

The Auditor-General
Audit Report No.18 2001–2002
Performance Audit

Performance Information in Portfolio Budget Statements

Australian National Audit Office

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Canberra ACT
1 November 2001

Dear Madam 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 this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Performance Information in Portfolio Budget Statements*.

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



P. J. Barrett
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/Glossary

AGSO	Australian Geological Survey Organisation
AMSA	Australian Maritime Safety Authority
ANAO	Australian National Audit Office
ANTA	Australian National Training Authority
AS/NZS ISO 9001:2000	Australian/New Zealand Standard: <i>Quality management systems—Requirements</i>
ATO	Australian Taxation Office
APS	Australian Public Service
Defence	Department of Defence
DETYA	Department of Education, Training and Youth Affairs
DEWRSB	Department of Employment, Workplace Relations and Small Business
DMS	Defence Matters Scorecard
DTRS	Department of Transport and Regional Services
FaCS	Department of Family and Community Services
Finance	Department of Finance and Administration
ISR	Department of Industry, Science and Resources
JCPAA	Joint Committee of Public Accounts and Audit
NOHSC	National Occupational Health and Safety Commission
OHS	Occupational Health and Safety
PAES	Portfolio Additional Estimates Statements
PBS	Portfolio Budget Statements
PM&C	Department of Prime Minister and Cabinet
PQQ	Price, quality and quantity performance indicators
SFPALC	Senate Finance and Public Administration Legislation Committee

Summary and Recommendations

Summary

1. The focus of reforms in the Australian Public Service (APS) over many years has been the establishment of a performance culture supported by clear lines of accountability. The performance, particularly effectiveness, of the APS is now subject to increased levels of scrutiny. Performance information, assessment and reporting are critical tools for monitoring and improving performance.

2. Agencies require a range of performance information for internal program management purposes and external reporting and accountability. It would be expected that information for the latter purposes would be derived from performance information that agencies use for operational and program management. This should also mean that the key performance indicators used for external reporting and accountability purposes would assist management to drive their business towards achieving expected outcomes. Monitoring performance information at any level to determine that appropriate progress is being made to delivering outputs and achieving outcomes should be integrated with routine business management operations.

3. In this environment, the Portfolio Budget Statements (PBS) and annual reports are key accountability documents. The Department of Finance and Administration (Finance) has stated that:

The purpose of the Portfolio Budget Statements (PBS) is to inform Senators and Members of the reasons for inclusions of proposed provisions in Appropriation Bills 1 and 2 or Appropriations (Parliamentary Departments) Bill (No. 2). The major role of the PBS is to explain requests for funds through the Budget Appropriation Bills. The PBS provides sufficient information, explanation and justification to enable Parliament to understand the purpose of each item in the Bill(s) and accrual budgets of the portfolio¹.

¹ Portfolio Budget Statements 2001–2002, Finance and Administration Portfolio Budget Related Paper No. 19.

4. Finance also defined a number of principles underlying the PBS including that:

- the PBS should provide sufficient information, explanation and justification to enable Parliament to understand the purpose of each item proposed;
- information should be reported at an appropriate level, having regard to materiality, parliamentary and public interest;
- the PBS should focus on the performance of agencies; and
- agencies should have the discretion to present their PBS in any format that assures clarity of information, although consistency with the Finance guidelines is important.

5. The primary purpose of the annual report is to provide a means of ensuring accountability to Parliament. As well as serving to inform Parliament through the responsible Minister, it also informs a range of stakeholders, including the public. The annual report is usually prepared on an agency-by-agency basis rather than for an entire portfolio.

6. Guidelines for the development of the PBS and the requirements for the preparation of annual reports are promulgated by Finance² and the Department of Prime Minister and Cabinet (PM&C) respectively. The Joint Committee of Public Accounts and Audit (JCPAA) approves the latter.

7. The current arrangements for a performance framework are based on a government decision in April 1997 to move from a program-based framework to an accrual-based outcomes and outputs framework. The arrangements were introduced for the 1999–2000 PBS.

Audit objective, scope and criteria

8. The objective of the audit was to assess the appropriateness of the performance information in a selection of PBS and annual reports, as well as to assess agency arrangements to identify and collect this information.

9. The ANAO examined the performance information in the 2000–01 PBS and the reporting of performance information in 1999–2000 annual reports which should have been based on performance information included in the 1999–2000 PBS. As well, the ANAO looked at changes in the performance information between the 2000–01 and the 2001–02 PBS to determine the extent of each agency's PBS performance information review processes.

² The Department of Finance and Administration initially defined the requirements for the framework in '*Specifying outcomes and outputs*'. Finance has updated these requirements with the revised arrangements being available on its web site www.finance.gov.au.

10. Ten agencies were included in the scope of this audit. These were chosen to provide a mix of small and large agencies so that areas for improvement and examples of better practice would be relevant to a wide range of public sector organisations. The agencies audited were:

- Australian Geological Survey Organisation (AGSO);
- Australian Maritime Safety Authority (AMSA);
- Australian National Training Authority (ANTA);
- National Occupational Health and Safety Commission (NOHSC);
- Department of Defence (Defence);
- Department of Education, Training and Youth Affairs (DETYA);
- Department of Employment, Workplace Relations and Small Business (DEWRSB);
- Department of Transport and Regional Services (DTRS);
- Department of Family and Community Services (FaCS); and
- Department of Industry, Science and Resources (ISR).

11. The focus of the audit was how the allocation of resources detailed in the PBS was supported by agency performance information and whether this information was used to assess actual results and was appropriately reported in annual reports. The audit did not examine the performance information that agencies use for program management purposes or financial information.

12. The audit criteria were based on a range of sources, including *The Balanced Scorecard—Measures That Drive Performance*³, previous work undertaken by the ANAO, Finance and other Australian and overseas audit offices.

Audit Methodology

13. The audit was undertaken at the national office of each agency and involved detailed reviews of the PBS and annual report for each agency and extensive discussions with program managers and corporate staff with responsibility for the development of PBS performance information and annual reporting. As well as examining the PBS and annual report for each agency the ANAO sought information on the organisational arrangements in place to promote the identification, collection and reporting of valid and reliable data.

³ Kaplan, R.S & Norton, D.P. 1992, *The Balanced Scorecard—Measures That Drive Performance*, Harvard Business Review, January—February 1992.

Overall audit conclusion

14. The ANAO concluded that, overall, performance information in the PBS should be improved to enable agencies to establish and demonstrate the links between outcomes, outputs and performance indicators. Agencies had placed considerable emphasis on developing useful performance information. The latter remains a priority given the importance of using performance information for target setting, performance measurement and for accountability purposes.

15. A common limitation in the performance information in all 10 audited agencies' PBS and annual reports related to effectiveness indicators which did not actually measure outcome performance. In particular, outcome effectiveness indicators were often influenced by factors beyond the agencies' control to a degree that may mask any direct effect that agency performance had on actual achievements. In this context it is important to track overall outcomes achieved across the layers of government and through various partnerships with other agencies, including non-government bodies, as well as the particular contribution made by the specific Commonwealth agency to the outcome to the most practicable extent possible.

16. The ANAO also concluded that it would be difficult for Parliament and other stakeholders to assess agency performance with reasonable assurance. This was because the PBS performance information did not always include targets, or the targets that were provided were often vague and/or ambiguous.

17. As well as these general themes, the ANAO identified and informed agencies of agency-specific issues early in the audit. The latter were dealt with by the relevant agencies during the audit fieldwork. For example, this included DTRS making extensive revisions to its outcome and outputs and performance information for the 2001–02 PBS. As well, Defence was advancing the development of new agency-wide performance information arrangements for the 2002–03 Defence PBS.

18. All 10 agencies audited complied with PM&C requirements for annual reports in that the performance information identified in their PBS was reported in their annual report. However, problems with the performance information in the 1999–2000 PBS, identified by this audit, made it difficult for agencies to reach an informed judgement in relation to their performance in the related annual report.

19. Agencies generally had adequate organisational arrangements to support the PBS performance information and reporting. Quality assurance for PBS data (for example, relating to data validity, reliability

and accuracy) relied on operational areas that, typically, had embedded procedural arrangements such as range and consistency checks. However, in many cases, the current performance information arrangements were developed for internal operational purposes without consideration of the higher accountability PBS requirements. Therefore, minimum PBS data quality standards should be established and monitored to ensure the data supplied to Parliament are valid, reliable and accurate.

Agencies' responses

20. All 10 agencies generally supported the thrust of the report. Indeed, many indicated that they were addressing any limitations with their performance information as a result of the audit findings. FaCS and AMSA particularly noted that the report had provided valuable guidance on performance information. DETYA indicated that the audit report is a very useful contribution to how best to present performance information meaningfully.

Key findings

Assessment of the performance information in the 2000–01 PBS

21. The ANAO found that outcomes specified in the PBS generally had an aspirational element (broad, long-term focus), that would be difficult to measure whether it had been achieved or not. However, the agency outcome statements examined had associated intermediate outcomes and/or supplementary explanation that provided an appropriate basis for the development of practical performance information. As well, outputs generally were appropriate, describing goods and services that contributed to the specified outcomes.

22. The ANAO identified limitations with the performance information in all 10 of the agency 2000–01 PBS reviewed. The most frequent limitation identified was that the effectiveness indicators did not measure outcome performance. Typically, the problem occurred because the effectiveness indicators were influenced by other factors, such as general economic conditions, to a degree that might mask any direct effect that agency performance had on the achievement of the outcome. As well, the specific contribution made by a Commonwealth agency may be difficult to distinguish when other levels of government and non-government bodies are contributing to the joint achievement of effective outcomes.

23. In some instances, the price, quantity and/or quality indicators did not provide a measurement or assessment of the designated characteristic. For example, a number of quantity indicators would actually measure timeliness. Agencies will need to review indicators using the examples given in Table 2.3 to ensure that they are measuring the designated characteristic.

24. Often the PBS performance information did not have targets or the targets that were provided were vague and/or ambiguous. Therefore, it would be difficult for Parliament and other stakeholders to fully assess agency performance against all outcomes with any degree of assurance.

25. Because of the weaknesses in the agency outcomes and output performance information and targets, the ANAO found that it would be difficult for Parliament to determine the extent to which agencies had achieved their outcomes and outputs. It is also difficult to track performance over time towards expected outcomes.

Annual Reports

26. The ANAO found that all 10 agencies audited complied with PM&C requirements which require performance information identified in the PBS to be reported in the annual report. However, the limitations of the performance information in the 1999–2000 PBS made it difficult for agencies to reach an informed judgement in relation to their performance. Therefore, at a minimum, agencies should identify the constraints to the PBS performance information so that Parliament and stakeholders are aware of the data limitations. If an agency has sufficiently developed a new set of performance information, an alternative is the reporting of revised performance information and the mapping of these indicators against those detailed in the equivalent PBS.

27. The adequacy of the presentation of performance information in the 1999–2000 annual reports varied significantly across the agencies audited. Half of the annual reports reviewed by the ANAO provided qualitative information about activities that did not allow a full assessment of the achievement of outcomes and outputs. As well, it was not always evident whether performance was below expectations as targets often were not included in the 1999–2000 annual report. Agencies, therefore, did not identify areas where performance had not achieved the expected performance level. Remedial measures and/or ameliorating factors were rarely identified.

Agencies' review of PBS performance information

28. The ANAO found that all 10 agencies audited had implemented a review process for their performance information and performance information framework. Agencies had continued to refine their performance information and the associated framework in the 2001–02 PBS. The successful review processes identified during the audit were part of a plan with milestones and feedback. This approach seemed to work better than continuous improvement processes which did not lead to significant improvement in performance information or the associated framework. A number of agencies benefited through the provision of specialist advice during this process. The results of reviews were used to identify improved agency performance information and enhance the links between outcomes, outputs and agency strategies. However, the reviews did not address the issue of data quality, which is discussed below.

Organisational arrangements for performance information in the PBS

29. The ANAO found that the 10 agencies audited had suitable organisational arrangements to support the PBS performance information and reporting in that they had provided appropriate executive support for the development and implementation of the outcomes/outputs, performance information arrangements. As well, they had:

- a coordinated approach to the collection, monitoring and reporting of performance information to provide a consistent focus on the desired outcomes and outputs;
- planning arrangements, from the corporate plan through to group business plans and performance agreements, that were linked and focused on the achievement of the designated outcomes and outputs;
- appropriate guidelines and training necessary to provide agency staff with the means to develop the skills necessary to establish a suitable outcomes/outputs framework; and
- appropriate information management arrangements for the collection, collation and monitoring of PBS performance information.

30. Data quality assurance (ensuring validity, reliability and accuracy) for PBS information was, primarily, the responsibility of operational areas that relied on quality checks embedded in procedural arrangements, such as range and consistency checks of data. These arrangements should be improved to include agency-wide data quality assurance. This would assist with sound internal management and external accountability as data validity, reliability and accuracy of performance information is a key consideration for management decisions and in reporting to Parliament.

Recommendations

Set out below are the ANAO's recommendations with the report paragraph reference. Given that there are only three recommendations, the ANAO considers that they should be implemented as soon as practicable.

Recommendation

No. 1

Para No. 2.33

The ANAO recommends that agencies review their performance information to ensure that the effectiveness indicators focus on the agency's particular contribution to a Government policy outcome and that output indicators actually measure the designated characteristic to the extent practicable or provide a suitable assessment of its impact.

AGSO, AMSA, ANTA, NOHSC, Defence, DEWRSB, DTRS, FaCS and ISR response: Agreed. **DETYA:** agreed in principle. As well, the comments provided below were made by agencies in response to the recommendations.

DEWRSB response: The department supports the recommendation. The department reviews its performance information annually prior to preparing the PBS in order to enhance the meaningfulness, coverage and integrity of its performance information.

DETYA response: DETYA supports the recommendation in principle noting that it can be sometimes very difficult to identify the agency's particular contribution in circumstances in which the government is seeking to achieve a policy outcome in concert with another jurisdiction and funds are effectively pooled in achieving that outcome.

DTRS response: The Department of Transport and Regional Services has reviewed its performance information for the 2001–02 fiscal year as recognised in this report. The Department keeps the appropriateness of performance measures under ongoing review.

FaCS Response: FaCS notes the importance of setting effectiveness indicators to describe the contribution that outputs and payments make to achieving the Government's outcome. FaCS is of the view, however, that effectiveness indicators should not be confined to specifying output contributions. In a complex community, with three layers of government and various partnerships with the non-government sector working for the benefit of the community at large, it is important to track overall outcomes as well as the contributions of outputs to inform strategy setting and business planning.

ISR response: The department is continually refining and enhancing its performance information and acknowledges the need to seek continuous improvements regarding effectiveness indicators in establishing stronger links between outputs and outcomes.

**Recommendation
No. 2
Para No. 2.41**

The ANAO recommends that agencies develop appropriate performance targets for the performance information in the PBS (including outcomes and outputs) to ensure that there is a basis for the assessment of performance.

AGSO, AMSA, ANTA, NOHSC, Defence, DETYA, DEWRSB, DTRS, FaCS and ISR response: Agreed. As well, the comments provided below were made by agencies in response to the recommendations.

DEWRSB response: The department supports the recommendation. In its 2001–02 PBS the department has included targets for all output performance indicators. Targets for effectiveness indicators will be considered as part of the review of current effectiveness indicators for inclusion in the 2002–03 PBS.

DTRS response: As recognised in this report the Department of Transport and Regional Services has included performance targets in its performance indicators for many outputs. The department does not consider performance targets appropriate in every case as recognised in paragraph 2.39 of this report.

FaCS response: FaCS is of the view that target setting is an important element of policy development and business planning. Rigid requirements for publishing targets would likely encourage micro-level performance information which would detract from the overall picture provided for external stakeholders.

FaCS makes a distinction between targets and estimates and will continue to forecast activity estimates against quantifiable performance indicators where practical.

ISR response: ISR recognises the need to set targets but is conscious of the risk of setting targets arbitrarily. As a result, ISR is currently undertaking an internal exercise examining target setting. It is envisaged that ISR will report targets externally on a progressive basis as targets are determined to be suitable.

**Recommendation
No. 3
Para No. 5.31**

The ANAO recommends that, to ensure the validity, reliability and accuracy of information used internally for management purposes as well as being provided to Parliament, agency-wide quality assurance processes for performance information should be established.

AGSO, AMSA, ANTA, NOHSC, Defence, DETYA, DEWRSB, DTRS, FaCS and ISR response: Agreed. As well, the comments provided below were made by agencies in response to the recommendations.

DEWRSB response: The department supports the recommendation. The department proposes to implement quality assurance processes that reflect good risk management practice, minimising the workload impact within the department.

DTRS response: The Department of Transport and Regional Services is currently reviewing its internal arrangements for monitoring performance information, including performance information to be used in Portfolio Budget Statements.

ISR Response: ISR agrees with the importance of ensuring information is valid, reliable and accurate.

ISR undertook a review of its outcomes outputs performance reporting framework during 1999–2000 and implemented a new performance structure in 2000–01. Changing the internal structure of the framework caused an information lag. However, as a result of having collected data for a full financial year under the new structure, ISR is now in a position to undertake a quality assurance audit of the performance information obtained.

Audit Findings and Conclusions

1. Introduction

This chapter sets out the background to the audit, its objectives, scope and methodology. It also outlines the structure of the report.

Background

1.1 The focus of reforms in the Australian Public Service (APS) over many years has been the establishment of a performance culture supported by clear lines of accountability. The performance, particularly effectiveness of the APS is now subject to increased levels of scrutiny. Performance information, assessment and reporting are critical tools for monitoring and improving performance.

1.2 Agencies require a range of performance information for internal program management purposes and external reporting and accountability. It would be expected that information for the latter purposes would be derived from performance information that agencies use for operational and program management. This should also mean that the key performance indicators used for external reporting and accountability purposes would assist management to drive their business towards achieving appropriate outcomes. Monitoring performance information at any level to determine that appropriate progress is being made to delivering outputs and achieving outcomes should be integrated with routine business management operations.

1.3 There are two principal formal accountability mechanisms for each government portfolio. These are:

- Portfolio Budget Statements (PBS); and
- annual reports.

1.4 The Department of Finance and Administration (Finance) has stated that:

The purpose of the Portfolio Budget Statements (PBS) is to inform Senators and Members of the reasons for inclusions of proposed provisions in Appropriation Bills 1 and 2 or Appropriations (Parliamentary Departments) Bill (No. 2). The major role of the PBS is to explain requests for funds through the Budget Appropriation Bills. The PBS provides sufficient information, explanation and justification to enable Parliament to understand the purpose of each item in the Bill(s) and accrual budgets of the portfolio⁴.

⁴ Portfolio Budget Statements 2001-2001, op.cit.

1.5 Finance also defined a number of principles underlying the PBS. These included that:

- the PBS should provide sufficient information, explanation and justification to enable Parliament to understand the purpose of each item proposed;
- information should be reported at an appropriate level, having regard to materiality, parliamentary and public interest;
- the PBS should focus on the performance of agencies; and
- agencies should have the discretion to present their PBS in any format that assures clarity of information, although consistency with the Finance guidelines is important.

1.6 As well as the PBS, agencies also present Portfolio Additional Estimates Statements (PAES) to inform Senators and members of the reasons for inclusion of proposed provisions in Appropriation Bills 3 and 4. The PAES is prepared by each agency for annually appropriated items. They also contain any revisions to outcomes and outputs where necessary.

1.7 The primary purpose of the annual report is to provide a means of ensuring accountability to Parliament. As well as serving to inform Parliament through the responsible Minister, it informs a range of stakeholders, including the public. The annual report is prepared on an agency-by-agency basis rather than for an entire portfolio.

1.8 Guidelines for the development of the PBS and the requirements for the preparation of annual reports are promulgated by Finance and the Department of Prime Minister and Cabinet (PM&C) respectively. The Joint Committee of Public Accounts and Audit (JCPAA) approves the latter. Summaries of the Finance framework and key elements of annual report requirements are at Appendices 1 and 2 respectively.

1.9 The current arrangements for a performance framework are based on a government decision in April 1997 to move from a program-based framework to an accrual-based outcomes and outputs framework. The arrangements were introduced for the 1999–2000 PBS.

The audit

Audit objective

1.10 The objective of the audit was to assess the appropriateness of the performance information in a selection of PBS and annual reports as well as agency arrangements to identify and collect this information.

Scope and focus

1.11 The ANAO examined the performance information in the 2000–01 PBS. The ANAO also examined the reporting of performance information in 1999–2000 annual reports which should be based on performance information included in the PBS 1999–2000. As well, the ANAO reviewed changes in the performance information between the 2000–01 and the 2001–02 PBS to determine the extent of each agency’s PBS performance information review processes.

1.12 Ten agencies were included in the scope of this audit. These were chosen to provide a mix of small and large agencies so that areas for improvement as well as examples of better practice would be relevant to a wide range of public sector organisations. The agencies audited were:

- Australian Geological Survey Organisation (AGSO).
- Australian Maritime Safety Authority (AMSA);
- Australian National Training Authority (ANTA);
- National Occupational Health and Safety Commission (NOHSC);
- Department of Defence (Defence);
- Department of Education, Training and Youth Affairs (DETYA);
- Department of Employment, Workplace Relations and Small Business (DEWRSB);
- Department of Transport and Regional Services (DTRS);
- Department of Family and Community Services (FaCS); and
- Department of Industry, Science and Resources (ISR).

1.13 The focus of the audit was how the allocation of resources detailed in the PBS was supported by the performance information and whether this information was used to assess actual results and was reported in annual reports. The audit did not examine the performance information that agencies use for program management purposes or financial information.

Criteria

1.14 The audit criteria were based on a range of sources, including *The Balanced Scorecard—Measures That Drive Performance*⁵, previous work undertaken by the ANAO and other Australian and overseas audit offices⁶ and Finance⁷.

⁵ Kaplan, R.S. & Norton, D.P., op.cit.

⁶ Among others, Auditor General (Western Australia); The Controller and Auditor General (New Zealand); National Audit Office (United Kingdom); and The United States General Accounting Office.

⁷ The Department of Finance and Administration *Specifying outcomes and outputs*, op. cit.

1.15 In particular, the issues examined included:

- performance information included in the PBS for 2000–01;
- information included in the annual report for 1999–2000 and its relationship to expected performance as set out in the PBS for that year;
- changes in performance information in the 2001–02 PBS;
- organisational arrangements that agencies have in place to ensure the collection of the relevant information for inclusion in the annual report; and
- data quality assurance.

Audit methodology

1.16 The audit was undertaken at the national office of each agency and involved detailed reviews of the PBS and annual report for each agency and extensive discussions with program managers and corporate staff with responsibility for the development of PBS performance information and annual reporting. As well as examining the PBS and annual report for each agency the ANAO sought information on the organisational arrangements in place to promote the identification, collection and reporting of valid and reliable data. Detailed papers were provided to all agencies as the examination of their arrangements was completed. Agencies were given the opportunity to respond to these and many indicated that the issues raised by the ANAO are being addressed.

1.17 Information collected during the course of this audit will be used to develop a Better Practice Guide which will be available in 2002.

Operating environment

1.18 The Government has emphasised performance information as an integral part of its public management reforms with the main objective being to improve accountability and results. The move to an accrual-based outcomes/outputs framework was designed to ensure a focus on:

resource management with an emphasis on measuring performance, in terms of what is being produced, what is being achieved and what is the cost of individual goods and services...⁸.

⁸ Department of Finance and Administration, July 1999, *Review of Budget Estimates Production Arrangements*. (The Vertigan Report).

1.19 The first PBS for government portfolios using this framework were prepared for the 1999–2000 budget. As with any new, complex framework, not all the elements can be immediately established satisfactorily. As well, agencies have faced, and are likely to continue to face, a changing operating environment which makes identifying sound performance information, measuring and reporting against it an ongoing task. If performance information is used internally for management purposes and accountability then staff recognise its importance and are likely to see the value of refining information to better meet their ongoing needs, and thereby improve its usefulness for external reporting. Under the devolved environment within the Commonwealth that is legislated by the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*, agency Chief Executive Officers are responsible for the management of their respective agencies, including the compliance with the ‘Outputs and Outcomes’ management and reporting framework. Finance provides guidance to assist agencies in this regard, although this guidance is not intended to represent specific rules or criteria, which are either comprehensive or compulsory. Furthermore, the application of this guidance will vary from agency-to-agency.

1.20 The changing environment means that it can be difficult for agencies to stabilise their performance information and measuring practices in order to offer a consistent view of performance which allows comparisons over time. Despite the need for consistency in measurement and reporting, changes may be needed to improve the performance information or to take account of new responsibilities. Agencies are therefore faced with balancing the need to develop better performance information against Parliament’s need for consistent information to allow assessment to be made regarding improvements (or reductions) in agencies performance over time. Generally, any difficulties in this context can be overcome by providing a reconciliation between the new and former performance measures.

1.21 There are limitations of space in the PBS and annual report. Agencies therefore need to focus on important issues such as expected outcomes and their related achievements rather than listing activities or describing processes. In this way agencies will be better able to provide the information that Parliament, its committees and other stakeholders want to know within space and cost effectiveness parameters.

1.22 As noted by the Senate Finance Public Administration Legislation Committee (SFPALC), providing useful reports poses other problems given the dynamic environment and the fact that the PBS is forward-looking and the annual report is retrospective. By the time the annual report is tabled in Parliament it may be some 18 months after the performance indicators included in the PBS were established. The Committee suggested that agencies make more information available publicly (such as on their individual websites) relating to performance against indicators in the PBS prior to the tabling in Parliament of the annual report to address this problem.

1.23 The challenge for all agencies is to provide useful information that assists decision making and accountability both internally and externally.

Other reviews

1.24 The ANAO has examined performance information in a range of audits. As well as this cross portfolio audit the following Auditor General's Reports have been published:

- *Australian Taxation Office (ATO) Performance Reporting under the Outcomes and Outputs Framework*, Audit Report No.46, June 2001; and
- *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust*, Audit Report No.43, June 2001.

1.25 The ANAO is also undertaking a cross agency audit of the *Development of Social Policy Advice* that addresses performance information issues. It is expected that this audit will be tabled later in 2001. A Compliance Assessment Audit of annual reports is also planned in the next year.

1.26 The SFPALC has undertaken reviews of performance information in the PBS. The most recent report, *The Format of Portfolio Budget Statements*, November 2000 highlighted a number of areas for improvement. These are summarised in Appendix 3 and are discussed where relevant in this report.

1.27 As well, the Joint Committee of Public Accounts and Audit has been undertaking a Review of the Accrual Budget Documentation during 2001 with the aim of reviewing the effectiveness of and options for enhancing the format and content of, the current budget documentation including the Portfolio Budget Statements, Annual Reports and the Portfolio Additional Estimates Statements, for the purpose of Parliamentary Scrutiny.

The report

1.28 Chapter 2 assesses performance information in the agency 2000–01 PBS. Chapter 3 examines reporting against PBS performance information in the annual reports. Chapters 4 and 5 discuss arrangements agencies had in place to review performance information and agency organisational arrangements for establishing and collecting performance information for the PBS.

1.29 This audit report highlights better practices that are relevant to the Australian Public Service as a whole. As well, during the audit, discussion papers that identified agency-specific issues were provided to the 10 agencies audited. In particular, the better practices in the report and discussion papers provided to the agencies address the concerns that were highlighted by the SFPALC in its report, *The format of Portfolio Budget Statements—third report*, November 2000, in relation to the quality of performance information and targets.

2. Assessment of Performance Information in the Agency 2000–01 PBS

This chapter examines performance information in the agencies' 2000–01 PBS. In particular it examines the agencies' outcomes, outputs, targets and strategies, as well the structure of agencies' performance information.

Introduction

2.1 Each Commonwealth agency is required to provide Parliament with sufficient information in its PBS *'to explain its resourcing and proposed performance in relation to outcomes and outputs'*⁹. This information must cover administered¹⁰ and departmental¹¹ moneys. Against this broad framework agencies are required to:

- develop outcomes that describe the impact that the Government expects and provide a basis to determine if agency outputs and related strategies have led to the achievement of that outcome;
- develop outputs that describe goods and services that contribute to the outcome;
- clearly define strategies that lead to the achievement of outcomes/ outputs;
- have performance information that demonstrate how, and to what extent, strategies have lead to the achievement of outcomes and outputs; and
- establish targets that enable the assessment of performance for external accountability purposes.

⁹ Department of Finance and Administration, March 2000, *Guidelines for the preparation of Portfolio Budget Statements 2000–01*.

¹⁰ The Finance Commonwealth Budget Glossary defines administered items as revenues, expenses and liabilities which are:

- controlled by the Government; and
- managed by an agency or authority on behalf of the Government.

Administered revenues, expenses and liabilities include, among other things, subsidies, grants and benefit payments.

¹¹ Departmental items are defined in the Finance Commonwealth Budget Glossary as resources directly controlled by agencies, including salaries and allowances. Such resources are used to produce outputs on behalf of the Government, including outsourced activities funded and controlled by the agency.

2.2 The findings in this chapter are based on an assessment of a representative sample of outcomes, outputs and associated performance information from the 2000-01 PBS against each of the above criterion for each of the 10 agencies audited. The detailed specific criteria used to assess the individual components of the framework are included under the relevant headings. The criteria are based on the guidelines set by Finance¹².

2.3 The ANAO particularly focused on better practices so that other agencies can benefit from these examples. Appendix 4 has details of the specific outcomes/outputs selected for review for the 10 agencies included in the audit.

Outcomes

2.4 Outcome statements define the impacts government expects from the work an agency undertakes and the administered items it manages. They provide the basis for developing departmental outputs which are all required to contribute, directly or indirectly, to the achievement of a specified outcome. As well, outcomes should provide the Parliament and other stakeholders with a clear statement of the broad goals of the government and its agencies.

2.5 The ANAO examined outcomes developed by the agencies audited¹³ to determine whether they:

- focused on the result the Government is seeking;
- provided a base for the formulation of indicators that measure the degree to which actual agency outputs contribute to the achievement of the desired outcome. That is, the effectiveness of the agency strategies;
- were stated in a way that allows the relevant target group(s) to be identified;
- were capable of being measured; and
- were clearly and succinctly defined.

2.6 Table 2.1 summarises the ANAO's findings against the above criteria.

¹² The Department of Finance and Administration *Specifying outcomes and outputs*, op. cit.

¹³ Outcomes are generally developed by departments and are then endorsed by the Ministers.

Table 2.1**Review of agency 2000–01 outcome statements**

Agency	Criteria					Comment
	focus	effectiveness	target	measurable	succinct	
AGSO	P	P	✓	✓	✓	<p>The outcome statement, <i>Enhanced potential for the Australian community to obtain economic, environmental and social benefits through the application of first class research and information</i>, is broad and is not conducive to establishing a practical basis for effectiveness indicators or measurement.</p> <p>AGSO identifies three intermediate outcomes in the AGSO 2000–01 Work Program (for example, <i>improved resource management and environmental protection</i>) that are more readily linked with the outputs. These intermediate outcomes are not, however, clearly identified in the PBS. Clearly identifying these intermediate outcomes in the PBS would improve links between outcomes and outputs.</p>
AMSA	✓	✓	✓	✓	✓	<p>AMSA used the Portfolio outcome, <i>Linking Australia through transport and regional services</i>, along with a number of more specific intermediate outcomes (for example, <i>a safe maritime environment</i>). The outcome and intermediate outcome, together, provide a useful way to link to outputs and strategies.</p>
ANTA	P	P	✓	✓	✓	<p>The outcome statement, <i>To ensure that the skills of the Australian labour force are sufficient to support internationally competitive commerce and industry and provide individuals with opportunities to optimise their potential</i>, is, to a degree, aspirational and vague. The extent to which the labour force is sufficiently skilled to support internationally competitive commerce and industry is subjective, as is the optimisation of an individual's potential. It is suggested that the themes in the ANTA Plan, such as the <i>National Training Framework</i>, could be included in the PBS as intermediate outcomes to enable ANTA to better link outcomes, outputs and strategies.</p>
NOHSC	✓	✓	✓	✓	✓	<p>NOHSC has appropriate outcomes. For example, <i>Australian workplaces free from injury and disease</i>.</p>

Agency	Criteria					Comment
	focus	effectiveness	target	measurable	succinct	
Defence	✓	✗	✓	✓	✓	Links with outputs and strategies and the development of effectiveness indicators are inhibited because the outcome, <i>The prevention or defeat of the use of armed force against Australia and its interests</i> , is unlikely to be tested in the short-term. The Defence outcome has been revised for the 2001-02 PBS and it is now, <i>The defence of Australia and its national interests</i> . However, the revised outcome also does not provide a basis against which effectiveness indicators can be tested in the short-term. As part of the development of the Defence Matters Scorecard (Appendix 4), Defence has begun implementing improved procedures for identifying and pursuing its strategic priorities. This includes using strategic mapping initiative to develop a strategy focussed scorecard. The first iteration of this process has been implemented for 2001-02 and is the basis against which Defence is managing its internal performance.
DETYA	✓	✓	✓	✓	✓	Some of the outcomes include aspirational elements that could be difficult to measure. However, each outcome has a core that enables it to be linked with outputs and strategies. For example, <i>Post school education and training providers assist individuals achieve relevant skills and learning outcomes for work and life</i> . While <i>learning outcomes for ...life</i> is aspirational, other parts of the outcome can be linked with outputs and strategies.
DEWRSB	✓	✓	✓	✓*	✓	The terms efficient and equitable in the outcome statement, <i>An efficient and equitable labour market that links people and jobs and promotes the transition from welfare to work</i> , are subjective. However, overall, there is a core of information in the outcome statement and the PBS to provide a basis for measurement. For example, 'the transition from welfare to work' is an explicit outcome that is measurable.

Agency	Criteria					Comment
	focus	effectiveness	target	measurable	succinct	
DTRS	✓	✖	✓	✖	✓	The DTRS outcome for 2000–01, <i>Linking Australia through transport and regional services</i> , does not provide a basis for effectiveness indicators. However, the outcome statement was changed to the 2001–02 PBS to more clearly identify separate outcomes for the transport and regional service aspects of the department's operations. For example, the part of the outcome statement relating to transport, <i>a better transport system</i> , provides a basis on which effectiveness measures such as airport noise amelioration or improved road safety can be developed.
FaCS	✓	✓	✓	✓	✓	The outcomes include aspirational elements that could make measurement difficult, for example, Outcome 1: <i>Stronger families</i> . However, FaCS is able to develop effectiveness measures because, associated with the outcome is an explicit definition of the outcome. For Outcome 1, this definition states, <i>families, young people and students have access to financial assistance including assistance with childcare costs and family support and child care services</i> .
ISR	✓	P	✓	✓*	✓	It is possible to measure, <i>a stronger, sustainable and internationally competitive Australian industry...</i> (ISR Outcome 1). However, it would be difficult for ISR to assess its specific contribution to the outcome. ISR has addressed this issue in the Annual Report by providing additional narrative in support of the outcome effectiveness indicators and identifying the link between outputs and outcomes.

P Partially satisfied

✓ Satisfactory

✓* Criterion was largely, but not entirely, satisfied

✖ Unsatisfactory

2.7 Most of the outcomes reviewed had an aspirational element (broad, long-term focus) that would be difficult to measure. However, the agencies were also including intermediate outcomes and/or further explanatory text that, together with the outcome statement, largely provided a useful base for the development of linked outputs and

strategies. The aspirational element of the outcomes served a purpose, in that, it provided an outline of an agency's strategic objective.

2.8 Case study 2.1 provides two examples from the 2000-01 PBS that demonstrate how the outcomes developed by NOHSC and FaCS provide a basis for the outputs to be delivered and related performance information.

Case Study 2.1

NOHSC outcome 1: *Australian workplaces free from injury and disease.*

The outcome:

- provides a focus for the results that the Government is seeking to achieve. The aspirational element (*freedom from injury...*) is useful, in this instance providing a strategic objective and basis for output targets;
- provides a starting point for the development of outputs and strategies;
- identifies target groups (workers by implication);
- is capable of being measured; and
- is succinct.

FaCS outcome 1: *Stronger families*

Further explanatory text: *Families, young people and students have access to financial assistance with childcare costs, family support and child care services.*

The FaCS approach provides an example of the appropriate use of an explanation of outcomes to better define what is to be achieved.

The outcome provides a strategic objective, but insufficient information to link the outcome, outputs and strategies. However, the explanation of the outcome provides a sounder base for the development of outputs and strategies.

Outputs

2.9 Outputs should lead to the designated outcomes and provide a basis for effectiveness indicators. Outputs and their users are defined by Finance¹⁴ as being:

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 (for example, the national interest). A client, in other words, can be anyone outside the agency who benefits from the work of the agency.

¹⁴ The Department of Finance and Administration *Specifying outcomes and outputs*, op. cit.

2.10 The ANAO examined a sample of outputs in the 10 agencies audited to determine whether they:

- described goods or services provided to external individuals or organisations. They should express clearly and succinctly what is to be produced rather than how goods or services are produced;
- could be mapped to the agency's organisational structure and management systems;
- contributed to the specified outcome (the contribution should be identified);
- were fully or partially controlled by the agency, either directly or through contractual arrangements with third parties; and
- covered all departmental expenses and administered items.

2.11 Table 2.2 summarises the ANAO's findings against the above criteria.

Table 2.2

Review of agency 2000–01 outputs

Agency	Criteria						Comment
	output description	relates to agency structure	contributes to outcome	agency control of output	range of activities covered	cover departmental and administrative items	
AGSO	✓	✓	✓	✓	✓	✓	AGSO outputs describe goods and services for external parties. AGSO has broad primary outputs. For example, <i>geoscientific research and information</i> and the more specific sub-outputs. For example, <i>minerals exploration promotion and technical advice</i> .
AMSA	✓	✓	✓	✓	✓	✓	AMSA has appropriate outputs/sub-outputs. For example, <i>ship and ship operations safety program</i> and <i>safety and environmental standards for responsible ship operation</i> . AMSA has developed a clear, structured and integrated planning and reporting framework that reflects management arrangements in the agency.
ANTA	✓	P	P	✓	✓	✓	ANTA has appropriate outputs. For example, <i>to achieve the deliverables in the national key result areas of the Annual National Priorities</i> . An understanding of the ANTA outputs requires reference to the ANTA Business Plan. This should be specified early in the PBS or the additional information provided within the same document.

Agency	Criteria						Comment
	output description	relates to agency structure	contributes to outcome	agency control of output	range of activities covered	cover departmental and administrative items	
NOHSC	x	✓	✓	✓	✓	✓	The outputs describe functions rather than specific outputs. For example, <i>improving national data systems and analysis</i> . These should be modified so that they describe goods and services such as a data system. NOHSC advised that its output descriptions were being reviewed.
Defence	✓	✓	✓	✓	✓	✓	For each primary output, Defence has a number of sub-outputs. For example, the output, <i>navy capabilities</i> , has seven sub-outputs. Appropriate outputs, however, should be developed for administered expenses that were not identified in the 2000-01 PBS (\$1.8b funding allocation, mainly associated with pensions).
DETYA	✓	✓	✓	✓	✓	✓	DETYA has outputs for administered expenses and departmental items. For each departmental output group, DETYA has generic sub-outputs to facilitate the comparison of performance information for these items for the different output groups. For example, for the output group, <i>infrastructure funding for schools</i> , DETYA has the generic sub-outputs, <i>administration</i> and <i>policy advising</i> .
DEWRBSB	✓	✓	✓	✓	✓	✓	DEWRBSB has appropriate outputs and sub-outputs for administered expenses and departmental items. For example, for the output, <i>labour market policies and analyses</i> there are the sub-outputs, <i>policy advice</i> and <i>research and evaluation</i> . Generic outputs for departmental items facilitate the comparison of performance information for these items for the different output groups.
DTRS	✓	x	✓	✓	✓	✓	The output structure in the 2000-01 PBS does not clearly relate to discrete areas of the department's organisational structure. However, DTRS has appropriately addressed this issue in its 2001-02 PBS by developing an output framework that is directly linked to the outcome and organisational areas.

Agency	Criteria						Comment
	output description	relates to agency structure	contributes to outcome	agency control of output	range of activities covered	cover departmental and administrative items	
FaCS	✓	✓	P	✓	✓	✓	FaCS has appropriate outputs for administered expenses and departmental items. However, these have not been described in terms that define the contribution to the nominated outcome. For example, <i>family assistance</i> and <i>youth and student support</i> .
ISR	P	✓	✓	✓	✓	P	Some of the outputs do not describe goods and/or services. For example, the Output 1.1, <i>strategic industry leadership</i> , is aspirational and resembles an outcome, as opposed to an output. This type of output should be redefined so that they describe goods and/or services. For the example given, goods and/or services that are involved in delivering strategic industry leadership. As well, some outputs include departmental items and administered expenses. The ANAO considers that ISR should separately define outputs for departmental items and administered expenses.

P Partially satisfied

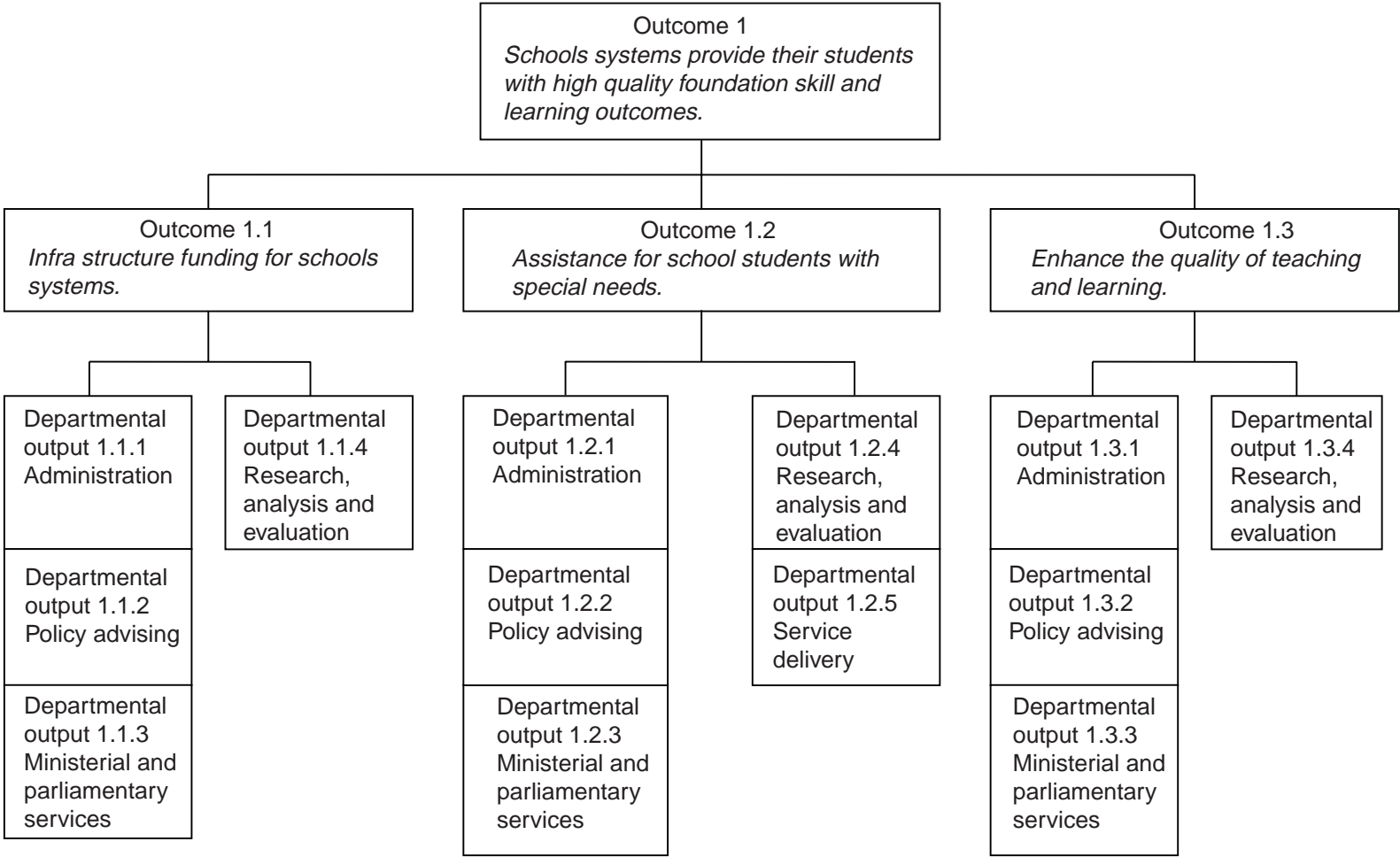
✓ Satisfactory

✗ Unsatisfactory

2.12 The outputs reviewed largely met the criteria listed in Section 2.10. The DETYA 2000–01 PBS demonstrates better practice in relation to the framework for departmental outputs. The PBS has the listed generic sub-outputs (administration, policy advising) that allows these items to be compared across the output groups and these set out in case studies 2.2 and 2.4 on the following pages.

Case Study 2.2

Outcome/output structure from the DETYA 2000–01 PBS



Strategies

2.13 Agencies should have clearly defined strategies which identify the means to achieve its outcomes and outputs. The ANAO, therefore, examined the agencies' PBS and other information provided, including information available on the agency website, to determine whether they had clearly defined strategies to achieve their outcomes and outputs. An examination of the efficacy of the strategies was beyond the scope of this audit. However, the discussion below addresses the general issue of linking of outcomes, outputs and strategies so that the focus is on the achieving of outcomes. As well, the following discussion provides an example of formal processes to link strategies and resource allocation in Defence (paragraphs 2.15–17); and specific examples of the clear definition of strategies and the use of performance information, including effectiveness measures that enable an assessment of the strategies.

2.14 The ANAO found that information on agency strategies was available in the PBS for all 10 agencies audited. Parliament and the public could also get additional information on strategies from the agencies and, generally, much of this additional information was on the agency website. Typically, agency annual reports provided the website address and advice on how additional information could be obtained.

2.15 The 2000–01 Defence PBS includes some advice on objectives and strategies (for example, *Priorities for 2000–01*), but it lacks clear links between strategies, outputs and the Defence outcome.

2.16 The 2001–02 PBS however, included information on the Government's strategic objectives and priorities based on the Government's Defence 2000 White Paper. This included a summary of key risks and mitigation strategies, as well as an outline of the Government's strategic initiatives to be pursued by Defence over the coming decade. Defence advised this may be further improved for 2002–03 in parallel with the improved internal procedures in Defence for identifying and pursuing strategic priorities. This includes using a strategic mapping initiative to develop a strategy focussed performance scorecard.

2.17 The security classification of many of Defence's strategies prevents their publication. Defence should determine what further information it could provide that would give greater transparency between strategies and outputs and the contribution they make to the Defence outcome.

2.18 Defence has recognised that it is essential that strategies and resource allocations be directly linked. For this reason, concurrently with the implementation of the Defence Matters Scorecard¹⁵ (DMS), Defence is developing the whole-of-Defence Strategy Map. Defence advised that the Defence Matters scorecard, the performance reporting view of Defence's strategy, will measure non-financial and financial performance consistently across Defence.

2.19 The Defence Strategy Map and DMS will be cascaded through the Services and Groups to align all of Defence's activities to the strategies. The department has advised this work will take place in the first two quarters of financial year 2001-02 in readiness for the development of a strategy-focussed budget for 2002-03.

2.20 AMSA provides a good example of the clear definition of, associated performance information and effectiveness measures that demonstrate the efficacy of the strategies in its 2000-01 PBS. AMSA has defined a number of strategies that describe its role in search and rescue coordination. Specifically, strategies associated with:

- providing a 24 hour search and rescue coordination centre and safety communications network; and
- provide trained and equipped search and rescue (SAR) response assets.

2.21 AMSA has specific information on these strategies and detailed quantitative effectiveness information that enables an understanding of the application of these strategies and the effectiveness of the strategies.

2.22 Case study 2.3 provides a better practice example from the DEWRSB PBS of how the agency has linked outcomes, outputs and strategies.

¹⁵ Appendix 4 has more information on the DMS.

Case Study 2.3

DEWRSB has structured its presentation of information in the PBS so that links are identified between strategies, outcomes, outputs and groups responsible for the implementation of the strategies and partner groups.

Outcome 1: *An efficient and equitable labour market that links people to jobs and promotes the transition from welfare to work*

Key departmental outputs for output group 1.1:

- *Labour market policy and analysis; and*
- *Labour market program management and delivery.*

Strategies: Taking *labour market policy and analysis* as an example, DEWRSB identified the following strategies:

- employment and welfare to work policy;
- conducting labour market research and analysis; and
- providing information, education and communication services.

DEWRSB contributing groups (that is, groups directly involved in the implementation of the strategy):

- Labour Market Policy (Group); and
- State offices.

DEWRSB partner groups:

- Workplace Relations Policy and Legal;
- Job Network; and
- Targeted Employment Assistance and Infrastructure.

The formal linking of outcomes, outputs and strategies ensures that all outcomes and outputs have related strategies that should contribute to their achievement. As well, the assignment of responsibilities ensures that operational areas are aware of their responsibilities in relation to the implementation of strategies and achievement of outcomes and outputs.

Performance information and links between outcomes, outputs and strategies

2.23 Performance information is evidence about performance that is collected and used systematically. It is collected for internal management and control purposes and to meet external accountability requirements. This section focuses on performance information for external accountability.

2.24 Externally, accountability requires performance information that assists Parliament and the public to assess performance and, in particular, identify links between outcomes, outputs and strategies. Finance guidelines¹⁶ require performance indicators to reflect the:

- effectiveness of contributions to outcomes;
- price, quality and quantity (PQQ) of outputs; and
- characteristics of relevant administered items.

¹⁶ The Department of Finance and Administration *Specifying outcomes and outputs*, op. cit.

2.25 The ANAO examined performance information associated with the outputs identified in Table 2.2 to determine whether the performance information met these criteria.

2.26 Based on this assessment of the performance information and the previous assessments of the outcomes, outputs and strategies, the ANAO looked at how, and to what extent, agencies had demonstrated that strategies could lead to the achievement of outcomes and outputs.

2.27 Table 2.3 summarises the ANAO's findings against these criteria.

Table 2.3

Review of performance information in agency 2000–01 PBS

Agency	Criteria		Comment
	Effectiveness indicators	Price, quality and quantity indicators	
AGSO	P	×	Some of the effectiveness indicators developed by AGSO (for example, <i>new exploration companies entering Australia</i>) provide an insight into AGSO's performance but are significantly influenced by other factors such as the state of the international economy and mineral prices. Therefore, as appropriate, these indicators need to be supplemented with effectiveness information based on the outcomes of AGSO project work. Some quantity indicators do not measure quantities. For example, the indicator, <i>all projects delivered on or ahead of schedule</i> , is a measure of timeliness. These indicators are useful, but should be reclassified and appropriate quantity measures developed. As well, some price measures are project cost, not output price as required. Appropriate output price indicators should be developed.
AMSA	✓*	P	AMSA should develop more objective effectiveness indicators or appropriate protocols for indicators such as: <i>a high quality safety regulatory framework</i> to make them less subjective. Appropriate protocols would define specifically what question(s) should be asked and who should provide an opinion on the safety regulatory framework. Some quality and quantity indicators describe functions not goods and services. For example, <i>Participation in the development of the National Standard for Commercial Vessels</i> . Performance information at this level may not be necessary for the PBS or, alternatively, AMSA may identify an appropriate output for the activity.
ANTA	✓	P	As detailed in Table 2.1, ANTA could better demonstrate the effectiveness of its strategies if it had more intermediate outcomes that provided a better focus for strategies. However, in relation to the outcome, ANTA makes available to the Parliament and the public in its Annual National Report (Volume 3) information on <i>Key Performance Measures</i> . This is a better practice, in that, it improves the transparency of its operations. However, price information for departmental expenditures is not available at the output level. Transparency, therefore, could be increased if the price was attributed to the output areas. The final decision on whether to do this is dependent on the relative cost benefit of attribution.

Agency	Criteria		Comment
	Effectiveness indicators	Price, quality and quantity indicators	
NOHSC	✗	P	NOHSC has identified, as effectiveness indicators, goals in the <i>National OHS Improvement Framework</i> . Data collection procedures, however, have not been implemented for these indicators, along with those for some quality indicators (for example, related to client satisfaction). NOHSC advised that it is addressing these concerns.
Defence	P	✗	<p>Defence effectiveness measures do not cover all aspects of its operations. For example, Defence recruitment and retention rates are an important issue not covered in the PBS. Some quality and quantity indicators are not clearly described because of the use of jargon. For example, <i>tempo of command</i>. As well, some indicators are incorrectly classified. For example:</p> <ul style="list-style-type: none"> • <i>tempo of command</i> is included as a quantity indicator, whereas, it could more correctly be described as a quality indicator; and • asset counts (the number of specific aircraft). <p>Another issue is Defence price indicators that relate to the primary outputs and range in size from \$0.7b to \$5.3b. Transparency would be improved if prices were established at the sub-output level. These issues make it difficult to get a strategic overview of Defence from the performance information provided. However, the ANAO notes that Defence intends to address these concerns in the 2002–03 PBS with the implementation of the <i>Defence Matters Scorecard</i> that is described in Appendix 4.</p>
DETYA	✓	✓	<p>DETYA has recognised that its effectiveness indicators for the 2000–01 PBS:</p> <ul style="list-style-type: none"> • do not measure its own performance directly, for example <i>educational attainment of adult population (aged 15–64)</i>; or • while relevant, are significantly influenced by other factors, for example, <i>Year 12 retention rate</i>, which would be strongly influenced by factors such as employment rates. <p>These indicators are useful in that they provide a long-term view of educational issues. DETYA's effectiveness is determined by the extent to which it can influence other parties to achieve jointly agreed goals. DETYA has adopted an approach involving the development of national indicators that focus on outcomes achieved across levels of government and with other partners. For example, in Outcome 1 the National Goals of Schooling set overall goals and national performance measures are progressively being put in place collaboratively to assess progress toward these goals. This has been achieved in regard to literacy and numeracy benchmarks with other education areas to follow. DETYA has improved the transparency of its performance by providing PQQ information for generic operations as described previously in Case Study 2.2.</p>

Agency	Criteria		Comment
	Effectiveness indicators	Price, quality and quantity indicators	
DEWRSB	P	P	Some effectiveness indicators developed by DEWRSB are not clearly defined and may not measure its performance. For example, <i>impact of Jobsearch system in connecting job seekers with vacancies</i> . It was noted that Jobsearch listings and activity levels were included in the 1999–2000 PBS against this indicator. This type of indicator is a process measure, not an effectiveness measure. Some of the quality indicators measure another aspect of performance, but not quality. An example of this is <i>participation of job seekers in programs and services through Job Network as compared to targets</i> . This is an activity indicator rather than a quality measure.
DTRS	P	P	At the time of the ANAO fieldwork DTRS did not have effectiveness indicators for the outputs reviewed (Output group 3.1, 2000–01 PBS). Therefore, this aspect of performance was not assessed. As well, DTRS had a large number of indicators and this inhibited the capacity of the ANAO to obtain a strategic view of performance. However, DTRS made considerable changes to performance information in its 2001–02 PBS to address the issues raised above. For example, the 2001–02 PBS has and more strategically focussed performance indicators.
FaCS	✓	✓*	FaCS provided several sub-categories of effectiveness performance information, for example, for the Family Tax Benefit: <i>adequacy</i> , <i>take-up</i> and <i>targeting</i> . More detail on this is included in the following section on better practices. PQQ information is provided for outputs but some of the quality measures are ambiguous in that they could be viewed as quantities. For example, <i>number of Website hits</i> , is included as a quality indicator ¹⁷ . As a consequence, the strategic vision that FaCS is seeking to present may not be clearly understood.
ISR	×	✓*	Effectiveness indicators developed by ISR provide an insight into Australian industry performance and trends but do not measure ISR performance as they are significantly influenced by other factors such as general economic conditions. For example, <i>changes in Australia's per capita GDP relative to its major international trading partners and trading competitors at purchasing power parities</i> . PQQ information is provided for all outputs.

P Partially satisfied

✓ Satisfactory

✓* Criterion was largely, but not entirely, satisfied

× Unsatisfactory

¹⁷ FaCS, consider that website hits is directly related to the quality of the site.

2.28 Problems identified, in relation to the performance information, that were common to many of the PBS are as follows:

- effectiveness indicators do not adequately measure outcome performance; and
- price, quantity and/or quality indicators do not adequately measure the designated characteristic.

2.29 The ANAO considers that all the agencies audited had performance information that could partially, but not fully, link outcomes, outputs and strategies. This finding is consistent with findings in the second and third reports by the Senate Finance and Public Administration Legislation Committee¹⁸, *The Format of Portfolio Budget Statements*. The Committee found that performance information could be improved.

2.30 Agencies have now had three iterations of the PBS to develop appropriate performance measures. However, it is evident, from the above findings, that many agencies need to further develop their performance information while still maintaining a continuity of information from one year to the next¹⁹. In discussions with agencies, they advised the ANAO that there were a number of factors which had influenced the development of appropriate information. Some of these factors are as follows:

- agencies needed to bring about cultural changes within their organisations, particularly in operational areas, so that the focus moved from process to outcomes and outputs;
- new information management arrangements were necessary and these often had long lead times because of complexity of the task and cost involved. For example, some agencies needed to develop data warehousing facilities to bring together data from a number of diverse information management systems;
- new data collection procedures were necessary. This situation particularly applies to client service and satisfaction data that have not been collected in the past. Examples of this are found in Table 2.3;

¹⁸ Released in October 1999 and November 2000, respectively.

¹⁹ The Senate and Public Administration Legislation Committees noted in its reports that Parliament requires information continuity from one year to the next so that it can identify performance trends.

- agency staff needed to be trained so that they are aware of the attributes of appropriate performance information and the information requirements of Parliament. The ANAO found anecdotal evidence of problems that occurred because agency staff were not fully aware of:
 - performance information requirements;
 - whether administered items should be reported; and
 - how to balance the need to develop better performance information against Parliament's need for consistent information; and
- program and organisational changes were required. For example, the implementation of government initiatives during the year may lead to the development of new program delivery arrangements or changes to existing programs. In either case, performance information requirements should be reassessed. As well, agencies may change their organisational structure or, as was the case with NOHSC, relocate²⁰ with a flow-on effect on either performance information requirements or the capacity of the agency to provide the performance information.

2.31 The ANAO found that all 10 agencies audited had a performance information review process and, as the result of the review, had identified performance indicators that better linked outcomes, outputs and strategies (discussed in Chapter 4). The review process did not address the issue of the quality of the actual information used to assess performance (discussed in Chapter 5).

2.32 The following better practices (Case Study 2.4) were identified by the ANAO in relation to the agency PBS performance information.

²⁰ NOHSC relocated from Sydney to Canberra progressively during 2000–01.

Case Study 2.4

Performance information better practices

Environmental indicators

A number of the PBS reviewed by the ANAO had effectiveness indicators that were influenced by the agencies' activities and, often to a far greater degree, other factors. While these indicators are not valid effectiveness measures, they merit inclusion in the PBS because they provide an insight into background issues and long-term measures of the achievement of outcomes. FaCS addressed this problem by including this information as environmental indicators, for example, childcare demand.

Effectiveness

FaCS has identified and developed performance information for several dimensions of effectiveness. The following example is taken from its 2001–02 PBS for administered items:

Outcome Group 1 (Stronger Families), Output Group 1.4 (Child care support)

- Effectiveness indicators for three dimensions of *support for child care*
 - independence: increases in the number of places for home care; sick care and rural care;
 - take-up/coverage: percent of demand for child care places that is met; and
 - targeting: Number of children with additional needs using Commonwealth approved childcare services—by target group.

Price, quantity, quality indicators

- DETYA has, for each departmental sub-output, price, quantity and quality indicators for the generic functions: *administration, policy advising Ministerial and Parliamentary services and research analysis and evaluation* (see Case Study 2.2, for a specific example).
- AMSA has improved links between outcomes, outputs, strategies and performance information by specifically relating the performance information in the PBS to strategies and outputs, as is demonstrated in the following example:

Output group 2: Search and rescue program.

Output 2.1 A capability to detect, locate and rescue persons in aviation and maritime distress situations.

Strategy: Provide an effective response to search and rescue incidents. Measures:

- median time for rescue and co-ordination centre to initiate response²¹ (quality);
- a capability to respond to incidents (quantity); and
- median cost per search (price).

Recommendation No.1

2.33 The ANAO recommends that agencies review their performance information to ensure that the effectiveness indicators focus on the agency's particular contribution to a Government policy outcome and that output indicators actually measure the designated characteristic to the extent practicable or provide a suitable assessment of its impact.

Agency responses:

Nine agencies agreed with the recommendation. DETYA agreed in principle.

²¹ AMSA also has two other quality indicators.

Targets

2.34 As a general rule, targets should be included for performance information in the PBS to provide a basis for performance assessment. Targets express quantifiable performance levels or changes of level to be attained at a future date, as opposed to the minimum level of performance. They may be a range or an absolute number, but they should never be vague or unmeasurable. They should focus on factors that managers can influence and may relate to either the overall outcome or output performance or the factors that lead to success. It may be necessary to have multi year targets which address the achievement of intermediate outcomes leading to achieving overall outcomes in a specified number of years. However, targets should not become the focus of achievement in their own right at the expense of overall performance.

2.35 The ANAO, therefore, examined the PBS to determine, where relevant, if targets were included for the performance information. An examination of the appropriateness of targets, where they were provided, was outside the scope of this audit.

2.36 Table 2.4 summarises the ANAO's findings against this criterion.

Table 2.4

Targets for performance information in the 2000–01 PBS

Agency	Targets	Comment
AGSO	P	AGSO performance information has targets for only some of the performance indicators. AGSO should review its performance indicators and, as appropriate, develop targets if none exist.
AMSA	✓ *	Targets were provided for all performance information other than for overall effectiveness. As appropriate, targets should be provided for effectiveness indicators.
ANTA	✓	Targets were provided for performance information. While targets were not provided for effectiveness indicators, this was appropriate as these indicators are, largely, controlled by the agencies that provide vocational education and training (for example, <i>student outcomes from vocational education and training</i>).
NOHSC	✗	Generally the PBS did not have targets. Those that existed were overly vague (for example, <i>improving...</i>). As appropriate, targets should be determined.
Defence	✓ *	Targets were generally provided for the indicators examined although some were vague. For example, <i>deployed forces are effectively commanded...</i> the meaning of <i>effectively</i> is open to interpretation.
DETYA	✓ *	Targets were provided for the indicators examined although some were vague.
DEWRSB	✗	Some targets existed for performance information in the PBS but they were not listed in the PBS. As appropriate, targets should be developed.

Agency	Targets	Comment
DTRS	P	There were no targets for about half the indicators. DTRS has included targets for most of its indicators in its 2001–02 PBS.
FaCS	✖	The 2000–01 PBS did not have targets. FaCS addressed this concern by providing estimates for performance information in its 2001–02 PBS.
ISR	✖	ISR plans to set targets after benchmarking to ensure that the targets are appropriate.

P Partially satisfied

✓ Satisfactory

✓* Criterion was largely, but not entirely, satisfied

✖ Unsatisfactory

2.37 The ANAO found that two agencies included in the audit did not have any targets for performance information (FaCS and ISR) and three agencies had few targets²² (NOHSC, DEWRB and DTRS). During discussions with the agencies, the ANAO was advised that they had not had sufficient time to develop targets for some of the indicators. There was also anecdotal evidence that, for some sensitive areas, there was a reluctance to develop targets as the performance against those targets may be misinterpreted. For example, if the target is not met, ameliorating factors beyond the control of the agency may not be recognised.

2.38 The ANAO considers that many of the targets set by agencies were inadequate, as outlined in Table 2.4. The Senate Finance and Public Administration Legislation Committee also expressed this view in the previously mentioned reports (Section 2.27). The inappropriateness of targets was also an issue identified by the Institute of Public Affairs and Administration in its review of agency 1999–2000 annual reports²³.

2.39 However, in some cases it is difficult for agencies to develop appropriate targets, for example, applying a target to DTRS' Aviation Safety Promotion. There are a number of aviation accidents/incidents per hours flown, and clearly the target should be zero accidents/incidents. Realistically, a target of zero accidents/incidents is unachievable. If DTRS was to stipulate a level other than zero, then it could convey the impression that this is an acceptable limit, when in fact zero is the only desirable result. Agencies in this situation are faced with the dilemma of applying an unrealistic target, or a more realistic target that may create an impression of complacency. The setting of targets, therefore, requires considerable judgement on the part of agencies. This will improve with more experience and knowledge over time.

²² An examination of the validity of the targets was outside of the scope of the audit.

²³ Institute of Public Affairs and Administration, *FMA Departments and Agencies Annual Report Awards*, www.ipaa.org.au.

2.40 The following better practices (Case Study 2.5) were identified by the ANAO in relation to agency targets.

Case Study 2.5

Targets

AMSA, as part of its operational reporting activities, has a series of indicators described as *Key Success Factors*. For each of these, internally, AMSA is considering the use of:

- average past performance, which is determined from historical records;
- a target—that is a stretching goal that senior management and the AMSA Board consider staff should strive to achieve; and
- a minimum target—that is a minimum goal that would satisfy senior management and the AMSA Board.

The ANAO considers that, as appropriate, agencies could consider developing multiple targets for the PBS along the lines identified by AMSA. Multiple targets would not be desirable for all performance indicators. However, they could be particularly appropriate for sensitive indicators where, according to anecdotal advice provided to the ANAO, there was concern that agencies may be unfairly criticised if stretching targets are not achieved. This avoids the situation where agency staff may not set targets at all or they set targets that do not stretch performance.

The publication of information on past performance provides a perspective against which the adequacy of the targets may be assessed. Stretching targets, when set, provide agency staff with a challenge, while Parliament and the public are made aware of the expected minimum level of performance.

Recommendation No.2

2.41 The ANAO recommends that agencies develop appropriate performance targets for the performance information in the PBS (including outcomes and outputs) to ensure that there is a basis for the assessment of performance.

Agency responses:

All 10 agencies agreed with the recommendation.

Conclusion

2.42 The ANAO concluded that outcomes specified in the PBS generally had an aspirational element (broad, long-term focus), that would be difficult to measure whether it had been achieved or not. However, the agency outcome statements examined had associated intermediate outcomes and/or supplementary explanation that provided an appropriate basis for the development of practical performance information. As well, outputs generally were appropriate, describing goods and services that contributed to the specified outcomes.

2.43 The ANAO identified limitations with the performance information in all 10 of the agency 2000–01 PBS reviewed. The most frequent problem identified was that the effectiveness indicators did not measure outcome performance. Typically, the problem occurred because the effectiveness indicators were influenced by other factors, such as general economic conditions, to a degree that masked any direct effect that agency performance had on the achievement of the outcome. As well, the specific contribution made by a Commonwealth agency may be difficult to distinguish when other levels of government and non-government bodies are contributing to the joint achievement of effective outcomes.

2.44 In some instances, the price, quantity and/or quality indicators did not provide a measurement or assessment of the designated characteristic. For example, a number of quantity indicators would actually measure timeliness. Agencies will need to review indicators using the examples given in Table 2.3 to ensure that they are measuring the designated characteristic.

2.45 Often the PBS performance information did not have targets or the targets that were provided were vague and/or ambiguous. Therefore, it would be difficult for Parliament and other stakeholders to assess agency performance.

2.46 Because of the weaknesses in the agency outcomes and output performance information and targets discussed in this chapter, the ANAO concluded that it would be difficult for Parliament to determine the extent to which agencies had achieved their outcomes and outputs.

3. Annual Reports

This chapter examines the reporting of the agencies' performance information in their 1999–2000 Annual Reports to ensure that agencies have complied with the requirements set out by the Financial Management and Accountability Act (1997) and the Public Service Act (1999). The content of the agencies' Annual Reports is assessed against guidelines set out by the Department of Prime Minister and Cabinet (PM&C).

Introduction

3.1 All agencies within the Commonwealth Public Service operating under the *Financial Management and Accountability Act (1997)* are required to produce an annual report by the *Public Service Act (1999)*. The requirements for annual reports are prepared by the Department of Prime Minister and Cabinet (PM&C) and endorsed by Parliament's Joint Committee of Public Accounts and Audit.

3.2 The primary purpose of annual reports is to promote accountability, particularly to Parliament. PM&C directions require performance information identified in agencies' PBS to be reported in their annual reports. An underlying principle is that *'reports should provide sufficient information and analysis for the Parliament to make an informed judgement on departmental performance'*²⁴. Specific factors that should be considered are the structure, presentation and content of the annual report

3.3 PM&C advised agencies that the annual report must include:

- the *'reporting of actual results against outcomes and outputs and the specific performance information set out in the PBS/PAES'*²⁵; and
- appropriate explanatory information, including advice on the factors that influenced performance, remedial measures and/or ameliorating factors. The appropriate use of graphics and trend information to support explanations of results is also suggested.

3.4 An assessment against the first of these criteria follows in paragraphs 3.5–9. Table 3.1 and the subsequent discussion are an assessment of the ANAO's findings in relation to the second criteria, that is, issues related to the presentation of information in the 1999–2000 annual reports.

²⁴ *Requirements for Annual Reports*, Department of the Prime Minister and Cabinet, May 2000, Section 11.

²⁵ Institution of Public Affairs and Administration, op. cit.

Reporting performance information and results in the 1999–2000 annual reports

3.5 The ANAO found that, as required by PM&C requirements, all agencies reported results against their respective outcomes, outputs and performance information in the 1999–2000 annual reports. The ANAO noted that a review of the 1999–2000 PBS, including outcomes, outputs and performance information, had been undertaken by the SFPALC (*The Format of the Portfolio Budget Statements—Second Report*). The report recognised that agencies were still developing the outcomes/outputs framework and the associated performance information. Among other things, the Committee noted that agency outcome effectiveness indicators, generally, did not adequately describe outcome effectiveness and the performance information was a ‘best effort’ at the time and some data would not be usable in the future.

3.6 Although all 10 agencies audited have complied with PM&C requirements by reporting results against their respective outcomes, outputs and performance information in the 1999–2000 annual reports, the limitations with performance information in the 1999–2000 PBS would make it difficult for them to present information to facilitate an informed judgement regarding their performance. The ANAO, therefore, examined how agencies had dealt with deficiencies identified by the SFPALC and/or agencies themselves in the PBS in providing an annual report which should best allow an informed judgement on departmental performance.

3.7 The ANAO suggests that, at a minimum, agencies should follow the example set by NOHSC and acknowledge any problems with the PBS performance information in their annual reports²⁶. This ensures that Parliament and other stakeholders are aware of the limitations of the information provided. This option continues to be important given the problems which remain with performance information in PBS for the 2000–01, as outlined in this report.

3.8 It is also possible, given there is an 18 month period between the development and reporting of PBS performance information, that an agency may have improved its performance information within that time. If an agency has sufficiently developed a new set of performance information, an alternative is to report the revised performance information and to map these indicators against those detailed in the equivalent PBS. This is the approach adopted by DEWRSB for the 1999–2000 annual report.

²⁶ NOHSC, in its 1999–2000 Annual Report, advised Parliament in relation to performance information that ‘links to activities were broad rather than specific, and the capacity to use them for performance measurement has proved limited in some cases’. (Evolution of performance measures, page 40).

3.9 DEWRSB, prior to the preparation of its 1999–2000 annual report, revised its outcome/output structure and substantially improved its performance information. The 1999–2000 DEWRSB Annual Report was based on this revised structure. However, to ensure that readers were able to relate performance information in the 1999–2000 PBS and the related Annual Report, DEWRSB provided appropriate information on the relationship between the previous and current sets of performance information. The ANAO considers that, by mapping the changes, DEWRSB has met the requirements set by PM&C for annual reports. This is appropriate because the revised performance information significantly improved the transparency of agency operations and accountability.

Presentation of information in agency 1999–2000 annual reports

3.10 The appropriate presentation of performance information should promote Parliament’s capacity to make an informed judgement on agency performance. Table 3.1 summarises the ANAO’s finding for the 10 agencies audited against the broad directions for the presentation of performance information in 1999–2000 annual reports issued by PM&C.

Table 3.1

Presentation of performance information in the 1999–2000 annual reports

Agency	Comment
AGSO	Performance information in the 1999–2000 annual report generally took the form of qualitative descriptions of the projects contributing to each output group. The statistical information provided primarily related to the number of projects undertaken and there was no trend information.
AMSA	The Annual Report identified outcomes, outputs and strategies. As well, it had an appropriate balance between statistical and qualitative information. However, it focused on specific activities and outputs without reference as to how these had contributed to the outcome. There was no explanation regarding why certain targets had not been met and any subsequent remedial measures. Therefore, a link between outcomes, outputs and strategies was only partially established.
ANTA	Outcomes, outputs, strategies and the relationships between these had been identified. Outcome and output information was accompanied by appropriate statistical information. However, it would be easier to objectively assess the extent to which the overall ANTA outcome had been achieved if the Annual Report brought together the performance information for the four output areas, and this was related to the outcome.
NOHSC	The NOHSC Annual Report provided a significant amount of information on outputs. However, it was difficult to assess the overall performance because the Annual Report did not address outcomes, and the performance information is inadequate. The ANAO notes, however, that problems with the performance information were acknowledged in the Annual Report and NOHSC is addressing ANAO concerns (this issue is covered in Table 5.1 and Section 3.7).

Agency	Comment
Defence	The Annual Report focuses on Defence activities as opposed to outcomes and outputs. For each activity, performance was described qualitatively and the level of achievement detailed. Therefore, the Annual Report does not adequately facilitate an assessment of the achievement of outcomes, outputs and strategies.
DETYA	DETYA's Annual Report includes qualitative, quantitative and explanatory information. The qualitative information included statistics on trends. However, DETYA, like some other APS agencies, achieves its outcomes in conjunction with other levels of government and non-government agencies in the education sector. The respective contributions can be difficult to distinguish and this adds to the complexity of developing appropriate effectiveness indicators and reporting specific agency achievements against them.
DEWRSB	The performance information reported in the 1999–2000 Annual Report was based on the revised structure (see paragraph 3.9). The ANAO considers that the revised performance information significantly improved the transparency of agency operations and accountability. By mapping the changes, DEWRSB has met the requirement to report performance information in the 1999–2000 PBS. Outcome, output, and performance information includes explanatory and statistical information with graphical presentations where appropriate.
DTRS	The 1999–2000 Annual Report, largely, consisted of qualitative information on activities. The reporting framework for the Annual Report differed from that in the PBS, being based on the organisational structure while the PBS was based on output groups. This made it more difficult to relate the PBS and Annual Report. However, as mentioned previously, DTRS has revised its performance information and advised the ANAO that the 2000–01 Annual Report would align with the equivalent PBS.
FaCS	Outcome, output and performance information was identified and accompanied by the appropriate statistical and qualitative information. The ANAO concluded that overall FaCS reported its performance information in a reasonably balanced manner although there was a tendency to report only the positive aspects of FaCS' performance. A full assessment of performance was difficult as, although trend information was reported, FaCS did not have targets against which performance could be assessed. The ANAO noted (Table 2.4) that the 2001–02 PBS includes estimates against which performance can be assessed.
ISR	Outcomes, outputs and strategies are identified. Performance information was presented as qualitative reports on ISR activities, with little explanatory and statistical information. Links between outcomes, outputs and strategies could be improved if more quantitative information was provided along with information on targets.

3.11 The adequacy of explanatory and statistical information varied significantly with five agencies (AGSO, NOHSC, Defence, DTRS and ISR) providing little statistical information. These agencies provided qualitative information about activities that did not allow a full assessment of the achievement of outcomes and outputs.

3.12 Trend information was generally not available for any of the PBS performance information (FaCS and DETYA were the exceptions). This was expected because the current arrangements were introduced for the

1999–2000 PBS and historical information often did not exist. Further, it was not always evident whether performance was below expectations as targets often were not included in the 1999–2000 annual reports and agencies tended to only report on positives and did not identify areas where performance had not achieved expectation—the general issue of targets is discussed in paragraphs 2.32–38. As well, all agencies rarely identified remedial measures and/or ameliorating factors.

Conclusion

3.13 The ANAO concluded that all 10 agencies audited complied with PM&C requirements which require performance information identified in the PBS to be reported in the annual report. However, the limitations of the performance information in the 1999–2000 PBS made it difficult for agencies to reach an informed judgement in relation to their performance. Therefore, at a minimum, agencies should identify the problems to the PBS performance information so that Parliament and stakeholders are aware of the data limitations. If an agency has sufficiently developed a new set of performance information, an alternative is the reporting of revised performance information and the mapping of these indicators against those detailed in the equivalent PBS.

3.14 The adequacy of the presentation of performance information in the 1999–2000 annual reports varied significantly across the agencies audited. Half of the annual reports reviewed by the ANAO provided qualitative information about activities that did not allow a full assessment of the achievement of outcomes and outputs. As well, it was not always evident whether performance was below expectations as targets often were not included in the 1999–2000 annual report. Agencies, therefore, did not identify areas where performance had not achieved the expected performance level. Remedial measures and/or ameliorating factors were rarely identified.

4. Agencies' Review of PBS Performance Information

This chapter discusses the performance information review processes in relation to Portfolio Budget Statements.

Introduction

4.1 The current performance reporting arrangements, introduced for the 1999–2000 financial year, required agencies to make considerable changes to their performance information framework, and performance indicators, to ensure that they met better practice for accountability requirements and corporate governance. As well, agencies had to ensure that the information supported quality service delivery.

4.2 Agencies generally have had to identify new indicators and develop new data collection arrangements, data management and reporting facilities because of the size and complexity of associated processes. The changes to performance information were needed as a result of the new framework. Also, changes to policies, stakeholder expectations and the ways of doing business (for example, electronic commerce) can also require the development of new indicators. Whatever the reason for change, the successful development of an agency's PBS performance information is an iterative process that will continue over a number of years. Therefore, to ensure that the quality of agency performance information continues to improve agencies should:

- have a review process in place that examines the appropriateness of performance information and the links between outcomes, outputs and strategies; and
- ensure that the results of reviews are used to improve their performance information and, specifically, the links between outcomes, outputs and strategies.

Performance information review arrangements

4.3 All the agencies included in the audit recognised the need to review their performance information framework and had implemented a review process. Table 4.1 provides details of the features of the review process for each of the agencies.

Table 4.1**Performance information review arrangements**

Agency	Comment
AGSO	AGSO reviewed its PBS performance information prior to the 1999–2000 and 2000–01 PBS. AGSO restructured and improved its outcome, output and performance information for the 2000–01 PBS. However, the reviews largely involved only one corporate level staff member. This may have limited their effectiveness and contributed to the problems identified in Table 2.3. By involving, as appropriate, other corporate and operational staff in the review process, AGSO could further improve its performance information and provide Parliament with a more complete perspective of the agency's performance. As well, program area ownership of PBS performance information could be improved.
AMSA	AMSA, as part of its internal audit process in 1999, engaged a consultant to assess the adequacy of their performance information process and found that it could be improved. For example, internal planning needed to be linked and plans related to PBS performance information. The issues raised were addressed and AMSA now has a cascading management approach with a focus on AMSA's performance information. AMSA now reviews the performance information internally, each year, prior to the development of the PBS. Expert advice is sort externally, as required, to facilitate performance information reviews.
ANTA	Senior ANTA staff review its performance information each year. As well, the ANTA Board and ANTA Ministerial Council are involved in the review of the performance information and PBS arrangements. The involvement of senior staff, the Board and Ministerial Council is a better practice, as the senior staff used are experienced in performance management and are aware of the requirements for PBS performance information. The review and endorsement at the highest level emphasises the importance of the PBS performance information and improves its integration with normal operations.
NOHSC	NOHSC assessed its performance information after the preparation of the 1999–2000 PBS and found that it did not satisfactorily link outcomes, outputs and strategies (this finding was reported in NOHSC's 1999–2000 Annual Report). As a consequence, NOHSC performance information arrangements were reviewed and strategic plans, business plans and the outcomes, outputs and performance information were revised. NOHSC is continuing to review its performance information requirements and the 2001–02 PBS, appropriately, reflects the most recent performance information developments. For example, Outcome 1 has been revised (<i>Lead and coordinate national efforts to prevent workplace death, injury and disease in Australia</i>) so that NOSHC is better able to link it to outputs and strategies.
Defence	Defence relied on a continuous review process for the development of PBS performance information for the 2000–01 and 2001–02 PBS. This did not result in significant improvements as, with the exception of information relating to the White Paper, it lacked milestones, specific directions and a focus for improvements. Defence has now undertaken a review of all its performance information requirements and developed the Defence Matters Scorecard (DMS) for PBS and operational performance information. However, the potential benefits of this change will not be seen until the 2002–03 PBS. The Defence review process is discussed in more detail below.

Agency	Comment
DEWRSB	DEWRSB undertook a comprehensive review of the adequacy of the performance information and its framework during 2000. A feature of DEWRSB review arrangements is the involvement of senior staff and one-on-one advice given to operational staff by Corporate staff with the necessary expertise. As well, there is a high level of awareness among all levels of staff of the agency's performance information, and performance requirements. DEWRSB has a quarterly ongoing PBS performance information review process. Frequent reviews are required because DEWRSB has large number of programs that are subject to change.
DETYA	The Performance Information Working Group meets regularly to review progress against performance information development plans. As well, the Corporate Leadership Group also reviews performance information. Both groups include senior departmental staff. As a consequence, performance information is endorsed at the highest level within the Department, integrated with the Department's management processes and reviewed regularly.
DTRS	DTRS relied on a continuous review process for the development of PBS performance information up to the 2000–01 PBS. Prior to the development of the 2001–02 PBS, DTRS undertook a comprehensive review and significantly improved its performance information and the associated framework. The DTRS review is discussed in more detail below.
FaCS	FaCS reviewed its PBS performance information prior to the development of the 2000–01 PBS. Features of the review were the involvement of key stakeholders; the identification of deficiencies; and the development and implementation of strategies to address deficiencies. Performance information in the FaCS' 2001–02 PBS more clearly identifies and measures outputs. FaCS is continuing to monitor and develop PBS performance information.
ISR	In November 1999, with the assistance of a consultant, ISR undertook a comprehensive review of its outcome/output framework. As a result, the framework was substantially restructured to better reflect the agency's outputs. As well, an ISR officer was made responsible for the continued development (and maintenance) of the performance information in the PBS.

4.4 The ANAO found that all 10 agencies audited routinely reviewed their performance information and the associated framework that includes outcomes and outputs. Since the implementation of the current outcome, output and performance information arrangements all agencies had made, or were in the process of making, significant improvements to their performance information as a consequence of the review arrangements. Sections 4.5 to 4.11 below identify some of the specific changes to agency performance information.

Changes to PBS performance information between the 2000–01 and 2001–02 PBS

4.5 To determine if the results of these reviews had led to improvements in agency PBS performance information, the ANAO compared the agencies' 2000–01 and 2001–02 PBS. Specifically, the ANAO sought to determine the extent to which their review processes had influenced the PBS performance information in their 2001–02 PBS.

4.6 The ANAO found that two agencies, DTRS and Defence, had made major changes in the 2001–2002 PBS. DTRS made significant amendments to its performance information and its structure in the 2001–02 PBS. The 2001–02 PBS has a revised outcome statement, '*A better transport system for Australia and greater recognition and opportunities for local, regional and territory communities*', that provides a focus for outputs and, therefore, an improved base for the link between outcomes, outputs and strategies. As well, DTRS has improved the performance information within its revised reporting structure. This revised structure more clearly demonstrates the relationship between DTRS' organisational structure and its outcomes, outputs and strategies. For example, it is now possible to easily relate organisational areas within DTRS, such as Land Transport, and Aviation to specific outputs. The inclusion of effectiveness indicators, which were absent from the 1999–2000 and the 2000–2001 PBS, allows for the measurement of the achievement of outputs and provides a focus to DTRS' performance indicators.

4.7 Defence, has also made major changes to its reporting structure for the 2001–02 PBS. The 2001–02 PBS has a revised outcome that better reflects the reality that Defence activities may not just relate to the use of armed forces. As well, the 2001–02 PBS introduces the DMS but does not significantly improve the links between outcomes, outputs and strategies. The ANAO notes, however, that Defence expects that these links will be established with the 2002–03 PBS.

4.8 Eight agencies made only minor changes to their 2001–02 PBS performance information. Of the eight, DETYA, FaCS and ISR are considered to have largely established suitable performance information frameworks in their 1999–2000 PBS. The other five, AGSO, AMSA, ANTA, DEWRB and NOHSC are considered by the ANAO to have made significant improvements to their performance information framework between the 1999–2000 and the 2000–01 PBS and further refined their performance information for the 2001–02 PBS. The ANAO has, however, suggested that AGSO could broaden its review process (Table 4.1).

4.9 The ANAO considers that the eight agencies which made only minor changes to their 2001–02 PBS performance information have established relatively sound reporting structures, although, as discussed in Chapter 2, all the performance information contained within their PBS structure did not meet the audit criteria and requires refinement. Only making minor changes is consistent with Parliament's expressed wish for a degree of stability that it be able to compare PBS performance information from one year to the next. However, agencies need to continue to review and refine their PBS performance information.

4.10 A number of agencies including AMSA, DTRS, Defence, FaCS and ISR have commenced the development, or are considering the further development of their performance information, against the principles on which a Balanced Scorecard²⁷ is based. That is, performance information should address:

- financial performance or, in a public service environment, outcomes;
- processes required to create outcomes and outputs;
- client service; and
- organisation renewal.

4.11 The ANAO considers that the implementation of the principles behind a Balanced Scorecard provides a framework for management to use performance information. In particular, the Balanced Scorecard requires the alignment of strategies to outcomes and outputs. However, it is important to recognise that the Balanced Scorecard is not a panacea for a lack of agency performance data. Agencies must still have a framework to collect, process and report quality data. For example, no matter what framework is used to identify performance information, agencies must ensure that the data are accurate.

Conclusion

4.12 The ANAO concluded that all 10 agencies audited had implemented a review process for their performance information and performance information framework. Agencies had continued to refine their performance information and the associated framework in the 2001–02 PBS. The successful review processes identified during the audit were part of a plan with milestones and feedback. This approach seemed to work better than continuous improvement processes which did not lead to significant improvement in performance information or the associated framework. A number of agencies benefited through the provision of specialist advice during this process. The results of reviews were used to identify improved agency performance information and enhance the links between outcomes, outputs and agency strategies. However, the reviews did not address the issue of data quality, which is discussed in Chapter 5.

²⁷ Kaplan, R. S. & Norton D. P., op.cit.

5. Organisational Arrangements for Performance Information in the PBS

This chapter identifies and discusses the agencies' organisational arrangements for performance information in their PBS.

Introduction

5.1 Agencies have made significant changes to administrative and management information arrangements to develop and implement the current PBS performance information arrangements. Also, within agencies, cultural changes have been required to facilitate the transformation from program management and processes to outcomes and outputs. Therefore, like any significant change process, the foundation for the development, collection and reporting of appropriate performance information in the PBS and the general acceptance of the arrangements is a strong, visible executive support and sound administrative practices and systems.

5.2 The ANAO, therefore, examined whether:

- the executive, and executive groups as relevant, provided strong visible support;
- agencies have a coordinated approach for the collection, monitoring and reporting performance information in the PBS with output areas being given responsibility for the identification of performance information and setting targets;
- strategic plans, business plans, operational reporting systems and performance information are linked;
- there are appropriate guidelines and training for PBS performance information;
- appropriate management of information and reporting arrangements for the monitoring of PBS performance information exist; and
- quality assurance arrangements are in place for PBS performance information.

5.3 An assessment of these organisational arrangements in relation to performance information in the PBS is set out under separate headings below. Where more specific criteria have been used, these are included under the relevant headings as required.

Executive support

5.4 The development and collection of appropriate performance information, including for the PBS, is dependent on strong executive support. At a practical level, executive support is needed to provide the resources for the development and monitoring of PBS performance information.

5.5 The ANAO found that there was strong executive support for the provision of sound PBS performance information in all of the agencies examined. Executive support manifested itself in the following ways:

- senior executive officers and groups were directly involved in activities associated with PBS performance information, including the conduct of this audit;
- executive boards and similar groups required reports on PBS performance information (for example, the ANTA Board and ANTA Ministerial Council); and
- significant resources were provided for activities associated with the development and maintenance of the PBS performance information in all agencies.

5.6 Given the current arrangements were introduced in 1999–2000, there are a number of areas where agencies need to improve their performance information. The Executive will, therefore, need to continue to provide the support necessary to facilitate these improvements.

Co-ordination and identification of appropriate PBS performance information

5.7 To ensure that there is a consistent focus across the agencies on the outcomes required by government and the outputs delivered to address those outcomes, the development, monitoring and reporting of PBS performance information should be coordinated. Such a coordinated approach should also reduce the risk that the standard of information will vary across the organisation and that essential activities are neglected. The issue of ensuring the standard of information, that is, that information is accurate, valid and reliable, is discussed at paragraphs 5.26–30.

5.8 The ANAO found that, to provide a consistent approach, the 10 agencies audited had a central corporate area which was responsible for the coordination of agency activities associated with the collection, monitoring and reporting of PBS performance information.

5.9 Although a central area guided the overall process, the areas responsible for delivery of outputs were responsible for the identification of output performance information and the setting of targets. This ensured that the performance information and targets were based on an understanding of business activities and that business areas should have retained ownership and a commitment to the achievement of the performance targets.

Links between plans and performance information

5.10 Plans, from the corporate plan through to group business plans and performance agreements, should be linked to ensure that they all focus in a consistent manner on the achievement of the designated outcomes and outputs. The information developed and collected for the PBS should not be a separate set of performance information but should build on that used for operational purposes to provide management with the information necessary to assess performance from lower levels to agency level. As well, the integration of management and PBS information systems should ensure that systems are not duplicated.

5.11 All 10 agencies had integrated planning arrangements. The following planning arrangements for NOHSC were typical of those in the other agencies:

National OHS Improvement Framework



NOHSC Strategic Plan 2000–2003



NOHSC business plans



Project briefs



Individual staff performance agreements

5.12 Agencies were found to have consistent performance information throughout the planning hierarchies. This made the collection and collation of performance information a logical process which might not be the case if agencies had separate information arrangements for different purposes. As well, agencies did not incur additional costs by unnecessarily duplicating management and PBS performance information systems.

5.13 A consequence of the linking of the various levels of planning and performance information is the identification of strategies and activities that do not contribute to designated outcomes and outputs. One better practice that the department advised will be implemented by Defence next year²⁸ is the requirement that all operational areas link resource bids to strategic objectives and designated outputs. The result of this approach is that redundant activities and strategies can be identified and action taken to delete these activities.

Guidelines and training for PBS performance information

5.14 The Department of Finance and Administration (Finance) issued guidelines in 1998, *'Specifying outcomes and outputs'*, to assist agencies to develop appropriate performance information. Finance updated this publication in 2000 with the revised guidelines being available on its website, www.finance.gov.au. The revised requirements are based on the same principles as those in *'Specifying outcomes and outputs'*.

5.15 Guidelines and training provide agency staff with the means to develop the skills necessary to establish a suitable outcomes/outputs framework and, at the operational level, identify suitable performance information and set targets. Guidelines and training can also make staff aware of the PBS performance information arrangements and promote their acceptance.

5.16 The four smallest agencies (AGSO, AMSA, ANTA and NOHSC) had relied on the Finance guidelines. These were adequate as these agencies have specific, well-defined objectives and this provides agency staff with a clear focus and relatively straightforward tasks associated with the development of PBS performance information.

5.17 Four of the larger agencies (DETYA, DEWRSB, FaCS and ISR) had developed, and the remaining two (Defence and DTRS) were developing agency guidelines to supplement those provided by Finance. The agency guidelines that had been prepared were current and readily available to staff, generally being available on the agency Intranet. All six agencies had prepared agency-specific guidelines because they had found that, although Finance guidelines provided general advice on outcomes, outputs and performance information, operational areas needed more specific advice on the agency outcomes/outputs framework and

²⁸ This initiative is part of the implementation program for the Defence Matters Scorecard. Appendix 4 has more information.

the specific characteristics of agency performance information. As well, the supplementary guidelines provided focussed advice, easily, to a large number of people.

5.18 All agency corporate staff responsible for overseeing agency PBS performance information activities had developed a good understanding of the performance information requirements through the review of Finance guidelines and on-the-job training. Generally, they had also received additional advice from consultants. In the case of DETYA, the understanding of the performance information requirements was promoted through the Performance Information Working Group that provided members and others involved in PBS performance information with advice on PBS issues relevant to DETYA.

5.19 Staff in operational areas with PBS performance information responsibilities in all agencies (other than AGSO and Defence) were provided with formal training through training courses and workshops. Defence advised that performance information PBS training needs for senior leadership group and operational staff would be addressed during the implementation of the DMS. The ANAO suggests that AGSO should determine the training needs for operational staff and provide them with appropriate training so that they are better able to develop appropriate PBS performance information for their area of responsibility.

5.20 Better practices included DEWRSB supplementing the training for some operational staff with one-on-one expert advice and ISR establishing a help-desk facility to enable staff to receive expert advice on request.

Information management and monitoring arrangements

5.21 Appropriate PBS performance information management arrangements should exist so that the information can be collected, collated and monitored by the agency. This allows the output areas to receive timely performance feedback and implement strategies to ensure that the expectations of the government and the agency are met. As well, performance measures aligned with staff performance agreements can be used to provide staff with feedback on their contribution to the management and achievement of outcomes and outputs.

5.22 Table 5.1 summarises the ANAO's findings in relation to information management and monitoring.

Table 5.1**Information management and monitoring arrangements**

Agency	Assessment	Comment
AGSO	✓	PBS performance information is manually collated and reported to the AGSO Management Committee about three times each year. The arrangements are appropriate, in that, PBS performance information is monitored regularly and operational areas are provided with feedback in relation their performance.
AMSA	✓*	PBS performance information is manually collated. It is reported to the AMSA Board and the executive, in full, annually, just prior to the release of the Annual Report. As well, the AMSA Board and Executive receive reports on specific aspects of AMSA's operations at regular intervals, such as search and rescue. AMSA is now implementing a program to require more frequent reporting of key indicators to the AMSA Board.
ANTA	✓	ANTA has PBS performance information collected, collated and reported under contract. ANTA makes PBS performance information (and other information on vocational education and training) generally available in the Annual National Report. The Annual Performance Report, which is approved by the Board and submitted to the Minister, also addresses PBS performance information. Internally, twice annually the ANTA Board receives reports on progress against outputs. As well, corporate management and the Board receive regular business reports that address specific PBS performance information issues.
NOHSC	P	NOHSC manually collates PBS performance information although computer-based systems are being developed to manage some of the data. There are two management/advisory groups which receive quarterly reports on projects and activities relevant to their area of interest. However, the reports to NOHSC Members do not address a small number of PBS performance indicators that have yet to be implemented and reports to the Industry Consultative Group do not address outcome effectiveness. NOHSC has advised that it is addressing these concerns and aligning internal reporting with annual reporting.
Defence	P	Currently, Defence manually collates PBS performance information. However, Defence advised that it is planning for the development of computer-based information management arrangements that will, among other things, provide PBS performance information reports. The ANAO found that some performance information in the PBS was included in quarterly progress reports for the Minister's Defence Improvement Committee. However, the only full collation of PBS performance information is the Defence Annual Report. The ANAO suggests that suitable progress reports for performance information in the PBS should be provided to the Executive at regular intervals so that it can monitor agency progress.
DETYA	✓	DETYA uses a Word based system to monitor PBS performance information. Reports with PBS performance information are provided to the Executive each quarter.

Agency	Assessment	Comment
DEWRBSB	✓	DEWRBSB is introducing a computer-based system (DOORS) to store PBS performance information and provide reports. Quarterly PBS performance information reports are prepared for review by the Executive. DOORS also allows the Executive to access PBS performance information whenever they need to.
DTRS	P	DTRS manually collates PBS performance information. While the large number of indicators in the 2000–01 PBS made this a difficult exercise, this is no longer an issue as DTRS significantly reduced the number of indicators in the 2001–02 PBS. The only consolidated report of PBS performance information is the Annual Report. However, DTRS has in place arrangements for monitoring specific aspects of PBS performance including: weekly departmental Executive meetings; biannual meetings between the Secretary and individual members of the SES; and performance monitoring by operational areas. DTRS also advised that it is currently developing systems that will provide the Executive with quarterly reports on PBS performance information.
FaCS	P	A database provides the platform for current PBS performance information. FaCS is examining the development of data warehouse to improve the efficiency of data management and data availability. FaCS' PBS performance information is collated once a year for the Annual Report. However, the Executive monitors FaCS' operational performance information, which includes some of the PBS performance information, on a regular basis. The ANAO suggests that FaCS formalise the monitoring of PBS performance information by providing relevant Executive groups with reports of key performance information at appropriate intervals.
ISR	✓	Operational areas produce (paper-based) monthly activity reports and, from these, come output reports and an intranet-based traffic light report. Output managers and some senior staff have access to all the information on outputs and activities including traffic light colours (that describe visually the output/activity status). At a more general level, ISR staff can access a subset of the traffic light reports that does not, for example, allow them to view the traffic light colours. The executive Leadership Team reviews these reports at each meeting.

P Partially satisfied

✓ Satisfactory

✓* Criterion was largely, but not entirely, satisfied

✗ Unsatisfactory

5.23 All agencies had, or were in the process of, developing appropriate data management and reporting facilities. The agencies advised the ANAO that, at this stage, the arrangements were manually based because manual systems can be implemented more easily and with fewer problems than computer-based systems.

5.24 However, agencies are gradually moving to develop more sophisticated computer-based systems that make the information more accessible and timely. As well, while manual systems may be cheaper to develop, they may cost more in the long term because of the additional labour requirements. The computer-based systems that are being developed, such as the DOORS system by DEWRSB, are being integrated with other agency management information systems. This should ensure that agencies do not have data and systems that are being set up for different purposes and are therefore not cost effective. Case study number 5.1 identifies two better practices in relation to such systems.

Case Study 5.1

Information management and monitoring arrangements

- PBS performance information is made more accessible within agencies by placing it on the agency intranet (DEWRSB and ISR); and
- ISR and DEWRSB visually highlight agency performance in reports by using 'traffic lights'. That is, red, orange and green light colours demonstrate sub-standard, marginal and satisfactory performance respectively (Defence has a similar system for operational performance information reports).

5.25 All agencies had, or were in the process of, integrating the monitoring of PBS performance information with their routine business management. This is sound practice as discussed in Chapter 1. The appropriate frequency for the review of PBS performance information would, in practice, be a function of a number of factors such as the stability of the indicator and costs associated with data collection. However, most commonly, management groups received quarterly reports on PBS performance information.

Quality assurance for PBS performance information

5.26 To allow Parliament to make a realistic assessment of agency achievements and administration, the performance information provided to it must be of a high quality. However, there is evidence²⁹ both in Australia and overseas that operational areas sometimes significantly overestimate the quality of performance information, that is, whether it is valid, reliable and accurate. One way of increasing confidence that performance information meets standards for these characteristics is to have quality assurance arrangements in place for the data that underpin

²⁹ Some ANAO audits that have examined performance information accuracy have found that the performance information, in fact, had a significantly higher error rate than the agency reported to Parliament. The United States General Accounting Office (*Managing for Results—Challenges in producing credible performance information*, March 2000) reported that 'most agencies ... provided only limited confidence that their performance information would be credible'.

performance information. These may need to be supported by internal agency assurance through the conduct of audits of data quality or independent verification to ensure that the data used for internal management purposes, derived for the PBS and reported in the annual reports are of an appropriate quality and can be relied on by all stakeholders. Therefore, the ANAO examined whether agencies had quality assurance procedures to underpin the PBS performance information. The ANAO would expect that such procedures would also apply to data used for internal management purposes.

5.27 Table 5.2 provides details of the quality assurance arrangements in place in each agency. Examples of the better practices or proposed better practices identified during audit fieldwork also detailed in the table.

Table 5.2

Quality assurance arrangements

Agency	Assessment	Comment
AGSO	P	Management reviews project data (price and milestones) but there are no formal corporate requirements for quality assurance.
AMSA	P	AMSA, over the last two years, has been implementing the AS/NZS ISO 9001:2000 (<i>Quality management systems—Requirements</i>) with the objective of having all of AMSA certified in the fourth quarter of 2001. As part of this process, quality assurance systems developed to maintain the integrity of management systems would also cover PBS performance information. For example, processes relevant to the collection of performance data will be subject to internal and external audit.
ANTA	✓	An external group collects performance information under contract. This organisation is required, contractually, to audit data quality.
NOHSC	P	NOHSC Commission Members examine reports and require variance explanations that may relate to data quality concerns. However, there are no formal requirements for quality assurance. NOHSC advised the ANAO that these issues have been referred to its Audit and Executive Committees.
Defence	P	Defence relies on operational areas to maintain performance information data quality. Defence advised that it is building quality assurance and accountability into the performance framework by establishing individual accountability for measures and measures specifications that detail data source and extraction and calculation procedures.
DEWRSB	P	DEWRSB relies on operational areas to maintain data quality. However, DEWRSB advised that it recognised the need to address quality assurance at a corporate level and this will be done when current arrangements have bedded down.

Agency	Assessment	Comment
DETYA	P	The responsibility within DETYA for performance data input and the quality assurance of this data lies at the operational level. The ANAO was advised of examples of sound quality assurance arrangements for specific programs, for example, the use of external auditors for (private) schools information. However, DETYA has no formal corporate quality assurance arrangements. As a consequence of diagnostic audits undertaken by Internal Audit, DETYA is considering requiring Divisional heads to sign-off in relation to data quality. DETYA considers that this requirement, if implemented, could lead to improvements in data quality.
DTRS	P	Operational areas have the primary responsibility for quality assurance within DTRS. The Business and Finance Services Branch does, however, conduct high-level quality assurance checks on the performance information and, as necessary, discuss its concerns with the relevant areas.
FaCS	P	Quality assurance is the responsibility of the operational areas. There is, however, a data dictionary that identifies all PBS performance information and has information on, among other things, the type of indicator, responsibility, and collection methodology and frequency. It does not, however, address data quality.
ISR	P	ISR has no formal corporate quality assurance arrangements. The Department relies on managers providing PBS performance information that is valid, accurate and reliable. As well, the Department advised the ANAO that it considers that quality assurance occurs informally through monthly Board of Management reviews of reports against performance measures.

P Partially satisfied

✓ Satisfactory

✗ Unsatisfactory

5.28 Overall, at the time of the audit fieldwork, other than for ANTA, the ANAO found that quality assurance procedures were based on operational arrangements embedded in data management systems (for example, range and consistency checks on redundant measures). Given that the focus of this audit was an examination of PBS performance information, the ANAO did not examine these operational arrangements. Agencies also advised of some additional measures such as independent audit checks by DETYA on sensitive data collected in relation to schools. Such arrangements provide an essential base for the production of quality performance information. However the majority of agencies audited indicated that they saw the need for a corporate approach to assuring the quality of performance data, particularly because information was being provided to Parliament.

5.29 Data collected for operational purposes forms the basis for internal management and external accountability reporting. It is therefore important that such data provides an accurate picture of actual performance for decision-making and accountability.

5.30 For agencies to be able to provide assurance to both management and Parliament in relation to data quality they must establish performance information data quality standards for both operational and PBS data to ensure validity, reliability and accuracy, determine if the data collections meet these standards and, as necessary, implement procedures to improve data quality. None of the 10 agencies included in the audit had implemented such arrangements for PBS performance information as a whole. There is therefore a risk that some performance information provided to Parliament may be of a low quality.

Recommendation No. 3

5.31 The ANAO recommends that, to ensure the validity, reliability and accuracy of information used internally for management purposes as well as being provided to Parliament, agency-wide quality assurance processes for performance information should be established.

Agency response:

All 10 agencies agreed with the recommendation.

Conclusion

5.32 The ANAO concluded that the 10 agencies audited had suitable organisational arrangements to support the PBS performance information and reporting in that they had provided appropriate executive support for the development and implementation of the outcomes/outputs, performance information arrangements. As well, they had:

- a coordinated approach to the collection, monitoring and reporting of performance information to provide a consistent focus on the desired outcomes and outputs;
- planning arrangements, from the corporate plan through to group business plans and performance agreements, that were linked and focused on the achievement of the designated outcomes and outputs;
- appropriate guidelines and training necessary to provide agency staff with the means to develop the skills necessary to establish a suitable outcomes/outputs framework; and
- appropriate information management arrangements for the collection, collation and monitoring of PBS performance information.

5.33 Data quality assurance (ensuring validity, reliability and accuracy) for PBS information was, primarily, the responsibility of operational areas that relied on checks embedded in procedural arrangements such as range and consistency checks of data. These arrangements should be improved to include agency-wide data quality assurance arrangements. This would assist with sound internal management and external accountability as data validity, reliability and accuracy of performance information is a key consideration for management decisions and in reporting to Parliament.

A handwritten signature in black ink, appearing to read 'P. J. Barrett', with a large, stylized loop at the bottom.

Canberra ACT
1 November 2001

P. J. Barrett
Auditor-General

Appendices

Appendix 1

Department of Finance and Administration (Finance) Outcomes and Outputs Framework

Finance initially defined the requirements for framework in '*Specifying outcomes and outputs*'. Finance has since updated these requirements with the revised arrangements being available on its web site www.finance.gov.au. The revised requirements are, however, based on the same principles as those used for '*Specifying outcomes and outputs*'.

Following is a brief summary that Finance provided on its website³⁰ on the elements of this framework.

Outcomes

Definition

The impact sought or expected by government in a given policy arena. The focus is on change and consequences: what effect can government have on the community, economy and or national interest? Outcome statements also perform a specific legal function by describing the purposes of appropriated funds.

Purpose

Outcomes should:

- define the impacts government expects from the work of the agency and the administered items it manages;
- articulate the purpose of the relevant appropriations under the Appropriation Acts of the Commonwealth Budget;
- delineate the parameters for departmental outputs; and
- provide the Parliament, external accountability bodies, agency clients, interest groups and the general public with a clear statement of the broad goals of government and its agencies.

Requirements

Outcomes should address agency policy objectives and be:

- focussed on the end result the Government is seeking, not the means of achieving it;
- succinct;

³⁰ www.finance.gov.au/budgetgroup/docs/Guidance_Text_Alldocs_Nov_2000.doc.

- specific to the area being addressed;
- able to be read in conjunction with the Portfolio Budget Statements or Portfolio Additional Estimates Statements to constitute a clear purpose for the relevant appropriation;
- stated in such a way as to allow the relevant target group(s) to be identified;
- stated in a way that enables the formulation of sound effectiveness indicators to measure the impact of departmental outputs on the desired outcome;
- free of value-laden, generalised or aspirational language; and
- amenable to extension across agency and/or portfolio boundaries, where appropriate.

Outputs

Definition

Outputs are 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 (for example, the national interest).

Purpose and use

All departmental outputs must contribute, directly or indirectly, to a specified outcome, including those provided under purchaser/provider arrangements. Outputs for Departmental expenses and administered items should:

- be detailed in the Portfolio Budget and Additional Estimates Statements to expand on the outcomes for which Parliament appropriates and funds;
- generate a high level of scrutiny from parliament, ministers and external accountability and coordination agencies;
- represent the tangible presence of the agency amongst its clients, customers and stakeholders; and
- generate the impacts on outcomes that give rise to crucial effectiveness indicators.

Requirements

Outputs should:

- describe a good or service provided to individuals or organisations external to the agency;
- be effective in terms of their contribution to the specified outcome;
- be expressed in terms of what is (nouns or noun phrases) rather than how it is performed (verbs);
- be within the control of the agency, whether through direct delivery or contractual arrangements with third parties;
- identify what government is paying for and be measurable in terms of price, quantity and quality;
- be amenable to comparison between actual or potential suppliers (especially through price analysis);
- collectively cover all of the agency's activities, including overheads or shared resources allocated across outputs or output groups; and
- specified so that the agency's organisational structure and management systems can be mapped to its outputs (in practice this may be achieved over time).

Administered Items

Administered items are those resources administered by the agency on behalf of the Government (such as transfer payments to the States, grants and benefits) to contribute to the specified outcome. They are identified separately from departmental items (that is, departmental outputs) because they involve different accountability requirements.

Appendix 2

Annual Reports

All agencies within the Commonwealth Public Service operating under the *Financial Management and Accountability Act (1997)* are required to produce an annual report under the *Public Service Act (1999)*. Agencies' annual reports are based on requirements developed by the Department of Prime Minister and Cabinet (PM&C). These directions specify that the primary purpose of annual reports is to provide accountability, in particular to the Parliament, by outlining the performance of agencies in relation to services provided. Annual reports are the main reference document for internal management, forming part of the historical record.

The outcome and output structures are required to be consistent with the portfolio budget statement (PBS) and the Portfolio Additional Estimates Statements (PAES) relating to the year being covered by the annual report. When an agency adopts a different structure it must detail the variation and provide an explanation for the change.

The directions require the annual report to review the performance of the agency against its outcomes and outputs, rather than describing processes and activities. The report must include reporting of actual results against outcomes, outputs and performance indicators identified in the PBS and PAES, and succinctly identify progress towards the achievement of outcomes. Where the agency delivers outcomes through purchaser-provider agreements the report should detail the performance of these arrangements against the performance indicators and targets identified in the PBS. The directions identify that information presented in charts and graphs, and a concise discussion and analysis of the detailed performance information may assist the reader.

PM&C suggest that, in relation to the outcomes/outputs framework and performance information, annual reports should show:

- trend information where appropriate;
- any significant change in the agency's principle functions or services be identified;
- factors, events or trends which have influenced the agency's performance over the year should be identified, as well as how the agency plans to deal with these issues;
- where agencies have service charters in place, performance against these should be identified, including service charter customer service standards, complaints data, trend analysis, and the agencies' general response to complaints; and
- when agencies have outputs which may impact on social justice and equity outcomes in the community, impacts on social justice are identified.

Appendix 3

Senate Finance and Public Administration Legislation Committee: The Format of the Portfolio Budget Statements—third report

The Senate Finance and Public Administration Legislation Committee (SFPALC) report, released in November 2000, examined the reporting framework, budgeting issues and performance information within the PBS of Commonwealth Public Service agencies. This appendix summarises the Committee's comments on those areas examined in this audit.

Reporting framework

- no agency reporting framework should be 'set in concrete'. However, changes should not be made for the sake of change alone;
- administratively and functionally separate agencies should have their funding and functions separately accounted for in the PBS; and
- all outputs should relate to specific outcomes and present a complete picture of the outcome.

Performance information

- concern was expressed over the 18 month period between the establishment of indicators and the reporting against them;
- performance information should, but did not always, clearly demonstrate the extent to which outcomes were achieved;
- the level of reporting was, at times, overly inclusive. Highly aggregated outputs and performance information make it difficult to properly examine some agencies' PBS;
- indicator quality was unsatisfactory in some instances. That is, indicators did not appropriately address important output characteristics. In particular, outsourced functions were not adequately addressed in the PBS;
- the rationale for targets was not clear;
- performance trends could not always be examined because indicators changed;
- the validity and robustness of qualitative indicators was of a concern and, in particular, qualitative indicators for policy advice³¹; and
- outcome effectiveness indicators were often inadequate.

The ANAO found that all agencies were addressing concerns raised by SFPALC in its third report although some areas of concern remained. Therefore, the ANAO made three recommendations to address these issues.

³¹ The ANAO is currently undertaking an audit examining the development of social policy advice.

Appendix 4

Agency background information

Australian Geological Survey Organisation (AGSO)

AGSO operates within the Industry Science and Resources (ISR) portfolio as a prescribed agency under the *Financial Management and Accountability Act (1997)*. AGSO delivers geoscientific research, information and advice in the following areas:

- minerals exploration promotion and technical advice;
- petroleum exploration promotion and technical advice;
- marine-zone geoscience; and
- geohazards and geomagnetism information.

AGSO is responsible for its own input in the ISR PBS. AGSO performance is reported in the ISR Annual Report.

Outcomes and output structure (2000–01 PBS)

	Outcomes	Outputs
Level 1	Enhanced potential for the Australian community to obtain economic, environmental and social benefits through the application of first class research and information.	Geoscientific research and information that meets Australia's needs.
Level 2 Intermediate	Enhanced global attractiveness of Australia's offshore and onshore investment opportunities.	Petroleum exploration promotion and technical advice.
	Improved resource management and environmental protection.	Minerals exploration promotion and technical advice.
	Safer communities and transportation.	Minerals exploration promotion and technical advice.
		Marine-zone management. Geohazards and geomagnetism.
Level 3	Specific project level outcomes.	Specific project level outputs.

Australian Maritime Safety Authority (AMSA)

AMSA operates within the Transport and Regional Services Portfolio as a statutory authority established under the Australian Maritime Safety Act (1990). Its primary role is to:

- prevent and combat ship-sourced pollution in the marine environment;
- provide for high standards of maritime safety;
- provide infrastructure to support safety of navigation in Australian waters;
- provide a search and rescue service to the maritime and aviation sectors; and
- provide, on request, services of a maritime nature on a commercial basis to the Commonwealth and/or states and territories.

AMSA is responsible for its specific input into the DTRS PBS. AMSA publishes a separate annual report.

Outcomes and output structure (2000–01 PBS)

<i>Outcome</i>	<i>Priorities</i>	<i>Output groups</i>
Linking Australia through transport and regional services.	A safe maritime environment.	Ship operations safety program.
	Minimised risk of pollution in the marine environment.	Marine environment protection program.
	Minimised fatalities and trauma as result of maritime and aviation incidents.	Search and rescue program.

Australian National Training Authority (ANTA)

ANTA operates within the Education, Training and Youth Affairs Portfolio as a statutory authority. Its main role is to facilitate an integrated national vocational education and training system, through providing Commonwealth, State and Territory ministers with policy advice, and advice on mechanisms to achieve this national focus.

ANTA is responsible for its specific input into the DETYA PBS. ANTA publishes a separate annual report.

Outcomes and output structure (2000–01 PBS)

<i>Outcomes</i>	<i>Output Groups</i>
Outcome1 To ensure that the skills of the Australian labour force are sufficient to support internationally competitive commerce and industry and provide individuals with opportunities to optimise their potential.	Output 1 To achieve the deliverables outlined in the key result areas of the Annual National Priorities. For 2000, the priorities are: <ul style="list-style-type: none">• consolidation of national training arrangements;• achieving diversity and flexibility to meet the needs of all;• ensuring value for money; and• changing attitudes to training.

National Occupational Health and Safety Commission (NOHSC)

NOHSC operates within the Employment, Workplace Relations and Small Business Portfolio. It identifies its vision as being Australian workplaces free from injury and disease, with its mission being to lead and coordinate national efforts to prevent workplace death, injury and disease in Australia. NOHSC identifies its tasks as being:

- to support and add value to efforts in all Australian jurisdictions to tailor approaches to workplace needs; and
- support jurisdictions efforts to find less burdensome ways of meeting the legitimate regulatory goals of government.

NOHSC is responsible for its specific input into the Employment, Workplace Relations and Small Business PBS and reports its performance in a separate annual report.

Outcomes and output structure (2000–01 PBS)

<i>Outcome</i>	<i>Outputs</i>
1. Australian workplaces free from injury and disease.	Output 1.1 Improving national data systems and analysis. Output 1.2 Improving national access to OHS information. Output 1.3 Improving national components of the OHS and regulatory framework. Output 1.4 Facilitating and coordinating national OHS research. Output 1.5 Monitoring progress against the National OHS Improvement Framework

Department of Defence (Defence)

Defence is one of the largest government departments, with over \$19 billion in funding and 16000 civilian employees, a 50 000 ADF permanent force and some 20 000 ADF reserves. Defence describes its core business as being to ensure that Australia's Defence Forces are able to operate effectively in conflict and manage security interests so that conflict does not occur.

Outcome and output structure (2000–01 PBS)

Outcome	Outputs
To prevent or defeat the use of armed force against Australia and its interest.	Output 1: Defence Operations Output 2: Navy Capabilities Output 3: Army Capabilities Output 4: Air Force Capabilities Output 5: Policy Advice

The above outcome changed for the 2001–02 PBS to: *The defence of Australia and its national interests*. As well, the outputs changed with Output 5 becoming *Strategic policy* and an another output was added: *Intelligence* (Output 6).

Whole-of-Defence strategy map and Defence Matters Scorecard (DMS)

The Secretary of the Department of Defence and the Chief of the Defence Force announced the development of the DMS, an adaptation of Kaplan and Norton's balanced scorecard³², in June 2000 to address concerns that Defence did not have an integrated and co-ordinated performance management system.

The strategy map and scorecard establish the performance expectation and reporting framework for Defence. The whole-of-Defence strategy map sets out the organisational priorities that, when implemented, will achieve the goals of the White Paper.

The whole-of-Defence strategy map and DMS will be cascaded through the Services and Groups to align all of Defence's activities to the strategies. This work will take place in the first two quarters of financial year 2001–02 in readiness for the development of a strategy-focussed budget for 2002–03.

³² Kaplan, R. S. & Norton, D. P., op cit.

Defence has a 'results through people' framework for the strategy map and DMS that has the following four perspectives:

- **Results for Government as Defence's Customer**—this perspective addresses the results delivered to the Government as the customer for the Defence outputs;
- **Results for Government as Defence's Owner**—this perspective addresses the results delivered to the Government as 'shareholder' of Defence. Its focus is on stewardship in relation to people and to financial and other resources, with a view to ensuring the long-term sustainable delivery of Defence outputs. In this capacity it addresses the PBS performance information requirements;
- **Enabling Business Process**—this perspective addresses the internal business processes and systems' development that Defence undertakes to ensure that appropriate services are provided to support delivery of results to the Government; and
- **People Matter**—this perspective addresses factors affecting the ability of Defence's people to contribute to the results sought by the Government. The performance of senior leadership in creating an environment in which people can give their best is included in this perspective.

A truncated Defence plan for 2001–02, comprising a map of Defence's strategic priorities, was released within Defence at the beginning of the new financial year. Work has begun on developing the defence Plan for 2002–12, including the next evolution of Defence's strategy mapping and development of a strategy-focussed performance scorecard. This process will be used to inform the Government's consideration of its 2002–03 budget. Once the Defence plan is finalised in the context of the Government's 2002–03 Budget, extensive work will be undertaken to align Defence's internal performance management arrangements, including its internal customer-supplier model, with whole of Defence performance strategies and initiatives. This will include a cascading of the performance requirements to operational areas within Defence.

Department of Education, Training and Youth Affairs (DETYA)

DETYA operates under the structure of three outcomes which focus on schools and their students, post school education and training and research. The Department states that its role is to:

- support the Government's efforts to respond in an integrated and balanced way to the education and training needs of all Australians, particularly its young people;
- establish a national policy framework for school level education, post compulsory education and the transition between education and work; and
- improve access to education for disadvantaged groups including Indigenous Australian and isolated students.

Outcomes and output structure (2000–01 PBS)

Outcomes	Output Groups
1. School systems provide their students with high quality foundation skills and learning outcomes.	Output Group 1.1 Infrastructure funding for the schools system. Output Group 1.2 Assistance for school students with special needs. Output Group 1.3 Enhance the quality of teaching and learning.
2. Post school education and training providers assist individuals achieve relevant skills and learning outcomes for work and life.	Output Group 2.1 Infrastructure funding for the post compulsory education system. Output Group 2.2 New Apprenticeships. Output Group 2.3 Skill development and transition support. Output Group 2.4 Opportunities for the active engagement of young people with community activities.
3. Australian institutions advance the knowledge base, contribute to the national innovations system and participate effectively in the global development of knowledge and skills.	Output Group 3.1 Block funding higher education research and research training. Output Group 3.2 Competitive Research Schemes. Output Group 3.3 Internationalisation of Australian education and training.

Department of Employment, Workplace Relations and Small Business (DEWRSB)

DEWRSB aims to promote an equitable labour market which links people with jobs and provides a transition from welfare dependency to employment, flexibility and fairness within the workplace, improvements in the operating environment for small business, and the provision of electronic access to government information and services.

Outcome and output structure (2000–01 PBS)

Outcomes	Output Groups
1. An efficient and equitable labour market that links people to jobs and promotes the transition from welfare to work.	Output Group 1.1 Labour market policy and analysis. Output Group 1.2 Labour market program management and delivery.
2. Flexible and fair workplace relations at the enterprise level.	Output Group 2.1 Workplace relations policy and analysis. Output group 2.2 Workplace relations implementation.
3. An improved operating environment for small business.	Output Group 3 Small business policy and support.
4. Electronic access to Government information and services.	Output Group 4 Business Entry Point and on-line business information and services development.

Department of Transport and Regional Services (DTRS)

DTRS operates under the single outcome of a *better transport system for Australia and greater recognition for local, regional and territory communities*. Through its Corporate Plan DTRS has identified four key results that it plans aim to achieve including:

- transport systems which are safer, more efficient, internationally competitive, sustainable and accessible;
- regional communities which have better access to opportunities and services, and which are able to take the lead in their own planning and development;
- local governments which serve their communities more efficiently and effectively; and
- territories which provide for their residents the same opportunities and responsibilities as other Australians enjoy in comparable communities.

Outcomes and output structure (2000–01) PBS.

Outcome	Output Groups
Linking Australia through transport and regional services*.	Output Group 1 Policy Advice and Ministerial Services. Output Group 2 Regulatory, Investigative and Safety Services. Output Group 3 Services to Communities. Output Group 4 Services to Industry. Output Group 5 Revenue Administration.

* This outcome was changed to 'A better transport system for Australia and greater recognition and opportunities for local, regional and territory communities' for the 2001–02 PBS.

Department of Family and Community Services (FaCS)

FaCS is the principal policy formulation and advising body within the Family and Community Services Portfolio. FaCS is responsible for implementing the Government's income security policies and delivering services for people with disabilities, families with children, community support, family relationship and welfare housing.

FaCS aims at achieving three policy outcomes, that is stronger families, stronger communities and economic and social participation. The three key strategies used are capacity building and early intervention, promoting independence, choice and self reliance and maintaining a strong and sustainable social safety net.

Outcomes and output structure (2000–01 PBS)

Outcomes	Output Groups
1. Stronger Families.	Output Group 1.1 Family Assistance Output Group 1.2 Youth and Student Support Output Group 1.3 Child Support
2. Stronger Communities.	Output Group 2.1 Housing Support Output Group 2.2 Community Support
3. Economic and Social Participation.	Output Group 3.1 Labour Market Assistance Output Group 3.2 Support for People with a Disability Output Group 3.3 Support for Carers Output Group 3.4 Support for the Aged Output Group 3.5 Child Care Support

Department of Industry Science and Resources (ISR)

The primary role of ISR is to foster economic advances and scientific achievements that continue to strengthen Australia's international competitiveness. The Department does this by developing and implementing a range of policy and business assistance programs to build the competitiveness of Australian industry and foster excellence in Australian science technology and sport. The department also provides scientific business services through the Australian Survey and Land Formation Group, the Australian Government Analytical Laboratories and IPS Radio and Space Services.

Outcome and output structure (2000–2001 PBS)

Outcomes	Outputs
1. A stronger, sustainable and internationally competitive Australian industry, comprising the manufacturing, resources and services sectors.	Output 1.1 Strategic Industry Leadership Output 1.2 Industry Policy Development and Implementation. Output 1.3 Industry Program Design and Management. Output 1.4 Investment Promotion and Facilitation.
2. Enhanced economic and social benefits through a strengthened national system of science and innovation.	Output 2.1 Strategic Science and Innovation Leadership. Output 2.2 Science and Innovation Policy Development and Implementation. Output 2.3 Science and Innovation Program Design and Management. Output 2.4 Scientific Business Services.

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