

Audit Report No. 11, 2003-2004

Annual Performance Reporting

Introduction

Background

5.1 All Australian Public Service (APS) agencies are required to prepare an annual report that is tabled in Parliament. In accordance with ss. 63(2) and 70(2) of the *Public Service Act 1999* (PSA), annual reports must comply with requirements that have been approved by the Joint Committee of Public Accounts and Audit (JCPAA). This document, *Requirements for Annual Reports*, is published by the Department of the Prime Minister and Cabinet (PM&C), and states:

The primary purpose of annual reports of departments is accountability in particular to the Parliament.¹

5.2 Performance reporting is a specific requirement of annual reporting.² Annual reports should inform parliamentarians and other stakeholders about the performance of the agency and act as a key reference document.

1 The Department of the Prime Minister and Cabinet (PM&C), *Requirements for Annual Reports*, p. 3, www.pmc.gov.au/pdfs/annual_report_requirements.pdf, accessed 5 August 2004.

2 PM&C, *Requirements for Annual Reports*, p. 5, www.pmc.gov.au/pdfs/annual_report_requirements.pdf, accessed 5 August 2004.

5.3 The *Requirements for Annual Reports* state that annual reports must include:

a review of how the department has performed during the year in relation to the efficiency of the department's outputs and their effectiveness in terms of achieving the planned outcomes.

Descriptions of processes and activities should be avoided. Rather, reporting should be aimed at providing an assessment of how far the agency has progressed towards outcomes.³

The audit

5.4 The objectives of Audit Report No. 11, 2003-2004, *Annual Performance Reporting* were to determine whether agencies had:

- Established a sound annual reporting performance information framework;
- Developed arrangements to ensure performance information is accurate and coherent; and
- Appropriately analysed performance information in their annual reports.

5.5 The ANAO audit focused on whether overall characteristics were demonstrated in the annual reports of five agencies, to make them appropriate instruments of accountability. The annual reports of the following agencies were examined:

- Australian Customs Service;
- Department of Communications, Information Technology and the Arts;
- Department of Education, Science and Training;
- Department of Employment and Workplace Relations; and
- Department of Immigration and Multicultural and Indigenous Affairs.

3 PM&C, *Requirements for Annual Reports*, p. 6, www.pmc.gov.au/pdfs/annual_report_requirements.pdf, accessed 5 August 2004.

Audit findings

- 5.6 ANAO concluded that outcomes, agency outputs and administered item outputs were well specified in most instances. In order, however, to provide accountability and transparency to parliamentarians and other stakeholders, agencies' annual reporting frameworks needed to be improved, particularly in relation to:
- The specification of agencies' influence on, and contribution to, shared outcomes;
 - Performance measures relating to quality and effectiveness/impact;
 - The efficiency of agency operations and the cost effectiveness of outputs delivered; and
 - Targets or other bases for comparison.
- 5.7 Particular issues concerned the need for annual reports to:
- Provide an analysis of performance, rather than list activities;
 - Assess performance against targets or other bases for comparison;
 - Provide and review trends in non-financial and financial performance; and
 - Use the results of evaluations where appropriate to provide performance information on quality and effectiveness.
- 5.8 In these circumstances, the annual reports did not fully meet their primary purpose of accountability, particularly to Parliament.
- 5.9 Agencies have developed arrangements to provide performance information in their annual reports that is accurate, coherent and consistent. Agencies would be assisted, however, in maintaining the quality of this performance information through the establishment and monitoring of agency data quality standards, improvement in documentation of costing approaches, and a review by particular agencies of the correlation between their internal and external reporting frameworks.

The Committee's review

- 5.10 On 24 May 2004 the Committee held a public hearing to review the progress made against the recommendations of Audit Report No. 11. The public hearing was attended by:
- Australian National Audit Office;
 - Australian Customs Service;
 - Department of Communications, Information Technology and the Arts;
 - Department of Education, Science and Training;
 - Department of Employment and Workplace Relations; and
 - Department of Immigration and Multicultural and Indigenous Affairs.
- 5.11 The Committee took evidence on the following issues:
- ANAO's *Better practice guide*;
 - Changing performance indicators;
 - Reporting on unmet targets;
 - Insufficient funding;
 - Cost-benefit analysis; and
 - Shared outcomes.

ANAO's *Better practice guide*

- 5.12 The Committee was interested in how agencies had responded to the ANAO Better Practice Guide titled *Better Practice in Annual Performance Reporting (Better practice guide)*.
- 5.13 This guide, released in April 2004, was prepared jointly by ANAO and the Department of Finance and Administration (Finance) as a practical tool to help Commonwealth agencies improve the quality of performance reporting in annual reports.⁴

4 Australian National Audit Office (ANAO), *Better Practice Guide: Better Practice in Annual Performance Reporting*, April 2004, p. v.

- 5.14 The guide aims to address a conclusion of the Committee Report 388, *Review of the Accrual Budget Documentation*. That report stated:

It is the Committee's view that agencies still have some way to go in improving performance information. The Committee encourages Finance and the ANAO to publish better practice guides in relation to measuring, assessing and reporting agency performance.⁵

- 5.15 The *Better practice guide* was developed concurrently with Audit Report No. 11, and includes better practice approaches identified in the course of the audit.⁶

- 5.16 The *Better practice guide* provides the following features:

- Practical examples of better practice;
- Suggestions about the foundations of good performance reporting;
- Tips for better data measurement and management; and
- Useful reference sources.⁷

- 5.17 The Australian Customs Service (Customs) and the Department of Education, Science and Training (DEST) referred to the *Better practice guide* in their responses to Audit Report No. 11, stating that they welcomed the guidance that it would provide. The Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) had found ANAO's efforts to be:

very useful in clarifying and articulating better practice and providing a standard to which we can aspire and also providing specific comments to guide our improvement process.⁸

- 5.18 DIMIA had recently completed a thorough review of its performance indicators. This review was reflected in its 2004-05 Portfolio Budget Statement (PBS). The *Better practice guide*, along with ANAO's audit and report, had acted as a catalyst to the review process, which had been under consideration for some time.⁹

5 ANAO, *Better Practice Guide: Better Practice in Annual Performance Reporting*, April 2004, p. v; Joint Committee of Public Accounts and Audit (JCPAA), Report 388: *Review of the Accrual Budget Documentation*, June 2002, p. 84.

6 ANAO, Audit Report No. 11, 2003-2004, *Annual Performance Reporting*, p. 23.

7 ANAO, *Better Practice Guide: Better Practice in Annual Performance Reporting*, April 2004, p. v

8 ANAO, Audit Report No. 11, 2003-2004, *Annual Performance Reporting*, pp. 36-7; Department of Immigration and Multicultural Affairs (DIMIA), *Transcript, 24 May 2004*, p. 3.

9 DIMIA, *Transcript, 24 May 2004*, p. 4.

- 5.19 Customs had not yet made any changes to its outcomes and outputs because:

It is a massive task for us to do. We have been making endeavours to do that. We could not do it in the time frame [of the 2004-05 PBS]. Our performance indicators are quite detailed... So to change everything we would need to go through a whole big system change, which we have not been able to do...¹⁰

- 5.20 Customs, however, was examining its annual reporting performance information framework, and reviewing its performance measures so that they focused on measuring performance rather than indicating workload or activity.¹¹

Committee Comment

- 5.21 The Committee is pleased to note agencies' ready acceptance of the ANAO *Better practice guide* and the resulting changes to their performance reporting practices.
- 5.22 The Committee acknowledges that implementation of the suggestions of the *Better practice guide* requires significant time and resources for some agencies. However, the Committee views performance reporting improvement as an ongoing process, and expects agencies to continue to improve their performance reporting practices.

Changing performance indicators

- 5.23 The Committee was interested in the changes that agencies had made to their performance reporting as a result of the ANAO audit.
- 5.24 A number of DIMIA's outputs were aspirational statements, like "Appreciation of cultural diversity", which are difficult to measure quantitatively. DIMIA will now break these indicators down into sub-indicators that are measurable.¹²
- 5.25 The Department of Communications, Information Technology and the Arts (DCITA) had also made changes to their outputs that would affect their performance indicators. Before the audit, their outputs had been generically defined. They had since moved to identify more specific

10 Australian Customs Service (Customs), *Transcript*, 24 May 2004, p. 3.

11 Customs, *Transcript*, 24 May 2004, pp. 3-4.

12 DIMIA, *Transcript*, 24 May 2004, p. 4.

outputs in the telecoms market, the broadcasting market, the Information and Communication Technology (ICT) market and the postal market. DEST too had made iterative changes to its performance reporting in response to the audit.¹³

- 5.26 ANAO argued that the way that performance indicators are expressed can often influence performance reporting. It is important that agencies choose the right statements or phrases in their performance indicators to ensure complete and accurate reporting.¹⁴

Committee comment

- 5.27 The Committee is satisfied with moves towards specific, measurable outputs by the agencies questioned, and is confident that these changes will result in better performance reporting. However, the Committee would have hoped that all agencies, after several years of performance reporting, are aware of the need for measurable outputs and for performance indicators that make it possible to assess whether the outputs have been achieved.

Reporting on unmet targets

- 5.28 The Committee was concerned that agencies were reporting in greater detail on targets that they had met, but in less detail on unmet targets. The ANAO stated that, where it was obvious that performance had not met expectations, agencies generally only reported on positives and did not discuss areas where performance had not met expectations or strategies to improve performance.¹⁵
- 5.29 The Committee was sympathetic to agencies' need to present a positive image to the public and their ministers. Parliament, however, expects complete, balanced and accurate reporting. The Committee was interested in how agencies achieve balance between these two concerns.
- 5.30 Agencies stated that they did report on unmet targets. They see performance reporting as an opportunity not only to highlight positive achievements, but also to provide an explanation of the environment and

13 Department of Communications, Information Technology and the Arts (DCITA), Department of Education, Science and Training (DEST), *Transcript, 24 May 2004*, p. 6.

14 ANAO, *Transcript, 24 May 2004*, p. 5.

15 ANAO, Audit Report No. 11, 2003-2004, *Annual Performance Reporting*, p. 48.

any reasons for unmet targets. Agencies want to be seen in a positive light, but also want annual reporting to be a transparent process.¹⁶

- 5.31 Customs noted that failing to meet a target did not indicate a failure of government activity, as some targets are beyond Customs' influence. For example, Customs sets a citizenship target in its PBS that is based on its ability to process that number of applications. If fewer applications are received, then Customs cannot meet its target. In cases like these, explanatory notes are important in explaining circumstances where it is not the fault of the agency when targets have not been met.¹⁷
- 5.32 ANAO stated that performance reporting provides agencies with opportunities to provide accountability back to their stakeholders and capture areas for improvement. The audit has shown that while agencies find it difficult to report against performance measures, they do at least describe the factors that have made it difficult to meet their particular objectives. ANAO has not observed any agency putting excessive emphasis on putting itself or any other agency in a good light.¹⁸

Committee comment

- 5.33 Reporting on unmet targets is important because it shows where improvements can be made and allows agencies to explain why targets have not been met. As the Committee has commented in the past, the open recognition of shortcomings and an indication of remedial action are preferable to subsequent revelations of cover-ups or incomplete reporting.¹⁹

Insufficient funding

- 5.34 The Committee was concerned that agencies were not reporting cases where they were unable to meet their targets due to insufficient funding. While this situation must occur from time to time, it is not mentioned in annual reports.

16 Department of Employment and Workplace Relations (DEWR), DCITA, DIMIA, DEST, *Transcript, 24 May 2004*, pp. 7, 9.

17 Customs, *Transcript, 24 May 2004*, p. 8.

18 ANAO, *Transcript, 24 May 2004*, pp. 17-18.

19 JCPAA, Report 399: *Inquiry into the Management and Integrity of Electronic Information in the Commonwealth*, March 2004, p. vii; Department of the House of Representatives, *Hansard Transcript, 1 April 2004*, p. 28025.

- 5.35 Customs told the Committee that statements in its most recent annual report implied that its activities were constrained by limited funding. The annual report's review by the Chief Executive Officer states:

Customs meets the challenge of balancing urgent Government priorities while continuing to deliver day-to-day business requirements, through a robust strategic and risk planning framework.²⁰

- 5.36 DEST and DCITA set targets that are achievable within available funding:

we have a range of priorities and during our [internal] planning processes we plan what we are going to do for the forthcoming year...

you work out what the processes are going forward, you broadly know what your budget is going forward and you do set your priorities. So, in a sense, if there is any trading off, that is done within those priorities.²¹

- 5.37 The Department of Employment and Workplace Relations (DEWR) explained that, in the hypothetical situation where funding constraints did not allow them to meet their targets, the Secretary would speak to the Minister to determine the Government's priorities.²²

Committee comment

- 5.38 The Committee is satisfied that agencies are well aware of their funding restraints and operate accordingly.

Cost-benefit analysis

- 5.39 The Committee was interested to know whether agencies were using cost-benefit analysis in their performance reporting. This would assist agencies in obtaining the funding and resources to achieve their targets.
- 5.40 All agencies told the Committee that they do engage in cost-benefit analysis, although they do not include it in their performance reporting. Instead, cost-benefit analysis is used for internal processes such as program delivery, investment and policy proposal.²³

20 Customs, *Transcript, 24 May 2004*, p. 10; Customs, *Annual Report 2002-03*, p. 6.

21 DEST, DCITA, *Transcript, 24 May 2004*, p. 10.

22 DEWR, *Transcript, 24 May 2004*, p. 11.

23 DEWR, DCITA, DEST, DIMIA, Customs, *Transcript, 24 May 2004*, pp. 11-12, 14.

- 5.41 In the process of performing the audit, ANAO had determined that agencies had done a number of evaluations of program effectiveness over a period of time, but that this information did not appear in their annual reports. ANAO felt that agencies could be making better use of this body of work.²⁴

Committee comment

- 5.42 The Committee was disappointed at the low utilisation of cost-benefit analysis in performance reporting, and expects that cost-benefit analysis could be a fundamental part of overall performance evaluation.
- 5.43 The Committee agrees with ANAO that agencies could be making better use of cost-benefit analyses and evaluations of effectiveness.

Shared outcomes

- 5.44 The Committee was concerned about the reporting of shared outcomes. Over the past decade there has been increased emphasis on monitoring achievements on a whole-of-government basis. Outcomes are frequently broad and their achievement is dependant on contributions of other agencies, including other tiers of government. In such situations, it is necessary to develop a broad framework of performance information to specify the respective contributions of all agencies towards achieving the outcome and responsibilities for reporting on performance.²⁵
- 5.45 Annual reports acknowledge where the achievement of outcomes depends on a range of stakeholders. However, the reports included little or no performance information that related to their individual contribution to the achievement of the shared outcomes.²⁶
- 5.46 The ANAO recommended (Recommendation No. 1, (a)) that agencies use intermediate outcomes and explanatory text to better specify their contribution to broadly stated or shared outcomes.²⁷

24 ANAO, *Transcript*, 24 May 2004, p. 12.

25 ANAO, Audit Report No. 11, 2003-2004, *Annual Performance Reporting*, p. 30.

26 ANAO, Audit Report No. 11, 2003-2004, *Annual Performance Reporting*, p. 30.

27 ANAO, Audit Report No. 11, 2003-2004, *Annual Performance Reporting*, p. 36.

- 5.47 DEST's response to this recommendation pointed out that reporting against shared outcomes was difficult:

The segregation of clear elements of responsibility, for example where this is shared between the Commonwealth and the states, is challenging and the subsequent measurements of the performance of these sub-elements in a meaningful way represents a major hurdle to progress in this regard.²⁸

- 5.48 The ANAO *Better practice guide* does advise on reporting against broad or shared outcomes:

The key challenge is to identify the agency's area of influence, and be aware of the influence of other players, in other Australian Government agencies, or at other levels of government.²⁹

- 5.49 ANAO explained that agencies were adequately describing where they were involved in a whole-of-government approach or an approach across jurisdictions. However, agencies need a way of measuring individual contributions to these broader outcomes. Agencies would be able to articulate performance measures for broader outcomes if they clearly identified their roles and responsibilities to these outcomes. ANAO understands that this is a challenging task, especially where outcomes cross jurisdictions.³⁰

- 5.50 Customs and DCITA had acted on ANAO advice, and had identified the whole-of-government outcomes to which they contribute. From this, they had changed their shared outcomes to reflect their roles in achieving each outcome.³¹

- 5.51 DCITA also pointed out that the marketplace often contributes to its shared outcomes, which makes it difficult to determine what its actual contribution was.³²

- 5.52 DEST told the Committee of several improvements to performance reporting of shared outcomes in its 2003-04 annual report. These included better analysis through the use of tables, graphs and explanatory text; specifying the Government's contribution to each outcome; and the use of benchmarks. These improvements will be transferred to the 2004-05 PBS.

28 ANAO, Audit Report No. 11, 2003-2004, *Annual Performance Reporting*, p. 36.

29 ANAO, *Better Practice Guide: Better Practice in Annual Performance Reporting*, April 2004, p. 10.

30 ANAO, *Transcript*, 24 May 2004, p. 13.

31 Customs, DCITA, *Transcript*, 24 May 2004, pp. 3-4, & 6.

32 DCITA, *Transcript*, 24 May 2004, p. 14.

DEST conceded that further improvement is needed, and the *Better practice guide* will help.³³

- 5.53 Customs and DIMIA pointed out the problem of working with a large number of agencies at different levels. Customs suggested a solution to this problem: appointing an agency to take an overview of each shared outcome. This agency would be responsible for measuring the overall progress against the outcome and determining each agency's contribution to this progress, and then reporting this information.³⁴

Committee comment

- 5.54 The Committee acknowledges the difficulties of reporting against shared outcomes, and notes that the *Better practice guide* does include advice on reporting on shared outcomes. Agencies need to identify clearly their contribution to a shared outcome and report on that contribution — while also recognising the contribution of other agencies or levels of government.
- 5.55 The Committee will note the quality of performance reporting on shared outcomes in future annual reports as whole-of-government approaches to issues — such as security or environmental management — will be increasingly prominent features of public policy in Australia.

33 DEST, *Transcript*, 24 May 2004, p. 13.

34 Customs, *Transcript*, 24 May 2004, p. 15; DIMIA, *Transcript*, 24 May 2004, p. 16.