

VICTORIA

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Victorian  
Auditor-General

# Parliamentary Appropriations: Output Measures

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Victorian Auditor-General's Office  
*Auditing in the Public Interest*

The Hon. Robert Smith MLC  
President  
Legislative Council  
Parliament House  
Melbourne

The Hon. Jenny Lindell MP  
Speaker  
Legislative Assembly  
Parliament House  
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my performance report on *Parliamentary Appropriations: Output Measures*.

Yours faithfully



DDR PEARSON  
*Auditor-General*

21 November 2007

# Foreword

The reporting of outputs and performance measures in the annual budget papers is at the heart of the Executive Government's accountability to Parliament and the community. For this accountability to be effective, the output descriptions and performance measures must be relevant, appropriate and fairly representative of actual performance.

Historically, Victoria has been a leader in output reporting. This audit examined six key outputs across a range of portfolios and found that they were largely successful in conveying meaningful and useful information.

Nevertheless, the audit identified several areas where the output reporting framework could be improved. Two of these areas have been raised before on several occasions. One is the application of revenue ahead of output delivery, a practice that is contrary to the *Financial Management Act 1994* guidelines. The other is the need for the Treasurer to be provided with periodic and independent assurance regarding the reliability and integrity of the output performance data.

It is disappointing to identify these issues again, and in the upcoming review of the *Financial Management Act* they should be addressed expeditiously.



DDR PEARSON  
*Auditor-General*

21 November 2007

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# 1 Executive summary

## 1.1 Introduction

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The annual Appropriation Act provides the key mechanism through which Parliament controls the expenditure of public moneys. Parliament provides appropriation authority to the Treasurer, who applies the appropriations based on an assessment by the Department of Treasury and Finance (DTF) of whether the agreed outputs have been delivered and meet the agreed targets specified in the budget papers. This assessment is known as the 'revenue certification process'.

Departments are required to develop output statements and performance measures for inclusion in *Budget Paper No. 3, Service Delivery (BP 3)*. Information submitted to DTF by Departments includes:

- output descriptions and their linkages to departmental objectives and key government outcomes
- performance measure descriptions and units of measure (quantity, quality, timeliness and cost) for each output
- performance targets, including prior year performance against targets
- discontinued outputs and performance measures.

Under the Directions of the Minister for Finance, which are issued pursuant to the *Financial Management Act 1994*, Departments are required to include in their annual reports a comparison of the output targets specified in *BP 3* with actual performance. This represents the accountability mechanism to Parliament for output performance achieved by Departments in the preceding year.

The objective of this audit was to assess whether the output performance measures for a selection of Departments were relevant, appropriate and fairly represented performance in delivering the relevant outputs specified in the *2006-07 Budget Paper No. 3, Service Delivery*.

The audit examined six outputs from three Departments:

- Department of Human Services (Ambulance Emergency Services, Mental Health - Clinical Care)
- Department of Infrastructure (Road System Management, Traffic and Transport Management)
- Department of Innovation, Industry and Regional Development (Export Promotion, Science, Technology and Innovation).

The audit also examined the role of DTF in the revenue certification process.

## 1.2 Overall conclusion

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Most of the output measures developed by the Department of Human Services (DHS), the Department of Infrastructure (DoI) and the Department of Innovation, Industry and Regional Development (DIIRD) examined in the audit were assessed as relevant, appropriate and as fairly representing actual output performance. The output measures:

- were logically related to the needs of the users of the output information and to clearly defined outputs and outcomes that communicated what was being measured (relevant)
- gave users sufficient information to assess the extent to which an agency had achieved a predetermined target or outcome; trends in performance over time; and performance relative to similar agencies and benchmarks (appropriate)
- were capable of measurement; represented consistently and without bias what they purported to indicate; and were accurate and auditable. Except for one reporting requirement not complied with by DHS, the 2006-07 annual reports of the three Departments fairly presented their output performance data (fairly represented).

There is however scope to improve the relevance, appropriateness and fair presentation of output performance measures.

### Relevance and appropriateness of output measures

The appropriateness of the output measures in the State budget papers (*BP 3*) could be improved by the inclusion of more detailed explanations of significant variations between actual output performance and targets.

It is important that Departments develop output performance measures that accurately measure the full extent of services being delivered. More particularly, Departments should purposefully develop and refine output performance measures to better inform the community about the quality and timeliness of departmental performance in actual service delivery.

### Fair presentation of output measures

There are inadequacies in DHS's and DIIRD's information systems and the methods used to collect output performance data. These inadequacies risk compromising the completeness and accuracy of that data. Both Departments are working towards addressing these issues.

As the onus is on Departments to ensure that their costing methodologies provide for the attribution of costs in accordance with DTF guidelines, it is appropriate for Departments, through their internal audit functions, to periodically test the adequacy of their methodologies and compliance with DTF guidelines. Currently, such tests are not routinely undertaken.

DTF relies on the integrity of the output performance information provided by Departments when determining the amount of revenue to be appropriated to Departments. DTF should require Departments periodically to provide independent validation of their costing methodologies and assurance regarding the completeness and accuracy of output performance data. This latter issue was also raised in a previous audit report.

Inclusion of information in departmental annual reports that links actual output performance to the achievement of departmental objectives, and ultimately government outcomes, is desirable. This information should explain the extent to which achievement of the output has contributed to the achievement of departmental objectives and government outcomes.

Previous audit reports in November 2003 and December 2005 were critical of the operation of DoI's *Better Roads Victoria Trust Account* (BRVTA). This is because appropriation funding for road construction and maintenance held in this account had been certified by DTF before these output services were actually delivered. Revenue certification ahead of service delivery is contrary to the Government's budget and financial management guidelines issued under the *Financial Management Act 1994*. The present audit found the practice of revenue certification ahead of service delivery for the BRVTA has continued.

## 1.3 Recommendations

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- That Departments provide more detailed explanations of significant and material variations between actual output performance and published targets in the notes to *Budget Paper No. 3, Service Delivery*. (**Recommendation 3.1**)
- That the Department of Treasury and Finance require that Departments periodically (triennially) provide assurance over the completeness and accuracy of their output performance data, including independent validation of information management systems and associated controls. (**Recommendation 4.1**)
- That Departments schedule the periodic review of:
  - their output costing methodologies for compliance with DTF guidelines, including the attribution of direct and indirect costs to outputs
  - the annual cost of outputs to determine the extent to which they reflect the full accrual cost of service delivery, with particular emphasis on whether the quantity measures reflect the full range of services delivered through that output. (**Recommendation 4.2**)
- That the disclosure of actual output performance in departmental annual reports be accompanied by an assessment of the extent to which output delivery has contributed to achievement of departmental objectives and government outcomes. (**Recommendation 5.1**)



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

***Recommendation 3.1***

*DHS supports the provision of more detailed explanations of significant and material variations between published targets and actual performance.*

***Recommendation 4.1***

*Partially support. DHS is willing to provide assurances over the completeness and accuracy of data that is submitted for inclusion in Budget Paper No. 3, Service Delivery, to DTF. However, the requirement for independent (presumably external) validation of the data is not supported. DHS's performance data comes from a wide variety of datasets so there would be a large number to review and certify in any given year. More problematic is the fact that the data is largely provided by external organisations who often have their own data collection systems, and submit their performance data to DHS via extracts from these. To be effective, any audit of data quality would need to start at the source and, therefore, would necessarily involve funded agencies and an assessment of the validity of their data entry and systems.*

***Recommendation 4.2***

*Partially support. DHS supports the development of DTF guidelines for the periodic review of output cost methodologies, including the attribution of indirect costs to outputs and the requirement to ensure that the full accrual cost of service delivery is included in output costs.*

*DHS does not fully support that the quantity measures reflect the full range of services delivered through the output. Output measures reported in the budget papers do not usually reflect the full range of services delivered within that output. In some outputs there are a diversity of activities, and these have their own performance measures and counting units. In such circumstances, the individual activity counts of performance do not aggregate up into an output view. Therefore, DHS will generally report on the most significant activity (or activities) within that output. DHS has over 1 500 different services activities, and the challenge in ensuring that each activity is appropriately reflected in the budget papers is considerable.*

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

***Recommendation 5.1***

*DHS supports development of annual reporting requirements that provide for an assessment of output performance contribution to departmental objectives and government outcomes. However, as noted in the report, annual reporting requirements are set by Directions of the Minister for Finance and Australian Accounting Standards. As DHS uses these standards and directions to guide annual report preparation, DHS supports the inclusion of an output performance contribution assessment within these reporting requirements.*

*DHS notes that most of the human services output indicators examined in the audit were found to have a logical link to the departmental objectives and were linked to the Government's Growing Victoria Together outcomes. However, as also noted in the report, many output measures are complex and require a deep knowledge before their structure and performance can be understood and assessed. For this reason, further work would be required to ensure that any assessment of the contribution of output performance to departmental objectives and government outcomes is readily understandable. This is particularly important in the human services context as many health, community services and housing outputs contribute to a diverse range of objectives and government outcomes.*

***RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development***

***Recommendation 3.1***

*While the nature of Budget Paper No. 3, Service Delivery, requires succinct notes to variations to output performance, DIIRD provide meaningful and understandable explanations to any significant variances. However, it should be noted that more detailed explanations are provided in other forums such as the Public Accounts and Estimates Committee.*

***Recommendation 4.1***

*DIIRD engages with DTF annually in the review of performance targets and outputs. As part of DIIRD's evaluation framework, a continuous improvement approach to the methods of collection and verification of data is undertaken to ensure that the most cost-effective, timely and accurate collection of performance data is undertaken.*

***RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development - continued***

***Recommendation 4.2***

*DIIRD reviews output costs on an annual basis which includes the full cost of outputs, both in terms of an accrual accounting approach as well as an allocation of both direct and indirect costs. Output costing methodologies are compliant with DTF guidelines.*

*DIIRD does not agree with the second part of this recommendation as this could lead to vast numbers of small performance targets which will not add materially to the overall performance measurement.*

***Recommendation 5.1***

*DIIRD annual reports do provide a commentary on output performance and the contribution to the achievement of departmental objectives and government outcomes. The DIIRD annual report directly links each output group to a strategic objective. The report provides the output measures and achievement against those measures, and also comments on the activities of DIIRD in achieving each of those outputs, where they are linked to the strategic objectives and strategies in achieving those objectives. It would be duplicating information to reiterate achievement of departmental objectives with the output performance data.*

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

***Recommendation 3.1***

*Since the 2006-07 Budget, DTF has requested Departments to provide more detail on the variations from previous years on output performance and published targets. This information has been included in the published footnotes for each output in Budget Paper No. 3, Service Delivery, for the 2007-08 Budget.*

***Recommendation 4.1***

*DTF notes the recommendation and considers that when output performance data is submitted by Departments, it is formally signed off by either the Departmental Secretary or the Minister. This provides DTF with a degree of assurance that the data is complete and accurate.*

*In relation to the independent validation of information management systems, DTF considers that under the Department Funding Model (DFM) it is the responsibility of individual Departments to ensure the management of their business and service delivery.*

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

***Recommendations 4.2 and 5.1***

*DTF notes the recommendations.*

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# 2 Why output measures are important

## 2.1 Purpose of output measures

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### 2.1.1 Victorian appropriation framework

The annual Appropriation Act provides the key mechanism through which Parliament directs the expenditure of public moneys and exercises control over the public purse. The Act provides authority (annually) to the Treasurer to issue funds from the Consolidated Fund for the following purposes:

- *provision of outputs* – the production or acquisition of goods and services
- *additions to net asset base* – the acquisition or construction of assets, or the injection of capital funding
- *payments on behalf of the State* – transfer payments, central financing costs and other expenditure not directly related to the purchase of goods and services by the Government.

In October 1997, the Government approved the implementation of an accrual output-based management framework for the Victorian general government sector (primarily Departments). The fundamental elements incorporated in this framework were:

- a full accrual approach to planning, budgeting, resource allocation and reporting
- a focus on the outputs that Departments provide, rather than the inputs required to provide services
- a focus on managing the total resources available to Departments.

These arrangements are based on a purchaser/provider model. Under this model, Parliament provides appropriation authority to the Treasurer (acting as the purchaser on behalf of the Government) to purchase outputs from Departments (acting as the providers), based on an agreed 'price' (funded under the authority of appropriations) paid to Departments for delivering such outputs.

The quantity, quality, timeliness and cost of outputs are agreed between the Government and the respective portfolio Ministers, and are outlined in the State budget papers.

The certification of departmental revenue (application of appropriations) by the Treasurer is based on an assessment by the Department of Treasury and Finance (DTF) of whether the agreed outputs have been delivered and met the agreed targets specified in the budget papers.

## 2.1.2 Outputs and output performance measures

### Outputs

Outputs are produced or delivered by government Departments and include:

- **Products and services** - The majority of departmental outputs fall into the provision of products and services category. Examples of these outputs are the tangible outputs associated with schools, hospital and emergency services
- **Projects** - An example of a project output would be major public construction projects. These outputs (assets) are usually a single product produced through a long-term process, one-off with a defined start and end date, and have milestones set during the process which measure achievements against quality, timeliness and cost targets
- **Grants** - Outputs relating to grants fall into two categories, namely, administration costs and grant payments.

### Output performance measures

Output performance measures are developed for each output and comprise:

- *Quantity* measures which describe outputs in terms of how much, or how many. Quantities will conceptually be different for each output type. However, quantity usually takes the form of the number of discrete deliverables or capacity provided
- *Quality* measures which are usually defined as service standards set around customer's expectations. A fundamental aspect of quality is the assumption that the product or service is defect-free and fits the purpose for which it was intended
- *Timeliness* measures which provide parameters for how often, or within what time frame, outputs will be delivered. These can include measures of turnaround times or waiting or response times
- *Cost* measures which should reflect the full accrual cost to a Department of producing an output.

The accuracy and relevance of output performance measures is vital in assisting the Government with the development of the State budget; the progressive monitoring and reporting of departmental performance in the delivery of outputs; and the revenue certification process. External reporting assists interested parties, such as Parliament and the community, in assessing agency performance in the production of agreed outputs.

### 2.1.3 Output measures in the budget process

As part of the budget process, Departments are required to develop output statements and performance measures for inclusion in *Budget Paper No. 3, Service Delivery (BP 3)*.

Information submitted to DTF by Departments includes:

- output descriptions and their linkages to departmental objectives and key government outcomes
- descriptions of the performance measures and the units of measure (quantity, quality, timeliness and cost) for each output
- performance measure targets, including prior year performance against targets
- discontinued outputs and performance measures.

Departmental output structures and performance measures are refined over the course of the budget development period through discussions with DTF to ensure that they incorporate all agreed Government decisions and relevant policy statements.

Following this process, the agreed outputs and associated performance measures and targets to be delivered by Departments during the year are set out in *BP 3*. The agreed appropriation funding ('the price') to be provided to Departments by the Treasurer for the delivery of the outputs is also included in *BP 3*.

### 2.1.4 Output measures and revenue certification

Revenue certification refers to the formal acceptance by the Minister for Finance of a departmental claim for revenue based upon the delivery of outputs in terms of the agreed quantity, quality, timeliness and cost. The revenue certification process also includes the provision of advice to DTF on departmental progress with asset investments and payments made on behalf of the State. Revenue provided to Departments for the delivery of outputs is certified annually.

Departments receive periodic payments (cash advances) to meet costs incurred for delivering outputs. At the end of the financial year, Departments submit an invoice to DTF as a claim that the periodic payments received should be formally recognised as revenue.

The annual invoice prepared by Departments shows actual output performance against the *BP 3* measures and targets. DTF assesses the invoices and then provides advice to the Government in relation to the delivery (or non-delivery) of outputs and the achievement of targets. The Treasurer and the Minister for Finance, based on advice from DTF, then decide how much of the provision for output appropriation can be recognised by a Department as revenue. Once certified, revenue is confirmed in the financial reports of the Department and used (in part) to acquit the cash advances received over the course of the year.

## 2.1.5 Output measures and annual reporting

Under the Directions of the Minister for Finance, which are issued pursuant to the *Financial Management Act 1994*, Departments are required to include in their annual reports a comparison of the output targets specified in the *BP 3* with actual performance. This represents the accountability mechanism to Parliament for output performance achieved by Departments in the preceding year.

Departments are required to present output information in their annual reports consistent with the Government's *Model Report for Victorian Government Departments*.

## 2.2 Audit objective and scope

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The management of public finances, including departmental budget planning and the control and management of parliamentary appropriations, has been the subject of previous reports of the Victorian Auditor-General's Office (2003, *Parliamentary control and management of appropriations* and 2004 *Budget development and management within Departments*). These reports identified issues with the appropriations framework, including the need for:

- better focused output measures and targets to enhance output specification, measurement and accountability
- the revenue certification processes to be more reliable.

In September 2005, Parliament's Public Accounts and Estimates Committee reported on actions taken by the Government in response to the Auditor-General's 2003 report, and also made a number of recommendations.

The objective of this audit was to assess whether the output performance measures for a selection of Departments were relevant, appropriate and fairly represented performance in delivering the relevant outputs specified in the *2006-07 Budget Paper No. 3, Service Delivery*.

The audit examined the following six outputs from three Departments, which were selected on the grounds of their importance to the Government's objectives, and to cover a range of output areas and output types:

- Department of Human Services
  - Ambulance Emergency Services - provides emergency road, rotary (helicopter) and fixed air wing patient treatment and transport services, associated education and first responder support
  - Mental Health - Clinical Care - provides a range of bed-based and community-based residential and ambulatory clinical services to people with mental illness
- Department of Infrastructure
  - Road System Management - involves enhancing the performance of Victoria's road network by developing road transport links, lowering transport operating costs and upgrading the quality of roads with respect to safety



- Traffic and Transport Management - involves delivering cost-effective projects to reduce congestion, and improve travel times, for all road users, including public transport, bicycles and pedestrians
- Department of Innovation, Industry and Regional Development
  - Export Promotion - aims to promote and facilitate export opportunities for Victorian businesses, particularly small and medium sized enterprises
  - Science, Technology and Innovation - aims to facilitate the development of Victoria's science and technology base, and to promote innovation across the economy.

Figure 2A shows further details of these outputs, including the number of output measures and cost.

**Figure 2A**  
**Departmental outputs, 2006-07**

Department/Outputs	Output performance measures (number)			
	Quantity	Quality	Timeliness	Cost (\$m)
<b>Department of Human Services -</b>				
Ambulance Emergency Services	5	3	5	324.2
Mental Health – Clinical Care	5	4	-	706.1
<b>Department of Infrastructure -</b>				
Road System Management	17	10	5	725.0
Traffic and Transport Management	2	1	1	138.6
<b>Department of Innovation, Industry and Regional Development -</b>				
Export Promotion	4	1	-	11.0
Science, Technology and Innovation	7	2	-	143.9

Source: Victorian Government, 2006-07 *Budget Paper No. 3, Service Delivery*.

The audit team also reviewed the role of DTF, particularly in regard to the development of output performance measures and in assessing whether outputs had been delivered by Departments (the revenue certification process).

In assessing the relevance and appropriateness of the output measures and whether they fairly represented actual performance, audit compiled a composite set of criteria that was based on:

- methodology developed in 2005 by the Victorian Auditor-General's Office for auditing performance indicators (*Performance Indicators Detailed Training and Audit Methodology [PRISM]*)
- guidance developed for Victorian Government Departments by DTF (*Output Specification and Performance Measurement, 1997* and *Budget and Financial Management Guidelines, 2001*)
- information developed by interstate treasury departments (*Output-based management, output measures – Guidelines to assist agencies, West Australian Government, 1998*).

The audit was performed in accordance with the Australian auditing standards applicable to performance audits, and included tests and procedures sufficient to enable audit conclusions to be reached. The total cost was \$295 000. This cost includes staff time, overheads and printing.

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# 3 Relevance and appropriateness of output measures

## At a glance

### Background

Under guidelines issued by the Department of Treasury and Finance, output measures developed by Departments are required to be relevant and appropriate:

- 'Relevant' means the measures should be logically related to the needs of the users of that information.
- 'Appropriate' means the measures give users sufficient information to assess performance.

### Key findings

- Most of the output measures developed by the Department of Human Services, Department of Infrastructure and Department of Innovation, Industry and Regional Development examined in the audit were assessed as relevant and appropriate.
- Transparency and usefulness of output information would be improved by expanding the notes in the State budget papers to more fully explain complex output measures and material variations in output performance against targets.
- Some output measures did not capture the full extent of services delivered or accurately measure the services being delivered.

### Key recommendation

- 3.1 That Departments provide more detailed explanations of significant and material variations between actual output performance and published targets in the notes to *Budget Paper No. 3, Service Delivery*.

## 3.1 Introduction

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Under the *Output Specification and Performance Measurement* guidelines issued by the Department of Treasury and Finance (DTF) in 1997, output measures developed by Departments are required to be relevant and appropriate.

'Relevant' means the output performance measures should be logically related to the needs of the users of that information. The measures must relate to clearly defined outputs and outcomes that communicate what is to be measured. 'Appropriate' means the output performance measures give users sufficient information to assess: the extent to which an agency has achieved a predetermined target or outcome; trends in performance over time; and performance relative to the performance of similar agencies and/or benchmarks.

For relevance, audit expected to find that the output measures:

- had a logical and consistent relationship to the Department's objectives which are linked to the Government's desired outcomes (*Growing Victoria Together*)
- specified the key activities that enable the delivery of the output
- were agreed to by key stakeholders
- provided information that could be used for internal and external management and reporting.

For appropriateness, audit expected to find that the output measures:

- were accompanied by explanatory notes relating to the development of, and factors that impact on, the measures
- gave sufficient information to assess the extent to which the Department had achieved the predetermined targets for output delivery
- enabled the assessment of trends in performance over time
- were accompanied by adequate notes that assist the user to draw meaningful conclusions about the performance of the Department in the delivery of the output.

## 3.2 Were output measures relevant and appropriate?

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### 3.2.1 Overall finding

Most of the output measures developed by the Department of Human Services (DHS), Department of Infrastructure (DoI) and Department of Innovation, Industry and Regional Development (DIIRD) examined in the audit were assessed as relevant because they:

- had a logical link to the output being delivered, the departmental objectives and were linked to the Government's *Growing Victoria Together* outcomes through their description in *Budget Paper No. 3, Service Delivery (BP 3)*

- in most cases, adequately described the key aspects of service delivery for the output in terms of its quantity, quality, timeliness and cost
- were discussed and agreed to by the key stakeholder, DTF, through the budget development process
- were used by Departments for external reporting purposes, including the reporting of actual output performance in departmental annual reports
- provided Departments with information used for internal output performance monitoring and management reporting.

Most of the output measures were assessed as appropriate because they:

- provided sufficient information (numerical as distinct from more detailed commentary) to enable the readers of budget papers to assess the extent to which Departments had achieved predetermined performance targets
- were related to a single output and were, in most cases, easy to understand
- had been consistently presented in the budget papers which enables users to assess trends in output performance over time
- were accompanied by brief notes explaining the structure of new output measures and, in some cases, explanations (albeit brief) were provided of significant variations in output performance.

While most output measures were assessed as appropriate, there is potential to improve the quality of information contained in the State budget papers (*BP 3*). Although explanatory notes are included, this information was not very informative. Many output measures are complex and require a deep knowledge before their structure and performance can be understood and assessed. For example, DIIRD's 'Exports facilitated and imports replaced' output measure has three discrete components that make up its \$689 million target for 2006-07. One component relates to import replacement and the other two relate to export facilitation. The explanatory notes do not explain the three components.

Expanding the notes to more fully explain complex output measures and significant material variations in output performance or the cost of service delivery would improve the transparency and usefulness of output information.

Further comments on the quantity, quality and timeliness output measures of DHS, DoI and DIIRD, including aspects that could be improved, are detailed in the following paragraphs.

## 3.2.2 Department of Human Services

### Output: Ambulance Emergency Services

#### *Quantity*

Audit found that two 2006-07 quantity measures developed by DHS for the Ambulance Emergency Services output did not meet the appropriateness criteria, namely:

- *Paramedic student university contact hours* - is a measure of paramedic training hours and not a quantity measure of the delivery of emergency ambulance services. This measure still appears as a quantity output performance measure in the 2007-08 budget papers
- *Number of public access defibrillation sites operating* - this measure was also not a measure of output service delivery as it did not relate to the delivery of emergency ambulance services. The measure has been deleted from the 2007-08 budget presentation.

The Metropolitan Ambulance Service (MAS) call referral service is one area which could be considered in a broadened reporting suite of measures. Although only currently operating at MAS, this service diverts lower priority calls for emergency ambulance services to other more clinically appropriate areas of services delivery. The MAS estimates that this aspect of its service delivery accounts for five to six per cent (15 000 to 18 000) of its total emergency services case load. However, this activity is not included as a service quantity measure. Audit considers inclusion of a quantity measure around this activity would provide a more complete coverage of the services provided under this output.

#### *Quality*

Audit found that the 2006-07 quality measures for the Ambulance Emergency Services output did not fully meet the appropriateness criteria. This is because they did not inform readers of the quality of clinical care provided during the critical phase of the occurrence of an emergency incident and the provision of hospital care.

For 2007-08, two new quality measures have been developed – the *proportion of patients experiencing severe cardiac and traumatic pain whose level of pain is reduced significantly* and the *proportion of patients satisfied or very satisfied with quality of care provided by paramedics*.

There is scope to further develop the quality measures to better inform readers of the quality of clinical care provided during the critical phase of the occurrence of an emergency incident and the provision of hospital care. Improvements to quality measures could include reporting survival rates for patients suffering cardiac arrest and measuring the quality of care provided to seriously ill patients while being transported to hospital.

### *Timeliness*

The 2006-07 timeliness measure *Emergency response time (code 1)*, the highest priority, had a target for the delivery of metropolitan services and an aggregated statewide response target. A specific target for regional areas had not been developed. This diminished the transparency of the timeliness of actual service delivery in regional Victoria and prevented comparisons with response times in metropolitan areas.

For 2007-08, the timeliness measure *Emergency response time (code 1)* has targets on a statewide basis and an aggregated response time. The aggregated target was determined across 29 Victorian towns and cities with populations greater than 7 500, and represents a common target for similar population groups in metropolitan and rural settings. The new aggregated timeliness measure is an improvement on the previous measures because it provides a target for the timeliness of emergency responses in larger regional centres. The development of a timeliness measure for emergency responses in more remote rural locations would add to the overall transparency of the delivery of emergency ambulance services.

DHS advised that response times for smaller populations are captured generally within the statewide measure and specifically in the Community Emergency Response Team arrivals prior to Rural Ambulance Victoria emergency responses.

## Output: Mental Health - Clinical Care

### *Quantity*

The 2006-07 quantity measures for the Mental Health - Clinical Care output cover the delivery of inpatient and community ambulatory services, but not the delivery of community residential services. Almost half of all specialist mental health beds are in community residential services, including adult community care units, prevention and recovery care units, and specialist mental health nursing homes and hostels. The costs associated with the delivery of these services are included in the total output cost. Including a quantity measure for the delivery of community residential services would provide better information on the full extent of services delivered under the Mental Health - Clinical Care output.

One of the 2006-07 quantity performance measures was the *Number of area mental health services achieving or maintaining accreditation under the National Standards for Mental Health Services*. As this measure is more closely aligned to service quality, specifically the accreditation of mental health service providers and the extent to which they meet recognised standards of care, DHS has included it as a quality measure in the 2007-08 budget papers.

### *Quality*

The accreditation of mental health service providers is a high-level quality indicator. Audit considers that measuring the outcomes of the care provided to mental health patients, either as a clinical measure, or through self-reporting by consumers of their experience of the quality of care, is an enhanced measure of quality.

DHS is currently developing a survey tool to improve the systematic collection, analysis and use of information about consumer and carer experience of mental health services. Data generated through this survey tool may allow DHS to develop an additional quality measure.

DHS has also advised audit that the existing collection of nationally agreed measures of consumers' clinical progress, known as the *National Outcomes and Casemix Collection*, includes data from which a quality measure could potentially be derived.

#### *Timeliness*

A new timeliness measure based on the elapsed time for people who present to an emergency department to be admitted to a mental health bed has been developed for 2007-08. As a number of enhancements were made to the mental health information system in July 2007, and to mental health triage policy, there is also potential to extend the timeliness measures to cover the elapsed time from when a person is referred to an ambulatory service to when the person starts receiving treatment. At present, this information is retained at the health service providers and not forwarded to DHS.

### 3.2.3 Department of Infrastructure

#### Output: Road System Management

##### *Quantity*

Two quantity measures for the Road System Management output in 2006-07 were the *Road network maintained*, which refers to the maintenance of the metropolitan and regional road networks, and *Bridges maintained*, which refers to the maintenance of the State's bridges.

The total length of the metropolitan and regional road networks was reported by DoI as both the target and the actual distance of the road network maintained in 2006-07. Similarly, the total number of the State's metropolitan and regional bridges was reported as both the target and actual number of bridges maintained by VicRoads in 2006-07.

A literal reading of these two performance measures could imply that physical maintenance works were undertaken across the entire road network and on all bridges. VicRoads advised audit that it is obligated under the *Road Management Act 2004* to maintain the entire State road network, which includes inspection activities, regular maintenance and extensive repair works that are undertaken, based on a risk management approach. As well as this, all bridges are planned to be inspected twice a year, and maintenance works identified for action. This distinction is not explained in the explanatory notes accompanying DoI's (VicRoads) output performance statement.



Audit considers DoI should develop a new quantity measure covering the maintenance activities (inspection, routine maintenance and extensive repair works). DoI should also clearly explain the basis of actual road and bridge maintenance in the explanatory notes.

### *Quality*

The VicRoads road management plan states that contractors are generally engaged to manage the delivery of its maintenance program and that maintenance works should be carried out in ways that adequately manage safety for road users and road workers. VicRoads undertakes systematic surveillance and audits of each contractor's operations and quality assurance system to verify compliance with contract requirements, including the delivery of projects on time, within budget and to the specified maintenance standards.

Given that maintenance works are contracted by VicRoads, audit considers the following measures could enhance reporting of the quality of road and bridge maintenance:

- the extent to which maintenance contractors are pre-qualified and have quality assurance systems that takes into account safety and environmental considerations
- the extent to which maintenance projects have been delivered on time and within budget (i.e. projects values at or above \$500 000).

### *Timeliness*

A timeliness measure developed by DoI for 2006-07 is the *Annual maintenance program completed within agreed timeframes*. This measure relates to the resurfacing of pavements on the metropolitan and regional arterial road networks. The target for this measure is to complete 100 per cent of the maintenance program. While DoI reported that the target of 100 per cent was achieved, its actual performance was 93.3 per cent in metropolitan areas and 97.7 per cent in regional areas.

## Output: Traffic and Transport Management

### *Quantity*

DoI's Traffic and Transport Management output quantity measure for 2006-07, *Road user facilities improvement projects*, had a target of 58 projects and actual performance of 53 (91.4 per cent) projects being delivered. However, under the timeliness measure related to this output, *Program works completed within agreed timeframes*, DoI disclosed actual performance as 100 per cent. This performance was in relation to the 53 completed projects. However, this distinction was not disclosed in the explanatory notes by DoI, nor did it explain that five projects had not been completed in 2006-07.

### 3.2.4 Department of Innovation, Industry and Regional Development

#### Outputs: Export Promotion, and Science, Technology and Innovation

##### *Quantity*

The *Exports facilitated and imports replaced* quantity measure for the Export Promotion output covers two aspects of service delivery. As such, two output measures should be reported, namely, the number or value of exports facilitated and the number or value of imports replaced.

##### *Quality*

DIIRD's Export Promotion, and Science, Technology and Innovation outputs provide grant funding and assistance to Victorian firms to:

- promote and facilitate export opportunities
- develop Victoria's science and technology base
- promote innovation
- contribute to the overall growth of the Victorian economy and employment.

Audit considers that the 2006-07 measures do not fully address the quality of these outputs as they do not measure the impact that these outputs have in terms of their purpose. The quality measure for the Export Promotion output could be improved if it addressed the extent to which the provision of grant funding and facilitation assistance has:

- created new employment opportunities in Victoria
- led to new markets being penetrated overseas
- assisted new firms to enter export markets.

The Science, Technology and Innovation output quality measure could be improved if it measured the extent to which the output has:

- created new employment opportunities in Victoria
- added to Gross State Product
- added to investment in Victoria
- assisted new firms to enter the sector.

DIIRD could also consider developing a *benefits index* for both outputs which measures the ratio of total economic benefits generated under each output to the total cost of each output.

##### *Timeliness*

DIIRD had not developed timeliness measures for these two outputs for 2006-07. As the assessment and approval of grants funding to Victorian businesses is an important aspect of the programs associated with the outputs, it would be appropriate for DIIRD to develop timeliness measures around this process.

Audit suggests the following timeliness measures:

- average time to process grant applications
- percentage of grant recipients meeting periodic reporting requirements (as stated in their grant conditions) within the required timelines.

### 3.2.5 Conclusion

In most cases, the output measures reviewed by audit satisfied the relevance and appropriateness criteria. However, there were a number of areas identified where improvement could be made.

The appropriateness of the disclosure of output measures in the State budget papers (BP 3) could be improved. The inclusion of more detailed explanations of significant variations between actual output performance and targets would help readers make a more informed assessment of the agency's performance in the delivery of goods and services. While it is not practical to provide detailed explanations of all variations between actual performance and output targets in all cases, this should be done selectively recognising the significance of the measure or the materiality of the variation.

It is important that Departments capture the full extent of services delivered under an output and that they develop output performance measures that accurately measure the services being delivered. More particularly, Departments should purposefully develop and refine output performance measures to better inform the community about the quality and timeliness of departmental performance in actual service delivery.

### Recommendation

- 3.1 That Departments provide more detailed explanations of significant and material variations between actual output performance and published targets in the notes to *Budget Paper No. 3, Service Delivery*.

***RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development***

***Suggested Quality measures for Export Promotion***

- *Created new employment opportunities in Victoria*

*Collection of meaningful data for this measure would be difficult as employment levels in companies is subject to many factors other than just the level of demand (e.g. domestic demand, introduction of new technology). Any impact is not likely to be direct or timely enough to be attributable by the companies through client surveys.*

***RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development - continued***

- Led to new markets being penetrated overseas
- Assisted new firms to enter export markets

*These two measures may be feasible if additional questions can be incorporated into client survey forms. DIIRD will review these proposals with the review of performance measures for the next budget round.*

*The suggestions for the Science, Technology and Innovation (STI) output will be reviewed for possible incorporation into the evaluation framework that will be developed for the programs that will form the Victorian Innovation Strategy. However, it is not considered appropriate to change current measures given that funding for STI Initiative ceases on 30 June 2008, and the likely difficulties of collecting data as proposed in this report. STI Initiative has undergone four reviews since its launch in 1999 and the Office of Science and Technology has continued to develop an effective evaluation framework to monitor the ongoing achievements of STI funded initiatives. A study of the Australian Government Department of Education, Science and Training in 2005 found that 'within the Australian innovation system, the STI Initiative outcome reporting framework appears to be an example leading current practice in relation to State research funding programmes'. DIIRD is confident that the measures for the STI output are appropriate and represent the outcomes of the programs accordingly.*

*A benefit index has been conducted as part of the economic impact modelling in relation to the STI output.*

***Timeliness***

*Suggestions for timeliness measures will be considered when the Department reviews measures for the next budget round.*



# 4 Do output measures fairly represent actual output performance?

## At a glance

### Background

Under the *Output Specification and Performance Measurement* guidelines, output performance data should *fairly represent* actual departmental performance in the delivery of goods and services.

### Key findings

- In most cases, the output measures developed by the Department of Human Services (DHS), Department of Infrastructure (DoI) and Department of Innovation, Industry and Regional Development (DIIRD) fairly represented actual output performance.
- Some information systems used by DHS did not incorporate procedures to check that all of the required output information was recorded and that the recorded information was accurate.
- DoI's information systems (VicRoads) provide assurance over the completeness and accuracy of output data.
- Although DIIRD places significant reliance on the survey information (output data) provided by grant and program recipients, the reliability of the survey data is not independently checked by DIIRD.
- DHS, DoI and DIIRD complied with output costing guidelines issued by DTF (*Budget and Financial Management Guidelines No. 10, Output Costing, 1997*).
- Although DTF identified the need for Departments to review their output costing methodologies, this has not been addressed by DHS and DIIRD.
- DHS, DoI and DIIRD complied with DTF's revenue certification requirements (*2006-07 Budget, Budget and Financial Management Information Request No. 38*).
- Departments should periodically provide DTF with independent validation of their costing methodologies and an assurance of the completeness and accuracy of output performance data.
- DTF has continued to certify revenue paid into the *Better Roads Victoria Trust Account* ahead of actual service delivery.

## At a glance - *continued*

### Key recommendations

- 4.1 That DTF require that Departments periodically (triennially) provide assurance over the completeness and accuracy of their output performance data, including independent validation of information management systems and associated controls.
- 4.2 That Departments schedule the periodic review of:
  - their output costing methodologies for compliance with DTF guidelines, including the attribution of direct and indirect costs to outputs
  - the annual cost of outputs to determine the extent to which they reflect the full accrual cost of service delivery, with particular emphasis on whether the quantity measures reflect the full range of services delivered through that output.

## 4.1 Introduction

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Under the *Output Specification and Performance Measurement* guidelines issued by the Department of Treasury and Finance (DTF) in 1997, output performance data should *fairly represent* actual departmental performance in the delivery of goods and services. Fair representation is necessary to ensure the accountability and transparency of departmental output performance and the provision of information to Parliament and the community.

To ensure fair representation, the output data must:

- be capable of measurement
- represent consistently and without bias what it purports to indicate
- be accurate and auditable.

Specifically, audit assessed whether the selected Departments':

- output performance measures complied with our standard criteria for fair representation
- information systems and procedures ensured the completeness and accuracy of output data
- cost attribution models complied with DTF guidance on the allocation of costs to departmental outputs
- revenue certification process, including where there is a transfer of appropriation revenue to trust funds, complied with DTF guidance.

## 4.2 Was output performance data fairly represented?

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### 4.2.1 Overall finding

Audit found that, in most cases, the output measures developed by the Department of Human Services (DHS), Department of Infrastructure (DoI) and Department of Innovation, Industry and Regional Development (DIIRD) examined in the audit fairly represented actual output performance because:

- they were capable of measurement which enabled the assessment of output performance against the established targets
- they were based on data that was generated by information systems that, in most cases, had processes to ensure that the data was complete and accurate, and free from bias
- the output data was reported in a consistent and accessible manner over time
- Departments collected data and reported the output performance within the required time frame to enable the revenue certification process to be based on actual data (i.e. actual output data is collected by the end of the financial year)
- reported performance against the output measures was verifiable and conclusions drawn from it could be checked.

Further comments on the fair representation of output performance data are detailed in the following paragraphs.

## 4.2.2 Completeness and accuracy of output data - Departmental information systems

### Department of Human Services

#### Output: Ambulance Emergency Services

The Metropolitan Ambulance Service (MAS) captures Ambulance Emergency Services output data through a computer-aided dispatch system and mobile data entry terminals operated by ambulance officers at emergency scenes. Calls for emergency assistance (calls to '000'), dispatch times, arrival at and departure time from the scene and arrival at the hospital are recorded electronically. The MAS has established quality assurance mechanisms aimed at ensuring the integrity of output data. Some of this data forms part of regular reports to DHS which are used to determine actual output performance.

Rural Ambulance Victoria (RAV) captures output data through a manual call taking and dispatch system. Audit found that this system did not incorporate procedures to check that all of the required output information was recorded, and that the recorded information was accurate.

Audit was advised that the RAV is developing a computer aided dispatch system (CAD) and that it has recently been pilot tested in the Bendigo region. The RAV plans to roll-out the CAD system in its other four communications centres (Geelong, Ballarat, Morwell and Wangaratta) by March 2008. The RAV expects that it will benefit from the introduction of this technology, and other time stamping technologies that are to be installed over the next 18 months, as output data will be recorded electronically, thereby limiting the risks associated with the existing manual recoding system.



## Output: Mental Health - Clinical Care

Mental Health - Clinical Care output data is collected in DHS's client management interface/operational data store (CMI/ODS). Data from the CMI/ODS is downloaded and compiled by DHS's Mental Health Branch to assess service delivery performance against the output targets. Most of the measures used are either part of a national suite of mental health key performance indicators or are constructed in accordance with standard health data definitions.

Audit found that DHS is addressing concerns with the comprehensiveness of data entry on service contacts between mental health clients and ambulatory services. This data is collected and recorded through a manual system which does not incorporate procedures to check that all required service contact data has been recorded. Nor are there checks on the accuracy of recorded data.

DHS has been working with service providers to address this issue through the provision of guidelines on setting contact hour targets for ambulatory services, and expects that recording coverage of the provision of client services will rise in 2007-08. DHS has advised that a long-term solution depends on developing an information system that can reduce, or eliminate, the need for paper-based recording systems and consequent manual entry of contacts data.

## Department of Infrastructure

### Outputs: Road System Management, and Traffic and Transport Management

The activities undertaken under the Road System Management, and Traffic and Transport Management outputs are projects involving construction works. These projects are subject to stringent project management guidelines and close monitoring by VicRoads managers.

The VicRoads project management system *Project Control Business Rules* (PCBR) sets out guidelines for managing roads projects and enables project managers to monitor actual output performance against established targets. Through the PCBR, project managers provide DoI with output data related to annual maintenance projects, including:

- the number of projects undertaken (quantity measures)
- project milestones, start and end dates (which contribute to timeliness measures)
- financial details (including project costs).

All project information is entered into the VicRoads *Program and Resource Management System* (PARMS) and is monitored on a monthly basis. At the completion of the financial year, project information is reviewed to determine actual output performance, compared against the published targets and reported to DoI.

Audit found that the PCBR and PARMS provide assurance over the completeness and accuracy of VicRoads' output data.

## Department of Innovation, Industry and Regional Development

### Outputs: Science, Technology and Innovation, and Export Promotion

Performance information for the Science, Technology and Innovation output is collected using an annual survey (*Science, Technology and Innovation*) that is completed by grant recipients. The survey covers information on the activities, projects undertaken and project outcomes. Responses to the survey are initially analysed by an independent contractor and then provided to output managers who review the results and compile output performance reports.

Output performance data in relation to the Export Promotion output is also collected through surveys that are completed by program participants. This data is analysed and reported against the published output targets.

Audit found that although DIIRD places significant reliance on the survey information provided by grant and program recipients, the reliability of the survey data is not independently checked by DIIRD.

DIIRD has recently made changes to processes related to the collection of performance information, including the development of improved guidelines for the management of grants and improved data validation processes for the export program.

### 4.2.3 Output cost attribution

Output costing guidelines issued by DTF (*Budget and Financial Management Guidelines No. 10, Output Costing*, 1997) state that Departments must attribute all departmental costs to outputs so that they reflect the full accrual cost of producing outputs. The guidelines require:

- the identification of all departmental costs incurred in the production process, both direct (e.g. salaries and wages, travel, materials and motor vehicle expenses) and indirect/overhead expenses (e.g. financial and administrative/corporate services)
- the allocation of direct costs (i.e. those costs which are directly traceable to the production of a specific output)
- the allocation of indirect costs to produce an output
- departmental costing methodologies to be formally documented and auditable.

Audit found that the costing methodologies of the selected Departments:

- were independently developed
- complied with the DTF guidelines for output costing in that they specified that output costs should reflect the full accrual cost of producing outputs through the attribution of direct and indirect costs
- attributed direct and indirect costs to the selected outputs in 2006-07, as required by the DTF guidelines
- were formally documented for DHS and DoI, but not for DIIRD.

The Victorian Auditor-General's Offices's 2003 report, *Parliamentary control and management of appropriations*, stated that the Government's Management Reform Program identified the need for Departments to improve output costing. In particular, DTF identified the need for Departments to review their output costing methodologies. This audit found that DHS and DIIRD had not reviewed their output costing methodologies.

#### 4.2.4 Revenue certification

Revenue certification involves the formal acceptance by the Minister for Finance of a departmental claim for revenue which is based upon the delivery of outputs in terms of their quantity, quality, timeliness and cost targets as agreed to by the Government. The process involves:

- progressive monitoring (half-yearly) by DTF of output delivery by Departments against predetermined output targets as specified in *Budget Paper No. 3, Service Delivery*
- an annual process where DTF makes recommendations to the Minister for Finance and Treasurer on the amount of departmental appropriation revenue that should be certified and applied over the relevant financial year.

Revenue certification provides an important accountability mechanism regarding the relationship between the Government, and its role as the 'purchaser' of outputs and Departments, in their role as the 'providers' of goods and services.

#### Compliance with DTF requirements

Audit found that DHS, DoI and DIIRD complied with DTF's revenue certification requirements (*2006-07 Budget, Budget and Financial Management Information Request No. 38*) in that:

- appropriation invoices were submitted to DTF as required at the half-year (the indicative invoice) and at the end of the financial year (the annual appropriation invoice for revenue certification)
- a statement of output performance and an accompanying performance commentary were submitted to DTF
- DTF determined that the annual appropriation invoices met all necessary requirements and they received full revenue certification for 2006-07.

#### Role of DTF

DTF advised audit that responsibility for the quality of information and output performance data is devolved down to the Departments, senior management and ministers. In most cases, DTF does not undertake (and is not required to undertake) any validation of departmental performance data/information or of departmental information systems. DTF will undertake validation where it identifies output performance issues or material variances from output targets or expenditure estimates.

A 2003 audit on parliamentary appropriations reported that, in other jurisdictions, an important accountability feature of their appropriation frameworks was the requirement for the provision of specific assurances by agencies regarding the integrity of performance-related information. One of the examples cited referred to the United Kingdom where a series of measures have been implemented to ensure the integrity of departmental performance targets and all relevant data systems. One measure was a requirement for Departments to facilitate the examination of all relevant data systems at least once during a 3-year period, and to publicly report when the data systems were, or will be, subject to validation.

### Operation of trust accounts

Previous audit reports (November 2003 and December 2005) were critical of the operation of DoI's *Better Roads Victoria Trust Account* (BRVTA). This arose because appropriation funding for road construction and maintenance was certified before the output services for which the appropriation was made were actually delivered, resulting in substantial carryovers of revenue.

The BRVTA was established in 1993 under the *Business Franchise (Protection Products) Act 1979* to collect the State franchise levy on petrol and diesel fuel sales which were used for the construction and maintenance of roads and road safety, and traffic integration projects.

Following the abolition of the fuel levy in August 1997, the Government has continued to make equivalent payments to the BRVTA, together with a portion of motor vehicle registration fees (from July 2003). From July 2005, all receipts collected from traffic cameras and on-the-spot speeding fines have also been deposited into the BRVTA. Funds from the BRVTA continue to be used for the construction and maintenance of roads, road safety initiatives and traffic integration projects.

Audit found that DTF has continued to certify BRVTA revenue despite this funding being received by DoI ahead of actual service delivery. Figure 4A shows that, at June 2007, funds totalling \$139.6 million were held in the BRVTA.

**Figure 4A**  
**Better Roads Victoria Trust Account (\$million)**

	<b>2006-07</b>
<b>Opening balance</b>	<b>382.6</b>
<b>Source of funds -</b>	
BRVTA revenue	370.1
Traffic camera revenue	241.6
<b>Total funding available</b>	<b>994.3</b>
<b>Application of funds -</b>	
Road projects (a)	613.1
Programs funded from Traffic camera revenue and Traffic and transport integration management	69.3
Road safety management	27.0
Road system management	145.3
<b>Total payments from BRVTA</b>	<b>854.7</b>
<b>Closing balance (b)</b>	<b>139.6</b>

- (a) Annual expenditure includes spending on projects funded jointly by the State and Commonwealth Governments. Commonwealth funding for the year is fully utilised with the balance of project expenditure met from the State's Better Roads Victoria Trust Account.
- (b) The closing balance is fully committed to future approved projects. Around \$2.9 billion in road projects has been committed over the next four years to be funded from the Better Roads Victoria Trust Account.

Source: Victorian Auditor-General's Office, based on information provided by the Department of Infrastructure.

Payments from the BRVTA for major road works usually span financial years and cannot be aligned with a fixed reporting cycle (one financial year) as is generally the case with payments for the delivery of regular services by Departments. However, revenue certification ahead of service delivery is contrary to the Government's budget and financial management guidelines (*Budget and Financial Management Guidelines No. 51, Output Revenue Certification*).

The circumstances surrounding the operation of the BRVTA have not changed since this matter was first reported in 2003. DTF advised audit that in 2006-07, as in previous years, DoI has complied with the principles underpinning the operation of trust funds and appropriation revenue (i.e. that the full amount of appropriation funding approved by Government for the year was paid into the BRVTA). DTF also advised that the payment of appropriations into trust funds is not inconsistent with the guidelines on revenue certification, and that other trust funds in other Departments operate in a similar way.

DTF advised that the *Financial Management Act 1994* is being reviewed and that this will include the operation of trust accounts and the revenue certification process.

## 4.2.5 Conclusion

In most cases, the output measures developed by DHS, DoI and DIIRD examined in the audit fairly represented actual output performance.

### Completeness and accuracy of output data-Departmental information systems

There are inadequacies in DHS's and DIIRD's departmental information systems and the methods used to collect output performance data that could compromise the completeness and accuracy of that data. Data issues that need to be addressed include:

- the use of manual data entry and paper-based systems which do not incorporate processes to check that all of the information required to be collected has been collected and that recorded information is accurate
- the reliability of self-assessed performance data provided by the recipients of grant funds and program participants.

DHS and DIIRD are aware of the need to maintain systems that deliver complete and accurate performance data and were working towards addressing issues identified by audit.

### Output cost attribution

The onus is on Departments to ensure that their costing methodologies provide for the attribution of costs in accordance with DTF guidelines and to determine the full accrual cost of output delivery. It is also important for Departments to ensure that their quantity measures capture the full extent of service delivery for an output because they act as drivers for other measures, specifically in determining the full accrual cost of the output. Accordingly, audit considers it is appropriate for Departments, through their internal audit functions, to periodically test the adequacy of their output costing methodologies and compliance with DTF guidelines.

### Revenue certification

The integrity of the output performance information provided by service delivery Departments to DTF, as part of the revenue certification process, is critical to ensuring that informed and accurate assessments are made of departmental performance against output targets. These assessments ultimately support the Treasurer's decisions on the value of appropriation revenue to be provided to Departments.

Under these circumstances, Departments should periodically provide DTF with independent validation of their costing methodologies and an assurance of the completeness and accuracy of output performance data.

## Recommendations

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- 4.1 That DTF require that Departments periodically (triennially) provide assurance over the completeness and accuracy of their output performance data, including independent validation of information management systems and associated controls.
- 4.2 That Departments schedule the periodic review of:
- their output costing methodologies for compliance with DTF guidelines, including the attribution of direct and indirect costs to outputs
  - the annual cost of outputs to determine the extent to which they reflect the full accrual cost of service delivery, with particular emphasis on whether the quantity measures reflect the full range of services delivered through that output.

### ***RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development***

#### ***Completeness and accuracy of output data – departmental information systems***

*Data collected through the annual survey (Science, Technology and Innovation) is validated by client managers to ensure that the performance information provided by grant recipients is consistent with other sources of information and intelligence available to DIIRD. Similarly, with Export Promotion, client managers review data as provided by companies to ensure, as far as practicable, that data is accurately reported.*

#### ***Output cost attribution***

*DIIRD undertakes a formal process each year to ensure that the output costs are reflective of the business activity. This includes a complete DTF compliant methodology and sign-off by each deputy secretary, or their representative, of the agreed costing for each output within their division.*

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# 5 Annual reporting of output measures

## At a glance

### Background

The reporting of actual output delivery in departmental annual reports enables Parliament, the community and other users of annual reports to assess the extent to which agreed output targets have been achieved.

The annual reporting requirements are provided under the financial directions issued by the Minister for Finance (*Note 2- Departmental Outputs*). Departments are also required to comply with Australian Accounting Standard AAS 29.

### Key findings

- The Department of Human Services (except for one requirement), Department of Infrastructure and Department of Innovation, Industry, and Regional Development complied with the annual reporting requirements for the presentation of output data.
- Annual reports of the three Departments do not provide sufficient information to link actual output performance to the achievement of departmental objectives and government outcomes.

### Key recommendation

- 5.1 That the disclosure of actual output performance in departmental annual reports be accompanied by an assessment of the extent to which output delivery has contributed to the achievement of departmental objectives and government outcomes.



## 5.1 Introduction

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The reporting of actual output delivery in departmental annual reports enables Parliament, the community and other users of annual reports to assess the extent to which agreed output targets have been achieved.

The requirements for the annual reporting of output performance are provided under the financial directions issued by the Minister for Finance (*Note 2- Departmental Outputs*). Departments are also required to comply with Australian Accounting Standard AAS 29 (*Financial Reporting by Government Departments*). In the context of the annual reporting of actual output data, AAS 29 requires:

- a summary of the identity and purpose of each of the Department's major activities (outputs) undertaken during the reporting period
- if not disclosed elsewhere in the annual report, the objectives of the Department
- revenues and expenses attributable to outputs showing separately each major class.

To determine whether the 2006-07 annual reports of the Department of Human Services (DHS), Department of Infrastructure (DoI) and Department of Innovation, Industry, and Regional Development (DIIRD) fairly represent their output performance, audit examined whether these reports had been prepared in accordance with the reporting requirements.

## 5.2 Do departmental annual reports fairly represent output performance data?

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As shown in Figure 5A audit found that, except for one reporting requirement related to changes in outputs at DHS, the three Departments complied with the annual reporting requirements.

**Figure 5A**  
**Compliance with annual reporting requirements - Output data**

Annual reporting requirements	2006-07		
	DHS	DIIRD	DoI
Comparison of the output targets specified in the State budget with actual performance against those targets	✓	✓	✓
Summary of the identity and purpose of each of the Department's major activities (outputs) undertaken during the reporting period	✓	✓	✓
If not disclosed elsewhere in the annual report, the objectives of the Department	✓	✓	✓
Revenues and expenses attributable to outputs showing separately each major class	✓	✓	✓
A description of changes in output structure	x	✓	✓
Descriptions of output activities and key government objectives should be consistent with those reported in the budget papers	✓	✓	✓

Source: Victorian Auditor-General's Office.

Under the reporting requirements, Departments are required to include in their annual report a description of any changes in outputs from one year to the next. For example, an annual report should include information on:

- changes to output structures
- changes in the responsibility for output delivery which can arise as a result of machinery of government changes.

DHS did not comply with this requirement in respect of its 2006-07 annual report.

## 5.2.2 Enhancing information on output performance

Departmental annual reports disclose the achievement of actual output delivery against the agreed targets, and the budget papers show the linkage of outputs to departmental objectives and desired government outcomes. However, readers of annual reports are not provided with sufficient information to link actual output performance to the achievement of departmental objectives and ultimately government outcomes.

## 5.2.3 Conclusion

Except for one reporting requirement not complied with by DHS, the 2006-07 annual reports of DHS, DoI and DIIRD fairly presented their output performance data.

Inclusion of information in departmental annual reports that links actual output performance to the achievement of departmental objectives, and ultimately government outcomes, is desirable. This information should explain the extent to which achievement of the output has contributed to the achievement of departmental objectives and government outcomes.

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## **Recommendation**

- 5.1 That the disclosure of actual output performance in departmental annual reports be accompanied by an assessment of the extent to which output delivery has contributed to the achievement of departmental objectives and government outcomes.
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# Auditor-General's reports

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## Reports tabled during 2007-08

<b>Report title</b>	<b>Date tabled</b>
Program for Students with Disabilities: Program Accountability (2007-08:1)	September 2007
Improving our Schools: Monitoring and Support (2007-08:2)	October 2007
Management of Specific Purpose Funds by Public Health Services (2007-08:3)	October 2007
New Ticketing System Tender (2007-08:4)	October 2007
Public Sector Procurement: Turning Principles into Practice (2007-08:5)	October 2007
Discovering Bendigo Project (2007-08:6)	November 2007
Audits of 2 Major Partnership Victoria Projects (2007-08:7)	November 2007

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