

Performance Audit Report No. 21 2013-14

Pilot Project to Audit Key Performance Indicators

Introduction

2.1 Chapter 2 discusses the Joint Committee of Public Accounts and Audit (JCPAA) review of the Australian National Audit Office (ANAO) Report No. 21 (2013-14) *Pilot Project to Audit Key Performance Indicators*. The chapter comprises:

- an overview of the report, including the audit objective, scope and audit conclusion
- Committee review
- Committee comment

Report overview

Audit objective and scope

2.2 The purpose of the report was to review the current Australian public sector performance measurement and reporting framework, known as the Outcomes and Programs framework (OP framework) in terms of:

- the clarity of the policy and guidance issued by the Department of Finance (Finance)
- the performance of agencies in applying this policy and guidance

- further developing and testing an ANAO audit methodology to assess the appropriateness of Key Performance Indicators (KPIs) and their complete and accurate reporting, as a basis for implementing a future program of audits¹
- 2.3 The pilot project included an examination of three agencies' Portfolio Budget Statements (PBS) for 2012-13 and 2013-14, focusing on the completeness and accuracy of the KPI data and disclosures in the agencies' annual reports. The pilot project also included a cross-agency survey of 16 agencies, which assessed agencies' approaches and attitudes towards performance measurement and reporting.²
- 2.4 The participating agencies were: the Australian Taxation Office (ATO), the Department of the Environment and the Australian Federal Police (AFP). The ANAO also consulted with Finance on a range of matters in regards to Finance's role in administering the OP framework.³
- 2.5 The report follows on from an earlier report regarding the 2011-12 Pilot Project, which was initiated following amendments to the *Auditor-General Act 1997*.⁴ These amendments provided the Auditor-General with explicit authority to conduct audits of the appropriateness of agencies' KPIs and the completeness and accuracy of their performance reporting.⁵
- 2.6 The OP framework was introduced in 2009-10, replacing the previous Outcomes and Outputs framework. The OP framework placed a greater emphasis on agencies identifying and reporting on the impact of programs that contribute to government outcomes over the Budget and forward years. The OP framework centred around the development of clearly specified outcomes, programs objectives, deliverables and KPIs, which would allow for agency's progress towards stated program objectives to be assessed.⁶
- 2.7 As part of the broader Public Management Reform Agenda (PMRA), Finance is developing a new performance measurement and reporting framework to operate under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). However, the ANAO report focused on the current OP framework.

1 Australian National Audit Office (ANAO), Report No. 21 (2013-14) *Pilot Project to Audit Key Performance Indicators*, p. 20.

2 ANAO, Report No. 21 (2013-14), p. 20.

3 ANAO, Report No. 21 (2013-14), p. 20-21.

4 ANAO, Report No. 28 (2012-13) *The Australian Government Performance; Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*.

5 *Auditor-General Amendment Act 2011*, s 18A.

6 ANAO, Report No. 21 (2013-14), p. 15.

Audit conclusions

- 2.8 The ANAO report made no recommendations. However, it concluded that:
- agencies' implementation of performance measurement and reporting requires further development, as agencies have difficulty developing KPIs that measure the impact or effectiveness of a program's contribution to achieving government outcomes⁷
 - the ANAO had developed a preliminary methodology for the audit of KPIs⁸ and
 - the administrative framework guidance supporting the development and auditing of KPIs continues to be problematic and there remains a need for clearer guidance and greater support for agencies in implementing the performance measurement and reporting framework⁹

Committee review

Development of effective KPIs

- 2.9 The ANAO stated that the development of clearly specified outcomes, program objectives, deliverables and appropriate KPIs is crucial to effective performance measurement. In order to be effective, KPIs must be designed to enable users to assess an agency's progress towards the stated program objectives and, collectively, the program's contribution to stated outcomes.¹⁰
- 2.10 The ANAO found that agencies had difficulty designing KPIs that measured program effectiveness, discovering that 75 per cent of agencies surveyed used KPIs in their PBSs that did not measure effectiveness.¹¹ Moreover, more than a third of the agencies indicated that they report output and efficiency indicators as KPIs in the annual performance reporting, which does not address whether or not relevant programs are meeting their objectives.¹²

7 ANAO, Report No. 21 (2013-14), p. 21.

8 ANAO, Report No. 21 (2013-14), p. 23.

9 ANAO, Report No. 21 (2013-14), p. 21.

10 ANAO, Report No. 21 (2013-14), p. 15.

11 ANAO, Report No. 21 (2013-14), p. 72.

12 ANAO, Report No. 21 (2013-14), p. 75.

- 2.11 Furthermore, the ANAO noted that there was considerable variation regarding the number of outcomes, programs, deliverables and KPIs within each agency's OP framework:
- five of the 16 agencies had outcomes that were measured through a single program
 - eight of the 16 agencies had programs that were measured through a single KPI
 - 39 out of 253 programs (17 per cent) were measured through a single KPI
 - 9 out of 253 (4 per cent) had no KPIs¹³
- 2.12 The ANAO identified that agencies experienced difficulties in developing effective KPIs in circumstances where:
- the nature and role of the agency made it difficult to develop appropriate effectiveness indicators (for example, aspects of the agencies activities are purely administrative);
 - the agency was involved with cross-governmental delivery; and
 - multiple agencies contributed to a single outcome.¹⁴
- 2.13 The ANAO survey found that the most common challenge for agencies, when developing effective KPIs, is the nature of the role or main activities of the agency; for example, if the agency's main activities are purely administrative in nature.¹⁵ For this reason, the ANAO warned against the continued use of a uniform performance measurement and reporting framework:
- A homogenous framework for application by all Australian Government Agencies, without recognition of the variety of agency activities, has compounded the challenges that agencies have in implementing the Australian Government performance measurement and reporting framework. Further, the development of a framework that accommodates the diversity of public administration, and provides agencies with the ability to report appropriate performance information regardless of role is critical.¹⁶
- 2.14 Finance assured the Committee that the new performance measurement and reporting framework will provide agencies with greater flexibility to determine how performance is measured as well as allowing agencies to

13 ANAO, Report No. 21 (2013-14), p. 66-67.

14 ANAO, Report No. 21 (2013-14), p. 72.

15 ANAO, Report No. 21 (2013-14), p. 72.

16 ANAO, Report No. 21 (2013-14), p. 73.

better align external and internal performance measurement and reporting.¹⁷

Reporting of KPIs

- 2.15 The ANAO stated that accurate and appropriate performance information should be used for both external accountability and reporting as well as for internal assessment and planning. Performance data should be measured, collected and reported within a single system; agencies should not have one system for internal-decision making and another for external compliance.¹⁸
- 2.16 The ANAO survey found that:
- 75 per cent of agencies indicated that they focus on both the KPIs in their OP frameworks as well as other internal performance indicators
 - 88 per cent of agencies indicated that they conduct internal reporting on the outcomes, programs, deliverable and KPIs as part of their OP frameworks
 - 81 per cent of agencies indicated that the KPIs were also used internally in corporate, business or divisional plans¹⁹
- 2.17 However, despite the agencies' reports of high levels of integration of internal and external performance measurement and reporting, only 38 per cent of agencies indicated that they used the KPIs externally reported in their PBSs when developing their agency's strategic plans.²⁰ The ANAO commented that it is not always clear how agencies' OP frameworks align with their internal measurement and reporting processes.²¹
- 2.18 The ANAO acknowledged that changes to performance measurement and reporting are expected to take place under the PGPA Act. However, the ANAO advised that, in order to be effective, the new performance measurement and reporting framework must have a meaningful architecture. The architecture must allow for the analysis of the performance of any specific area of government (such as an individual program or sub-program) as well as allowing for the analysis of performance across a portfolio and more broadly, across government.²²

17 Finance, *Submission 4*, p. 3.

18 ANAO, Report No. 21 (2013-14), p. 67-68.

19 ANAO, Report No. 21 (2013-14), p. 68.

20 ANAO, Report No. 21 (2013-14), p. 68.

21 ANAO, Report No. 21 (2013-14), p. 68-69.

22 ANAO, Report No. 21 (2013-14), p. 69.

- 2.19 Finance acknowledged that it is aware of the need for the new performance measurement and reporting framework to have the capacity to effectively measure and report on program and agency-specific outcomes as well as whole of government outcomes. Finance assured the Committee that this will be ‘discussed in the Commonwealth Entity Non-Financial Performance Framework discussion paper as part of the development of the new framework.’²³

ANAO methodology for auditing of KPIS

- 2.20 The ANAO reported that they had successfully developed a preliminary methodology to support ongoing audits of KPIS. The implementation of systematic audits of the appropriateness of agencies’ KPIS, and the completeness and accuracy of their reporting can be expected to lead to greater improvements in the quality of performance information provided to the Parliament and the public.²⁴
- 2.21 However, the ANAO stated, that in light of the PGPA Act and the new performance measurement and reporting framework, agencies would need time to continue to invest resources to develop and refine their KPIS and systems before the implementation of systematic audits of the appropriateness of agencies’ KPIS.²⁵
- 2.22 The ANAO also commented that the extent of future work it undertakes in this area would need to be agreed and resourced appropriately if a broader regime of KPI audits were to be implemented.²⁶

Finance guidance and agency implementation

- 2.23 Finance oversees and directs the implementation and application of the OP framework across Commonwealth agencies. Finance is broadly responsible for the administration of the framework and provides guidance and advice to agencies regarding the framework. Finance advises agencies regarding the requirements for PBSs; reviews agencies’ outcome statements prior to ministerial approval; and approves agency programs.²⁷
- 2.24 Clear guidance materials, which outline the minimum requirements for agencies to comply, are necessary for the ANAO to accurately audit agencies’ KPIS. The ANAO stated that:

23 Finance, *Submission 4*, p. 3.

24 ANAO, Report No. 21 (2013-14), p. 95.

25 ANAO, Report No. 21 (2013-14), p. 95.

26 ANAO, Report No. 21 (2013-14), p. 23.

27 ANAO, Report No. 21 (2013-14), p. 43.

It is clear from the pilot project that the current framework and accompanying guidance does not provide an effective framework against which agencies' KPIs can be reliably evaluated through an assurance audit process, as it does not include clear minimum requirements.²⁸

- 2.25 ANAO Report No. 28 (2012-13) found that Finance had not significantly updated its policies and guidance since the introduction of the OP framework in 2009-10 and that the current policies and guidance regarding requirements for the OP framework cannot be found in one single reference document.²⁹
- 2.26 Furthermore, the ANAO's survey found that there was considerable variation regarding the number of outcomes, programs, deliverables and KPIs within each agency's OP framework. The ANAO pointed to the 'limited guidance' given to agencies in the overall design of the framework as a contributing factor to the variations in implementation.³⁰
- 2.27 This is not a new finding, the ANAO have highlighted the considerable benefit of providing enhanced guidance for the OP framework in four reports.³¹ The JCPAA has also made recommendations to Finance to update and refine the guidance for the OP framework in two reports.³²
- 2.28 However, despite the findings and recommendations of these six reports, the ANAO found that 'the key findings previously made by the ANAO and JCPAA remain largely unaddressed.'³³ In response to questions regarding why key findings have remained unaddressed, Finance assured the Committee that 'the new framework will address many of the ANAO's findings and recommendations.'³⁴

28 ANAO, Report No. 21 (2013-14), p. 59.

29 ANAO, Report No. 28 (2012-13), p. 54.

30 ANAO, Report No. 21 (2013-14), p. 66-67.

31 ANAO, Audit Report No. 28 (2012-13) *The Australian Government Performance, Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*; ANAO, Audit Report No. 5 (2011-12) *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*; ANAO, Audit Report No. 23 (2006-07) *Application of the Outcomes and Outputs Framework*; Audit Report No. 11 (2003-04) *Annual Performance Reporting*.

32 JCPAA Report 439: *Review of Auditor-General's Reports Nos. 11 to 31 (2012-13)*; JCPAA Report 430: *Review of Auditor-General's Reports Nos 47 (2011-12) to 9 (2011-12)*.

33 ANAO, Report No. 21 (2013-14), p. 51.

34 Finance, *Submission 4*, p. 2.

Committee comment

- 2.29 The Committee and the ANAO have urged Finance on a number of occasions to take action to improve the OP framework and its guidance, irrespective of the work being undertaken for the PGPA Act and the new performance measurement and reporting framework. The Committee feels that more could have been done by Finance to refine and enhance the guidance for the OP framework prior to the introduction of the new performance measurement and reporting framework under the PGPA Act.
- 2.30 The Committee is disappointed that Finance, despite a number of comments and recommendations from both the ANAO and JCPAA, chose to focus solely on the development of a new framework, a system that is not scheduled to be implemented until 2015-16³⁵, more than three years from the tabling of the Committee's original recommendations³⁶ regarding improving the guidance available to departments on the OP framework.
- 2.31 The Committee views Finance's delay in addressing the findings and recommendations of the ANAO and JCPAA as a wasted opportunity. This delay has resulted in agencies continuing to operate under guidance that has been identified numerous times by both the JCPAA³⁷ and ANAO³⁸ as in need of improvement and has directly contributed to continuation of less efficient and less effective performance measurement and reporting.

Development of new performance measurement and reporting framework

- 2.32 The Committee has a keen and ongoing interest in the PMRA, overseeing the development of the PGPA Act rules and the new performance measurement and reporting framework. The Committee is a determined advocate of accurate and effective performance measurement and reporting.
- 2.33 Accurate and effective performance measurement informs not only the government but also the Parliament and the public of the outcomes of
-

35 Finance, *Commonwealth Performance Framework Concept Paper*, p. 9-10.

36 JCPAA Report 430: *Review of Auditor-General's Reports Nos 47 (2012-11) to 9 (2011-12)*, recommendations 1, 2 and 3.

37 JCPAA Report 439: *Review of Auditor-General's Reports Nos. 11 to 31 (2012-13)*; JCPAA Report 430: *Review of Auditor-General's Reports Nos 47 (2012-11) to 9 (2011-12)*.

38 ANAO, Audit Report No. 28 (2012-13) *The Australian Government Performance, Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*, p. 20; ANAO, Audit Report No. 5 (2011-12) *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, p. 19; ANAO, Audit Report No. 23 (2006-07) *Application of the Outcomes and Outputs Framework*, p. 23.

policies, programs and services. Furthermore, this data allows for informed decisions to be made regarding the delivery of policies, programs and services to ensure that outcomes are achieved with maximum efficiency and effect.

- 2.34 The Committee looks forward to overseeing the development of the new performance measurement and reporting framework and urges Finance to carefully consider the findings and advice of the JCPAA and ANAO when developing the new framework.

Recommendation 1

- 2.35 **The Committee recommends that the Department of Finance ensure that, under the new performance measurement and reporting framework:**
- **performance measurement and reporting is recognised as an integral component of agencies' governance arrangements, providing accurate and effective information for both internal management processes and external accountability**
 - **guidance is clear and consistent and supports agencies in the development of meaningful and effective KPIs**
 - **differing outcomes of policy and administrative agencies are recognised**
 - **KPIs can be tailored to measure outcomes that extend beyond a single agency to measure whole-of-government outcomes**

Auditing of KPIs under new performance measurement and reporting framework

- 2.36 The Committee congratulates the ANAO on its development of a preliminary methodology to support ongoing audits of KPIs. The Committee believes that the auditing of KPIs will play a significant role in enhancing performance measurement and reporting.
- 2.37 The auditing of performance information will encourage agencies to develop appropriate and effective KPIs to which policies, programs and service delivery will be held accountable. This will greatly benefit the government, the Parliament and the people of Australia by encouraging greater efficiency and transparency in the public sector.
- 2.38 The Committee acknowledges that the extent of future work undertaken by the ANAO in this area will need to be agreed and resourced appropriately. The Committee encourages the ANAO's continued focus

on the appropriateness of agencies' KPIs and the improvement of the quality of performance information provided to the Parliament and the public.

Recommendation 2

- 2.39 **The Committee recommends that the ANAO continue to work towards the implementation of systematic audits of the appropriateness of agencies' KPIs and the completeness and accuracy of their reporting under the *Public Governance, Performance and Accountability Act 2013* performance measurement and reporting framework.**