

The Auditor-General  
Audit Report No.23 2006–07  
Performance Audit

## **Application of the Outcomes and Outputs Framework**

Australian National Audit Office

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ISSN 1036–7632

ISBN 0 642 80942 9

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Canberra ACT  
6 February 2007

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Application of the Outcomes and Outputs Framework*.

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

Yours sincerely

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

Ian McPhee  
Auditor-General

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

## AUDITING FOR AUSTRALIA

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

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## Abbreviations

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AAO	Administrative Arrangement Order
ANAO	Australian National Audit Office
BEFR	Budget Estimates Framework Review
DEST	Department of Education, Science and Training
DEH	Department of the Environment and Heritage
Finance	Department of Finance and Administration
FMA Act	<i>Financial Management and Accountability Act 1997</i>
IPA	Individual performance agreement
JCPAA	Joint Committee of Public Accounts and Audit
MAC	Management Advisory Committee
OECD	Organisation for Economic Cooperation and Development
PBS	Portfolio Budget Statements
PM&C	Department of Prime Minister and Cabinet
PSM	Protective Security Manual
SFPAC	Senate Standing Committee on Finance and Public Administration



## Glossary<sup>1</sup>

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Administered Items	Resources controlled by the Government but administered by agencies on behalf of the Government. Administered items are appropriated to a particular outcome in the annual Appropriation Acts.
Agencies	Agencies are Departments of State, Departments of Parliament and 'prescribed agencies' for the purposes of the <i>Financial Management and Accountability Act 1997</i> .
Appropriation Acts	<p>Appropriation Acts authorise expenditure or have the effect of increasing, altering the destination of, or extending the purpose of an existing appropriation.</p> <p>Annual appropriation Acts appropriate money each financial year from the consolidated revenue fund to provide funds for government and parliamentary expenditure.</p> <p>Special appropriation Acts appropriate funds for a specified purpose, for example, to finance a particular project or programme set up by the Act.</p>
Annual reporting requirements	Department of Prime Minister and Cabinet's <i>Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies (June 2006)</i> , approved by the Joint Committee of Public Accounts and Audit under subsections 63(2) and 70(2) of the <i>Public Service Act 1999</i> .
Audited agencies	The three agencies within the group of surveyed agencies where detailed audit fieldwork was undertaken.
Benchmark	A standard used for comparison.

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<sup>1</sup> Some of the above definitions are taken or adapted from Department of Finance and Administration guidance.

Budget	Information on the Government's planned financial performance, including estimates of revenue and expenses, and fiscal policy for the forward years support the annual Appropriation Acts.
Budget Measures	Changes to government expense, revenue or investing activities and are published in the Budget papers, including the Portfolio Budget Statements.
Combet case	The 2005 High Court case (Combet v Commonwealth of Australia [2005] HCA 61, 21 October 2005) that considered the lawfulness of the Government's use of public money to fund an advertising campaign on the grounds that the expenditure was not specifically authorised by the Appropriation Act (No.1) 2005-06. In a majority decision, the High Court concluded, amongst other things, that for departmental items it was not necessary to demonstrate that the expenditure fell within the terms of a particular outcome.
Cost attribution	Allocation by agencies of direct and indirect costs for the purposes of preparing PBSs and including actual costs by outcomes and outputs in notes to financial statements, and reporting cost information in their annual report.
Departmental Items	Resources directly controlled by agencies, for example those for employee expenses, used to produce outputs on behalf of the Government.  Departmental items are notionally allocated to outcomes in the annual Appropriation Acts.
Effectiveness	The extent to which actual outcomes are achieved, in terms of the planned outcomes, via relevant outputs or administered items.
Efficiency	The extent to which resources are minimised for a given level of outputs, or outputs are maximised for a given level of resources.

Finance guidance	Department of Finance and Administration <i>Outcomes and Outputs Framework</i> guidance, 2003, available from <a href="http://www.finance.gov.au/budgetgroup/commonwealth%5Fbudget%5F%2D%5Foverview/the%5Foutcomes%5F%5F%5Foutputs%5Fframework.html">http://www.finance.gov.au/budgetgroup/commonwealth%5Fbudget%5F%2D%5Foverview/the%5Foutcomes%5F%5F%5Foutputs%5Fframework.html</a>
Forward Estimates	The estimated revenues, expenses and relevant financial statements for the three out years past the Budget year.
Management Advisory Committee (MAC)	The Management Advisory Committee is a forum of Secretaries and Agency Heads established under the <i>Public Service Act 1999</i> to advise Government on matters relating to the management of the Australian Public Service.
Outcomes	The results or impacts on the community or the environment that the Government intends to achieve.
Outcomes and outputs structure	The specified outcomes, outputs, output groups, sub-outputs and administered items (as applicable) of an agency.
Outputs	The actual deliverables agencies produce to generate the desired outcomes specified by government.
Output groups	The grouping of outputs to reflect the more business-specific aspects of an agency's operations.
Performance indicators	Often referred to as key performance indicators (KPIs), performance indicators are established to provide information (either qualitative or quantitative) on the extent to which a policy, programme, initiative or output is achieving its objective.
Performance information	Evidence about performance that is collected and used systematically. Evidence may relate to appropriateness, effectiveness and efficiency. It may be about outcomes, factors that affect outcomes, and what can be done to improve them. Performance information also includes evidence about the extent to which an agency contributed to the achievement of outcomes.

Portfolio Budget Statements	Form part of the Budget papers and function like an explanatory memorandum for a Bill before the Parliament. They explain the provisions of the Budget Bills to the Parliament.
Price	The amount the government or community pays for the delivery of agreed outputs.
Programme	Programmes are activities that contribute to a common strategic or operational objective and are linked to an outcome statement. Programmes can be funded from either departmental or administered appropriations, with the majority of programmes funded as administered items.
Quality indicators	Refers to the characteristics or attributes of a particular outcome, output or activity. A range of qualitative indicators are usually necessary to assess the performance of an agency or the achievement of an outcome.
Quantity indicators	Refers to the throughput or volume of particular outputs or activities. Quantitative indicators, in themselves, may provide context to an agency's operations but do not usually provide a comprehensive picture of performance.
Stakeholders	Any individual or group with an interest in the operations, activities, results or resources of an agency. In the context of outcomes and outputs, agencies' primary stakeholders are Government and the Parliament. Other stakeholders also include members of the public, special interest groups, other government agencies and non-government organisations.
Surveyed agencies	44 FMA agencies that participated in an ANAO survey on the application of the outcomes and outputs framework.
Target	A quantifiable performance level or change in level to be attained by a specified date.
Whole-of-government	Refers to the approach taken to initiatives involving public sector agencies working across portfolio boundaries to achieve shared goals and objectives.

## **Summary and Recommendations**



# Summary

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## Background

1. The Outcomes and Outputs framework ('the framework') provides the basis of the Government's approach to budgeting and reporting for public sector agencies and the means by which the Parliament appropriates funds in the annual budget context.
2. The framework was introduced, together with accrual budgeting, in 1999–2000. At the time of its introduction, the framework represented a significant step in the evolution of the government's management and budgeting reforms and was intended to provide an increased focus on outcomes and results.
3. The stated aims of the framework were to:
  - provide a framework for better managing complexity;
  - align departmental outputs with the outcomes the government specifies it wants achieved;
  - improve the quality of decision-making within agencies;
  - enhance the transparency of management decisions and activities; and
  - provide a management and accountability system based on indicators of effectiveness and performance.
4. The key elements of the framework are:
  - specification of what government is seeking to achieve (outcomes);
  - specification of how the actual deliverables will assist in achieving the outcomes (outputs);
  - identification of expenses, revenues, assets or liabilities managed by agencies on behalf of the Government (administered items);
  - establishment of a performance management regime that includes indicators of effectiveness and efficiency; and
  - annual performance reporting of agencies' contributions to the achievement of outcomes and the delivery of outputs.
5. These elements have not changed since its introduction, although the issues faced by agencies in implementing the framework continue to evolve.

6. A key consideration in establishing and maintaining a framework that remains relevant, informative and useful to a range of internal and external stakeholders, is the very nature of government business. In the Australian Government context, the functions of government include policy formulation and implementation, regulatory activities, direct service delivery and the payment of monies to those directly responsible for service delivery. The outcomes sought by government will range from those with a short term focus to those that will only be achieved in the longer term. Further, the achievement of outcomes will often depend on a number of factors and may include the contribution of up to three levels of government and a number of agencies.
7. As outcomes describe the purposes for which funds are appropriated, outcome statements need to be expressed with sufficient specificity to meet the requirements for a legally valid appropriation. In doing this, outcome statements should capture in succinct terms the impacts government intends to achieve through agency outputs and any administrative items the agency manages on behalf of the Government. Outcomes are specified by the responsible Minister with the endorsement of the Finance Minister.
8. The increasing emphasis on the whole-of-government delivery of services requires agencies to work together to develop budgeting and reporting arrangements that meet both the accountability obligations of individual agencies and also contribute to the collective achievement of, and accountability for, whole-of-government outcomes.
9. Application of the framework by agencies also requires a balance between expressing outcomes and outputs to reflect an agency's particular environment and the benefits of providing the Parliament and other stakeholders with information that is consistently presented and facilitates comparisons over time and, where relevant, between agencies.
10. The public sector is faced with changing Parliamentary, government, and community priorities and expectations that require agencies to periodically review, and refine as necessary, performance budgeting and management regimes, including outcomes and outputs. Changes to outcomes and outputs can, however, make it difficult for stakeholders, particularly the Parliament, to track agency performance over time. It is therefore important that agencies disclose, to the extent possible, the impact that framework changes have on expenditure patterns and performance information over time.
11. In a public sector environment the development of a relevant and informative performance budgeting and management regime, characterised by



multiple objectives and stakeholders is inherently a difficult task. The regime required by the framework involves establishing and measuring performance relating to both the effectiveness of an agency's contribution to outcomes and the efficiency of its activities. Efficiency is expected to be measured by assessing the quality, quantity and price of agency goods or services<sup>2</sup>. Agencies often find it challenging to implement all the required elements of such a regime in a manner that concisely reports on effectiveness and efficiency.

12. In the light of the above issues, it is perhaps not surprising that reports of Parliamentary Committees and the Australian National Audit Office (ANAO), together with a range of other commentators have all pointed to the implementation of the framework as being 'work in progress'. This also mirrors the results of studies undertaken by the Organisation for Economic Co-operation and Development (OECD) on the experience of overseas jurisdictions that have introduced an outcomes and outputs framework.

## Parliamentary and other reviews of the framework

13. Since the introduction of the framework in 1999-2000, there have been a number of Parliamentary and Government inquiries or reviews that have addressed elements of the framework. In some cases these have been a part of a broader review of budget and related policies and processes.

14. Details of the reviews undertaken are provided below<sup>3</sup>:

- in July 1999 the 'Vertigan Report' reported on the results of a review of 'the 1999-2000 Budget estimates production arrangements for expenses and revenues'. The report concluded, amongst other things, that the accrual-based outcomes and outputs framework constituted international best practice<sup>4</sup>;
- the then Senate Finance and Public Administration Legislation Committee has tabled three reports on the format and contents of Portfolio Budget Statements (PBSs). The latter two reports included a review of the outcomes and outputs framework. The second report in

<sup>2</sup> Finance Outcomes and Outputs guidance identifies that efficiency is assessed through a combination of these indicators. Department of Finance and Administration, *Outcomes and Outputs Guidance 2003*, Performance Reporting Under Outcomes and Outputs, available from [http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/performance\\_reporting.html](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/performance_reporting.html)

<sup>3</sup> Where appropriate further discussion on these is included in the body of the Report.

<sup>4</sup> Dr M. Vertigan *Review of Budget Estimates Production Arrangements*, Overview 28 July 1999.

October 1999 discussed the need for less aggregated financial information, more standardisation across PBSs and forward estimates for outcomes and outputs. The third report tabled in November 2000 discussed the need for forward estimates for administered items and again pointed to the need for greater consistency and comparability of pricing and performance information contained in the PBS;

- in June 2002, the Joint Committee of Public Accounts and Audit (JCPAA) tabled Report No.388, *Review of Accrual Budget Documentation*. The Committee examined, amongst other things, the structure of the outcomes and outputs framework, the continuity of financial and performance information, the level of detail in PBSs, and the appropriateness of performance information. The JCPAA concluded that ‘...the overall structure of the accrual budget documentation framework is sound. However, there will need to be continuous refinement and this may take a number of years’<sup>5</sup>;
- in 2002, the Government undertook a Budgets Estimate Framework Review (BEFR) that, amongst other things, recommended that ‘Finance, in consultation with agencies, undertake a progressive review of all agencies’ outcomes to ensure that they appropriately reflect the purpose of the agency’. Finance proposed in 2002 that this review would be progressively undertaken with a report provided to the Minister for Finance and Administration in 2004–05<sup>6</sup>. Finance has advised the ANAO that this review was still in progress at the time of preparation of this report; and
- in June 2006, the then Senate Finance and Public Administration References Committee commenced an inquiry into the *Transparency and Accountability of Commonwealth Public Funding and Expenditure*. This inquiry was commenced following the tabling in December 2005 of a report by the Committee on *Government Advertising and Accountability*.

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<sup>5</sup> Joint Committee of Public Accounts and Audit (JCPAA) Report No.388, *Review of Accrual Budget Documentation*, June 2002 p vi.

<sup>6</sup> Department of Finance and Administration, *Estimates Memorandum 2002/13, Budget Estimates and Framework Review – Recommendations*, 15 November 2002, p 11.

Amongst other things, this report commented on the Combet case's<sup>7</sup> consideration of agencies' outcome statements in relation to Parliament's role in monitoring and approving Government expenditure. The Committee noted that the Combet judgement raised questions that go much wider than expenditure on government advertising. They concern the whole financial accountability framework and Parliament's role in monitoring and approving government expenditure. The Committee recommended that the Senate refer to it for inquiry and report the matter of the impact of outcome budgeting for appropriations on Parliamentary consideration and approval of government expenditure, and the accountability of government for such expenditure<sup>8</sup>.

15. With the exception of the 2006 inquiry by the Senate Standing Committee on Finance and Public Administration ('SFPAC') that was in progress at the time of preparation of this report, the reviews undertaken were completed within three years of the framework's introduction.

## Implementation and reporting requirements

16. Guidance on implementing the framework and requirements for annual performance reporting has been issued by the Department of Finance and Administration (Finance) and the Department of Prime Minister and Cabinet (PM&C)<sup>9</sup> respectively.

17. The Finance guidance outlines the requirements for agencies to provide performance information relating to the achievement of outcomes, outputs and administered items. In particular, agencies are required to provide information on the efficiency of agency outputs and the effectiveness of those outputs and any administered items in contributing to the achievement of outcomes. Agencies are also required to provide an indication of the overall state of outcomes. The guidance also outlines Cabinet-endorsed performance

<sup>7</sup> Combet v Commonwealth of Australia [2005] HCA 61 (21 October 2005) challenged the lawfulness of the Government's use of public money to fund its WorkChoices advertising campaign on the grounds that the expenditure was not specifically authorised by the Appropriation Act (No.1) 2005–2006. In a majority decision, the High Court concluded, amongst other things, that for departmental items (as opposed to administered items) it was not necessary to demonstrate that the expenditure fell within the terms of a particular outcome (such as outcome 2). Rather, it was sufficient to demonstrate that the amount to be spent was applied for 'departmental expenditure'.

<sup>8</sup> Senate Finance and Public Administration References Committee Report, *Government advertising and accountability*, December 2005, paragraph 4.37 and Recommendation 1, paragraph 4.76.

<sup>9</sup> PM&C Requirements, section 11(1), *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies* (June 2006).

management principles of balance and clarity, strategic focus, targets, and the continuous improvement of performance information<sup>10</sup>.

18. The annual performance reporting requirements require, amongst other things, agencies' annual reports to include, a review of how the agency has performed during the year in relation to the efficiency of the outputs and their effectiveness in terms of achieving planned outcomes together with a discussion and analysis of the agency's financial performance for the year.

## Audit scope and objectives

19. The objective of the audit was to assess the application of the outcomes and outputs framework in Australian Government agencies. The audit included a review of:

- the outcomes and outputs of agencies and the integration of the outcomes and outputs framework into agencies' operations;
- the extent to which agencies' performance indicators incorporated better practice characteristics to enable agencies to meet their performance reporting obligations;
- agencies' processes for capturing, monitoring and reporting financial and performance information and the extent to which outcomes and outputs information was used in agency decision-making; and
- the extent that agencies met their external reporting and accountability obligations.

20. The audit consisted of a survey of 44 agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act) undertaken in October 2005 and detailed audit testing in three of those agencies. The purpose of the survey was to provide cross-agency data in relation to agencies' implementation of the framework during the period 2002–03 to 2005–06. The ANAO received responses from all 44 agencies, although not all agencies responded to all questions. The ANAO did not audit the information provided by survey participants and the reported results are based on agencies' responses to the survey.

21. The agencies at which detailed audit testing was undertaken were:

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<sup>10</sup> Available from Finance Guidance, Performance Reporting Under Outcomes and Outputs, <[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/performance\\_reporting.html](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/performance_reporting.html)>

- Department of Education, Science and Training;
- the then Department of the Environment and Heritage<sup>11</sup>; and
- IP Australia.

## Audit conclusion and key findings

### Audit conclusion

22. The introduction of an accrual based outcomes and outputs framework in 1999–2000 was a key element of a series of financial and management reforms aimed at building an improved performance culture within the public sector. The framework was designed to provide a basis for deciding and managing what agencies should produce, assessing how well it was produced, how it contributed to the Government's outcomes, and at what cost.

23. The 2005–06 financial year represented the seventh year since the framework was introduced and the key elements of the framework have remained largely unchanged over this period. As such, the ANAO expected agencies to have:

- well-established frameworks that incorporated the characteristics outlined in guidance material published by Finance and in the Better Practice Guide on *Annual Performance Reporting* prepared jointly by the ANAO and Finance and published in 2004;
- integrated, to the extent appropriate, outcomes and outputs into their planning, performance management and decision-making processes; and
- well-established business processes that enabled agencies to meet their reporting obligations.

24. Overall, the audit found that although the application of the outcomes and outputs framework in each of the audited agencies' incorporated some better practice characteristics, each agency had aspects that required improvement. The survey results also highlighted areas requiring improvement in the surveyed agencies.

25. There was a very broad spread in the number of outcomes and outputs, and a wide variation in the approaches taken in describing outcomes and

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<sup>11</sup> The Department was renamed the Department of the Environment and Water Resources as a result of Administrative Arrangement Order effective from 30 January 2007.

outputs. This reflected the diverse range and nature of government objectives as well as the activities undertaken by agencies and the different ways agencies have interpreted and applied the Finance outcomes and outputs guidance. A number of outcomes statements were expressed in broad terms and did not specify the target group or the result or impact to be achieved. The ANAO considers high-level outcome statements can contribute to agencies experiencing difficulties in demonstrating the link between their outputs and the outcomes to which they contribute and can provide limited information for decision-making. Senate Committee reports, the BEFR and more recently the Combet case have all drawn attention to the broad nature of outcome statements.

26. The extent to which the structure of agencies' outcomes and outputs reflected agencies' deliverables, and facilitated the development of performance indicators for the measurement of the achievement of outcomes and the efficiency of agency operations, varied considerably. The ANAO considered that in some instances the absence of direct linkages between outcomes and outputs reduced the extent to which agencies' PBSs and annual reports disclosed informative and relevant information to stakeholders.

27. The variability in agencies' outcomes and output structures reinforces the importance of agencies' periodically reviewing outcomes and outputs so that they enable agencies to identify and measure their contribution to the achievement of outcomes and measure the efficiency of delivering outputs.

28. The extent to which the framework had been integrated into agencies' operations also varied. The audit found that outcomes and outputs were not always linked to, or reflected in, agencies' strategic planning and performance management processes.

29. The audit found that the development of a comprehensive, relevant and informative regime of performance indicators, as well as having cost-effective systems and processes to capture, monitor and report complete, accurate and relevant agency performance, continued to be challenging for many agencies. In particular, the audit identified that many performance indicators did not enable an assessment to be made on whether desired results were achieved, as the indicators did not incorporate targets, benchmarks or other details of the extent of achievement expected.

30. The audit identified that each of the audited agencies generally had sound methodologies in place for the attribution of costs to individual outcomes and outputs.

31. The majority of surveyed agencies indicated that they used, to varying degrees, outcomes and outputs information in agency decision-making. Nevertheless, the survey results and the review of audited agencies identified that further attention should be given to including outcomes and outputs budget and performance information in regular management reports.

32. The audit also highlighted that, in many agencies with administered items, programme information was seen as being more relevant to the day-to-day management of agencies, with outcomes and outputs information being viewed as being necessary to obtain annual appropriations and to meet external accountability requirements. In this context, it is relevant that, commencing from June 2003, general government sector agencies were progressively required to provide government, on a monthly basis, expenditure details by programme.<sup>12</sup> To supplement outcomes and outputs information in their annual reports, a number of agencies also included details of programme expenditure, reflecting the relevance of programme information to the agency and stakeholders.

33. The ANAO considered that agencies' ongoing application of the framework would be enhanced by:

- the Finance guidance more clearly identifying mandatory or minimum requirements;
- the guidance incorporating principles that agencies should follow in determining whole-of-government budget and reporting arrangements;
- Finance periodically reviewing and updating the guidance so that it remains current and informative in light of financial management and related developments; and
- Finance facilitating the exchange of information and experiences in the application of the framework as well as providing practical advice in relation to specific framework issues.

34. The ANAO also identified a number of enhancements in relation to the framework which, if adopted, have the potential to improve consistency in

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<sup>12</sup> As outlined in Finance *Estimates Memorandum 2002/13*, p. 9, all general government sector agencies are required to submit a monthly estimates profile (cash and accruals) by programme for the budget year and annual estimates for the forward years; actual monthly results (cash and accruals) on a programme basis; and information on the level of forward commitments, for specified programmes only.



agency reporting and to further assist in meeting the needs of stakeholders. These include:

- reviewing the extent to which programme information can be integrated into the framework; and
- enhancing the reporting of expenditure and performance against new Budget measures.

## **Key findings**

### *Outcomes and Outputs Structures (Chapter 2)*

35. There was a wide variation in the way outcomes and outputs were structured. Surveyed agencies indicated that in the 2005–06 PBS the number of outcomes ranged from one, in over half the agencies, to 11 in one agency. The number of outputs ranged from none<sup>13</sup> in one agency, to 52 in another agency.<sup>14</sup>

36. The audit found that many of the surveyed agencies' outcomes and outputs structures had changed to, amongst other things, reflect changes in function arising from Administrative Arrangement Orders (AAOs) and government policy, establish better links between outcomes and outputs, achieve greater specificity in wording and to reflect organisational change.

37. Outcome statements were, in some instances, expressed in broad terms and did not specify the target group or the result or impact to be achieved. In addition, not all outputs sufficiently described agencies' key deliverables. This impacted on agencies' ability to demonstrate a link between outputs and outcomes and to measure and report on the effectiveness of their contribution to achieving outcomes and the efficiency of their operations.

38. Survey results indicated that, as required, changes to outcomes during the survey period were endorsed by the Finance Minister.<sup>15</sup> The audit found that agencies had adopted various approaches to changing their outputs. Some agencies indicated that Ministerial approval was obtained for changes, a small number advised they had routinely sought advice from Finance and/or notified their Minister of the changes. In view of the range of outputs specified

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<sup>13</sup> One agency indicated it had no outputs and that it had output groups and another agency did not specify whether it had outputs but indicated it had output groups.

<sup>14</sup> In some instances the number of outcomes or outputs has changed for subsequent years.

<sup>15</sup> Of the changes to outcomes in sixteen agencies, twelve were approved by the Finance Minister. The remaining four agencies stated that Cabinet, the Attorney-General, the Prime Minister or Governor-General had approved the changes to outcomes.



in surveyed agencies and the variation in approaches taken in specifying agency outputs, the ANAO considered there would be merit in Finance taking a stronger role in providing advice to agencies on the specification of outputs.

39. The extent to which agencies had integrated outcomes and outputs information into agency operations varied. As such there was scope to better utilise outcome and output information in corporate and work area planning processes and documents such as business plans, as well as in individual performance agreements.

### *Establishing Agency Performance Indicators (Chapter 3)*

40. A balanced set of performance indicators that addresses all key aspects of an agency's performance is a critical element of the outcomes and outputs framework. Agencies are expected to measure performance at two levels: the effectiveness of the contribution of agency outputs and funds administered on behalf of the Government to achieving outcomes, and the efficiency of agency outputs.

41. Performance indicators are expected to be a combination of quantitative and qualitative measures, incorporate a range of better practice characteristics, and be cost-effective to collect, analyse and report against.

42. Findings from both the survey of agencies and the ANAO's detailed testing indicated that:

- the large majority of the surveyed agencies indicated that they had developed outcome effectiveness performance indicators. In the absence of such indicators, relevant agencies indicated that they used output or administered item performance to assess the effectiveness of their contribution to the achievement of outcomes. The ANAO found, however, that over a third of the surveyed agencies with administered items indicated that none of their indicators addressed the effectiveness, quality or cost of their administered items;
- many indicators were impacted by factors outside the control of the agency including, for example, general economic conditions, or the activities of other levels of government or industry. This reduced agencies' ability to determine and report on their own performance and the performance of funds administered on behalf of the Government in contributing to achieving outcomes;
- many indicators did not incorporate targets or benchmarks and other better practice characteristics. In particular, the majority of surveyed

agencies' considered that not all their outcome and output indicators were measurable; and

- in some instances performance indicators were no longer relevant and meaningful, suggesting that they had not been reviewed periodically.

43. A majority of agencies indicated in their survey responses that performance indicators were systematically reviewed although none of the audited agencies had established procedures and guidance material to assist in the development and review of indicators.

*Agency Cost Attribution, Performance Monitoring, Management Reporting and Decision-Making (Chapter 4)*

44. The reporting of agency performance in annual reports to stakeholders on particular aspects of an agency's operations is the main mechanism by which agencies meet their formal accountability obligations. All agencies need to have cost attribution processes in place to attribute direct and indirect costs for the purposes of preparing their PBS, reporting actual costs by outcomes and outputs in notes to their annual financial statements and reporting performance in their annual report.

*Estimating of output price*

45. Agencies' PBSs detail the budgeted price of outputs and the cost of administered items. The ANAO's survey results and the audit findings in the audited agencies identified that agencies used a variety of approaches for estimating the price of outputs in their PBSs. The ANAO considers that agencies would benefit from periodically reviewing the basis used to estimate the price of outputs so that PBS estimates best reflect the expected price of outputs.

*Attribution of actual costs*

46. Nearly all of the surveyed agencies indicated they had in place a sound cost allocation methodology and approximately two-thirds advised they had a quality assurance program to assist in ensuring the accuracy and reliability of cost allocations.

47. The audit identified that each of the audited agencies generally had sound methodologies in place for the attribution of costs to individual outcomes and outputs. Nevertheless, the ANAO considered that each of the audited agencies would benefit from having more comprehensive guidance on the principles, methodology and processes for cost attribution.

### Capturing performance information and monitoring performance

48. The majority of surveyed agencies indicated that their systems for capturing and recording performance information, including quality assurance programs, provided accurate and reliable information. In the three audited agencies, the ANAO considered that these processes were generally sound. However, the ANAO identified a number of matters that impacted on the accurate reporting of performance, including:

- collating annual performance results for a point in time rather than for the entire year, sometimes leading to the reporting of better results than were actually achieved;
- a lack of guidance to assist programme areas identify appropriate methods for capturing, monitoring and reporting various types of performance information that led to results being collated and reported incorrectly; and
- the absence of sufficient documentation to support annual performance results reported.

### Management reporting, performance assessment and decision-making

49. Approximately two-thirds of the surveyed agencies stated that their monthly financial management reports included financial information at the outcomes and outputs level or that the price of outcomes and outputs was monitored against budget on a regular basis. In the three audited agencies, only one included outcomes and outputs information in regular management reports, reducing the opportunity for this information to be routinely used in agency decision-making.

50. The survey results identified that the majority of agencies used outcomes and outputs information in decision-making. A higher proportion of agencies indicated that they made more extensive use of cost information<sup>16</sup> than performance information and that information at the outputs level was used more extensively than information at the outcome level.

51. Nevertheless, surveyed agencies identified that the main drivers for management decision-making were government priorities, the need to comply with legislative requirements, responding to stakeholders and managing emerging risks and available resources. In addition, almost all the surveyed agencies indicated that agency performance was assessed using measures or

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<sup>16</sup> This included, to varying degrees, budget, expenditure and variance information.

indicators that were different or additional to the performance indicators published in their PBS and annual report. The indicators used included balanced scorecards, reporting against corporate and business plans, client and staff satisfaction surveys and benchmarking data.

52. The ANAO recognises that agency decision-making will generally be informed by a range of information, including financial and other information relating to programmes and particular agency activities, with less use being made of aggregate outcomes and outputs information. Nevertheless, the incorporation into agency decision-making processes of information relating to outcomes and outputs should assist agencies to focus on performance information that is used to meet their external accountability obligations.

#### *External Reporting and Accountability (Chapter 5)*

53. Survey results identified that the majority of agencies reported in their annual reports against all of their PBS outcome and output performance indicators.

54. Although the audit identified that the audited agencies met many of the annual performance reporting requirements, each of the audited agencies had not complied with a number of mandatory reporting requirements. The ANAO considered agencies needed to improve performance reporting, in particular, in relation to:

- the overall state of outcomes;
- the effectiveness of agency and administered items in contributing to the achievement of outcomes;
- the efficiency of outputs; and
- agency achievements rather than activities.

55. Particular attention should also be given to including narrative discussion and analysis of agency performance in annual reports.

#### *Opportunities for Enhancing the Framework (Chapter 6)*

56. The ANAO has also identified a number of enhancements in relation to the framework which, if adopted, have the potential to improve consistency in agency reporting and to further assist in meeting the needs of stakeholders.

57. Finance's outcomes and outputs guidance contains a combination of principles, requirements, suggested and better practices and as such does not clearly specify mandatory or minimum requirements with which agencies

need to comply. Finance's guidance has not been updated since 2003 and does not adequately address considerations relating to application of the framework in the whole-of-government context. The guidance should be regularly reviewed and updated so that it remains current and informative in light of financial management and related developments, such as the reduced focus on price and comparison of performance across agencies.

58. The audit identified that the extent to which agency staff with responsibilities for implementing the framework were aware of the existence and requirements of the Finance guidance was mixed. The ANAO considers agencies would benefit from Finance facilitating, through forums and other mechanisms, the exchange of information and experiences as well as providing practical advice in the application of the framework.

59. During the course of the audit, Finance advised it was in the process of updating its guidance material. The ANAO considers that in updating its guidance, Finance should also take into account the findings of the 2006 SFPAC inquiry into the *Transparency and Accountability of Commonwealth Public Funding and Expenditure* when released.

60. Specified programme expenditure is reported to Government by agencies and some agencies include programme information in their PBSs and annual reports, although there is no requirement to do so. The ANAO considers that further consideration should be given to integrating programme information into the outcomes and outputs framework with the aim of enhancing budget and performance information for the benefit of the Parliament and other stakeholders. That said, a blanket approach should be avoided; rather it would be preferable for criteria to be developed to guide agency decision-making on the inclusion of programme information.

61. The ANAO identified that at the time of audit there was no specific requirement to provide performance indicators in relation to new Budget measures in agencies' PBSs. The ANAO found that performance indicators were generally not provided for new measures in the audited agencies' PBSs and agencies' reporting of performance of the achievement of the objectives of new measures was limited. The ANAO considers that existing budget information could be enhanced by requiring performance and expenditure information to be provided for new Budget measures that are significant in value and/or are of particular Parliamentary or community interest.

62. In addition, the ANAO found that although agencies' PBSs provide forward estimates on a financial statement line item basis, forward estimates

by outcomes and outputs were generally not included in audited agencies' PBSs. The ANAO recognises that the existing level of information contained in Budget documents is extensive. Nevertheless, the ANAO suggests that providing forward estimates on the basis on which Parliament appropriates funds be further considered as part of any future review of the framework.

## **Agencies' comments**

63. Each of the audited agencies and Finance responded positively to the audit report. The agencies agreed to each of the recommendations, with one agency agreeing in principle with Recommendation No.1.<sup>17</sup>

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<sup>17</sup> Agencies general or specific comments are provided in the relevant section of the report to which they refer and/or in Appendix 1.

## Recommendations

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*The first five recommendations are aimed at Australian Government agencies generally, based on findings from the survey results of 44 agencies and audit work in three of those agencies. The sixth recommendation is directed at the Department of Finance and Administration.*

### **Recommendation No.1**

#### **Para 2.29**

The ANAO recommends that agencies incorporate into business or budget planning processes, a periodic review of outcomes and outputs with the aim of ensuring:

- (a) outcome statements are sufficiently specific and enable the identification and measurement of an agency's contribution to the achievement of outcomes; and
- (b) outputs and, where appropriate, output groups, describe the key deliverables produced by an agency in contributing to the achievement of outcomes and enable the measurement of the efficiency of delivering these outputs.

### **Recommendation No.2**

#### **Para 2.44**

The ANAO recommends that to enhance the integration of the framework into agency operations, details of outcomes and outputs and Portfolio Budget Statement indicators be incorporated into agency and work area business plans, and individual performance agreements, to the extent appropriate.

### **Recommendation No.3**

#### **Para 3.47**

The ANAO recommends that agencies review and where necessary improve:

- (a) their performance indicators to ensure that they have a range of appropriate indicators that incorporate better practice characteristics that provide stakeholders with useful and reliable performance information; and
- (b) their processes for periodic review of their indicators to ensure they remain relevant.

**Recommendation  
No.4**

The ANAO recommends that to assist in management decision-making, agencies:

**Para 4.28**

- (a) review, and where necessary improve, business processes, including quality assurance arrangements, for capturing and monitoring performance information; and
- (b) enhance management reporting arrangements by further integrating outcomes and outputs cost and performance information into regular management reports.

**Recommendation  
No.5**

The ANAO recommends that agencies assess the adequacy of performance reporting arrangements to ensure external performance reporting obligations are fully met to provide stakeholders with accurate and relevant performance information.

**Para 5.28**



**Recommendation  
No.6**

**Para 6.40**

The ANAO recommends that the Department of Finance and Administration consider the opportunities for improvement referred to in this report that relate to the following matters:

- (a) enhancing and updating guidance material, including developing principles to guide agencies in determining whole-of-government budget and reporting activities;
- (b) clarifying the minimum requirements that agencies are expected to comply with in developing and maintaining outcome and output structures and performance regimes;
- (c) periodically reviewing and updating the guidance so that it remains current and informative;
- (d) facilitating the exchange of information and experiences and providing ongoing practical advice in relation to the application of the framework;
- (e) better integration of programmes into the outcomes and outputs framework, including developing criteria to guide agencies' decision-making on the inclusion of programme information; and
- (f) enhanced reporting of expenditure and performance against specified new Budget measures.

**Agencies' responses to the recommendations**

64. The audited agencies and Finance agreed to the recommendations with one agency agreeing in principle with Recommendation No.1. Where provided, agencies' additional responses to each recommendation are provided in the body of the report.



## **Audit Findings and Conclusions**



# 1. Introduction

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*This Chapter provides an outline of requirements relating to the outcomes and outputs framework in Australian Government agencies and describes the audit objectives and scope.*

## Background

1.1 In April 1997, the Government decided that, commencing from the 1999–2000 Budget, public sector budget-funded entities would implement an accrual-based Outcomes and Outputs framework ('the framework') for budgeting and reporting. This initiative was a key element of a series of financial and management reforms aimed at building an improved performance culture within the public sector. The new framework was viewed as providing a more complete picture of performance, including financial performance, for decision-making and accountability.<sup>18</sup>

1.2 The stated aims of the framework were to:

- provide a framework for better managing complexity;
- align departmental outputs with the outcomes the government specifies it wants achieved;
- improve the quality of decision-making within agencies;
- enhance the transparency of management decisions and activities; and
- provide a management and accountability system based on indicators of effectiveness and performance.

1.3 Prior to the introduction of the outcomes and outputs framework, the Australian Government prepared its Budget using a programme management and budgeting framework. Previously, annual appropriations were made in two parts. Running costs for each entity were appropriated as a single amount. Appropriations for other services, in many cases individual programmes, were appropriated as individual line items. The outcomes and outputs framework was intended to shift the focus to an orientation on results which would allow for better information for decision-making by government and also assist the Parliament in its scrutiny of government programmes and performance.

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<sup>18</sup> Department of Finance and Administration *Specifying Outcomes and Outputs*, 1998 p. 9.

## Key elements of the framework

1.4 The key elements of the framework, which have not changed since its introduction, are:

- specification of what government is seeking to achieve (outcomes);
- specification of how the actual deliverables will assist in achieving the outcomes (outputs);
- identification of expenses, revenues, assets or liabilities managed by agencies on behalf of the Government (administered items);
- establishment of a performance management regime that includes indicators of effectiveness and efficiency; and
- annual performance reporting of agencies' contributions to the achievement of outcomes and the delivery of outputs.

1.5 The Department of Finance and Administration (Finance) is responsible for administering the framework and provides guidance to assist agencies in the application of the framework. Finance guidance defines outcomes as:

the results or impacts on the community or the environment that the Government intends to achieve. ...The outcome statements of agencies also perform a specific legal function by describing the purposes of appropriated funds<sup>19</sup>.

1.6 Outputs are defined as:

the actual deliverables - goods and services - agencies produce to generate the desired outcomes specified by government. Users of these goods and services can include members of the general public, industries or sectors, ministers, members of parliament, other agencies or even, in some instances, interests (e.g. the national interest). Outputs are classed as departmental items – the Chief Executive Officer of an agency, in consultation with the Minister, has discretion on the choice and mix of outputs delivered<sup>20</sup>.

1.7 Administered items are defined as:

those resources controlled by Government but administered by the agency on behalf of the Government (e.g., most grants and benefits; transfer payments).

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<sup>19</sup> Department of Finance and Administration, *Outcomes and Outputs Guidance 2003*, Specifying Outcomes, <[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/specifying\\_outcomes.shtml](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/specifying_outcomes.shtml)>

<sup>20</sup> Department of Finance and Administration, *Outcomes and Outputs Guidance 2003*, Specifying Outputs, <[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/specifying\\_outputs.html](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/specifying_outputs.html)>

...Administered expenses are expenses that agencies do not have control over and are normally made pursuant to eligibility rules and conditions established by the Government such as grants, subsidies and benefit payments. Annual appropriations for administered expenses are appropriated on the basis of agency outcomes, making it clear what the funding is intended to achieve rather than the programme it is being spent on<sup>21</sup>.

1.8 Outcomes describe the purposes of appropriated funds. Amounts for departmental activities are notionally allocated to outcomes in the annual Appropriation Acts, while administered expenses are appropriated to a particular outcome. Unlike outcomes, outputs are not part of the legislative requirements for appropriations. Details of outputs are provided in the Portfolio Budget Statements (PBS)<sup>22</sup> and Portfolio Additional Estimates Statements (PAES)<sup>23</sup> to provide more information on what has been appropriated within particular outcomes.

1.9 A depiction of outcomes and outputs framework is shown in Figure 1.1 below.

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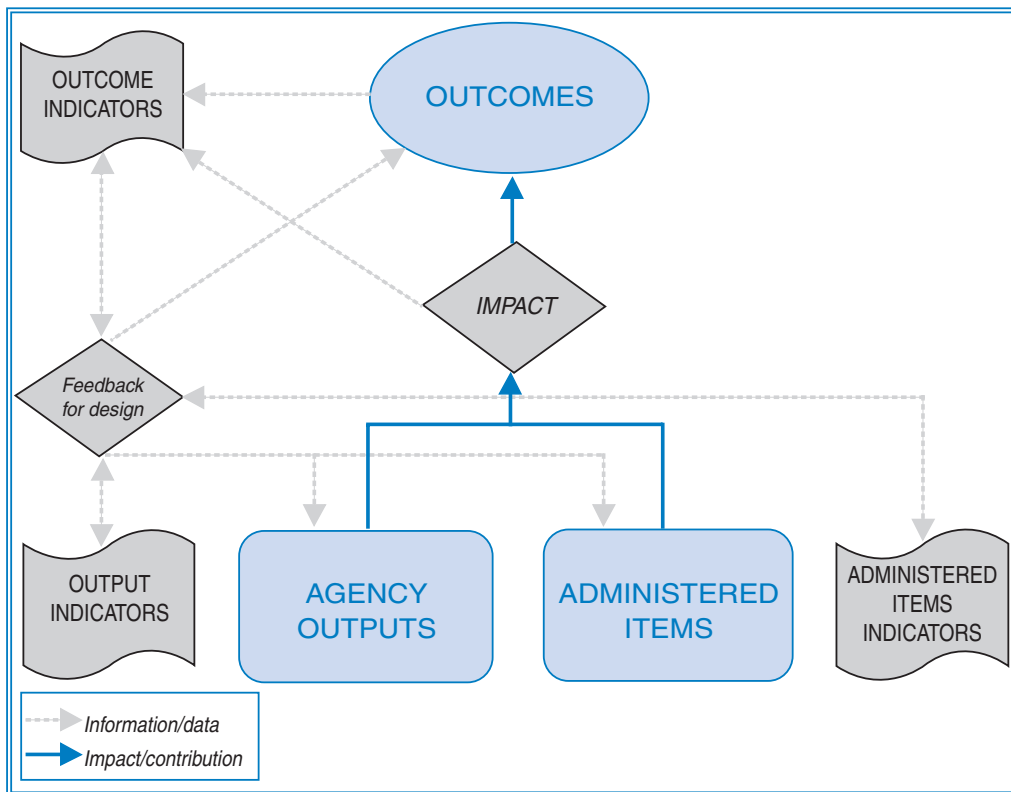
<sup>21</sup> Department of Finance and Administration, *Appropriation Bills Overview, Structure of Appropriation Bills, Administered versus Departmental*, <[http://www.finance.gov.au/budgetgroup/appropriation\\_bills.html](http://www.finance.gov.au/budgetgroup/appropriation_bills.html)>

<sup>22</sup> Finance describes the PBS as an explanatory memorandum for a Bill before the Parliament. It explains the provisions of the Budget Bills, that is, where the appropriated funds are going to be spent, to members of the Parliament.

<sup>23</sup> Portfolio Additional Estimates Statements (PAES) serve as an addendum to the Portfolio Budget Statement (PBS) and explain changes to Budget estimates that are in the Additional Estimates Appropriation Bills. The PAES inform Senators, Members and the public of changes since the Budget to the proposed allocation of resources to Government outcomes. References in this audit report to PBS include PAES and any supplementary PAES.

**Figure 1.1**

**Basic Outcomes and Outputs Framework**



Source: Department of Finance and Administration.<sup>24</sup>

1.10 The framework provides a common approach to aid users of information in navigating the PBSs and annual reports. In applying the framework, agencies are expected to tailor the framework to meet their own particular circumstances and the needs of stakeholders.

1.11 The increased focus on the performance of agencies has become a common feature of many overseas jurisdictions. A survey<sup>25</sup> by the Organisation for Economic Co-operation and Development (OECD) published in 2005 reported that:

<sup>24</sup> Department of Finance and Administration, *Outcomes and Outputs Guidance 2003*, Basic Outcome and Output Structure Diagram, <[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/basic\\_outcome\\_and\\_output\\_struc.html](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/basic_outcome_and_output_struc.html)>

<sup>25</sup> In late 2004, the OECD conducted a survey on Performance information in the Budget Process of all of member countries. 26 OECD member and 2 observer countries participated. All answers were self-reported.



Over the past fifteen years, the majority of OECD governments have sought to shift the emphasis of budgeting and management away from inputs towards a focus on results, measured in the form of outputs and/or outcomes. While the content, pace, and method of implementation of these reforms varies across countries and over time, they share a renewed focus on measurable results. Today, nearly three-quarters of OECD countries report having non-financial performance data in their budget documents.<sup>26</sup>

## Previous ANAO publications

1.12 Since the introduction of the framework, the Australian National Audit Office (ANAO) has conducted three audits on particular aspects of the framework:

- *ATO Performance Reporting under the Outcomes and Outputs Framework*, Audit Report No. 46, 2000–01;
- *Performance Information in Portfolio Budget Statements*, Audit Report No. 18, 2001–02; and
- *Annual Performance Reporting*, Audit Report No. 11, 2003–04.

1.13 The ANAO has also issued a number of performance audit reports that have included discussion on various aspects of the framework and performance management and accountability in individual agencies.<sup>27</sup>

1.14 The ANAO has also published two better practice guides that address aspects of the framework:

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

<sup>26</sup> Teresa Curristine *Performance Information in the Budget Process: Results of the OECD 2005 Questionnaire*, OECD Journal of Budgeting Volume 5 No. 2, OECD 2005 p. 2.

<sup>27</sup> Recent performance audit reports include: ANAO Audit Report No.6 2004–05, *Performance Management in the Australian Public Service*, ANAO Audit Report No. 25 2005–06, *ASIC's Implementation of Financial Services Licences*, ANAO Audit Report No.31 2005–06, *Roads to Recovery*, ANAO Audit Report No.50 2005–06, *Arrangements to Manage and Account for Aid Funds Provided Under the Australia-Indonesia Partnership for Reconstruction and Development*.

## Audit scope and objectives

1.15 The objective of the audit was to assess the application of the framework in Australian Government agencies. The audit included a review of:

- the outcomes and outputs of agencies and the integration of the framework into agencies' operations;
- the extent to which agencies' performance indicators incorporated better practice characteristics to enable agencies to meet their performance reporting obligations;
- agencies' processes for capturing, monitoring and reporting financial and performance information and the extent to which outcomes and outputs information was used in agency decision-making; and
- the extent that agencies met their external reporting and accountability obligations.

1.16 The audit consisted of a survey of 44 agencies subject to the Financial Management and Accountability Act 1997 (FMA Act) undertaken in October 2005 and detailed audit testing in three of those agencies. The purpose of the survey was to provide cross-agency data in relation to agencies' implementation of the framework during the period 2002–03 to 2005–06. The ANAO received responses from all 44 agencies, although not all agencies responded to all questions. The ANAO did not audit the information provided by survey participants and the reported results are based on agencies' responses to the survey.

1.17 The agencies at which detailed audit testing was undertaken were:

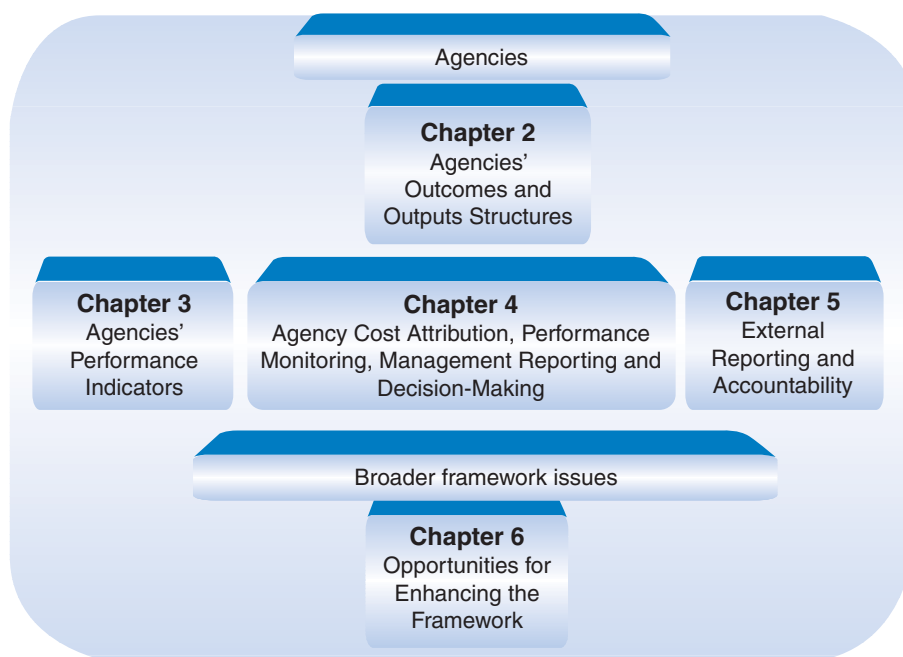
- Department of Education, Science and Training;
- the then Department of the Environment and Heritage; and
- IP Australia.

1.18 The audit was undertaken during the period October 2005 to September 2006 in accordance with the ANAO Auditing Standards, at a cost of \$665 000.

## Report Structure

1.19 The audit findings are reported in the following five chapters, as illustrated in Figure 1.2.

**Figure 1.2**  
**Report Structure**



Source: ANAO.

## 2. Outcomes and Outputs Structures

*This chapter discusses the outcomes and outputs of agencies and the integration of the outcomes and outputs framework into agencies' operations.*

### Introduction

2.1 The outcomes and outputs framework provides a common budget and reporting accountability framework for Australian public sector agencies. Each agency is required to specify outcomes and outputs, and identify administered items where relevant. To maximise the benefits of the framework, it should be integrated, to the extent appropriate, into agency operations.

2.2 The audit findings in this chapter are presented in two sections. The first section discusses the outcomes and outputs structures in agencies, including changes made to outcomes and outputs over the last few years. The second section discusses the extent of:

- alignment of agencies' organisational structures with the structure of outcomes and outputs; and
- integration of the framework into agencies' planning and performance processes.

### Outcomes and outputs

#### The number and description of outcomes and outputs in agencies

2.3 The range of outcomes and outputs in 2005–06 for the 44 agencies surveyed by the ANAO is presented in Tables 2.1 and 2.2 below.

**Table 2.1**

#### Number of Outcomes in 2005–06 for agencies surveyed by the ANAO

Number of outcomes	Number of agencies in survey group
1	26
2 - 5	16
6 -10	1
10+	1
<b>TOTAL</b>	<b>44</b>

Source: ANAO compilation of survey results.

**Table 2.2****Number of Outputs in 2005–06 for agencies surveyed by the ANAO**

Number of outputs	Number of agencies in survey group
0	2*
1	8
2 - 5	16
6 - 10	8
11 - 20	6
20+	4
<b>TOTAL</b>	<b>44</b>

\* One agency indicated it had output groups but no outputs. Another agency did not specify whether it had outputs but indicated it had output groups.

Source: ANAO compilation of survey results.

*Outcome statements*

2.4 Finance guidance states, in part, that outcome statements:

should, amongst other things, be specific, measurable, stated in such a way as to allow the relevant target group(s) to be identified and enable the formulation of sound effectiveness indicators to measure the impact of departmental outputs and administered items on the desired outcome and be free of vague, value-laden or aspirational language<sup>28</sup>.

2.5 A review of surveyed agencies' 2005–06 PBSs identified a number of outcomes statements that the ANAO considered were expressed in broad terms and did not specify the target group or the result or impact to be achieved. For example, outcome statements in some instances included terms such as 'to enhance /advance /contribute to or benefit...' with no indication of the degree of enhancement, advancement, contribution or benefit to be achieved.

2.6 The ANAO considers that high-level outcome statements can contribute to agencies experiencing difficulties in demonstrating the link between their outputs and the outcomes to which they contribute. This in turn

<sup>28</sup> Department of Finance and Administration, *Outcomes and Outputs Guidance 2003, Specifying Outcomes*, <[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/specifying\\_outcomes.shtml](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/specifying_outcomes.shtml)>

can reduce agencies' ability to develop performance indicators that measure the efficiency of agency operations and the effectiveness of achieving outcomes.

2.7 In this context, one of the audited agencies commented that:

Outcomes are generally pitched at a very high level. The form of words used is often more of a vision statement than a goal that can be achieved within a definite timeframe. As a result there may be a large gap between the specific outputs an agency produces and the broad outcomes it is trying to achieve. This compromises an agency's ability to measure whether its outcomes are being achieved and whether the achievement of the outcomes is due to the efforts of the agency or to other factors. ...These factors make it difficult for an agency to set up meaningful performance management and improvement systems based on the achievement of outcomes. For example, it is difficult to identify performance targets for outcomes where external factors have a significant influence over achieving the outcome. Where there is a large gap between the outputs and the outcomes, it is difficult to build up a picture of the agency's overall effectiveness by monitoring the effectiveness of its individual activities.

#### Cross-agency outcomes

2.8 The ANAO found that the concept of cross-agency outcomes had not been adopted by agencies. None of the surveyed agencies had shared outcomes in 2005–06. However, one third of survey respondents advised that they had purchaser-provider arrangements in place and, as such, contributed resources to or received resources from another agency. Cross-agency outcomes are considered further in Chapter 6 in the context of Whole-of-Government considerations.

#### *Outputs and output groups*

2.9 Finance guidance states that output groups:

tend to reflect the more business-specific aspects of an agency's operations, while outputs within output groups often tend to be more generic in nature. This structure allows the agency to describe its particular products or services while also enabling comparisons of outputs across the agency and between agencies.

2.10 To assist agencies in structuring outcomes and outputs, Finance has developed a model structure that includes the use of output groups, noting they are a mechanism by which agencies can 'strengthen the strategic and

causal connections'<sup>29</sup> between their outputs and outcomes. This approach to structuring outcomes and outputs is presented at Appendix 2.

2.11 The audit identified that the majority of surveyed agencies had more than one output, with four agencies adopting more than twenty outputs, including one agency with 52 outputs. Twenty-four agencies identified that they had output groups, with seven agencies having one output group and one agency having thirteen.

2.12 Some agencies expressed outputs in generic terms, while others used terminology specific to their circumstances. Some outputs clearly identified the deliverables of the agency and others did not. The ANAO considers that outputs such as programme management, public education and awareness and policy development, provide stakeholders with information regarding the actual goods and services that agencies provide. Subject to having in place appropriate performance indicators, agencies with generic outputs may be better able to assess both the efficiency of agency operations and the contribution of particular outputs to achieving outcomes.

2.13 The ANAO identified that at the time of the audit, one of the audited agencies used output descriptions that reflected high level themes or statements of intent rather than the actual deliverables of the agency, such as programme management and policy advice. In its survey response, the agency stated that its quantifiable outputs were items like payments, briefs, letters, reports and other publications that it considered were not a good basis for reporting on its performance in achieving outcomes. The agency also indicated that simply counting these items would not shed any light on the agency's effectiveness or efficiency in meeting government objectives and as such had identified simple ways to assess the quality of its products through, for example, measuring the timeliness and accuracy of the agency's outputs in its capacity as, amongst other things, policy advisor and grants provider.

2.14 Nevertheless, the ANAO considers that because this agency had used high-level themes for its outputs, this limited the agency in being able to:

- provide information to stakeholders on its actual deliverables;
- provide performance information on the efficiency of its operations; and

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<sup>29</sup> Department of Finance and Administration, *Outcomes and Outputs Guidance 2003*, Structuring Outcomes and Outputs <[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/structuring\\_outcomes\\_\\_\\_outputs.html](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/structuring_outcomes___outputs.html)>

- identify performance improvement activities and opportunities.

2.15 The ANAO suggested that, in these circumstances, the use of output groups, together with outputs that describe the key deliverables of the agency, could be a useful way to provide stakeholders with information relating to particular themes or areas of focus, while at the same time describing outputs.

2.16 The agency advised during the audit that it would consider changing outcomes and outputs when next reviewing its structure. The agency also advised that as it had revised its outputs several times since the framework was introduced, it would prefer to continue monitoring performance on the basis of its current outputs for at least three to four years to facilitate continuity in reporting and to maintain transparency.

2.17 The broad spread in the number of outcomes and outputs, and the wide variation in the approaches taken in describing outcomes and outputs reflect the diverse range and nature of government objectives as well as the activities undertaken by agencies. It also provides an indication of the different ways agencies have interpreted and applied the Finance guidance and demonstrates the flexibility that agencies have in applying the framework to their particular circumstances.

### **Changes to outcomes and outputs during the survey period**

2.18 Within the framework, Ministers and agencies have considerable scope for adopting specific structures and arrangements that suit their circumstances<sup>30</sup>.

2.19 Finance guidance states that changes to outcomes and outputs:

should only be undertaken if there will be a material improvement in the specification and such improvements are not outweighed by the need for year-on-year consistency<sup>31</sup>.

2.20 The ANAO identified that during the survey period (2002–03 to 2005–06) there had been significant changes to agencies' structures. Outcomes

<sup>30</sup> Department of Finance and Administration, *Outcomes and Outputs Guidance 2003*, Outcomes and Outputs Framework  
<<http://www.finance.gov.au/budgetgroup/commonwealth%5Fbudget%5F%2D%5Foverview/the%5Foutcomes%5F%5Foutputs%5Fframeworko.htm>>

<sup>31</sup> Department of Finance and Administration, *Outcomes and Outputs Guidance 2003*, Process for Changing Outcome Structures and Related Performance Information,  
<[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/process\\_for\\_changing\\_outcome\\_s.html](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/process_for_changing_outcome_s.html)> and  
<[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/process\\_for\\_changing\\_outputs\\_s.html](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/process_for_changing_outputs_s.html)>



for 16 of the 44 surveyed agencies had changed at least once. Over half of the survey respondents indicated they had made substantial changes to their outputs and of those agencies with output groups, approximately one third had made changes to their output groups at least once during the survey period. Over half of the survey respondents with administered items also indicated that they had changes to their administered items during the survey period.

2.21 The main reasons stated for changes to outcomes and outputs were the need to:

- improve clarity and simplicity;
- establish a clearer, unambiguous and direct causal link with the outcomes, outputs and/or output groups;
- reflect changes to functions arising from AAOs;
- reflect changes in government policy;
- reflect organisational structure and information systems;
- enable greater specificity in the wording to meet expectations of government or legal requirements for appropriations; and
- reflect internal organisational change, for example, as a result of internal review.

2.22 A quarter of respondents indicated that they had specific plans for changing outcomes, output groups, outputs or administered items during 2006–07. In addition to the reasons listed above, several agencies identified the need to facilitate the development of effectiveness and efficiency (quality, quantity and price) indicators as another reason for the proposed changes.

2.23 At the time of the audit, two of the three audited agencies were in the process of revising their outcome and output structures and one has since adopted a revised output structure and reflected this in its 2006–07 PBS. The agency that changed its outputs considered that the revised structure would provide benefits including:

Greater clarity of outputs reflecting...policy development...and alignment of outputs to cost recovery arrangements and governance.

2.24 The ANAO considers that where changes are made to the structure and/or descriptions of outcomes and outputs, agencies should have regard to the need, as far as possible, to provide stakeholders with information that

assists in comparing and measuring performance over time. This requires agencies to identify in their PBS and annual reports the reason for and the impact of changes made.

## **Approval of changes to outcomes and outputs**

2.25 Changes to outcomes need to be approved by the portfolio Minister and the Minister for Finance and Administration (Finance Minister). Agencies are also required to consult with Finance and obtain legal advice for any changes proposed<sup>32</sup>. Unlike outcomes, outputs are not part of the legislative requirements for Appropriation Bills and details of outputs are provided in the PBS to provide more information on what has been appropriated within particular outcomes. Outputs are classed as departmental items and an agency's Chief Executive, in consultation with the relevant Minister, as required, has the discretion to determine and change outputs. Finance guidance encourages agencies to consult with relevant stakeholders, including Finance, on proposed changes to outputs.

2.26 Of the 16 surveyed agencies with changed outcomes during the survey period, the ANAO was advised that the Finance Minister had approved the changes for twelve of these agencies<sup>33</sup>. In relation to the twenty-five surveyed agencies that changed outputs during the survey period, the majority stated they sought approval from or notified their Portfolio Minister of the changes, and six agencies stated they had consulted with Finance.

2.27 The ANAO recognises that agencies are ultimately responsible for determining both the number and description of outputs. Nevertheless, in view of the role that outputs play in assisting agencies to meet their budgeting and accountability objectives, the ANAO suggests that Finance, in consultation with agencies, explore ways to promote greater consistency in the way outcomes and outputs are described across agencies.

2.28 In light of the above audit findings, the ANAO considers that stakeholders will be provided with better performance information for

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<sup>32</sup> Finance guidance states that legal advice is required to confirm that outcome statements form 'valid appropriations' under Sections 81 and 83 of the Constitution (*Process for Changing Outcome Structures and Related Performance Information, 2003*, <[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/process\\_for\\_changing\\_outcome\\_s.html](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/process_for_changing_outcome_s.html)>)

<sup>33</sup> The remaining four agencies stated that Cabinet, the Attorney-General, the Prime Minister and Governor-General had approved the changes to outcomes. One of the changes required Prime Ministerial and Governor-General approval in relation to the creation of an Executive Agency leading to the removal of an outcome from a Department. Finance approved the resulting transfers of appropriation.

assessing agency efficiency and the effectiveness of contributions to outcomes where:

- outcome statements are better specified;
- agencies clearly identify their key deliverables as outputs;
- agencies specify intermediate outcomes to enable more frequent and accurate measurement of effectiveness in achieving long-term outcomes;
- agencies utilise, where appropriate, output groups to better link outputs to outcomes;
- agencies consult with Finance on proposed changes to outputs; and
- outcomes and outputs are periodically reviewed for relevance, particularly in light of changes to agency functions and government objectives.

## Recommendation No.1

2.29 The ANAO recommends that agencies incorporate into business or budget planning processes, a periodic review of outcomes and outputs with the aim of ensuring:

- (a) outcome statements are sufficiently specific and enable the identification and measurement of an agency's contribution to the achievement of outcomes; and
- (b) outputs and, where appropriate, output groups, describe the key deliverables produced by an agency in contributing to the achievement of outcomes and enable the measurement of the efficiency of delivering these outputs.

### *Agencies' responses*

2.30 The Department of Education, Science and Training, IP Australia and Finance agreed with the recommendation. The Department of the Environment and Heritage agreed in principle and provided the following comments:

#### *Department of the Environment and Heritage*

The Department of the Environment and Heritage accepts the principles underpinning this recommendation. The Department does already undertake an annual review of its outputs statements. However, from an Australian Public Service wide perspective, the Department has reservation as to whether APS agencies with a

significant policy advice role and a focus on long term outcomes could meet the specific intent of this recommendation.

The Department, drawing on past experience with the Outcomes and Outputs Framework, questions whether the breadth of policy and other effort in an agency can be disaggregated in terms of the contribution to discrete outcomes. Further, the Department questions whether, for many streams of public sector work, deliverables can be identified and measured in a way that provides stakeholders with a meaningful assessment of the contributions the work makes toward the overall achievement of an outcome.

## **Integration of the framework into agencies' operations**

2.31 An agency's capacity to implement the framework to improve decision-making and accountability is enhanced when outcomes and outputs are aligned with agencies' organisational structures and the framework elements are integrated, to the extent appropriate, into agencies' internal performance management regimes.

2.32 The ANAO reviewed the extent:

- that agencies' organisational structures were aligned with outcomes and outputs; and
- to which outcomes and outputs were reflected into agency planning and PBS performance indicators were incorporated, as appropriate, into work group plans and individual performance agreements (IPAs).

## **Alignment of agencies' organisational structures with outcomes and outputs**

2.33 Alignment of an agency's organisational structure with outcomes, outputs and administered items best defines management accountabilities and responsibilities and enables agencies to directly translate internal reporting to external reporting.

2.34 Approximately a quarter of surveyed agencies identified that one of the disadvantages of the framework was that it does not necessarily align well with organisational structures. Several agencies commented that non-alignment was due to business groups contributing to multiple outputs that impacted the agencies' ability to align costing, responsibility and accountability. A number of agencies also commented that a priority for

continual improvement in their application of the framework was to better align outcomes and outputs with their organisational structure.

2.35 The audit found that although none of the three audited agencies' organisational structures directly aligned with outcomes and outputs, the organisational units responsible for the delivery of outputs could be identified from agencies' annual reports.

### **Extent that PBS indicators were incorporated into work group plans and individual performance agreements**

2.36 Incorporating outcomes, outputs and PBS performance indicators, where appropriate, into agency planning processes and performance documentation will assist in strengthening accountability for delivery of the results for which work areas and individual agency officers, and ultimately the agency, are responsible.

2.37 To the extent appropriate, the ANAO considers that:

- outcomes and outputs should be used in the development of agency plans; and
- responsibility for all outputs and associated indicators should be clearly assigned to relevant business areas and individuals, where appropriate, so there is a common understanding about their respective contributions to the delivery of outputs and the achievement of outcomes.

2.38 The ANAO acknowledges that it may not always be possible, or appropriate, to reflect all elements of the outcomes and outputs framework or PBS indicators in agency or work group plans or IPAs. There will often be factors outside the control of individual work groups or officers that impact delivery of outputs or achievement of outcomes or there may not always be a direct causal link between the actions of individual officers and the results achieved.

2.39 Several agencies commented in their survey response that a priority for continual improvement included better alignment of their outcomes and outputs structures with internal planning processes. The audit found that one-quarter of surveyed agencies reported that outcomes and agency outputs were not incorporated in any agency planning documents other than in the agency's PBS and annual report. In addition, over one-quarter of surveyed agencies indicated that PBS performance indicators relating to outcomes, outputs, administered items were rarely or never reflected in IPAs. Several survey

respondents commented that PBS indicators were only reflected in agreements of senior executive service officers or in corporate and branch plans.

2.40 In each of the three audited agencies, the ANAO reviewed a sample of work group plans and IPAs as well as agency planning documents, such as corporate and strategic plans, to identify the extent to which outcomes, outputs and PBS performance indicators were reflected.

2.41 The audit identified that each of the three audited agencies' had adopted a 'cascading of plans' approach to linking agency plans to IPAs in their planning and performance management frameworks. However, there was not a consistent or systematic approach to incorporating PBS performance indicators, as appropriate, into agency plans or IPAs and linking these plans with outcomes and agency outputs. For example, while one agency had aligned its corporate plan with its outcomes and outputs structure, the agency acknowledged at the time of the audit that the process of including PBS performance indicators into IPAs had not yet been fully developed for all officers. This agency noted, in its survey response, that it was difficult to encourage business units to adopt performance indicators where the units had limited control over external factors that influenced the achievement of outcomes.

2.42 In another agency, the ANAO found that while outcomes and outputs were reflected in some agency planning documentation, such as the strategic plan, outcomes and outputs were not reflected in operational plans. For example, group work plans and the agency's customer service charter made no reference to outcomes, outputs or PBS outcome performance indicators. However, the ANAO noted that the performance indicators in the agency's Customer Service Charter were closely aligned with its PBS output performance indicators.

2.43 In the third audited agency, the cascading of plans had occurred and the majority of group, branch or individual plans identified relevant outcomes or output groups, however, they did not identify the specific outputs for which individuals were responsible and PBS performance indicators were not always reflected in IPAs.

## Recommendation No.2

2.44 The ANAO recommends that to enhance the integration of the framework into agency operations, details of outcomes and outputs and Portfolio Budget Statement indicators be incorporated into agency and work area business plans, and individual performance agreements, to the extent appropriate.

### *Agencies' responses*

2.45 Each of the audited agencies and Finance agreed with the recommendation.

## 3. Establishing Agency Performance Indicators

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*This chapter discusses the extent to which agencies' performance indicators incorporate better practice characteristics and enable agencies to meet their performance reporting obligations under the outcomes and outputs framework.*

### Introduction

3.1 The development of a sound performance reporting framework is the foundation for agencies to be able to meet their performance reporting obligations under the framework. Agencies develop a range of performance indicators for management decision-making purposes and to provide information to external stakeholders.

3.2 Finance guidance emphasises the importance of agencies developing a concise basket of specific and well-understood indicators which are cost effective to collect, store and manage<sup>34</sup> to provide a comprehensive and balanced coverage of outcomes, outputs and administered items.

3.3 The ANAO acknowledges that measuring performance in the public sector is challenging and developing an appropriate mix of performance indicators to provide stakeholders with balanced coverage of performance can be difficult.

3.4 As mentioned in Chapter 1, as part of the outcomes and outputs framework, agencies are required to provide relevant performance information relating to the effectiveness of achieving outcomes and the efficient delivery or management of outputs and administered items in key accountability documents such as the PBS and annual reports.

3.5 Each agency is required to develop indicators relating to the:

- effectiveness of the contributions of relevant departmental outputs and administered items to the achievement of the outcomes;
- the efficiency of outputs, including quality, quantity and price; and

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<sup>34</sup> Department of Finance and Administration, *Outcomes and Outputs Guidance 2003*, Performance Reporting, <[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/performance\\_reporting.html](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/performance_reporting.html)>



- achievement of the objectives of the administered items, including effectiveness, quantity and cost.<sup>35</sup>

3.6 The Finance guidance suggests that a range of qualitative and quantitative indicators should be developed. Indicators are expected to incorporate a number of better practice characteristics, including the SMART criteria, as outlined in Table 3.1 below.

**Table 3.1**

**Better practice characteristics for performance indicators**

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

Source: ANAO<sup>36</sup>.

3.7 It is important that all agency performance indicators, both financial and non-financial, are designed to provide the agency with information of sufficient quality that can be relied on by both agency management and stakeholders in making judgements about the agency's performance. Where relevant, indicators should also assist in comparing performance across agencies. In circumstances where external factors impact on agency performance, explanatory and contextual information should be provided to assist stakeholders' understanding of the performance information reported.

3.8 When the performance information used to meet external reporting obligations is based on the same information used to meet the performance

<sup>35</sup> Department of Finance and Administration, *Outcomes and Outputs Guidance 2003*, Performance Reporting, <[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/performance\\_reporting.html](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/performance_reporting.html)>

<sup>36</sup> Adapted from ANAO and Finance *Better Practice Guide – Annual Performance Reporting*, April 2004, Canberra.

reporting requirements of agency management, this information is more likely to be useful and informative to decision-makers. This approach is also likely to minimise duplication of effort, and thereby the costs involved in the collection, analysis and reporting of performance information.

3.9 Agencies should also consider the cost of collecting performance information and establish a systematic approach to reviewing indicators so that they remain relevant and informative to stakeholders.

3.10 The audit findings are presented in two sections. The first section outlines:

- surveyed agencies' comments regarding the challenges and priorities in developing performance indicators;
- the extent to which surveyed agencies have incorporated better practice characteristics into their outcome, output and administered item indicators; and
- the ANAO's assessment of a sample of performance indicators against better practice characteristics in the three audited agencies.

3.11 The second section considers whether agencies had considered the cost of capturing performance information and the extent to which agencies have established a systematic approach to reviewing their indicators.

## **The nature and quality of agencies' performance indicators**

### **Challenges and priorities in developing performance indicators**

3.12 The ANAO recognises that measuring agency performance can be difficult and in survey responses agencies identified a range of challenges in developing performance indicators. These included difficulties in:

- developing relevant, quantifiable meaningful indicators that enable performance to be measured in a meaningful, timely and cost effective way;
- separating and reporting agency contributions when external factors influence results;
- measuring performance when the results are qualitative in nature or when achievements need to be measured over the longer-term;

- measuring performance where outcomes are expressed in very broad terms;
- obtaining up-to-date data; and
- identifying appropriate benchmarks.

3.13 Finance guidance also acknowledges that agencies often find the development of meaningful performance indicators difficult. The guidance also states that poorly designed indicators can result in unintended consequences if the behaviours they encourage are not carefully considered and there is a risk that managers may feel obliged to generate output that is tailored to an artificial or inappropriate target<sup>37</sup>.

3.14 Approximately half of the surveyed agencies stated that their key priority in the ongoing application of the framework was to develop better performance indicators. The main reasons given were to overcome difficulties in measuring and reporting against current performance indicators, and to improve the quality and relevance of reporting to enable better use of performance information in management decision-making.

3.15 Survey results about the nature and quality of agencies' outcome, output and administered item performance indicators are presented below, followed by the results of the ANAO's testing of a sample of performance indicators in the three audited agencies.

## Survey results

3.16 The ANAO surveyed agencies about the type of indicators developed for their 2005-06 PBS and the extent to which the indicators incorporated better practice characteristics.

### *Outcome indicators*

3.17 The survey results identified that over ten percent of surveyed agencies had not developed performance indicators for outcome effectiveness. These agencies indicated that, in the absence of such indicators, they used output and administered item performance information to assess the effectiveness of their contribution to the achievement of outcomes.

3.18 The extent to which the surveyed agencies' outcome indicators incorporated better practice characteristics is presented in Table 3.2 below.

<sup>37</sup> Department of Finance and Administration, *Outcomes and Outputs Guidance 2003*, Process for Changing Outputs, <[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/process\\_for\\_changing\\_outputs\\_s.html](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/process_for_changing_outputs_s.html)>

**Table 3.2**

**Agencies' survey responses in relation to the proportion of 2005–06 PBS outcome indicators with better practice characteristics**

Proportion of outcome indicators with better practice characteristics	Percentage of agencies with outcome indicators with the following characteristics						
	Specific	Measurable	Achievable	Relevant	Timed*	Targets	Benchmarks
	%	%	%	%	%	%	%
All	57	36	64	70	34	24	13
At least half	33	36	31	22	20	21	33
Less than half	5	14	0	3	17	21	17
None	5	14	5	5	29	34	37

\* Some agencies commented that indicators were not 'timed' because performance was either ongoing or the results referred to the financial year being reported.

Source: ANAO survey analysis (The figures presented are based on the agencies that responded to each question; not all agencies provided responses to each question and some agencies responded that certain questions were not applicable).

3.19 Table 3.2 indicates that not all the outcome indicators in many agencies incorporated better practice characteristics. In particular, approximately 60 per cent of surveyed agencies considered that not all of their outcome indicators were measurable, and targets and benchmarks were generally not identified.

*Output indicators*

3.20 The large majority of surveyed agencies stated that they had indicators that addressed the quality, quantity or price of their outputs. One agency stated that none of its output performance indicators addressed quality, four agencies indicated that none of their output indicators addressed quantity and seven agencies indicated that their indicators did not address price. Some agencies commented that price is provided at the output group level in their PBSs.

3.21 The extent to which the surveyed agencies' output indicators incorporated better practice characteristics is presented in Table 3.3 below.

**Table 3.3**

**Agencies' survey responses in relation to the proportion of 2005–06 PBS output indicators with better practice characteristics**

Proportion of output indicators with better practice characteristics	Percentage of agencies with output indicators with the following characteristics						
	Specific	Measurable	Achievable	Relevant	Timed*	Targets	Benchmarks
	%	%	%	%	%	%	%
All	66	39	65	73	34	26	11
At least half	30	43	35	27	23	31	19
Less than half	4	11	0	0	20	24	31
None	0	7	0	0	23	19	39

\* Some agencies commented that indicators were not 'timed' because performance was either ongoing or the results referred to the financial year being reported.

Source: ANAO survey analysis (The figures presented are based on the agencies that responded to each question; not all agencies provided responses to each question and some agencies responded that certain questions were not applicable).

3.22 The survey results highlighted that agencies considered that, compared with outcome indicators, a greater proportion of their output indicators incorporated better practice characteristics. Nevertheless, a majority of agencies advised that, in particular, not all of their output indicators were measurable.

#### *Administered item indicators*

3.23 The ANAO found that approximately one fifth of the surveyed agencies with administered items indicated that none of their administered item indicators addressed the effectiveness, quality, quantity or cost of their administered items.

3.24 The extent to which the surveyed agencies' administered item indicators incorporated better practice characteristics is presented in Table 3.4 below.

**Table 3.4**

**Agencies' survey responses in relation to the proportion of 2005–06 PBS administered item indicators with better practice characteristics**

Proportion of administered item indicators with better practice characteristics	Percentage of agencies with administered item indicators with the following characteristics						
	Specific	Measurable	Achievable	Relevant	Timed*	Targets	Benchmarks
	%	%	%	%	%	%	%
All	59	44	59	71	30	29	0
At least half	30	44	37	21	22	17	19
Less than half	7	8	0	4	22	29	33
None	4	4	4	4	26	25	48

\* Some agencies commented that indicators were not 'timed' because performance was either ongoing or the results referred to the financial year being reported.

Source: ANAO survey analysis (The figures presented are based on the agencies that responded to each question; not all agencies provided responses to each question and some agencies responded that certain questions were not applicable).

3.25 These survey results also indicate that the extent to which better practice characteristics were incorporated into administered item indicators varied. In particular, targets and benchmarks were not included in the majority of indicators.

3.26 In addition, although a greater proportion of agencies had targets or benchmarks for output indicators compared with outcome indicators, a significant number of agencies did not have output indicators that incorporated these important characteristics.

3.27 Overall, the survey results suggest that some agencies should give further attention to:

- the development of outcome and administered item indicators, particularly indicators that measure the effectiveness of their contribution to the achievement of outcomes; and
- incorporating better practice characteristics, particularly targets and benchmarks, into their performance indicators, where possible.

## **ANAO's assessment of performance indicators in the audited agencies**

3.28 The ANAO reviewed whether the three audited agencies had established performance indicators for outcomes, outputs and administered items in their 2005–06 PBS and assessed the extent to which a sample of these indicators incorporated better practice characteristics.

3.29 The ANAO found that the three audited agencies had developed a range of outcome effectiveness indicators. In relation to outputs:

- one agency had developed quality, quantity and price measures for each of its outputs;
- another agency did not have any quantity indicators for its outputs as it considered its outputs were not quantifiable, but did have indicators of quality and price; and
- the third agency did not specify in its PBS or annual report whether its departmental output indicators were measures of quality or quantity. The price of its outputs was not specified in its PBS, although price information was provided at the output group level.

3.30 The two audited agencies with administered items had developed a number of qualitative and/or quantitative performance indicators for a selection of their administered items.

3.31 The ANAO considered some indicators did not address the effectiveness of the agency and administered items in contributing to the achievement of outcomes or efficiency in delivering outputs. In many cases, agencies had developed indicators that were significantly impacted by factors, such as general economic conditions or the activities of other levels of government or industry, that were outside the agency's control. This meant that it was difficult for the agency to determine, and report on, the actual contribution it had made towards achieving the outcome.

3.32 A summary of the results of ANAO testing of the extent to which a sample of these indicators incorporate better practice characteristics is presented in Table 3.5 below.

**Table 3.5**

**Percentage of performance indicators in audited agencies that incorporate better practice characteristics, based on the ANAO's audit sample**

Indicator Type	Percentage of indicators with better practice characteristics						
	Specific	Measurable	Achievable	Relevant*	Timed**	Targets	Benchmarks
	%	%	%	%	%	%	%
<b>Outcome</b>	14	93	86	100	93	0	14
<b>Output</b>	50	83	92	100	92	17	0
<b>Administered Item</b>	50	88	100	100	100	0	0

\* The ANAO considered that while the indicators tested may have been relevant to some stakeholders, the ANAO identified instances where more relevant indicators would have provided better performance information, as outlined in paragraph 3.37.

\*\* Some indicators were not 'timed', however, where it was apparent that the indicator would be measured annually, the ANAO assessed the indicator as meeting the 'timed' criterion.

Source: ANAO fieldwork (based on a sample of 14 outcome indicators, 12 output indicators and 8 administered item indicators across the three audited agencies).

3.33 The ANAO found that none of the indicators tested had all the better practice characteristics against which they were reviewed, although some indicators had many of these characteristics. A discussion about the results of the above audit testing for each better practice characteristic is provided below.

#### *Specific*

3.34 The ANAO identified that almost two-thirds of the performance indicators were not sufficiently specific. The indicators generally did not specify the performance result or degree of achievement sought. For example, a number of indicators were expressed as 'the number of...' or 'the percentage change in...', without providing details of the degree of achievement sought.

#### *Measurable*

3.35 Audit testing identified that the majority of the indicators were capable of measurement as they related to such things as output or programme activity levels, the number of grant recipients or the level of quality or stakeholder satisfaction.



*Achievable*

3.36 The ANAO considered that the majority of performance indicators were capable of being achieved. However, many did not incorporate targets or other information on the desired degree of achievement, thus significantly reducing their usefulness. For example, some indicators were expressed as compliance with a standard or the number of participants in a programme, which, in themselves, did not enable agencies to demonstrate whether or not the desired level of performance had been achieved.

*Relevant*

3.37 The ANAO assessed the indicators tested as being relevant, however, instances were identified where other, more relevant, indicators could have been provided. The ANAO found that each of the audited agencies included some throughput measures in their PBSs, such as the estimated number of activities in a particular output or number of participants in a programme. While information regarding the demand for an agency's outputs or programmes provides context to the agency's operations that would be of interest to some stakeholders, throughput measures, in themselves, generally do not provide sufficient information about an agency's performance. More qualitative indicators, such as an increase in the level of participants' skills, would be more relevant for demonstrating whether the desired results of the programme had been achieved. This situation highlights the importance of providing both a mix of qualitative and quantitative indicators to adequately demonstrate an agency's performance.

3.38 In this context, one of the audited agencies advised that some of its indicators, such as throughput measures relating to the number of grant recipients, were not particularly useful for management decision-making but were included as stakeholders had previously requested this type of information.

3.39 Another agency had continued to use an indicator that was no longer relevant and meaningful as results had already been achieved. The indicator related to the percentage of programme information collected online. The indicator would have been relevant several years ago, but was no longer applicable as all relevant information was now routinely provided online.

3.40 The ANAO considers that one approach agencies could use to improve the relevance of their PBS performance indicators is to derive them, where appropriate, from those used by agency management and/or government to

measure performance and make decisions, such as those indicators used in Lapsing Programme Reviews or by the Cabinet Implementation Unit.

#### *Timed*

3.41 The ANAO's testing also identified that many indicators did not specify a timeframe or time limit. Some surveyed agencies commented that although no timeframe was specified it was apparent that it applied to the relevant PBS financial year. The ANAO considers that agencies should explicitly state the applicable timeframe or time limit when specifying their indicators, particularly where performance information is not expected to be gathered annually.

#### *Targets and benchmarks*

3.42 The ANAO found that generally the audited agencies did not incorporate targets and benchmarks into indicators. The ANAO considers that the absence of such information means that indicators are less likely to enable agencies to be accountable for their performance by demonstrating whether or not planned performance was achieved and to understand the reasons for variances from planned performance.

### **Considering the costs of capturing performance information and reviewing performance indicators**

3.43 The ANAO considers that agencies should consider the cost of collecting and managing performance information. Approximately 40 per cent of surveyed agencies stated that they rarely or never assessed the cost of collecting performance data when developing performance indicators, and almost 90 per cent of surveyed agencies commented that they did not capture the costs associated with measuring performance.

3.44 In the three audited agencies, the ANAO found little evidence that costs were explicitly considered when developing performance indicators, and none of the agencies captured the costs associated with measuring performance.

3.45 The ANAO considers that the development of internal procedures that outline the necessary characteristics of indicators, the need to consider the cost of collecting, analysing and monitoring performance information and outline the review arrangements assists agencies in the development of indicators that are relevant, accurate and reliable. A periodic review of indicators would also

reduce the risk that they result in unintended consequences and would enable agencies to better understand the interrelationships between indicators used.

3.46 The ANAO found that none of the audited agencies had established policies and procedures for the review of performance indicators. However, the large majority of surveyed agencies, including two of the audited agencies, indicated that performance indicators were systematically reviewed as part of the agency's business planning cycle. One of audited agencies had commenced a review of its key performance indicators during the audit, and another had revised its PBS indicators in conjunction with changes to its outputs in 2006–07. The third agency indicated that it had reviewed its indicators prior to the 2004–05 and 2005–06 Budgets and proposed to review indicators at least every two years and consider the need for new indicators whenever new Budget measures were announced.

### Recommendation No.3

3.47 The ANAO recommends that agencies review and where necessary improve:

- (a) their performance indicators to ensure that they have a range of appropriate indicators that incorporate better practice characteristics that provide stakeholders with useful and reliable performance information; and
- (b) their processes for periodic review of their indicators to ensure they remain relevant.

#### *Agencies' responses*

3.48 Each of the audited agencies and Finance agreed with the recommendation. Specific comments provided were:

Department of the Environment and Heritage

Agreed. The Department of the Environment and Heritage reviews its performance indicators each year in the context of preparing the portfolio budget statements. The Department has issued written advice to its employees to complement the extensive guidance already published by the Department of Finance and Administration and the Australian National Audit Office.

## 4. Agency Cost Attribution, Performance Monitoring, Management Reporting and Decision-Making

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*This chapter discusses: agencies' cost attribution arrangements; the processes for capturing, monitoring and reporting agency costs and performance; and the extent to which outcomes and outputs information is incorporated into management reports and is used in agency decision-making.*

### Introduction

4.1 In developing a sound performance management framework to allow informed decision-making by management and external stakeholders, agencies could be expected to:

- establish robust cost attribution methodologies and processes;
- establish arrangements to monitor performance in a systematic and structured manner that include appropriate quality assurance arrangements; and
- be cognisant of the information needs of management and external stakeholders and align, where possible, internal and external performance monitoring and reporting.

4.2 The audit findings in this chapter are presented below in three sections. The first section discusses agencies' cost attribution methodologies and processes for budgeting and reporting purposes. The second section reviews agencies' performance tracking and monitoring arrangements and the third section considers agencies' management reporting and decision-making in an outcomes and outputs context.

### Cost attribution

4.3 All agencies need to have cost attribution processes in place to attribute direct and indirect costs for the purposes of preparing their PBSs and including actual costs by outcomes and outputs in notes to their financial statements, and reporting cost information in their annual report.

## **Estimation of output price**

4.4 The budgeted price of outputs is presented in agencies' PBSs.

### *Survey results*

4.5 The ANAO's survey results indicated that agencies used a variety of approaches for estimating the price of outputs in their PBSs. Methods used by agencies included basing PBS output price estimates on zero-based budget processes, using activity-based cost estimates, historical budgets adjusted for new and lapsing measures and mapping internal organisational budgets to outcomes and outputs. Overhead, or indirect, costs were estimated on bases such as staff time, average staffing levels, or floor space occupied, depending on the costs concerned. Over a third of the surveyed agencies stated they did not explain the basis for estimating the price of outputs by outcome in their 2005–06 PBSs.

### *Audited agencies' results*

4.6 The ANAO reviewed the methods and processes used in the three audited agencies to estimate the price of outputs in their PBSs. The ANAO found that the audited agencies generally had not documented their methodology for estimating the price of outputs. Two of the audited agencies could improve their methodology to provide more accurate estimates by estimating price on the basis of, such things as, activity-based forecasts or the most recent actual costs, adjusted for any proposed budget variances.

4.7 The ANAO considers that to promote more accurate and consistent estimates of output price in agencies' PBSs, there would be benefit in Finance's annual guidance to agencies on PBS preparation incorporating details of the most appropriate methods for estimating the price of outputs.

## **Attribution of actual costs**

### *Survey results*

4.8 The ANAO surveyed agencies about the extent to which agencies' cost attribution methods for annual reporting purposes provided accurate and reliable information. Nearly all the survey respondents 'agreed' or 'strongly agreed' that their cost attribution methodology provided accurate and reliable information in relation to outcomes and outputs, and administered items where applicable. Approximately two-thirds of surveyed agencies also stated that they had a quality assurance program to assist in ensuring the accuracy and reliability of cost attribution processes. The types of quality assurance processes that agencies advised were in place included internal review and

sign-off, internal and external audits and business system reviews and reconciliations.

4.9 The main aspects of agencies' cost attribution methodology that the surveyed agencies considered could be improved related to system enhancements, more frequent overhead allocation and increasing the accuracy of the allocation basis, including costing of staff time and activities.

#### *Audited agencies' results*

4.10 The ANAO found that each of the audited agencies generally had sound cost attribution methodologies in place. Nevertheless, two aspects where improvements were warranted were:

- the need for agencies to systematically review cost centre percentage allocations so that attributions to outcomes and outputs better reflected the cost of delivering outputs and achieving outcomes. In one agency, for example, the ANAO found approximately eighty per cent of costs within one outcome were treated as indirect costs, requiring allocation across a number of outputs. This resulted in the agency not providing the most accurate reflection of the cost of its outputs within one of its outcomes; and
- documentation of the principles and processes used in the attribution of costs. This would reduce agencies' reliance on the knowledge of individual staff members, particularly in the event of staff absences or turnover.

4.11 Cost attribution for financial statement purposes is subject to audit in the context of the audit of the agencies' annual financial statements. The ANAO suggests that this is likely to have contributed to agencies having generally sound cost attribution methodologies and documentation in place for financial statement cost attribution compared with the PBS outputs estimation process.

## **Capturing performance information and monitoring performance**

4.12 The systems and processes for capturing and monitoring performance information should be robust and reliable for performance management activities to be effective. Agencies should seek to measure and monitor, in a cost effective manner, the degree of their own contribution towards the achievement of an outcome. This is particularly important in circumstances

where external influences, including as a result of activities of other levels of government, significantly impact on the achievement of outcomes.

4.13 The ANAO reviewed the systems and processes used by agencies for capturing and monitoring performance.

#### *Survey results*

4.14 The ANAO's survey results identified that the majority of agencies considered their systems for capturing performance information provided accurate and reliable outcomes and outputs information. The majority of agencies also commented that they analysed their performance results over time and almost sixty per cent of surveyed agencies stated that they had a quality assurance program in place to assist in ensuring the accuracy and reliability of performance information.

#### *Audited agencies' results*

4.15 The ANAO found that the methods and processes for capturing performance information and the frequency of monitoring varied across the three audited agencies, depending on a range of factors including the nature of the indicator being measured, the volume of performance information captured and the frequency with which information was captured and monitored. Methods ranged from capturing performance information in designated business systems to the ad-hoc collation of information for annual performance reporting purposes.

4.16 The ANAO reviewed the processes for capturing and monitoring performance information in relation to a sample of PBS indicators in each of the three audited agencies. The processes were generally sound although the following matters were identified that impacted on the accuracy of some performance information reported:

- duplication of one category of record in a programme management information system that resulted in an overstatement of programme participants;
- collation of annual results for timeliness of responses to ministerial and parliamentary questions at a point in time rather than for the entire year that led to the reporting of better performance results than were actually achieved;
- a lack of guidance to assist programme areas identify appropriate methods for capturing, monitoring and reporting various types of performance information that led to results being collated and reported



incorrectly, including reporting results for one indicator against another;

- basing performance reporting on the results of an internal quality assurance exercise that was not supported by sufficient training and guidance. This resulted in the misinterpretation of some questions by agency staff, the use of inappropriate sample selection methodology and insufficient documentation of the results of sample testing and;
- failure to maintain sufficient documentation supporting reported annual performance results.

4.17 The ANAO considers that adopting a more systematic and structured approach to performance capturing and monitoring, supported by an appropriate quality assurance program, would assist in the reporting of more accurate and reliable performance information. The development of guidance on appropriate methods for capturing and monitoring various types of performance information would also assist agencies in this process.

## **Management reporting, performance assessment and decision-making**

4.18 Periodic assessment of performance in relation to the achievement of outcomes and the delivery of outputs is an important management responsibility. This requires agencies to identify, for each PBS indicator, the most appropriate timeframes for assessing agency performance. Some indicators should be assessed annually, while others require assessment on a more regular basis, such as monthly or quarterly.

### ***Survey results***

4.19 The ANAO surveyed agencies about how they assessed performance. Ninety-three per cent of agencies indicated that they monitored performance primarily on the basis of organisational structure and almost all of the surveyed agencies indicated they assessed performance other than by reference to the performance indicators published in their PBS and annual reports. Agencies commented that a range of methods were used in assessing performance, including balanced scorecards, compliance reporting, reporting against business and corporate plans, client and staff satisfaction surveys, benchmarking, internal reviews and audits. Approximately two-thirds of the surveyed agencies stated that their monthly internal financial management reports included financial information at the outcomes and outputs level or



that the price of outcomes and outputs was monitored against budget on a regular basis.

4.20 The ANAO also surveyed agencies about the main factors they considered in management decision-making. Survey responses identified the main factors were to: meet government priorities; comply with legislative requirements; respond to stakeholders and manage emerging risks and available resources.

4.21 The extent to which the surveyed agencies stated they used outcomes and outputs cost and performance information in agency decision-making in the areas of agency priorities, budget planning and resource allocation are presented in Table 4.1 below.

**Table 4.1**

**Extent that surveyed agencies used outcomes and outputs cost and performance information in decision-making**

Type of decision	Extent information is used in agency decision-making	Percentage of surveyed agencies using the information for these areas of decision-making			
		Cost information		Performance information	
		Outcomes	Outputs	Outcomes	Outputs
		%	%	%	%
Agency Priorities	Extensively	47	46	41	43
	Sometimes	24	35	38	38
	Rarely	17	14	12	12
	Never	12	5	9	7
Budget Planning	Extensively	52	51	43	44
	Sometimes	22	35	33	32
	Rarely	14	9	14	17
	Never	12	5	10	7
Resource Allocations	Extensively	52	49	41	43
	Sometimes	19	32	38	36
	Rarely	17	14	12	14
	Never	12	5	9	7

Source: ANAO survey analysis (The figures presented are based on the agencies that responded to each question; not all agencies provided responses to each question and some agencies responded that certain questions were not applicable).

4.22 The above table demonstrates that the majority of agencies used outcomes and outputs information for decision-making to some extent. In

general, a higher proportion of agencies considered that they made more use of:

- cost information than performance information; and
- output information than outcome information.

#### *Audited agencies' results*

4.23 The ANAO found that one of the three audited agencies included outcomes and outputs information in its regular management reports. The agency prepared a quarterly management report of performance against its PBS indicators and provided this to the responsible Minister.

4.24 Another audited agency prepared monthly financial reports of departmental and administered items on the basis of organisational structure. These reports also included financial information by output for all but one of its outcomes. The agency also routinely provided non-financial performance information on the achievement of statutory timeframes and on the level of ministerial satisfaction, on a monthly and fortnightly basis respectively. Performance information on other PBS indicators was not routinely included in the agency's regular management reports. The agency indicated in its survey response that cost information and, to a lesser extent, performance information relating to outcomes and outputs, was sometimes used in management decision-making in the areas of agency priorities, budget planning and resource allocation. The agency stated it never used outcome performance information for decision-making in these areas, commenting that:

divisions generally see performance information as a tool for external, annual reporting, not for internal performance improvement. Since 2004 [the agency] has been standardising its performance information with a view to increasing its usefulness for internal performance improvement as well as external reporting.

4.25 The agency further commented that a disadvantage of the framework was that:

the framework had not replaced existing interest in reports based on organisational structure, programmes and cash based reporting. Instead [the framework had] introduced additional layers of reporting... [and] outputs are generally not useful as a tool for monitoring... performance.

4.26 The third audited agency prepared outcome and output financial information on a quarterly basis, and regularly monitored performance against one indicator being the level of ministerial satisfaction. However, it did not

routinely include in management reports performance information in relation to other PBS performance indicators. The agency stated in its survey response that it monitored financial information relating to the cost of programmes extensively to ensure resources were targeted to strategic priorities, but rarely used information regarding the cost of outcomes and sometimes used information regarding the cost of outputs for decision-making.

4.27 The ANAO recognises that management decision-making will be guided by a range of information, often at a more detailed level than outcomes and outputs, such as information relating to programmes and individual activities or functions. Nevertheless, the incorporation into agency decision-making processes of information relating to outcomes and outputs should assist agencies to focus on performance information that is used to meet their external accountability obligations.

## **Recommendation No.4**

4.28 The ANAO recommends that to assist in management decision-making, agencies:

- (a) review, and where necessary improve, business processes, including quality assurance arrangements, for capturing and monitoring performance information; and
- (b) enhance management reporting arrangements by further integrating outcomes and outputs cost and performance information into regular management reports.

### *Agencies' responses*

4.29 Each of the audited agencies and Finance agreed with the recommendation.

## 5. External Reporting and Accountability

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*This chapter reports on agencies' external reporting and accountability in the context of the outcomes and outputs framework.*

### Introduction

5.1 Agencies' PBSs and annual reports are the two common documents by which agencies' external accountability responsibilities are met. Reporting requirements relating to each document are issued by Finance and PM&C respectively.

5.2 Agencies' PBSs and annual reports provide the Parliament and other stakeholders with information in a standard format to provide users with a range of information including budgeted and actual revenue and expenditure, and agency performance, including in relation to performance indicators included in PBSs. The ANAO recognises, however, that these two documents cannot be expected to meet all stakeholders' information needs. Agencies often produce tailored reports on particular activities in response to the requirements of stakeholders or to meet legislative obligations<sup>38</sup>. The ANAO considers that such enhanced disclosure should be encouraged as it has the potential to provide stakeholders with better and more targeted information, thereby improving accountability.

5.3 This chapter outlines the reporting requirements under the framework and assesses agencies' compliance with these requirements.

### Performance reporting requirements

5.4 The two primary documents outlining performance reporting requirements in an outcomes and outputs context are:

- Outcomes and Outputs guidance issued by Finance; and
- *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies* issued by PM&C.

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<sup>38</sup> Examples of special-purpose reporting in the audited agencies include external publication of quarterly patent and trademark statistics, agency performance against IP Australia's customer service charter, the Whole-of-Government Environmental Budget Overview and the National Report to Parliament on Indigenous Education and Training.

## Outcomes and outputs guidance

5.5 Broadly, in relation to performance reporting, Finance guidance outlines the requirements for agencies to provide information relating to outcomes, outputs and administered items. In particular, agencies are required to provide information on the efficiency of agency outputs and the effectiveness of those outputs and any administered items in contributing to the achievement of outcomes. Agencies must also provide an indication of the overall state of outcomes. This latter information is necessary to assist stakeholders to gain an understanding of whether government activities have been successful in achieving the desired outcomes and may assist in the development and communication of future policy options.

5.6 The guidance sets out the Cabinet-endorsed performance management principles<sup>39</sup> of balance and clarity, strategic focus, targets and continuous improvement of performance information. The guidance includes a requirement that agencies' performance reporting be reviewed against these principles at least every three years.

## Annual report requirements

5.7 Agencies are required, in their annual reports, to, amongst other things, provide:

- a review of how the agency has performed during the year in relation to the efficiency of the outputs and their effectiveness in terms of achieving planned outcomes. Agency reporting should be aimed at providing an assessment of how far the agency has progressed towards outcomes;
- discussion and analysis of the agency's financial performance for the year; and
- a series of summary tables showing the total resources for each outcome.<sup>40</sup>

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<sup>39</sup> Department of Finance and Administration, *Outcomes and Outputs Guidance 2003*, Performance Reporting Under Outcomes and Outputs, <[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/performance\\_reporting.html](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/performance_reporting.html)>

<sup>40</sup> PM&C Requirements, section 11(1), *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies* (June 2006).

## Compliance with reporting requirements

### Survey results

5.8 The ANAO surveyed agencies on the extent to which actual performance against each PBS indicator was reported in their 2004–05 annual report.<sup>41</sup> The survey results are presented in Table 5.1 below.

**Table 5.1**

**Extent that surveyed agencies considered actual performance against each PBS indicator was reported in their 2004–05 annual reports**

Extent actual performance reported	Percentage of surveyed agencies reporting against these indicators in their annual reports		
	Outcome performance indicators	Output performance indicators	Administered item performance indicators
	%	%	%
Performance is reported for all performance indicators	82	91	73
Performance is reported for at least half of all performance indicators	13	9	3
Performance is reported for less than half of all performance indicators	0	0	6
Performance is not reported for any performance indicators	5	0	18

Source: ANAO survey analysis (The figures presented are based on the agencies that responded to each question; not all agencies provided responses to each question and some agencies responded that certain questions were not applicable).

5.9 The above table shows that the large majority of surveyed agencies considered that they reported against all their PBS performance indicators. One of the surveyed agencies that did not report against any of its outcome indicators advised the ANAO that it considered those indicators were not measurable and has since revised them.

<sup>41</sup> Agencies' 2004–05 annual reports were the most recent available at the time of audit.

### *Audited agencies' results*

5.10 The ANAO assessed the extent to which the performance information in 2004–05 annual reports complied with the outcomes and outputs guidance and the mandatory requirements for annual reports.

#### Outcomes and outputs reporting

5.11 The audit findings relating to compliance with outcomes and outputs requirements are summarised in Table 5.2 below.

**Table 5.2**

**The ANAO's assessment of the extent to which performance reporting for a sample of PBS indicators in each of the three audited agencies' 2004–05 annual reports met the outcomes and outputs guidance requirements**

Outcomes and outputs reporting requirements		Extent to which performance reporting for a sample of PBS indicators in each of the audited agencies met outcomes and outputs requirements		
		Not met	Partially met	Substantially met
		%	%	%
Outcomes	Effectiveness of the agency's contribution to the outcome	50	50	0
	Information on the overall state of the outcome	50	50	0
Outputs	Efficiency of agency's outputs	100	0	0
	Quality of agency's outputs	9	0	91 *
	Quantity of agency's outputs	12	0	88
	Price of agency's outputs	0	0	100 **
Adm. items	Effectiveness of the administered item in achieving outcomes	75	25	0
	Quality of administered items	63	0	37
	Quantity of administered items	0	0	100
	Cost of administered items	37.5	37.5 ***	25

\* Indicators of quality were identified for the majority of outputs, however, as discussed in Chapter 3 of this report, in some instances better indicators could have been provided.

\*\* All agencies provided price information for their outputs in their PBSSs, however, only one of the audited agencies had specific performance indicators relating to the price of individual goods or services within outputs.

\*\*\* One of the two agencies with administered items reported costs at the output group level rather than at the more detailed programme level. As a result, cost information for six of the administered items tested was not specifically identified. However, for three of the administered items, the output groups under which they were reported grouped closely-related programmes, and therefore the ANAO assessed these as partially meeting this requirement.

Source: ANAO analysis of audited agencies' 2004–05 annual reports based on testing of 6 outcomes, 33 outputs and 8 administered items.

5.12 The ANAO found that annual reports generally reported on activities and initiatives undertaken and not on the effectiveness with which outputs contributed to the achievement of outcomes. In addition, there was limited information presented on the overall state of outcomes. One of the audited agencies, as mentioned in paragraph 5.9, commented that its 2004–05 outcome indicators were not measurable, therefore it did not report against all of its outcome indicators.

5.13 Agency annual reports generally had indicators of quality, quantity and price for each output. The ANAO found that while performance was reported against the majority of PBS indicators, agencies generally did not include any discussion or analysis of the efficiency with which their outputs were delivered or the extent to which expected performance was achieved.

5.14 The two audited agencies with administered items had not developed PBS indicators for all their administered items. The ANAO found that these agencies had generally developed PBS indicators for their more significant administered items, although indicators of quality, quantity and cost had not been developed in all instances.

5.15 Agencies generally reported quantitative rather than qualitative performance information for their administered items, and cost information was provided at different levels of aggregation in the two agencies. The ANAO acknowledges that providing detailed information for all administered items or programmes may not be practical or useful to stakeholders and, as such, agencies should have regard to materiality and public and parliamentary interest when developing indicators and determining the extent of reporting required.

5.16 The ANAO found that the audited agencies did not generally report on the effectiveness of administered items in achieving outcomes. Agencies often provided details of activities undertaken or funding provided without demonstrating how these activities achieved programme objectives and, ultimately, outcomes.

#### Annual reporting requirements

5.17 The ANAO assessed the extent to which the three audited agencies' 2004–05 annual reports met mandatory annual performance reporting requirements. The requirements relate to agencies' overall performance reporting and, as such, the ANAO's findings are presented at the



whole-of-agency level rather than against specific indicators, as in Table 5.2 above. Audit findings are summarised in Table 5.3 below.

**Table 5.3**

**Number of audited agencies' annual reports that met the mandatory annual performance reporting requirements**

Mandatory reporting requirements	Number of audited agencies' annual reports that met the mandatory annual performance reporting requirements		
	Not met	Partially met	Substantially met
Performance in relation to the efficiency of outputs and the effectiveness of outputs in achieving planned outcomes	2	1	0
Actual results against performance indicators set out in PBS/PAES	0	2	1
Performance against PBS purchaser-provider targets (Applicable to 2 agencies)	0	1	1
Narrative discussion and analysis of performance information	0	3	0
Discussion and analysis of the agency's financial performance including significant changes from budget or from the prior year	0	2	1
Summary resource tables by outcome	0	3	0

Source: ANAO review of the three audited agencies' 2004–05 annual reports.

5.18 The annual reporting requirement for agencies to provide a review of performance in relation to the efficiency of their outputs and effectiveness in the achievement of outcomes mirrors a requirement of the Finance guidance to develop and report against indicators of efficiency and effectiveness. As mentioned in the previous discussion of the outcomes and outputs guidance, the ANAO found that the audited agencies generally did not review their performance in terms of the achievement of outcomes or the efficiency of outputs.

5.19 Although the audited agencies reported against the majority of their PBS indicators, one agency, as mentioned previously, did not report against its outcome indicators and two did not report against a small number of their output indicators or against all elements of their indicators. One of these agencies presented performance results for one of its indicators that did not relate to the indicator specified but rather to a separate internal process.

5.20 In reporting performance against PBS indicators, in some instances, agencies provided insufficient information. For example, one agency with an indicator relating to the number of plans put in place reported results as 'Progress was made towards...'. This information did not allow an assessment to be made about the agency's performance as it did not identify the number of plans actually completed and put in place during that year. Another agency reported its achievement against one of its PBS performance indicators without disclosing that the performance result applied to only a minority of the items within the output.

5.21 Two of the audited agencies had purchaser-provider arrangements in place. Only one agency established targets in respect of these arrangements and reported performance results against them in its annual report. The other agency's annual report provided a brief commentary on the performance of its purchaser-provider arrangement.

5.22 The ANAO also found that the audited agencies' annual reports included a narrative discussion on activities and recent changes or initiatives, however they generally did not include a discussion or an analysis of overall performance relating to outcomes, outputs or administered items. In addition, the audited agencies did not always provide an explanation or interpretation of their performance results or present their results in the context of, for example, social, economic or environmental conditions, or in comparison to previous performance or expectations.

5.23 The ANAO identified instances where each of the audited agencies reported shortcomings in performance or provided explanations of instances where planned performance was not achieved. However, agencies generally did not outline the reasons for, or the impact of the identified shortcomings.

5.24 Similarly, while the audited agencies provided details of budget variances, there was limited analysis of budget results, with only one agency providing an explanation of significant variances between actual and budgeted expenditure.

5.25 Each of the audited agencies provided summary resource tables by outcome. However the ANAO considered that, in each case, agencies' reporting could be improved by better identifying the budgeted and actual price of outputs and revenue from government and other sources.

5.26 Overall, although the audited agencies met many of the annual performance reporting requirements, the above findings show that as agencies

had not complied with a number of mandatory reporting requirements, the quality of agencies' external reporting requires improvement. In particular, the ANAO considered agencies needed to improve performance reporting in relation to reporting on:

- the overall state of outcomes;
- the effectiveness of agency and administered items in contributing to the achievement of outcomes;
- the efficiency of outputs; and
- agency achievements rather than activities.

5.27 Particular attention should also be given to including narrative discussion and analysis of agency performance in annual reports.

## Recommendation No.5

5.28 The ANAO recommends that agencies review, and where necessary, improve annual performance reporting arrangements to ensure that stakeholders are provided with accurate and relevant performance information and, as a minimum, performance reporting requirements are complied with.

### *Agencies' responses*

5.29 Each of the audited agencies and Finance agreed with the recommendation.

## 6. Opportunities for Enhancing the Framework

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*This chapter discusses Finance guidance and its role in relation to the application of the framework. The chapter also discusses a number of broader issues which, if adopted, have the potential to improve consistency in agency reporting and to further assist in meeting the needs of stakeholders.*

### Introduction

6.1 As mentioned previously, the main elements of the outcomes and outputs framework have remained largely unchanged since it was introduced in 1999–2000. There have, however, been a number of developments in recent years that have had a direct or indirect bearing on the way the framework is applied by agencies and the extent to which information that is reported in accordance with the framework is utilised by stakeholders. These developments include the reporting to government of programme and cash information and an increasing emphasis of whole-of-government service delivery. Various enhancements have also been made to information included in agency PBSs and reported as part of the Government's annual Budget process.

6.2 In light of these developments, the ANAO suggests there are opportunities for Finance to improve its guidance material and to strengthen the role it plays in the framework's ongoing application by agencies. There are also opportunities to improve consistency in agency reporting and to further assist in meeting the needs of stakeholders.

### Finance's role in administering the framework

6.3 Application of the framework represents an important, ongoing responsibility for all agencies. In applying the framework, agencies need to take into account:

- changing Parliamentary needs and expectations;
- changes in Government policies and priorities;
- changes in portfolio and agency responsibilities;
- enhancements to the wider financial management framework; and
- areas of improvement identified by management and stakeholders.

6.4 Agencies are better able to meet their responsibilities in applying the framework if they have access to:

- policy and guidance material that is relevant, informative, up-to-date and clearly identifies minimum or mandatory requirements; and
- established contacts and protocols for seeking advice and assistance.

## Finance guidance

6.5 The Finance guidance outlines, amongst other things, the objectives of the framework, guidance on how agencies should structure and specify outcomes and outputs, the processes for changing outcomes and outputs and performance reporting principles.

6.6 The guidance is a combination of principles, requirements, suggested and better practices but does not clearly specify mandatory or minimum requirements with which agencies need to comply<sup>42</sup>.

6.7 In this context the ANAO is aware that other areas of public administration have found benefit in establishing minimum standards such as in the annual reporting requirements discussed in Chapter 5 of this report and in the Protective Security Manual issued by the Attorney-General's Department relating to the protection of official resources. The ANAO is also aware that each year Finance issues guidelines to agencies outlining minimum and mandatory requirements for the format of agencies' PBSs<sup>43</sup>.

6.8 Finance updated its guidance in 2000, and issued an updated web-based version in September 2003, while still providing access via its website to the 2000 guidance. Finance has not updated its guidance since 2003<sup>44</sup> and the ANAO identified a number of matters covered by the guidance that are no longer the main focus of the framework or are not up to date. This includes using the concept of the price of outputs to make comparisons of performance within and across agencies and also including better practice examples from older (2001–02) annual reports.

<sup>42</sup> Finance's original 1998 outcomes and outputs guidance contained a summary entitled 'Key Elements: Mandatory and Flexible Elements'. This summary was not provided in the 2000 revision or the 2003 web-based version.

<sup>43</sup> Finance 2006–07 Budget PBS Guidelines Explanatory Memorandum 2006/08, p. 3.

<sup>44</sup> The ANAO notes that in 2000, Finance agreed to annually update a best practice outcomes/outputs framework guide on its website, and advised it would highlight agencies that have had success with their definitions of outputs and outcomes, so that other agencies can share this information. (Government response to recommendation 1, *Senate Finance and Public Administration Legislation Committee report, The Format of Portfolio Budget Statements – Second Report, 2000.*)

6.9 The audit identified that the extent to which agency staff with responsibilities for applying the framework were aware of the existence and requirements of the Finance guidance was mixed. Awareness ranged from staff in one of the audited agencies having a high level of knowledge of the guidance and its requirements, to many of the relevant staff in another audited agency being unaware of the existence of the guidance.

6.10 The absence of definitive requirements, together with the fact that the guidance had not been updated, was difficult to navigate<sup>45</sup> and not maintained in one location<sup>46</sup>, in the ANAO's view contributed to some staff having limited knowledge of the guidance.

6.11 The ANAO considers that the guidance material should be regularly reviewed and updated so that it remains current and informative in light of agencies' ongoing experiences and financial management and related developments.

6.12 During the course of the audit, Finance advised it was in the process of updating its guidance material.

#### *Whole-of-government considerations*

6.13 In recent years there has been an increasing emphasis on the whole-of-government delivery of services. This requires agencies to work together to develop budgeting and reporting arrangements that meet both the accountability obligations of individual agencies and also contribute to the collective achievement of, and accountability for, whole-of-government outcomes.

6.14 In 2004, the Management Advisory Committee<sup>47</sup> published *Connecting Government: Whole of Government Responses to Australia's Priority Challenges*<sup>48</sup>. The report defined 'whole-of-government' in the Australian public sector as:

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<sup>45</sup> The current guidance is posted on numerous web pages that were not easily referenced or printed without losing content, rather than being maintained as a single, readily-accessible document.

<sup>46</sup> At the time of audit, Finance's website stated that 'The downloadable word and RTF documents listed above were published in November 2000, and do not represent the most up-to-date version of this guidance. The web-based version of the Outcomes and Outputs guidance that you are currently reading was updated in September 2003... These web pages are recommended as more up-to-date guidance on the Outcomes and Outputs framework for agencies'.

<sup>47</sup> The Management Advisory Committee (MAC) is a forum of Secretaries and Agency Heads established under the *Public Service Act 1999* to advise the Australian Government on matters relating to the management of the Australian Public Service, <<http://www.apsc.gov.au/mac/index.html>>

<sup>48</sup> Management Advisory Committee (MAC), *Connecting Government: Whole of Government Responses to Australia's Priority Challenges*, Canberra, 2004.

public service agencies working across portfolio boundaries to achieve a shared goal and an integrated government response to particular issues. Approaches can be formal and informal. They can focus on policy development, program management and service delivery.

6.15 The Management Advisory Committee commented that identifying resourcing and performance of whole of government measures from year to year through current budget documentation was difficult. In acknowledging the flexibility of the framework in relation to whole-of-government arrangements, the Management Advisory Committee reported, amongst other things, that:

The Department of Finance and Administration should continue to provide advice to agencies on appropriation, governance and reporting structures and should be consulted at an early stage in the development of major cross-portfolio initiatives. [Finance] should encourage and facilitate the exchange of financial information between Australian government agencies to:

- develop and maintain standard templates for financial management information systems and budgetary model specifications, with the assistance of a reference group of chief finance officers;
- facilitate the development of best practice principles to assist all agencies to better leverage work in this area by lead agencies<sup>49</sup>.

6.16 The Finance guidance does not specifically address whole-of-government approaches, but includes the following brief reference to cross-agency outcomes:

Some agencies' outcomes are quite similar. It may be appropriate in these cases for those agencies (even if they are in different portfolios) to agree to a single outcome statement within which they establish their own outputs. Alternatively, it may be appropriate to establish purchaser/ provider arrangements whereby the 'lead' agency is funded for the whole outcome, subsequently purchasing outputs from the provider agency or agencies. Such developments would be subject to specific tests of the costs and benefits of such a move, especially counterbalancing short-term transition costs with potential long-term efficiencies<sup>50</sup>.

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<sup>49</sup> Ibid, Chapter 5, Budget and Accountability Framework, p1, <<http://www.apsc.gov.au/mac/connectinggovernment5.html>>

<sup>50</sup> Department of Finance and Administration, *Outcomes and Outputs Guidance 2003*, <[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/specifying\\_outcomes.shtml](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/specifying_outcomes.shtml)>



6.17 The ANAO found that the concept of cross-agency outcomes as outlined in the Finance guidance had not been adopted by agencies as none of the surveyed agencies had cross-agency outcomes. However, approximately one third of surveyed agencies identified that they had purchaser-provider arrangements<sup>51</sup> in place that involved the contribution of resources to, or resources being received from, another agency. Of these, less than half specified performance information relating to these arrangements in their PBS.

6.18 Two of the audited agencies had purchaser-provider arrangements in place. One of these arrangements involved a joint team that was co-located and provided integrated delivery of programmes, while policy issues were managed by separate areas within the two relevant agencies. The team worked directly to two ministers and produced a single annual report for the initiative. Each agency was responsible for its own departmental budget appropriations, and details of individual programmes were reported in the audited agency's PBS under one of its outputs. Separate performance indicators were included in each agency's PBS and performance reported in each annual report.

6.19 A cross-agency arrangement in the other audited agency involved the purchase of services from another agency under a 'business partnership agreement' that specified the services purchased, resources committed, management arrangements and expected levels of performance. The audited agency's PBS stated that performance results were formally reported and considered at an executive level on a quarterly basis, with formal chief executive consideration twice a year. Performance indicators were included in the business partnership agreement but were not provided in either agency's PBS. Both agencies' annual reports included a brief discussion on performance, although details of the specific performance indicators in the business partnership agreement, on which the performance reporting was based, were not included.

6.20 These arrangements are just two examples of the range of management and reporting arrangements adopted for cross-agency or whole-of-government initiatives. The number of different arrangements that have been established highlight that the framework has sufficient flexibility to accommodate different whole-of-government initiatives.

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<sup>51</sup> Finance guidance identifies 'Purchaser/Provider' arrangements where a 'lead' agency is funded for the whole outcome, subsequently purchasing outputs from the provider agency or agencies. Department of Finance and Administration, *Outcomes and Outputs Guidance 2003*, Specifying Outcomes, <[http://www.finance.gov.au/budgetgroup/Commonwealth\\_Budget\\_-\\_Overview/specifying\\_outcomes.shtml](http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/specifying_outcomes.shtml)>



6.21 The ANAO acknowledges that no single approach will suit all whole-of-government initiatives. Nevertheless, the ANAO suggests that similar whole-of-government arrangements should adopt a consistent approach to budget and performance reporting arrangements. To facilitate this, and in line with the Management Advisory Committee report on Connecting Government referred to above, the ANAO considers that Finance should enhance its guidance material by including a set of principles that agencies should use in determining individual whole-of-government budget and reporting arrangements. These principles could be supplemented by examples and case studies of better practices. The ANAO also suggests that the concept of cross-agency outcomes be reviewed in light of its lack of application by agencies to date.

6.22 The ANAO acknowledges that other guidance material exists relating to whole-of-government approaches. For example, the Australian Government Information Management Office has developed a website<sup>52</sup> on 'Connected Government', including a 'good practice guide' which outlines some considerations for budgeting and accountability arrangements in cross-agency initiatives.

### **Finance's advisory role**

6.23 At the time the framework was introduced, Finance provided training on its central budget and reporting system. In addition, Finance developed training courses and materials on the application of the framework that agencies were responsible for tailoring to their own particular circumstances and delivering to their staff<sup>53</sup>. Finance still provides training to agencies in relation to the central budget and reporting system, although does not provide training to agencies in the ongoing application of the framework<sup>54</sup>.

6.24 Given the importance of the framework, the range of issues faced by agencies in its application and the rate of staff turnover typical in agencies' PBS and annual reporting areas, the ANAO considers agencies would benefit from Finance facilitating, through forums and other mechanisms, the exchange of

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<sup>52</sup> <<http://www.connected.gov.au>>

<sup>53</sup> Department of Finance and Administration, *Specifying Outcomes and Outputs*, 1998, p. 5.

<sup>54</sup> Finance has stated that it has recently 'taken a more active role in the provision of training to the Australian Public Sector with the launch of the Budget and Finance Essentials Program in March 2006 in conjunction with the University of Canberra, which includes modules on the Australian Government Budget process, the financial management framework and appropriations, (University of Canberra website for *Professional Management Programs, Budget and Finance Essentials course*, <<http://www.canberra.edu.au/pmp/partner-programs/finance-admin>>

information and experiences as well as providing practical advice in the application of the framework. This could include such matters as specifying outcomes and outputs, developing performance indicators and processes for capturing, monitoring and reporting performance information.

## Enhancements to the reporting regime

6.25 The ANAO has also identified a number of issues which, if adopted, have the potential to improve consistency in agency reporting and to further assist in meeting the needs of stakeholders. These are discussed below.

### Disclosure of programme information

6.26 Programmes are activities that contribute to a common strategic or operational objective and are linked to an outcome statement. Programmes can be funded from either departmental or administered appropriations, with the majority of programmes funded as administered items<sup>55</sup>.

6.27 One of the consequences of the introduction of the framework was the aggregation of programme information into higher level outcomes and outputs in agencies' PBSs and annual reports<sup>56</sup>.

6.28 As a result of the BEFR decision in 2002, material general government sector agencies now provide Finance, on a monthly basis, details of cash and programme estimates and actual information by outcome<sup>57</sup>. This information is used, amongst other things, by the Government to monitor its overall financial position, spending against the Budget and to produce monthly and annual financial statements.

6.29 The ANAO identified that Finance's annual 2006–07 PBS guidance to agencies did not specify the level of detail that agencies should provide in relation to administered items, including programmes. The guidance included

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<sup>55</sup> The Department of Finance and Administration notes, in its *Annual PBS Guidance, 2006–07 template for Agency Budget Statements*, Section 3 – Outcomes, p.18, that Administered items include the programmes and activities administered by agencies on behalf of the Government.

<sup>56</sup> The Senate Finance and Public Administration Legislation Committee (SFPALC) in 1999 requested that agencies disaggregate administered items in their PBSs. (SFPALC, *The Format of Portfolio Budget Statements* - Second Report, October 1999 Chapter 4, Recommendation 3.) The Government agreed but proposed to keep itemising to a relatively high level<sup>56</sup> (Government response to SFPALC report *The Format of Portfolio Budget Statements* - Second Report, Recommendation 3, Hansard dated 6 April 2000).

<sup>57</sup> Finance defines material agencies as comprising 99% of assets, liabilities, revenues and expenses of the general government sector. Small agencies make up the remaining one per cent. Small agencies are required to report monthly estimates and actual results but they are not expected to have more than one programme for the agency as a whole, so they do not have to report 'programmes'.

a template that outlined the format for Table 3.1 *Total Resources for Outcome*, with headings for administered and departmental appropriations, including itemisation by output group and output for departmental appropriations. The PBS template did not provide a suggested level of itemisation in relation to the provision of information for administered items.

6.30 Finance considers its PBS guidance as *minimum* requirements. The ANAO notes that agencies have scope to report additional information and found that some agencies have published information in addition to the minimum requirements. For example, the audit identified that programme information was included in approximately half of the applicable surveyed agencies' PBSs and annual reports.

*In relation to the two audited agencies with programmes, the ANAO found that:*

- one of the audited agencies listed expenditure estimates for many of its programmes in its PBS<sup>58</sup>, and included actual expenditure compared to budget in its annual report; and
- the other audited agency itemised in its PBS estimates for its administered items, many at the programme level. The agency reported actual expenditure compared to budget at the output group level, rather than programme level.

6.31 Greater consistency in the level of information reported in relation to programmes would assist Parliament to monitor expenditure against budget and across financial years, thereby enhancing accountability. The ANAO, therefore, suggests that Finance provide more definitive guidance, including developing criteria on the level and type of programme information that agencies are expected to include in their PBSs and annual reports. In this regard, the ANAO acknowledges that a blanket approach of providing detailed information for all programmes may not be practical or useful to stakeholders, and agencies should have regard to materiality and public and parliamentary interest in determining the appropriate level of information reported.

## Reporting of new Budget measures

6.32 Budget measures identify changes to government expense, revenue or investing activities<sup>59</sup>. Agencies include in their PBSs the titles of Budget

<sup>58</sup> The agency listed its administered items, many of which were programmes, by special and annual appropriation under 'Total Resources for the Outcome'.

<sup>59</sup> Australian Government, *Australian Budget 2006–07*, Budget Paper Number 2, Foreword.

measures and the financial implications over the forward year estimates by outcome. Further details of all agencies' new Budget measures are published in Budget Paper No. 2<sup>60</sup>.

6.33 The Senate Finance and Public Administration Legislation Committee suggested in 1999 that Finance consider the inclusion of guidance to agencies on the extent of reporting for new measures in its PBS guidelines<sup>61</sup>. Subsequent Senate Estimates proceedings and committee reports have also included requests for agencies to provide further information about Budget measures<sup>62</sup>.

6.34 At the time of the audit, the ANAO found there was no requirement to provide performance indicators in relation to new Budget measures in agencies' PBSs, and agencies' reporting of performance information in relation to the achievement of the objectives of new measures and reporting against budgeted expenditure was limited.

6.35 The ANAO acknowledges that new Budget measures range in value, type and materiality and that it is not always possible or practical to monitor the long-term impact of all measures, particularly where, for example, incremental funding is provided for existing programmes. The ANAO suggests, however, that consideration be given to ways of enhancing reporting of expenditure and performance against new Budget measures, at least for the first twelve months. The level of reporting should take into account the nature, significance, value and public and parliamentary interest in a measure.

### **Presentation of forward estimates**

6.36 The inclusion of estimates of revenue and expenditure for three forward years in agencies' PBSs is an integral part of existing Budget arrangements with agencies' PBSs providing forward estimates on a financial statement line item basis.

6.37 Forward estimates by outcomes and outputs were generally not included in agencies' PBSs, although one of the audited agencies included in

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<sup>60</sup> Prior to 2005–06, budget measure descriptions were provided in both Budget Paper No. 2 and each agency's PBS.

<sup>61</sup> The Senate Finance and Public Administration Legislation Committee, *The Format of Portfolio Budget*, 2<sup>nd</sup> report, op cit., Chapter 4.

<sup>62</sup> The Senate Finance and Public Administration Legislation Committee, *The Format of Portfolio Budget Statements - Third Report*, p. 17, included examples of Senators' requests during Estimates proceedings for further information to be provided regarding budget measures.

its PBS forward estimates for administered items, many at the programme level<sup>63</sup>.

6.38 The Senate Finance and Public Administration Legislation Committee in its second and third reports on *The Format of Portfolio Budget Statements* recommended the inclusion of forward estimates for outcomes, outputs and administered items<sup>64</sup>. The Government disagreed with this recommendation on both occasions, on the basis that there was already extensive reporting of forward estimates information in budget documentation<sup>65</sup>.

6.39 The ANAO recognises that the existing level of information contained in Budget documents is extensive. However, given the central focus of outcomes and outputs information, the provision of forward estimates at this level is likely to have a higher level of interest for stakeholders than at the agency financial statement level. The ANAO therefore suggests that providing forward estimates on the basis on which Parliament appropriates funds be further considered as part of any future review of the framework.

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<sup>63</sup> Some programmes were aggregated on the basis of relevant legislation.

<sup>64</sup> The Senate Finance and Public Administration Legislation Committee, *The Format of Portfolio Budget Statements* - Second and Third Reports both recommended that forward estimates be provided for outcomes and outputs (second report recommendation 4) and administered items (third report recommendation 1).

<sup>65</sup> The Government declined to provide this information in response to SFPALC's second and third reports on the *Format of Portfolio Budget Statements*, recommendations 4 and 1 respectively, 'on the basis that there is already extensive reporting of forward estimates provided in the budget documentation...at an aggregate level (cash and accrual) as well as for agency expenses, measures and on a functional basis. This information is published at both Budget and Mid Year Economic and Fiscal Outlook update.' Government response to SFPALC report *The Format of Portfolio Budget Statements* - Second Report, Recommendation 4, Hansard dated 6 April 2000, and to SFPALC Third Report Recommendation 1.

## Recommendation No.6

6.40 The ANAO recommends that the Department of Finance and Administration consider the opportunities for improvement referred to in this report that relate to the following matters:

- (a) enhancing and updating guidance material, including developing principles to guide agencies in determining whole-of-government budget and reporting activities;
- (b) clarifying the minimum requirements that agencies are expected to comply with in developing and maintaining outcome and output structures and performance regimes;
- (c) periodically reviewing and updating the guidance so that it remains current and informative;
- (d) facilitating the exchange of information and experiences and providing ongoing practical advice in relation to the application of the framework;
- (e) better integration of programmes into the outcomes and outputs framework, including developing criteria to guide agencies' decision-making on the inclusion of programme information; and
- (f) enhanced reporting of expenditure and performance against specified new Budget measures.

### *Agencies' responses*

#### *Department of Finance and Administration*

6.41 Agreed. Finance will consider this recommendation in its ongoing work programme of improving the financial framework, updating relevant guidance and training materials, and advising agencies.

#### *Audited agencies*

6.42 Each of the audited agencies agreed or supported this recommendation.

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Ian McPhee  
Auditor-General

Canberra ACT  
6 February 2007

## **Appendices**





## **Appendix 1: Agencies' responses to the audit report**

*This Appendix contains general comments received on the audit report that are not shown in the body of the report.*

Each of the agencies selected for detailed audit and the Department of Finance and Administration were provided with the opportunity to comment on the proposed audit report in accordance with the provisions of section 19 of the *Auditor-General Act 1997*.

Agencies' responses to recommendations have been included in the main body of the report under the subheading 'Agencies' responses' directly following each recommendation.

General responses are produced below.

### **Department of Education, Science and Training**

DEST agrees with the audit's findings and the report's recommendations. The Department is in the process of reviewing and revising its outcomes and outputs framework, including updating and improving performance indicators used in external reporting, especially DEST's Portfolio Budget Statements and annual reports. We therefore welcome the audit report as a timely and useful contribution to the Department's efforts to improve the quality and transparency of our organisational performance management and reporting.

### **Department of the Environment and Heritage**

The Department appreciates the critical thought that the audit team applied to analysing the department's performance management systems. It is very helpful to have this perspective, and the report will be a useful resource.

### **IP Australia**

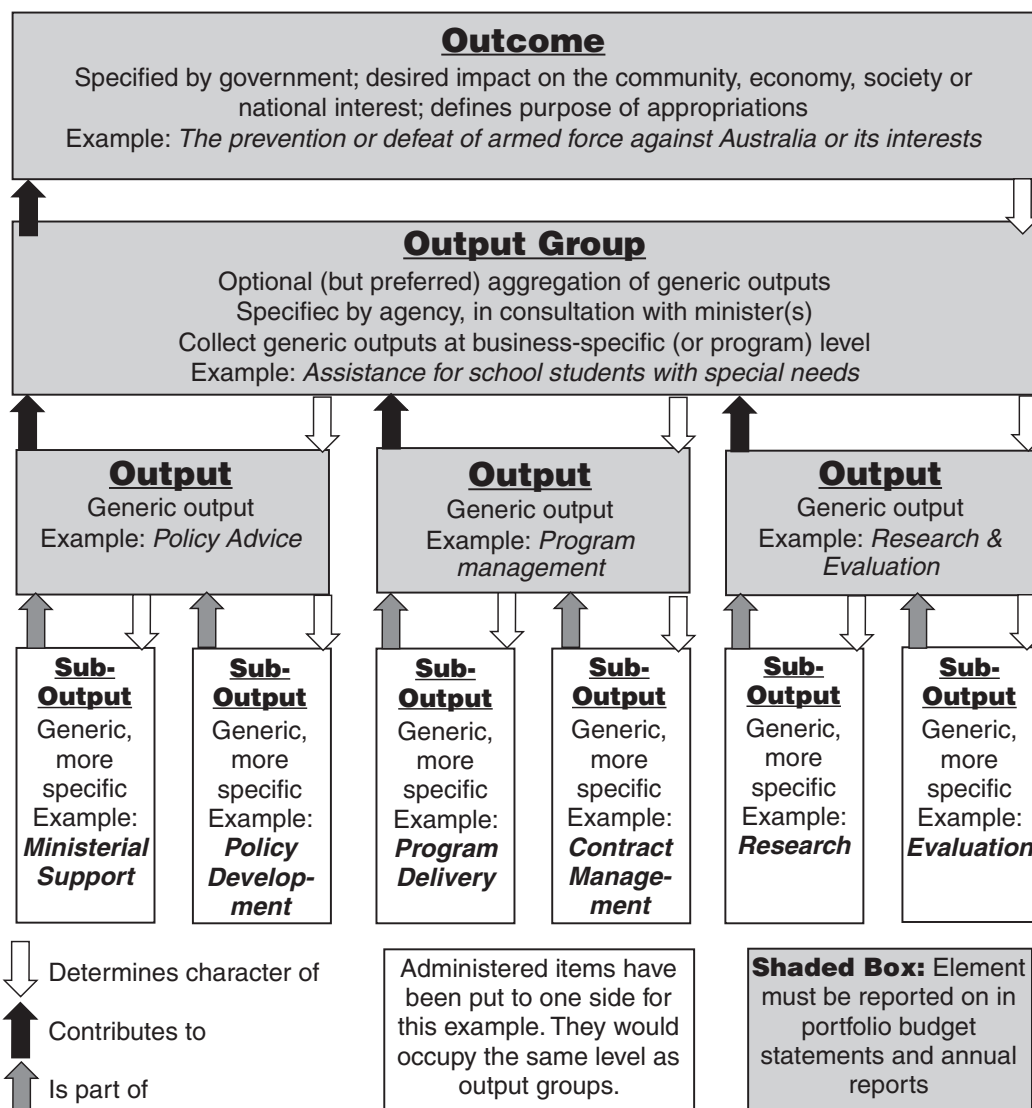
IP Australia agrees with the recommendations of the audit report and has commenced implementing the recommendations.

### **Department of Finance and Administration**

Finance welcomes the report and appreciates the level of consultation and co-operation throughout the process.

## Appendix 2: Finance's Suggested Agency Outcomes and Outputs Structure

### A Suggested Model Outcomes & Outputs Structure



Source: Department of Finance and Administration, 2003.

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