

Challenges and Opportunities Seminar,  
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**Better Performance Information  
for Greater Accountability**

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## Introduction

### The Context

The Australian Public Service (APS) is currently facing a number of significant challenges and in many cases performance information may well be the last issue we are thinking about. But performance information is important, not as an end in itself, but in the way it can help us meet the challenges of, among other things, new methods of program provision and service delivery. An important lesson from the past decade is that this is not a discretionary activity. A stitch in time can save nine. The investment in time, effort and resources is considerable, but it is one we have to make because the stakes are so high.

Performance information is a critical tool in the overall management of programs, organisations or work units. It fits within the wider management framework that includes objectives, strategies for achieving objectives and mechanisms for collecting and using performance information. Performance information is documented and reported in corporate publications to the Parliament and other stakeholders and managed within the annual corporate cycle. In these respects it is crucial to public sector accountability. Put simply, it is the main means through which assurance is provided transparently to the Parliament and public that the Governments objectives are being met.

In the time available I want to re-emphasise a number of fundamental issues in relation to performance information, not because we are slow learners but because experience shows we still often ignore the basics and consequently tend to be less effective than we could, or should, be. Firstly, it is important to define performance information so that we have a common understanding of what the concept encompasses and the key role it plays in the management and accountability framework. As well, there are strong links between performance information and risk management which need to be appreciated in order to be less vulnerable to the seemingly inevitable criticisms if we make mistakes. A greater focus on program outcomes will help ameliorate such adverse conclusions. But this largely means we need more explicit and more convincing performance information.

Another important reform which is currently being implemented throughout the public sector is that of accrual reporting and, more recently, accrual accounting. In the future, at the Federal level, we will be budgeting on an accrual basis. A considerable amount of the quantitative performance information is derived from our accounting systems. Managers will need to rethink their approach to management using accrual based systems, including the nature and scope of performance information necessary for management and accountability purposes.

The nature and focus of performance information will also change with the introduction of various new arrangements aimed at improving service delivery and program provision, such as the introduction of competition, contracting out, commercialisation and private sector provision of public sector services. We may well learn something from similar experiences in other countries such as Britain, the United States and New Zealand.

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The ANAO is aware of the efforts being made by audit offices in the States and in other countries in pursuing improvements to performance information for accountability purposes. Some selected approaches and developments are discussed to demonstrate the shared perspectives on a range of issues that we have been addressing at the Commonwealth level.

I will conclude with a brief discussion of what the ANAO is doing to help improve performance information in the APS and the ways in which the Office is developing methodologies to assist in being more accountable for its own performance.

## **Understanding Performance Information**

Performance information has a broad focus. It goes beyond the development of performance indicators, difficult though that task may be on its own. In short, it is evidence about performance which is collected and used systematically. The concept covers the setting of objectives, the development of strategies or means to achieve the objectives, the use of both quantitative and qualitative indicators, targets, standards and benchmarking. Performance information is therefore a much broader concept than just indicators - indicators are a measure which enable a manager to monitor progress towards achieving the objective, to indicate if you have been successful or how far away you are from achieving the specified objective.

It is often asserted that performance information is derived from evaluations. In essence, evaluation is a tool which complements other mechanisms used to identify and collect performance information. Evaluations usually start with performance information and provide a test of both the project/program and of the validity and usefulness of the information itself. Because of the timeframes associated with evaluations (that is, they are usually conducted every three to five years) they are not a substitute for monitoring program performance on an ongoing basis for management purposes. Evaluations are, however, useful for:

- examining the effectiveness of programs over the longer term; and
- establishing causal links between program outcomes and activities/ resources involved.

Given their periodic nature, evaluations may also be useful for collecting information which is too expensive or difficult to collect routinely. For example, comprehensive surveys may be undertaken which would be too resource intensive to undertake as part of the normal management of the program. Performance audits have similar characteristics as I will illustrate later.

More detailed discussions in relation to definitions and characteristics of performance information can be found in Audit Report No.25 of 1995-96 covering Performance Information in the Department of Employment, Education, Training and Youth Affairs; and in the Performance Information Guide which is currently being produced jointly by the ANAO and the Department of Finance and is expected to be available later this

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month. Included as Attachment A to this paper is a brief summary of some of the lessons learned from the experience of both the latter agencies which may be of interest and perhaps generate other ideas and approaches that would enhance our capacity to produce more useful information for both management and broader accountability purposes.

## **Developing Accountability and Management through Performance Information**

Performance information is fundamental to credible accountability **and** effective management. It is therefore not discretionary nor simply to be put off as a secondary consideration. No one finds it easy. It can prove to be ones Achilles heel or, alternatively, the best defence of a program and of the people who are responsible for it. I regard it as recognition of a job well done as well as a means of identifying where improvements can/need to be made.

### **Accountability**

Performance information, and particularly outcome information, is one of the principal means of achieving program accountability to the Parliament. There are, however, differing levels of accountability within agencies. For example, local managers of large agencies are immediately accountable to senior managers who may, for example, focus on key process performance indicators. At the national level, agencies are accountable to Parliament and the public and performance information at this higher level should focus on overall program impact. Given these different levels of accountability performance information allows the entity to demonstrate its achievements internally and externally.

To accomplish appropriate accountability the performance information used must be of a quality which allows program achievement to be effectively measured or assessed. Particular attention must be paid to:

- the framing of objectives and strategies;
- accountability levels and varying timeframes for particular information;
- the influence on possible behaviour and outcomes of choosing particular indicators; and
- the reporting of performance information.

Objectives should be clear and realistically achievable. The programs area of responsibility and influence should be defined in the objective. Strategies should articulate the means by which the program objectives will be achieved and should be directly linked to performance indicators. If the indicators are not directly linked to both the identified objectives and related strategies, management will not be able to determine whether the objectives are being met or if the strategies are the appropriate ones for achieving the specified objectives. Performance information will also reflect the various accountability levels, for example, program or individual, as well as the timeframe for expected results, mainly short or medium term.

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We should also be conscious of the likelihood that a selection of performance information in itself would influence the behaviour of managers and staff and consequently outcomes. While this is desirable, it should nevertheless focus the attention of decision-makers on their responsibility and attendant risks in determining that selection as well as ensuring that the information is used in a proper context. The latter is always difficult if users choose to ignore any guidance provided. And it can also be a cause of unnecessary frustration if such guidance is not available.

One of the main vehicles for public accountability is public reporting. For many, transparency is the essence of accountability. Therefore, reports, particularly annual reports, should be a balanced and candid account of both successes and shortcomings. It would be unfortunate if this were regarded as a naive expectation. In short, they should convey sufficient information to allow the Parliament and the public to make informed judgements on an agency's performance. In this respect, we should be sensitive to Parliamentary observations about the volume of material and the capacity of busy Members to cope with the detail that is often produced. Accountability is not determined by the weight test, but mainly by the ability to clearly comprehend the performance assessment.

It should be appreciated that funding and operational arrangements may result in some diffusion of accountability. Many Government agencies provide only part of the funding for a program, with another organisation being ultimately responsible for the remainder of the funding and program delivery. For example, in 1995-96 the Commonwealth Government provided only 28 per cent of the recurrent funding for colleges of Technical and Further Education, with State Governments being responsible for the balance of the funding and the provision of educational services. Even if overall outcomes can be assessed, it is often not possible for the funding organisations to determine an outcome specifically related to their portion of funding. In such situations performance reports detailing outcomes should consider the performance of the program as a whole and include text explaining the problem of associating outcomes with each of the partial contributions. That said, we need to be as clear as possible about our own accountability. I also touch on this conundrum later in relation to private sector provision of public services.

Performance information, therefore, has an expanded role in these situations in that it can also be a means of protecting the Commonwealths and the overall public interest. Besides monitoring their own performance, the responsible agencies must be able to assess the performance of each direct provider of goods and services for accountability purposes. It is, therefore, good practice to require the supplier to provide output and outcome information against which their performance can be assessed. Indeed, the requirement to supply such performance information should be included in any contract governing the delivery of a program or service. The ability to manage such contracts effectively will be an important part of the performance of many public and private sector managers in the future with marked implications for the efficiency and effectiveness of program delivery.

## Management

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Without adequate performance information, particularly in relation to program effectiveness, managers cannot take informed decisions about the allocation, priority and use of program resources or provide sound advice on the appropriateness, success, any shortcomings and future directions of programs.

In the absence of appropriate performance information managers will not know:

- if they are undertaking their tasks in the most cost effective manner (in order to do this financial information - the necessary denominator - is required as well as the traditional input and output information);
- whether they are undertaking the strategies and activities which will lead to the achievement of the program objectives;
- whether those objectives are really appropriate to the apparent community needs; and
- whether services to clients are of an appropriate quality.

An appropriate set of performance information focuses attention on the parameters which, inter alia, influence outcomes at the particular managers level. There may be a hierarchy of objectives and strategies which, at operational levels of the program, would tend to focus on particular processes, inputs and outputs. A hierarchy of objectives and strategies directly facilitates an integrated approach to planning, setting of targets, allocation of resources and the establishment of milestones for the organisation as a whole as well as for individual program areas. Indirectly, the hierarchy also influences behaviour towards the achievement of objectives, targets and milestones.

If, for example, performance information focuses solely on input, output or outcome targets which are either easy or perhaps difficult to achieve, it is possible that client service may be reduced to unacceptable levels. That is, care must be taken to ensure that target setting, for example, does not encourage the more wrong sort of behaviour by decision-makers and/or service deliverers. Such a target could be to achieve a certain number of clients processed but which results in a severe reduction in the quality client service or a large increase in processing errors which need to be redressed at a significant cost.

Part of our responsibilities, and a very important part in todays climate, is risk management. In a general environment of continuous change and of limited resources the management of risk is an important issue for consideration in the context of performance assessment and one we all need to be familiar with and be able to confront with a measure of confidence.

Risk management has been defined as:

*the systematic application of management policies, procedures and practices to the tasks of identifying, analysing, assessing, treating and monitoring risk.*

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Standards Australia, 1994, Risk Management, Draft  
Australian/New Zealand Standards October (para 1.2.26)

Since prevention is better than cure, the key to any risk management approach is being proactive and well informed. Managing risks is far more pervasive than dealing with losses from fraud, theft or inefficiency, important though the latter might be. Less than adequate performance, for example, is also a risk that has to be addressed. To manage risks and prevent undesired outcomes, risks first must be identified, analysed, prioritised and reviewed. Risk assessment means determining the likelihood of a risk being realised, what can cause this outcome and what effect is likely on your function or business. Following assessment, decisions can be made as to whether the risks are sufficiently important to require specific management action but, if so, how they should be managed to maximise performance and be accountable for any outcomes.

Risk-taking is a dynamic exercise. Continued monitoring and review are necessary for successful risk management because risks not only change over time but their relative significance may also change, as may the mechanisms and tools to manage the risks efficiently and effectively. Constant vigilance is the price to be paid where there is a possibility of loss or less than satisfactory use of the public resources.

One of the important tools to manage risk is performance information. Performance information identifies where you are heading, how you will get there, whether you are heading in the right direction and whether you are using resources in the most cost effective manner. In essence it is a safety net both for informed decision making and an early warning system to make necessary corrections where judgements prove to be wrong or circumstances change from those initially apparent. Systematic monitoring of your performance indicators, for example, provides early warning of potential/actual problems so that prompt remedial action can be taken.

## **Performance Information in a more Contestable Environment**

### **Reforms and new service delivery methods**

The recent Audit Commission Report<sup>1</sup> National Commission of Audit, 1996, Report to the Commonwealth Government, Canberra, June (page 7) referred to an OECD report in relation to public sector reform being experienced across a number of countries. The following quote is lengthy but is a revealing insight that we all need to appreciate when looking at future directions for the public service.

*A number of factors have come together to make reform a burning issue. Key among these are: the development of a global market-place, which highlighted the impact of government activities on national competitiveness; a perception that public sector performance was inferior to that of the private sector; concern that the public sector was squeezing out the private sector; limits to future growth of the public*

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*sector, given budget deficits and high levels of public debt; a lowering of expectations about governments ability to solve economic and societal problems by traditional remedies; citizen demands for improved responsiveness, choice and quality of service; and demands from public sector staff. Put together, these pressures have resulted in a reappraisal of the rationale for government intervention and a re-examination of public sector management and performance*

OECD, 1995, Governance in Transition: Public management Reforms in OECD Countries, Paris (page 19) .

Many countries, including Australia, are currently showing interest in the possible use of different arrangements to produce and deliver Government programs and services. In order to accommodate changing demands and practices there is a widening range of delivery options being pursued for traditional public services. A recent comment by the Minister for Industrial Relations and the Minister assisting the Prime Minister for the Public Service is apposite in this respect:

*It has responsibility for implementing the Governments reforms and at the same time must improve its own performance across the board so that it can compete effectively with alternative mechanisms for delivering Government services.*

The Sunday Canberra Times, 1996, A High-voltage Dose of Shock Therapy Phillipa Schroder, 25 August (page 4)

Among these delivery options is the introduction of competition arrangements, contracting out and contracting in, commercialisation and competitive tendering. Many of these are aimed at providing a greater level of contestability to bring about improvements in efficiency and effectiveness. In some cases contestability will occur as a result of direct competition between public and private entities and, in others, just across private sector providers. Even where there is no direct competition, there will no doubt be an increasing requirement to benchmark performance against identifiable best practice whether in the public or private sectors.

As a result, organisational arrangements are becoming more complex, for example, the separation of the purchaser (the one who decides what is wanted) and the provider (the one who provides what is wanted), managing accreditation and regulatory functions concurrently and dealing with numerous suppliers in new and expanded markets.

Given these new directions the recent Audit Commission report highlighted the need for robust performance information<sup>Op.cit.</sup>, (page 120). Better performance information is required to ensure that savings, achieved by implementing these sorts of arrangements, are not achieved by a reduction in the level of quality of services provided, unless the Government takes a conscious decision that the service versus quality ratio should change. Greater use of market testing in the delivery of services will also require clear identification of outcomes and outputs and measurement of the efficiency of current public sector service providers. As well, agencies will need to ensure that the information necessary to report on



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performance will be available even if that agency is itself not the deliverer of the service.

One of the most significant challenges to the public sector and, indeed, to the private sector is to determine meaningful and transparent contract conditions and an effective means for managing purchaser/provider arrangements. Undue complexity of the latter is likely to be a recipe for failure. Nevertheless, there has to be assurance that the legal basis of any contract is sound and adequately protects the interests of all parties. A test of its robustness and the confidence of the signatories in their relationship is the extent to which it can be left in the bottom drawer, that is, virtually as reference documentation rather than a stalking horse for either party. From a public sector point of view there needs to be a better understanding of the commercial nature of such contracts and, in particular, the ways in which they are managed successfully. This applies as much to the determination and use of performance information as it does to the day-to-day personal interface with, and oversight of, program operations.

We need to learn from the experiences elsewhere both in Australia and overseas. I noticed in a recent article by Simon Davies in the Australian Financial Review Australian Financial Review, 1996, Enthusiasm Outweighs Results Simon Davies, 23 August (page 26) the difficulties experienced by the State Government of Florida in the United States with its outsourced social security administration. Simon Davies is an Accounting Fellow in the London School of Economics and an Accounting Law Fellow in the University of Essex. The article noted that the relationship that both parties had described as special, marriage-like and synergistic could not survive unanticipated changes in policy or to the operating environment. The author concluded that:

*..... it is the terms of the contract and not internal government mechanisms which are the primary determinants of whether a job is feasible or even possible. The contract sets very strictly defined legal limits on activities and acts as a buffer against policy changes. These same limitations would not apply if work were done in-house.*

IBID., (page 26)

The main messages for me from this experience is the need for **maximum clarity** in performance requirements, their measurement/assessment, the means by which the requirements may be altered and accountability for that performance. As we know, these concepts cannot be divorced from each other. While it will be difficult enough to identify clearly and concisely the nature and detail of performance information for the particular activity or program, it will need considerable skill and negotiating ability to assign unambiguously the concomitant accountability for that performance. I suspect we will have to urge tolerance and a degree of flexibility between the parties for some time in the learning process before we can achieve the necessary confidence not only between them but also of the Parliament. The discipline required, hopefully, will not just be seen as a means of assigning blame, but as a vehicle for quickly identifying and overcoming any deficiencies to ensure that the required levels of performance are achieved.

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## Using accrual based information

Accrual accounting is being introduced throughout the APS with entities being required to report on an accrual basis. A number are increasingly being managed on that basis. This has considerable implications for the type of performance information that will be demanded in the future.

The new accrual based statements (which should include financial reports prepared on an ongoing basis as well as the end of year financial reports) should facilitate more effective scrutiny of agency performance and enable questioning of such matters as the efficiency of resource use, the full costs of administration, deployment of assets and their efficient management. For example, accrual accounting recognises the consumption of a depreciable assets service potential through the depreciation expense calculation. In this regard, the ANAOs recent Financial Control and Administration Audit into Asset Management in Commonwealth entities found that improved asset management would result from the effective attribution of costs for the use and consumption of assets to the program level. ANAO Report No. 27 of 1995-96, Asset Management, Financial Control and Administration Audit (page iii) The recognition and attribution of such costs under accrual accounting assist us to identify the full cost of producing program outputs.

As noted by the Joint Committee of Public Accounts (JCPA):

*The statements will contain a wealth of information which can be used to construct a range of specific performance indicators to monitor and assess the performance of agencies and of programs within agencies. The information can also be used in a predictive sense to help decision makers assess the impact of proposed resource allocations on other programs within an agency or on the whole agency.*

Joint Committee of Public Accounts Report No. 338, 1995, Accrual Accounting - A Cultural Change, August (page 25)

In particular, the statements are designed to be relevant, reliable, comparable and understandable. While the main focus will be on performance in managing resources, the reports will continue to provide accountability for the proper use of public moneys.

As well as assisting the management of individual agencies, the JCPA also observed that the information contained in accrual-based financial reports is presented in such a way as to facilitate comparisons between reporting periods and between different entities. This means it is comparatively easy to establish trends and identify performance benchmarks across the APS. IBID., (page 26)0

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Traditionally, the performance indicators which have been identified in the APS have focussed on inputs and outputs. It is generally agreed that performance indicators need to become more outcome focussed. This not only includes information on what has actually been achieved but also on the cost effectiveness of these achievements. Obviously, assessing the cost effectiveness of an organisations activities depends upon the collection of performance information against financial indicators, among other imperatives. Such financial performance information will be increasingly provided through the use of accrual-based accounting systems.

The relevance of accounting information for measuring performance can be further enhanced through the use of activity based costing systems. Such systems can be used to focus on the factors which drive the costs of those fundamental activities that are needed to produce outputs. The costs of these activities then provide the basis for assigning costs to other cost objects such as products, services or customers. While such systems may involve extra accounting costs, they have potential for improving the accuracy and usefulness of output costing in the public sector.

More broadly, managers will be looking for integrated management information to support their decisions. In essence, there is still a chicken and egg situation in many entities where demands are made for so called executive information systems, but limited use is being made of the technology we have and we do not express our requirements with any real clarity. We cannot expect someone else to virtually second-guess the information we need to run our business or to indicate whether we are successful or not. We need to be involved in decisions about systems and the performance information they can deliver.

## **An Audit Perspective - The use of performance information by Audit Offices**

I have talked about the characteristics of good performance information and its growing importance to management. A number of audit offices, both in Australia and overseas, have shown considerable interest in the development and use of performance information in the audit context. The next section of this paper discusses some of the observations on, and involvement with, performance information by some of these offices other than the ANAO. I will then follow with some comments on ANAO performance audits as well as how it is assessing its own performance.

### **Australian States**

Whenever performance indicators are discussed, reference is almost certainly made to Western Australia (WA) where the Financial Administration and Audit Act (1985) **requires** agencies to report on their performance indicators and also requires the Auditor-General to issue an opinion on them. In a Special Report in December 1994, the WA Office of the Auditor-General stated that:

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*reporting of audited performance indicators by management has become a fundamental part of a new approach to accountability based on assessing what public sector agencies do and how well they do it.*

Office of the Auditor-General, 1994, Public Sector Performance Indicators 1993-94, Western Australia Special Report, Report No. 7, December (page viii)

Further, the WA Auditor-General reported that:

*the standard of performance indicators in the public sector has improved considerably in recent years. Between 1990-91 and 1993-94, there has been a significant reduction in the proportion of agencies that either failed to report indicators or reported indicators of a very limited standard.*

IBID., (page viii)

However, it is also worth noting that in 1993-94 only 18 per cent of agencies in that State had reported efficiency and effectiveness indicators which were **all** relevant to their objectives and appropriate for assisting users to assess performance. The Auditor-General is not required to comment on whether the indicators are **the** most relevant or **the** most appropriate for any program.

Under the financial reforms in the ACT government departments will be required to produce performance statements to be included with their financial statements. Within these statements departments will be required to report on the quality/effectiveness and cost of departmental outputs. The ACT Auditor-General will be required to audit and provide an opinion on the performance information.

In the forthcoming ACT budget, the ACT will move to budgeting on an accrual accounting basis. The budget will include planned outputs, cost of outputs and performance information. This will provide the basis for more meaningful comparisons of actual achievements against budget. These developments reflect the purchaser/provider model of government in which departments will be funded in the budget for the provision of planned outputs. It is similar to the approach taken in New Zealand.

In his report to the Northern Territory Legislative Assembly for the half-year ended June 1996, the Auditor-General referred to his performance management audit methodology which had been used for the first time requiring auditors to ask public sector administrators about goals, strategies, performance targets and outcomes. He pointed to the general lack of monitoring during the year of the achievement of strategies agreed in the entities corporate and associated Business Unit Plans. His concern is that, without such accountability, there is insufficient discipline over retaining focus on the agreed outcome targets.

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## Overseas Offices

As many of you might be aware, the British Government is currently considering the implementation of Resource Accounting and Budgeting. In reporting to Parliament on the White paper, the National Audit Office (NAO) stated that:

*Resource accounts will include an output and performance analysis containing key performance data for each departmental objective. Such data are becoming increasingly important to effective Parliamentary scrutiny.*

Report by the Comptroller and Auditor-General, 1996, Resource Accounting and Budgeting in Government: The White Paper Proposals, Britain, 24 April, Press Notice (summarises pages 1, 11 and 12 of the report)

The report concludes that:

*.....key data should be validated and that the next five years provide an opportunity for trials so that a robust system of performance reporting, with validation, can be ready when resource accounting and budgeting are fully introduced early in the next century.*

IBID., (page 1)4

The National Audit Offices 1996 Annual Report refers to the issue of validation of performance particularly with the emphasis on the importance of quality of service. The Office is responding to requests for validation as well as carrying out further reviews of performance measurement as part of their performance audit activities. Included as Attachment B is the NAOs good practice criteria which can be adopted in value for money audits of performance measurement and performance regimes. One item of particular interest given the increased attention by Legislatures to performance is that indicators should be capable of independent audit.

The national publication of local government authority performance indicators has also become an important priority for the UK Audit Commission which is responsible for:

- the appointment of auditors to local authorities and the National Health System; and
- carrying out national studies of value for money.

The Audit Commission considers that publication of such information is critical to enable people to measure the performance of their councils previous years performance and against other comparable authorities. The Commissions

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strategy is to develop systems for comparing the performance of audited bodies and to improve access of all interested parties to comparative information.

The Auditor General of British Columbia in Canada has been extensively involved with the Executive Government in a joint exercise to improve accountability and performance management in the last year or so. In their report, the parties noted the need for a close integration between the performance management system and the accountability framework. They identified the following five accountability levels: Societal, Governmental, Corporate, Program and Individual. At the program level, the report Joint Report of Auditor-General and Deputy Ministers Council, 1995, Enhancing Accountability for Performance in the British Columbia Public Sector, Canada, June (page 24)<sup>5</sup> indicated the following practices to improve accountability/performance:

- Performance measures are developed and information systems are realigned to collect appropriate data.
- Performance is monitored continuously.
- Client surveys are conducted.
- Comprehensive program evaluations are undertaken.
- Internal and external value-for-money (performance) audits are conducted.
- Management contracts, based on accountability for results, with incentives, are established.
- Training in results management is provided.

Not surprisingly, the performance information to be reported had to be relevant, complete, timely and verifiable.

## **The focus on Performance Information in ANAO Performance Audits**

The ANAO has conducted a number of performance audits which have included an examination of performance information relevant to the programs under review. In addition, we have conducted an audit which focussed solely on the quality of performance information in the Department of Employment, Education, Training and Youth Affairs (DEETYA). This audit identified a number of good practices and general principles which would apply to other public sector agencies. These principles can be summarised as follows:

- performance information should measure all parts of the objectives set for the program or service;
- there should be an appropriate balance of indicators to address economy, efficiency and effectiveness;
- targets and standards should be developed which motivate appropriate behaviour and assist the achievement of objectives;
- where cost effective benchmarking exercises should be undertaken to test actual performance; and

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- reports, in particular the Annual Report, should include outcome oriented performance information which allows the assessment of program performance.

It is acknowledged that many public service agencies and entities are experiencing difficulties in developing appropriate performance information. It is also generally recognised that it can be very time consuming and, in many cases, resource intensive to develop a full suite of performance indicators for an agency's programs. For these reasons, experienced managers consider it better to concentrate on a relatively small number of high quality measures relating to economy, efficiency and effectiveness rather than a large number which tend to refer to only particular and not well related elements of performance. The latter can consequently be difficult to interpret in terms of overall program performance. However, note should be taken of the accountability hierarchy identified by the study in British Columbia.

Given the importance of performance information to effective management and accountability the examination of performance information will generally be an integral part of most performance audits conducted by the ANAO. While the examination may not be as detailed as that undertaken in DEETYA, the ANAO will seek to establish where an agency's performance information is contributing to improvements in management and accountability. The ANAO is also conscious of the extent to which programs across entities are interrelated and, in some cases, are part of a broader set of objectives being served by more than one entity. An even more complicated situation may arise across the three levels of government such as for the previous Better Cities program. Cooperation is essential to determine an appropriate balance of performance information for all users in such situations.

The sorts of issues which the ANAO will examine in relation to performance information includes whether there are:

- links between objectives, strategies and indicators;
- a balance of measures, that is, input, process, output, outcome and client service to enable the assessment of economy, efficiency and effectiveness;
- measures of significant matters rather than things which are easy to measure;
- some degree of continuity over time exists so that trends can be examined;
- appropriate mechanisms to monitor progress against the objective in a timely fashion; and
- reporting mechanisms which include outcome-focussed information presented in a form which is readily understood and does not mislead readers.

## **Looking at the ANAO's own performance**

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The ANAO itself does not, and of course should not, escape performance measurement. We are currently working on the development of better performance information for ourselves. In this way the ANAO has a realistic understanding of the problems that agencies are facing in this area. However difficult, it is important both for improved management and accountability and is not discretionary. There are no dispensations.

Some of the recent initiatives being pursued by the ANAO in an effort to improve its performance information include:

- reviewing our indicators to ensure that they are linked to our revised corporate plan; and
- introducing a number of surveys to measure the impact and value of ANAO products. These surveys are being conducted at three levels to capture the views of our major client groups, as follows:
  - we will be surveying Ministers and Members of Parliament later this calendar year;
  - we regularly survey program managers in agencies across the Service;
  - from 1 July 1996 each of our performance audit reports will include a brief questionnaire requesting feedback from the readers of the reports; and
  - the ANAO also has benchmarked its performance against that of other audit agencies and has implemented arrangements for the conduct of peer reviews involving other public sector agencies and private sector accounting firms.

Given that the ANAOs corporate goal is to improve (add value to) public administration, the key indicators of our performance centre around measuring the quality and impact of our products. These measures, which are by no means perfect, should provide a good base for measuring/assessing our actual performance in relation to audit outcomes and for improving our indicators in the future. In that respect, I noted a recent independent private sector survey Office of the Auditor-General, 1996, Audit Insights No. 15, Perth, July (page 2)<sup>6</sup> of Western Australian Members of Parliament determined an overall performance index rating for their Office of the Auditor-General. Such an index could be particularly useful to determine trends over time.

## Conclusion

Given the increasing demands for greater accountability there is an equal pressure for performance information to be audited. In this way we can all work together to improve such information and thus provide greater assurance to the public and the Parliament in relation to the efficiency and effectiveness of government programs. Perhaps the first step in rejuvenating interest and action by entities is the joint development of the Performance Information Guide with the Department of Finance which provides practical definitions and examples of good



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practices in this area. This will be published later in September. It is likely to be the first of a series of such joint guides on performance information and other matters of interest to public sector managers.

Through the conduct of financial statement, financial control and administration and performance audits and the publication of better practice guides we are keen to work with departments in order to improve performance information and thereby the performance of the public sector as a whole. The effort needs to be integrated and focussed to achieve credible results in a reasonable timeframe. To use an old phrase, we do not want paralysis by analysis. We need understandable, timely and, to the greatest extent possible, measurable outcomes. The real test is whether, and in what ways, such information is actually used by entities to achieve greater accountability for results as well as by other stakeholders to assess those results.

There is an often repeated saying that at the end of the day we will be judged on what we do, not on what we say we do. Results are what ultimately count. There is no doubt that a major asset for any country is a highly performing public sector. With the greater integration of the public and private sectors, it is increasingly being realised that the cost of future public services are an important factor in our international competitiveness. As well, our international reputation depends heavily on the perceived vitality, innovation and overall performance of the public service. We can **all** contribute to that outcome no matter how relatively restricted our responsibilities or the level of our position.

You may have noticed a report on a recent newspaper interview with Ted Gaebler of Reinventing Government fame. He noted that, while the public service can make society more equitable, we will only be able to do so effectively if we are more flexible, responsive and customer-focussed. I would also add a concern for ethical values and standards. He went on to say that this does not mean government has to run like a business and that:

*The key distinction is not between the private and public sectors, but between competition and monopoly and between good, flexible management and bureaucratic, rule-governed management.*

The Australian Financial Review 1996. Reformer seeks greater efficiency, Hans van Leeuwen, 30 August (page 9)

In an environment of devolved authority, we are placing increased emphasis on personal accountability for performance, including effectively managing risks, with guidance rather than instruction. But this simply ups the ante in terms of better performance information.

I have borrowed on the wisdom of the UK National Audit Office in preparing this paper and will do so again on the basis that we should be open to the ideas of others and apply them if they are relevant to our situation. The NAO notes the irony that just as the public sector is attempting to focus on results, the private

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sector has discovered the value of good information on processes and opinions. Their conclusion is one I would support for your consideration:

*We should be careful not to lose sight of traditional public sector strengths in moving to a more results-oriented model.*

UK National Audit Office, 1995, Performance Measurement and Value for Money Audit, April (page 17)

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## ATTACHMENT A

### PERFORMANCE INFORMATION - LESSONS LEARNED

The following is a brief summary of some of the lessons gained from the experience of the ANAO and the Department of Finance in developing the Performance Information Better Practice Guide in consultation with other public sector agencies:

- The performance information should relate to the objective of the program and enable an assessment as to whether or to what extent the objective is being achieved. It should also enable an assessment of the efficiency and effectiveness of the strategies and initiatives used to achieve these outcomes.
- Objectives should be clearly stated and the performance information should measure **all** parts of the objective.
- Performance indicators (which will help provide the performance information referred to above) should be developed early in the life cycle of the program or project. These indicators may then need to be refined in the light of experience with the program or as a result of evaluations or other similar reviews.
- Performance indicators should assist managers in their decision-making as well as satisfy external accountability requirements.
- A useful tool for the development of performance information is the process of developing and analysing the underlying logic of programs. Program logic helps to clarify program objectives and to identify and describe the major program elements (inputs, processes, outputs, outcomes) and the expected cause-effect relationships between program processes and the outcomes they are meant to produce.

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- Collection of information should not be confined to those items which are easy to measure as this will not provide a comprehensive picture of performance. Also, given the general human tendency towards what gets measured gets done, the things that are not easy to measure (but which may be important) may not get done.
- Performance information should be differentiated appropriately at different levels of an organisation or program. High level strategic performance information for a program is unlikely to be directly relevant or useful to a work unit at the service delivery point. The performance information hierarchy should correspond to the break-down of objectives/outcomes by level of responsibility and control. It is important that agencies do not collect large volumes of performance data which is not cost effective; only key indicators should be established and measured for each level of responsibility.
- The performance information should be balanced, that is, it should encompass a range of measures relating to program aspects such as inputs, outputs, outcomes, quality client service delivery and access and equity issues and measure performance against the key criteria. Often, information will be biased towards measures of process or activities, at the expense of assessments of effectiveness. A program might have extensive information on activities and efficiency (e.g. time and cost to process claims) but nothing on quality. Information might also be biased to the short term at the expense of long term issues. Any of these biases will leave gaps in performance information which may not be understood by management or by external parties.
- Performance information should be robust in that it should measure something that is significant and it should be reliable and valid.
- The appropriate level of disaggregation of information should be identified in order for it to be useful (for example, is the information needed by client group, geographic location or organisational unit).
- Performance should be related to client expectations or requirements. The performance information regime should include a structured approach to identifying client needs which can vary widely, for example program recipients and the Parliament.
- A systematic approach to comparisons of performance should be undertaken. A framework for use of standards, targets, benchmarks and comparisons over time is necessary if performance information is to be useful both for performance improvement and for accountability. Also, where changes are required to the performance information collected, adequate links should be established to allow comparisons over time.
- The performance indicators, targets and standards which are developed should motivate appropriate behaviour in achieving the desired outcomes and not encourage staff to adopt inefficient or ineffective practices which allow them to

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achieve short-term targets, but endanger the achievement of the long term goals.

- Performance should be reported honestly and presented effectively: reports, particularly annual reports should be a balanced and candid account of both successes and shortcomings. Explanations and interpretation should be provided; the basis of statistics should be explained and the reports should be comprehensible to the average reader.
  - Performance information should be designed and used to actually improve performance (that is, not used solely for external accountability or control), otherwise it is likely to present a distorted and/or less than complete picture of performance. Similarly, if a separate set of performance information is used for external accountability purposes, there may be a tendency to be biased towards a positive view of performance.
  - Performance measures should not be imposed on a work unit with no opportunity for input. Where measures are imposed, staff are unlikely to use the information to improve performance, often because it does not take into account the realities of the work actually being done.
  - Performance information and its functions should be well understood at all levels. Management should appreciate the need to invest in performance information design, plan for performance data needs, set priorities, ensure timeliness and usefulness and achieve staff ownership and commitment.
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## ATTACHMENT B

### **UK NATIONAL AUDIT OFFICE GOOD PRACTICE CRITERIA WHICH CAN BE ADOPTED IN VALUE FOR MONEY STUDIES OF PERFORMANCE MEASUREMENT AND PERFORMANCE REGIMES**

- There are a handful of key indicators which reflect corporate objectives and encompass core activities and which provide balance across the 3Es including quality of service.
- The performance regime is founded on clearly defined management responsibilities and supporting organisational structure.

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- The financial and management information systems provide timely, accurate identification of full costs and output data for all levels of the organisation.
  
  - Indicators selected are:
    - relevant (linked to core objectives/activities, forward looking and cascaded throughout the organisation);
  
    - comprehensive (reflect all important organisational aspects and fully describe activities serving the needs of a variety of stakeholders);
  
    - bounded (limited in number for each management level);
  
    - consistent (definitions used should be consistent over time and between units); and
  
    - comparable (used to compare like with like).
  
  - Indicators are capable of independent audit.
  
  - Performance achieved at corporate and lower levels meets or better targets; or where there are clear explanations for individual targets missed and where corrective action is taken.
  
  - Performance compares favourably: overtime; with other organisations or units; or against some normative model.
  
  - Performance information is used both for accountability and control purposes and where management analyse performance variances and as a result change strategies or practices, such as resource allocation.
  
  - Analysis of indicators takes account of context and the organisation and its environment and where tension between indicators is seen as desirable, reflecting the complexities of public sector service delivery.
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