

VICTORIA

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Auditor General

Victoria

# **Performance management and reporting**

## **Progress report and a case study**

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AUDITOR GENERAL  
VICTORIA

The Hon. Monica Gould, MP  
President  
Legislative Council  
Parliament House  
MELBOURNE

The Hon. Judy Maddigan, MP  
Speaker  
Legislative Assembly  
Parliament House  
MELBOURNE

Under the provisions of section 16 of the *Audit Act* 1994, I transmit my performance audit report on *Performance management and reporting: Progress report and a case study*.

Yours faithfully

J.W. CAMERON  
*Auditor-General*

30 April 2003

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# Foreword

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The Victorian Performance Management and Reporting Framework is designed to enhance public sector accountability and to drive the achievement of Government's objectives by aligning the resource allocation process with environmental, social and economic policy objectives.

Continued development and implementation of the Framework is important. This is my third report on this issue. Delays in finalisation of the Framework have inhibited my ability to provide audit assurance on performance indicators measuring achievement against agency objectives, and have delayed the achievement of intended benefits of the Framework.

In the 18 months since my November 2001 report on this topic, the Government has released its high-level outcomes and measures of progress. However, development of performance indicators linking the resource allocation process to departmental objectives and to government outcomes remains a key component of the Framework that has yet to be finalised.

This report acknowledges the recent achievements but notes that:

- The Government's policy objectives encompass a broader range of government outcomes than those identified in *Growing Victoria Together*. It is critically important that a focus on *Growing Victoria Together* outcomes does not create a "blind spot" in respect of the many other important outcomes for which a government is responsible;
- The Framework continues not to encompass the activities of outer budget sector agencies. This report suggests aggregation of performance information at the ministerial portfolio level, to avoid over concentration on departmental performance; and
- Key reporting requirements set out in the Directions of the Minister for Finance do not sufficiently require agencies to report against performance indicators in their annual reports to Parliament.

I encourage the Government to finalise the development and implementation of the Framework as soon as possible.



J.W. CAMERON  
*Auditor-General*

30 April 2003

# Part 1

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# Progress report



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## BACKGROUND

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**1.1** Since December 1999, the Auditor-General has had a mandate to audit the relevance, appropriateness and fair presentation of the performance indicators that are published in the annual reports of public sector agencies<sup>1</sup>. Performance indicators form the keystone for accountability in Victoria's Performance Management and Reporting Framework, linking government policy outcomes with public sector outputs and the budget process.

**1.2** This Office has indicated in earlier reports on this matter that it would place its early focus on the adequacy of the Framework and the accompanying performance indicators, prior to the Auditor-General exercising his mandate to audit the indicators themselves. This is the third report on the status of performance management in Victoria. We are still some way from being in a position to subject performance information to the rigours of a full attest audit.

**1.3** Victoria's Performance Management and Reporting Framework has been under development for several years. Its objectives are 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; and
- improve management of budget sector resources in order to achieve the Government's outcomes and to ensure adequate internal and external accountability for performance.

**1.4** In our November 2001 report<sup>2</sup>, we concluded that the development of the Performance Management and Reporting Framework was not complete. In particular:

- the Government's outcomes and measures of progress had not been finalised;
- there were not clear linkages between the Government's desired outcomes and departmental objectives;
- there was a limited relationship between resource allocation and the Framework;
- it did not address performance management and reporting across all public bodies;
- there was an absence of agreed performance indicators relating to departmental objectives; and
- it did not adequately address the "ownership interests" of Victorians, including the longer-term sustainability of government operations.

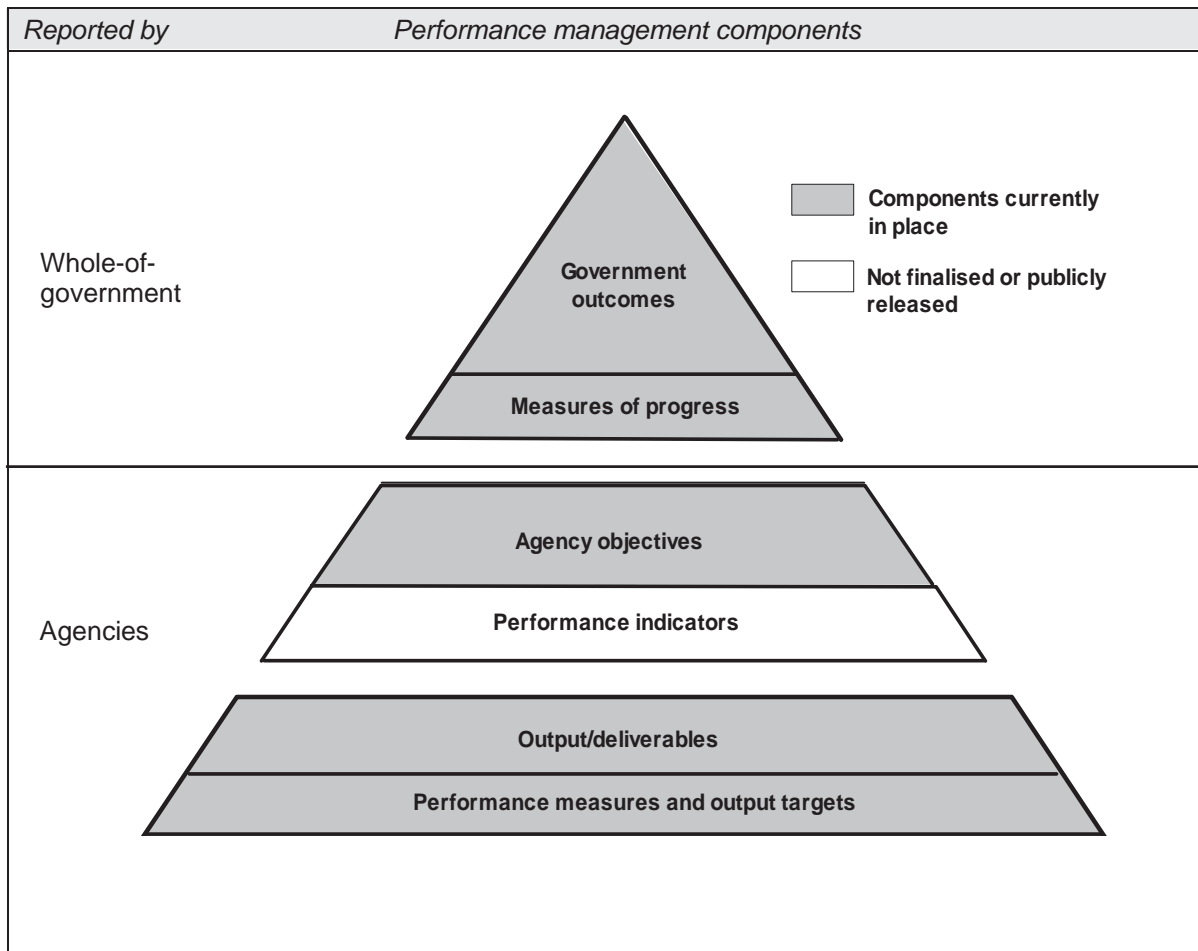
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<sup>1</sup> The details are set out in Appendix A of this report.

<sup>2</sup> Victorian Auditor-General, *Departmental performance management and reporting*. Government Printer for the State of Victoria, Melbourne, November 2001.

**1.5** This report presents a progress update on the development of the Framework, together with case study illustrations from the waste management sector<sup>3</sup>. Chart 1A shows the status of the Framework in 2001 and progress to date. Chart 1A is based on the planning hierarchy triangle set out in the Management Reform Program Section of the Department of Treasury and Finance’s *Budget and Financial Management Guide*. It represents the key components of a systematic management and reporting framework and the hierarchical relationships between them.

**CHART 1A  
PERFORMANCE MANAGEMENT AND REPORTING FRAMEWORK, 2003**



Source: Victorian Auditor-General’s Office.

<sup>3</sup> Audit scope and objectives are set out in Appendix A of this report.



**1.6** The Performance Management and Reporting Framework has 3 components:

- **Outputs:** The funded activities of government agencies, which are “paid” to deliver these specified goods and services. Output performance is assessed by reference to performance measures (i.e. quantity, quality, timeliness and cost);
- **Objectives:** The achievements which are made as a result of the activities of government agencies. Objectives are assessed by reference to performance indicators which address efficiency, effectiveness and the impact of government programs in the medium to long-term; and
- **Government outcomes:** The overall impact achieved by government. Government outcomes will be affected by a range of factors including external influences and the broad environment in which government operates. Government outcomes are assessed by reference to measures of progress, that may only be partly within the control of government agencies.

## GOVERNMENT OUTCOMES AND *GROWING VICTORIA TOGETHER*

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**1.7** In March 2000, the Government summit *Growing Victoria Together* recommended a triple bottom line direction to policy development that integrated economic, environmental and social goals. This recommendation was reinforced by a growing recognition across government of the limitations of the output structure as an effective planning tool for budgeting and performance measurement.

**1.8** In November 2001, the Government released the *Growing Victoria Together (GVT)* strategy, setting out its key policy goals for the next 10 years. Specifically, 11 “important issues” considered important to Victorians are linked to 42 “priority actions” necessary to achieve these and 35 “measures of progress” by which to gauge achievement.

**1.9** This strategy was not intended to explicitly articulate all of government’s desired outcomes, but rather provides a guide to agencies’ strategic planning to ensure a broad alignment between agency objectives, the delivery of outputs and government’s policy priorities.

**1.10** *Growing Victoria Together* provides a tangible focus for Victoria's Performance Management and Reporting Framework, setting out the key priorities of the Government and integrating these directly with the management and reporting of public sector performance. *Growing Victoria Together* sits at the highest level of the Framework (government outcomes) which should then support the integration of this strategy into:

- measurement of public sector performance, through agency objectives and indicators;
- resource allocation, through output funding and the budget process; and
- accountability to the community, through *ex-ante*<sup>4</sup> and *ex-post*<sup>5</sup> public reports.

### *Growing Victoria Together* "important issues" and coverage of the Framework

**1.11** In order to facilitate the achievement of improved strategic planning and resource allocation in the public sector, we believe that the Framework should ensure that the broad range of government outcomes is covered.

**1.12** The audit reviewed the "important issues" contained in *Growing Victoria Together* and found that they represent key economic, environmental and social issues of importance to Victorians. However, they do not cover the full spectrum of government outcomes. These are more broadly defined in other government policy and strategic documents (such as *Labor's Financial Statement*<sup>6</sup>, *Women's Safety Strategy*<sup>7</sup>, the Government's drugs strategy, etc.), relevant legislation and established processes that go to make up most of the day-to-day management, and associated costs, of government services and regulation.

**1.13** We acknowledge that *Growing Victoria Together* was not intended to provide a comprehensive coverage of all government outcomes. There is a range of other government outcomes – many of which are core government business – which should be included as part of the Framework but, currently, are not. For any accountability framework to be credible it must reflect all of the key activities of the reporting entity. This holds true for government as well.

**1.14** Furthermore, the performance of the whole of the public sector in implementing all of the "important issues" cannot be measured within the current Framework. The Framework only covers departments and does not incorporate all public sector agencies, including statutory bodies, that contribute to the achievement of *Growing Victoria Together* and the Government's broader outcomes.

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<sup>4</sup> Reporting of intended outcomes, objectives, strategies, priorities, performance measures and targets, and budgets in corporate plans and budget papers, prior to the period of activity.

<sup>5</sup> 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 activity.

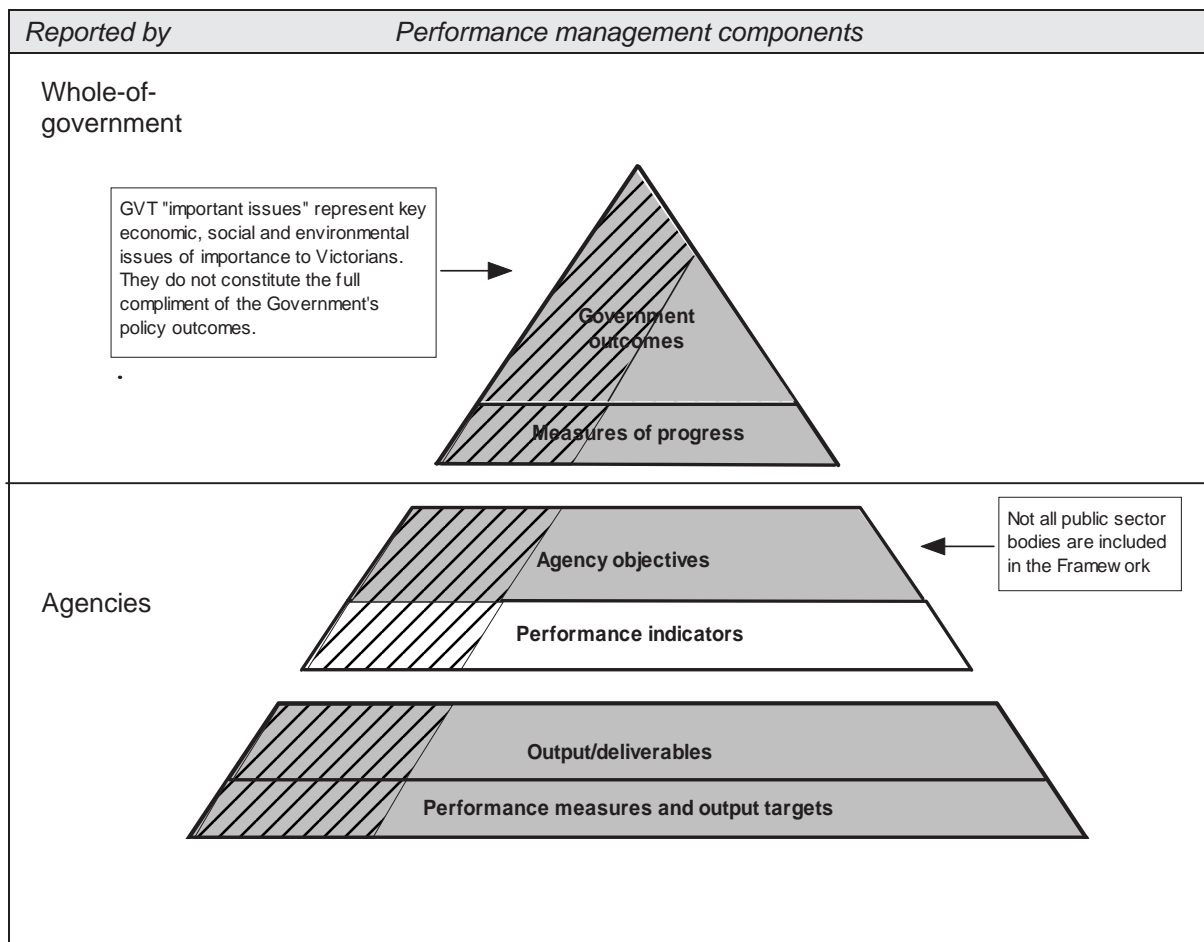
<sup>6</sup> Australian Labor Party (Victorian Branch), *Labor's Financial Statement 2002*.

<sup>7</sup> Office of Women's Policy, *Women's Safety Strategy*, Government Printer for the State of Victoria, Melbourne, 2002.

**1.15** Chart 1B illustrates how the Framework:

- does not represent coverage of all of the key elements of the Government’s policy outcomes, agency activities and outputs; and
- only includes government departments while other public sector entities that make contributions to the achievement of outcomes are not incorporated.

**CHART 1B  
PARTIAL COVERAGE IN THE PERFORMANCE MANAGEMENT AND REPORTING  
FRAMEWORK**



*Note:* The shaded region to left of the Framework provides an indication only of the extent to which GVT outcomes are a subset of government outcomes and associated objectives, indicators, measures and deliverables etc. The line has been included for illustrative purposes only and is not intended as an accurate representation of the extent of GVT coverage of government outcomes or agency activities.

*Source:* Victorian Auditor-General's Office.

**1.16** We raised this issue in our November 2001 report, recommending that the Framework include all of the public sector agencies whose operations contribute to the achievement of government outcomes. In its response to our previous report, the Department of Treasury and Finance indicated that the Framework was not intended to provide coverage of the performance of all the State’s public bodies and that a complete accountability Framework exists for these bodies through legislation, governance arrangements, financial and performance reporting, and direct accountability to customers.

**1.17** We recognise that there is a range of mechanisms through which government agencies are accountable. This plethora of mechanisms has not necessarily resulted in greater public understanding of the benefits they receive from the activities of government and its agencies. The Performance Management and Reporting Framework should be bringing these mechanisms together in a comprehensive, and easily understood framework to assist:

- all government agencies to manage the achievement of outputs and objectives which are aligned to specified government outcomes; and
- the public to receive timely and relevant reports of progress and better understand government achievements.

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

*The Department of Premier and Cabinet considers that the conception of GVT in the Report is too narrow. The Report rightly identifies GVT as a high level statement which provides a guide to agencies' strategic planning to ensure a broad alignment between agency objectives, the delivery of outputs and the government's policy priorities. However, that is not the most important dimension of GVT. GVT is fundamentally a statement of the Government's medium-term strategic intent, but it also has a number of other dimensions. It:*

- *explains the Government's policy priorities;*
- *assists the Government to communicate with Victorians about the issues that are most important to them; and*
- *constitutes a set of organising themes for government activity.*

*As the Report notes, GVT was not intended to cover the full range of desired outcomes from Government programs. To develop it in this direction would be contrary to its underlying purpose. The Important Issues in GVT are those identified by the Government as the strategic issues of most importance to Victoria over this decade. On the other hand, as a set of organizing principles, the GVT Important Issues can be used to cover most if not all areas of government activity.*

*It follows that Victoria's approach to performance management and reporting does not flow in a linear manner from GVT, because the two concepts are not of the same type. In our view, the way in which the Report represents the connections and causal links between GVT and performance management and reporting is misconceived.*

*It should also be recognized that GVT covers the activities of many non-Departmental entities. However, that is not a reason for applying the same accountability framework to both Departments and statutory authorities. Agencies established by statute must necessarily continue to operate under their existing governance arrangements. Where progress on a GVT Important Issue depends on the performance of one or more non-Departmental entities, measures that incorporate the contribution of such entities can be agreed and monitored for each Department.*

**RESPONSE** provided by Deputy Secretary, Budget and Financial Management, Department of Treasury and Finance

*The Department agrees that a major challenge to government is the different types and uses of performance information required within the resource allocation framework, and the need for further development and refinement of this framework. However, the Department cannot concur with the report's recommendations on the best path for future evolution of the framework.*

*The key challenge going forward for performance management and reporting is a stronger culture of evidence-based evaluation and a capacity for linkage of outputs to objectives and outcomes. The resource allocation framework is a vital part of this.*

*The Department does not agree with the intent, purpose and use of Growing Victoria Together as set out in paragraphs 1.11 to 1.15. As is clear from the foreword to Growing Victoria Together, its role is to articulate important issues and priority actions as a focus for departmental planning and resource allocation decisions over the medium term, and to do so in a way which is accessible to the Victorian public. In terms of performance, the fundamental consideration is whether all the issues and priorities identified in Growing Victoria Together are adequately reflected in departmental objectives and outputs. It is neither intended nor desirable that every one of the nearly three hundred departmental outputs required by the Government is explicitly or closely linked to an element of Growing Victoria Together.*

*Chart 1B indicates, correctly, that not all public sector bodies are included in the resource allocation framework. The report suggests that the resource allocation framework should bring together the accountability mechanisms for all Government agencies to provide a comprehensive assessment of Government achievements.*

*The Department's views on this issue remain unchanged from when this point was raised in the previous audit of the framework.*

*Specifically, the resource allocation framework is designed to guide and facilitate more effective budget decision making and measurement of reporting against State Budget. It therefore adopts as its primary focus departments of State. The framework 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.*

*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 analysis and advice to the Minister on all matters of agency governance from board apportionments, the alignment of agency corporate strategies with government policy, the appropriateness of the agency's products and services, and the financial stewardship of the agency.*

**RESPONSE** provided by Chairman, Environment Protection Authority

*EPA Victoria is established under the Environment Protection Act 1970. As an independent statutory authority, EPA reports to Parliament through the Minister for Environment. The Act provides a wide legislative mandate empowering EPA to act as the Victorian community's environmental watchdog. EPA thus exists to carry out the functions set out in the Act in addition to the policies of the Government of the day.*

*The report does not adequately address the relationship between the Victorian performance management and reporting framework and the existing reporting and accountability mechanisms applicable to statutory authorities such as EPA. Nor does it address the potential impact of extending the framework on the independence of statutory authorities. This is a key issue: as an independent statutory authority, EPA could be adversely impacted by an extension of the framework if this generated tensions or conflicts with its existing statutory obligations.*

*As you know, EPA, EcoRecycle and regional waste management groups (RWMGs) already have detailed accountability and reporting obligations set out in the Environment Protection Act 1970 and the Financial Management Act 1994. In addition, EPA has reporting obligations under various National Environment Protection Measures. The report does not address whether this existing system provides adequate information to the community on the activities of EPA, EcoRecycle and RWMGs.*

*If the existing system already achieves the desired outcomes, there is no ‘accountability gap’ to be filled by extension of the framework. To this extent, it is not clear whether the waste management sector provides a good example of the benefits of extending the framework to all public sector agencies.*

### *The waste management context*

**1.18** Throughout this report we illustrate our comments on the Performance Management and Reporting Framework with examples drawn from the waste management sector. The Government’s policy outcome for waste management is expressed in *Growing Victoria Together* under the “important issue” of *promoting sustainable development*. As illustrated in the following case study, the main responsibility for achieving this government outcome lies with non-departmental public sector agencies rather than with the Department of Sustainability and Environment.



*Effective waste management involves fostering practices which lead to the generation of less waste and encouraging the recycling of discarded material.*

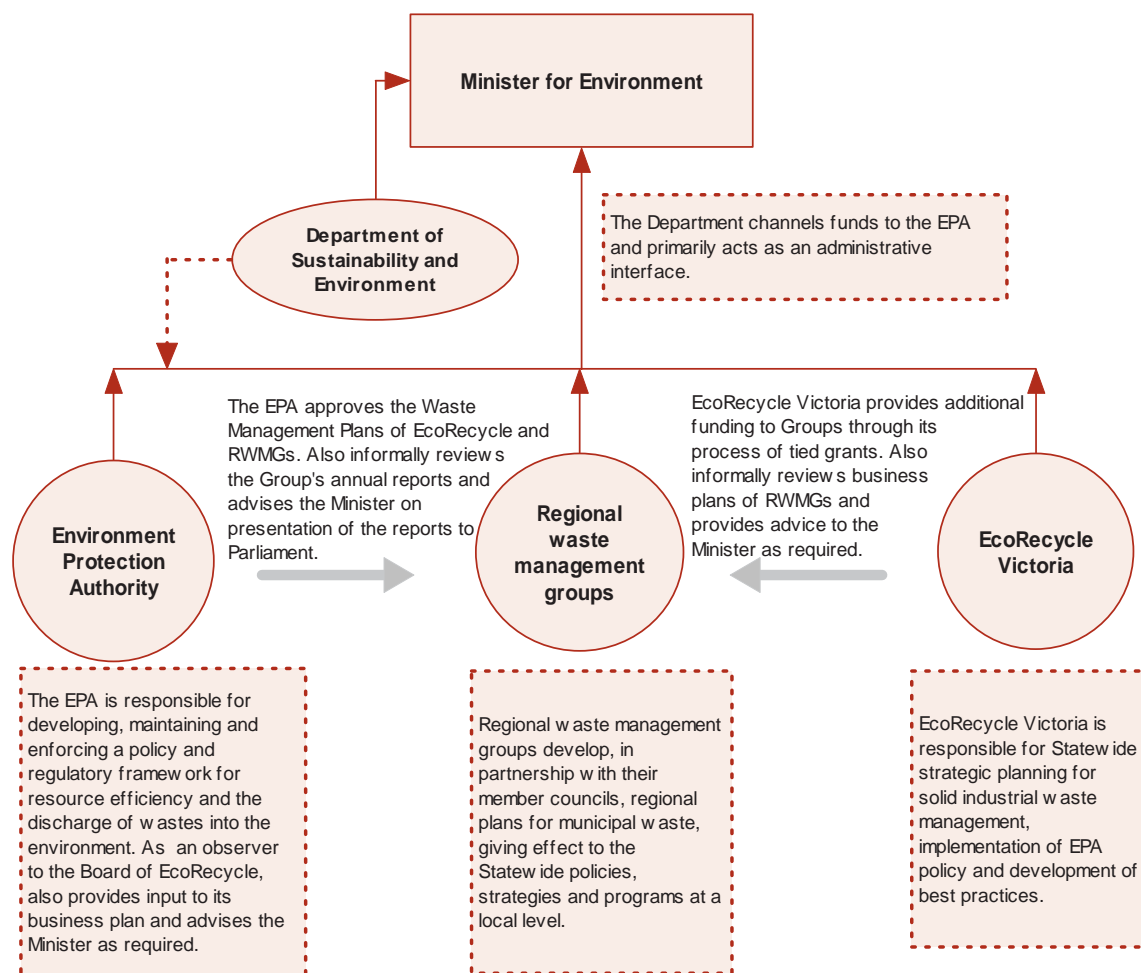
### A waste management illustration

The Government’s policy outcome for waste management is expressed in *Growing Victoria Together* under the “important issue” of *promoting sustainable development*, the “priority action” of *increase in recycling and effective waste management* and the “measure of progress” of *increase in recycling efforts and a reduction in the use of landfill as a disposal method*.

Government agencies involved in Victoria’s waste management sector include the Department of Sustainability and Environment, the Environment Protection Authority (EPA), EcoRecycle Victoria and 16 Regional Waste Management Groups.

As illustrated below, the weight of responsibility for policy formulation, regulation and implementation lies with the non-departmental public sector agencies. The key roles and responsibilities of each agency are shown below.

#### SUMMARY OF ROLES AND RESPONSIBILITIES OF KEY AGENCIES



The non-inclusion of all waste management agencies whose operations contribute to the achievement of government outcomes represents a gap in the Framework. By including only the Department within the Framework, those key agencies that are primarily responsible for delivering on the Government’s waste management agenda are excluded. While they may report under separate governance arrangements, this limits the accessibility, and comprehensiveness of the Framework.

Source: Victorian Auditor-General's Office.

## LINKAGES WITHIN THE FRAMEWORK

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### Agency objectives and planning

**1.19** In our November 2001 report, we observed that the alignment between the Government's desired outcomes and departmental objectives had not been finalised because of the extended period taken to finalise government outcomes.

**1.20** In May 2002, the Government endorsed the "measures of progress" for publication in the *2002-03 Budget Papers*, with results against those indicators to be reported for the first time in 2003-04. We reviewed the *2002-03 Budget Papers* and found that departmental objectives were aligned to the "important issues" and "measures of progress". Although the alignment represented the key linkages, it did not encompass all departmental objectives and outputs.

**1.21** We also reviewed the corporate and business plans of 2 departments examined as part of our follow-up to the November 2001 report. In both instances, the relevant "important issues" of *Growing Victoria Together* had been incorporated in some form into these strategic documents. However, incorporation of "measures of progress" was found to be wanting. A similar review of 4 departments by the Department of Premier and Cabinet in mid-2002 also showed that each had attempted to incorporate *Growing Victoria Together* into their corporate and business plans, despite considerable variation in the extent to which this was achieved.

**1.22** An important point in our November 2001 report was that none of the departmental objectives published in the *2001-02 Budget Papers* recognised organisational capacity (capability of employees or sustainability of the public service infrastructure). Our review of published objectives in the *2002-03 Budget Papers* for the 2 selected departments showed no progress in this matter.

**1.23** We were advised by the central agencies that corporate and strategic planning is considered the most effective way to strengthen the usefulness of departmental objectives and to ensure effective internal management arrangements which focus on efficiency, sustainability and the ongoing improvement of organisational capacity by departments. This issue is expected to be a significant focus of government over the next 12 months.

**1.24** In November 2001, we reported that existing corporate planning guidelines were being revised by the Department of Treasury and Finance. Although still not finalised, we expect that these revisions will incorporate our November 2001 recommendation that corporate plans should have standardised elements and synchronised planning periods across government.



## Measures of progress

**1.25** The audit also examined whether the “measures of progress” linked with departmental objectives and government outcomes. In doing so, we expected the measures to provide a clear indication of the Government’s expectations of “what” is to be achieved, and by “when”.

**1.26** We noted that the 32 “measures of progress” were a combination of specific targets, benchmarks and measures of continuous improvement. A number of the “measures of progress” are already indicators by their nature, but a high proportion are general and require a significant level of supporting performance information to be meaningful.

**1.27** A review conducted by the Department of Premier and Cabinet in mid-2002, considered whether “measures of progress” could provide a strategic focus for future resource allocation decisions. It concluded that further development of performance information was required for 23 of the 32 “measures of progress”. Table 1C shows 9 of the “measures of progress” which we consider to be general in nature and our suggested enhancements to performance information to support each measure.

**1.28** Poor performance information remains a gap in the Framework. There is a need for definitive indicators, supported by reliable, valid and comprehensive information that measure the status of achievement at a given point in time.

**TABLE 1C  
MEASURES OF PROGRESS AND INDICATIVE EXAMPLES OF SUPPORTING PERFORMANCE  
INFORMATION**

<i>Measure of progress</i>	<i>Indicative examples of supporting performance information</i>
The proportion of Victorians learning new skills will increase.	The proportion of Victorians (classified into population, location and skill area categories) learning new skills will increase to X by Y year.
Health and education outcomes for young children will improve.	Health and education outcomes (to be specified) will increase by X by Y year (classified into gender, age, location etc.).
Violent crime and fear of violent crime will be reduced.	Proportion of the Victorian population who are victims of crime will be reduced to X by Y year (broken into gender, age, location, crime type and compared with national and international benchmarks where relevant).
Renewable energy efforts will increase.	The proportion of Victorian energy consumption from renewable energy sources (categorised by source type) will increase to X by Y year (categorised into domestic/industry etc. and compared with national and international standards and benchmarks).
Waste recycling efforts will increase and the use of landfill as a waste disposal method will be reduced.	The proportion of waste recycled (by waste type, domestic/industry) will increase to X by Y year (by location).
A greater share of innovative research and development activity will be in Victoria.	The Victorian proportion of Australian research and development expenditure will increase to X by Y year (broken down into industry and research and development classification type and compared with movements in other States and like economies).
There will be more and better jobs across Victoria.	The proportion of the Victorian work force in full or part-time employment will increase by X per cent by Y year (classified by age, gender, location, academic achievement etc).
Inequities in health, education and wellbeing between communities will be reduced.	The gap between the top and bottom 20 per cent of communities in wellbeing outcomes (outcomes to be specified) will be reduced to X per cent by Y year.
The proportion of Victorians aware of their legal and civil rights will increase.	The proportion of Victorians aware of their legal and civil rights will increase to X by Y year (classified by population by population sub-groups, including age and gender, location).

Source: Victorian Auditor-General's Office.

## Development of performance indicators

**1.29** The Government has recognised that, in order for the Framework to provide more meaningful performance information and establish links between its various components, there is a need for sharp and definitive performance information.

**1.30** We are aware that considerable work is underway in some departments and public sector agencies in developing qualitative, evaluative mechanisms and performance indicators by which agency objectives can be managed, measured and reported upon. These indicators are in strategic and business plans, serving internal management purposes and rarely reported on publicly. For the most part they are not well connected to budget processes, *Growing Victoria Together* or broader government outcomes.

**1.31** Following the release of the 2002-03 Budget, departments were requested to supply a list of performance indicators that were relevant to each measure of progress. The central agencies assisted departments in aligning these with both their objectives and the “measures of progress”. A caveat for these indicators was that the necessary data capture systems and sources were already established.

**1.32** These indicators have not yet been endorsed by government. However, given their important role in developing better performance information, we reviewed their adequacy and found:

- a number of instances where the baseline data was not available or not available in an appropriate form;
- instances where the proposed indicators do not provide appropriate data to measure an “improved outcomes” perspective of the measure of progress;
- in approximately 75 per cent of the “measures of progress”, the proposed indicators would be measured on a Statewide basis even though we believe that the provision of performance data by population, location or other relevant sub-category would be more meaningful in many instances; and
- the proposed indicators are closely aligned to the output measures contained in the *Budget Papers*; in some instances they are identical.

### A waste management illustration

As described earlier, the “important issue” most relevant to the sector is *promoting sustainable development* with the corresponding “measure of progress” being *waste recycling efforts will increase and the use of landfill as a disposal method will be reduced*.

The Department of Sustainability and Environment proposed the following 2 performance indicators:

- *waste material recycled*; and
- *tonnes of waste used as landfill*.

The measure of progress and supporting indicators have 3 main weaknesses which limit their usefulness in measuring progress against the “important issue”:

- the measure of progress itself lacks the detail necessary to identify how success against it will be interpreted or defined (i.e. it does not specify a rate of improvement, target, benchmarks or time frame);
- “*waste material recycled*” does not provide sufficient detail to identify the format and nature of measurement as there are several possible alternatives such as:
  - the overall waste diversion<sup>8</sup> rate; or
  - waste diversion rates for particular types of waste streams; and
  - waste diversion rates for different geographical locations and waste streams; and
- “*tonnes of waste used as landfill*” is an indirect measure of the Government’s waste minimisation objectives.

We believe that more effective indicators of performance relate to activities around avoidance or reduction of waste, reuse and recycling (factors which are built in to a measure known as the “recovery rate”), as these activities represent the major focus of the waste management sector.

Source: Victorian Auditor-General’s Office.

<sup>8</sup> Waste diversion refers to the proportion of the total waste stream that is diverted from landfill to recycling.

## Resource allocation and the Framework

**1.33** In our November 2001 report, we found that the relationship between resource allocation and the Framework had not been established. The incorporation of the “measures of progress” into the *2002-03 Budget Papers* was accompanied by a statement that “departments are continuing to work on and improve alignment between resource allocation and the performance management framework”<sup>9</sup>.

**1.34** Notwithstanding this work, there is still no means by which the achievement of government outcomes can be gauged as there are no outcome indicators.

**1.35** The 2003-04 Budget process was influenced by the timing of the 2002 State election. The Budget process in January 2003 did not include any further integration of the Framework, nor its linkages with government outcomes. The Budget process in March 2003 required departmental submissions for policy initiative funding to specify linkages with *Growing Victoria Together*.

## WHOLE-OF-GOVERNMENT AND CROSS-AGENCY REPORTING

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**1.36** In 2001, we found that there was no provision for reporting of performance against government outcomes and related “measures of progress” on a whole-of-government basis. Nor did the then reporting requirements provide for consolidated reporting of cross-agency activities (such as road safety, crime prevention etc.) where multiple departments are involved in the delivery of programs or services.

**1.37** The Government’s intention for whole-of-government reporting in 2003-04 against the *Growing Victoria Together* “important issues” and “measures of progress” is a vital step in this regard. However, the Government has yet to finalise the format and publication of the whole-of-government progress report. As a result, this significant accountability gap remains.

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<sup>9</sup> State of Victoria, *2002-03 Budget Paper No. 3*, Government Printer for the State of Victoria, Melbourne, 2002. p. 10.

## Part 2

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# Key challenges

## INTRODUCTION

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**2.1** Following this third study into the implementation of the Performance Management and Reporting Framework, the key challenge remains the development of performance information which will drive achievement of government outcomes and provide enhanced public accountability. Significant issues to be addressed include:

- further development of performance information for each level within the Framework, including its measurability; and
- the manner in which information should be reported and audited.

## FURTHER DEVELOPMENT OF PERFORMANCE INFORMATION

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### Comprehensive performance information

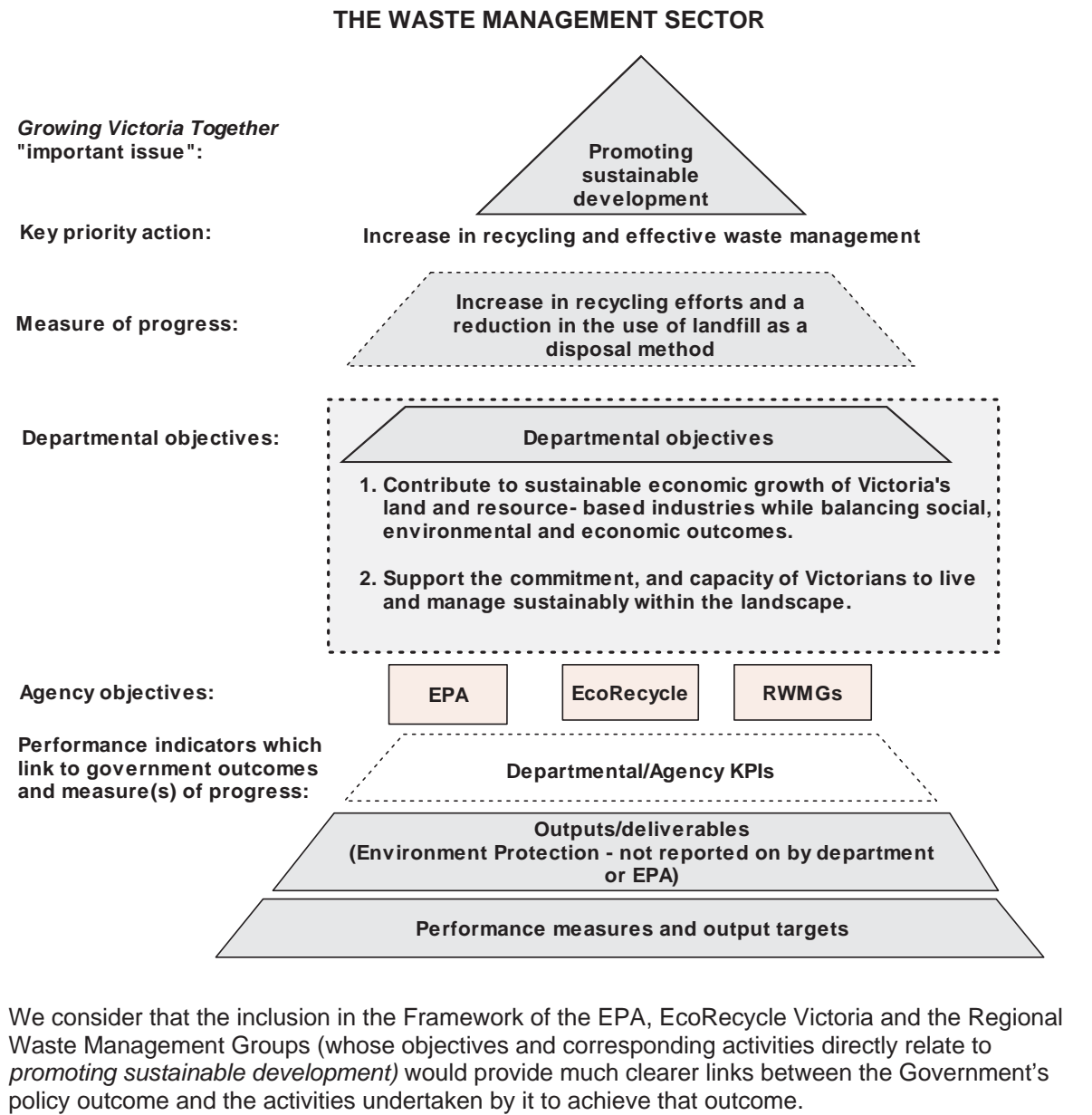
**2.2** A major challenge to government is the different types and purposes of performance information required for each of the 3 major levels within the Framework, i.e. outcomes, objectives and outputs. The following issues need to be addressed to meet this challenge:

- the extent to which government outcomes and “measures of progress” should cover the full scope of agency objectives and responsibilities, and the full range of outputs;
- the capacity of departments to link output performance, the achievement of departmental objectives and the contribution to the Government’s policy outcomes; and
- the extent to which data should be reported at a Statewide level or stratified.

**2.3** Our examination of the waste management sector has shown that, in order to advance a more comprehensive Framework, the focus in developing performance indicators could be directed away from departmental objectives towards the policy objectives of each Ministerial portfolio. As shown in the following illustration, departmental objectives can be too general to be meaningful, and may exclude performance information relevant to other public sector agencies.

### A waste management illustration

The chart below shows that the Department’s objectives do not directly relate to the Government’s articulated *Growing Victoria Together* “important issue” or to the corresponding “measure of progress”.



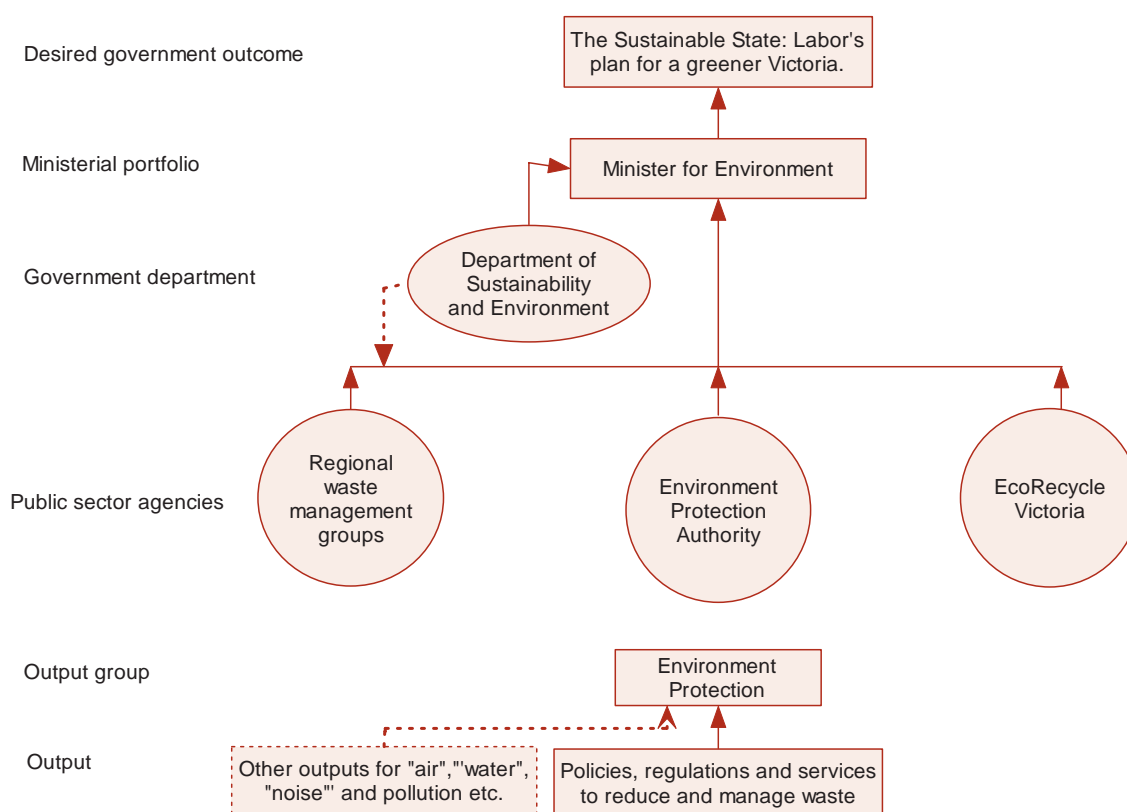
Source: Victorian Auditor-General’s Office.

**2.4** A reporting system revolving around policy objectives at ministerial portfolio level can provide more precise linkages between government outcomes and the outputs contained in the *Budget Papers*. There are 2 principal advantages of this approach:

- the policy objectives of Ministerial portfolios are directly aligned with the Outputs tied to the Government's resource allocation process and, therefore, provide a pivotal link between government outcomes and delivered outputs; and
- it enables both the identification and inclusion of public sector agencies within the Framework which contribute to the achievement of relevant portfolio outcomes.

**2.5** Chart 2A illustrates the benefits of this approach using the Environment portfolio, focusing on the waste management output, as an example.

**CHART 2A  
ENVIRONMENT PORTFOLIO AND WASTE MANAGEMENT OUTPUT**



Source: Victorian Auditor-General's Office.

**2.6** As can be seen from Chart 2A:

- the portfolio can be directly linked to desired government outcomes;
- departments can be responsible for a number of portfolios, however, the portfolio falls completely under the responsibility of the department;
- the portfolio is directly linked to Environment Protection outputs in the *Budget Papers*;
- EcoRecycle Victoria and the Regional Waste Management Groups are outer-budget agencies and fall under the responsibility of the portfolio minister.



**2.7** It could be argued that a focus on portfolios may be inconsistent with government imperatives for joined-up policy and service delivery. In practice, despite the amalgamation of government departments in the 1990s, government outputs continue to be specified along activity lines, reflecting management imperatives. Where departmental objectives are broadly specified to reflect these joined-up principles, they risk losing the important link between responsibility for delivery of outputs and achievement of objectives. Through reinforcing portfolio/policy outcomes, the Framework should be better able to drive the achievement of government outcomes through consistency and comprehensiveness in management and reporting.

**2.8** Portfolio objectives fall administratively within departmental objectives, retain a high level alignment with government outcomes and provide a means by which all relevant public sector agencies can collaborate in the development and reporting of agreed performance information in a manner that is consistent with joined-up-government.

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

*The goal of better links between outcomes and outputs is important. While a shift to Ministerial portfolio – based accountability would perhaps assist in sharpening performance objectives as the link between outcomes and outputs, there is a significant risk that the costs of such a shift would outweigh the benefits. In our view the best way to deal with these issues is to retain the current system of Departmental-based accountability and to achieve better definition and structuring of Departmental objectives. It is possible to create Departmental objectives that are not so broad that they cease to be meaningful and that incorporate the contribution of non-Departmental entities.*

*Performance objectives should encourage co-ordinated policy thinking and service provision. The current system of Departmental accountability provides substantial benefits in overcoming the “silo mentality” so common prior to the establishment of mega-Departments in Victoria. There is significant evidence that the consolidation of Departments (to the point where there are now only 10) has produced very substantial shifts to more joined-up policy development and service delivery. There is a real danger that changing the focus of accountability from Departments to Ministerial Portfolios could diminish co-ordination within Departments.*

**RESPONSE provided by Deputy Secretary, Budget and Financial Management, Department of Treasury and Finance**

*In paragraphs 2.2 to 2.8 the report proposes refocussing resource allocation and performance management around ministerial portfolios rather than departmental objectives to achieve a more focussed accountability.*

*It is not clear that there is a strong case to vary the current accountability of departments which typically cover several portfolios.*

*Any loss of linkage can be countered by better structured or more comprehensive departmental objectives. To fragment the current departments into numerous portfolios could potentially involve greater instability in performance measurement than current approach whereby departments are accountable to Government for the delivery of outputs. It could also hinder emerging opportunities for innovative and joined-up delivery in the future.*

**RESPONSE** provided by the Secretary, Department of Sustainability and Environment

*The Progress Update states, in paragraph 2.3, that “in order to advance a more comprehensive Framework, the focus in developing performance indicators could be directed away from departmental objectives towards the policy objectives of each Ministerial portfolio.”*

*This implies the creation of a new layer in the Performance Management and Reporting Framework and would require additional administrative infrastructure. Application of this recommendation needs to take account of the additional resources that would be required against any additional public benefit.*

## Ability of agencies to formulate targets and track progress over time

**2.9** The achievement of outcomes is often measurable only in the medium to long-term. In order for the Government to measure its progress towards the achievement of outcomes over time, agencies must have the ability to formulate targets, track trends and identify milestones in the time between current actions, outcome-related targets and other measures of continuous improvement.

**2.10** Agencies find it difficult to monitor trends and identify milestones for the measurement of government outcomes and associated indicators. This deficiency limits the ability of the Government to assess overall performance in a timely manner, track progress with any confidence, and identify current and emerging issues that require remedial actions to be taken. We were advised that agencies are examining their capacity to undertake these important steps.

**2.11** An example of the impact of these difficulties in the area of waste management is provided below.

<b>A waste management illustration</b>	
<p>Our review of the performance measurement, monitoring and reporting practices of the EPA, EcoRecycle Victoria and Regional Waste Management Groups revealed the relative absence of uniform, sector-wide standards, guidelines and protocols for reporting against agency objectives and key government outcomes.</p> <p>There was substantial variation between the EPA, EcoRecycle Victoria and Regional Waste Management Groups with respect to both the extent and format of performance information that was reported.</p> <p style="text-align: center;"><b>REVIEW OF PERFORMANCE INFORMATION IN THE WASTE MANAGEMENT SECTOR</b></p>	
<i>Agency</i>	<i>Performance information issue in waste sector agencies</i>
EPA	<p>Performance indicators included in the corporate plan and 2001-02 annual report were predominantly milestones.</p> <p>No supporting quantitative data illustrating the efficiency and effectiveness of activities in achieving agency objectives and government outcomes.</p>
EcoRecycle Victoria	<p>The 2001-02 business plan and annual report contained a comprehensive range of quantitative performance indicators. These directly related to objectives and government outcomes.</p> <p>Performance indicators were derived from a wide range of waste-related data.</p>
Regional waste management groups	<p>Measuring, monitoring and reporting against objectives and government outcomes was not generally adopted by the groups.</p> <p>Available waste data generated by EcoRecycle Victoria and the EPA is underutilised by the groups and most of the reported performance indicators are qualitative rather than quantitative in nature (e.g. milestones).</p> <p>Only one out of 16 groups uses quantitative performance indicators which relate to objectives and link with government outcomes.</p>
<p>The poor range and quality of reported performance indicators is because:</p> <ul style="list-style-type: none"> <li>• as a sector, agencies involved in the waste segment of the Environment portfolio have not enunciated specific effectiveness and efficiency indicators relevant to both themselves and the sector as a whole;</li> <li>• variable skills and limited resources within the groups results in low priority being given to the measurement of performance and development of performance indicators;</li> <li>• there are no formal guidelines, instructions or regulations formalising the need to report performance within the context of waste-related objectives using performance indicators.</li> </ul>	

Source: Victorian Auditor-General's Office.

**2.12** The following steps are necessary for the next stage of the Framework's development:

- specifying the milestones between current strategies and the targets (or continuous improvement trajectories) for each of the “measures of progress”;
- gaining an understanding of the cause and effect relationship between strategies, resources, milestones and targets;
- developing appropriate data sets to track performance;
- creating or enhancing integrated performance management systems within agencies which link government outcomes to agency actions, utilising the outputs provided through the Budget process; and
- specifying levels of agency contribution to the achievement of outcomes that cut across agency responsibilities.

## REPORTING AND AUDITING OF PERFORMANCE INDICATORS

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### Reporting performance indicators

**2.13** Our November 2001 report noted that annual reporting requirements under the *Financial Management Act* 1994, as set out in the Directions of the Minister for Finance, did not require agency objectives and related performance indicators to be included in the report of operations within agencies' annual reports. This situation affects all public sector agencies under the *Financial Management Act*, not just the 9 government departments.

**2.14** Our examination of the 2001-02 annual reports for all 9 departments showed that while departmental objectives were stated in some instances, performance indicators specific to these objectives were not present. Most non-departmental agencies have accountability and reporting obligations set out in various legislation, governance arrangements, reporting requirements and direct accountabilities. However, none of these covers the essential requirement of public *ex-ante* and *ex-post* reporting of performance indicators against agency objectives tied to government outcomes.

**2.15** The incorporation of this requirement into the Ministerial Directions is crucial to the accountability of public sector agencies and the effectiveness of the Framework. Further, until public sector agencies report performance information against their objectives, this Office is unable to carry out its responsibilities to audit performance indicators.

**2.16** A review of the Directions is currently being undertaken. In late 2002, an exposure draft was developed and distributed for comment to public sector bodies by the Department of Treasury and Finance.

**2.17** Our response to this review is that the exposure draft did not require performance management and reporting against agency objectives, for either internal management or public accountability purposes. We repeat our audit recommendation of November 2001 for better disclosure requirements for performance reporting within the Ministerial Directions, including:

- annual *ex-ante* reporting to Parliament of the whole-of-government strategic directions and priorities, and measures of progress and targets, related to government outcomes;
- annual *ex-ante* reporting to Parliament by individual agencies, signalling their key objectives, performance indicators, measures and targets, risks, strategies and priorities through agency plans;
- annual reporting to Parliament of whole-of-government performance against government outcomes and related measures of progress;
- consolidated reporting of performance of cross-agency programs or strategies;
- development of a streamlined, standardised format for agency performance reporting;
- comprehensive disclosure of the reasons why targets have not been achieved; and
- 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.

### Auditing performance indicators

**2.18** The mandate of the Auditor-General to audit performance indicators is clearly set out in legislation. The mandate is not confined to auditing output performance measures only (i.e. the activities of government agencies). It is clearly intended to encompass examination of effectiveness measures (program or agency) as well as their relevance and appropriateness. Until comprehensive performance indicators are developed, endorsed and reported, they cannot be audited by this Office.

**2.19** Below we provide the outcomes of a review of reported performance indicators in the waste management sector. The gaps in the Framework and opportunities for improvement are evident.

### A waste management illustration

Our review of reported performance indicators in the waste management sector highlights the need to enhance the quality of performance information and indicators contained in annual reports. We assessed the “relevance”, “appropriateness” and “fair presentation” of waste-related performance indicators in the 2001-02 annual reports of the EPA, EcoRecycle Victoria and Regional Waste Management Groups.

#### SCORECARD OF RELEVANCE, APPROPRIATENESS AND FAIR REPRESENTATION OF PUBLISHED PERFORMANCE INDICATORS

	EPA	EcoRecycle Victoria	RWMGs (a)
Relevant	∅	✓	X
Appropriate	∅	∅	X
Fairly represents	✓	∅	X

(a): Only one group out of the 16 RWMGs reported performance indicators in its annual report.

✓ = Criterion fully satisfied.

∅ = criterion partially satisfied.

X = criterion not satisfied.

Our assessment of each agency showed:

- Performance indicators reported by the EPA were valid, reliable and accurately reported (“fairly represents”). However, the absence of quantitative performance indicators with accompanying benchmarks, targets and trend data resulted in the dimensions of “relevance” and “appropriateness” being only partially satisfied;
- EcoRecycle Victoria reported a comprehensive suite of performance indicators allowing assessment in terms of its efficiency and effectiveness (“relevant”). However, several lacked adequate supporting information in terms of baseline data, trends and targets (“appropriateness”). We also found that major sources of performance information are still in the process of development and lack sufficient reliability to support the dimension of “fairly represents”; and
- Only one of the 16 regional waste management groups reported quantitative performance indicators. We found these indicators to be “relevant”, however, only one performance indicator was presented in the context of baseline data and targets (“appropriate”). We also found that performance indicators were accurately reported in this instance (“fairly represents”).

In the context of the waste management sector, the potential impact of this absence of reporting against agency objectives using key performance indicators was clearly demonstrated. In our review of the Regional Waste Management Groups’ 2001-02 annual reports, we found that they predominantly highlighted key achievements in the implementation of major strategies and activities. We also found that:

- performance indicators were mostly qualitative in nature and functioned primarily as milestones for specific initiatives or to report on progress of strategies; and
- in all but one instance, reported indicators did not measure against the achievement of objectives or government outcomes.

The absence of performance indicators has resulted in insufficient information within annual reports to assess progress in achieving objectives, and the group’s contribution to achieving government outcomes.

Source: Victorian Auditor-General’s Office.

## CONCLUSION

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**2.20** The development of the Performance Management and Reporting Framework has continued to progress since our last review in 2001. However, it will not provide an adequate level of public accountability for resource allocation, management and reporting unless it includes the broad range of government outcomes (not just the *Growing Victoria Together* outcomes) and all the public sector agencies whose outputs contribute to these outcomes.

**2.21** Departmental objectives and accompanying draft performance indicators are very broad and sometimes link poorly to the government outcomes. A more useful linkage would result from focusing at the ministerial portfolio level, incorporating all the agencies and outputs which contribute to the relevant government outcomes.

**2.22** For those components of the Framework which are in place, more refinement is needed. The measures of progress and performance indicators are poorly specified and do not allow government to easily track overall performance or assess contributions to achievement of government outcomes. There is also no consideration given to measurement of organisational capability or sustainability.

**2.23** Reporting on outcomes in annual reports is still not a requirement of agencies, which limits the capacity of this Office to audit performance indicators. Guidance is needed to encourage consistency in corporate and business plans that will enable both *ex-ante* and *ex-post* reporting and cross-agency and whole-of-government reporting.

## RECOMMENDATIONS

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**2.24** We recommend that:

- the Performance Management and Reporting Framework include:
  - the broad range of government outcomes, not just those in *Growing Victoria Together*;
  - all public sector agencies contributing to the achievement and reporting of government outcomes; and
  - specification of objectives and performance indicators, at ministerial portfolio level, that reflect the unique contributions of departments and relevant non-departmental agencies to government outcomes.
- departments and relevant non-departmental agencies:
  - work together to develop and improve alignment between their objectives and government outcomes, at ministerial portfolio level, along with *Growing Victoria Together*;
  - develop performance indicators in support of their objectives, and make these available to the public, as a priority;
  - develop and collect data sets to supply the performance information; and

- ensure that relevant social and economic indicators, together with indicators which measure the sustainability of public sector infrastructure, are included.
- central agencies:
  - continue to refine the measures of progress in *Growing Victoria Together* so that each have 2 or more of the following:
    - rate of improvement or established target;
    - time frame; and
    - identification of relevant benchmarks.
  - amend the Directions of the Minister for Finance, under the *Financial Management Act 1994*, to include the requirement for comprehensive *ex-ante* and *ex-post* reporting of key performance indicators against agency objectives and government outcomes.

**2.25** In relation to the waste management sector, we recommend that the Department of Sustainability and Environment, the EPA, EcoRecycle Victoria and Regional Waste Management Groups work collaboratively to:

- develop agreed performance measurement, monitoring and reporting standards and protocols for the sector, which specify the nature and format of performance indicators that each is to report on publicly;
- develop guidance statements and templates for the preparation of all *ex-ante* and *ex-post* documents;
- undertake training for Regional Waste Management Group staff to enable them to:
  - prepare consistent, complementary and logically linked *ex-ante* and *ex-post* reports;
  - collect and properly analyse waste data at a regional and local level so as to inform strategy development, monitoring and review;
  - develop meaningful targets which reflect regional objectives and link with government outcomes; and
  - publicly report against their articulated *ex-ante* objectives and government outcomes.

**RESPONSE** provided by the Secretary, Department of Sustainability and Environment

**Para. 2.24**

*The Progress Report recommends that “ departments and relevant non-departmental agencies work together to develop and improve alignment between their objectives and government outcomes, at ministerial portfolio level, along with Growing Victoria Together.”*

*Not including Committees of Management and Ministerial and Advisory committees, there are currently 73 Statutory Authorities within the portfolios of Environment, Water and Planning. The large number of agencies would present practical difficulties in working with all agencies to improve alignment. However, in so far as the recommendation relates to ‘relevant’ agencies, the Department of Sustainability and Environment is working with key agencies to enhance alignment.*



**RESPONSE** provided by Chairman, Environment Protection Authority

**Para. 2.25**

*I agree with the report's key recommendation 2.25 in relation to the waste management sector: that the relevant agencies work together to develop agreed performance measurement, monitoring and reporting standards. A more coordinated approach could improve the quality and usefulness of reports, thereby improving communication with stakeholders. I note in this regard that EPA has statutory responsibility for regulating all aspects of waste management in Victoria (apart from management of radioactive wastes and the setting of trade waste standards). The Department of Sustainability and Environment's sole role in relation to waste management is in the area of trade waste standards and regulation, therefore the Department has no role in implementing this recommendation.*

*Adopting a coordinated approach does not mean each agency should report against identical standards. Measures of progress and indicators should be complementary and tailored to each agency's statutory waste management role. Unnecessary duplication of reporting should also be avoided.*

*In setting performance indicators, it needs to be recognised that regulatory policies and government programs are part of a complex mix of factors that influence waste management outcomes. These factors include community attitudes, market demands and levels of economic activity. As a result, many key Government outcomes can only be meaningfully evaluated over extended time periods, rather than through annual performance indicators. In addition, State Government is only one of many players in the waste management sector: local and federal government, industry and the community also have key roles.*

*Finally, I note that EPA is currently working closely with EcoRecycle and RWMGs to implement the recently strengthened arrangements under the Environment Protection Act 1970. The Minister for Environment has commissioned a due diligence review of RWMGs to assist in this process. It is anticipated this review will make a number of recommendations in relation to improving RWMG business planning and reporting. These activities will help improve planning and reporting in the waste management sector*

**RESPONSE** provided by Chief Executive Officer, EcoRecycle Victoria

**Para. 2.25**

*EcoRecycle Victoria has been pleased to be involved in consultations with the Auditor-General's Office regarding the development of the case study. We support the proposed approach to deliver a framework to ensure the comprehensive coverage of government outcomes (including government agencies), articulated in both Growing Victoria Together and other government policy and strategic documents.*

*EcoRecycle Victoria agrees with the report's key recommendation 2.25 in relation to the waste management sector, i.e. that the relevant agencies work together to develop agreed performance measurement, monitoring and reporting standards, etc.*

*However, EcoRecycle is of the view that as the Department of Sustainability and Environment's role in relation to waste management is limited to the area of trade waste standards and regulation, the "relevant agencies" should be the Environment Protection Authority, EcoRecycle Victoria and Regional Waste Management Groups (RWMG's).*

*EcoRecycle Victoria is currently working closely with EPA and RWMG's in relation to the implementation of recent changes under the Environment Protection Act. A due diligence review of RWMG's, commissioned by the Minister, is expected to make a number of recommendations in relation to improvements to business planning and reporting of the Groups.*

*The key objective of a co-ordinated approach between the relevant agencies should be to ensure that indicators and measures of progress are complimentary, yet tailored to each agency's statutory role in relation to waste management and provide relevant and appropriate measures which are quantifiable, consistent and verifiable for public accountability purposes.*

**RESPONSE** provided by Executive Officer, Northern Regional Waste Management Group

**Para. 2.25**

*In general this Regional Waste Management Group has accepted the discipline of establishing and monitoring performance measures. The real difficulty that has been encountered in the past has been the lack of a clearly defined State based Waste Management Strategy upon which performance measures could be related.*

*The recent preparation of a solid waste strategy for Victoria by EcoRecycle Victoria and its imminent adoption by the Government will provide all Regional Groups, their member councils and all other solid waste generators and managers in the waste sector clearly defined goals and targets, albeit unproven practicality, against which further reporting can be based.*

*It must be stressed however, that in order for Regional Groups to be able to responsibly monitor their performance they must be given access to detailed waste management data relating to each of their member Councils.*

*In our past experience accurate monitoring of individual councils' overall Regional performances cannot be undertaken effectively without the possession of detailed data on all facets of waste management in our areas. It is considered necessary that the municipal data collection program now conducted by EcoRecycle Victoria must be expanded and that each Regional group become more involved in the collection and checking of this data and given the training to analyse such results and the monitoring of performances.*

*I am sure that this Regional Group will be strongly supportive of your recommendation 2.25, and would look forward to its full implementation.*

**RESPONSE** provided by Executive Officer, Central Murray Regional Waste Management Group

**Para. 2.25**

*The Central Murray Group agree with the findings of the case study on the 16 Waste Management Groups and would welcome some clear direction on performance measurement, monitoring and reporting standards and staff training as outlined in recommendation 2.25.*

*The major hurdle for this Region to comply with the recommendation will be the availability of relevant and reliable data.*

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# Appendix A

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## Conduct of the audit

## AUDIT OBJECTIVES

Since 1999, the Government has been establishing an enhanced Performance Management and Reporting Framework as a key part of an integrated planning, resource allocation and reporting system.

In our November 2001 report, *Departmental performance management and reporting*, I concluded that the development and implementation of the Framework was not yet complete. Accordingly, the aim of this report is to follow-up on the status of the implementation process and extend the work previously undertaken by this Office on selected performance information associated with one portfolio.

More specifically, the aim of the audit was to:

- investigate the progress made in implementing performance management and reporting following the Office's previous performance audit of 2001; and
- assess the accuracy of public reporting of performance information, and comment on the relevance, appropriateness and fair presentation of published indicators, in a selected area of public sector activity.

The Auditor-General's legislative mandate to audit performance information can play a role in enhancing the quality of performance reporting across the public sector. However, the Auditor-General has indicated that auditing under this mandate will not commence until agencies have been given an opportunity to implement appropriate systems. This audit assessed their progress and provided a basis for me to determine the timing of performance indicator audits.

### Audit scope

The audit had 2 specific components in line with the audit objectives. First, the review focused on the actions taken by the Department of Treasury and Finance and the Department of Premier and Cabinet in their capacity as central agencies to facilitate the continued implementation and development of the Performance Management and Reporting Framework.

In addition, 2 departments (namely, the Department of Tourism, Sport and the Commonwealth Games and the Department of Natural Resources and Environment) were selected with activity focused on programs previously subject to audit by the Office, including the:

- adequacy of the Departments' corporate plans in terms of composition and in the incorporation of the Government's high-level outcomes, measures of progress and strategic priorities;
- consistency of the 2002-03 business plans in line with the corporate plans and the outputs, performance measures and targets within the *Budget Papers*;
- impact of the Framework on the Department's integrated management cycle;

- professional development activities undertaken to develop the skills necessary to effectively implement the Framework; and
- quality of 2001-02 annual report composition and performance information.

Second, the audit incorporates a case study under the Environment Protection output group. This case study, which concentrates on the area of waste management, reviews the accuracy of performance information and provides a commentary as to whether published indicators are relevant, appropriate and fairly represent performance. Audit activity in this respect was conducted at:

- the Department of Natural Resources and Environment;
- the Environment Protection Authority;
- EcoRecycle Victoria; and
- each of the 16 regional waste management groups located in metropolitan, regional and rural Victoria.

### Period covered

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

- published annual reports for 2001-02;
- business and annual plans for the 2 financial years 2001-02 and 2002-03;
- performance management processes and reporting at the departmental level during 2001-02;
- *Budget Paper* output performance measures for 2002-03; and
- corporate planning for various periods.

### Audit approach

Section 8(3) of the *Audit Act* 1994 provides that the Auditor-General may 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.

Following an extensive review of the work conducted by other jurisdictions, our Office has developed a standard set of definitions for these dimensions in order to guide audit assessment. These are shown in Table A1.

**TABLE A1  
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 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. 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>

The audit comprised interviews with staff from the central agencies, departments, government agencies and other entities involved in waste management. The information obtained was supplemented by examination, analysis and verification of key material provided by departments, agencies and Regional Waste Management Groups.

Recent reports considered in the previous performance audit report in November 2001 and 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 again considered, in addition to other relevant material identified through literature searches.

### Audit expectations

Fundamental to our audit assessment was our expectation that actions would have been taken for the finalisation of the Performance Management and Reporting Framework, including:

- the specification of government outcomes;
- associated measures of progress;

- agency performance indicators;
- agency performance reporting, including a readiness to measure and report performance against the indicators for the 2001-02 financial year;
- the capacity for enhancement in the established Framework; and
- action taken to address audit recommendations made in the Office's November 2001 performance audit report.

In addition, in taking a vertical slice of a selected area of public sector activity (i.e. waste management) our expectations were that:

- key performance information published in annual reports and the 2002-03 Budget is accurate and that associated indicators are relevant, appropriate and fairly represent performance;
- reported indicators are integrated into internal and external decision-making and evaluation processes; and
- arrangements to determine the impact of each agency's activities on the achievement of government outcomes, departmental objectives and cross-agency elements are adequate.

### **Compliance with auditing standards**

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**

Significant assistance and co-operation was provided to my officers during the course of the audit by management and staff of the central agencies, the Department of Natural Resources and Environment and the Department of Tourism, Sport and the Commonwealth Games, the Environment Protection Authority, EcoRecycle Victoria and the 16 Regional Waste Management Groups. I wish to express my gratitude to each agency for this assistance.

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(a) This report is included in Part 3.2, Human Services section of the *Report on Ministerial Portfolios*, June 2001.

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