



EXECUTIVE MINUTE

on

**JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT
REPORT No 430**

*Review of Auditor-General's Reports Nos. 47 (2010-11) to 9 (2011-12) and Reports
Nos. 10 to 23 (2011-12)*

Agency name – Department of Finance and Deregulation

Response to Report 430 Recommendation No. 1 (paragraphs 2.57-2.59), No. 2 (paragraph) 2.60 and No. 3 (paragraphs 2.61-2.72):

Recommendation 1

That the Department of Finance and Deregulation include at least one recognised Key Performance Indicator methodology in its written guidance to government entities about the preparation of Key Performance Indicators.

Recommendation 2

The Joint Committee of Public Accounts and Audit recommends that:

- the Department of Finance and Deregulation provide advice to all government entities that when providing new or amended Key Performance Indicators (KPIs) to their relevant Agency Advice Unit, the methodology used in the preparation of the KPIs must also be available for review; and
- Finance consult with the Department of the Prime Minister and Cabinet to consider a requirement for agencies to state the 'KPI methodology used' in their annual reports.

Recommendation 3

That the Department of Finance and Deregulation, in consultation with the ANAO, report to the Joint Committee of Public Accounts and Audit in six months from the tabling of this report on:

- progress being made on guidance for agencies to improve the development and integration of effective Key Performance Indicators (KPIs) in program design, Portfolio Budget Statements, and annual reports;
- improvements to the KPI guidance aimed to enhance cross-agency and cross-jurisdictional KPI development, use and reporting; and
- how the ANAO's audit methodology is envisaged to fit within and support the overall KPI framework, and support ongoing policy enhancements.

General comments

The Department of Finance and Deregulation (Finance) is responsible for issuing and maintaining the Commonwealth policy for the development and reporting of non-financial performance information including Key Performance Indicators (KPIs). The current version of this policy is titled *Performance Information and Indicators Guidance* (October 2010). The policy includes discussion about developing different types of performance indicators for different types of programs, and lists factors that agencies should consider when developing KPIs including focusing on results, clearly defining data requirements, ensuring accountability, appropriately engaging senior management, and periodically reviewing and validating data and KPIs.

Finance also issues guidance about the development of KPIs through the annually updated *Guidance for the Preparations of the Portfolio Budget Statements*, which is provided to assist agencies in the preparation of their Portfolio Budget Statements (PBSs). The guidance provides general information about the role of KPIs in the assessment of program performance, and information about reporting KPIs in the PBSs.

Finance acknowledges that both the policy and the guidance need to be updated to ensure that a sufficiently high and consistent quality of program-level KPIs are established, and reported against, by government agencies.

Finance has a work program to improve performance information which includes reviewing issues related to improving the systems and processes for performance measurement and reporting at the Commonwealth-level in Australia.

There are no quick or easy solutions to addressing the current shortcomings in the quality of performance information available about Commonwealth programs – it will take time to establish robust and comprehensive KPIs for many programs, and in some cases judgements about usefulness can only be made once a set of longitudinal data is established.

Recommendation 1

That the Department of Finance and Deregulation include at least one recognised Key Performance Indicator methodology in its written guidance to government entities about the preparation of Key Performance Indicators.

Agree

The Department of Finance and Deregulation (Finance) will revise its policy and guidance materials for the development, monitoring and reporting of program-level Key Performance Indicators (KPIs). To ensure its relevance and applicability, this work will be undertaken in consultation with Commonwealth agencies.

There are various methodologies for developing KPIs and key desirable characteristics of non-financial performance measures. In revising the Commonwealth policy for the development and reporting of non-financial performance information covering program-level KPIs, Finance will look to emphasise the inclusion of practical, user-based materials, which outline a clear approach for the construction of KPIs.

The issue of whether a single methodology is promoted for constructing program-level KPIs that suits all Commonwealth agencies, across their varying functions and responsibilities, will be reviewed. Finance's preference is not for crude prescription in this area. Informed by relevant international literature, the focus will be on developing policy and guidance materials that meaningfully and usefully assist agencies in their work to monitor and measure their performance.

Finance will ensure that the revised policy and guidance materials include references to appropriate resource materials and where appropriate, links to information developed by the Australian National Audit Office. We would seek to brief the Joint Committee of Public Accounts and Audit on this work after the 2013-14 Budget.

Recommendation 2

The Joint Committee of Public Accounts and Audit recommends that:

- *the Department of Finance and Deregulation provide advice to all government entities that when providing new or amended Key Performance Indicators (KPIs) to their relevant Agency Advice Unit, the methodology used in the preparation of the KPIs must also be available for review; and*
- *Finance consult with the Department of the Prime Minister and Cabinet to consider a requirement for agencies to state the 'KPI methodology used' in their annual reports.*

Noted

Going forward, the Department of Finance and Deregulation (Finance) will work directly with agencies to develop and review their program-level Key Performance Indicators (KPIs). Further, with the release of the revised Commonwealth policy for the development and management of KPIs, which will incorporate a practical user guide, the methodology for the construction of program-level KPIs will be clearer.

Finance has consulted with the Department of the Prime Minister and Cabinet (PM&C) on the issue of requiring agencies to state their program-level KPI methodology in their

Annual Reports. The proposed revised Commonwealth policy for the development and management of KPIs will set the standards for developing KPIs, therefore this information will be available in the policy.

KPIs are hard to implement and there are particular problems in trying to measure all public activities in a meaningful way because the achievement of most outcomes in the public domain inevitably extends beyond the boundaries of an individual body. Further, the multi-level nature of government complicates an analysis of performance because so many areas of public activity take place at several levels of government simultaneously. The limitations of KPIs need to be understood. KPIs are, at best, pointers of good or bad performance only; they do not measure performance precisely or provide a substitute for detailed evaluation. Performance measurement and its wider use in performance management, is worthwhile as long as it is done in full knowledge of its limitations within the context of broader performance-related reporting.

Recommendation 3

That the Department of Finance and Deregulation, in consultation with the ANAO, report to the Joint Committee of Public Accounts and Audit in six months from the tabling of this report on:

- *progress being made on guidance for agencies to improve the development and integration of effective Key Performance Indicators (KPIs) in program design, Portfolio Budget Statements, and annual reports;*
- *improvements to the KPI guidance aimed to enhance cross-agency and cross-jurisdictional KPI development, use and reporting; and*
- *how the ANAO's audit methodology is envisaged to fit within and support the overall KPI framework, and support ongoing policy enhancements.*

Agree

Since early 2012, the Department of Finance and Deregulation (Finance) has worked with the Australian National Audit Office (ANAO) to improve the reporting of program-level Key Performance Indicators (KPIs) at the Commonwealth level in Australia. This has included ongoing meetings between senior officers in the two agencies.

As agencies, we have agreed to:

- support improvements to current practices in the short term;
- develop a common understanding of how the performance management system can best demonstrate achievement against the outcomes pursued by the Australian Government; and
- where possible and appropriate, promote consistent and coherent messaging to Australian Government agencies on the importance of rigorous performance management practices.

To identify the best options for improving the development and integration of KPIs and the reporting of performance information, Finance has undertaken several discrete pieces of work:

- for the 2009-10 financial year (FY), Finance collated the performance information for the KPIs of 321 Commonwealth programs across 42 material agencies governed by the *Financial Management and Accountability Act 1997*, based on information publicly-available from the Portfolio Budget Statements and the Annual Reports of the agencies. The main objective of the 2009-10 review was to undertake a stock-take of whether agencies had implemented program-level KPIs following the transition to the Outcomes and Programs Framework and whether there were any systemic reasons for agencies not achieving them;
- for the 2010-11 FY, Finance undertook an analysis of KPIs, targets, and performance outcomes of a range of Commonwealth agencies covering publicly-available data for 1,107 KPIs across 187 programs of 20 agencies, which provided a broad sample of the types of activities performed by Commonwealth agencies. This work complemented our understanding of the issues facing the development of robust KPIs following the release of Audit Report No.5 of 2011 *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*; and
- Finance did a desk-top review of the alignment of the performance information collected and reported through the national agreements of the *Intergovernmental Agreement on Federal Financial Relations (IGA)* with the performance information reported in the Portfolio Budget Statements (PBSs) and Annual Reports of Commonwealth agencies. This work scoped the opportunities to improve the consistency and clarity of information across reporting documents.

In addition, Finance has been progressing other elements of work which inform discussions about improving the quality of the Commonwealth's performance measurement and reporting framework. This work includes the *Commonwealth Financial Accountability Review (CFAR)*, with its high-level focus on the functioning and incentives for performance information within the financial management system.

Building on the work undertaken to-date, Finance will continue to work with agencies to improve the quality of performance information available at the Commonwealth level, including through the revised Commonwealth policy for the development and management of KPIs.

Finance is concerned to ensure that work to improve the quality and availability of program-level performance information provides a sound basis for the ANAO in auditing the appropriateness of agency performance indicators and the completeness and accuracy of agency performance reporting. While Finance will work to drive improvements in the performance measurement and reporting of Commonwealth agencies, changes will only become apparent over a several-year period.

Yours sincerely

David Tune
 Secretary
 Department of Finance and Deregulation
 4 February 2013