be better placed to assess the effective delivery of their programs if they identified pre-determined effectiveness KPIs that included quantitative targets. The greater use of targets by these entities would also improve the basis for external performance assessment and, from

an accountability perspective, assist the Parliament to assess if each entity is delivering to expectations.

Underpinning characteristics of KPIs

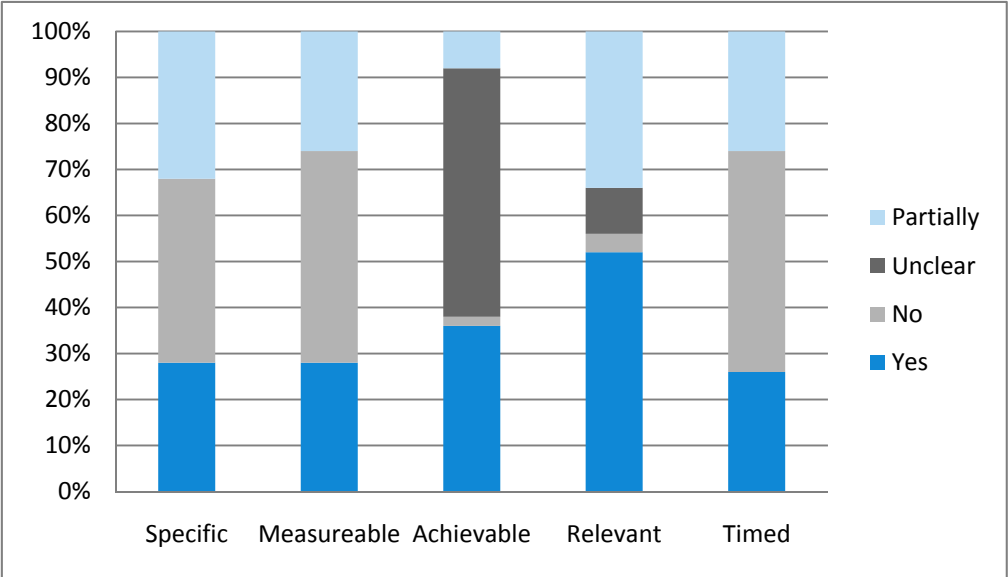
2.25 In previous versions of guidance to entities, Finance identified that consideration should be given to whether effectiveness indicators and targets were specific, measureable, achievable, relevant and timed. These characteristics—collectively known as SMART—have also been referenced in ANAO Better Practice Guides.

ANAO desktop review of 50 entities in the GGS

2.26 For the 89 programs included in its desktop review, the ANAO used the SMART criteria to assess whether the underpinning characteristics of the effectiveness KPIs were specific, measureable, achievable, relevant and timed. Figure 2.2 illustrates the variable nature of the characteristics underpinning effectiveness KPIs within the 89 programs assessed.

Figure 2.2

Assessment of 89 programs using the SMART criteria (50 entities)



Legend: Yes = fully met the criteria; No = did not meet the criteria; Unclear = it cannot be determined whether the criteria is or can be met; Partially = some elements met the criteria, or there was considerable variation within programs across the entity.

Source: ANAO analysis, 2010–11 PBSS.

2.27 The analysis of the 89 programs identified that approximately:

- 40 per cent of the programs had non-specific KPIs, usually associated with the use of very broad program objectives;
- 45 per cent of the programs had KPIs that were not measurable, usually associated with an absence of quantifiable units of measurement or targets;
- 55 per cent of the programs had KPIs that were not clear as to whether they were achievable, usually associated with the KPI not being specific or measurable;
- 10 per cent of the programs had KPIs that were not relevant, usually associated with not being clearly linked to the program's objective or the broader respective outcome; and
- 50 per cent of the programs had KPIs that were not timed, usually associated with no timeframe being specified for achieving the KPI.

2.28 The analysis of the 89 programs also identified a tendency for non-specific statements to be included in PBSs about how program objectives were to be achieved. For example, it was common for statements such as 'timely and effective policy advice' to be used without any further explanations or details to assist the reader in interpreting the relative determinants of 'timely' or 'effective'. It was also common for entities to include a requirement for 'of high quality' or 'well judged' without defining 'high quality' or 'good judgement'.

2.29 The term 'improved' was also used without supporting information to assist in measuring the level of improvement sought, the previous level of achievement, and/or how much improvement was considered reasonable to achieve the program's objective.

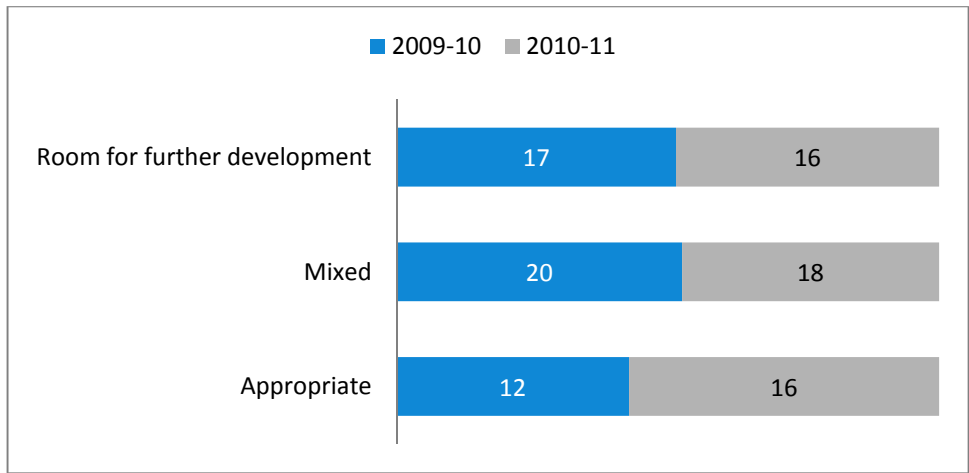
Assessment of the 50 GGS entities from 2009–10 to 2010–11

2.30 There has been some improvement in respect of KPIs included in 2010–11 PBSs, with more of the 50 entities reviewed meeting a greater number of the SMART criteria than was the case in 2009–10. As is shown in Figure 2.3 below, in 2010–11: a third of the entities reviewed had appropriate KPIs; a third were

mixed (often differing significantly at the program level); and a third required further development.⁵²

Figure 2.3

Trends in the use of appropriate KPIs (50 entities)⁵³



Source: ANAO analysis of 2009–10 and 2010–11 Portfolio Budget Statements.

Overall appropriateness of KPIs

2.31 A focus of the Outcomes and Programs Framework is to improve entities’ reporting of their contributions toward the intended results described in their respective outcome statement(s). Finance’s guidance reinforces the requirement that effectiveness KPIs:

... demonstrate the performance of the program in achieving its objectives and contributing to its respective outcome.⁵⁴

⁵² When assessing whether the 50 entities reviewed had KPIs that could be considered to have met the SMART criteria, the following assessment method was used: **appropriate**: three or more elements meeting the five SMART criteria; **mixed**: results varied across the entity (for example, one program had KPIs that met the characteristics described in the SMART criteria, but another or other programs had some room for improvement), or it was unable to be determined if the SMART criteria were met; and **room for further development**: three or more elements did not meet the five SMART criteria.

⁵³ As a result of the random selection of entities, one entity selected for 2010–11 did not have PBSs in 2009–10. Accordingly, the sum of the overall assessment is 49 entities for 2009–10 and 50 for 2010–11.

⁵⁴ Department of Finance and Deregulation, *2010–11 Budget Portfolio Budget Statements Constructors Kit*, p. 38.

Overall assessment of effectiveness KPIs used by Customs, FWA, NFSA and RET

2.32 The ANAO also used the SMART criteria to examine effectiveness KPIs for six programs—two programs from Customs; two programs from RET; one program from FWA; and one program from NFSA—to make an overall assessment of their appropriateness.

2.33 Each of the elements of the SMART criteria was considered for a set of KPIs before an overall assessment was made as to whether the KPIs, taken collectively, could reasonably allow a reader to determine how the entity would show that the program objective had been effectively met and, in addition, contributed to the respective outcome.

2.34 The results of the ANAO's analysis are summarised in Table 2.4 below. Background information on the respective outcome statements for Customs, FWA, NFSA and RET and the programs examined by the ANAO are included in Appendix 3.

Table 2.4

Overall assessment of effectiveness KPIs (Customs, FWA, NFSA, RET)

Characteristics					
Program	Specific	Measureable	Achievable	Relevant	Timed
Australian Customs and Border Protection Service					
Program 1.1	○	○	○	✓	✗
Program 1.4	○	○	○	✓	✗
Fair Work Australia					
Program 1	✓	○	✓	✓	✗
National Film and Sound Archive					
Program 1.1	✓	✓	✓	✓	✓
Department of Resources, Energy and Tourism					
Program 2	✗	✗	unclear	○	✗
Program 4	✗	✗	unclear	○	✗

Legend: ✓ = fully met the criteria; ✗ = did not meet the criteria; unclear = it cannot be determined whether the criteria is met; ○ = some elements met the criteria.

Australian Customs and Border Protection Service

2.35 Customs' effectiveness KPIs were of mixed quality. While the effectiveness KPIs for Customs' Programs 1.1 and 1.4 were considered relevant to each program objective, the KPIs were generally: broad (not specific); provided little insight into expected future performance by way of targets (not measurable); provided limited information to assess expected performance (not achievable); with no specific timeframes (not timed). Overall, the majority of KPIs assessed were not sufficient to measure progress against program objectives or demonstrate the intended contribution to the respective outcome:

The protection of the safety, security and commercial interests of Australians through border protection designed to support legitimate trade and travel and ensure collection of border revenue and trade statistics.⁵⁵

Fair Work Australia

2.36 FWA's effectiveness KPIs were generally specific, had the potential to be achieved, and were relevant. However, the KPIs only partially covered the elements identified in FWA's outcome statement, and were not always clearly measureable. Without further enhancement, the KPIs assessed are not sufficient to fully demonstrate and measure progress against the objectives of FWA's Program 1.1 or demonstrate the intended contribution to the respective outcome:

Simple, fair and flexible workplace relations for employees and employers through the exercise of powers to set and vary minimum wages and modern awards, facilitate collective bargaining, approve agreements and deal with disputes.⁵⁶

National Film and Sound Archive

2.37 NFSA's effectiveness KPIs were specific, measurable (with identified targets), had the potential to be achieved, and were relevant and timed. The KPIs clearly articulated how the impact of the program objective would be assessed. As such, these KPIs were sufficient to demonstrate the intended contribution of NFSA's Program 1.1 to the respective outcome:

⁵⁵ Australian Customs and Border Protection, *Portfolio Budget Statements 2009–10*, p. 118.

⁵⁶ Fair Work Australia, *Portfolio Budget Statements 2009–10*, p. 292.

Develop, collect, preserve and present Australia's national audiovisual collection and other related collections and make them available to all Australians.⁵⁷

The Department of Resources, Energy and Tourism

2.38 While the effectiveness KPIs for RET's Programs 2 and 4 were considered broadly relevant to each program objective, the KPIs for these programs: did not describe a precise action (not specific); did not include measurable units or targets (not measurable); were unclear as to how program objectives would be realised (not achievable); and provided no specific timeframes (not timed). Overall, these indicators were not sufficient to fully demonstrate and measure progress against program objectives or demonstrate the intended contribution of RET's Programs 2 and 4 to the respective outcome:

The improved strength, competitiveness and sustainability of the resources, energy and tourism industries to enhance Australia's prosperity through implementation of government policy and programs.⁵⁸

Areas where effectiveness KPIs could be strengthened

2.39 Although performance information of the four audited entities contained some of the elements required by the Outcomes and Programs Framework, each entity had aspects that required improvement. While each of the audited entities had developed KPIs to measure the effectiveness of the program in achieving a stated objective, there was wide variation in their usefulness as a basis for measuring and tracking performance over time. A particular weakness was the use of effectiveness KPIs that were activity-based rather than designed to measure the impact of a program. Generally where there was a lack of specificity in program objectives, this was associated with effectiveness KPIs that were also unclear and not measurable.

2.40 There is considerable scope for entities to improve publicly reported performance by developing more quantitative effectiveness KPIs, including through the use of targets. This approach would be consistent with an OECD study that identified the need for any government to 'quantify its promises

⁵⁷ National Film and Sound Archive, *Portfolio Budget Statements 2009–10*, p. 321.

⁵⁸ The Department of Energy, Resources and Tourism, *Portfolio Budget Statements 2009–10*, p. 24.

and measure its actions in ways that allow citizens, managers and politicians to make meaningful decisions about increasingly complex state activities'.⁵⁹

2.41 The historical emphasis on measuring activities and outputs rather than outcomes has long been recognised, with an agency head observing:

It is perhaps fair to say that my department has for many years had a culture of measuring outputs rather than outcomes, most notably in highlighting the number of visas we grant rather than measuring the impact of our programs on society. We currently lack the evidence base in some areas to draw well-researched conclusions on outcomes and this is a key preoccupation of our new Policy Innovation and Research Unit.⁶⁰

2.42 The ANAO's findings in this audit indicate that more emphasis needs to be given to outcome measures, particularly effectiveness KPIs, consistent with the expectations of the Outcomes and Programs Framework. In the following sections the ANAO assessed the performance reporting by the four agencies subject to this audit—Customs, FWA, NSFA and RET.

Annual reporting against KPIs

2.43 PBSs are the means by which entities express their program objectives and effectiveness KPIs. Annual reports provide the means by which entities report on progress towards achieving their program objectives and respective outcomes. There should be a direct link between PBSs and annual reports. The ANAO has previously reported that:

It is a common weakness in many annual reports that agencies report on what they did (their activities) rather than what they achieved (the services delivered and impacts made). This does not help stakeholders determine whether the agency has provided good value for money or whether it has made a worthwhile contribution to the Government's policies and objectives.

Better practice performance reporting involves agencies going beyond what they did to explain what happened next. For example, the products they delivered, who to, what happened after the products were delivered, and the changes as a result of the agency's actions.⁶¹

⁵⁹ Organisation for Economic Cooperation and Development, *Measuring Government Activity*, 2009, p. 15.

⁶⁰ Metcalfe, A., Secretary of the Department of Immigration and Citizenship, edited version of keynote address (as published in *Public Administration Today*, Issue 19: April–June 2009) given to the Policy Development, Implementation and Evaluation Forum in Canberra on 23 March 2009.

⁶¹ ANAO Better Practice Guide—Better Practice in Annual Performance Reporting, 2004.

ANAO assessment of the reporting against KPIs by Customs, FWA, NFSA and RET

Australian Customs and Border Protection Service

2.44 To assist stakeholders to better understand the information in Customs' annual reports, Customs could add additional commentary or explanations as to why it chose its KPIs and how these KPIs demonstrate achievement against program objectives. Customs' annual report identifies that some targets as agreed by the Government had been met. However, as there are no forward targets or previous years' data included, the reader cannot make a comparison and assess performance achievement. Over time, historical information could be provided to the reader, as many KPIs in the 2009–10 annual report are the same as the KPIs included in Customs' 1999–2000 annual report.⁶²

2.45 Customs' PBSs include four KPIs for Program 1.1, with two of those being set out in a table for forward years. However, Customs' annual report does not report against KPI 1 and KPI 2, contrary to the requirements of PM&C's guidance.⁶³

Fair Work Australia

2.46 The 2009–10 annual report for FWA provides no commentary or explanation for the identified KPIs, although the outcomes (in numeric terms) were reported for each of FWA's KPIs. Evidence of links between FWA's PBSs and annual report was provided, with the annual report information containing the same KPIs as identified in FWA's PBSs.

National Film and Sound Archive

2.47 While NFSA's KPIs provide readers with a detailed understanding of NFSA's performance against the program objective, no analysis was provided by NFSA as to why two KPIs were not met during the year and if there were any contributing factors outside NFSA's control, or if the target was simply too high to achieve.⁶⁴

⁶² The KPIs reported against in the *1999–2000 Australian Customs and Border Protection Service Annual Report* are largely the same as those reported against in the 2009–2010 annual report.

⁶³ Department of the Prime Minister and Cabinet, *Requirements for Annual Reports—for Departments, Executive Agencies and FMA Act Bodies*, June 2010, pp. 6–7.

⁶⁴ NFSA advised that this information is included in its Corporate Plan.

2.48 As the NFSA is a CAC Act entity, it is not required to comply with the PM&C guidance but instead must adhere to the annual reporting requirements outlined in the CAC Act and the Finance Ministers Operational Orders (the Orders). NFSA has complied with the CAC Act's annual reporting requirements by including information in its annual report about how it performed during the financial year in relation to NFSA's principal programs and contribution to outcomes.⁶⁵

Department of Resources, Energy and Tourism

2.49 The information provided by RET in its 2009–10 annual report was mainly activity-based, rather than reporting on the impact that its programs were having on their target group(s). All KPIs were identified as having been met, but as the KPIs did not include a measure or other definition of success, the basis of this assessment was not evident to the reader.

2.50 The lack of specificity of statements included in these KPIs mean that the results in RET's annual report provided minimal information to allow the reader to determine success against a target.⁶⁶ For example, KPI 1 is reported to have been achieved. However, as KPI 1 was stated as 'the maintenance of an effective regulatory regime' with no definition of how 'effective' was to be measured, the reader is unable to make a considered assessment as to whether this KPI has in fact been met, or been met to a degree or level.

Areas where annual reports could be strengthened

2.51 The performance information in the annual reports assessed by the ANAO was not sufficient to allow external stakeholders to understand the progress being made by entities in meeting their program objectives. When considering the effectiveness KPIs used to support 2009–10 annual reports, the four audited entities included reporting of achievements against KPIs, but generally reported on activities undertaken, with little analysis of the effectiveness of the program in meeting its stated objective or its contribution to the relevant outcome. Entity annual reports were more useful when they reported progress against quantitative and measurable effectiveness KPIs.

⁶⁵ It is noted that the Orders have not been updated to align with the introduction of the new Outcomes and Programs Framework.

⁶⁶ Department of Resources, Energy and Tourism, *Annual Report 2009–10*, October 2010, pp. 146–147.

2.52 The inclusion of trend data over time would also assist stakeholders to make a comparison and assess whether performance is on track, or is better or worse than previous years. Tracking performance over time, and including relevant historical data and commentary is an established method for providing stakeholders with contextual information with which to assess whether the intended results were obtained. This approach was not apparent in the annual reports for the four audited entities.

2.53 Similar results have been identified in other jurisdictions. In examining the Annual Reports of Queensland public sector entities, the Auditor-General for Queensland has stated that that, overall, these annual reports failed to answer questions such as: has the agency achieved what it was intended to do; is this better than last year; is this good enough; were these activities needed in the first place; could they have done this for less money?⁶⁷

Recommendation No.1

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

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

Agencies' Responses:

Australian Customs and Border Protection Service

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

⁶⁷ Auditor-General for Queensland, Audit Report No.1, *Enhancing Accountability through Annual Reporting*, April 2008, p. 1.

Fair Work Australia

2.56 Agreed. FWA agrees that meaningful KPIs are valuable measures in the evaluation of program performance and resourcing.

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

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

National Film and Sound Archive

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

Department of Resources, Energy and Tourism

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

3. Program Deliverables and Program Support Costs

The chapter examines whether entities identify program deliverables and program support costs, and provide details in their Portfolio Budget Statements of the resources required to deliver individual programs.

Background

3.1 The way entities manage ongoing programs is central to the efficient delivery of government initiatives, and it is a requirement of the Outcomes and Programs Framework that entities allocate departmental expenses in support of program delivery to the relevant program. Used appropriately, such information allows informed decisions to be made about the efficient allocation and use of entity resources.

3.2 Finance guidance for entities on the preparation of the information to be contained in PBSs identifies a number of required elements including that:

entities are to outline the deliverables that will be produced over the budget and forward years to achieve the program objectives;

departmental expenses in support of program activities are to be allocated to 'Program Support'; and

entities need to determine the units that will be used to show the quantity of program deliverables and will be used to determine the program's efficiency when measured against the resourcing provided.⁶⁸

3.3 To assess the progress made by entities in having appropriate arrangements to track operational efficiency, the ANAO examined whether entities had:

- identified program deliverables; and
- collected and monitored the cost of program support activities.

⁶⁸ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011, pp. 32, 35 and 36.

Program deliverables

3.4 Deliverables are the goods and services produced by an entity to achieve the policy objectives intended by a government. Finance guidance for outlining deliverables requires entities to:

where practical (and beneficial) to include quantitative information to demonstrate the work of the entity, as well as include contextual and qualitative information.⁶⁹

Deliverables identified by Customs, FWA, NFSA and RET

3.5 Examples of the nature and type of deliverables identified by the four audited entities are summarised in the table below. According to Finance guidance, it is not a requirement to set targets for deliverables. (The indicators for program deliverables were not assessed for the 50 entities reviewed as part of this audit.)

3.6 As illustrated in Table 3.1, based on publicly available documentation, the mix of qualitative and quantitative indicators varied across the four audited entities. RET identified a range of qualitative indicators for its program deliverables, whereas FWA identified a limited range of quantitative indicators for its program deliverables, in one instance with one target for all elements of the business it delivers. NFSA and Customs both identified a range of qualitative and quantitative indicators for their program deliverables.

⁶⁹ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011, p. 35.

Table 3.1**Typical program deliverables**

Entity / Program	Example of a Typical Deliverable	Qualitative Indicator provided?	Quantitative Indicator provided?	Target provided?
Customs Program 1.1	Regulate and facilitate international passengers through assessment of passengers and crew on arrival including, through deployment of detector dogs and real-time officer assessment and response activities.	✓	×	×
Program 1.4	Northern Waters surveillance ACV Triton (patrol days).	×	✓	×
FWA Program 1	Orders relating to industrial action—good faith bargaining.	×	×	×
Program 1	Dispute resolution, minimum wages, orders and approval of agreements.	×	✓	✓
NFSA Program 1.1	Australian feature length films acquired.	✓	✓	✓
Program 1.1	New media works acquired (new separate KPI).	✓	✓	✓
RET Program 2	Timely processing of applications for offshore petroleum and mineral titles and promotion of offshore petroleum acreage release.	✓	×	×
Program 4	Provision of accurate, timely and effective policy advice to the Minister and Australian Government on tourism related issues.	✓	×	×

Source: ANAO analysis of 2009–10 Portfolio Budget Statements.

3.7 The usefulness of the Customs, FWA and RET qualitative indicators as a basis for performance assessment would be enhanced if each entity formulated more quantitative indicators and targets against which to examine performance results for deliverables.

3.8 A consideration for entities in determining the extent to which they include quantitative information for their deliverables is the number and materiality of their programs, the level of community interest in the program, and ongoing Parliamentary and stakeholder scrutiny (see Table 3.2 below).

Table 3.2

Total number of programs, deliverables and KPIs for the four entities

Entity	No. Programs	No. Deliverables	No. KPIs	Audited Programs
Customs	5	66	41	1.1 and 1.4
FWA	1	4	3	1
NFSA	1	14	13	1.1
RET	4	54	32	2 and 4

Source: ANAO analysis, 2009–10 PBSs.

Collecting and monitoring program support costs

Efficiency of operations

3.9 Improving the operational efficiency of public sector entities has been a key driver of public sector reform over several decades. An important part of this reform process is ensuring that officials who scrutinise, manage and allocate resources direct their attention to the cost and efficiency of the resources used in achieving government objectives.

3.10 The environment in which public sector officials operate has a strong influence on how efficiently they manage the resources available to them. A key focus of the most recent reforms was the development of budgetary and reporting processes designed to encourage more efficient management practices in Commonwealth entities.

The Outcomes and Outputs Framework (1999–2000 to 2008–09)

3.11 A clear objective of the Outcomes and Outputs Framework was to emphasise that:

all outputs come at a price; government signals it is seeking a service that will best achieve the outcome at the best price.⁷⁰

3.12 An expected benefit of the Outcomes and Outputs Framework was that it would enable an entity to demonstrate the delivery of outputs in terms of their key attributes—price, quality and quantity—and make it possible to assess the efficiency of entities in producing outputs.

⁷⁰ Department of Finance and Administration, *Specifying Outcomes and Outputs*, 1998, p. 27.

3.13 However, major users of entity PBSs and annual reports, including Parliamentary Committees, experienced ongoing difficulties with the aggregation of financial information provided by entities using the Outcomes and Outputs Framework. In 2002, the Joint Committee of Public Accounts and Audit (JCPAA) made the following comment in regard to the aggregation of information as presented in entities' PBSs:

It is important that agencies appropriately disaggregate their outputs to support transparency and accountability relating to the efficiency with which they deliver their outputs to achieve outcomes.⁷¹

3.14 Over a number of years, ANAO audits also identified a reduction in useful cost and delivery information associated with assessing aggregated results under the Outcomes and Outputs Framework. The practice of entities to aggregate many relatively small outputs into a few large 'Output Groups' made it difficult to form a view on operational efficiency where there was reduced information at an operational level on the costs for individual outputs. This situation was often compounded by an absence of links between financial and non-financial performance information.⁷²

The Outcomes and Programs Framework (from 2009–10)

3.15 The importance of effective management at a more disaggregated program level has been a focus of the Government's recent approach to improving the transparency and useability of public sector budgetary and financial management. As noted earlier, beginning with the 2009–10 Budget, the Australian GGS adopted an Outcomes and Programs Framework.

3.16 Based on Finance guidelines, entities have moved from reporting against departmental outputs to reporting against program support costs. The purpose of collecting and reporting on the costs incurred by entities to support programs, such as the provision of policy advice, service delivery, and program management, is to allow judgements to be made about the cost of production and to ascertain whether there are more efficient ways of achieving program objectives.

3.17 Guidance prepared by Finance states that entities:

⁷¹ Joint Committee of Public Accounts and Audit, Report 388, *Review of the Accrual Budget Documentation*, June 2002, p. 40.

⁷² ANAO Audit Report No.11 2003–04, *Annual Performance Reporting*.

... need to determine the units that will be used to show the quantity of program deliverables and will be used to determine the program's efficiency when measured against the resourcing provided.⁷³

3.18 Entities are required to identify their program support costs by including the estimated resources required for program support in their PBSs. In the context of the 2011–12 PBSs, Finance indicated that:

Departmental expenses in support of program activities are to be allocated to Program Support, indicating the full cost to government of delivering a specific program. As Program Support (and some departmental programs) will typically include an apportionment of corporate/overhead expenses (in addition to direct costs), it is important that the allocation methodology used by agencies best reflects the cost drivers related to departmental expenses to give an accurate representation of funding by program.⁷⁴

3.19 Collecting and monitoring the cost of program support activities over time allows judgements to be made about the cost of administration and to ascertain whether there are more efficient ways of achieving program objectives.

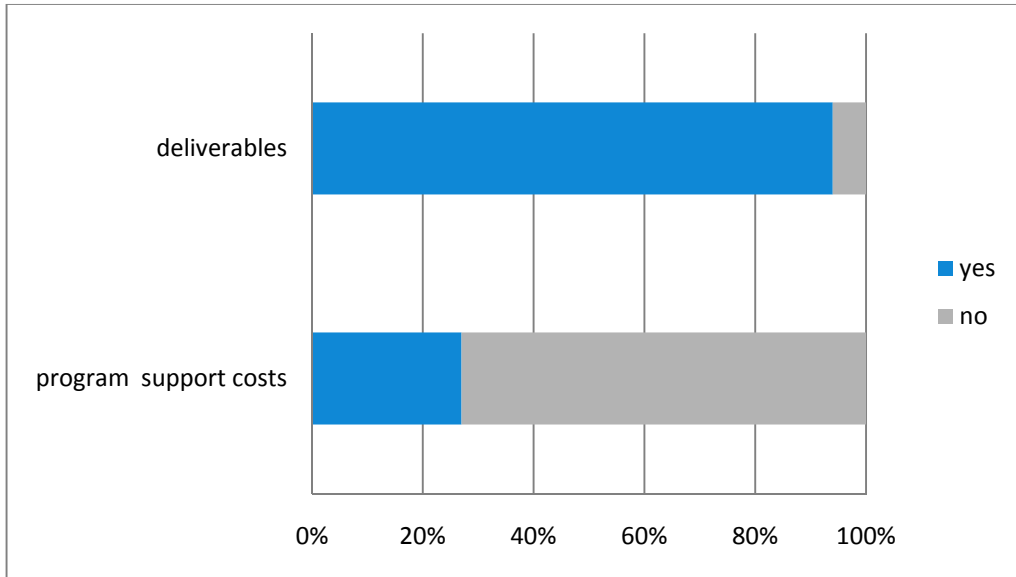
Improving the collection and reporting of program support costs

ANAO desktop review of 50 entities in the GGS

3.20 Nearly all 50 entities reviewed by the ANAO included details of the deliverables associated with their programs in their PBSs. However, as shown in Figure 3.1, 73 per cent of the programs reviewed did not identify or otherwise reference program support cost information.

⁷³ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, p. 36.

⁷⁴ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, p. 32.

Figure 3.1**Reporting on deliverables and program support costs (50 entities)**

Source: ANAO analysis, 2010–11 PBSs.

3.21 A focus of the Government’s reform agenda for some time has been to improve the openness and transparency of public sector budgetary and financial management. Identifying program support costs would provide a frame of reference for the cost of delivering particular programs, and an understanding of how such costs have changed over time.

3.22 The identification and allocation of program support costs should not be seen solely as a mechanism to satisfy external requirements, but as a useful management tool to improve the operations of an entity by identifying costs drivers and non value-added activities. Potential applications of cost information include a better understanding of:

- economy—establishing the baseline minimum cost of an activity, for example as part of a process mapping/ benchmarking exercise, an outsourcing decision, or setting user charges;
- efficiency—as a resource allocation tool to enable managers to ensure that the distribution of an entity’s resources is properly weighted toward those activities which make the greatest contribution to a deliverable; and

- cost-effectiveness—comparing the relative costs (resources used) and outcomes (impacts) of two or more courses of action, such as an assessment of the alternative approaches to implementing new policy initiatives.

Examination of Customs, FWA, NFSA and RET

3.23 The ANAO examined processes in Customs, FWA, NFSA, and RET, and identified that program support costs were not consistently included in PBSs. Of the four audited entities, RET identified separately its departmental program support costs for its administered programs. Understanding the program support costs assists in the assessment of the cost of administering programs, and ascertaining whether there are more efficient ways of achieving program objectives.

3.24 For both FWA and NFSA, the total entity appropriation reflected the agencies' cost of delivering one program. Similarly, for Customs, departmental costs were fully allocated across its five programs. These costs represented the program support costs for these programs, although this was not clearly stated. From the perspective of the reader, it would be beneficial for entities to more clearly reference the allocation of departmental expenses to programs as program support costs, consistent with the Finance Guidelines.

Processes for producing and reporting on program support costs

3.25 It is a requirement of the Outcomes and Programs Framework that entities allocate departmental expenses in support of program activities to the relevant program, including both direct (for example, staff-related) and indirect (for example, corporate support) costs.

3.26 Entities should take a considered approach when adopting costing methodologies. Not all entities will require the use of a dedicated costing system. Some entities may be able to obtain sufficient cost information to meet their requirements through regular cost studies or periodic cost identification exercises.

3.27 Each entity should identify its particular requirements prior to determining the appropriate costing approach to be used. Some of the factors that can be considered include: the size and nature of the entity's operations and environment; existing systems and data handling capabilities; the availability of technology and other resources to support the costing system; the level of precision needed; and the cost of data collection.

3.28 Where appropriate, the use of a sophisticated costing system (including specialised software) which is fully integrated with an entity's Financial Management Information System (FMIS) can provide a high degree of data integrity and the capability to produce useful and timely management reports.

Key Performance Indicators for efficiency

3.29 While it is not a requirement of the Outcomes and Programs Framework that entities develop and use efficiency KPIs to monitor and report against pre-defined indicators, the benefits for entity management include being readily able to identify trends in operational efficiency. Examples of efficiency KPIs that entities could use include:

- benchmarked comparisons—the cost of providing specified services, for example, the processing of applications by entity staff compared with processing costs for a similar activity within the entity or another entity;
- productivity measures—for example, the number of applications processed per staff member or work area, compared with a standard, target or benchmark; and
- trends in program support costs—to provide an indication of the cost of delivering a program over time, to be used for comparative purposes when reporting costs in annual reports.

3.30 In those cases where entities have demonstrated a good understanding of the value of cost information to assist decision-making, and have implemented approaches to provide the functionality needed to allocate program support costs to individual programs, it would be appropriate for them to consider the use of efficiency KPIs to monitor operational efficiency over time. In circumstances where such information is not currently available, entities should consider the best approach for developing and implementing efficiency KPIs to assess the efficiency of their operations.

3.31 In this context, there is an opportunity for Finance to provide information in its guidance material on the development and implementation of efficiency KPIs. Such guidance would encourage entities to provide a greater focus on efficiency, not just effectiveness, when developing their performance regimes.

Recommendation No.2

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

Agencies' Responses:

Australian Customs and Border Protection Service

3.33 Agreed. Customs and Border Protection recognises that this is an important aspect of the Government's financial framework. As noted in the report, Customs and Border Protection only has departmental programs in support of its single departmental outcome. All departmental costs in support of these programs are fully allocated and are outlined in our budget documents (Portfolio Budget Statement and Portfolio Additional Estimates Statement) and Annual Report. Customs and Border Protection believes the framework would benefit from greater clarity from the Department of Finance and Deregulation on the treatment and presentation of support costs for departmental versus administered programs.

Fair Work Australia

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

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

National Film and Sound Archive

3.36 Agreed. The NFSA's appropriation is for one program and we will ensure that this is noted in the PBS.

Department of Resources, Energy and Tourism

3.37 Agreed. RET already uses relevant costing information (internal budget allocations) as the mechanism for attributing program support costs to program

4. The Role of the Department of Finance and Deregulation

This chapter examines the Department of Finance and Deregulation's administration of the policy in relation to the Outcomes and Programs Framework, including the preparation of guidance material for entities.

Background

4.1 The Department of Finance and Deregulation's (Finance) responsibilities⁷⁵ for the Outcomes and Programs Framework include:

- providing guidance and advice to entities on the administration of the Outcomes and Programs Framework including requirements for PBSs;
- actively vetting outcomes statements to ensure cross-government consistency; and
- undertaking a systematic program of evaluation of performance indicators against targets.⁷⁶

4.2 The ANAO assessed Finance's progress in relation to these responsibilities, with a focus on the development and use of performance information.

Guidance material and advice

4.3 The preparation of PBSs is undertaken by entities using guidance provided by Finance.⁷⁷ Finance has developed the following policy documents in support of the Outcomes and Programs Framework:

- *Commonwealth Programs Policy and Approval Process*, December 2008;
- *2009–10 Budget Portfolio Budget Statements Constructors Kit*;

⁷⁵ The *Operation Sunlight* discussion paper and the Government Response in June 2008 to the Murray Review committed Finance to a range of responsibilities.

⁷⁶ Senator Andrew Murray, *Review of Operation Sunlight: overhauling budgetary transparency*, June 2008, p. 101.

⁷⁷ The Finance template notes that certain information in the PBSs must be identical to that provided, retained, or approved by Finance, and include resource statements and outcome statements.

- *Outcome Statements Policy and Approval Process*, June 2009;
- *Guidance for the Preparation of the 2010–11 Portfolio Budget Statements*, March 2010;
- *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2011; and
- *Performance Information and Indicators*, October 2010.

Information provided in Finance’s guidance

4.4 The concept of performance indicators which incorporate targets is an accepted element of good public sector management. In the *2008–09 Portfolio Budget Constructors Kit* Finance stated that the performance indicators articulated in PBSs should mirror those used by the entity for internal measurement, and that the development and implementation of performance targets is an ‘internal exercise’ for entities. Similar guidance was provided by Finance in 2010–11 and 2011–12.

4.5 The 2009–10 Finance guidance included an appendix, *Performance Information and Indicators*, which provided an overview of the KPI development and implementation. The overview describes: the characteristics of performance indicators; how to focus on results when measuring programs; the need for accuracy and clearly defined data; accountability of data; the integration of performance indicators into program management; and the need for valid data. The information provided by Finance is not detailed in each area, although it does provide entities with high-level awareness of considerations to be made when developing KPIs.

4.6 In March 2010, Finance released guidance for entities for the preparation of the 2010–11 Budget. This guidance was reduced in length and detail. In particular, aspects of the explanation of the policy and information specifically related to developing KPIs were removed. Finance’s 2010–11 guidance included only one addition in relation to KPIs, highlighted below. The following table identifies relevant key differences between the 2009–10 and 2010–11 Finance guidance.⁷⁸

⁷⁸ In March 2011 Finance released the 2011–12 version of this guidance.

Table 4.1

Comparison of the KPI information provided in Finance's guidance to entities from 2009–10 to 2010–11

Finance guidance on Key Performance Indicators: 2009–10 and 2010–11	
2009–10 guidance	2010–11 guidance
PART A—Outcomes and Program Policy	
<i>What reporting is required for programs?</i> Purpose of focus on performance information with the introduction of new policy. (p.15)	Removed in 2010–11 guidance. (Part A in its entirety was not provided in 2010–11 guidance.)
PART B—Constructing the 2009–10 PBSs	
<i>Increased focus on performance and results.</i> Included in the key points for constructing the PBSs. (p.19)	Removed in 2010–11 guidance.
<i>Diagram: Program Reporting Flow</i> Diagram demonstrating the flow of information from objective, budget, deliverables and KPIs. Highlights the delinking of efficiency and effectiveness within this process. (p. 55)	Removed in 2010–11 guidance.
<i>Program Reporting Flow</i> Descriptive information of the 'information flow diagram'. Talks through the four aspects of program reporting. (p. 56)	Removed in 2010–11 guidance.
<i>PBSs Template Example</i> Guide for template layout and information to be included. High-level information provided. Referred to Appendix A for detailed information. (pp. 63–64)	<i>PBSs Template Example</i> Guide for template layout and information is included. High-level information provided. (pp. 38–39) Additional information compared to 2009–10, entities to notify AAUs and footnote if KPIs change from the previous year.
<i>Frequently Asked Questions</i> Five questions specifically relating to the inclusion of performance information. (pp. 98–99)	<i>Frequently Asked Questions</i> Removed from 2010–11 guidance. Included FAQs relate only to financial matters, not performance measures. (p. 62)
<i>Appendix A—Program performance information and indicators</i> Guide for identifying different program types and performance measures that suit. Provides assistance to entities for development of KPIs. (pp. 105–126)	Removed from 2010–11 guidance. Parts of this information have been included in the Finance document <i>Performance Information and Indicators</i> , released in October 2010. It would be useful to incorporate this back into overall guidance material.

Source: ANAO analysis.

4.7 In interviews with the ANAO, entities' views of the usefulness of Finance's policy guidance varied. Because the guidance was seen as a means to

assist with the mechanical process of populating explanatory tables for the preparation of PBSs and the Central Business Management System (CBMS)⁷⁹, Finance's guidance was predominantly used by Chief Financial Officers in corporate areas, and not in program areas where the responsibility for the development of KPIs generally rests.

4.8 To improve the usability of existing guidance, in October 2010 Finance separated its existing policy guidance into two documents—one that focuses on the mechanical construction and printing requirements of the PBSs, and a second that provides guidance on the application of the Outcomes and Programs Framework, and the development and implementation of KPIs.⁸⁰

4.9 In previous versions of guidance to entities, Finance identified that consideration should be given to whether effectiveness KPIs and targets were specific, measureable, achievable, relevant and timed.⁸¹ Given the findings of this audit that many entities are yet to develop and implement effectiveness KPIs that provide quantitative and measurable information, it would be beneficial if Finance revisited this previous guidance and suggested a diagnostic tool and methodology, such as the SMART criteria, to further assist entities to review and evaluate the usefulness of their KPIs.⁸²

4.10 The guidance provided by Finance contains a mixture of: the application of the Outcomes and Programs Framework; how to develop and implement appropriate KPIs; and the mechanical instructions required to construct PBSs documents. In the medium term, there would be benefit in consideration being given to amending both the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997* to include the responsibilities of entities to develop and report against relevant and appropriate KPIs. Such an approach would be complementary to proposals by the Joint Committee of Public Accounts and Audit (JCPAA) that

⁷⁹ CBMS is the Australian Government's central budget and financial management information system administered by Finance. It contains the Commonwealth program list and produces the draft Appropriation Bills.

⁸⁰ Department of Finance and Deregulation, *Performance Information and Indicators*, October 2010.

⁸¹ Department of Finance and Deregulation, *2008–09 Portfolio Budget Statements Constructors Kit*, March 2009, p. 93.

⁸² The Auditor-General for Queensland has used the criteria set out in the Standards Australia handbook, *Disclosure and Transparency Frameworks*, to undertake detailed assessments of agencies, annual reports. See Auditor-General for Queensland, Audit Report No.1, *Enhancing Accountability through Annual Reporting*, April 2008, p. 15.

the *Auditor-General Act 1997* be amended to: ‘enable the Auditor-General to review an agency’s compliance with its responsibilities for a sub-set of performance indicators to provide assurance around the integrity of performance information attached to programs or areas the Parliament sees as a priority’.⁸³

4.11 Legislation similar to the above arrangement currently exists in Western Australia and New Zealand, and if made a requirement for Australian Government entities, would also complement existing arrangements in relation to the preparation, reporting and auditing of their annual financial statements.

Advice to entities

4.12 There are a number of areas within Finance that provide assistance, advice and support to entities before, during and after the preparation of information that collectively makes up the PBSs.

4.13 Two key areas provide advice and support to entities in relation to Framework reporting responsibilities: the Agency Advice Units (AAUs) and the Budget Framework Branch (BFB). AAUs act as a conduit for entities, assisting them to provide the Government with reliable financial information for decision-making. The primary point of contact from entities to both the AAUs and BFB is through Chief Financial Officers and financial/budget areas or branches. There is generally no direct contact with entity program areas, which are responsible for the development and review of KPIs.

4.14 Statements made in the Finance guidance, Estimates Memoranda⁸⁴, provided to entities in March 2010 for the preparation of the 2010–11 PBSs, include a separate paragraph relating to the reporting of any changes made to KPIs under the heading of *Key Points*:

Agencies need to advise their Agency Advice Unit (AAU) in Finance if there are any changes to their Key Performance Indicators (KPIs), for information purposes and so that trends can be recorded. If a KPI changes from last year’s budget of PAEs, agencies should footnote in the KPI table, a summary of the change and whether they have met the previous KPI at the program level. If there are a number of changes a brief overview would suffice, noting the key

⁸³ Joint Committee of Public Accounts and Audit, Report 419, *Inquiry into the Auditor-General Act 1997*, December 2010, pp. 24–25.

⁸⁴ Estimates Memoranda are Finance’s policy circulars, which are made available to all entities.

changes. If the KPI has not been achieved, a brief explanation of the reasons should be included in the performance section of the agency annual report.

4.15 This is reiterated in Finance's 2010–11 guidance.⁸⁵

4.16 However, AAUs within Finance interviewed during the course of this audit have advised that: they have not been contacted by entities planning to change or amend KPIs; and do not review or otherwise assess the KPIs developed by entities. Accordingly, there is a need for a better alignment between statements made in the Finance guidance, Estimates Memoranda and Finance's current processes.

Aligning performance reporting

4.17 Entities are responsible for establishing performance indicators that support the achievement of objectives and, subsequently, respective outcomes. The development of meaningful KPIs is an important process for entities, allowing for the incorporation of KPIs into business practices, and provides for management focus on aligning entity management and external performance reporting. A focus on both internal and external factors influencing program performance can be further reinforced by creating linkages between an entity's PBSs (and associated KPIs) and staff performance agreements.

4.18 The importance of executive input in the development and implementation of performance reporting was recognised in the *Operation Sunlight* discussion papers and, in the response to the Murray Review, the Government assigned responsibility to Finance to develop supporting guidance material.⁸⁶ Finance's internal auditors have identified that:

Finance could benefit from updating the outcome framework guidance to include additional specific and detailed guidance on [Senior Executive Service] SES performance agreements and agency achievement, ensuring that performance agreements are aligned with outcomes, outputs and Key Performance Indicators (KPIs).

This would improve alignment with section 1.5 of the *Operation Sunlight* agenda which states as an additional initiative, *'Individual Senior Executive*

⁸⁵ Department of Finance and Deregulation, 2010, op. cit., p. 38. This requirement is also included in the previous iteration of this document, the *2009–2010 Budget Portfolio Budget Statements Constructors Kit* and the Estimates Memorandum of 2010/16, March 2010.

⁸⁶ Senator Andrew Murray, op. cit., p. 101.

Service employees' performance agreements have regard to the achievement of relevant outcomes, outputs and KPIs. Finance will include this advice in future guidance to agencies on the outcomes framework'.

4.19 Such an approach would be consistent with the view adopted in Chapter 2 of this audit, that is, executive involvement in the development and implementation of effectiveness KPIs is an important factor in driving and sustaining a successful performance management regime. An entity's executive will be aware of events occurring at the strategic level and be able to provide context for the development of appropriate effectiveness KPIs that inform their decisions and stakeholder understanding of the entity's performance. Ongoing commitment can be shown by an executive through involvement at specific review or development stages of the performance measurement process. Engagement can also be included through clear internal reporting arrangements that are linked to performance agreements for entity staff.

Cross-government consistency

Linking program and budgetary reporting to programs in other Commonwealth entities

4.20 Finance's 2010–11 guidance recommends that entities link program and budgetary reporting to programs in other Commonwealth entities that contribute to the same government objective.⁸⁷

The linking of programs provides readers with a broader understanding of how particular programs are delivered across government, but it also delineates the performance reporting requirements for each agency's program.⁸⁸

4.21 The ANAO identified that linking of programs between entities was undertaken in different ways in different entities and no one common method of linking was evident. In some cases, a program objective for one entity may have multiple links to many programs in other entities. In these arrangements, agreement on the specific contributions to be provided by each entity is critical, as is a clearly articulated understanding of each entity's particular

⁸⁷ Department of Finance and Deregulation, 2010, op. cit., pp. 30–31.

⁸⁸ *ibid.*, p. 68.

responsibilities in regard to achieving and reporting against a program's objective.

4.22 While responsibility for determining the most appropriate approach to coordinating programs rests with individual entities, more specific Finance guidance to entities on how to link similar programs that straddle a number of entities, but contribute to the same government objective, would be beneficial in promoting consistency.

Federal Financial Relations—Council of Australian Governments arrangements

4.23 A new federal financial framework has been in place since 1 January 2009, following the signing of the *Intergovernmental Agreement on Federal Financial Relations*.

4.24 As part of the *Intergovernmental Agreement*, the Council of Australian Governments (COAG) introduced six national agreements in areas such as education, housing and Indigenous reform. The national agreements outline objectives, outcomes, outputs, performance indicators and roles and responsibilities among other things.

4.25 Under the framework, the Commonwealth provides three types of payments to the states and territories: National Specific Purpose Payments, which are aligned to five of the national agreements⁸⁹; National Partnership Payments (supported by National Partnership Agreements); and general revenue assistance, such as the GST payments.

4.26 With the implementation of these new arrangements, traditional accountability mechanisms are evolving as a shift to outcomes measurement requires performance indicators that link directly to outcomes, and a greater focus on the capture of robust and timely performance data.

4.27 Under the new arrangements there are two primary mechanisms that can be used to gain an understanding of the operation of national agreements and, particularly, the progress being made towards achieving the agreed outcomes. These are reporting to the Parliament through publications such as PBSs and annual reports, and the performance information required by the *Intergovernmental Agreement*.

⁸⁹ The national Indigenous Reform Agreement does not have a related specific purpose payment.

Performance information required by the Intergovernmental Agreement

4.28 Schedule C of the *Intergovernmental Agreement*, Public Accountability and Performance Reporting, identifies the performance reporting requirements associated with national agreements.⁹⁰ While the information provided in the schedule is helpful in determining the definition of a performance indicator within the context of national agreements⁹¹, there is no requirement to link or cross-reference the PBSs of the relevant Australian Government entity that includes program objectives and performance information relevant to the program/initiative.

Performance information in the PBSs of Australian Government entities

4.29 A significant portion⁹² of Commonwealth funding is provided to State and Territory governments through national agreements. These payments are included in the Department of the Treasury (Treasury) PBSs, and the PBSs for Treasury include KPIs associated with these payments.⁹³ The Treasury KPIs for these payments are solely concerned with the process of providing the payments, and do not measure the objectives associated with the programs for which the payments are made.

4.30 Finance's guidance does, however, indicate that those Commonwealth entities affected by Federal Financial Relations payments should expand any non-financial information provided for the planned performance of the programs, and to link or cross-reference to programs where payments are made by the Treasury.⁹⁴

4.31 The reporting requirements for Australian Government entity PBSs and those for national agreements do not always intersect as their focus can be

⁹⁰ Council of Australian Governments, *Intergovernmental Agreement on Federal Financial Relations*, Schedule C, Public Accountability and Performance Reporting, December 2008.

⁹¹ That is: KPIs will inform the general public about government performance in making progress towards identified outcomes, and that KPIs provide a clear picture of the achievement of governments in delivering services. *ibid.*, p. C-2, item C6.

⁹² In 2011–12, the Commonwealth will provide the states and territories with payments totalling some \$95 billion. Just under 50 per cent of these payments will be facilitated by national funding agreements, with the balance largely covering GST payments.

⁹³ Department of Treasury, *Programs 1.4 to 1.10, Treasury Portfolio Budget Statements 2010–11*, available from <http://www.treasury.gov.au/documents/1791/PDF/02_Treasury.pdf> [accessed 2 September 2010].

⁹⁴ Department of Finance and Deregulation, *Guidance for the Preparation of the 2011–12 Portfolio Budget Statements*, March 2010, p. 30.

different.⁹⁵ There is currently only limited guidance for Australian Government entities on how to incorporate the performance of programs funded under national agreements into PBSs and annual reports. While the funding provided for national agreements is included in Treasury's PBSs, with a link to the relevant entity's program, there is variability in the way entities include KPIs for those programs in their own PBSs. As such, reporting is often either at a very high level or, in some cases, non-existent.

Evaluation of performance indicators against targets

Reviewing the implementation of the framework

4.32 While the primary responsibility for the application of the Outcomes and Programs Framework rests with entities, Finance is expected to maintain an awareness and oversight of entities' implementation.

4.33 Government policy commits Finance to a number of activities, including a systematic program of evaluation of performance indicators against targets.⁹⁶ Finance has advised it is currently undertaking an initial review of certain aspects of the framework⁹⁷, with a view to identifying issues that will be targeted for further review over time.

4.34 Finance advised that the Department will be preparing a report to government which compares entities' reported performance information from 2009–10 and 2010–11 annual reports to the KPIs included in the 2009–10 and 2010–11 PBSs to assess the achievement of entities performance targets over time.

4.35 There is also scope for Finance to undertake reviews of other aspects of the implementation of the Outcomes and Programs Framework, particularly in terms of the development and implementation of effectiveness KPIs. Such

⁹⁵ It is noted that reporting under the Federal Financial Relations is in respect of achievement against objectives, outcomes, outputs and benchmarks in the national agreements, rather than against outcomes and programs, as is the case in the Outcomes and Programs Framework.

⁹⁶ The *Operation Sunlight* discussion paper and the Government Response in June 2008 to the Murray Review committed Finance to a range of responsibilities.

⁹⁷ Finance advises that in the first instance, the review will focus on whether entities are meeting certain fundamental aspects of the requirements associated with the framework (for example: whether KPIs included in the PBSs are being reported upon as being met or not in entities' annual reports, without making a judgement as to the factual accuracy of the reporting).

reviews would serve to provide feedback to both government and entities on areas that would benefit from greater attention.

Recommendation No.3

4.36 To ensure the ongoing currency and appropriateness of the Outcomes and Programs Framework, the ANAO recommends that the Department of Finance and Deregulation:

- reviews the development and implementation of effectiveness KPIs to determine the extent to which expected improvements in the measurement and achievement of program objectives is being realised;
- includes in its guidance to entities a suggested diagnostic tool and methodology, such as the SMART criteria, to further assist entities to review and evaluate the usefulness of their KPIs; and
- develops more expansive policy guidance for entities on how to reference performance reporting for programs delivered through national agreements.

Agency Response:

Department of Finance and Deregulation

4.37 Agreed-in-principle.

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

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

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

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



Ian McPhee

Auditor-General

Canberra ACT

8 September 2011

Appendices

Appendix 1: SMART criteria

1. In order to make an assessment as to whether a KPI met all, some or none of the characteristics associated with the SMART criteria, the ANAO researched the origin of the term, and questioned whether any other assessment criteria could equal or better the collective nature of the five criteria.
2. A number of publications⁹⁸ were consulted prior to assessing the KPIs in order to determine various sub-criteria relevant to each of the SMART characteristics, and to determine key guiding questions to aid understanding when assessing if the KPIs were appropriate. Each of the sub-criteria were considered before an overall assessment was made as to whether the KPIs, taken collectively, could reasonably allow a reader to determine how the entity would show that the program objective had been effectively met.
3. The ANAO developed a series of key questions, and associated considerations, to make an assessment as to whether KPIs were SMART.

Table A 1

Consideration of the SMART criteria

Criteria	Consideration
Specific	<p><i>Key Question: Is there a description of a precise or specific behaviour/outcome that is linked to rate, number percentage or frequency?</i></p> <ul style="list-style-type: none">• Are the KPIs in 'plain English'?⁹⁹• Do they contain jargon or unexplained acronyms?• Are the deliverables and KPIs different?• Could a 'reasonable person' understand the meaning of the KPI?

⁹⁸ A list of the publications consulted is included at Appendix 4.

⁹⁹ Plain English (sometimes referred to more broadly as plain language) is a generic term for communication styles that emphasise clarity, brevity and the avoidance of technical language. Plain English is written in a manner appropriate to the reading skills and knowledge of the audience. It is writing that has no confusion about meaning, is free of cliché and unnecessary jargon, and is easy to understand. Good plain English writing easily imparts knowledge to an audience unfamiliar with the in-house language and knowledge of the writer.

Criteria	Consideration
Measureable	<p><i>Key Question: Is there a reliable system in place to measure progress towards the achievement of the objective?</i></p> <ul style="list-style-type: none"> • Does the KPI show a trend over years? • Is there a target or benchmark to measure achievement against? • Is the form of measurement used clear and in a quantifiable amount? (e.g. numeric or %) • Is the form of measurement used appropriate to express success of the program?
Achievable	<p><i>Key Question: With a reasonable amount of effort and application, can the objective be achieved?</i></p> <ul style="list-style-type: none"> • Have the deliverables or KPIs changed significantly over years without a reasonable explanation? (e.g. an increase or decrease in the budget)
Relevant	<p><i>Key Question: Does the KPI link to the program objective?</i></p> <ul style="list-style-type: none"> • Is the entity's business obvious from reading the PBSs? • Is there a paragraph outlining the reason the KPIs were selected? • Is there an obvious link between the outcome, program, program objective, deliverables and the KPI? • If a KPI has changed, is there a footnote explaining the reason?
Timed	<p><i>Key Question: Does the KPI span the relevant forward years (or is there an explanation as to why it does not)?</i></p> <ul style="list-style-type: none"> • Is a timeframe specified for achieving the KPI (over several years)? • Does the measure provide information in time for action to be taken?

Source: ANAO analysis.¹⁰⁰

¹⁰⁰ The article by Gary Platt, 'SMART objectives: what they mean and how to set them', *Training Journal*, August 2002, was consulted when preparing the key questions.

Appendix 2: ANAO desktop review of 50 entities: program selection

1. The primary population from which the sample was to be taken included 172 GGS entities, as they are required to report in accordance with the framework. A listing of FMA Act and CAC Act entities was obtained from Finance as of 3 May 2010. Finance advised that there are a total of 612 programs administered by the 172 GGS entities.

Sample selection

2. The ANAO adopted a stratified sample approach to selecting which of the 612 programs were to have their KPIs reviewed. The sampling approach, as defined in Table A 2, was designed to allow indicative conclusions across the Commonwealth to be drawn. While the sampling method involved the application of audit procedures to less than 100 per cent of the total number of programs within the Commonwealth, it was developed in such a way that all programs within the selected entities had a chance of selection. The ANAO assessment is based on a selection of 89 programs for 50 selected GGS entities.

Table A 2

Sample selection and approach

Approach	Sample		Comment
Step 1	19 Departments of State (232 programs)	153 GGS entities (380 programs)	Primary population: GGS entities—for the selection of the GGS entities the ANAO split the population into two. The first was a targeted selection of all (of the then) 19 Departments of State to whom the majority of government appropriations are made. This created an intentional bias of the population based on the materiality of Commonwealth affairs. ¹⁰¹
Step 2	100% sample 19 entities 232 programs	20% sample 31 entities 66 programs	The 20% sample was a random selection from the remaining GGS entities.
	50 entities 298 programs		
Step 3	50 entities 89 programs		For each selected entity two programs, or 10% of the entity's programs, whichever the greater, were selected randomly. 29.8% of 298 programs were selected 14.5% of the original 612 programs were selected.
Step 4	All KPIs in the programs selected were reviewed.		An aggregated result from the selected programs was then given for each entity.

Source: ANAO analysis.

¹⁰¹ Each Department of State has programs and KPIs, and may also provide funding to GGS entities to undertake programs on behalf of the Commonwealth.

Appendix 3: Outcomes statements and program objectives for the four audited entities

Outcome statements

- Each of the four entities audited had one outcome statement.

Table A 3

Outcome statements and total resources from all sources

Entity	2009–10 Outcome Statements	Total Available Annual Appropriations
Customs	The protection of the safety, security and commercial interests of Australians through border protection designed to support legitimate trade and travel and ensure collection of border revenue and trade statistics. ¹⁰²	\$1 158m
FWA	Simple, fair and flexible workplace relations for employees and employers through the exercise of powers to set and vary minimum wages and modern awards, facilitate collective bargaining, approve agreements and deal with disputes. ¹⁰³	\$67.6m (plus \$5.9m in other revenue)
NFSA	Increased understanding and appreciation of Australia's audiovisual history by developing, preserving, maintaining and promoting the national audiovisual collection and providing access to audiovisual material of historic and cultural significance. ¹⁰⁴	\$78m
RET	The improved strength, competitiveness and sustainability of the Resources, Energy and Tourism industries to enhance Australia's prosperity through implementation of government policy and programs. ¹⁰⁵	\$1 641m

Note: Finance advice requires that the outcome statements used by entities in their PBSs are the most current statements agreed by the Finance Minister and consistent with relevant Appropriation Bills.¹⁰⁶

Source: ANAO analysis, 2009–10 PBSs.

¹⁰² Attorney-General's Department, Australian Customs and Border Protection Agency, *Portfolio Budget Statements 2009–10*, p. 117. This Outcome is unchanged in the 2010–11 PBSs.

¹⁰³ Fair Work Australia, *Portfolio Budget Statements 2009–10*, p. 292. This Outcome is unchanged in the 2010–11 PBSs.

¹⁰⁴ National Film and Sound Archive, *Portfolio Budget Statements 2009–10*, p. 319. This Outcome is unchanged in the 2010–11 PBSs.

¹⁰⁵ The Department of Resources, Energy and Tourism, *Portfolio Budget Statements 2009–10*, p. 24. This Outcome is unchanged in the 2010–11 PBSs.

¹⁰⁶ Department of Finance and Deregulation 2009, op. cit., p. 4.

2. The table above illustrates the broad nature and breadth that an outcome statement may cover and the varying amount of the appropriations.

Programs and associated deliverables

3. The aim of the framework is to provide a transparent and consistent framework for reporting across the Government. Programs are the primary means by which entities address and achieve government outcomes.
4. To assess the approach taken by the four entities to plan and report against their single outcome, the ANAO examined entities' programs and associated deliverables. As can be seen from the table below, there is a wide variation in the number of programs, deliverables, and KPIs an entity may develop and report against.

Table A 4

Total number of programs, deliverables and KPIs for the four entities

Entity	No. Programs	No. Deliverables	No. KPIs	Audited Programs
Customs	5	66	41	1.1 and 1.4
FWA	1	4	3	1
NFSA	1	14	13	1.1
RET	4	54	32	2 and 4

Source: ANAO analysis, 2009–10 PBSs.

5. For those entities audited that administered one program, that program was examined as part of this audit. Where the entity had more than one program, at least two programs were examined. The objectives for the programs examined are listed in the following table.

Table A 5

Program objectives for the audited programs

Entity / Program	Program Objective
Customs Program 1.1	End-to-end passenger and crew processing that supports legitimate travel and the interventions needed to prevent illegal movement of people and the goods they bring across the border.
Program 1.4	To protect Australia's national interests by generating awareness of activity in Australia's maritime domain and responding to mitigate, or eliminate, the risks posed by security threats.
FWA Program 1	To exercise powers under the <i>Fair Work Australia Act 2009</i> : a) In accordance with the objects of the Act b) In a manner that is efficient, fair and just, quick, informal and avoids unnecessary technicalities, open and transparent and promotes harmonious and cooperative workplace relations.
NFSA Program 1.1	The establishment of the NFSA with a mandate to collect, preserve and share the national collection is in recognition of the importance that maintaining a collection of Australia's audiovisual heritage is to providing an understanding of our past, present and future and place in the world.
RET Program 2	Develop and maintain Australian Government policy and programs in relation to resources industries. The key objective of the program is to enhance Australia's economic prosperity by ensuring that Australia maintains its international competitiveness and responds to increasing globalisation and technology developments of the resources industry.
Program 4	The key objective of this program is to maintain and develop policies and programs to maximise the net economic benefit of tourism to the Australian economy.

Source: ANAO analysis, 2009–10 PBSs.

Appendix 4: Reference material

Table A 6

Reference material

Author	Title	Publication Date
Commonwealth Government		
Advisory Group on Reform of Australian Government Administration	<i>Ahead of the Game: Blueprint for the Reform of Australian Government Administration</i>	March 2010
Australian Government	<i>Operation Sunlight—Enhancing Budget Transparency</i>	December 2008
Australian Government	Australian Government Response: <i>Review of Operation Sunlight: Overhauling Budgetary Transparency</i> , by Senator Andrew Murray	June 2008
Australian National Audit Office	<i>Illegal Foreign Fishing Australia's Northern Waters</i>	Audit Report No.23, 2009–10
Australian National Audit Office	<i>Administration of Youth Allowance</i>	Audit Report No.12, 2009–10
Australian National Audit Office	Better Practice Guide, <i>Innovation in the Public Sector: Enabling Better Performance, Driving New Directions</i>	December 2009
Australian National Audit Office	<i>Rural and Remote Health Workforce Capacity—the contribution made by programs administered by the Department of Health and Ageing</i>	Audit Report No.26 2008–09
Australian National Audit Office	<i>Illegal, Unreported and Unregulated Fishing in the Southern Ocean</i>	Audit Report No.6, 2008–09
Australian National Audit Office	<i>Application of the Outcomes and Outputs Framework</i>	Audit Report No.23 2006–07
Australian National Audit Office	Better Practice Guide, <i>Better Practice In Annual Performance Reporting</i>	April 2004
Australian National Audit Office	<i>Annual Performance Reporting</i>	Audit Report No.11, 2003–04
Australian National Audit Office	Better Practice Guide, <i>Performance Information in Portfolio Budget Statements</i>	May 2002
Australian Public Service Commission	<i>Delivering Performance and Accountability</i>	2009
Department of Finance and Deregulation	<i>Guidance for the Preparation for the 2010–11 Portfolio Budget Statements</i>	March 2010

Author	Title	Publication Date
Department of Finance and Deregulation	<i>Performance Information and Indicators</i>	October 2010
Department of Finance and Deregulation	<i>Guidance for the Preparation for the 2011–12 Portfolio Budget Statements</i>	March 2011
Department of Finance and Deregulation	<i>Portfolio Budget Statements Constructors Kit</i>	2009
Department of Finance and Deregulation	<i>Portfolio Budget Statements Constructors Kit</i>	March 2008
Department of the Prime Minister and Cabinet	<i>Requirements for Annual Reports—for Departments, Executive Agencies and FMA Act Bodies</i>	23 June 2010
Standing Committee of Finance and Public Administration	<i>Transparency and Accountability of Commonwealth Public Funding and Expenditure</i>	Senate Committee Report, March 2007
Senator Andrew Murray	<i>Review of Operation Sunlight: Overhauling Budgetary Transparency</i>	June 2008
Australian State and Territory Audit Offices		
ACT Auditor-General's Office	<i>Performance Reporting</i>	April 2010
NSW Audit Office	<i>Key Performance Indicators</i>	1998
Queensland Audit Office	<i>Performance Reviews—Using performance information to improve service delivery</i>	Report to Parliament No. 5 for 2010
Queensland Audit Office	<i>Enhancing Accountability through Annual Reporting</i>	Audit Report No.1 for 2008
Queensland Audit Office	<i>Better Practice Guide, Output Performance Measurement and Reporting</i>	February 2006
Victorian Auditor-General	<i>Performance Reporting by Departments</i>	May 2010
International Bodies		
National Audit Office – United Kingdom	<i>Choosing the Right FABRIC—A framework for performance information</i>	2000
New Zealand Office of the Auditor-General	<i>Local government: Examples of better practice in setting local authorities' performance measures</i>	June 2010
New Zealand State Services Commission and The Treasury	<i>Performance Measurement—Advice and examples on how to develop effective frameworks</i>	August 2008

Author	Title	Publication Date
New Zealand Office of the Auditor-General	<i>The Auditor-General's observation on the quality of performance reporting</i>	June 2008
Academic		
Burt Perrin	<i>Effective Use and Misuse of Performance Measurement</i>	American Journal of Evolution, 19(3), 1998.
Garry Platt	<i>Smart Objectives: What they mean and how to set them</i>	Training Journal, August 2002.
Christopher Pollitt	<i>Performance Management in Practice: A Comparative Study of Executive Agencies</i>	<i>Journal of Public Administration Research and Theory</i> , June 2005.

Source: ANAO.

Appendix 5: Additional Agency Response

1. In addition to responding to Recommendation No.1 and No.2 Customs also provided a response to Recommendation No.3:
2. Recommendation No. 3 (Paragraph 4.36)
3. To ensure the ongoing currency and appropriateness of the Outcomes and Programs Framework, the ANAO recommends that the Department of Finance and Deregulation:
 - Reviews the development and implementation of effectiveness KPIs to determine the extent to which expected improvements in the measurement and achievement of program objectives is being realised;
 - Includes in its guidance to entities a suggested diagnostic tool and methodology, such as the SMART criteria, to further assist entities to review and evaluate the usefulness of their KPIs; and
 - Develops more expansive policy guidance for entities' on how to reference performance reporting for programs delivered through national agreements.
4. Response:
5. Agreed. Customs and Border Protection agrees that the Government's Outcome and Programs Framework would be strengthened with additional guidance and clarity provided through the completion of the above recommendations by the Department of Finance and Deregulation. Further it would assist agencies if any intended guidance was released with well developed examples using the diagnostic tool and methodology while allowing sufficient lead time for implementation into the next planning and budgetary cycle.

Index

A

Australian Customs and Border Protection Service, 60

D

Deliverables, 68, 96

Department of Finance and Deregulation, 34, 35, 38–39, 44, 77, 79, 81, 83, 85–86, 99

Department of Resources, Energy and Tourism, 61

F

Fair Work Australia, 60

N

National Film and Sound Archive, 60

P

Performance indicator characteristics, 44–45, 80, 91

Performance indicators, 37, 39, 44, 49–50, 56, 61, 65, 70, 75, 79, 81, 85, 91, 94, 96

Performance information, 98

Performance monitoring and reporting outcomes, 104

Performance reporting, 40, 62, 71, 85, 98

Programs, 97

T

Targets, 45, 53

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