

VICTORIA

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Auditor General  
Victoria

# Departmental performance management and reporting

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*Ordered to be printed by Authority.  
Government Printer for the State of Victoria*

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ISSN 1443 4911  
ISBN 0 7311 5982 9



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AUDITOR GENERAL  
VICTORIA

The Hon. B.A. Chamberlain MLC  
President  
Legislative Council  
Parliament House  
MELBOURNE

The Hon. A. Andrianopoulos MLA  
Speaker  
Legislative Assembly  
Parliament House  
MELBOURNE

Sir

Under the provisions of section 16 of the *Audit Act* 1994, I transmit my performance audit report on *Departmental performance management and reporting*.

Yours faithfully

J.W. CAMERON  
*Auditor-General*

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# Foreword

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Governments around the world are increasingly turning to performance management and reporting systems to enhance public accountability and to drive the achievement of government outcomes through aligning the allocation of resources with environmental, social and economic policy objectives.

In my June 2001 *Report on Ministerial Portfolios*, I noted the partial development of the Victorian performance management and reporting framework. This report assesses the conceptual basis of the framework, noting the need for it to:

- encompass the activities of the wider public sector;
- give greater consideration to the adequacy of existing *ex-ante* public sector reporting practices; and
- ensure that measures include consideration of the long-term sustainability of government operations.

In assessing the implementation of the framework within the 8 government departments, I took into account its developmental status, recognising the constraints this has placed on departments. Given the expansion of my mandate to include the discretion to audit performance indicators, I have been particularly concerned to provide clear guidance to assist development of those indicators by departments in order to enhance future auditability.

The performance management and reporting framework must be finalised now, so that the benefits of enhanced public sector performance and public accountability can be harnessed and felt by the community.

I would like to dedicate this report to the late Jan Tranter. Jan undertook much of the work for the June report and the planning for this report, before falling ill in July and losing her short battle with cancer in October. In 18 years in the Office, Jan played a major role in the development of performance auditing in Victoria and produced many high quality reports for the Office. She is greatly missed.



J.W. CAMERON  
*Auditor-General*

*28 November 2001*

# Part 1

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## Executive summary

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## INTRODUCTION

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**1.1** The Government is developing a performance management and reporting framework for the Victorian budget sector to drive the achievement of government outcomes and provide enhanced public accountability for departmental performance. The Departments of Premier and Cabinet, and Treasury and Finance are the key players in developing the framework, which is progressively being implemented throughout the 8 departments.

**1.2** The *Audit Act* 1994 provides me with a discretionary mandate to audit a key element of the framework: any performance indicators in the report of operations of an authority, to determine whether:

- they are relevant to any stated objectives of the authority;
- are appropriate for the assessment of the authority's actual performance; and
- fairly represent the authority's actual performance.

**1.3** In my June 2001 *Report on Ministerial Portfolios*, I reported that substantial progress had been made in implementing the new performance management and reporting framework. However, the Government, through the Department of Premier and Cabinet and the Department of Treasury and Finance, had not formalised the key components of the framework, including the high level desired outcomes and priorities, and the associated performance indicators, targets and public reporting mechanisms.

**1.4** I concluded that the work commenced by the Department of Premier and Cabinet to define high level outcomes and performance indicators did not appear to be adequately linked to the Government's resource allocation framework. I noted that departmental objectives and indicators developed as part of the budget process needed to be closely aligned to the Government's high level outcomes and measures of progress.

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## AUDIT OBJECTIVES AND SCOPE

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**1.5** This follow-on audit assesses the:

- Adequacy of the central agency framework and departmental corporate planning processes (including the adequacy of linkages) established to facilitate performance management, measurement and reporting;
- Quality and quantity of the key departmental performance indicators (and output targets) to be used in 2001-02 for performance management and external reporting purposes, with reference to their relevance, appropriateness and measurability/auditability in the context of the departmental objectives, cross-agency elements and desired government outcomes. Because performance indicators for departmental objectives were yet to be formalised, we examined the output performance measures established through the annual budget process instead; and
- The preparedness of departments to accurately measure and report their performance against their performance indicators for 2001-02.

**1.6** The audit covered the 8 departments, and the roles performed by the Departments of Treasury and Finance, and Premier and Cabinet, in their capacities as central agencies.

## AUDIT CONCLUSION

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**1.7** The performance management and reporting framework is not complete. Some key components, including the Government's desired outcomes, measures of progress, departmental objectives and associated performance indicators, have yet to be finalised or publicly released.

**1.8** Other jurisdictions have shown that implementing results-based management is a long-term and complex process. However, I am concerned at the extended development period for the framework. It is important that momentum be maintained to ensure commitment within the public sector.

**1.9** Even in its incomplete state, the framework has promoted an enhanced focus on performance measurement and reporting. However, in the absence of clear linkages between the Government's desired outcomes and departmental objectives, and the finalisation of associated measures of progress and performance indicators, the framework, at this stage, does not drive the achievement of the Government's outcomes.

**1.10** The framework is partial in that it does not address performance management and reporting across all public bodies (i.e. outside government departments). Unless made explicit in setting departmental objectives, it may not adequately address the "ownership interests" of Victorians, including key aspects relating to the longer-term sustainability of government operations.

**1.11** Departments had generally exceeded the requirements for reporting of performance information currently specified in the Directions of the Minister for Finance under the *Financial Management Act 1994*. However, accountability to the Victorian Parliament and community would be enhanced by the establishment of requirements for *ex-ante* and *ex-post* reporting against the Government's desired outcomes on a whole-of-government basis. Revision of the current reporting requirements for departments to provide a greater focus on performance reporting and on a consistent basis of reporting would also be of benefit.

**1.12** Departments generally had systems in place to enable collection and collation of data for measuring, monitoring and reporting for the output performance measures examined during the audit, although there is room for improvement in relation to the validation of data. In the absence of agreed performance indicators related to departmental objectives, we are not in a position to conclude on the preparedness of departments to accurately measure and report their performance against such indicators.



**1.13** The situation reported by me in June 2001 has remained substantially unchanged, that is the Government's performance management and reporting framework has not been sufficiently developed to enable audit opinions to be issued regarding the relevance, appropriateness and fair presentation of performance indicators. Until the remaining components of the framework are in place, I will not be in a position to exercise my mandate to provide audit assurance on performance indicators for measuring achievements against departmental objectives.

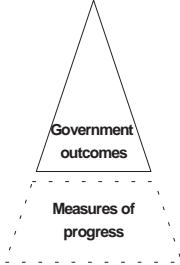
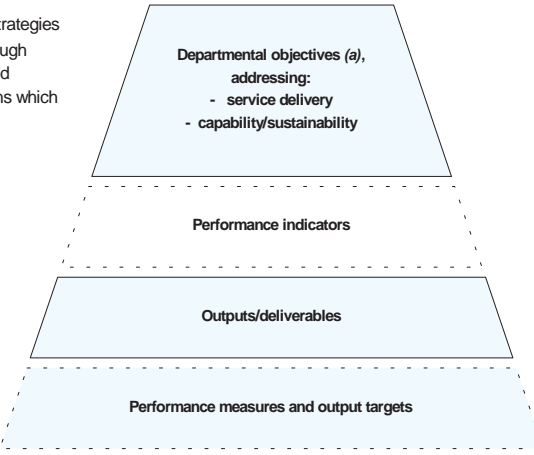
## AUDIT EXPECTATIONS

**1.14** Fundamental to our audit assessment was our expectation that an effective performance management and reporting system should:

- Drive achievement of government outcomes. This requires that:
  - Government outcomes be clearly specified;
  - Outcomes link to departmental objectives. This requires that departmental objectives are clearly defined and cover the key dimensions of departmental accountabilities and operations, i.e. address both the “purchaser” interest in deliverables, and the “owner” interest in organisational capability and long-term sustainability; and
  - The budget and resource allocation process be integrated with the performance management and reporting system;
- Provide accountability to Parliament and the community. This requires performance reporting that:
  - Encompasses *ex-ante* (i.e. proposed activities and budget) and *ex-post* (i.e. actual activities and cost) reporting elements;
  - Is consistent across departments;
  - Reports the right information, including:
    - Achievements against whole-of-government outcomes; and
    - Performance indicators that:
      - Report the right things (i.e. are relevant and appropriate);
      - Report things fairly (i.e. are accurate); and
      - Are evaluated and/or audited to provide assurance on their relevance, appropriateness and accuracy; and
- Be supported by information systems that efficiently provide the data necessary to measure, monitor and manage government programs.

1.15 Chart 1A summarises the features we would expect to see in the performance management and reporting framework, both in terms of reporting requirements and key components. The unshaded areas have not yet been finalised or publicly released.

**CHART 1A  
FEATURES OF A PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK**

Reporting	Performance management components	Description of components
<p><b>Whole-of-government</b></p> <ul style="list-style-type: none"> <li>- <i>Ex-ante</i>: Signals strategic directions and priorities through a separate report related to, and accompanying, the budget papers, which are tabled in Parliament.</li> <li>- <i>Ex-post</i>: Reports performance through the whole-of-government annual report tabled in Parliament.</li> </ul>		<p>Specification of the Government's desired impacts on the community, developed within the Government's economic, environmental and social policy agenda and including priorities for the coming budget cycle. (10 to 15 outcomes across government.)</p> <p>Measurement of performance in achieving the Government's desired outcomes, in terms of key economic, social and environmental measures.</p>
<p><b>Departments</b></p> <ul style="list-style-type: none"> <li>- <i>Ex-ante</i>: Signal strategies and priorities through budget papers and departmental plans which are tabled in Parliament.</li> <li>- <i>Ex-post</i>: Reports performance through annual reports tabled in Parliament.</li> </ul>		<p>Specification of key operational objectives intended to be achieved by individual departments. These are consistent with the Government's desired outcomes and endorsed by Government as part of corporate strategic planning. (5 to 10 objectives per department.)</p> <p>Measurement of performance in achieving departmental objectives, in terms of key efficiency and effectiveness indicators.</p> <p>Specification of departmental outputs, i.e. the products or services produced or delivered by a department. These are explicitly linked to departmental objectives.</p> <p>Measurement of performance in producing and delivering outputs against targets of quality, quantity, timeliness and cost.</p>

(a) While departmental objectives were published in the budget papers for 2001-02, the central agencies advised that the objectives are to be refocused during development of the 2002-03 budget.

Source: Victorian Auditor-General's Office.

**1.16** To exercise my legislative responsibility for the audit of performance indicators, it is necessary to define the terms “relevant”, “appropriate” and “auditable”. Definitions are not used consistently across, and within, jurisdictions. The definitions we propose to use in future auditing are presented in Table 1B.

**TABLE 1B  
DEFINITIONS FOR AUDIT ASSESSMENT OF PERFORMANCE INDICATORS**

<i>Term</i>	<i>Definition</i>
“Relevant”	<p>The indicator should have a logical and consistent relationship to the agency’s objectives which are linked to the Government’s desired outcomes.</p> <p>The agency is accountable for achievement of the objective and for reporting against the indicator.</p> <p>A set of key measures which best expresses the performance of an agency/program having regard for:</p> <ul style="list-style-type: none"> <li>• immediate deliverables; and</li> <li>• long-term sustainable supply including human, physical and intellectual elements.</li> </ul>
“Appropriate”	<p>The indicator gives sufficient information to assess the extent to which the agency has achieved a pre-determined target, goal or outcome, by reference to:</p> <ul style="list-style-type: none"> <li>• the trend in performance over time;</li> <li>• performance relative to the performance of similar agencies; and</li> <li>• performance relative to pre-determined benchmarks.</li> </ul> <p>The indicator should be accompanied by adequate notes that assist the user to draw meaningful conclusions about the performance of the agency.</p>
“Fairly represents”	<p>In order to fairly represent performance of an agency, the information provided must be capable of measurement, represent what it purports to indicate, consistently and without bias, and be accurate and auditable.</p>
“Auditable”	<p>Quantifiable, consistent and verifiable data are available.</p> <p>The information upon which the indicators are based is collected, recorded and analysed in such a way that the conclusions drawn from it can be verified.</p>

## AUDIT FINDINGS

### Driving the achievement of government outcomes

#### *Clear specification of government outcomes and linking outcomes to objectives*

**1.17** Between 10 and 15 high level outcomes were recently approved by the Government and are due for release shortly. However, certain key issues are under consideration and yet to be resolved. (*para. 4.12*)

**1.18** The performance management and reporting framework addresses those aspects of public sector operations for which the 8 departments are accountable. Performance management and reporting for the wider public sector including allocating responsibility for achievements against government outcomes and attributing the impact on outcomes, needs to be considered. *(paras 4.14 to 4.19)*

**1.19** There is a risk that departmental objectives developed through the resource allocation process may focus too much on the delivery of short-term outputs and fail to address ownership interests, in particular long-term sustainability of government operations. *(paras 4.21 to 4.22)*

**1.20** Departmental objectives require revision to provide clearer links between the resource allocation and policy/strategic planning components of the framework. We understand that the objectives are to be refocused and indicators finalised during development of the 2002-03 budget. *(para. 4.23)*

### ***Integrating the budget and resource allocation process with the performance management and reporting system***

**1.21** The Department of Treasury and Finance recently provided departments with the endorsed government outcomes so that their 2002-03 budget submissions, including strategic funding priorities, may be made within the context of those outcomes. Other significant parts of the framework have yet to be provided, including measures of progress associated with government outcomes, to provide reference for refocusing departmental objectives and developing linkages between the outcomes and objectives. *(paras 4.31 to 4.33)*

**1.22** In August 2001, the Government endorsed the Integrated Management Cycle, under the Management Reform Program, designed to integrate "... *decision making in relation to the Government's policies and strategies with decision making on resource allocation and the delivery of outputs*". Departments follow the broad concepts of the cycle in their daily operations and, once the remaining components of the performance management and reporting framework are in place, the cycle's ability to deliver strengthened public sector efficiency, effectiveness and accountability should be enhanced. *(paras 4.36 to 4.41)*

**1.23** In 2000, the Department of Treasury and Finance encouraged all departments to self-evaluate existing and ongoing implementation of key management reform principles relating to resource management and accountability. A number of key strategies for improvement were identified and are being progressively addressed, although self-assessment alone may be insufficient as it may lack objectivity. *(paras 4.42 to 4.46)*

**1.24** The effective introduction of the performance management system in the Victorian public sector will require cultural change and skills development and it is important that the momentum of development and implementation of the system be maintained. To support skills development, central agencies and departments should develop training programs to ensure staff acquire the necessary skills. *(paras 4.47 to 4.49)*

**1.25** A total of 11 output reviews are being undertaken during 2001-02, with at least one output under review in each department. While the intention of the Government in undertaking the reviews is commendable, the lack of independent scrutiny and their short timeframes may limit their value. (*paras 4.51 to 4.52*)

### **Providing public accountability for departmental performance**

**1.26** Public disclosure of intended outcomes, objectives, performance measures and targets in corporate and departmental plans, prior to plan implementation, i.e. *ex-ante* reporting, signals to stakeholders the strategic directions and priorities of the Government and its agencies. Public disclosure in an annual report of actual achievements, i.e. *ex-post* reporting, closes the accountability loop. (*para. 5.13*)

#### **Corporate plans**

**1.27** Corporate planning frameworks established by the departments, and the quality of the material produced, were generally adequate. There were areas for improvement by some departments including:

- consultation with stakeholders;
- linkages between corporate plans and the performance management and reporting systems;
- analysis of strategic risks, linked to mitigating strategies;
- finalisation of plans prior to the commencement of the period covered by the plan; and
- a formal requirement for prior public disclosure of corporate plans.

This would provide a more comprehensive picture of the nature, scale and scope of an agency's intended activities than the current budgetary documents allow. (*paras 5.17 to 5.18*)

#### **Annual reporting**

##### *Reporting the right information*

**1.28** The framework under development does not provide for reporting of performance against government outcomes and related measures of progress on a whole-of-government basis. This is a significant accountability gap. In addition, the current reporting requirements do not provide a basis for consolidated reporting of cross-agency activities, where departments contribute to the delivery of programs or strategies that involve multiple departments. (*paras 5.21 to 5.25*)

**1.29** Departments indicated that their 2000-01 annual reports, to be tabled in the Spring 2001 Session of Parliament, will show an improvement on the 1999-2000 reports, given the progress in developing the performance management and reporting framework. (*para. 5.34*)

### *Reporting consistently*

**1.30** Compliance with reporting requirements is a departmental responsibility, but central agencies must play a key leadership, monitoring and enforcement role. The Department of Treasury and Finance advised that a whole-of-government financial management compliance framework is under development. *(para. 5.36)*

**1.31** In addition to external reports required under the Financial Management Act, there are a number of other reporting arrangements for departments, such as:

- external reporting mechanisms in place to enable monitoring and reporting of performance to the community or industry on a regular basis;
- intra-government reporting to assist central agency monitoring of financial and service delivery performance; and
- internal management reporting developed within agencies to deliver information integral to the day-to-day management of an agency. *(para. 5.37)*

**1.32** It is important that departments have information systems that enable efficient and effective production of reports to meet their accountability arrangements, which at times require production of reports at monthly, quarterly, half-yearly and annual intervals, and which may cover both financial and performance information. The 8 departments are streamlining their information management and reporting processes to minimise the need to excessively extract and collate material for their various reporting requirements. *(paras 5.38 to 5.39)*

### **Output performance measures**

**1.33** Performance indicators related to departmental objectives had yet to be finalised and were therefore not available for audit. We did, however, examine the output performance measures related to a selection of outputs within each of the 8 departments for their relevance, appropriateness and auditability. *(para. 5.48)*

**1.34** Output performance measures were generally relevant to departmental objectives, i.e. the delivery of the outputs being measured could be related to the pursuit of the departmental objectives. However, for some departments, not all parts of the objectives to which the outputs contributed were addressed by the measures. *(para. 5.53)*

**1.35** Further, in terms of appropriateness, we found that the output performance measures provided a balanced view addressing quality, quantity and timeliness. However, they did not measure or report the full accrual cost per unit of output. *(para. 5.54)*

**1.36** The output performance measures and targets were auditable. *(para. 5.55)*

### **Information for measuring, managing and monitoring performance**

**1.37** In developing the government outcomes and related measures of progress, the Department of Premier and Cabinet is giving particular attention to their measurement capability and to the availability of data for measuring and benchmarking of performance. The credibility of the data source and the verification procedures applied or certifications required will need to be considered, especially where data is sourced from third parties. *(para. 5.61)*

**1.38** Departments have central and divisional systems in place to capture and report on information relating to output performance measures and targets. Although some departments have, or are planning, relatively sophisticated databases to electronically collate, monitor and report performance information, other departments manually collate data and use electronic templates to facilitate reporting. Most departments are currently improving their information systems to reduce duplication of effort and enhance efficiency and timeliness. Attention to formal validation processes will be required. *(paras 5.65 to 5.66)*

**1.39** We found for the outputs and output performance measures selected, departments have adequate arrangements in place, or are currently developing such arrangements, to measure and report their performance in relation to output performance measures for 2001-02. *(para. 5.67)*

**1.40** In the absence of agreed performance indicators for departmental objectives, we are not in a position to conclude on the preparedness of departments to accurately measure and report their performance against such indicators. *(para. 5.68)*

## RECOMMENDATIONS

<i>Report reference</i>	<i>Paragraph number</i>	<i>Recommendation</i>
<b>Driving the achievement of government outcomes</b>	4.53	The performance management and reporting framework needs to be completed and implemented in an established timeframe.
	4.54	In finalising the framework, the Government must give consideration to: <ul style="list-style-type: none"> <li>• the performance management and reporting arrangements for the wider public sector;</li> <li>• reducing complexity and ensuring the terminology used is clearly defined to eliminate confusion, encourage consistency in application across the public sector and enable it to be readily understood by stakeholders;</li> <li>• specifying departmental objectives which address not only the service delivery aspects of departments but also the long-term sustainability of the Government's activities, and other ownership interests that fall within the control of each department;</li> <li>• ensuring that the linkages between the resource allocation and outcomes components are reinforced; and</li> <li>• ensuring that measures of progress and performance indicators are not unnecessarily constrained by the availability of data, but that data collection systems are put in place where necessary.</li> </ul>
	4.55	Adequate training must be provided to staff to enable them to effectively and efficiently implement the framework.
	4.56	The Department of Treasury and Finance should retain an ongoing role in overseeing the effectiveness of departmental self-assessments to ensure the benefits of evaluating the implementation of the reforms are realised.
	4.57	In order to maximise the impact of the output reviews, it is important that they: <ul style="list-style-type: none"> <li>• be integrated into the evaluation framework;</li> <li>• are properly scoped and methodologies used are subject to independent scrutiny; and</li> <li>• ensure that output prices are determined with adequate consideration of the costs associated with capability maintenance.</li> </ul>



## RECOMMENDATIONS – *continued*

<i>Report reference</i>	<i>Paragraph number</i>	<i>Recommendation</i>
<b>Providing public accountability for departmental performance</b>	5.69	<p>In reviewing the central agency guidelines for corporate planning, it is recommended that the appropriate central agency encourage a consistent approach to, and improved content of, corporate plans by requiring:</p> <ul style="list-style-type: none"> <li>• corporate plans to be publicly disclosed;</li> <li>• consultation with stakeholders to determine their needs and expectations;</li> <li>• links in the corporate plans of departments between planning and the performance management and reporting systems;</li> <li>• disclosure of financial outlook, including resources required in future periods;</li> <li>• analysis of strategic risks having regard for human, physical and intellectual elements, and identification of risk mitigation strategies;</li> <li>• standardisation of the length, and synchronisation, of corporate planning periods;</li> <li>• finalisation of corporate and departmental plans prior to the commencement of the period covered by the plans; and</li> <li>• a common approach to measurement and reporting of performance.</li> </ul>
	5.70	<p>We recommend that the <i>Financial Management Act</i> 1994 provide for:</p> <ul style="list-style-type: none"> <li>• annual <i>ex-ante</i> reporting of the whole-of-government strategic directions and priorities and measures of progress and targets related to government outcomes, to be tabled in the Parliament;</li> <li>• annual <i>ex-ante</i> reporting signalling the key objectives, performance indicators, measures and targets, risks, strategies and priorities through departmental plans, to be tabled in the Parliament;</li> <li>• annual reporting of whole-of-government performance against government outcomes and related measures of progress and for tabling of the report in the Parliament; and</li> <li>• consolidated reporting of cross-agency programs or strategies.</li> </ul>

## RECOMMENDATIONS – continued

Report reference	Paragraph number	Recommendation
<b>Providing public accountability for departmental performance - continued</b>	5.71	<p>We recommend a review of the content of the Directions of the Minister for Finance under the <i>Financial Management Act 1994</i> relating to the report of operations of departments be undertaken to enhance the performance reporting requirements, including:</p> <ul style="list-style-type: none"> <li>• more comprehensive disclosure of the reasons why targets have not been achieved;</li> <li>• development of a streamlined, standardised format for departmental performance reporting;</li> <li>• certification of the accuracy and reliability of data used for performance management and reporting; and</li> <li>• a monitoring framework which ensures comparability of <i>ex-ante</i> and <i>ex-post</i> reporting.</li> </ul> <p>In undertaking the review of Ministerial Directions, it is recommended that officers of the Department of Treasury and Finance consult with individual agencies and public bodies, the Public Accounts and Estimates Committee and my Office.</p>
	5.72	We recommend that the Department of Treasury and Finance adopt consistent definitions for the terms “relevant”, “appropriate” and “auditable” across government.
	5.73	We recommend that departments ensure that suitable information systems are in place to capture, in a cost-effective way, the information required to enable reporting against indicators of performance for the range of reporting requirements of an agency/department.

### **RESPONSE** provided by Secretary, Department of Treasury and Finance

*I wish to commend your Office on a comprehensive and constructive report into this very important area.*

*The Department of Treasury and Finance welcomes the findings of the audit. However, we disagree in respect of the following key issues.*

*You conclude that the performance management and reporting framework is “partial in that it does not address performance management and reporting in public bodies” and “it may not adequately address the “ownership interests” of Victorians, including key aspects relating to the longer-term sustainability of government operations”.*

*We disagree with this conclusion in 2 respects:*

1. *The framework that you have examined is not intended to provide coverage of the performance of the State’s public bodies. A complete accountability framework exists for these bodies in the form of:*
  - *enabling legislation;*
  - *agency governance arrangements that usually comprise an independent and expert board;*
  - *annual financial and performance reporting requirements; and*
  - *direct accountability to customers and stakeholders who are often represented at board level.*

**RESPONSE** provided by Secretary, Department of Treasury and Finance - continued

*Where there is State Budget support for particular community service obligations of a public body, these obligations are covered by the performance management and reporting framework through outputs and departmental objectives of the relevant department.*

*In addition, many departments support their portfolio ministers by providing comprehensive governance support arrangements which analyse and advise the Minister on all matters of governance from board appointments, the alignment of agency corporate strategies with government policy, the appropriateness of the agency's products and services, the financial stewardship of the agency etc. I note that you have not included this activity in the scope of your audit.*

2. *You conclude that "departmental objectives are developed through the Government's annual resource allocation process; a process established to address the purchaser's interest" and that there is a consequential "risk that the objectives developed may fail to adequately address the wider, longer-term ownership interests of government" (para. 4.21). You conclude that as a result "departments may give insufficient attention to the impact of their day-to-day operations on crucial matters such as the retention of intellectual capital or the sustainability of public service infrastructure".*

*As you note in para. 4.22, we are firmly of the view that the framework must focus on outputs, objectives and outcomes for the community, not the inputs to the delivery of these. This is not to say these issues are unimportant, indeed they are crucial.*

*We believe that a more appropriate vehicle for public accountability in relation to effective internal management arrangements by departments (focused on efficiency, sustainability and the ongoing improvement of capacity) is through the departmental strategic planning process. Reporting of performance against key internal strategies should be made public in the annual report of the department.*

*As noted in your report, corporate and strategic planning policy and practice is currently under review and this review will strengthen this aspect of the overall framework.*

*From a departmental perspective, the observations with respect to the Department of Treasury and Finance's performance management and reporting are agreed.*

**RESPONSE** provided by Secretary, Department of Premier and Cabinet

*I wish to commend you and your Office in undertaking this extensive audit. As you are aware, the view was initially expressed that perhaps the timing of this audit would provide logistical difficulties, given that the final roll-out of the Government's outcome framework is currently taking place. However, subject to my comments below, your report can provide a reference point for departments in the 2002-03 period.*

*I raise some specific comments in my response that I believe clarifies performance management and reporting issues for the Department of Premier and Cabinet.*

*In summary, I note that:*

- *The outcome/output framework used in the public sector is complex and those who have carriage of its implementation, at departmental and central agency levels, are aware of the daily nuances in its implementation.*

*Some of these aspects have not been adequately explained in your report and my detailed comments are intended to draw your attention to them, to ensure that there is no ambiguity or generalisation.*

**RESPONSE** provided by Secretary, Department of Premier and Cabinet - continued

- *The report does not focus sufficiently on the phased implementation of the outcomes model. In accordance with government timelines for this, the intention has been to roll-out the Growing Victoria Together policy framework using a more consultative and inclusive approach to the one used in the implementation of previous management reform initiatives.*

*Experience has cautioned central agencies from relying on a top-down missive to embed fundamental performance reforms. The issue of capacity and commitment to implement change of this nature has assisted in planning this co-ordinated approach. Officers from the Victorian Auditor-General's Office have been extensively briefed on this matter.*

- *It remains important that departments are not confused by any messages in this report in relation to sustainability or capacity. As recently identified by the Acting Secretary of the Department of Treasury and Finance to officers from the Victorian Auditor-General's Office, the clear requirement of the performance management and reporting framework is on accountability for outputs.*

*While of fundamental importance, these management issues are reported upon extensively in the annual report process and exhaustively through the Public Accounts and Estimates Committee of Parliament. The management of people and related resources are critically planned through the strategic planning process of the Integrated Management Cycle. They are then subject to the review and evaluation processes of the Management Reform Program, including a quarterly assessment process.*

- *Other comments provided later in this report relate to extrapolations in the report made from the analysis of the Women's Policy output group in the Department of Premier and Cabinet that was studied as part of the audit. It should be noted that the scorecard used in assessing the Women's Policy output is very broad and subject to interpretation, particularly as the report then seems to make generalisations about the whole of the Department of Premier and Cabinet's operations.*

**RESPONSE** provided by Secretary, Department of Education, Employment and Training

*In general terms the Department of Education, Employment and Training concurs with the context of your findings. There are, however, a number of areas upon which we would like to comment.*

**Clear specification of government outcomes and linking of outcomes to objectives**

*It is clear that there is some work to be done to finalise a clear relationship between the Government's desired outcomes and the resource allocation cycle. In this context, the Department of Education, Employment and Training is progressing the issue on 2 broad fronts:*

- *working closely with central agencies to develop relevant performance indicators that effectively measure contribution to outcomes at the departmental level; and*
- *redeveloping the Department of Education, Employment and Training budget and planning process in order to link the departmental's outputs and the allocation of resources with the broader strategic framework.*

*The issue raised with regard to co-ordinating policy, regulation and monitoring between departments and public bodies is noted and is especially relevant to education with its various provider levels.*

**RESPONSE** provided by Secretary, Department of Education, Employment and Training - continued

**Linking the planning, resource allocation, performance management and reporting processes**

Your finding that the effective introduction of the performance management system will require cultural change and skills development is strongly supported by the Department of Education, Employment and Training. In this regard this Department has endeavoured to increase the skills base by both aggressive recruitment and in-house training. It is acknowledged, however, that there is still some way to go in this process.

**Annual reporting**

Your finding in relation to an “accountability gap” for reporting of performance against government outcomes across “whole-of-government” is acknowledged. This, however, is something beyond the scope of individual departments and will need to be addressed at the central agency level. With regard to the development of enhanced information systems, the Department of Education, Employment and Training is vigorously reviewing its information systems on a number of fronts, including finance, human resources and asset management. The Department of Education, Employment and Training is also moving forward with regard to developing full accrual costing systems that will be able to allocate cost to outputs with a high degree of accuracy. This process will be largely facilitated by the system developments outlined above.

**Recommendations**

The Department of Education, Employment and Training generally supports the recommendations contained in your report with the proviso that we would need to more fully evaluate any proposed changes to the Financial Management Act in the context of their ability to be implemented together with any cost-benefit factors that might be relevant.

**RESPONSE** provided by Secretary, Department of Human Services

**Government’s performance management and reporting framework**

The audit of Departmental Performance Management and Reporting noted that the Government’s overarching framework including outcomes, measures of progress, departmental objectives and associated performance indicators is not finalised. In the context of this framework, the audit concluded that the proposed framework may not adequately address the “ownership” interests of Victorians, including the longer-term sustainability of government operations.

The Department of Human Services supports the further development of the Government’s performance management framework to encompass issues of service sustainability and system capacity. These dimensions of performance are critical to achievement of the Government’s objectives, but are not adequately monitored or measured in terms of service outputs alone. Inclusion of key input indicators within the performance measurement framework, such as indicators of work force availability, would strengthen the Government’s performance management and reporting framework.

During 2000-01, the Department of Human Services moved to strengthen its internal performance management processes in this way by developing an overarching, integrated Performance Measurement Framework based on the 4 policy pillars of Government and supporting service priorities and objectives articulated in the Department of Human Services’ Departmental Plan. The Department’s framework utilises aspects of the Balanced Scorecard concept, with a focus on establishing performance measurement based on a range of key dimensions. Included among these is the “ownership interests” dimension. In recognition of the importance of ensuring the sustainability and future capability of departmental operations, the Department of Human Services is developing indicators to support monitoring of ownership interests.

**RESPONSE** provided by Secretary, Department of Human Services - continued

### **Volume of reporting**

*The Department of Human Services considers that the Auditor-General needs to give attention in future reviews of government performance management and reporting to the issue of the volume of reporting needed to meet the Government's accountability requirements, while recognising agency resource constraints. There is a risk that, in development of outcome-focused performance frameworks, the range and volume of information collection and reporting will simply be increased to meet new requirements, rather than rationalised to replace less with more meaningful information. There is potential for such an additive process to increase the burden of reporting on agencies which may simply divert scarce resources from service delivery.*

*In its submissions to the Parliamentary Public Accounts and Estimates Committee Inquiry into Department of Human Services - Service Agreements, the Government has given a commitment to reform data collection approaches and reduce the reporting burden on agencies. The Department is committed to the implementation of a Common Data Set and reduction in the number of data collections imposed on funded agencies. In 2000-01, the Department of Human Services' Common Data Set was developed as a first step in the reform process. In 2001-02 individualised activity data collections will be assessed and prioritised for the Department of Human Services' Common Data Set alignment and implementation.*

### **Corporate planning**

*The audit assessed departmental corporate planning processes and found in relation to the Department of Human Services that the Departmental Plan lacked a financial outlook, analysis of strategic risks, and completion prior to the commencement of the planning period.*

*The Department is currently assessing its corporate planning processes as part of the annual review of the Department of Human Services' Integrated Management Cycle. This review will now be extended to include the implementation of recommendations associated with the inclusion of a strategic risk analysis and financial outlook. The importance of completing plans before the beginning of the periods that they cover is also acknowledged. Action to ensure future plans meet this requirement has already commenced.*

*In a multi-portfolio department such as the Department of Human Services, covering almost 40 per cent of the State's output budget, the role of the Departmental Plan has been developed as a high level, integrative summary of the key strategic directions documents developed by portfolio areas. For example, the Hospital Demand Strategy was developed in the context of the 2001-02 budget and provides a multi-year framework for planning resource allocation to hospitals. Also underpinning the Department of Human Services' Departmental Plan is a suite of portfolio planning and funding documents that outline both long and short-term objectives, strategies, resource allocation and performance monitoring arrangements.*

*Key among these are the divisional Policy and Funding Plans. In 2001-02 these Plans were completed at the commencement of the planning period and made publicly available, fulfilling the commitment made in the Department's submission to the Parliamentary Public Accounts and Estimates Committee Inquiry into Department of Human Services - Service Agreements. The Plans describe in detail the objectives, priorities and funds allocation arrangements for each Division of the Department and inform the development and negotiation of service agreements between the Department of Human Services and the 2 700 agencies funded to deliver health and community services to the Victorian community.*

*The Department of Human Services' Departmental Plan does not attempt to replicate the scope, detail and planning horizon of these and other strategic planning documents produced in accordance with its multi-portfolio responsibilities, but rather to identify shared organisational priorities and activities over the coming year, and the key measures of achievement of these priorities which form the focus of performance measurement processes within the Department over that period.*

**RESPONSE** provided by Secretary, Department of Human Services - continued

*The Department considers that the Auditor-General's observations on the value of consistent approaches to corporate planning should be qualified by the need to ensure that these processes are sensitive to the scale and range of strategic planning activities within departments, particularly those with multiple portfolio responsibilities.*

*In relation to the inclusion of an analysis of strategic risks in the Departmental Plan, the Department of Human Services notes that the Auditor-General's report commends, as an example of good practice, this Department's inclusion of a detailed outline of the strategic environment in which it operates.*

**Future implementation of the Government's performance management and reporting framework**

*The audit acknowledges that further work is required to complete the framework, train departmental staff in its implementation and develop information systems to support management and reporting. The timelines for implementation are not addressed in the report.*

*During the 2001-02 Expenditure Review Committee process, departments commenced the process to define departmental objectives and identify outcome indicators. The experience of this first step into outcomes definition, and preparation for monitoring and reporting has clearly indicated that the development of outcomes indicators and the establishment of data collection systems to support these processes will require time and adequate resourcing. The "whole-of-government" reporting framework establishment by the Productivity Commission is a useful example of the time and staging required to develop and implement a comprehensive performance management and reporting framework.*

**Wider public sector performance management**

*The audit comments that gaps may exist in the Government's performance management and reporting framework in respect of non-departmental agencies in the public sector. The Department of Human Services notes that its funded agencies are accountable for provision of performance information (which contributes to output and outcome reporting for the Department as a whole) through the Funding and Service Agreement process.*

**RESPONSE** provided by Secretary, Department of Infrastructure

*I offer the following comments in relation to some of your recommendations:*

- *I strongly support the development of indicators and objectives to achieve and measure the long-term sustainability of departments (para. 1.19, para 2.9, para. 4.21) and that output prices be determined with adequate consideration of the costs associated with capability maintenance. The Department of Infrastructure is addressing this issue and has identified "Capability Building" as a key ingredient in its Corporate Plan 2001-04.*
- *I have some reservations regarding the recommendation in the report relating to the requirement for departments to publish strategic risks and risk mitigation strategies (para. 5.69). Analysis of strategic risks and identification of risk mitigation is required by the Victorian Managed Insurance Authority Act. This Act requires the Department to prepare and submit to the Victorian Managed Insurance Authority a risk management plan. The Department of Infrastructure considers that the requirements under the Victorian Managed Insurance Authority Act should be sufficient to ensure Departments are properly addressing risk mitigation.*
- *I support skill development in corporate planning and reporting co-ordinated by central agencies so that there is consistency across government in the use and application of planning and reporting principles (para. 1.24, para. 4.49, para. 4.54).*

**RESPONSE** provided by Secretary, Department of Infrastructure - continued

- *Standardisation of the length and synchronisation of corporate planning periods - I do not see any advantage in synchronisation of the length and period of departmental corporate plans. I agree with the report (para. 5.19) that corporate planning must be sufficiently flexible to accommodate the diversity among departmental operations.*

**RESPONSE** provided by Secretary, Department of Justice

*The Department of Justice agrees with the finding that the Government's performance management and reporting framework is not yet complete, particularly regarding the finalisation and public release of the Government's desired outcomes, measures of progress, departmental objectives and associated performance measures.*

*The Department of Justice supports the view that the timeframe for finalising this framework is a matter for consideration by central agencies and the Government.*

*The Department of Justice would like it to be noted that its internal planning and performance management frameworks and processes are currently being improved in many of the areas recommended for consideration, and the Department is well positioned to be able, within a reasonably short timeframe, to comply with any of the proposed additional ex-ante/ex-post reporting requirements for central agency monitoring or for public accountability purposes.*

*The Department of Justice recognises the critical importance of strategic planning designed to protect the long-term sustainability and capability of government activities and other ownership interests that fall within the control of each department. However, the "input" focus of additional objectives of this nature (as recommended in para. 4.54) may not sit comfortably with the current "outputs and outcomes" focus for the specification of departmental objectives in the performance management framework. The Department would support further consideration of this issue within the recommended review of central agency guidelines on corporate planning, in guidelines on output pricing in the output review process and in any additional requirements for ex-ante and ex-post reporting.*

*The Department supports the intent of the recommendation (para. 5.69) that in reviewing central agency guidelines for corporate planning, the Department of Treasury and Finance encourage a consistent approach to and improved content of corporate plans. There is currently a degree of ambiguity in what constitutes a "corporate plan" in the context of the broad range of strategic direction statements, specific strategy plans and business operational plans produced by most departments. The intent of public transparency can be met by departments making appropriate planning documents publicly available on government websites rather than formally submitting hard copy to Parliament. Key elements of the Government's forward planning priorities, including departmental objectives and targets required for ex-ante reporting, should be written into the Budget Papers alongside the related output information and be the framework against which formal ex-post reporting is undertaken.*



**RESPONSE** provided by Secretary, Department of Natural Resources and Environment

**Overall comment**

*The Department has carefully considered the report findings and recommendations. In general, it is considered a valuable report containing a number of viable and reasonable recommendations. It was pleasing to note the conduct of the review - an open process with a good relationship being established between respective officers.*

**Specific comments**

*Specific comments relating to the recommendations made are provided later in this report.*

**RESPONSE** provided by Secretary, Department of State and Regional Development

*The Department of State and Regional Development is committed to supporting an improved quality of performance management across government and therefore supports the general tenor of your conclusions and recommendations in relation to the whole-of-government framework.*

*The Departments of Treasury and Finance, and Premier and Cabinet, have responsibility for the overall development of the performance management and reporting framework and the Department of State and Regional Development will continue to work with them towards the full implementation of measurement against desired government outcomes.*

*In undertaking this work, the Department of State and Regional Development recognises that while the complete performance management framework should be established within a certain timeframe it is more important to “get it right” within that timeframe. In particular, effective reporting against desired government outcomes requires the establishment of initial and time series data and collection methodologies and systems of sufficient standard to meet both desired public accountability standards and ongoing maintenance of the framework. To this end, the Department of State and Regional Development has proposed in its recent Expenditure Review Committee Stage 1 submission to work with the Department of Treasury and Finance to develop base performance data that “fits” with the framework in time for appropriate public reporting in its 2002-03 Annual Report.*

## Part 2

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# Victoria's performance management and reporting framework

## INTRODUCTION

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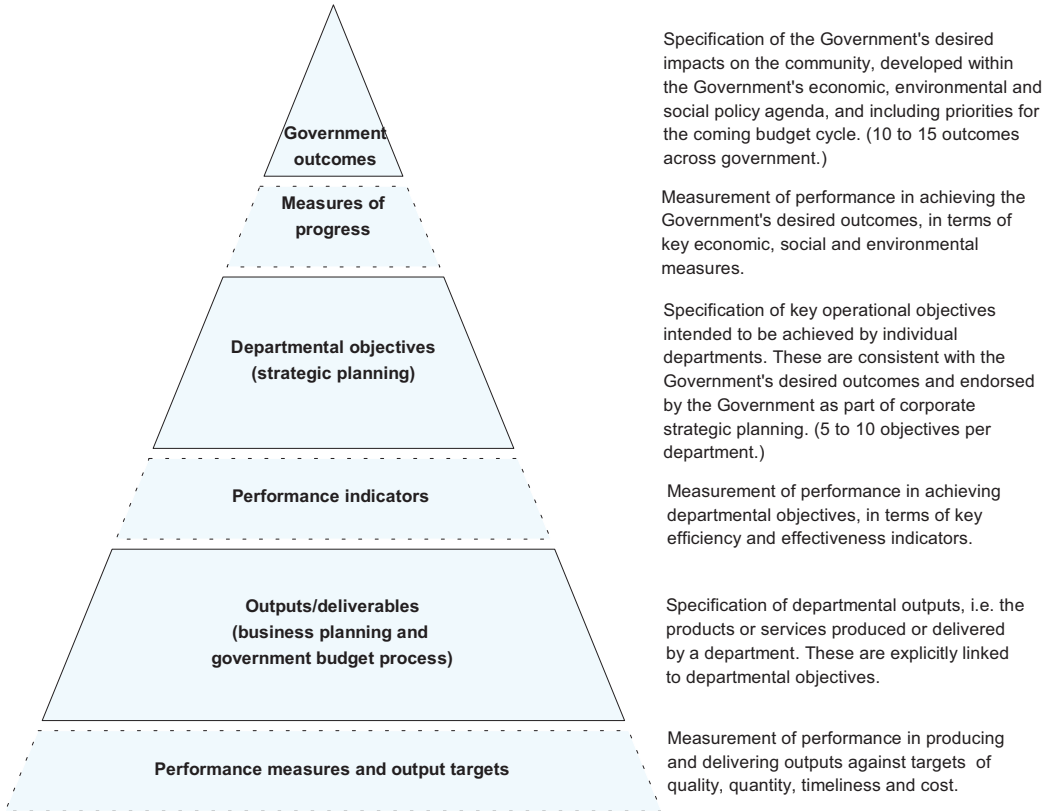
**2.1** The Government through its central agencies, the Departments of Premier and Cabinet, and Treasury and Finance, is developing a performance management and reporting framework for the Victorian budget sector. The framework is designed to:

- improve strategic planning in the public sector, through the identification of high level government-desired outcomes, and the establishment of clear and improved linkages to corporate planning and business planning processes;
- ensure resource allocation decisions are made in the context of the Government's strategic policy directions;
- improve management of budget sector resources in order to achieve the Government's outcomes; and
- ensure adequate internal and external accountability for performance.

**2.2** Chart 2A outlines the key components of the performance management and reporting framework.

**2.3** An explanation of the terminology used in this report can be found in the Glossary at the end of the report.

**CHART 2A  
VICTORIA'S PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK,  
EXPLANATION OF COMPONENTS**



Source: Victorian Auditor-General's Office.

**2.4** As Chart 2A illustrates, the framework incorporates measures of progress against high level government outcomes, and performance indicators to measure performance in achieving departmental objectives. These components are intended to provide linkages between the Government's desired outcomes and departmental objectives, facilitate integration of strategic planning and resource allocation, and enable measurement and reporting of achievements against the Government's outcomes and departmental objectives.

**2.5** Outputs are the deliverable activity which will achieve the relevant departmental objective. Thus their measurement against plans or targets is an essential feature of ensuring that those things that need to be delivered in order to achieve the departmental objectives are delivered. The measures and their related output targets are developed through the Government's annual resource allocation process and are communicated to Parliament and the public through the Government's budget papers and the annual reports of departments.

## Reporting

**2.6** The *Financial Management Act* 1994, and the Directions of the Minister for Finance issued under the Act, determine the external reporting requirements of the performance management and reporting framework. These requirements establish the minimum necessary to report:

- performance against those objectives and targets specified in the budget papers;
- financial performance, financial position and cash flows; and
- the results of actual significant activities and achievements for the reporting period.

**2.7** These external reporting requirements are supplemented by intra-governmental reporting arrangements that require departments to regularly report financial results and/or performance, including quarterly statements of the outputs delivered, to the Department of Treasury and Finance for certification as part of the appropriation control process.

## RESULTS OF PREVIOUS AUDIT

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**2.8** My June 2001 *Report on Ministerial Portfolios* provided an outline of the progress made by the central agencies in implementing the new performance management and reporting framework. In summary, while substantial work had occurred, the Government, through the Department of Premier and Cabinet and the Department of Treasury and Finance, had not yet formalised the key components of the framework, including the high level desired outcomes and priorities, and the associated performance indicators, targets and public reporting mechanisms.

**2.9** As part of the process for developing the 2001-02 budget, managed by the Department of Treasury and Finance, the Government endorsed and published in the budget papers, the departmental objectives and performance measures for key outputs/deliverables. While each department provided the Department of Treasury and Finance with information regarding key performance indicators (focusing on the achievement of departmental objectives) and the associated targets, during the budget development process, these performance indicators and related targets were not endorsed by the Government or included in the budget papers for 2001-02.

**2.10** In examining the new framework, I concluded that the work commenced by the Department of Premier and Cabinet to define high level outcomes and measures of performance did not appear to be adequately linked to the Department of Treasury and Finance's resource allocation framework. Departmental objectives and indicators developed as part of the budget process needed to be closely aligned to the Government's high level outcomes and measures of progress.

**2.11** Discussions with a number of departments indicated that the Government's resource allocation and reporting framework, which includes quarterly reporting on achievements against each measure, was seen as primarily meeting the needs of the Department of Treasury and Finance (in its central agency role) and did not necessarily serve the public accountability requirements or link to information utilised for management decision-making.

**2.12** In response to the issues raised, the Department of Treasury and Finance advised that the departmental objectives that were published in the budget papers were developed in consultation with Ministers, to ensure their alignment with the developing government outcomes. The Department of Premier and Cabinet also indicated that alignment was primarily occurring through the development of objectives and key performance indicators for departments, which will form "the bridge" between the output management structure and desired whole-of-government outcomes.

## Part 3

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# Conduct of the audit

## AUDIT OBJECTIVES

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**3.1** In my June 2001 *Report on Ministerial Portfolios*, I conveyed my intention to conduct a more detailed assessment of the budget sector's performance management and reporting framework and report on this matter later in the year.

**3.2** With the aim of enhancing public sector management and accountability, the specific objectives of this follow-on audit were to assess the:

- adequacy of the central agency framework and departmental corporate planning processes (including the adequacy of linkages) established to facilitate performance management, measurement and reporting;
- quality and quantity of the key departmental performance indicators (and output targets) to be used in 2001-02 for performance management and external reporting purposes, with reference to their relevance, appropriateness and measurability/auditability in the context of the departmental objectives, cross-agency elements and desired government outcomes; and
- the preparedness of departments to accurately measure and report their performance against their performance indicators for 2001-02.

**3.3** We sought to identify key improvement opportunities within departments and in relation to the macro-government approach to performance measurement.

## AUDIT SCOPE

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**3.4** The audit covered the 8 departments, and the roles performed by the Departments of Treasury and Finance, and Premier and Cabinet, in their capacities as central agencies.

**3.5** The following broad areas were examined:

- the performance management and reporting framework comprising the whole-of-government and State budget components, developed by the central agencies;
- corporate planning, including the clarity and measurability of departmental objectives;
- the linkages within the framework between the high level government strategic policy component, departmental corporate plans, corporate management, the budget process and external reporting;
- in the absence of key performance indicators, output performance measures, including an assessment of their relevance and appropriateness;
- annual reporting, including the adequacy of *ex-ante* reporting and planned performance measurement, and the preparedness of departments to report on their performance in 2001-02;
- management information systems and their adequacy to support performance measurement and management; and
- arrangements established to determine outcomes of cross-agency programs.



## Period covered

**3.6** The audit covered performance management and reporting activities for the following periods:

- published annual reports covering the period 1 July 1999 to 30 June 2000;
- performance management processes and reporting at the departmental level during the period 1 July 2000 to 30 June 2001;
- budget paper output performance measures covering the period 1 July 2001 to 30 June 2002; and
- corporate planning for various periods.

## Audit approach

**3.7** The audit comprised interviews with key central agency and departmental staff involved in developing the framework, performance management, corporate planning, annual reporting, and managing the selected output groups and information systems. The information obtained was supplemented by examination, analysis and verification of key material provided by departments and advice provided by the specialist engaged on the audit.

**3.8** Recent reports issued by audit offices, or their equivalents, in the United Kingdom, Canada, New Zealand, the United States of America, Western Australia, New South Wales and the Commonwealth were considered, as well as other relevant material identified through literature searches.

## Audit expectations

**3.9** Fundamental to our audit assessment was our expectation that an effective performance management and reporting system should:

- Drive achievement of government outcomes. This requires that:
  - Government outcomes be clearly specified;
  - Outcomes link to departmental objectives. This requires that departmental objectives are clearly defined and cover the key dimensions of departmental accountabilities and operations, i.e. address both the “purchaser” interests in the form of deliverables, and the “owner” interests such as organisational capability and long-term sustainability; and
  - The budget and resource allocation process be integrated with the performance management and reporting system;
- Provide accountability to Parliament and the community. This requires performance reporting that:
  - Encompasses *ex-ante* (i.e. proposed activities and budget) and *ex-post* (i.e. actual activities and cost) reporting elements;
  - Is consistent across departments;

- Reports the right information, including:
  - Achievements against whole-of-government outcomes; and
  - Performance indicators that:
    - Report the right things (i.e. are relevant and appropriate);
    - Report things fairly (i.e. are accurate); and
    - Are evaluated and/or audited to provide assurance on their relevance, appropriateness and accuracy; and
- Be supported by information systems that efficiently provide the data necessary to measure, monitor and manage government programs.

### **Compliance with auditing standards**

**3.10** The audit was performed in accordance with Australian Auditing Standards applicable to performance audits and, accordingly, included such tests and other procedures considered necessary in the circumstances.

### **Assistance to the audit team**

**3.11** Associate Professor Anona Armstrong, who holds various positions including that of Director, Postgraduate Government and Business Management Programs at Victoria University, provided specialist advice to the audit team in relation to performance measurement.

**3.12** Significant assistance and co-operation was provided to my officers during the course of the audit by management and staff of each of the 8 government departments. I wish to express my gratitude to the departments for this assistance.

## Part 4

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# Driving the achievement of government outcomes

## FOCUS OF AUDIT

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**4.1** One of the 3 objectives of this audit was to assess the adequacy of the framework established by the State's central agencies to facilitate performance management, measurement and reporting, including the adequacy of linkages between strategic planning and resource allocation. Fundamental to our assessment was our expectation that an effective performance management and reporting system should drive the achievement of government outcomes.

**4.2** This requires that:

- Government outcomes be clearly specified;
- Outcomes link to departmental objectives. This requires that departmental objectives are clearly defined and cover the key dimensions of departmental accountabilities and operations, i.e. address both the “purchaser” interests in the form of deliverables, and the “owner” interests such as organisational capability and long-term sustainability; and
- The budget and resource allocation process be integrated with the performance management and reporting system.

**4.3** The results of our assessment against these criteria are presented in this Part of the report. In assessing the adequacy of the framework, the status of issues raised in my June 2001 *Report on Ministerial Portfolios* has also been updated and taken into account in this report.

## OVERALL AUDIT ASSESSMENT

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**4.4** We recognise that much progress has been made on the development of the performance management and reporting framework. It is commendable that the Government has formulated departmental objectives, output performance measures and output targets. Although it has been communicated to departments, the Government's strategic economic, social and environmental policy agenda in the form of government outcomes has yet to be publicly released. Measures of progress related to those outcomes and departmental objectives and associated performance indicators are still to be finalised. These components of the framework need to be finalised and publicly released.

**4.5** The framework is partial. It does not adequately address performance management and reporting in public bodies (i.e. outside government departments) and it may not adequately address the “ownership interests” of Victorians, including key aspects relating to the sustainability of government operations. This is because the framework is focused on resource allocation which is linked to whole-of-government strategic plans and reflected through departmental objectives.

**4.6** The Victorian Government's integrated management cycle provides a mechanism for integrating the budget and resource allocation process with the performance management and reporting system. However, until such time as all components of the framework are finalised and it is fully operational, I will not be able to inform the Parliament and the community whether the framework adequately facilitates effective performance management, measurement and reporting throughout the budget sector.

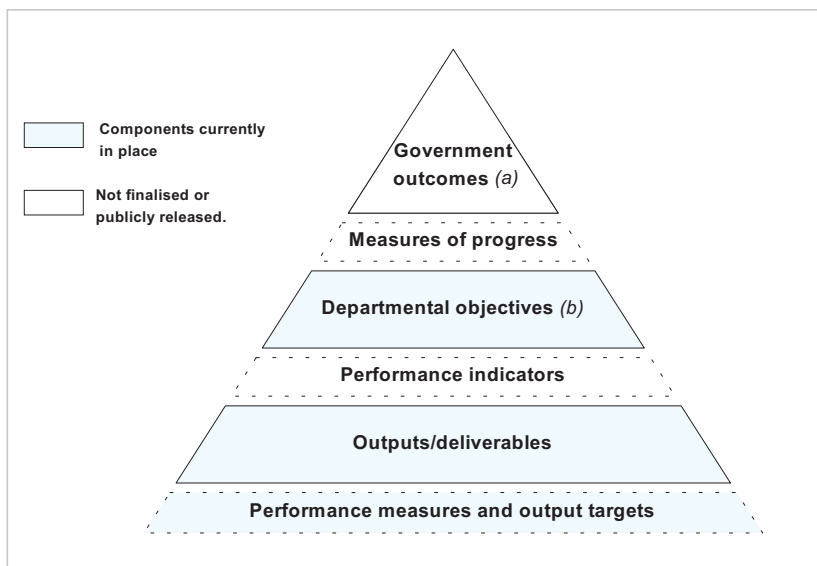
**4.7** What can be said is that the framework, even in its incomplete state, has promoted an enhanced focus on performance measurement and reporting. However, in the absence of clear linkages between the Government's desired outcomes and departmental objectives, and the finalisation of associated measures of progress and performance indicators, we consider that the framework, at this stage, does not drive the achievement of government outcomes.

### **DRIVING THE ACHIEVEMENT OF GOVERNMENT OUTCOMES**

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**4.8** Examinations during the current audit revealed that major components of the performance management and reporting framework, as well as key documents referred to in the response of the Secretary, Department of Premier and Cabinet to my June 2001 *Report on Ministerial Portfolios*, are still to be finalised. Chart 4A provides a representation of the progress of development to date, with the unshaded areas showing the components of the framework which are yet to be finalised or publicly released.

**CHART 4A  
VICTORIA'S PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK,  
GAPS IN THE FRAMEWORK**



(a) The Government-endorsed government outcomes were formally communicated to departments in October 2001, but at the time of preparing this report, had not been publicly released.

(b) While departmental objectives were published in the budget papers for 2001-02, the central agencies advised that the objectives are to be refocused during development of the 2002-03 budget.

Source: Victorian Auditor-General's Office.

**4.9** Implementation of a performance management and reporting system in the Victorian budget sector commenced in the mid-1990s and was accompanied by the introduction of accrual accounting and a change of focus from managing inputs to managing outputs. Since that time, despite considerable effort, the development of the performance management and reporting framework has continued to progress relatively slowly.

**4.10** Lessons learned in other jurisdictions show that implementing results-based management is a long-term and complex process<sup>1</sup>. However, I am concerned at the extended period over which the framework is being developed. Until such time as key components of the framework are finalised, and implementation is progressed, I will not be in a position to exercise my discretionary mandate to provide audit assurance on the performance indicators established to measure achievements against departmental objectives.

<sup>1</sup> *Implementing Results-Based Management: Lessons from the Literature*, Office of the Auditor-General, Canada, March 2000, page 3.

**4.11** It is important that momentum in developing and implementing the performance management system be maintained to ensure commitment within the public sector. The Department of Treasury and Finance advised its view that, compared to other jurisdictions, Victoria has performed relatively well in terms of the extent of progress made within the elapsed time. Nevertheless, I consider it prudent that the Government develops and implements a firm timetable for finalisation and implementation of the framework.

*RESPONSE provided by Secretary, Department of Premier and Cabinet*

*The phased approach to finalising the Government's policy outcomes framework has been communicated publicly. This phased approach is critical to ensuring that departments are consulted and able to undertake the necessary evaluation and review to align their objectives and outputs. The focus has been on building commitment and momentum based on the first phase of the outcomes framework - the Government's policy program defined around 4 key pillars.*

### **Clear specification of outcomes**

**4.12** Between 10 and 15 high level government outcomes were recently approved by the Government. The Department of Premier and Cabinet advised that the release of the remaining key aspects of the framework will take place shortly. However, our discussions with the Department identified that the following key issues are under consideration and yet to be resolved:

- Establishing clear linkages between the outcomes and departmental objectives. We understand that the developmental work to date has revealed that the departmental objectives previously agreed through the Government's budget process will need to be revised to establish better linkages between the government outcomes and the departmental objectives;
- Determining how to measure the contributions of individual departments to the achievement of outcomes where those outcomes are affected by multiple departments and externalities. The attribution of contributions by different departments is a challenge being faced in many jurisdictions. In New Zealand, the Auditor-General proposed an assessment of the degree of influence over the shared outcomes and the development and reporting of appropriate measures, with agreement regarding which entity will take the responsibility of the "lead agency", to be reflected in its reporting; and
- Establishing how and when to report performance against the Government's desired outcomes, related measures of progress, strategic issues and priority actions. We were advised that reporting against the government outcomes and some of the related measures of progress for 2001-02 may take place around the time of the tabling of the 2002-03 State Budget, that is, mid-2002. A decision on whether achievements against those outcomes and measures of progress will be reported in a document that accompanies the budget papers, or in a stand-alone document, has yet to be made. Our suggestion is presented in Part 5 of this report.

**4.13** In finalising the government outcomes and related measures of progress, we were advised that particular attention has been given to their measurement capability and to the availability of data for measuring and benchmarking performance. In the event that data is not currently collected and the related measures of progress are considered of vital importance, the Department of Premier and Cabinet has made arrangements to ensure collection of the necessary data is commenced. We commend the Department for this action, as it is important that the selection of the measures of progress is not unnecessarily constrained by existing data sources. This is also a key consideration to be made in developing departmental objectives and the related performance indicators.

### Linking government outcomes with departmental objectives

**4.14** The alignment between the Government’s desired outcomes and departmental objectives has not been finalised because of the extended period taken to finalise the government outcomes. A fundamental issue for consideration is the need to ensure the framework encompasses all of the public sector agencies whose operations contribute to the achievement of the government outcomes.

**4.15** The Government’s annual budget process allocates resources for policy, regulatory, monitoring or service delivery outputs on a departmental portfolio basis. Within departmental portfolios, functional responsibility and accountability is split among the 8 departments which focus on policy, regulatory and monitoring functions as well as some service delivery (primarily through external agencies), and the wider public sector whose focus is almost exclusively service delivery.

**4.16** Table 4B provides an example of how responsibilities for policy, regulation, monitoring and service delivery functions are split between a government department and a public body, in this case in the area of transport accident insurance and compensation.

**TABLE 4B  
DIFFERENCES IN AGENCY RESPONSIBILITY AND ACCOUNTABILITY,  
TRANSPORT ACCIDENT INSURANCE AND COMPENSATION**

<i>Agency</i>	<i>Responsible for</i>	<i>Accountability</i>
Department of Treasury and Finance	Providing strategic policy advice on State insurance schemes.	By Departmental Secretary to Minister for WorkCover
Transport Accident Commission	Service delivery functions, such as: <ul style="list-style-type: none"> <li>• delivery of no-fault personal injury insurance;</li> <li>• management of traffic accident claims including managing return to work of injured workers, and common law claims; and</li> <li>• promoting road safety awareness and accident prevention.</li> </ul>	By Chairman to Minister for WorkCover



**4.17** As shown in the table, the Board or chief executive of a public body may be required to report directly to the responsible Minister and may not be funded through the State budget. Reporting requirements for these public bodies differ from those for departments in that they are not required to report their performance against the output performance measures presented in the budget papers, or the extent that their activities have impacted on the achievement of the Government's desired outcomes.

**4.18** Chief executives of public bodies are generally not accountable to departmental secretaries. Those secretaries cannot, therefore, reasonably be held accountable for the delivery of outputs or achievement of objectives by those bodies, even though their activities may directly affect the achievement of the Government's desired outcomes to which departments are contributing.

**4.19** We believe that examples of this nature indicate a gap in the framework. The framework currently under development is partial; it addresses the departmental aspects of public sector operations. Performance management and reporting arrangements for the wider public sector require consideration, having regard to:

- allocating responsibility for achievements against government outcomes; and
- attributing impact on outcomes.

***Do the departmental objectives cover all their activities?***

**4.20** If departmental objectives are not properly focused, organisational strategies, priorities and directions may have a poor relationship to government priorities or to the important factors for achievement of desired outcomes, and critical aspects of responsibility and accountability such as long-term sustainability may be overlooked.

**4.21** Within the Victorian framework, departmental objectives are developed through the Government's annual resource allocation process; a process established to address the purchaser's interests in outputs being delivered at a specified price. Under such an arrangement there is a risk that the objectives developed may fail to adequately address the wider, longer-term ownership interests of government and the public of Victoria. Departments may give insufficient attention to the impact of their day-to-day operations on crucial matters such as the retention of intellectual capital or the sustainability of the public service infrastructure.

**4.22** Central agencies have stressed the importance of maintaining outputs, not inputs, as the focus of the performance management and reporting framework. Their view is that, while consideration of sustainability and capability of government operations, i.e. the ownership interests, is relevant, it should not undermine the focus on outputs. We agree with this view, however, that does not mean one should not also be concerned about the effective and efficient means of production over both the short and long-term. Unless ownership issues are considered within the context of the framework, there is a risk of focusing too heavily on delivery of short-term achievements at the expense of longer-term sustainability. This has been a lesson learned in a number of other jurisdictions around the world, including New Zealand<sup>2</sup>, and in the private sector with the increasing popularity of balanced scorecard approaches to planning and reporting.

**4.23** Over the past year, while finalising the work on specification of the Government's desired outcomes, the Department of Premier and Cabinet identified that the departmental objectives of each department, previously agreed during development of the 2001-02 budget, require revision. We were advised that this was necessary to provide clearer links between the resource allocation and policy/strategic planning components of the framework. We understand that the objectives are to be refocused and indicators finalised during development of the 2002-03 budget. The involvement of departmental secretaries in the development of the Government's outcomes has provided an environment that should enable departments to make informed judgements in revising their departmental objectives. It is important that in the process of revising the departmental objectives, care is taken to ensure their measurability in order to facilitate monitoring of performance and to assist future audit activity.

**4.24** Our examinations of the departmental objectives for 2001-02 revealed that some address aspects of sustainability or capability of specific service sectors or industries including:

- local government and logistics and transport industries (Department of Infrastructure);
- land and resource industries (Department of Natural Resources and Environment); and
- government and non-government health service sectors (Department of Human Services).

**4.25** However, none of the departmental objectives published in the budget papers recognised organisational capacity and capability of employees or sustainability of the public service infrastructure. We found that the Departments of Treasury and Finance, State and Regional Development, and Natural Resources and Environment had each developed an internal departmental objective, included in their corporate plans, that addressed the capability of the department and its staff to serve the Government.

**4.26** Based on our examinations, we concluded that the departmental objectives for 2001-02 were not yet adequately developed to cover all key activities of departments.

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<sup>2</sup> *Reporting Public Sector Performance*, Report of the Controller and Auditor-General of New Zealand, June 2001.

**RESPONSE** provided by Secretary, Department of Premier and Cabinet

*There is a balance required to ensure that the delivery of outputs is efficiently achieved through effective input management. The accountability framework promotes this balance through quarterly and annual strategic planning and reporting. The Department of Premier and Cabinet's Corporate Plan and its monthly monitoring include strategic corporate management indicators.*

### **Integrating the budget and resource allocation process with the performance management and reporting system**

**4.27** The specification of departmental output deliverables, performance measures and output targets, as well as the previously mentioned departmental objectives and performance indicators, takes place as part of the Government's annual resource allocation/budget process.

**4.28** My June 2001 *Report on Ministerial Portfolios* indicated that the "... work being undertaken within the Department of Premier and Cabinet to define high level government desired outcomes and performance indicators is clearly focused on accounting to the public for the level of achievement of the Government's policy objectives. However, this is not linked to the resource allocation framework which primarily connects resources to departmental outputs".

**4.29** At that time, the Secretary of the Department of Treasury and Finance responded that the alignment of the framework is "... primarily occurring through the development of objectives and key performance indicators for departments. These will form the bridge between the output structure and the whole-of-government outcomes". He also indicated that the "... Department of Premier and Cabinet and Department of Treasury and Finance in conjunction with the other departments have been working closely together to ensure the alignment between the broad outcomes of government (and their measurement) and the output structure used for resource allocation and reporting".

**4.30** During the current audit we found that the 2 central agencies are continuing to work to align the resource allocation and outcomes components of the framework. Our comments relating to these activities follow.

### **Linking the planning, resource allocation, performance management and reporting processes**

**4.31** In a recent advice issued to departments outlining the process for developing the 2002-03 budget, the Department of Treasury and Finance advised that the Government has endorsed a framework similar to that used for 2001-02. Specifically, the 2002-03 budget framework comprises:

- an output and outcome focus, based on the achievement of government outcomes through the delivery of outputs linked to departmental objectives; and

- a 2-stage budget process involving:
  - determination of the Government's financial strategy and strategic funding priorities for 2002-03 (in November 2001); and
  - review of departmental performance issues and allocation of resources consistent with the financial strategy and strategic funding priorities established in the first stage (in February/March 2002).

**4.32** The advice indicates that the Government has endorsed the integration of its vision for Victoria, in terms of its high level policy outcomes, with the output and outcome focused budget framework for 2002-03. Because of the need to progress the budget development process, the memorandum also provides departments with the endorsed government outcomes so that their budget submissions, including strategic funding priorities, may be made within the context of those outcomes.

**4.33** The above information provides departments with an important part of the performance management and reporting framework that was previously missing. However, it does not identify the key measures of progress related to the government outcomes, which would provide important points of reference for:

- refocusing departmental objectives;
- developing linkages between the outcomes and objectives;
- finalising objective-related performance indicators; and
- enabling measurement of performance.

**4.34** Due to the missing components, we are not in a position, at this time, to determine whether the process for developing the 2002-03 budget will provide for effective linking of the planning, resource allocation and reporting processes.

### *Establishing a performance management cycle*

**4.35** In 1997, the Management Reform Program was launched within the Victorian budget sector *"to improve the strategic alignment of departmental activities and services with government priorities and improve value for money"*<sup>3</sup>. Major initiatives under the program were the shift in focus to outputs, i.e. deliverables rather than inputs, and the introduction of accrual accounting.

**4.36** In August 2001, the Government endorsed the Integrated Management Cycle, under the Management Reform Program, designed to integrate *"... decision making in relation to the Government's policies and strategies with decision making on resource allocation and the delivery of outputs"*<sup>4</sup>.

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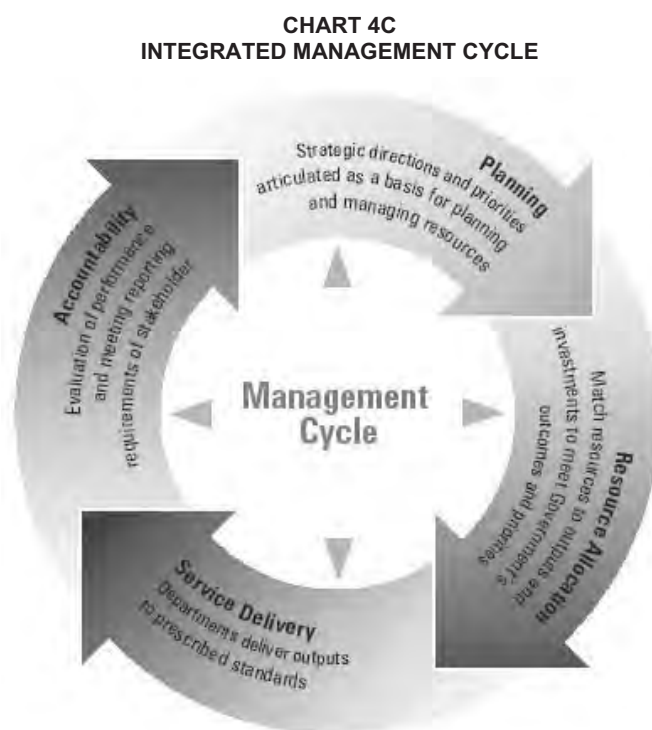
<sup>3</sup> *Evaluation Framework - Budget Sector Management Reform, Management Reform Program*, Department of Treasury and Finance, Victoria, 2000, page 3.

<sup>4</sup> *Integrated Management Cycle*, Department of Treasury and Finance, Victoria, September 2001, page 1.

**4.37** The cycle provides for the integration of:

- whole-of-government planning;
- departmental and agency planning;
- the annual budget and resource allocation process;
- the legislation planning process;
- internal assessment review and reporting requirements; and
- external accountability reporting requirements.

**4.38** Chart 4C illustrates the key components of the Integrated Management Cycle:



Source: Department of Treasury and Finance.

**4.39** The recently endorsed cycle replaces the integrated management cycle introduced in 1993. While the broad concepts are similar, major enhancements to the requirements underlying the cycle include:

- clearer specification of timelines for each phase of the cycle;
- expansion of the budget development process into a 2-stage process; and
- introduction of a process of output reviews.

**4.40** The integrated management cycle provides a sound framework for linking planning, resource allocation, service delivery and accountability in the Victorian budget sector. During our examinations within departments we found that they were following the broad concepts of the cycle in their daily operations, although it is not clear the extent to which planning, resource allocation, service delivery and reporting are driven by the cycle.

**4.41** Once the remaining components of the budget sector performance management and reporting framework are in place, reinforcing the linkages between government outcomes and resource allocation, the cycle's ability to deliver strengthened public sector efficiency, effectiveness and accountability should be enhanced.

#### *Evaluating the implementation of the Government's management reforms*

**4.42** In 2000, the Department of Treasury and Finance launched an evaluation framework<sup>5</sup> for assessing existing and ongoing implementation of key management reform principles relating to resource management and accountability.

**4.43** The evaluation framework provides for:

- departments to self-assess their performance in implementing the management reforms;
- whole-of-government assessment of the implementation of management reforms;
- provision of reports from departments on completed assessments, and summaries of improvement strategies arising from the assessments, to the Department of Treasury and Finance; and
- quarterly reporting to the Department of Treasury and Finance on progress in implementing the identified improvement strategies.

**4.44** All departments completed their initial self-assessments in mid-2000 and are currently in the process of implementing their improvement strategies. The Department of Treasury and Finance advised its concern regarding the considerable variation in the level of commitment to self-assessments across departments, with only some departments undertaking them with rigour and using them for continuous improvement.

**4.45** At the same time as the departmental self-assessments were undertaken, a whole-of-government assessment of the implementation of the reform program was carried out. The assessment identified several areas requiring improvement, including central agency assistance to departments, information systems, differing information needs of departments and central agencies, and the skills of central agency staff. Strategies for improvement were identified and are being progressively addressed, with the Department of Treasury and Finance reporting progress quarterly to the Government.

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<sup>5</sup> *Evaluation Framework - Budget Sector Management Reform, Management Reform Program*, Department of Treasury and Finance, Victoria, 2000.

**4.46** We support regular evaluation of the implementation of the management reforms. However, the effectiveness of self-assessment alone may be insufficient as it may lack objectivity. It is important that the Department of Treasury and Finance retain an ongoing role in overseeing the effectiveness of departmental self-assessments to ensure the benefits of the evaluating the implementation of the reforms are realised.

#### *Cultural and training considerations*

**4.47** The effective introduction of the performance management system in the Victorian public sector will require cultural change and skills development. The complexity of the framework and the delays in its implementation have led to confusion among staff within the 8 budget sector departments, about the proposed structure of the framework and the use of terminology. It is important that guidelines and other documentation about the framework issued by the central agencies use consistent language and concepts. The recent release of the *Budget and Financial Management Guide*<sup>6</sup>, consolidating much of the documentation prepared by the Department of Treasury and Finance about the framework, should go some way to addressing the confusion that exists within departments.

**4.48** During our examinations within departments, we identified varying levels of support from staff. While some were enthusiastic, as evidenced by the speed with which they are refining and improving their departmental planning and reporting activities, others are taking a compliance approach with some staff unconvinced of the benefits of the framework for daily management. While we recognise that developing and maintaining a performance management system is an iterative process involving periodic revision and refocusing of key components of the framework, it is important that momentum be maintained.

**4.49** To support skills development, the central agencies and departments should develop training programs for their staff to ensure that they acquire skills necessary to efficiently and effectively implement the performance management and reporting system. The Department of Treasury and Finance advised that it has recently engaged consultants to undertake a training needs analysis across the public sector and to develop a training strategy.

#### *Output reviews*

**4.50** In my June 2001 *Report on Ministerial Portfolios*, I commented on the output review framework introduced by the Department of Treasury and Finance to systematically review all outputs provided by departments over a 3 to 5 year period. In my report, I identified the need for "... *further clarification in terms of:*

- *the scope of the evaluations, particularly in relation to assisting departments in improving service delivery;*
- *the methodologies to be adopted in the evaluations;*

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<sup>6</sup> *Budget and Financial Management Guide, Management Reform Program*, Department of Treasury and Finance, Victoria, August 2001.

- *linkages with any evaluation mechanisms established within departments as part of their ongoing performance review processes; and*
- *the disclosure of the results of evaluations and any role evaluations may play in regard to public accountability”.*

**4.51** A total of 11 output reviews are being undertaken during 2001-02, with each department having at least one output under review. The main features of these reviews are as follows:

- Each review has a Terms of Reference endorsed by the Government, and a Steering Committee comprising one representative from each of the Departments of Premier and Cabinet, and Treasury and Finance (chair), and a representative of the department whose output is under review;
- For each output review, 2 working groups have been established: one to undertake an output evaluation and the other to undertake an output price review;
- The methodology for each output review is determined by its Steering Committee, and depends on the nature of the output being reviewed;
- Reviews are to be completed within 3 months and are to consider the effectiveness of the outputs being delivered and the appropriateness of the price paid by the Government for the outputs. The pricing reviews are required to:
  - examine the costs structure and cost drivers;
  - market test, where appropriate, benchmarks and comparisons;
  - identify efficiencies in service delivery and productivity; and
  - deliver price escalation factor(s);
- Reviews are not linked to any evaluation mechanisms established within departments as part of their ongoing performance review processes; and
- The results of the first round of reviews are to be provided, in confidence, to the Government in November this year for consideration in determining its strategic reviews for 2002-03. The Government has not determined whether the results will be made public.



**4.52** We found that there is no provision for independent assessment of the review process, either in terms of the quality of the reviews or the appropriateness of the methodologies adopted by Steering Committees, although external specialist assistance is being used in some reviews. While we support output reviews, the lack of independent scrutiny and their short timeframes may limit their value. Further, the *Output Review Guidelines* issued by the Department of Treasury and Finance do not explicitly address the need to ensure that output prices clearly consider issues associated with sustaining government business, such as the costs of maintaining intellectual capital in the public sector. While striving for efficiencies in service delivery and productivity is commendable, there is a risk that if output prices are not properly based, the level of funding appropriated to departments may not be sufficient to maintain long-term capability.

### **Recommendations**

**4.53** The performance management and reporting framework needs to be completed and implemented in an established timeframe.

**4.54** In finalising the framework, the Government must give consideration to:

- the performance management and reporting arrangements for the wider public sector;
- reducing complexity and ensuring the terminology used is clearly defined to eliminate confusion, encourage consistency in application across the public sector and enable it to be readily understood by stakeholders;
- specifying departmental objectives which address not only the service delivery aspects of departments but also the long-term sustainability of government's activities, and other ownership interests that fall within the control of each department;
- ensuring that the linkages between the resource allocation and outcomes components are reinforced; and
- ensuring that measures of progress and performance indicators are not unnecessarily constrained by the availability of data, but that data collection systems are put in place where necessary.

**4.55** Adequate training must be provided to staff to enable them to effectively and efficiently implement the framework.

**4.56** The Department of Treasury and Finance should retain an ongoing role in overseeing the effectiveness of departmental self-assessments to ensure the benefits of evaluating the implementation of the reforms are realised.

**4.57** In order to maximise the impact of the output reviews, it is important that they:

- be integrated into the evaluation framework;
- are properly scoped and methodologies used are subject to independent scrutiny; and
- ensure that output prices are determined with adequate consideration of the costs associated with capability maintenance.

**RESPONSE** provided by Secretary, Department of Natural Resources and Environment

**Para. 4.53**

*Agreed. Central agencies to lead.*

**Para. 4.54**

*The Department of Natural Resources and Environment believes that a uniform approach to the performance management and reporting arrangements for the wider public sector would be beneficial.*

*The Department agrees that consideration needs to be given by the Government to reducing complexity and ensuring the terminology used is clearly defined to eliminate confusion, encourage consistency in application across the public sector and enable it to be readily understood by stakeholders.*

*The Department supports the recommendation regarding “specifying departmental objectives which address not only the service delivery aspects of departments but also the long-term sustainability of government’s activities, and other ownership interests that fall within the control of each department”, particularly the notion of utilising both short and longer-term objectives which allow recognition of investment in capability.*

*The Department agrees with the recommendation that the Government give consideration to ensuring that the linkages between the resource allocation and outcomes components are reinforced.*

*The Department agrees that the Government should give consideration to ensuring that measures of progress and performance indicators are not unnecessarily constrained by the availability of data, but that data collection systems are put in place where necessary. It must be recognised that data collection can be both investment and labour intensive.*

**Para. 4.55**

*Agreed.*

**Para. 4.56**

*Agreed.*

**Para. 4.57**

*The Department of Natural Resources and Environment agrees that it is important that the output reviews be integrated into the evaluation framework, and that they be properly scoped and the methodologies used subject to independent scrutiny, but notes the Cabinet-in-Confidence status of the reviews.*

*The Department agrees that it is important that output prices are determined with adequate consideration of the costs associated with capability maintenance.*

## Part 5

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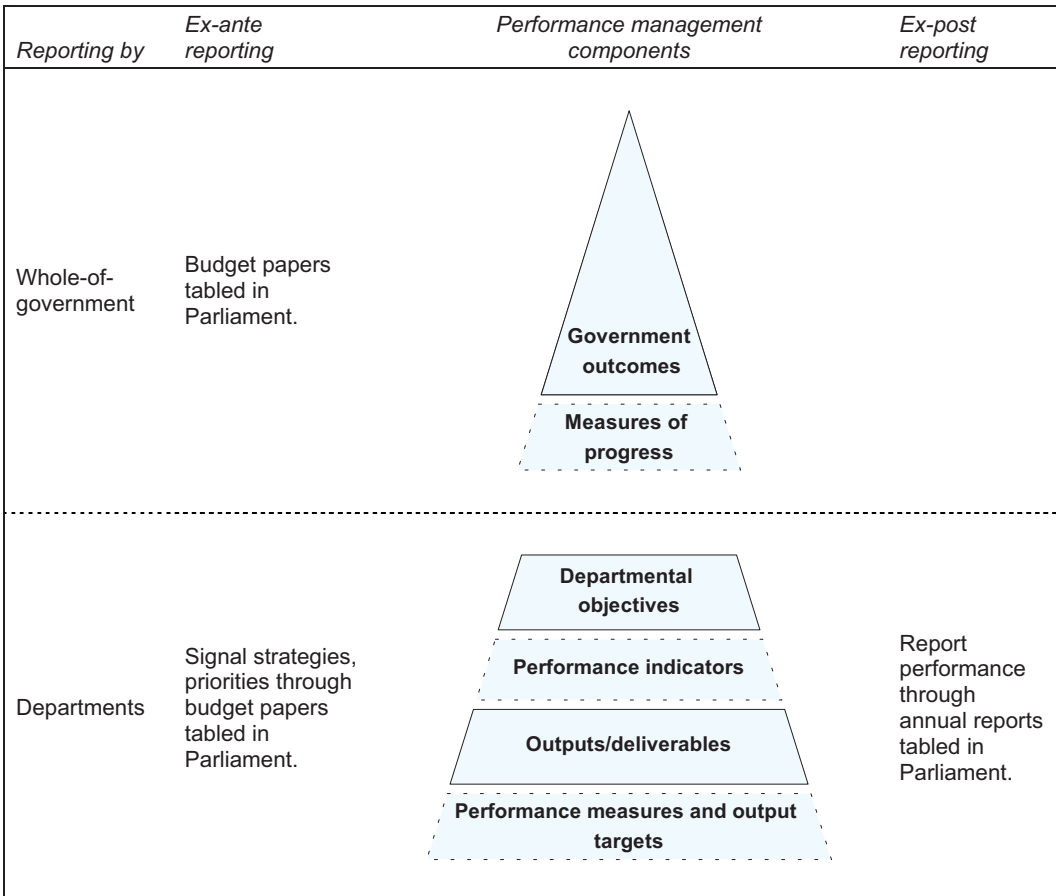
# Providing public accountability for departmental performance

## INTRODUCTION

**5.1** The current requirements for external reporting of performance by departments are specified in the Ministerial Directions under the *Financial Management Act 1994*. The Directions provide for each department to report on its performance against its objectives and output targets (as set out in the budget papers) in the report of operations in its annual report.

**5.2** Chart 5A illustrates the external reporting arrangements currently in place in Victoria.

**CHART 5A  
VICTORIA'S PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK,  
EXTERNAL REPORTING**



Source: Victorian Auditor-General's Office.

## FOCUS OF AUDIT

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**5.3** An effective performance management and reporting system should drive increased accountability to Parliament and the community. As stated earlier in this report this requires performance reporting that:

- encompasses *ex-ante* (i.e. proposed activities and budget) and *ex-post* (i.e. actual activities and cost) reporting elements;
- is consistent across departments;
- reports the right information, including:
  - achievements against whole-of-government outcomes; and
  - departmental performance indicators that:
    - report the right things (i.e. are relevant and appropriate);
    - report things fairly (i.e. are accurate); and
    - are evaluated and/or audited to provide assurance on their relevance, appropriateness and accuracy; and
- is supported by information systems that efficiently provide the data necessary to measure, monitor and manage government programs.

**5.4** While acknowledging the importance of intra-government and internal management reporting as integral components of a performance management and reporting system, this Part of the report focuses predominantly on external reporting, i.e. reporting to Parliament and the community.

## OVERALL AUDIT ASSESSMENT

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**5.5** We found that departments had generally exceeded the requirements for reporting performance information specified in the Directions of the Minister for Finance under the *Financial Management Act* 1994. While the requirements under the Directions are largely limited to reporting against departmental objectives and output targets established in the budget papers, departments have elected to provide additional information in order to provide a fuller picture of their achievements. This has included, in some cases, benchmarking against other jurisdictions, longer-term trend data and analysis, comparison against past periods, a greater focus on outcomes and linking performance to the Government's 4 pillars<sup>7</sup>, or proposed outcomes. Departments have also provided some information about activities where performance has not met output targets.

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<sup>7</sup> The 4 pillars were developed shortly after the change of government in 1999, and provide a high level context for government decision-making. The 4 pillars are: Responsible Financial Management, Promoting Growth Across the Whole State, Delivering Improved Services, and Restoring Democracy.

**5.6** In the context of the new performance management framework, increased accountability to the Victorian Parliament and community can be provided through:

- public *ex-ante* reporting by departments, signalling their strategies, priorities, risks etc. for the coming period;
- *ex-ante* reporting of the Government's strategic directions and priorities relating to its whole-of-government outcomes;
- *ex-post* reporting of achievements against the Government's strategic directions and priorities relating to its desired outcomes on a whole-of-government basis;
- consolidated reporting of cross-agency programs and activities;
- providing better performance information in departmental annual reports; and
- developing performance indicators relating to departmental objectives and subjecting them to audit.

**5.7** Departments generally had systems in place to enable collection and collation of data for measuring, monitoring and reporting in relation to the output performance measures examined during the audit, although there is room for improvement in relation to verification of data. However, in the absence of agreed performance indicators related to departmental objectives, we are not in a position to conclude on the preparedness of departments to accurately measure and report their performance against such indicators. Specifically, we are not in a position to determine whether sufficient and appropriate data is, or will, be available within departments to accurately measure and report performance against outcomes or effectiveness indicators.

**5.8** It was evident that departments had devoted significant resources and had shown a genuine commitment to corporate planning. Although plans were at varying stages of development, the strategic and corporate planning frameworks and the quality of the material produced were adequate. However, there is room for greater consistency in the content and synchronisation of corporate planning periods across the sector.

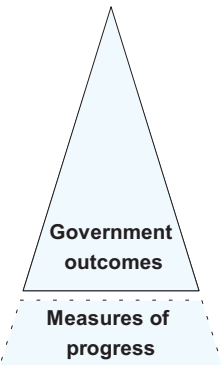
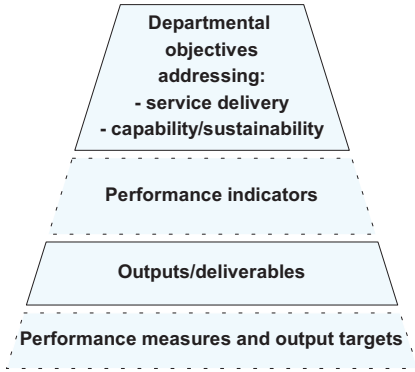
**5.9** It was pleasing to note that the Government's policy directions, particularly in the form of its high level policy platform, had informed development of the departmental corporate plans. The plans were, in most cases, satisfactorily linked to performance management and reporting mechanisms in order to capture the necessary data for monitoring and reporting performance against output performance measures and targets.

**5.10** The situation reported by me in June 2001 has remained substantially unchanged. The Government's performance management and reporting framework has not been sufficiently developed to enable audit opinions to be issued regarding the relevance, appropriateness and fair presentation of performance indicators. Until such time as the remaining components of the framework are in place and the system is operational, I will not be in a position to exercise my mandate to audit the performance indicators related to departmental objectives.

## TOWARDS AN EFFECTIVE PERFORMANCE REPORTING FRAMEWORK

5.11 Chart 5B presents our suggested requirements for external reporting within the performance management and reporting framework, in terms of *ex-ante* and *ex-post* reporting, and reporting at the whole-of-government and departmental levels. These suggestions can be compared with the existing requirements which are shown in Chart 5A.

**CHART 5B  
VICTORIA'S PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK,  
SUGGESTED EXTERNAL PERFORMANCE REPORTING REQUIREMENTS**

<i>Reporting by</i>	<i>Ex-ante reporting</i>	<i>Performance management components</i>	<i>Ex-post reporting</i>
Whole-of-government	Signals desired outcomes, strategic directions, priorities, measures of progress and targets through a separate report related to, and accompanying, the budget papers, tabled in Parliament.		Reports performance through the whole-of-government annual report, tabled in Parliament.
Departments	Signals key objectives, performance indicators, measures and targets, risks, strategies and priorities through departmental plans and budget papers, tabled in Parliament.		Reports performance, including successes or failures against strategies, events and learnings, and emergent risks, through annual reports tabled in Parliament.

Source: Victorian Auditor-General's Office.

**5.12** Our comments in this Part of the report are made in the context of these suggested reporting arrangements.

### **Ex-ante and ex-post reporting**

**5.13** Public disclosure of intended outcomes, objectives, performance measures and targets in corporate plans and departmental plans drawn from corporate planning and budget processes, prior to plan implementation, i.e. *ex-ante* reporting, adds an important dimension to public accountability. Disclosure of this information enables strategic directions and priorities of the Government and its agencies to be signalled to stakeholders, providing a context for reporting performance in the annual report. Public disclosure in an annual report of actual achievements against intended outcomes, objectives, performance measures and targets, i.e. *ex-post* reporting, closes the accountability loop.

### **Corporate plans**

**5.14** A specific objective of this audit was to assess departmental corporate planning processes, including the adequacy of linkages between corporate planning and performance management and reporting. We believe a good corporate plan:

- links to the Government's desired outcomes, measures of progress and strategic priorities as well as to the outputs, performance measures and targets developed through the annual budget process;
- discloses future directions, expected outcomes, departmental objectives, measurable performance indicators and targets;
- has been developed in consultation with key stakeholders, and considering their views;
- links, at a departmental level, to performance management and reporting;
- includes a financial outlook, e.g. estimated operating expenses and financial position;
- includes an analysis of strategic risks having regard for human, physical and intellectual elements;
- covers a 3-year period;
- is completed prior to the commencement of the period covered by the plan; and
- is publicly disclosed.

**5.15** These criteria were used in our assessment of the corporate plans developed or under development by the 8 departments. The results of our assessments against the criteria are presented in Table 5C.



TABLE 5C  
CORPORATE PLAN SCORECARD

Criterion	Department							
	Education, Employment and Training	Human Services	Infra-structure	Justice	Natural Resources and Envir'ment	Premier and Cabinet	State and Regional Dev'tment	Treasury and Finance
Is the plan linked to the Government's desired outcomes, measures of progress etc. and budget paper measures and targets?(a)	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖
Does the plan disclose future directions, expected outcomes, departmental objectives, measurable performance indicators and targets?(b)	✓	✓	✓	✓	⊖	(c)⊖	✓	✓
Have key stakeholders' views been sought during development of the plan?	✓	✓	✓	✓	✓	✓	✓	⊖
Has the plan been linked to the department's performance management and reporting?	⊖	✓	✓	✓	✓	⊖	✓	✓
Does the plan include a financial outlook?	✗	✗	✗	✗	✓	✗	✗	✓
Does the plan include an analysis of strategic risks?	✗	✗	✗	✗	✗	(d)⊖	✗	✓
Was the plan completed prior to the commencement of the planning period?	✓	✗	✓	✗	✓	✗	✓	✓
Has the plan been publicly disclosed?	✓	✓	✓	✓	✓	✓	✓	✗
What period does the plan cover? (years)	10	1	3	(e)5	3	3	(f)1	3

Legend: ✓ Yes    ⊖ To some extent    ✗ No

- (a) In the absence of finalised government outcomes and related measures of progress, we found that corporate plans had been linked to the Government's high level policy platforms of "Responsible Financial Management"; "Promoting Growth Across the Whole State"; "Delivering Improved Services"; and "Restoring Democracy".
- (b) In the absence of finalised government outcomes, and Government-endorsed performance indicators for departmental objectives, some departments had developed their own performance indicators or used indicators previously provided to the Government during the 2000-01 budget process.
- (c) The Department of Premier and Cabinet proposes to include indicators in its plan under development.
- (d) The Department of Premier and Cabinet included a section dealing with risk management, only in relation to its business systems and processes, in its draft plan.
- (e) The Department of Justice has a 5 year strategic direction document as well as a 3 year *Justice Portfolio Strategy*.
- (f) The Department of State and Regional Development advised that its next corporate/business plan will be for a 3 year period (2002-2005) and will include sections on risk management, corporate governance, organisational structure and divisional resources.

## Good practice

**5.16** We also identified the following examples of good practice in corporate planning which could be useful for other agencies.

### *Examples of good practice*

- **Department of Education, Employment and Training** - identified the challenges it faces in terms of the external environment (including education, training and workforce trends), within the Department (such as condition and suitability of facilities as well as school and Technical and Further Education teacher supply) and its response to these challenges.
- **Department of Human Services** and the **Department of Justice** - prepared a detailed outline of the strategic environment in which they operate, and their strategic responses including a full explanation of each of their objectives.
- **Department of Infrastructure** - enunciated its framework for efficient decision-making, appropriate resource allocation and strategic planning for desirable government outcomes. Its philosophy towards good governance focuses on leadership, performance and accountability that ultimately enhance stakeholder value, staff morale and productivity.
- **Department of Natural Resources and Environment** - summarised its detailed workforce strategy aimed at staff having the necessary skills including leadership qualities (defining directions, building commitment and delivering results) and ensuring staff are suitably motivated.
- **Department of Premier and Cabinet** - articulated the direction to be taken towards people-development covering workforce planning, leadership and management skills, rewards and recognition.
- **Department of State and Regional Development** - prepared a *Positioning Statement* that identifies the strategic direction, the future that it is working towards and the contribution that will be provided to ensure the future is realised over the longer-term.
- **Department of Treasury and Finance** - outlined a plan for its Senior Executive Group to evaluate progress against the corporate plan on a quarterly basis, covering departmental performance, customer satisfaction, financial performance, capability issues, significant risks and strategic challenges.

## Areas for improvement

**5.17** Although plans were at varying stages of development, we found that the planning frameworks established by the departments, and the quality of the material produced, were generally adequate. It was evident that departments had devoted significant resources and had shown a genuine commitment to this important activity. Nevertheless, Table 5C shows there were areas for improvement by some departments including:

- Consultation with stakeholders - while most departments had sought stakeholders' views in developing their plans, the Department of Treasury and Finance could have sought views from other departments as stakeholders of the central agency. The Department advised that action is being taken to improve its processes in the next round of planning;

- Linkages between corporate plans and performance management and reporting systems - 6 departments had established adequate links and the remaining departments (the Departments of Education, Employment and Training, and Premier and Cabinet) informed us that action was being taken to improve the links, after the matter had been identified during a strategic review;
- Disclosure of financial outlook - only 2 departments included projections of estimated operating expenses and financial positions over the life of their plans. In our view, an assessment of financial outlook in their corporate planning processes would enable important financial data to be considered by departments in the context of medium to long-term strategic planning;
- Analysis of strategic risks, linked to mitigating strategies – this was included for only 2 departments and in one case was narrowly focused;
- Finalisation of plans prior to the commencement of the period covered by the plan - while 5 departments had prepared corporate plans that were fully operational, at the time of the audit, plans were still being finalised in the remaining departments (Department of Premier and Cabinet 2001-04 corporate plan; Department of Justice 2000-03 strategy; and Department of Human Services 2001-02 departmental plan);
- Synchronisation of plans to cover consistent time periods and commencement dates – time periods for plans ranged from one to 10 years and commencement dates for plans recently completed or still under development ranged from mid-2000 to mid-2002, across the 8 departments; and
- A formal requirement for prior public disclosure of corporate plans – while most departments make corporate plans available, a requirement for public disclosure would further enhance public accountability.

**5.18** Addressing these aspects through *ex-ante* reporting arrangements would provide a more comprehensive picture of the nature, scale and scope of an agency's intended activities than the current budgetary documents allow.

### *Achieving consistency in corporate plans*

**5.19** Broad, non-prescriptive corporate planning guidelines were issued in draft by the Department of Treasury and Finance in 1996. We were advised that the central agencies did not wish to override the de-centralised responsibility assigned to individual departments and sought to retain sufficient flexibility to accommodate the diversity among departmental operations and the varying size and scope of strategic planning activities within individual departments. Nevertheless, we believe there is merit in achieving a more consistent approach to corporate planning, while having due regard to the varying size and scope of activities within individual departments, and in standardising the broad elements of a good corporate plan. This would enhance users' ability to identify common strategic directions, to compare performance across agencies and to gauge how multiple departments have contributed to an outcome.

**5.20** The Department of Treasury and Finance advised that work has recently commenced to revise the corporate planning guidelines to achieve consistency in corporate planning content, and to synchronise corporate planning periods across departments. We commend the department for this initiative and suggest that attention be given to addressing the areas identified by the audit.

**RESPONSE** provided by Secretary, Department of Premier and Cabinet

*Insufficient definition has been provided on the criteria used to assess corporate plans. For example, “to some extent” is somewhat vague and broad against which the assessment is given. This has not enabled the Department to understand the specific assessment and, therefore, determine what improvements may be necessary. Similarly, the Department of Premier and Cabinet’s Corporate Plan has progressed to parallel the finalisation of the Government’s outcome framework.*

*The Department of Premier and Cabinet is also working with the Department of Treasury and Finance in reviewing the corporate planning guidelines to ensure that the outcomes framework links to, and is accountable for, achieving outcomes.*

**FURTHER** audit comment

*The inclusion of scorecards relating to corporate planning, annual reporting, output performance measures and preparedness to measure, manage and monitor performance was intended to convey to the reader an overview of aspects where departmental performance needs to be improved, and to provide central agencies with an indication of where additional focus or guidance to departments needs to be given. Because of the multi-dimensional nature of the criteria against which departmental practices and documentation were assessed, it was not practical to provide detailed checklists of individual performance for each of the 8 departments in this report. However, the detailed results of our assessments have been discussed with line management in each department during the audit clearance process.*

## Annual reporting

### Reporting the right information

#### Whole-of-government outcomes

**5.21** A review of the developing Victorian performance management and reporting framework shows that there is currently no provision for reporting of performance against government outcomes and related measures of progress on a whole-of-government basis. We believe this is a significant accountability gap. Department of Premier and Cabinet officers advised that decisions have yet to be made regarding how and when whole-of-government reporting is to take place.

**5.22** In determining the format for reporting on whole-of-government outcomes and related measures of progress, reference could be made to the formats used by the Governments of the Australian Capital Territory<sup>8</sup> and Alberta, Canada<sup>9</sup>.

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<sup>8</sup> *State of the Territory 2000: A Report to the People of Canberra*, Australian Capital Territory Government, Canberra, 2001.

<sup>9</sup> *Measuring Up 2001*, 2000-2001 Annual Report, Government of Alberta, Canada, 28 June 2001.

**5.23** As shown in Chart 5B, annual reporting of achievements against the Government's desired outcomes on a whole-of-government basis needs to be preceded by an equivalent *ex-ante* report that signals the intentions of the Government at the whole-of-government level.

#### *Cross-agency programs or strategies*

**5.24** In a number of instances, departments contribute to the delivery of programs or strategies that involve multiple departments. In these cases, such as the Drugs Strategy, each department is resourced only for the portion of the program or strategy it is required to deliver. The performance management and reporting framework requires departments to report their performance on the basis of their objectives and output targets as presented in the budget papers, i.e. each department is only required to report on the outputs for which it is resourced. As a result, the current reporting requirements do not provide a basis of consolidated reporting of cross-agency activities.

**5.25** Departments have adopted various approaches to reporting cross-agency programs. For example:

- The Department of Premier and Cabinet produces separate annual reports for its cross-agency activities, such as Women's Policy and Multicultural Affairs. The Department advised that this is in accordance with a government commitment to transparency and accountability for important policy and program issues. The Government's Forward Plan for Women 2000-2003 *Valuing Victoria's Women* publicly commits to an annual report on performance measures. The Victorian Multicultural Commission under the *Victorian Multicultural Commission Act 1993* must submit its annual report "*of its work and activities*"; and
- For the Road Safety Program and the Drugs Strategy, each of the funded departments reports on the components for which it is funded, meaning that in such cases there is no consolidated reporting of performance. We have been advised that, in future, reporting on the Drugs Strategy will be through a separate report.

#### *Departmental reporting*

**5.26** Current requirements for the annual report of operations of departments under the Directions of the Minister for Finance require that the report include:

- the objectives, functions, powers and duties of the agency;
- the nature and range of services provided by the agency;
- the administrative structure of the agency;
- the operational and budgetary objectives of the agency for the financial year and performance against those objectives;
- in the case of departments, a comparison of the output targets specified in the State Budget with actual performance against those targets; and
- a summary of changes or factors which have affected the achievement of the operational objectives for the year.

**5.27** At the time of my June 2001 *Report on Ministerial Portfolios*, it was understood that the Directions of the Minister were to be amended to require objectives and related performance indicators to be included in the report of operations. However, action has not yet been taken to address these matters.

**5.28** The following key principles are provided for consideration in the review of the Ministerial Directions. The principles have been extracted from a recent Report of the New Zealand Controller and Auditor-General titled *Reporting Public Sector Performance*<sup>10</sup>:

- In reporting on results in terms of what a public entity achieves, it is important to explain how the community is better or worse off, i.e. effective performance reporting should show whether the conditions of society have moved towards desired outcomes as a result of government policies and actions;
- Developing intermediate outcomes and reporting against them can assist in reporting progress towards longer-term outcomes;
- Too much concentration on outputs can result in ineffectiveness in the context of achieving the wrong things;
- Entities need to compare their planned performance with actual performance. A report on actual performance should explain how learning from events and actions will be used in the future;
- Identifying uncertainties and developing strategies to address them and the disclosure of these in external reports provides the foundation of performance reporting; and
- In commenting on the costs associated with results and interactions, it needs to be recognised that delivering more in the short-term may mean the capability to deliver in the long-term may be lost or impaired.

**5.29** In the interests of consistency, an agreed format for reporting performance information should also be considered.

### *Assessment of departmental annual reports*

**5.30** We have assessed the annual reports of the 8 departments against 3 criteria, requiring that they:

- report departmental performance in the context of the Government's desired outcomes and measures of progress;
- not limit performance reporting to the short-term; and
- provide a candid account of both success and under-achievement.

**5.31** The results of our assessments are presented in Table 5D. It should be noted that because of the timing of the audit, our examinations were restricted to examination of annual reports for the 1999-2000 year.

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<sup>10</sup> *Reporting Public Sector Performance*, Report of the Controller and Auditor-General of New Zealand, June 2001.

**TABLE 5D  
1999-2000 ANNUAL REPORTING SCORECARD**

Criterion	Department							
	Education, Employment and Training	Human Services	Infra-structure	Justice	Natural Resources and Environment	Premier and Cabinet	State and Regional Dev'tment	Treasury and Finance
Is departmental performance reported in the context of the Government's desired outcomes and key performance indicators?(a)	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖
Is long-term performance reported?	✓	✓	⊖	⊖	✗	⊖	✗	⊖
Does the performance information reported provide a candid account of both successes and under-achievements?	✓	⊖	⊖	✓	⊖	⊖	⊖	⊖

Legend: ✓ Substantially met    ⊖ To some extent    ✗ No

(a) While the recently endorsed desired government outcomes had not been conceptualised in 1999-2000, most departments demonstrated their intention to link their performance and reporting to government outcomes. At that time, government outcomes (or objectives) were expressed in the form of the 4 pillars of the Government, i.e.: "Responsible Financial Management"; "Promoting Growth Across the Whole State"; "Delivering Improved Services"; and "Restoring Democracy". We note also that as departmental performance indicators had yet to be developed or submitted to the Government, departments were unable to report on these for 1999-2000.

**5.32** We were pleased to find that, although the Directions of the Minister for Finance under the *Financial Management Act* 1994 provide for performance to be reported in terms of the output performance measures and targets specified in the budget papers, i.e. short-term measures, 6 of the 8 departments had reported past performance over the longer-term, e.g. trends over time or benchmarking of performance across a number of periods.

**5.33** Many departments reported on areas of over and under-achievement against budget paper output performance measures and targets. However, the extent of discussion was limited, particularly in relation to areas of under-achievement. The Departments of Education, Employment and Training, and Justice, provided comparatively more extensive reporting of successes and shortcomings.

**5.34** During the audit, departments indicated that their 2000-01 annual reports, to be tabled in the Spring 2001 session of Parliament, will show an improvement on the 1999-2000 reports, given the progress in developing the performance management and reporting framework.

**RESPONSE** provided by Secretary, Department of Premier and Cabinet

*Insufficient definition has been provided on the criteria used to assess annual reports. In addition, the Department of Premier and Cabinet's 1999-2000 Annual Report provided a detailed performance report against outcomes and performance indicators, appearing on pages 8-11 of the 1999-2000 Annual Report. The Department of Premier and Cabinet received the Gold Award for this report in the Annual Report Awards and was commended for the way in which it addressed performance reporting at the strategic, outcomes level.*

**FURTHER** audit comment

*Refer to further audit comment following para. 5.20 of this report.*

### **Reporting consistently**

**5.35** Consistency of reporting across agencies and between periods is an important feature of an efficient and effective performance management and reporting system. Clearly specified reporting requirements:

- ensure agencies are speaking the same language both in *ex-ante* and *ex-post* reports;
- ensure departments are aware ahead of time of what they are to report, enabling sufficient and appropriate data to be captured for reporting purposes;
- cover an appropriate range of information and are properly focused to assist stakeholders to obtain a “full picture” of a department’s performance, including where performance has failed to meet targets; and
- assist benchmarking across agencies and comparisons between periods.

**5.36** We consider ensuring compliance with reporting requirements to be a departmental responsibility with central agencies playing a key leadership, monitoring and enforcement role. During our discussions with officers of the Department of Treasury and Finance, we were advised that activity is currently focused on developing a whole-of-government financial management compliance framework. This will assist the Government to monitor, review and enforce its legislative and regulatory financial management requirements, including the reporting requirements under the Financial Management Act. Following a period of development, the Department proposes to pilot the compliance framework within the central agencies in mid-2002. We support this initiative.

**5.37** In addition to external reports required under the Financial Management Act, there are a number of other reporting arrangements for Victorian departments, such as:

- External reporting mechanisms in place to enable monitoring and reporting of performance to the community or industry on a regular basis including *Correctional Services Statistics* reported by the Department of Justice; *Hospital Services Reports* from the Department of Human Services; and *Track Record: Victoria's Train, Tram and Bus Services* from the Department of Infrastructure;



- Intra-government reporting to assist central agency monitoring of financial and service delivery performance. Intra-government reporting is primarily established under the integrated management cycle developed by the Department of Treasury and Finance and provides key information to the Government. On the basis of formal quarterly reporting to the Government against the output performance measures and targets specified in the budget papers, the Minister for Finance certifies that revenue may be provided for goods and services provided by the department for the relevant period; and
- Internal management reporting developed within agencies to deliver information integral to the day-to-day management of an agency.

**5.38** It is important that departments have information systems that enable efficient and effective production of reports to meet their reporting responsibilities, which at times require production of reports at monthly, quarterly, half-yearly and annual intervals, and which may cover both financial and performance information.

**5.39** Our examinations within the 8 departments, revealed that attention is being given to streamlining their information management and reporting processes to minimise the need to excessively extract and collate material for their various reporting requirements. We commend departments for their efforts and encourage other departments to take similar steps to achieve efficiencies in their reporting processes. The central agencies must also ensure that reporting requirements are similarly integrated and streamlined.

## PERFORMANCE INDICATORS

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**5.40** Section 8(3) of the *Audit Act* 1994 provides a discretionary mandate for my Office to audit any performance indicators in the report of operations of an authority to determine whether they:

- are relevant to any stated objectives of the authority;
- are appropriate for the assessment of the authority's actual performance; and
- fairly represent the authority's actual performance.

**5.41** In my June 2001 *Report on Ministerial Portfolios*, I concluded that the performance management and reporting framework had not yet been sufficiently developed to enable audit opinions to be issued regarding the relevance, appropriateness and fair presentation of performance indicators. Examination of the implementation of the framework and the principles underpinning the proposed framework during the current audit reinforced the conclusion reached in my earlier report, given that little progress in developing performance indicators had been made in the ensuing period.

**5.42** An objective of the current audit was to assess the quality of the key departmental performance indicators (and output targets) to be used in 2001-02 for performance management and external reporting purposes, with reference to their relevance, appropriateness and measurability/auditability in the context of the departmental objectives, cross agency elements and desired government outcomes.

### Defining my mandate

**5.43** To exercise my legislative responsibility for the audit of performance indicators, it is necessary to define the terms “relevant”, “appropriate” and “auditable”. These terms are used extensively in measurement theory literature, within government jurisdictions and by some audit offices. There are no consistent definitions and, at times, the definitions used in one setting conflict with those used elsewhere. Definition of these terms has been under consideration by this Office for some time.

**5.44** We note that the Department of Treasury and Finance has established a number of criteria for useful indicators/targets, and these are presented in Table 5E.

**TABLE 5E  
CRITERIA FOR USEFUL INDICATORS/TARGETS,  
ACCORDING TO THE DEPARTMENT OF TREASURY AND FINANCE**

<i>Criterion</i>	<i>Test</i>
Relevance	There should be a logical relationship between the indicator and the department’s objective. The indicator and objective should be consistent and clearly communicate what is being measured. The key words in the objective provide guidance as to the relevance of the indicator.
Robustness	The indicators will facilitate comparison with: <ul style="list-style-type: none"> <li>• a pre-determined target;</li> <li>• the trend in that performance over time; and/or</li> <li>• performance relative to other agencies or pre-determined benchmarks.</li> </ul>
Manageability	Data can be collected and reported against the indicator at the end of the reporting period. The department will have the capacity to collect data and report the performance information within agreed timeframes.
Success indicator	The indicator provides information to allow assessment on the extent to which the objective has been achieved or progress towards achievement.
Auditability	Verifiable data to support reported performance will be available at the end of the reporting period.
Accountability	The department is accountable for achievement of the objective and for reporting against the indicators/targets.
Consultation	Major stakeholders, including the Government, regard the indicator as useful.

*Source:* Department of Treasury and Finance, *Budget and Financial Management Guide*.

**5.45** Given our legislative requirement to audit performance indicators in only 3 dimensions (relevance, appropriateness and fair representation), we believe that the definition of “relevance” should incorporate the notion that relevance requires a comprehensive set of performance indicators to show agency performance in all key areas. We also require a definition of the term “appropriate”.

**5.46** Following our analysis of the above and literature obtained from other jurisdictions, particularly that issued by the Office of the Auditor-General, Western Australia, we have arrived at a set of definitions that we intend to use in future. These definitions are presented in Table 5F.

**TABLE 5F  
DEFINITIONS FOR AUDIT ASSESSMENT OF PERFORMANCE INDICATORS**

<i>Term</i>	<i>Definition</i>
“Relevant”	<p>The indicator should have a logical and consistent relationship to the agency’s objectives which are linked to the government’s desired outcomes.</p> <p>The agency is accountable for achievement of the objective and for reporting against the indicator.</p> <p>A set of key measures which best expresses the performance of an agency/program having regard for:</p> <ul style="list-style-type: none"> <li>• immediate deliverables; and</li> <li>• long-term sustainable supply including human, physical and intellectual elements.</li> </ul>
“Appropriate”	<p>The indicator gives sufficient information to assess the extent to which the agency has achieved a pre-determined target, goal or outcome, by reference to:</p> <ul style="list-style-type: none"> <li>• the trend in performance over time;</li> <li>• performance relative to the performance of similar agencies; and</li> <li>• performance relative to pre-determined benchmarks.</li> </ul> <p>The indicator should be accompanied by adequate notes that assist the user to draw meaningful conclusions about the performance of the agency.</p>
“Fairly represents”	<p>In order to fairly represent performance of an agency, the information provided must be capable of measurement, represent what it purports to indicate, consistently and without bias, and be accurate and auditable.</p>
“Auditable”	<p>Quantifiable, consistent and verifiable data are available.</p> <p>The information upon which the indicators are based is collected, recorded and analysed in such a way that the conclusions drawn from it can be verified.</p>

**5.47** To assist in the development of performance indicators, there will need to be consistency in use and understanding of these definitions across government. The indicators will also need to be capable of objective measurement to ensure their auditability.

### **Audit of performance measures**

**5.48** As performance indicators related to departmental objectives had yet to be finalised and were, therefore, not available for audit, my officers have undertaken an assessment of output performance measures related to a selection of outputs within each of the 8 departments to assess their relevance, appropriateness and auditability.

**5.49** The criteria used in the selection of output groups and their application for each portfolio are set out in Table 5G. The total budget for the selected output groups for 2001-02 was \$6.6 billion or 33 per cent of the total 2000-01 budget for the 8 departments.

**TABLE 5G  
SELECTION OF OUTPUT GROUP, BY DEPARTMENT**

Criterion	Department (output group selected)							
	Education, Employment and Training (School Education)	Human Services (Community Care)	Infrastructure (Metropolitan Transport Services)	Justice (Enforcing Correctional Orders)	Natural Resources and Environment (Land Management and Information)	Premier and Cabinet (Women's Policy)	State and Regional Development (Tourism)	Treasury and Finance (Financial Management Services)
Budget of selected group as a percentage of the department's total 2001-02 budget (per cent).	81.7	6.7	40.0	14.2	8.7	0.4	9.6	9.1
Significant contribution to the achievement of the department's objectives.	✓	✓	✓	✓	✓	✓	✓	✓
Recommended by the department to best demonstrate its preparedness to report on its performance in 2001-02.	✓	(a)	✓	✓	✓	✓	✓	✓
Representative of the department's core functions.	✓	✓	✓	✓	✓	✓	✓	✓
Has not been subject to recent aggregation which renders trend analysis problematical.	✓	✓	✓	✓	✓	✓	✓	✓
Major impact on whole-of-government accountability, policy co-ordination and development services.	n.a.	n.a.	n.a.	n.a.	n.a.	✓	n.a.	✓
Not subject to recent performance audits (e.g. within the last 2 years).	✓	✓	✓	✓	✓	✓	✓	✓

Legend: ✓ Yes

(a) The Department of Human Services recommended the Acute Health output group as being the most developed in terms of identification, measurement and reporting of objectives, indicators, targets and outcomes as "hospitals have rigorous procedures for collecting data (e.g. casemix), well-developed quality measures, robust management information systems and recently improved reporting processes". However, the Department also recognised that since it does not directly run the hospitals, it cannot force the service system to adopt the measures. The Dental Health output group (2001-02 budget \$83.1 million) was suggested as an option as its episodic nature (as opposed to ongoing case work) makes it easier to develop quality measures. We decided to select the Community Care output group (2001-02 budget \$532.7 million) as it is one that the Department directly administers, is materially more significant than Dental Health and best fits the other selection criteria.

**5.50** Whereas performance indicators related to departmental objectives should address efficiency, effectiveness and the causal impact of programs and can apply to the medium or long-term, output performance measures are related to the purchasing function and the annual resource allocation model, i.e. they are measures of short-term service delivery or production. Because of this, there are fundamental differences in the attributes of a good performance indicator and a good performance measure, and the criteria for assessment will differ. The criteria used for assessment of output performance measures in this Part therefore differ from those presented in Table 5F.

**5.51** We selected one output from each of the output groups identified in Table 5G, for our assessment of the output performance measures. The following criteria were used for our assessment:

- Relevant:
  - do the output performance measures have a clear and logical relationship to the key aspects of performance relevant to the department's activities, and are they clearly linked to their objectives and stakeholder expectations? and
  - do they contribute to the achievement of the objective?
- Appropriate:
  - do the measures provide a balanced view addressing key aspects of:
    - quantity?
    - qualitative outcomes?
    - timeliness? and
    - full accrual cost per unit?
- Auditable:
  - are the measures directed at aspects of performance which are measurable or for which data are being collected to ensure measurability in the near future? and
  - reported in a consistent and accessible manner within and between agencies and over time?

**5.52** The results of our assessments are presented in Table 5H. It should be noted that the accuracy of performance reporting by departments was not assessed during this audit. However, comments relating to the information systems maintained by the departments to collect and collate performance information are included later in this Part of the report.

**TABLE 5H  
SCORECARD FOR SELECTED OUTPUT PERFORMANCE MEASURES**

Criterion	Department (output)							
	Education, Employment and Training (Primary Education)	Human Services (Protection and Placement)	Infra'ture (Metro. Train Services)	Justice (Prisoner Super'n and Support)	Natural Resources and Env'ment (Public Land Mge'ment)	Premier and Cabinet (Women's Policy Advice)	State and Regional Dev'ment (Tourism Marketing)	Treasury and Finance (Portfolio Performance Review)
Are the output performance measures relevant to the departmental objectives?	✓	✓	⊖	✓	⊖	⊖	⊖	✓
Do the measures provide a balanced view addressing key aspects of quality, quantity, timeliness and full accrual cost per unit?	⊖	⊖	⊖	⊖	⊖	⊖	⊖	⊖
Are the output performance measures and associated targets directed at aspects of performance that are auditable (i.e. measurable)?	✓	✓	✓	✓	✓	✓	✓	✓

Legend: ✓ Yes      ⊖ To some extent, some attributes not addressed

**5.53** We assessed the performance measures to be generally relevant to departmental objectives, i.e. we were able to see how the delivery of the outputs being measured could be related to the pursuit of the departmental objectives. However, we found that, for some departments, not all parts of the objectives to which the outputs contributed were addressed by the measures.

**5.54** In terms of appropriateness, we found that the output performance measures for most of the selected outputs provided a balanced view addressing quality, quantity and timeliness. However, they did not measure/report the full accrual cost per unit of output.

**5.55** We were satisfied that the performance measures and targets were auditable.

**RESPONSE** provided by Secretary, Department of Premier and Cabinet

*The scorecard assessment of “to some extent” is too broad and does not provide evidence of the specific attributes that have or have not been addressed by this output.*

**FURTHER** audit comment

*Refer to further audit comment following para. 5.20 of this report.*

### **Other considerations for development of performance indicators**

**5.56** It is important that departments and the central agencies distinguish between indicators that are relevant for:

- internal management;
- central agency monitoring; and
- external accountability.

**5.57** In the absence of performance indicators relating to departmental objectives, the output performance measures are being used for external reporting of performance. These measures are often more useful as information for internal management purposes and for the Department of Treasury and Finance as a purchaser, as they are focused on activities or deliverables rather than outcomes.

**5.58** While we assessed the current output performance measures in terms of their relevance, appropriateness and auditability, another important feature of a good performance indicator is its ability to motivate appropriate behaviour towards the achievement of the desired outcomes. During our discussions with output managers within the departments, many stated that, apart from measures of quality, they considered the output performance measures provided in the budget papers generally were not useful for day-to-day management purposes.

**5.59** Until such time as departmental objectives have been finalised, a comprehensive set of performance indicators and output performance measures for managing, measuring and reporting performance of departments will not be available for departments to discharge their public accountability requirements. Until development of measures and indicators which are capable of objective measurement, i.e. are auditable, I will not be able to fulfil the requirements of section 8(3) of the *Audit Act* 1994.

## **Information for measuring, managing and monitoring performance**

**5.60** The availability of sufficient, valid and reliable data is an essential requirement for effective performance management and reporting. The efficient and effective collection of large volumes of performance data can be facilitated by electronic information systems that enable timely production of information. However, in cases where datasets are small, manual collation of information may prove more economic and equally effective. Whatever the source or manner of data collection, it is essential that adequate arrangements are in place to ensure the reliability and accessibility of the information collected and reported.

**5.61** As mentioned earlier, we found that, in developing the government-level outcomes and related measures of progress, the Department of Premier and Cabinet is giving particular attention to their measurement capability and to the availability of data for measuring and benchmarking of performance. Given the likely high level focus of the outcomes, we believe it is probable that much of the data required will be obtained from third parties either from within or outside the Victorian public sector. In such cases, the credibility of the data source and the verification and certification procedures applied by the source organisation will need to be considered to ensure the data is reliable.

**5.62** Comments about information systems maintained by the 8 departments and the availability of data for performance management, measurement and reporting are presented below.

### ***Preparedness of departments***

**5.63** The final objective of the audit was to assess the preparedness of departments to accurately measure and report their performance in relation to the output performance measures for 2001-02. We examined whether the departments had information systems that efficiently provide the data necessary to measure, monitor and manage the selected outputs.

**5.64** The results of our assessment in terms of the sample of outputs examined in each department are presented in Table 5I.



**TABLE 51  
SCORECARD OF PREPAREDNESS OF DEPARTMENTS TO MEASURE, MANAGE AND  
MONITOR PERFORMANCE**

Criterion	Department (output)							
	Education, Employment and Training (Primary Education)	Human Services (Protection and Placement)	Infra'ture (Metro. Train Services)	Justice (Prisoner Super'n and Support)	Natural Resources and Env'ment (Public Land Mge'ment)	Premier and Cabinet (Women's Policy Advice)	State and Regional Dev'tment (Tourism Marketing)	Treasury and Finance (Portfolio Performance Review)
Are information systems in place to capture information, to measure actual performance relating to key performance measures and targets?	✓	✓	✓	✓	✓	✓	✓	(a) ✓
Are controls in place to ensure data captured is accurate?	⊖	⊖	✓	✓	⊖	✓	✓	(a) ✓
Do systems meet the needs of users, avoid duplication of effort and enable the production of performance information in an efficient manner?	⊖	⊖	⊖	⊖	⊖	✓	⊖	✓

Legend: ✓ Yes      ⊖ To some extent

(a) In terms of the particular output examined at the Department of Treasury and Finance, there is no automated system currently in use for collating and managing the performance data. Responsibility for its preparation and collation has been clearly defined and the manual system appears reasonable at this stage. In addition, controls are in place within the manual system to ensure data captured is accurate.

**5.65** All departments have central and divisional systems in place to capture and report on information that measures performance in relation to output performance measures and targets. Some departments have, or are planning, relatively sophisticated databases to electronically collate, monitor and report performance information, e.g. the Department of Justice is investigating ways to integrate the major information systems in the portfolio, including systems in Victoria Police, Corrections, the Magistrates Court and Victoria Legal Aid. Some other departments manually collate data and use electronic templates to facilitate reporting. Most departments are currently improving their information systems to reduce duplication of effort and enhance efficiency and timeliness.

**5.66** Although controls are in place over the performance information collated and reported in each department, data validation processes appear to be minimal. In a number of departments, there is room for improvement in processes for verifying the accuracy of performance data generated from internal and external sources. An exception to this is the Department of Infrastructure, which has a well-developed audit process for the public transport services' performance data. Some other output areas of the Department of Treasury and Finance which handle much larger volumes of data than the output selected also have established extensive data validation procedures.

**5.67** We found for the outputs and performance measures selected, departments have adequate arrangements in place, or are currently developing such arrangements, to measure and report their performance in relation to output performance measures for 2001-02.

**5.68** In the absence of agreed performance indicators for departmental objectives, we are not in a position to conclude on the preparedness of departments to accurately measure and report their performance against such indicators.

### Recommendations

**5.69** In reviewing the central agency guidelines for corporate planning, it is recommended that the appropriate central agency encourage a consistent approach to, and improved content of, corporate plans by requiring:

- corporate plans to be publicly disclosed;
- consultation with stakeholders to determine their needs and expectations;
- links in the corporate plans of departments between planning and the performance management and reporting systems;
- disclosure of financial outlook, including resources required in future periods;
- analysis of strategic risks having regard for human, physical and intellectual elements, and identification of risk mitigation strategies;
- standardisation of the length, and synchronisation, of corporate planning periods;
- finalisation of corporate and departmental plans prior to the commencement of the period covered by the plans; and
- a common approach to measurement and reporting of performance.

**5.70** We recommend that the *Financial Management Act 1994* provide for:

- annual *ex-ante* reporting of the whole-of-government strategic directions and priorities and measures of progress and targets related to government outcomes, to be tabled in the Parliament;
- annual *ex-ante* reporting signalling the key objectives, performance indicators, measures and targets, risks, strategies and priorities through departmental plans, to be tabled in the Parliament;
- annual reporting of whole-of-government performance against government outcomes and related measures of progress and for tabling of the report in the Parliament; and
- consolidated reporting of cross-agency programs or strategies.

**5.71** We recommend a review of the content of the Directions of the Minister for Finance under the *Financial Management Act 1994* relating to the report of operations of departments be undertaken to enhance the performance reporting requirements, including:

- more comprehensive disclosure of the reasons why targets have not been achieved;
- development of a streamlined, standardised format for departmental performance reporting;

- certification of the accuracy and reliability of data used for performance management and reporting; and
- a monitoring framework which ensures comparability of *ex-ante* and *ex-post* reporting.

In undertaking the review of Ministerial Directions, it is recommended that officers of the Department of Treasury and Finance consult with individual agencies and public bodies, the Public Accounts and Estimates Committee and my Office.

**5.72** We recommend that the Department of Treasury and Finance adopt consistent definitions for the terms “relevant”, “appropriate” and “auditable” across government.

**5.73** We recommend that departments ensure that suitable information systems are in place to capture, in a cost-effective way, the information required to enable reporting against indicators of performance for the range of reporting requirements of an agency/department.

*RESPONSE provided by Secretary, Department of Natural Resources and Environment*

**Para. 5.69**

*The Department agrees with the recommendation that corporate plans be publicly disclosed. The Department already does this.*

*The Department agrees that there is a need to encourage a consistent approach to, and improved content of, corporate plans by requiring consultation with stakeholders to determine their needs and expectations.*

*The Department agrees that there should be links in the corporate plans of departments between planning and the performance management and reporting systems. This is already being done by this Department.*

*It is agreed that departments should be encouraged to disclose their financial outlook in their corporate plans. The Department already does this.*

*In regard to analysis of strategic risks and identification of risk mitigation strategies, necessarily, the account of risk management strategies included in the corporate plan would only be at the highest level.*

*Standardisation of the length, and synchronisation, of corporate planning periods is acceptable to the Department.*

*It is agreed that corporate plans should be finalised prior to the commencement of the period covered by the plans.*

*A common approach to the measurement and reporting of performance is acceptable.*

**Para. 5.70**

*Noted, this is a matter principally for central agencies direction on behalf of whole-of-government.*

**Para. 5.71**

*Noted, this is a matter principally for central agencies direction on behalf of whole-of-government.*

**Paras 5.72 and 5.73**

*Agreed.*

## **Appendix A**

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# **Glossary of terms used**

## GLOSSARY OF TERMS

Accountability	<p>Responsibility by an individual officer or agency for performance within delegation and legislation.</p> <p>According to the Department of Treasury and Finance, government departments are accountable for achievement of their objectives and for reporting against the indicators relating to those objectives and output targets.</p>
Appropriate	<p>The indicator gives sufficient information to assess the extent to which the agency has achieved a pre-determined target, goal or outcome, by reference to:</p> <ul style="list-style-type: none"> <li>• the trend in performance over time;</li> <li>• performance relative to the performance of similar agencies; and</li> <li>• performance relative to pre-determined benchmarks.</li> </ul> <p>The indicator should be accompanied by adequate notes that assist the user to draw meaningful conclusions about the performance of the agency.</p>
Auditable	<p>Quantifiable, consistent and verifiable data are available.</p> <p>The information upon which the indicators are based is collected, recorded and analysed in such a way that the conclusions drawn from it can be verified.</p>
Benchmarking	<p>A process for comparing performance against standards, targets or previous performance from either within the agency or from external agencies and organisations.</p>
Central agencies	<p>In the Victorian context, the Department of Treasury and Finance and the Department of Premier and Cabinet.</p>
Cost	<p>Expense incurred in the production of outputs.</p>
Effectiveness	<p>The achievement of the objectives or other intended effects of programs, operations or activities.</p>
Efficiency	<p>Ensuring that the maximum useful output is gained for any given set of financial, human or physical resource inputs, or input is minimised for given quantity and quality of output provided.</p>
<i>Ex-ante</i> reporting	<p>Reporting intended outcomes, objectives, strategies, priorities, performance measures and targets, and budgets in corporate plans and budget papers, prior to the period of activity.</p>
<i>Ex-post</i> reporting	<p>Reporting achievements against intended outcomes, objectives, strategies, priorities, performance measures and targets as stated in the corporate plan and budget papers, and actual costs, after the completion of the period of activity.</p>
Fairly represents	<p>In order to fairly represent the performance of an agency, the information provided must be capable of measurement, represent what it purports to indicate, consistently and without bias, and be accurate and auditable.</p>
Inputs	<p>Resources used to produce outputs. Inputs include human, physical, financial and time resources.</p>

**GLOSSARY** - continued

Integrated Management Cycle	<p>In August 2001, the Government endorsed the Integrated Management Cycle, under the Management Reform Program, designed to integrate “... <i>decision making in relation to the Government’s policies and strategies with decision making on resource allocation and the delivery of outputs</i>”.</p>
Management Reform Program	<p>In 1997, the Management Reform Program was launched within the Victorian budget sector “... <i>to improve the strategic alignment of departmental activities and services with government priorities and improve value for money</i>”. Major initiatives under the program were the shift in focus to outputs, i.e. deliverables rather than inputs, and the introduction of accrual accounting.</p>
Measures of progress	<p>Various types of measures that enable the Government and others to track progress towards broad Government outcomes. The measures may include performance indicators, targets and benchmarks.</p>
Objectives	<p>A statement of what a department, program or sub-program is intended to achieve in the production or delivery of its outputs, and which reflects relevant legislation and government policy. Objectives should be clearly outcome-focused, achievable and measurable.</p> <p>In the Victorian context, departmental objectives are high level, medium-term (3 to 5 year) strategic goals of departments, aligned to the Government’s outcomes. They provide a focus for the allocation of resources for the delivery of a department’s mix of outputs.</p>
Organisational capability	<p>Ensuring that the department or service provider maintains the capacity to provide the products or services that the stakeholder requires together with its ability to respond to changes over time. Organisational capability is measured in terms of human, physical and intellectual elements.</p>
Outcomes (government)	<p>Broad statements of the Government’s desired or intended effects on the community. Outcomes:</p> <ul style="list-style-type: none"> <li>• are expressed in terms of impact on the community;</li> <li>• identify the target group(s) who will benefit;</li> <li>• are clear and concise;</li> <li>• are measurable within a specific timeframe; and</li> <li>• provide a medium to long-term view.</li> </ul>
Output performance measures	<p>Quantifiable units of measurement used to determine and assess the delivery of outputs. They should be used where there is a direct causal link between activities and performance. They establish how performance will be judged for each output by translating it into a measured value of quantity, quality, cost and timeliness.</p> <p>In the Victorian context, performance measures relate to outputs specified through the Government’s resource allocation process.</p>
Output reviews	<p>Output evaluations and pricing reviews undertaken by the Government to inform decision-making, enhance resource allocation and improve value-for-money.</p> <p>As part of the Management Reform Process, the Government in 2001-02 endorsed a program of output reviews across government over a 3-5 year rolling cycle.</p>

## GLOSSARY - continued

Outputs	Identifiable products or services produced or delivered by a department or agency for external customers. Outputs align to the strategic priorities of the Government and support the achievement of departmental objectives.
Performance	How well things are done, including whether: <ul style="list-style-type: none"> <li>• expected results are accomplished;</li> <li>• they are accomplished within budget and in the most efficient manner;</li> <li>• there are no negative unintended consequences; and</li> <li>• the organisation is learning from past experience and adapting.</li> </ul>
Performance indicators (of departmental objectives)	Performance indicators provide guidance on assessing performance where causal links are not necessarily obvious and where changes in performance are difficult to measure directly.  In the Victorian context, a performance indicator should link to a departmental objective and indicate progress towards achievement of that objective.
Performance measures (of outputs)	Quantifiable units of measurement used to determine and assess the delivery of outputs. They should be used where there is a direct causal link between activities and performance. They establish how performance will be judged for each output by translating it into a measured value of quantity, quality, cost and timeliness.  In the Victorian context, performance measures relate to outputs specified through the Government's resource allocation process.
Quality	Measures that are usually defined by the customer's expectations or meeting known standards.
Quantity	Measures that describe outputs in terms of how much, or how many. They require a unit of measurement to be defined. Quantities could take the form of the number of discrete deliverables or capacity provided.
Relevant	The indicator should have a logical and consistent relationship to the agency's objectives which are linked to the Government's desired outcomes.  The agency is accountable for achievement of the objective and for reporting against the indicator.  A set of key measures which best expresses the performance of an agency/program having regard for: <ul style="list-style-type: none"> <li>• immediate deliverables; and</li> <li>• long-term sustainable supply including human, physical and intellectual elements.</li> </ul>
Resource allocation	The distribution of funding across outputs.
Stakeholders	Key people or organisations, either within or external to the public service, who purchase, use or consume, or are otherwise impacted by outputs produced by an agency. Stakeholders may include decision-makers, people affected by these decisions, and those with a right to know. They commonly include: elected politicians, program staff, service users and interest groups.
Strategies	Groupings of activities used to achieve an objective. For example, a strategy to improve road safety could include activities such as advertising campaigns, improving road surfaces and changing road rules.

**GLOSSARY** - *continued*

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Targets	Quantifiable performance levels or changes in level to be attained at a specific future date, which enable direct judgement of performance.
Timeliness	Measures of how often, or within what timeframe, outputs will be delivered.  Timeliness may be a measure of either: <ul style="list-style-type: none"><li>• efficiency, measured by turnaround times; or</li><li>• effectiveness, measured by waiting or response times.</li></ul>
Verifiable	Information on which indicators are based must be collected, recorded and analysed in such a way that results drawn from it can be checked and similar conclusions reached by appropriately qualified individuals working independently.
Whole-of-government	Inclusive of all sectors of government.



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