

SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS
--

- Audit recommends that from 1996/97 the publication of performance indicators in agencies' annual reports be mandatory.

(Page 23)

- Audit recommends that the Department of Treasury and Finance develop guidelines on performance measures.

(Page 24)

- An overall audit opinion as to whether performance indicators are relevant and appropriate was not made.

(Page 24)

The Secretary, Department of Treasury and Finance (Treasury) advised that

“It is the view of Treasury that the use of performance indicators by departments will not only address external accountability issues but will also provide essential information for departmental management. The development and use of performance indicators will lead to departments becoming more results oriented and will allow closer examination of the efficiency and effectiveness of departments in providing outputs that enable Government to achieve its specific aims and policy objectives”.

BACKGROUND

During recent years there has been a trend among elected representatives, the public and the media to focus on accountability in the public sector. It has become increasingly important to assess what public sector agencies do and how well they are doing it.

The concept of accountability lies at the root of any discussion about external reporting by public sector organisations. Accountability comprises two main elements: accountability for stewardship and accountability for performance.

Stewardship usually is taken to mean the responsibility of the management of a department to account for the proper use of the various resources made available to it and to demonstrate compliance with its statutory obligations. However accountability for performance is much wider, and relates to management's responsibility to account for the use of public money and other economic resources in the achievement of specific policy aims and objectives. As such it concerns the efficiency and effectiveness with which resources have been used and the quantity and quality of outputs achieved, typically services provided.

In the public sector the Auditor-General is required by legislation to provide a reasonable assurance that financial statements are truthful and fair. This is done by conducting professional financial compliance audits and by providing an independent Audit Report on the financial statements. However to date the Auditor-General has not, in this State, been required to provide an independent audit assurance that requisite outputs or performance indicators have been produced, that these are of the appropriate quality, and that production of the outputs and indicators are cost effective.

Ideally public sector performance indicators should provide information on the efficiency and effectiveness of government programs.

In May 1995 I advised the Secretary, Department of Treasury and Finance, that Audit would review the production of performance indicators in Departments in line with Treasurer's Instruction 701(1)(e) which at this time reads that the Annual Report of an Agency shall contain "key efficiency and effectiveness indicators where available, and the program objectives to which they relate".

The Audit approach would be to rely on the scrutiny of Departmental output statements and Annual Reports including any performance indicators.

Acknowledgments

I have drawn heavily in this report from information prepared and reported on by the Office of the Auditor-General, Western Australia and from discussions with colleagues from that Office, and I thank that Office for its assistance. A list of further readings on this subject can be found in the Bibliography on page 37 of the report. I also express my thanks to the Department of Treasury and Finance for its assistance with this project.

INTRODUCTION

Over the past few years there has been a move towards increasing and improving accountability of government and government agencies. Emphasis has also changed from reporting by inputs to reporting by outputs and outcomes. The next step in this process is the development of performance indicators that can assess the efficiency of producing outputs, the effectiveness of achieving outcomes and thereby improve the overall level of accountability.

WHAT ARE OUTPUTS?

Outputs are the goods and services produced by, or provided on behalf of, an agency and delivered to customers outside the agency. Outputs include services carried out on behalf of the State, such as revenue collection, as well as goods and services provided to other agencies such as information bureau services or corporate services.

Outputs are *significant* goods and services, either because of their relative magnitude, volume or value, or because of other factors, such as a statutory obligation for their production.

In summary, outputs are goods and services which are:-

- the results of completed production processes;
- provided to customers outside the agency;
- significant to the achievement of Government policy objectives;
- important to agency accountability;

It is desirable that outputs be:-

- measurable;
- amenable to times series comparisons; and
- described in simple and definitive language.

In specifying outputs, they are the final outputs, from the point of view of the agency. This is to be distinguished from intermediate outputs or sub-outputs, which are goods and services produced by an agency business unit as part of the agency's work processes and which do not affect external customers. Typical intermediate services include personnel, information technology and financial services.

WHAT IS THE OUTPUT METHODOLOGY?

Previously, resource allocation in the public sector has focused on rules, processes and the cost of inputs rather than on the production and/or delivery of outputs.

Program budgeting helped to link the provision of outputs more explicitly to Government policy but had only limited success in identifying the goods and services produced or provided by an agency and how they related to Government policy objectives. This is because Program budgeting was not oriented around outputs.

The output methodology seeks to identify the goods and services agencies should be providing rather than simply continue with what they are currently providing. The output methodology requires each agency to clearly define its outputs, establish their costs and evaluate the relationship between the agency's activities and Government policy objectives, ie. what does the agency actually do to assist the Government in meeting the Government's stated policy objectives?

HOW WILL OUTPUT INFORMATION BE USED?

One of the major benefits of the output methodology is that it deals with accurate specification, costing and identification of goods or services provided by agencies on behalf of the Government.

This then allows Government to make decisions on:-

- the agreed price at which the outputs will be delivered;
- the agreed volume and quality of outputs to be delivered;
- the process by which outputs are delivered; and
- the time frame in which the outputs will be delivered.

The benefits of identifying price, volume, quality and timeliness are considerable, for not only does it allow Government to make more informed resource allocation decisions, but it also allows the formulation and reporting of the Budget to be based on agencies' results. In addition, the Government will be better placed to make purchasing decisions, e.g.:

- the purchase of outputs targeted to meet specific Government policy objectives; and
- the ability to compare performance data in terms of price, volume, quality and effectiveness.

WHAT ARE THE BENEFITS OF USING THE OUTPUT METHODOLOGY?

Clear identification of agencies' outputs will enable Government and agencies to improve their strategic decision making and resource allocation and allow

Government to determine if agencies' outputs are consistent with the Government's policy objectives.

The analysis of outputs allows for the continual review of agency activities by Government to:

- establish accountability of agencies and agency managers for the efficient and effective provision of goods or services;
- evaluate alternative ways of providing outputs and achieving desired policy objectives;
- determine appropriate funding levels for outputs;
- establish service agreements for service provision between Government and agencies, and between agencies and service providers; and
- review agency outputs in a process of continuous improvement.

CURRENT STATUS

The output methodology has been progressively implemented in Tasmania over the last four years. As part of the 1995-96 Budget Papers, information on agency activities was presented on both a Program and output basis for 1994-95 (Estimate), 1994-95 (Actual) and 1995-96 (Estimate). This presentation provided the necessary link between Programs and outputs as the basis of presentation of the Budget. Reporting from the 1996-97 Budget Papers will be on an output only basis and represents the next phase in the continued implementation of the output methodology. Accordingly, agencies will no longer be required to provide Program information as part of the Budget process.

It is important that a consistent costing approach is used across all agencies. Treasury have recently developed guidelines for the costing and pricing of outputs. One of the factors in the successful introduction of output methodology will be the accuracy and reliability of the information produced.

As the information in the future years Budget Papers will be on an output-only basis, it is essential that outputs be appropriately specified, costed and aggregated. To improve the quality of the output information, Treasury has undertaken comprehensive analysis of all agency outputs to improve the specification and level of output aggregation.

It should be noted that it has not been necessary to make any legislative changes in order to facilitate the move to fully incorporate the output process into Budget formulation and reporting. It should also be noted that funds will not be appropriated to agencies on an output basis, nor is it intended that outputs be referred to in the *Consolidated Fund Appropriation Bill 1996-97*.

PERFORMANCE MANAGEMENT FRAMEWORK

As mentioned earlier with the change from inputs to outputs, the next step in the link is to ensure that performance indicators can assess the efficiency of producing outputs and the effectiveness of achieving outcomes or objectives. The following diagram illustrates this point.

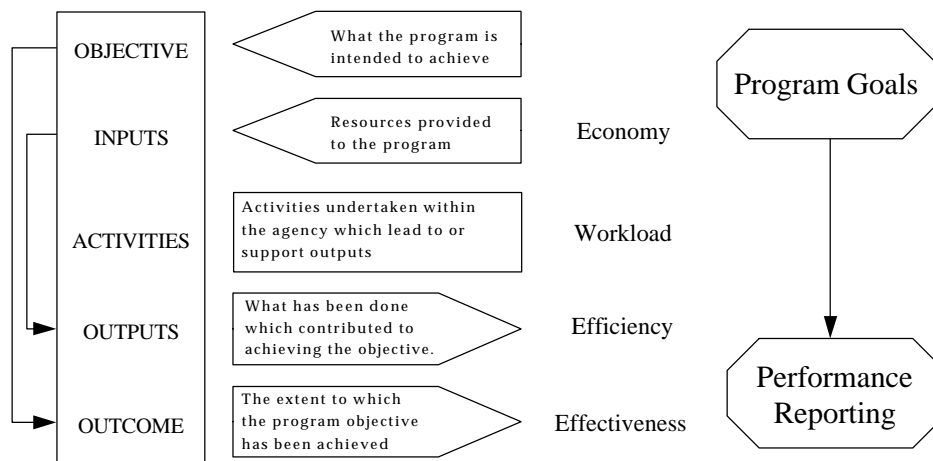


Figure 1 : Public Sector Performance Management Framework*

* Adapted from the Office of the Auditor General, Western Australian

WHAT ARE PERFORMANCE INDICATORS?

Performance indicators are intended to be guides to an understanding of the performance which has been achieved. The term derives from the word “indicate”: to point out; to show; to give some notion of; or to give ground for inferring. Performance indicators do not, therefore, have the relative precision and coverage of financial statements.

In practice, performance indicators can be used for a variety of purposes including to:

- encourage public sector agencies to focus on the needs of their customers;
- guide improvements in the design and implementation of public sector programs/outputs;
- hold public sector managers accountable for program/output performance;
- make informed Government policy decisions;
- recognise achievements and motivate public sector employees;
- assist in determining and justifying budgets;
- identify best practices that lead to superior performance (benchmarking);
- monitor contractors and other funding recipients; and
- stimulate the public to take a greater interest in governmental activities.

CHARACTERISTICS OF SATISFACTORY PERFORMANCE INDICATORS

As a general principle, performance indicators should be:

Relevant

Performance indicators should be relevant. A logical relationship should exist between the indicators, the user's needs and clearly defined objectives which communicate what is being measured.

Users also need to be provided with a sufficiently comprehensive range of information to enable them to assess overall performance, but not so much that they are overwhelmed with detail.

Appropriate

The information should be of a form which will assist the user in assessing the performance of the agency in the discharge of objectives established.

Indicators need to give users sufficient information to assess:

- the extent to which the agency has achieved a predetermined target or goal;
- the trend in performance over time; and/or
- the performance relative to the performance of similar agencies.

There is a need to set indicators that are measurable for the quantity and quality of outputs to be delivered. Appropriate performance measures operate under the following constraints in that the benefit must exceed the costs and that they must have a positive effect on the agency behaviour.

In addition to the above, performance indicators are required to have the following basic qualitative characteristics:

Verifiable

Appropriately qualified individuals working independently should be able to come to essentially similar conclusions or results about performance indicators. This means that the information upon which the indicators are based must be collected, recorded and analysed in such a way that the conclusions drawn from it can be checked.

Free from bias

The information used to indicate performance should be impartially gathered, analysed using techniques which are free from built-in bias and impartially reported. Selective reporting or distorted presentation of information is to be avoided.

Quantifiable

The indicator should show in a quantified way *the extent to which objectives have been achieved*. Extent is a relative amount and requires a reference point against which it can be compared. It should be noted that subjective or judgmental statements about performance are not quantified indicators. However a properly conducted survey which is based on qualitative assessments may produce an appropriate objective indicator.

TYPES OF PERFORMANCE INDICATORS

Efficiency Indicators

Efficiency indicators relate resource inputs to resulting outputs, showing the agency's productivity. Program efficiency indicators should show the efficiency with which the agency produced those outputs which are directly related to the primary purpose of the program. In this context, internal management or operational efficiency information (such as delivery of corporate services) is not relevant. Efficiency indicators should relate the relevant resources used by an agency to the outputs achieved, including overheads and administrative components.

E.g. financial resources (total cost/output)
 physical resources (value of assets used per output)
 human resources (staff/output)
 time resources (time/output)

To be useful, efficiency indicators may require aggregation of the outputs involved.

Scale or magnitude indicators within the efficiency area could include such measures as:

- cost/capita; or
- cost/client group

Effectiveness Indicators

Effectiveness indicators relate inputs and outputs to outcomes and impacts. Outcomes are the effects on the community of the Outputs that are purchased by the Government.

Effectiveness indicators should show the extent to which program **objectives** have been achieved. The indicator should therefore be clearly related to key words within those objectives.

Scale or magnitude indicators of effectiveness could include measures as:-

- the level of outcome sought and the level achieved;
- the size of a target group and the proportion reached or served; or
- market size and market share.

Effectiveness indicators should not comprise subjective or judgmental statements about performance. For example if an objective is "to increase public awareness", the statement "public awareness was increased" is not an acceptable indicator of performance.

PROBLEMS WITH OUTPUT/OUTCOMES AND PERFORMANCE INDICATORS.

- **Strength of Correlation**

A strong link should exist between the activity of the agency and the result being measured. This may be difficult when the outcome is a high level result that may be affected by many factors of which the agency's output is only one.

For example, the number of fatal road accidents may be affected by the state of the road, climatic conditions and the blood alcohol level of the driver. Such an indicator may therefore be an inappropriate measure of performance for the Department of Police in regard to improving road safety.

- **Undesirable Secondary Outcomes**

In some cases undesirable outcomes may result as a side effect of identifying performance measures. For example, a measure of performance for the Department of Police may be to increase the number of arrests per 100,000 population. This may in turn increase the inmate numbers at the prisons. Therefore although the Police Department has achieved a positive outcome, for the Justice Department who may be measuring as part of their performance the numbers of inmates in the prison system and seeking to reduce them, an undesirable outcome may occur.

- **Difficulties between measures of activity and measures of results**

It is important that performance indicators are a measure of performance rather than merely an indicator of activity and the completion of tasks. There should be a link from the performance measures to the objectives or outcomes in order to determine whether what the agency is doing is having a positive effect. Performance indicators should therefore measure results rather than activity.

Critical success factors for performance indicators.

- **Understanding of performance indicators**

Statement of Accounting Concepts SAC 3 "Qualitative Characteristics of Financial Information" defines understandability as the "... quality of financial information which exists when users of that information are able to comprehend its meaning". This definition could also apply to performance indicator information. The quality of the performance indicator information to be reported is critical if it is to be of value in assessing performance. Users should be able to understand what an indicator means and they should be transparent.

- **Performance indicator information should be presented in a consistent and meaningful manner.**

Reporting information in this manner would therefore increase the value and quality of the information. Consistent reporting of the performance information over time will enable users to conduct comparisons and to analyse the information thus aiding users to understand the performance indicators. Explanations describing the meaning of the indicators would also aid users in

understanding their significance. Excessive detail, vague or overly technical descriptions and unnecessarily complex presentation formats will cause confusion and misinterpretation.

- Unreliable information systems

For performance information to be useful to users it must be relevant and reliable. Senior officers in an agency will therefore need to establish a reliable internal system of data collection. The information collected must be verifiable. Unreliable information systems capturing performance indicator information may lead to misrepresentation of data and therefore incorrect decisions based on that data being made, or a total loss of confidence by users in the performance indicators.

- Extensive number of performance indicators

A balance in the number of performance indicators needs to be struck between having too many indicators and therefore obscuring the focus of the indicators, and having too few indicators, which may result in the indicators not reflecting those aspects of behaviour which allow the users to reach an informed assessment about performance. As a minimum there should be a defined measure of performance for each of the objectives of an agency.

Where there is a large number of performance indicators, it may be necessary to produce a summary of the key performance indicators in a simplified form. They should be manageable and the number of measures should be no greater than necessary to cover significant outputs, and not overload the user with information.

However, it will be important to ensure that the simplified form of report does not distort the performance information but remains a fair representation of the performance of the agency.

- Performance indicators should have a positive effect on the agency's behaviour

They should create incentives for the agency to behave in a way which meets the stakeholders' interests and they need to be fair to the agency.

Audit of Performance Indicators

An audit of performance indicators differs from financial attest audits in that the expressing of an audit opinion extends beyond the traditional area of "fair representation" to an assessment of whether or not the indicators are "relevant and appropriate having regard to their purpose".

There are a number of potential risks to auditors in this process which are:

- Challenging the appropriateness of performance measures will place auditors in the position of cutting across the judgement of management about the appropriateness of performance measures.

- Auditors may be at risk of commenting on the correctness of policy when auditing the performance measure's appropriateness.
- By challenging appropriateness, auditors may appear to question acceptance by stakeholders of those performance measures.
- There are no auditing standards specifically relevant to auditing the appropriateness of performance measures.

Audit does not have a role in telling agencies what performance indicators should be, but rather in assisting in development at this stage. The performance indicators are the agency's concern. Agencies were encouraged to contact the Department of Treasury and Finance as a first point of contact for assistance regarding setting outputs and developing related performance indicators.

The Secretary, Department of Treasury and Finance advised that:-

"Some Departments have been in contact with Treasury requiring direction on the use and application of performance indicators. It is obvious that the degree and extent to which Departments are using and implementing performance measures varies considerably - a point noted in your report. As a result, Treasury will be working with agencies throughout 1996-97 to deal specifically with this issue."

AUDIT OBJECTIVES, SCOPE, CRITERIA AND TIMING

AUDIT OBJECTIVE

To examine and report on the reporting and use of performance indicators in agencies; to determine whether the indicators are complete, relevant and reliable, and cover areas of efficiency and effectiveness.

AUDIT SCOPE

The detailed audit was restricted to the following inner budget agencies as at 1 July 1995, namely:

- Department of Community and Health Services
- Department of Education and the Arts
- Department of Employment, Industrial Relations, Vocational Education and Training
- Department of Environment and Land Management
- Department of Justice
- Department of Police
- Department of Premier and Cabinet*
- Department of Primary Industry and Fisheries
- Department of Transport
- Department of Treasury and Finance
- Tasmania Development and Resources
- Public Sector Management Office
- Department of Tourism, Sport and Recreation
- Tasmanian Audit Office

* Communications and Computing Division excluded from the survey.

The audit was undertaken with the intention of forming an impression of 'what the situation is now' rather than 'this is what you are doing incorrectly'. The aim of the audit was to encourage and improve the development of performance indicators, and it was taken into account that, with a few exceptions, agencies are in the early stages of development and have not published any indicators in their annual reports.

The probable long term results of the audit are that performance indicators will be of improved quality. Short term results may be in facilitating the process of developing performance indicators for some agencies by assisting them in taking the first/next step.

AGENCY CLASSIFICATIONS

From the preliminary information it was apparent that agencies were in different stages with regard to performance indicators and that the level of testing would need to be tailored to suit the stage that the department had reached.

Agencies have been classified into the following three categories.

Developmental

Agencies that have only recently been in a position to consider what would be appropriate performance indicators for their agency.

Partly Developed

Those agencies that have begun developing indicators but have not published any in their annual reports yet.

Published

Agencies that have published performance indicators in their 1994/95 annual reports.

Audit classified five agencies in the Developmental area, whilst four have begun developing indicators and five have published information on performance indicators.

AUDIT CRITERIA

Testing and criteria were divided into three areas:

- **QUESTIONNAIRES** - Determining information necessary for system and indicator testing, and also obtaining and understanding from the agency perspective progress towards developing performance indicators.
- **PERFORMANCE INDICATORS** - Assessing whether the agency's complete set of indicators meet general and specific criteria (a sample has been used for the specific criteria where the agency has numerous measures).
- **SYSTEMS** - System testing to determine whether accurate data is going in and accurate data is coming out for reporting on performance indicators.

The same tests were applied to all agencies. However the amount of testing that could be carried out under the 'Performance Indicators' and 'Systems' areas varied depending on the stage of development within the agency. Published agencies were tested under all three.

The amount of testing for Developmental and Partly Developed agencies was determined after discussing the questionnaire with the contact officer.

The questions/testing for each of the areas are attached at Appendix One.

At the conclusion of the audit detailed letters were sent to each agency containing the audit findings.

AUDIT RESOURCES AND TIMING

The project was selected in May 1995. Field work commenced in January 1996 and was completed in May 1996. Draft letters were issued to the participating agencies shortly afterwards. The estimated cost of this Report as at the time of printing is \$49 200.

AUDIT TESTING

The format of the review differed from agency to agency depending upon the level of development with respect to performance indicators. Some agencies are producing and publishing performance information in their annual reports while others have only recently been in a position to consider what would be appropriate performance indicators for their agency. There were also other agencies which are at a stage of development that is somewhere between these two points.

Developmental Agencies

With agencies that are in the early stages of development, the format of the review consisted of an interview with the contact officer to determine what the agency's intentions were regarding the future implementation of performance indicators, what problems were expected to be encountered, and what action had been taken so far. This was followed by an analysis of the 1994/95 annual reports with the aim of finding examples of activity or process information that could be transformed into efficiency or effectiveness measures by the reporting of additional data. The information systems of the agency were not examined to determine whether the suggested additional data was currently able to be collected.

Most of the agencies' annual reports contained activity or process information which were identified as being able to be enhanced to show effectiveness or efficiency, and in these cases examples were provided by Audit to the agencies of possible performance indicators which could be developed from this information in the future.

An Audit report on the review was provided to the agencies as well as references to publications from other states that address the issue of setting performance indicators. In addition extracts from annual reports and publications from Western Australia were provided which may be of assistance to agencies in the future.

Partly Developed and Published Agencies

For agencies that are publishing performance information or are at a stage where substantial progress has been made in the development of performance indicators the format of audit testing consisted of an interview with the contact officer to discuss the process for developing indicators, what indicators are being used for management and reporting purposes, what the future intentions are with respect to refining or expanding their indicators and what systems are being used to collect the performance data. This was followed by an analysis of the set of indicators used by the agency, and a closer look at a subset of indicators, including examining the system(s) that supply the performance data (where applicable), to determine whether accurate information is being reported.

General Examination of Partly Developed and Published Agencies

On a general level, the performance indicators of each agency were assessed under the following categories, which address the characteristics of completeness and usefulness for both management and external parties.

1. Do Indicators Address Agency Outputs or Stated Policy Objectives (Outcomes)?

Performance can be measured as either how well an agency supplies its goods and services (outputs) or how much of an impact/effect those goods/services have on the wider community (stated policy objectives/outcomes). It is generally easier to measure performance at the output level, however it is important that performance be measured at both levels, and agencies which currently report at output level only should begin developing indicators that address stated policy objectives (outcomes).

2. Usefulness of Published Performance Indicators to Users of Annual Reports.

An annual report is often the major source of information for parties external to the agency who have an interest in their operations and performance. Users would include Ministers, Parliament, other Tasmanian agencies, comparable agencies in other states or overseas, interest groups and the general public. It is important that the performance information in annual reports should therefore be useful to these parties with regard to what they would want to know, and that the information presented is factual and sufficient for the user to make an assessment of the performance of the agency, rather than the agency making a statement of their own assessment of performance.

As the actual users of the agency annual report were not consulted during the course of the review, a direct assessment of usefulness could not be made. However, indicators were examined to determine whether they were easily understood, whether sufficient information was included in the report for an opinion on performance to be made by a user, and whether there was information included which, because of its nature, would only really be useful for management purposes.

3. Do the indicators cover all major areas of expenditure?

It is important that an agency's indicators cover all major areas of departmental expenditure so that a complete picture of performance is presented.

4. Are there too many indicators?

While it is important that a complete picture of agency performance is presented in the annual report, too much information can be detrimental to the comprehension of the reader and therefore reduce the impact of the performance information. A report has greater impact with a small number of clearly stated and demonstrated key indicators than it would have with a large number of subsidiary indicators.

5. Do indicators exist for efficiency and effectiveness?

It is important that indicators address both efficiency and effectiveness issues in order for users to determine the extent to which objectives have been achieved and the cost-effectiveness of the agency in producing the outputs.

Selected Indicators

Audit selected a number of performance indicators for testing purposes from those agencies which published indicators. The selected performance indicators were then assessed under the following categories which address the characteristics of relevance and reliability.

1. Are the indicators consistent with agency's objectives?

The indicators were examined to determine whether they are consistent with the stated objectives of the agency.

2. Are indicators included in the corporate or business plan?

As performance indicators are intended to measure performance against some predetermined goal that represents what the agency intended to achieve, it is logical that the indicators should have been considered when the goals were originally set, ie in the corporate or business planning stage.

3. Are indicators used for management purposes?

An important aspect of performance indicators is their role in monitoring performance and providing feedback into the planning cycle. There is little point in measuring performance if that information is not being used to improve future performance. Information on whether the agency uses indicators for management purposes and if so, how, was obtained from the contact officer.

4. Do indicators have an appropriate basis of comparison?

For a measure of performance to be meaningful, there has to be some basis against which it can be compared to indicate whether the performance is satisfactory or unsatisfactory. Without such a basis of comparison the information is merely a statistic. Appropriate bases of comparison could be a target, last year's results, industry standards, comparisons with similar organisations, before and after comparisons for the introduction of new programs, etc.

5. Do indicators measure important information?

While it is important that sufficient information is gathered to give management and users of annual reports a complete view of the agency's performance, the provision of too much information can be as detrimental to user comprehension as providing too little. Agencies need to be aware of this risk and ensure that only critical information is reported and not clouded by the provision of less relevant results.

6. What is the strength or correlation of the relationship between the agency's activities and the results being measured?

For an indicator to measure agency performance there must be a strong link between the activity of the agency and the result being measured. In determining the strength (or correlation) of that relationship, consideration was given to what external factors could have an impact on the result and to what extent. For example, if an agency were to report the growth in a particular industry as an indicator of their report, the correlation would be low as other factors such as the economy, climatic conditions, etc can have a considerable impact on one industry's growth over a year. It should be noted that while users of annual reports would still be interested in the industry information, it should not be represented as a direct result of agency performance.

7. *Should there be qualitative assessment associated with the performance indicator and if so, is it being done?*

Assessment of the quality of the goods and services produced by an agency is usually the most difficult aspect of those goods and services to measure, and consequently is quite often omitted from performance indicators. On the other hand, from a client perspective, it is one of the most important, and therefore agencies should devise ways to collect qualitative information regarding their performance.

8. *Do targets exist?*

Targets are the intended quantity, quality, cost and timely provision of the output and stipulate what is achievable. While not all indicators are suited to having targets attached, most established indicators that have been used to measure performance for a number of consecutive periods are able to have targets attached. It is also important that targets are considered to be achievable and realistic.

9. *Is there commentary to explain the meaning and significance of the indicators and reasons for deviations from targets?*

Commentary is essential for explaining what the indicator is measuring and what the results mean, including reasons for deviations from targets if applicable. This is particularly so when presenting results that are specialised or technical, which an external user of the report may not be familiar with.

Feedback to Agencies

At the conclusion of the analysis each agency was supplied with a report on Audit's review of its performance indicators and where appropriate further comments on selected indicators and systems testing was provided. In addition, Audit also provided examples of performance indicators used in a similar agency in Western Australia. Discussions also took place during the audit with relevant contact officers.

Results of Testing on Partly Developed and Published Agencies

Testing revealed that whilst agencies are to be commended on making satisfactory progress in publishing and/or the development of performance information,

continued improvements and refinement of the indicators should further enhance their usefulness to readers of the annual report. In particular, the following issues were common across most of the agencies tested:

- Most of the performance indicators which had been developed were found to measure how well the agency supplies its goods and services (outputs) rather than how much of an impact/effect those goods/services have on the wider community (outcomes).
- Some of the information being published was considered insufficient to enable the reader to assess whether the particular outcome/output in question had been met, and in some cases the information had been presented in a form which was more akin to a judgment statement rather than in a form which would enable users to make their own informed decision as to whether performance had been met.
- Some of the performance information examined appeared to be more oriented towards agency management rather than to external users of annual reports. Although it is recognised that this type of information is useful for management, reporting only on key indicators should have the effect of enhancing the usefulness of those indicators being published.
- While indicators had generally been developed which address issues of efficiency and effectiveness, in most cases there was a lack of qualitative assessment associated with the performance indicators. A qualitative assessment is an important aspect of performance, as it provides users with essential information on how well an agency has achieved a particular objective or outcome and can help to explain reasons for performance. Measurement is generally obtained through client satisfaction surveys. For example, one of the performance indicators measuring the degree of inpatient care under the Department of Community and Health Services is the level of post discharge client satisfaction in relation to services provided by hospitals.
- Sufficient commentary explaining the meaning and significance of indicators, the results of those indicators and variations from targets was often omitted from either the annual report or corporate plan.
- While targets may have been developed, targets have not always been disclosed in either the annual report or corporate plan.

It was observed that some agencies are involved with the provision of information for nationally recognised bodies. This allows for benchmarking information to be published on similar agencies in individual States. In some cases the information forms the basis for the funding provided to agencies.

A further example of this is the recent report on the provision of Government services issued by the Steering Committee for the Review of Commonwealth/State Service Provision which was received during the finalisation of the review. The report is the first attempt at developing performance indicators and collecting data in a comprehensive and nationally comparable manner. The format of the report consists of a section on the framework of indicators developed by the Steering

Committee, a summary of the results and a section for comment by each of the jurisdiction's examined.

It is understood that this will be an annual exercise and focus of the following areas:

- Public acute care hospitals;
- Public housing;
- Government school education;
- Vocational education and training;
- Police;
- Courts administration;
- Corrective Services; and
- Support services for individuals and families in crisis.

Systems Testing

Where agencies had sufficiently developed information systems for performance data collection and analysis, a sample of input documents were selected and tested to determine whether the information/reports being generated by the system was accurate and reliable.

Results of systems testing generally was satisfactory.

Summary of Performance Indicator Use in Agency Annual Reports

As mentioned earlier, not all agencies are reporting performance indicator information in Annual Reports. Audit has calculated that only 36% of the sampled agencies are reporting some performance indicators.

The following table provides some further statistics on those agencies which have reported on performance information.

Extent of Performance Indicators (PI's) used	% of agencies sampled who are reporting performance indicators
Linkage between PI's and Corporate Objectives	80%
Reporting performance trends	20%
Efficiency Indicators	80%
Effectiveness Indicators	100%
Performance indicator targets	40%

Of those agencies publishing performance data, the following statistics were noted.

Consistency with agency objectives

80% of agencies linked their performance indicators to Corporate objectives/outcomes found in Business or Corporate Plans.

For example, it was considered that the Department of Treasury and Finance (Treasury) performance indicator dealing with Net Financing Results was consistent

with the Department's first two objectives of improving the Tasmanian public sector financial position and Tasmania's economy and business environment.

Performance Trends

As most agencies have only just begun collecting and publishing performance information only a few agencies are in a position to report on performance trends. Agencies such as Treasury however are committed to reporting on performance trends in the near future.

Efficiency Indicators

80% of agencies had developed efficiency indicators of some form.

A good example is "The average cost to build a lane per kilometre of new road of a given standard" which illustrates the efficiency with which Department of Transport is constructing the State's road system.

Effectiveness Indicators

All agencies had developed indicators which were capable of gauging effectiveness. For example, "The number of industry development projects facilitated by TDR" is a measure of the extent to which Tasmania - Development & Resources has achieved its objective of promoting and supporting industry development in Tasmania.

Indicator Targets

Although a number of agencies have developed indicator targets most agencies are at a stage where performance indicators are relatively new and will require some time to gauge their effect before targets can be realistically set. Targets or goals have been attached to some of the Tasmanian Audit Office indicators, which are being reviewed on a systematic basis, ensuring continued relevance. For example, the target for providing the Auditor-General's certification of all 1994/95 financial statement audits was 31 October 1995.

From discussions with the contact officers and from other advice received Audit believes that all agencies have a commitment to improve the use of performance indicators and report on them in the future.

Should publication of performance indicators and their audit be made mandatory?

The Government of Western Australia has made it mandatory, through the *Financial Administration and Audit Act 1985*, for performance indicators to be incorporated and certified by the Accountable Officer in Annual Reports, and for them to be audited by the Auditor-General. The Auditor-General is to form an opinion as to whether or not the performance indicators are relevant and appropriate having regard to their purpose and whether they fairly represent indicated performance. The standard of performance information being reported by agencies in the opinion of the Western Australian Auditor-General has substantially improved from 1990/91 to date.

The Public Accounts and Estimates Committee of Victoria in November 1994 recommended to the Victorian Parliament that performance measures should be required by legislation, prominently presented in the Budget Papers and each agency's annual report, and audited by the Auditor-General, who shall express an opinion on the performance indicators as to their relevance and appropriateness. A response to this recommendation from the Department of Treasury and Finance indicated that future reporting of performance indicators in annual reports would not involve the Auditor-General in expressing an opinion on the indicators. However, the Committee in its November 1995 report has stood by its original recommendation.

The Auditing Standards recently issued by Australian Accounting Research Foundation on behalf of the Australian Society of Certified Practising Accountants and The Institute of Chartered Accountants in Australia, contain mandatory requirements for members of these bodies to audit information that is published with the audited financial statements. However this would not include performance indicators and other performance information that are included in the annual report, where they are not part of the financial statements.

A recent report titled "Enhancing Accountability for Performance: A Framework and an Implementation Plan" from the Auditor-General of British Columbia and the Deputy Ministers' Council concludes that government must develop better performance measures for its programs. These measures will help the public, legislators and government managers judge how well government programs are performing and whether the programs are achieving what was intended.

As mentioned earlier, the present Treasury Instruction only requires the production of performance indicators where they are available. It is recommended that from 1997 the publication of performance indicators in agencies' annual reports be made mandatory. However these performance indicators should not at that stage be made part of the financial statements and thus subjected to audit. The question of audit should be revised once practice has stabilised and improved.

The Secretary, Department of Treasury and Finance advised that:-

"In the Treasurer's Instructions that will be issued before the end of the 1995-96 financial year, publication of performance indicators in agencies' annual reports will be mandatory".

CONCLUSION

The measurement of performance in the public sector can be a complex task for a manager faced with multiple program objectives. This is so in the absence of the traditional gauge used in the private sector, such as profit, which can be a very good measure of performance.

Experience in other jurisdictions has shown that effective development and presentation of performance indicators requires:

- Management commitment to the use of indicators as an integral part of management control systems and as part of an ongoing self-evaluation process.
- A clear identification of objectives and operational constraints.
- The development of performance standards or criteria.
- Identifying the means by which program efficiency and effectiveness will be measured.
- The development of integrated and reliable management information systems to collect required data.
- The development of external reporting standards.
- An ongoing evaluation of the appropriateness of the selected indicators and performance standards.

Audit's review has highlighted that a number of agencies have not yet published performance indicator information, although it is recognised that they are committed to do so in the future. These agencies are encouraged to do so since a significant area of the inner budget agencies do not provide this information at present.

To assist agencies in reporting on performance information it is recommended that the Department of Treasury and Finance develop guidelines on performance measures similar to the recently published output/budget guidelines.

In developing these guidelines consideration could be given to attempting to have common terminology used by agencies to enable users to understand the reports. This was a problem encountered during this review. In addition consideration could be given to providing training in fundamentals of performance indicator methodology. This would be of assistance to some agencies as they attempt to introduce the methodology.

It is also observed that AAS 29, Financial Reporting by Government Departments does not make it mandatory for government departments to report on non-financial measures of performance, but nevertheless encourages departments to report on performance indicators where such reporting will assist users in assessing the performance of the department in meeting its objectives.

The above recommendation is consistent with what is occurring or beginning to occur in other jurisdictions.

It is the intention of Audit to review performance indicators again next year. As the development of performance indicators is still in its early stages it was not possible for Audit to give an overall opinion on whether the indicators are relevant and appropriate having regard to their purpose.

The Secretary, Department of Treasury and Finance advised that:

“Treasury acknowledges the importance of providing an appropriate training regime for the development and application of performance indicators. However, to achieve this requires a bipartisan approach between line and central agencies. A prescriptive approach to performance indicator training established by a central agency would have great difficulty in addressing the individual needs of line agencies. It is more appropriate that central agencies provide the strategic direction and framework within which a performance indicator methodology would operate and that line agencies deal with the implementation on an individual basis. Treasury will be developing a strategic framework within which a performance indicator methodology will be implemented. Treasury officers will be facilitating the development of a performance indicator framework with line agencies through the Output Working Group.”

APPENDIX ONE

<h3>QUESTIONNAIRE</h3>

DISCUSS

What process was/is being used to develop performance indicators?

How were staff involved?

Were similar organisations in other states contacted?

Was the process used satisfactory?

Did it get good results?

How would you have done it better?

How are targets set (if used)?

Are they considered to be reasonable/achievable?

Do they cover all aspects of performance?

Which areas of agency performance are measured?

How did they select these areas?

Are there plans to expand the current measures?

Are there any areas that will definitely not be measured?

How often are the areas measured?

What performance information is used for the management of the agency?

How is that information used?

How often is used?

(If the agency is not publishing) - When do they envisage publishing performance information in their annual report?

(If the agency has published performance indicators) - Does the agency intend to publish an expanded amount of performance information in the future, and if so, what?

If some items are not to be published, what ones and why not?

What has been the staff reaction to the published performance indicators?

What has been the government reaction to the published performance indicators?

What has been the public reaction to the published performance indicators?

What systems are used for performance data collection and analysis?

Are these systems considered to be accurate?

Is the data produced by these systems considered to be reliable?

What internal controls or checks are in place to ensure accuracy?

Are the results that they are measuring related to stated policy objectives (outcomes)?

If not, how are they addressing them?

What statistics or information is provided to national/industry bodies on departmental activity?

Which bodies?

What information?

How often is the information required?

Are the requirements of these bodies being met?

What information is being fed back to agencies?

How is the information that is being fed back being used and /or reported?

METHOD

Face to face discussion with contact officer.

APPENDIX TWO

PERFORMANCE INDICATORS

OBJECTIVE

To determine whether the agency has a complete set of indicators for all critical areas of departmental activity, if those indicators are complete, relevant, reliable and timely, whether the indicators are useful for both management and outside parties and to determine at what level the agency is currently measuring and reporting.

TESTS/METHOD

For the agency's complete set of indicators:

Determine whether the performance indicators address agency outputs or stated policy objectives (outcomes).

Assess how useful published performance indicators are to the users of annual reports.

Assess whether the published and management indicators cover all major areas of expenditure (the link to outputs).

Are there too many indicators?

Do they exist for efficiency and effectiveness?

Test selected indicators for the following criteria:

Are indicators consistent with agency objectives?

Are indicators included in the Business Plan?

Are indicators used as stated for management reporting?

Do indicators have an appropriate basis of comparison?

Do indicators measure critical information?

What is the strength or correlation of the relationship between the department's activities and the results being measured?

Should there be qualitative assessment associated with the performance indicator and if so, is it being done?

Are there targets?

Is there commentary to explain the meaning and significance of the indicators and reasons for deviations from targets?

APPENDIX THREE

SYSTEMS

OBJECTIVE

To determine whether the performance information included in the annual report and/or used for management purposes is accurate.

TEST

Verify through audit techniques that:

1. Accurate data is being entered into the system.
2. Logical methods/processes are used to aggregate or manipulate data.
3. Accurate data is coming out of the system.

METHOD

Do a brief system description - determine whether one is available from Tasmanian Audit Office auditor before doing one as part of this testing.

Make an assessment of the key controls but no compliance testing will be done.

Perform substantive testing to enable a conclusion to be reached regarding the accuracy of the data.

Specific tests will be devised once system description is available.

GLOSSARY

Budget Information	Information which is used in the resource allocation process.
Business Plans	Annual Department or business unit operating plans which specify outputs to be provided and their cost.
Corporate Plans	Medium term portfolio strategic plans.
Customers	People, organisations and departments who purchase, use or consume goods or services provided by a department.
Efficiency	The extent to which resources are used to maximise agency Outputs and results.
Effectiveness	The achievement of intended objectives.
Inputs	Labour, materials and other resources used to produce outputs.
Outcomes	Effects on the community of the Outputs that are purchased by the Government.
Output Budgeting	Process of allocating resources on the basis of the outputs to be produced or delivered.
Output Groups	Groups of homogenous outputs which contribute to a common service and have the same customers, and usually relate to a discrete Policy Objective.
Outputs	Goods and services produced by, or on behalf of a Government agency and provided to customers outside the agency. Government purchases Outputs in order to achieve policy objectives or outcomes.
Performance measures	Measures of quantity, quality, cost and timeliness used to assess the production or delivery of outputs.
Policy Objectives	Intended outcomes to be achieved through the production or delivery of outputs.
Service Agreements	Formal arrangements entered into by a purchaser and a provider for the purchase of outputs. (Synonymous - purchase agreements/contracts).
Stakeholders	People, organisations and departments whose interests are affected by the

Targets	<p>provision of outputs.</p> <p>The intended quantity, quality, cost and timely provision of the output.</p>
---------	--

BIBLIOGRAPHY

Public Sector Management Office, Western Australia. February 1994. *Preparing Performance Indicators - A Practical Guide.*

Department of Treasury and Finance, Victoria. December 1995. *A Guide to Corporate and Business Planning.*

Department of Treasury and Finance, Victoria. December 1995. *A Guide to Output Specification and Performance Measurement.*

Special Report by the Office of the Auditor-General, Western Australia. December 1994. *Public Sector Performance Indicators 1993/94.*

Public Sector Committee of the International Federation of Accountants 1996. *Performance Reporting by Government Business Enterprises - The provision of financial and non-financial performance information in general purpose financial reports.*

Office of the Auditor-General, Western Australia. May 1993. *Performance Indicator Audits - Briefing for Public Sector Agencies 1992/93.*

Auditor-General of British Columbia and Deputy Ministers' Council. *Enhancing Accountability for Performance in the British Columbia Public Sector, June 1995.* First Report

Auditor-General of British Columbia and the Deputy Ministers' Council. April 1996. *Enhancing Accountability for Performance: A Framework and an Implementation Plan.* Second Report

Mary Duckett, DGR Consulting. February 1995. *Performance Reporting in Commonwealth Annual Reports - A Report to the Commonwealth Department of Finance.*

Steering Committee for the Review of Commonwealth/State Service Provision 1995. *Report on Government Service Provision.*

Department of Treasury and Finance paper. February 1996. *Implementation of the Output Methodology.*

PREVIOUS REPORTS TO PARLIAMENT

1992	SPECIAL REPORT NO. 1	REGIONAL HEALTH SUPPORT SERVICES
1992	SPECIAL REPORT NO. 2	STUDENT TRANSPORT
1993	SPECIAL REPORT NO. 3	EDUCATION INSTITUTIONS CLEANING SERVICES
1993	SPECIAL REPORT NO. 4	STANDARD OF ANNUAL REPORTING BY GOVERNMENT DEPARTMENTS
1993	SPECIAL REPORT NO. 5	MUNICIPAL SOLID WASTE MANAGEMENT
1994	SPECIAL REPORT NO. 6	ADMINISTRATION AND ACCOUNTABILITY OF GRANTS
1994	SPECIAL REPORT NO. 7	REGIONAL HEALTH MEDICAL REVIEW
1994	SPECIAL REPORT NO. 8	WASTEWATER MANAGEMENT IN LOCAL GOVERNMENT
1995	SPECIAL REPORT NO. 9	HERITAGE COLLECTION MANAGEMENT
1995	SPECIAL REPORT NO. 10	OFFICE ACCOMMODATION MANAGEMENT
1995	SPECIAL REPORT NO. 11	RECORDING AND REPORTING BY GOVERNMENT DEPARTMENTS OF THEIR NON-CURRENT PHYSICAL ASSETS
1995	SPECIAL REPORT NO. 12	TENDERED WORKS
1996	SPECIAL REPORT NO. 13	NURSING COSTS IN TASMANIA