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Follow-up: Monitoring and reporting performance (Report 18: 2013–14)

Report 3: 2016–17

QUEENSLAND
Prepared under Part 3 Division 3 of the
Auditor-General Act 2009

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Queensland Audit Office
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8 November 2016

The Honourable P Wellington MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

Report to Parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled *Follow-up: Monitoring and reporting performance* (Report 3: 2016–17).

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

Anthony Close
Auditor-General (acting)

Contents

Summary

Public sector entities must report publicly on their performance as part of their accountability obligations, to demonstrate their effective stewardship and responsible use of taxpayer-funded resources.

In June 2014, we tabled *Monitoring and reporting performance* (Report 18: 2013–14). It examined how well the 20 core Queensland departments measured, monitored, and publicly reported on their non-financial performance.

Monitoring and reporting non-financial performance

Queensland Government departments and statutory bodies must comply with the Queensland Performance Management Framework (PMF) for monitoring and reporting of non-financial performance information. The PMF requires departments to group all their services into service areas and report on at least one efficiency and one effectiveness performance measure for each service area.

Each year, every department produces Service Delivery Statements (SDS) that provide budgeted financial and non-financial information. We assessed the performance information in the 20 departments' SDS from the 2013–14 State Budget papers.

The PMF guides departments to measure and report externally on outcomes, efficiency, and effectiveness of public sector service delivery, rather than activities, inputs, processes, and outputs.

In 2014, we found that the measures, known as service standards, reported by the majority of departments on their service areas fell well short of being direct measures of the efficiency or the effectiveness of the services they delivered. The widespread lack of service standards and targets for service efficiency was of particular concern.

Many departments could not clearly express how they transformed the inputs they received into outputs and outcomes in order to achieve their desired service area objectives. This is referred to as a 'service logic approach'. It is a better practice way for entities to ensure that the resources at their disposal are fully targeted at the activities that deliver the most value in achieving government policy objectives. Without a service logic approach they were also not in a position to create meaningful measures to monitor the efficiency and effectiveness of their services. A lack of data on the cost of service outputs was the main barrier to measuring efficiency.

Two elements were missing in many departments — management commitment to performance monitoring and reporting, and externally imposed reporting imperatives. Service areas that were required to report externally under the national Report on Government Services (ROGS) or a national partnership agreement were more able to report on a balance of efficiency and effectiveness standards in their SDS. This established a clear dichotomy between the better practice departments and the others.

Developments in reporting of non-financial performance information

Some international jurisdictions provide regular online progress updates on government priorities for public consumption. A number of countries, including New Zealand, have strengthened their accountability for performance by also requiring performance information to be independently audited and reported annually.

Australia does not have this requirement yet, but the Australian Accounting Standards Board (AASB) recently sought comment on Exposure Draft 270 (ED 270) *Reporting Service Performance Information*. This proposes mandatory requirements for not-for-profit entities in both the private and public sectors to report service performance information.

Scope of this follow-up audit

We made three recommendations in *Monitoring and reporting performance* (Report 18: 2013–14), two of which were accepted. This audit follows up on the progress and effectiveness of departments in implementing the accepted recommendations.

Central agencies (Queensland Treasury and Department of Premier and Cabinet) did not support our third recommendation that departments be required to publish an audited performance statement in their annual reports, primarily because they perceived it would be costly and complex. Instead, the Department of Premier and Cabinet (DPC) and Queensland Treasury (QT) proposed that departments implement alternative assurance mechanisms over non-financial performance measures. We therefore took the opportunity to check on the status of each department's assurance activities.

Status of our recommendations

Departments have partially implemented the two accepted recommendations from *Monitoring and reporting performance* (Report 18: 2013–14).

Figure A shows our recommendations and the implementation status of each.

Figure A
Report 18: 2013–14 recommendations

	Recommendation	Status
1	Departments apply a service logic approach to define their service areas so that they only group services where they contribute to common objectives and outcomes.	Partially implemented
2	Queensland Treasury and the Department of the Premier and Cabinet update their mandatory guidance to require: ▪ service standards that relate to whole-of-government objectives and outcomes to be reported at the ministerial portfolio or departmental level, not at the service standard level ▪ where a service area comprises multiple services, that each material service has a separate line item budget and at least one efficiency service standard and one effectiveness service standard.	Partially implemented
3	Departments be required to publish an audited performance statement in their annual reports to complement their audited financial statements.	Not accepted

Note: Material services are those services that consume the most funds allocated to the service area.

Source: Queensland Audit Office

Audit conclusions

The Queensland Government has become somewhat more transparent and accountable for its performance by publicly reporting more outcome, efficiency, and effectiveness measures than it did in 2013–14. Progress made by some departments in applying a service logic approach to define their service areas has led to clearer expectations and target outcomes.

Despite the improvement, there are still service areas that do not report how well departments use public resources to deliver outcomes. Over half of departments do not have at least one standard of efficiency and a standard of effectiveness for each of their material service areas.

Although central agencies are progressively working with departments to improve performance measurement and reporting, they have not been as effective as they could be. Two years on they have not finalised guidance for non-financial performance measures, including the requirement for departments to include budget line items for each material service in the SDS. That means the reader doesn't yet know whether the service standards reported reflect the most material or highest cost services.

DPC has discouraged departments from including measures more relevant to whole-of-government objectives and outcomes in the SDS. However, central agencies have not established a way for departments to report effectively on progress of whole-of-government objectives, so some departments are still including these measures in their SDS and in a variety of other reports.

While departments use a range of mechanisms to obtain assurance over published performance information, they are not always effective. We continue to find that controls over non-financial performance data are weak or absent. This means the public cannot always rely on the information reported as an accurate representation of performance.

The effort made to date is encouraging, but many departments need to do significantly more work to meet minimum mandatory reporting requirements. Departments need performance information to inform effective decision-making and strengthen accountability. And the public needs access to relevant and reliable performance information to assess government progress against its intended outcomes. Departments that proactively improve their measures of performance will be better placed to meet the requirements of ED 270 if mandated.

Findings

Service logic approach

Seventeen of the 20 departments assessed themselves as having fully implemented our recommendation to apply a service logic approach. Three departments said they had partially implemented our recommendation. Only seven departments provided evidence that they had identified the required components of their service logic models and that they had mapped the relationships between them.

Departments applying a service logic approach have shifted from an inward organisational view, based on activity and input, to realigning their services to focus on the customer or service user and on outcomes. Ten departments have made notable changes to their service areas.

This has led to clearly-defined expectations and target outcomes as well as more transparency, ownership and accountability for performance. Several departments noted positive staff feedback in applying a service logic approach. By having common goals and shared success, they have built focused teams and improved their culture.

Mandatory guidance

Central agencies have updated the mandatory guidance to ensure departments have at least one efficiency measure and at least one effectiveness measure for each material service. However, the guidance does not currently specify that each material service reports a separate budget line item. This means the second part of our second recommendation — '… that each material service has a separate line item budget …' — has not been fully implemented.

The lack of reported budget line items means the reader of an SDS doesn't know whether the service reported is the most material or highest cost service. It may mean that departments choose to report on services where they are performing well or where they have measures available. They may report what they can rather than what they should. DPC intends to finalise and publish the draft PMF Policy in the first quarter of 2017. It will specify that, where practicable, each material service has a separate line item budget.

We found that three departments report on material services for all the service areas in their SDS. Readers of the SDS for these departments have better information on service performance.
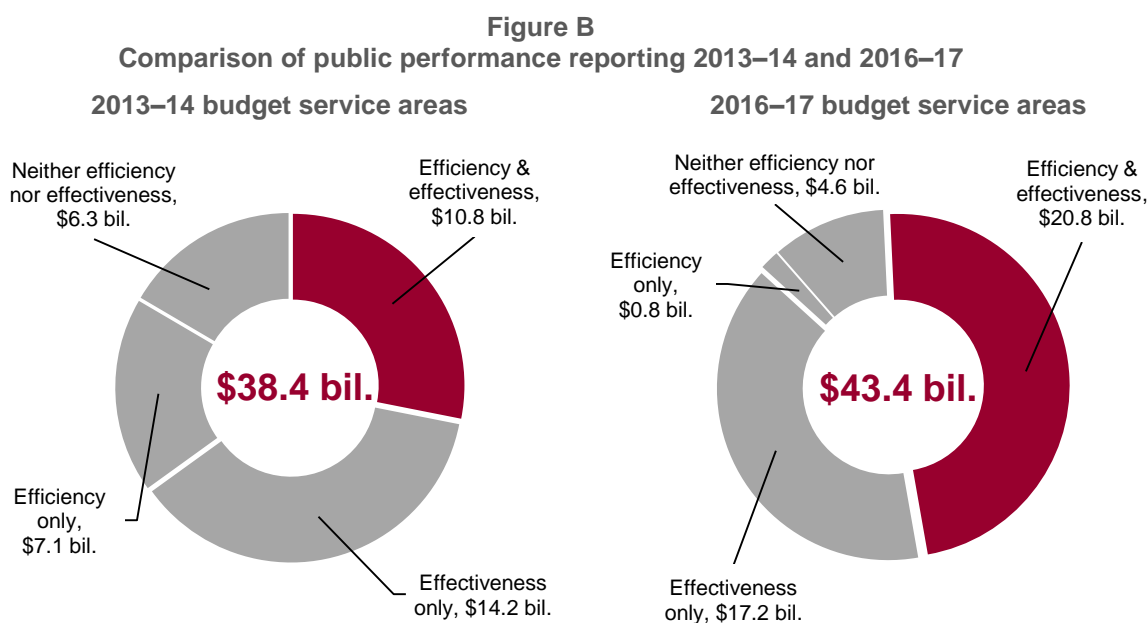
Our original audit found that seven departments reported 28 service standards that were more relevant to higher level, whole-of-government objectives and outcomes, in their SDS. Many of these were outside the direct control of a department. This makes the service standards difficult for departments to significantly and directly influence and reduce their value for accountability purposes.

As part of its annual review of the SDS, DPC discouraged departments from including standards more relevant to whole-of-government objectives and outcomes. However, there has been little progress in this area, with 25 of the 28 original service standards still included in the 2016–17 SDS. There is still no clear, coordinated, and regular public reporting of whole-of-government outcome indicators.

Efficiency and effectiveness measures

We observed improvement in the public reporting of efficiency and effectiveness measures. In the 2016–17 SDS, $20.8 billion, or 48 per cent of public expenditure, has associated standards of efficiency and effectiveness. This is an improvement from the 2013–14 result, where only 28 per cent of public expenditure had associated standards of efficiency and effectiveness.

Figure B shows the value of service areas (in billions) that have both, either, or no standards of efficiency and effectiveness. It compares the results from 2013–14 to 2016–17.

Figure B
Comparison of public performance reporting 2013–14 and 2016–17

2013–14 budget service areas

Neither efficiency nor effectiveness, $6.3 bil.

Efficiency & effectiveness, $10.8 bil.

$38.4 bil.

Efficiency only, $7.1 bil.

Effectiveness only, $14.2 bil.

2016–17 budget service areas

Neither efficiency nor effectiveness, $4.6 bil.

Efficiency only, $0.8 bil.

Efficiency & effectiveness, $20.8 bil.

$43.4 bil.

Effectiveness only, $17.2 bil.

Note: Efficiency measures assessed on definition of 'technical efficiency'. Typically measured as the cost per unit of output.

Source: Queensland Audit Office

Performance statements

Departments use a range of mechanisms to obtain assurance over published performance information. These include internal quality controls, such as the development and use of a data dictionary to ensure consistency and integrity of the data, and management verification and approval of performance information and reporting. However, there is no independent scrutiny of these mechanisms to ensure that agencies report complete and accurate information that fairly represents performance.

The proposed AASB standard on reporting service performance information would require departments to publish service performance information annually in a way that is useful for accountability and decision-making purposes. This includes the extent to which the entity has achieved its service performance objectives and should enable users of the report to assess the efficiency and effectiveness of the service performance. Its adoption would provide a catalyst for better reporting and transparency of performance by public sector entities and equally represents a risk given the current state of performance reporting in Queensland. Departments should consider how well placed they are to meet this requirement if it is mandated.

Reference to comments

In accordance with section 64 of the *Auditor-General Act 2009*, we provided a copy of this report to the Department of the Premier and Cabinet and Queensland Treasury for comment.

The Department of Premier and Cabinet provided a response, it is in Appendix A.

Report structure

Chapter	
Chapter 1	Provides the background to the audit and the context needed to understand the audit findings and conclusions.
Chapter 2	Evaluates progress made by departments in applying a service logic approach.
Chapter 3	Examines progress made by central agencies in updating mandatory guidance.
Chapter 4	Considers the status of assurance mechanisms for performance information.

Report cost

This audit report cost $90 000 to produce.

1. Context

Those charged with governance of public sector entities need regular access to a suite of both financial and non-financial information to:

- manage their service delivery

- determine whether they are on track

- take timely corrective action if needed

- meet regulatory requirements.

These entities publicly report information about financial performance (how much services cost in budgets and annual financial statements). This information is subject to robust international and national accrual-based reporting frameworks and accounting standards. Their intent is to enable consistent and reliable information that is comparable, over time, between entities and between jurisdictions.

Public information on non-financial performance — how well public sector entities deliver services — is not generally subject to such recognised frameworks or standards. Public sector entities do not have this information audited nor do they report on it consistently in annual reports.

Performance Management Framework

Queensland public sector entities must comply with the requirements for monitoring and reporting non-financial performance information set down in legislation and in the Queensland Performance Management Framework (PMF), which was introduced in 2008.

The objective of the PMF is to improve the analysis and application of performance information to:

- support accountability

- inform policy development and implementation

- create value for customers, stakeholders, and the Queensland community.

The Department of the Premier and Cabinet (DPC) is responsible for the design and oversight of the operation of the PMF and for the guidance material that supports it.

Queensland Treasury (QT) administers the Financial and Performance Management Standard 2009 (the FPMS). The FPMS outlines governance requirements for departments, including the requirement for each director-general to establish a performance management system. Each department manages and reports its performance to enable stakeholders to decide whether it is:

- achieving the objectives stated in its strategic plan efficiently, effectively, and economically

- delivering the services stated in its operational plan to the standard stated in the plan.

While QT oversees departmental reporting of financial performance, DPC oversees non-financial performance reporting across government. DPC sets out the mandated requirements in three documents:

- *A Guide to the Queensland Government Performance Management Framework*

- *Agency planning requirements*

- *Annual report requirements for Queensland Government agencies.*

Each year, DPC and QT work with agencies as part of the continuous improvement of the PMF. They review agency service area objectives, service standards and targets published in departments' Service Delivery Statements (SDS). The review process for 2016–17 checked whether for each department:

- each service area has a clearly defined service objective stating how it contributes to the achievement of the agency objectives

- service areas are broken down into material services — ensuring that material services identified have a separate line item budget where practicable

- all service areas and services have service standards — at least one measure of efficiency and at least one measure of effectiveness for each service area/service

- a data dictionary is developed for the performance measures in the SDS.

Service logic model

A performance management framework reflects the service logic model, or service process, through which service providers transform inputs into outputs and outcomes in order to achieve desired objectives.

For each service, the government has a number of objectives that relate to desired outcomes for the community. To achieve these objectives, the government transforms resources (inputs) into services (outputs), either itself or through service providers. The impacts of these outputs on individuals, groups, and the community are the outcomes of the service.

Figure 1A shows a service logic diagram used widely in Australia.

Figure 1A
Service logic diagram
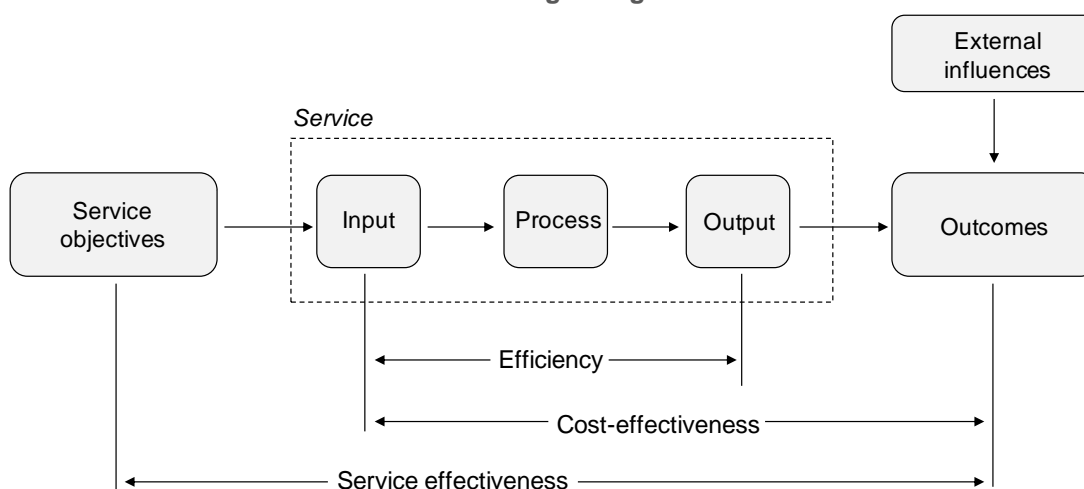
Source: Queensland Audit Office adapted from Report on Government Services 2015, Productivity Commission

The concept of efficiency has a number of dimensions. Overall economic efficiency requires satisfaction of technical, allocative, and dynamic efficiency:

- technical efficiency requires that goods and services be produced at the lowest possible cost

- allocative efficiency requires the production of the set of goods and services that consumers value most, from a given set of resources

- dynamic efficiency means that, over time, consumers are offered new and better products, and existing products at lower cost.

The Report on Government Services (ROGS) focuses on technical efficiency. The service logic model distinguishes between technical efficiency (the cost per unit of output) and cost-effectiveness (the cost to achieve the outcomes). It also recognises that other influences affect overall program effectiveness (the extent that outcomes achieve the objectives of the service).

The model demonstrates that each service:

- requires a combination of inputs, which may include:

  - human effort, skill, and knowledge
  - physical assets information and other intangible assets
  - financial assets.

- translates, converts, or otherwise uses up inputs in processes

- produces outputs — the units of services produced, which may themselves be discrete units (such as licenses issued) or continuous units (such as teaching hours provided).

Departments develop objectives for each service delivered in terms of the outputs produced and the outcomes expected.

Service standards

Service level **output** objectives relate to the delivery of the service to pre-determined service level standards. Output performance standards describe key aspects of the service, such as:

- quantity — the desired number to be produced for discrete outputs, or planned activity level for continuous outputs

- timeliness — when the service is to be provided as required by the user (or otherwise made available as intended by the provider when it is not a demand-driven service)

- cost — the expected cost, as set out in the approved budget

- quality — the fitness for purpose of the service, which may include factors such as accuracy or extent of adherence to externally mandated quality standards.

Service level **outcome** objectives relate to the intended or desired effect of that service on the recipient. For example. if the objective of the service is to provide affordable housing, then the outcome objective is to maximise the numbers of those requiring assistance who are successful in finding long-term housing solutions.

The service logic diagram also defines service efficiency and effectiveness.

Efficiency is measured by establishing the relationship between the quantum of outputs produced and the cost of inputs. This 'technical efficiency' is typically measured as the cost per unit output.

The *Guide to the Queensland Government Performance Management Framework* describes efficiency measures as how departments use resources to produce outputs, often expressed as a ratio of resources to outputs. However, we used the same definition of a technical efficiency measure as we did in the original audit.

Effectiveness is the degree of correlation between, or the extent of divergence from, the service objective, its expected cost, and the actual outcomes achieved. Departments typically measure service effectiveness as the effect on the service recipient. They measure service cost-effectiveness by relating the cost of the service to the economic and other benefits realised.

2. Recommendation one — service logic approach

Chapter in brief

In our original audit report, we recommended that all departments group services only where they contribute to common objectives and outcomes. We recommended that they do this using a service logic approach, which requires them to examine how they transform inputs and outputs into outcomes in order to achieve their desired service area objectives.

A service logic approach allows users of the Service Delivery Statements (SDS) and annual reports to make better sense of how departments expect individual services (either singly or collectively) to deliver on the government's priorities.

Main findings

Departments applying a service logic approach have shifted from an inward organisational view based on activity and input to a services perspective focusing on the service users and outcomes of the organisation. This has helped to:

- create shared understanding of and focus on service areas, relating activities to intended outcomes

- align resources and budgets to objectives and outcomes to be achieved

- clarify the lines of accountability from government objectives through to department's service area objectives and service standards

- improve monitoring and reporting of performance by having a common framework to report against.

Audit conclusions

Progress made by some departments in applying a service logic approach to define their service areas has led to clearly defined expectations and target outcomes as well as more transparency, ownership, and accountability for performance. Those departments have also observed positive staff feedback through more focused teams and cultural improvement through common goals.

The departments that have made less progress in applying a service logic approach are not gaining the best value in terms of service planning, management, and reporting. These departments are less likely to know whether the investment in resources and activities is providing maximum value and delivering expected outcomes and benefits.

Introduction

Our original audit found that agencies grouped some services in the 2013–14 Service Delivery Statements (SDS) into service areas using organisational structures, rather than by logically combining interrelated services. The lack of a service logic approach in these cases made it unclear how each of the disparate services contributed to the single service area objective or outcome. This made it difficult to assess service performance.

In addition, not all the service standards in the 2013–14 SDS were relevant to the stated service area objective. This mismatch blurred accountability for performance, as it placed responsibility for achieving outcomes at the wrong organisational level.

A service logic model is a versatile tool that can support management activities such as:

- program planning — a service logic model structure helps clarify where an organisation is and where it wants to be

- program management — 'connects the dots' between resources, activities and outcomes. This helps track and monitor operations to better manage results

- communication — shows stakeholders at a glance what a program is doing (activities) and what it is achieving (outcomes).

We recommended that all departments apply a service logic approach to define their service areas so they only group services where they contribute to common objectives and outcomes.

Figure 2A outlines the key components of a service logic model.

Figure 2A
Service logic model
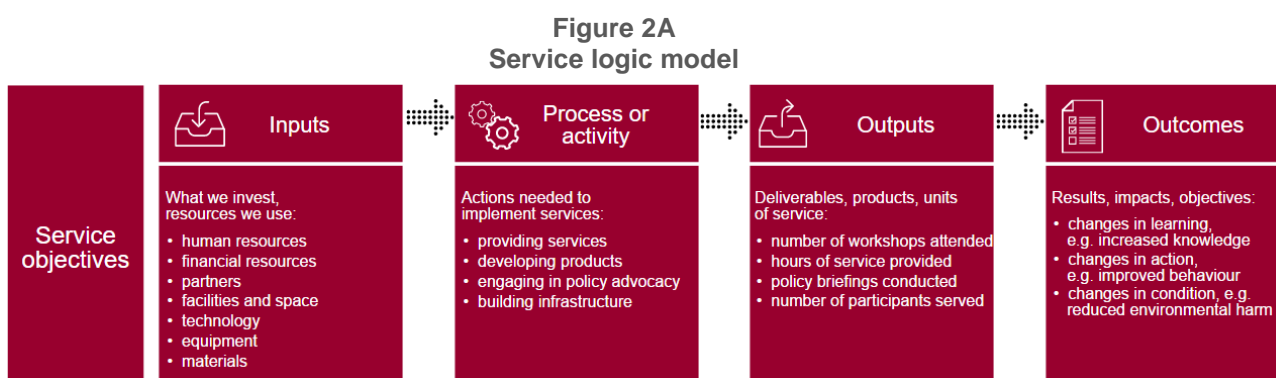
Source: Queensland Audit Office

Audit conclusions

While 17 out of 20 departments reported that they have fully implemented recommendation one, we found that only seven out of 20 departments could demonstrate that they had identified the required components of their service logic models and mapped the relationships between them.

Those departments that are well progressed with their service logic approach have reported that it has helped to clearly define expectations and target outcomes. Many departments reported that the engagement with staff and stakeholders when applying their service logic approach has also improved ownership and accountability for performance.

The departments that are less advanced in applying a service logic approach are not getting the best value out of service planning, management, and reporting.

Continued focus is required to fully embed a service logic approach in all departments.

Service logic approach

We asked departments to describe the process they followed in applying a service logic approach. We also asked them about:

- perceived value to the organisation in using a service logic approach

- any challenges or impediments in applying a service logic approach.

This section summarises the departments' responses regarding the service logic approaches that they used.

Seventeen of the 20 departments assessed themselves as having fully implemented recommendation one from *Monitoring and reporting performance* (Report 18: 2013–14). Three departments responded that they had partially implemented our recommendation.

Departments used different approaches to develop their service logic models. While there were challenges in developing the models, all departments reported that their efforts generated value.

We are encouraged by the variety of activities that departments reported to us including:

- broad consultation with key stakeholders, management, and staff on services, service objectives, and their proposed service logic models

- regular and on-going review of service areas and material services (services that consume the most funds) to ensure they are clearly defined and align with objectives and priorities

- identification of service inputs, activities, outputs, and outcomes and mapping of their relationships.

Fourteen of the 20 departments reported that they engaged with staff and stakeholders when applying a service logic approach. Departments held a range of interviews, workshops, and discussions to iteratively develop service areas and services using the service logic approach. They reported to us that it helped them to create shared understanding of, and focus on service areas, relating activities to intended outcomes.

Seven departments provided evidence that they had identified the required components of their service logic models — inputs, processes, outputs, and outcomes mapped to their service objectives — and that they had mapped the relationships between them.

We found that the other thirteen departments generally lacked documentation supporting their analysis of service components, the results of consultation with key stakeholders, and their decisions relating to the development and review of their service areas and services.

Organisational value

Twelve of the 20 departments commented on the benefits and value to their organisation in applying a service logic approach. They reported that they have been better able to align their resources and budget to the outcomes to be achieved. This has clarified the lines of accountability from government policy objectives through to department's service objectives and services. These departments reported that they have shifted from an inward organisational view based on activity and input to realigning services to focus on the customer and outcomes of the organisation.

The Queensland Performance Management Framework (PMF) requires departments to undertake annual reviews of their SDS service areas, services, and standards. All but two departments reported that they had reviewed their service areas and material services to ensure they align with government and organisational objectives and priorities.

Challenges

Despite progress made in applying a service logic approach, many departments still face challenges in embedding the model in their organisation. Eleven of the 20 departments provided specific comments on challenges in applying a service logic approach to manage, measure, and report on performance.

Three departments reported that changes to structure, leadership, or legislation required review and re-alignment of services and service areas. This delayed the application of a service logic approach.

Other comments related to difficulties in developing measures rather than in defining the service areas. These challenges included:

- collecting valid and reliable financial and outcomes data

- measuring the delivery of non-front line services, for example policy advisory services

- developing relevant efficiency measures, often due to a lack of useful costing information because of system limitations

- interpreting technical efficiency, as adapted from the Report on Government Services (ROGS) reporting. Measuring the cost per output is considered more difficult and less flexible than measuring how departments use their capabilities (resources) to produce outputs (services).

Some departments expressed the need for further guidance on methodologies to apply a service logic approach — or for good examples to follow. The Department of the Premier and Cabinet (DPC) plans to address this by including information on service logic models in guidance material it will publish in the first quarter of 2017.

Service logic model case studies

Ten departments made notable changes to their service areas as a result of applying a service logic approach to manage, measure, and report on performance. In the following pages, we have included examples to illustrate the process followed by two of these departments.

The Department of Science, Information Technology and Innovation (DSITI) revised its service areas and moved from an inward organisational view to a focus on outcomes for its service users. Figure 2B summarises the process they followed and the benefits gained.

Figure 2B
Case study — DSITI service logic approach

DSITI service logic approach	
DSITI revised its service areas for its 2016–17 SDS. It redefined service areas into three key areas that focus on its customers. This represents a significant shift from DSITI's previous approach, which was an inward organisational view based on activity and input.	

Approach	DSITI held a range of interviews and workshops with senior and executive management to: ▪ discuss possible service areas ▪ iteratively challenge and validate thinking of services to meet its objectives. They used prior work from the strategic planning process — particularly who its customers are and what they need. DSITI started with a clear understanding of its desired outcomes and mapped backwards to define service outputs, activities, and resources. This mapping process ensured the service logic approach could be practically applied in DSITI's current organisational context and environment.
Key drivers	▪ Executive management drove the process. ▪ The customer-centric focus helped build consensus.
Benefits	▪ Services linked better to DSITI customers and planned organisational outcomes. ▪ Clearly defined linkages between planning and reporting. ▪ Positive staff feedback — it encouraged greater collaboration — and staff thought differently about what they do and why they do it.
Efficiency and effectiveness	DSITI reviewed the SDS measures based on its revised service areas and improved outcome focus. DSITI now has at least one measure of effectiveness for each service area, whereas in 2013–14 it had none. One service area also has at least one measure of efficiency with further work underway. The other service areas currently have measures that, while not technical efficiency measures, meet the requirements of the Performance Management Framework.

Source: Queensland Audit Office

In 2013–14, the Department of Agriculture and Fisheries (DAF) reviewed and revised its service areas to better reflect and align service objectives with the major intent of the services delivered. DAF removed Forestry from the Agriculture service area and aligned it with Fisheries in recognition of common objectives of sustainable management and use of community-owned resources. Agri-Science Queensland was incorporated into Agriculture due to the similarity of objectives, complementary activities, and common customers.

Figure 2C illustrates how DAF initially used service profiles to better define key services and activities, and its approach to developing the investment and impact framework.

Figure 2C
Case study — DAF service logic approach

DAF service logic approach to develop an investment and impact framework

Service profiles

DAF initially developed a listing of service profiles to describe the purpose of each service, its inputs, activities and outputs. DAF is now developing an investment and impact framework, using a service logic approach, to demonstrate the value of its work and drive continuous improvement of performance. It is based on CSIRO's approach to impact modelling and builds on the work done in 2013–14, where DAF developed service profiles for each of ten defined services, addressing:

- why the service is necessary — statement of intent
- major activities undertaken
- outputs produced
- inputs required to produce the outputs
- the benefits the service provides to the customer or service user.

Developing service profiles was an iterative process which involved exploring each aspect with both a current and future lens. Service profiles clarified synergies and identified complementary objectives and activities of the different services. DAF also undertook financial modelling of the ten services.

Investment and impact framework

Approach	DAF's goal is to develop a complete picture of investment across the department to answer these questions: ▪ what is the impact of our work? ▪ is it value for money? The aim of the project is to: ▪ develop a DAF impact map — a visual tool outlining DAF's value proposition for Queenslanders ▪ capture a picture of investment across DAF ▪ develop additional DAF performance measures ▪ undertake a strategic program of evaluation. The impact map is based on service logic modelling and will provide: ▪ an overview of where DAF is headed — a powerful tool for advocacy ▪ a framework for whole-of-DAF business planning, and the basis for continuously improving performance and prioritising the use of resources ▪ a basis for evaluation — 'We said we were going to do this. Where did we get to?' ▪ an improved capability to link strategy and operational performance — a medium term aspiration for DAF.
Key drivers	▪ To develop a complete picture of investment across the department. ▪ Business group autonomy and empowerment. ▪ Leverage existing systems and planning processes in DAF (no duplication). ▪ Senior leaders driving change.
Benefits	▪ Clearly defined expectations and target outcomes. ▪ Better transparency, ownership, and accountability for performance. ▪ A point of reference for managers and staff to inform decision-making and prioritise resources. ▪ A means for engendering team spirit and cultural improvement — common goals and shared success.
Efficiency and effectiveness	DAF improved the definition of its strategic objectives to enable clearer identification of effectiveness and efficiency of the service area. It revised service standards with a particular focus on efficiency measures. DAF is one of the few departments that have at least one measure of technical efficiency for all service areas.

Source: Queensland Audit Office

A key success factor for both departments was the role of senior leaders in driving change. Both also applied a customer-centric approach, clearly defining expectations and target outcomes. The high level of staff engagement had the added benefit of promoting collaboration and a shared responsibility, often cutting across organisational silos.

3. Recommendation two — performance management guidance

Chapter in brief

Our original audit found that many departments had not implemented the Performance Management Framework (PMF) well. We attributed this to a lack of the leadership, knowledge, skills, and systems required to support a strong performance management culture.

We recommended that Queensland Treasury (QT) and the Department of the Premier and Cabinet (DPC) update their mandatory guidance to place further requirements on departments when reporting on material services and whole-of-government objectives.

Main findings

- Central agencies (QT and DPC) have updated the mandatory guidance for the 2016–17 Service Delivery Statements (SDS) to ensure departments have at least one efficiency measure and at least one effectiveness measure for each material service. However, they do not specify that each material service has a separate line item budget, which means that the services reported may not be the most material or highest cost services.

- Nineteen of the 65 service areas in the 2016–17 SDS have at least one standard of efficiency and one standard of effectiveness. This represents $20.8 billion of public expenditure, or 48 per cent of the total 2016–17 expenditure of $43.4 billion.

- Central agencies have made little progress on how to report service standards relevant to whole-of-government objectives and outcomes.

Audit conclusions

Central agencies have not finalised the performance management framework guidance for departments. This has reduced the opportunity to strengthen departments' analysis and improvement of service delivery and the performance culture within the Queensland public sector. While public reporting of efficiency and effectiveness has somewhat improved, performance reporting on over half of public expenditure remains inadequate. There continues to be poor acquittal of public spend by departments to the public and a lack of information on how efficient and effective departments are achieving government objectives.

While DPC has discouraged departments from including measures more relevant to whole-of-government objectives and outcomes in the SDS, there has been little progress in this area. DPC has not resolved how to effectively report on higher level whole-of-government priorities and outcomes. There is a lack of cohesive sector-wide reporting for the public on the achievement of outcomes for the community.

Introduction

Our original audit found that many departments had not implemented the Performance Management Framework (PMF) well. By not implementing the PMF fully, departments were missing the opportunity to analyse and improve the government services they deliver.

We found that the service standards reported by the majority of departments fell well short of being direct measures of the efficiency or the effectiveness of the services they deliver. The PMF required each service area to report at least one efficiency and one effectiveness standard. Departments commonly interpreted this in practice as a requirement to report only one standard in total.

Services that contribute logically to a single outcome can use two measures, one of efficiency and one of effectiveness to demonstrate performance. When services areas comprise multiple disparate services, each individual service needs its own measures of both efficiency and effectiveness. We found that where departments only reported one standard, that standard tended not to cover all services that comprised the service area and often did not cover the most material, or highest cost services.

This lack of appropriate efficiency and effective measures hampers effective decision-making, weakens accountability, and makes it harder to know whether agencies are achieving intended or desired outcomes.

We also found that across all departments, 28 (9 per cent) of the service standards were for whole-of-government outcomes, not service-level outcomes. Such whole-of-government service standards are relevant to higher level, whole-of-government priorities and typically require multiple agencies to work together. They are less relevant to specific departments, service areas, or services within the Service Delivery Statements (SDS).

We recommended that Queensland Treasury (QT) and the Department of the Premier and Cabinet (DPC) update their mandatory guidance to require:

- service standards that relate to whole-of-government objectives and outcomes to be reported at the ministerial portfolio or departmental level, not at the service standard level

- where a service area comprises multiple services, that each material service has a separate line item budget and at least one efficiency service standard and one effectiveness service standard.

Audit conclusions

The central agencies (QT and DPC) have partially implemented our recommendation. Two years after we tabled our original audit, they have not fully updated the guidance to departments. This has reduced the opportunity to strengthen the implementation of the PMF in departments.

While public reporting of efficiency and effectiveness has improved, performance reporting on over half of public expenditure is still inadequate. There continues to be poor acquittal of public spend by departments to the public and a lack of information on how efficient and effective departments are at achieving government objectives.

There has been little progress on the reporting of service standards more relevant to higher level, whole-of-government objectives and outcomes. Departments are still including measures more relevant to whole-of-government objectives and outcomes in their individual SDS. There remains a performance reporting weakness in that there is no coordinated, clear, and regular public reporting of whole-of-government outcome indicators.

Performance Management Framework

DPC updated *A Guide to the Queensland Government Performance Management Framework* in May 2015. It included references to findings in *Monitoring and reporting performance* (Report 18: 2013–14). These updates require agencies to ensure that each service area has at least one measure of efficiency and one measure of effectiveness. However, DPC does not specify that where a service area comprises multiple services, that each material service has a separate line item budget and at least one efficiency service measure and one effectiveness service measure.

As part of the annual review of the 2016–17 SDS, DPC provided all departments with *Review of Performance Information for the 2016–17 State Budget*. This guidance does state that where a service area comprises multiple services, departments should identify each material service and have at least one efficiency measure and at least one effectiveness measure. However, it does not specify that each material service report a separate line item budget. This limits readers' understanding of whether departments are reporting service standards that cover the areas of the budget that get significant funding.

PMF policy and guidance

DPC recently developed a draft PMF policy and is developing a suite of guidance materials to support it. When finalised and published, DPC will have satisfied a key recommendation made in *Monitoring and reporting performance* (Report 18: 2013–14).

We largely support the direction and intent contained in the draft PMF policy. It covers the main legislative obligations for agencies in relation to planning, measuring, and monitoring results and public reporting. It specifies that agencies need to report on performance in a number of ways, with a key mandatory requirement being the preparation of annual reports. The draft PMF policy specifies that each material service has at least one efficiency measure and at least one effectiveness measure, and where practicable, each material service has a separate line item budget.

The current *Guide to the Queensland Government Performance Management Framework* (May 2015) contains useful additional guidance for government agencies in implementing a PMF. DPC advised that it will use this material in a number of supporting guidance documents to the new PMF policy. DPC will publish the proposed PMF policy and supporting guidance material in the first quarter of 2017.

The existing *Guide to the Queensland Government Performance Management Framework* will remain in force until that time.

Service area efficiency and effectiveness

To determine whether departments have implemented the updated mandatory guidance we assessed whether the public reporting of efficiency and effectiveness has improved.

Our original audit found that, in the 2013–14 budget papers, only eight of 71 service areas, representing $10.8 billion of public expenditure, reported publicly at least one standard of efficiency and one standard of effectiveness. The lack of a balanced suite of efficiency and effectiveness standards for 72 per cent of the budget made it difficult for parliament to hold departments fully to account. In particular, we found departments were not able to demonstrate their efficiency.

In this report, we examined the 2016–17 SDS for all departments to assess whether there has been an improvement in how agencies report on whether they are delivering services efficiently and effectively.

While there were 71 service areas totalling $38.4 billion in 2013–14, in the 2016–17 SDS, there are 65 service areas across the 20 departments, totalling $43.4 billion of public expenditure.

Measures of efficiency and effectiveness

Our recommendation in *Monitoring and reporting performance* (Report 18: 2013–14) was that each 'material service' has a separate line item budget and at least one measure of efficiency and one measure of effectiveness.

However, in this report we assess whether there is at least one measure of efficiency and one measure of effectiveness for each service area regardless of materiality:

- because the SDS does not include a separate line item budget for each material service

- because the majority of departments cannot provide the line item budget for each material service.

These shortcomings do enable us, however, to provide a comparison to the results in our original audit.

Nineteen of the 65 service areas in the 2016–17 SDS have at least one standard of efficiency and one standard of effectiveness. This represents $20.8 billion of public expenditure, or 48 per cent. This is a notable improvement from 2013–14 where only 28 per cent of public expenditure had associated standards of efficiency and effectiveness. However, reporting on the efficiency and effectiveness of over half the public expenditure is still inadequate.

Figure 3A shows the number and budget value of service areas that have both, either, or no standards of efficiency and effectiveness.

Figure 3A
Service area efficiency and effectiveness measures

	2016–17 SDS			2013–14 SDS		
	Service areas	Expenditure $ billion	%	Service areas	Expenditure $ billion	%
Efficiency & effectiveness	19	20.8	48.0	8	10.8	28.1
Efficiency only	4	0.8	1.8	2	7.1	18.5
Effectiveness only	31	17.2	39.6	23	14.2	37.0
Neither efficiency nor effectiveness	11	4.6	10.6	38	6.3	16.4
	65	**43.4**		**71**	**38.4**	

Source: Queensland Audit Office

While 46 service areas still do not have both a standard of efficiency and a standard of effectiveness, we found that 18 of the 20 departments have improved at least one service area. In total, 35 of the 65 service areas have improved since our original audit.

Comparison with departments' assessment of measures

Departments determine what they report as efficiency and effectiveness measures in their SDS. In our original audit, we determined that many reported measures did not meet the definition of an efficiency or effectiveness measure and were in fact standards of quantity, time, cost, or quality.

In this follow-up, we updated our assessment of whether each service area has at least one measure of efficiency and one measure of effectiveness with what each department reported in their 2016–17 SDS.

We found that:

- in 15 of the 65 service areas, departments reported measures of effectiveness that we considered did not meet the definition of effectiveness

- in 25 of the 65 service areas, departments reported measures of efficiency that we considered did not meet the definition of technical efficiency.

The main reasons are that departments continue to use standards that:

- measure output performance of quantity, time, cost, or quality as a substitute for measuring the effectiveness or efficiency of the service outcome

- measure stakeholder satisfaction as a proxy for service effectiveness. We note that the number of departments using stakeholder satisfaction has decreased since our original audit. In 2013–14, just over half (53 per cent) of the output-based quality metrics were standards of client satisfaction. In 2016–17, this had reduced to 35 per cent. We also observed that where departments used stakeholder satisfaction as a standard some still do not measure all service dimensions such as timeliness, responsiveness, accuracy, completeness, and accessibility of services. This further limits the usefulness of stakeholder satisfaction as a proxy for service effectiveness

- generally lack measures of technical efficiency, which focus on cost per unit output and better reflect all inputs required to produce outputs.

We used the same definition of an efficiency measure as we did in the original audit. It is based on the national approach to reporting performance information adopted by the Council of Australian Governments in the annual Report on Government Services (ROGS). 'Technical efficiency' is typically measured as the cost per unit output.

Figure 3B shows two measures that meet the definition of efficiency under the PMF and how they could be changed to become technical efficiency measures.

Figure 3B
Comparing 'PMF efficiency' to 'technical efficiency' measures

PMF efficiency measure	Limitation	Technical efficiency measure
Cost of service per person in Queensland.	This is an output cost measure and a proxy for cost effectiveness. Cost per head of population is a weak proxy of technical efficiency as population numbers may correlate to total costs but they do not drive service unit costs. Not all Queenslanders are users of the service. A change in population would change the cost per person and provide no information about the actual cost of delivering the service.	Cost of service per person who received a service.
Operational costs as a percentage of total budget, revenue or funding.	Does not report on the cost of delivering the output. Changes in total budget, revenue or funding would increase or decrease the percentage without any real improvements in efficiency.	Cost per inspection/output/program

Source: Queensland Audit Office

Departments generally expressed their efficiency measures *as defined in A Guide to the Queensland Government Performance Management Framework.* The guide describes efficiency measures as 'how departments use resources to produce outputs, often expressed as a ratio of resources to outputs'. For this reason, we anticipated that our assessment in some service areas may differ from a department's view on what is a standard of efficiency. Fourteen service areas have measures that, while not technical efficiency measures, meet the requirements of the PMF.

We found examples of good technical efficiency measures across 22 service areas as shown in Figure 3C. These are all direct measures of efficiency as they measure the cost per unit output.

Figure 3C
Examples of good technical efficiency measures

Department	Service area	Efficiency measure
DPC	Policy Advice and Coordination	Total cost per hour of policy advice and development output
		Average cost of support provided to coordinate Community Cabinet Meetings
DJAG	Custodial	Cost of containment per prisoner per day
	Probation and Parole	Cost of supervision per offender per day
DTMR	Transport Safety and Regulation	Cost of rail regulation per 100 kilometres of rail infrastructure
	Customer Experience	Average cost per customer enquiry — Translink Contact Centre
DAF	Fisheries and Forestry	Average cost of inspection
DET	School Education	Average cost of service per student
	Training and Skills	Average cost per competency successfully completed
DEHP	Environmental Protection Services	Average cost per environmental complaint resolution
		Average cost per permit/licence assessed

Source: Queensland Audit Office extracted from 2016–17 SDS, DPC — Department of the Premier and Cabinet; DJAG — Department of Justice and Attorney-General; DTMR — Department of Transport and Main Roads; DAF — Department of Agriculture and Fisheries; DET — Department of Education; DEHP — Department of Environment and Heritage Protection.

Material services

Services that contribute logically to a single outcome can use a single standard of efficiency and one of effectiveness to demonstrate performance. When service areas comprise multiple disparate services, each individual material service needs its own standard of efficiency and of effectiveness. Material services are those services that consume the most funds allocated to the service area.

In our original audit, we found that where a department only reported one standard, it tended to cover the performance of one service and not cover all services that made up the service area. In 2013–14, there were 33 service areas (46 per cent) that did not report on the material services within service areas or on significant aspects of their objectives.

Of the 65 service areas in the 2016–17 SDS, 24 (37 per cent) are broken down into material services.

For example, QT has five service areas: fiscal, economic, commercial services, revenue management, and industrial relations. Industrial relations has a total budget of $141.4 million and is broken down into the six material services of:

▪ work health and safety services ($63.1 million)

▪ workers' compensation services ($42.2 million)

▪ electrical safety services ($19.1 million)

▪ administration of the industrial court and commission system ($8.6 million)

▪ industrial relations policy and regulation ($6.2 million)

▪ public sector industrial relations ($2.2 million).

Only three departments have material services for all their service areas. While some departments consider service areas to be comprised of stand-alone services, others have yet to review service areas to consider potential material services.

As noted, the 2016–17 SDS guidelines do not require agencies to report a separate line item budget for each material service. However, we asked all departments to provide the line item budget for each material service listed under each service area in the 2016–17 SDS. Six of the 20 departments were able to provide this information. Departments gave various reasons for not providing the information:

▪ half of the departments stated that budget reporting at a material service level is not required by QT and they will continue to report in line with the guidelines

▪ four departments have service areas that are comprised of just one material service — usually consistent with national reporting requirements

▪ one department cannot reliably and accurately track costs across the service areas.

Departments' finance systems do not allow them to readily break down the costs of the individual material services. Often this is due to departments allocating costs against functional structures rather than services. This leads to difficulties in determining the individual contribution of shared resources (particularly staff) that the department uses for more than one material service.

Where a service area consists of multiple services or functions, it is important to have at least one efficiency and one effectiveness measure for each material service. This ensures that the standards reported are representative of the services that contribute most to the objective and fairly represent the performance of the service area.

Whole-of-government reporting

Whole-of-government objectives and outcomes involve multiple entities providing a service or a combination of services that collectively contribute to a higher order outcome. These outcomes can generally not be simply attributed to the actions of one entity.

Our original audit found 28 service standards across seven departments that were more relevant to higher level, whole-of-government objectives and outcomes. Many of these are outside the direct control of a department. This makes the service standards difficult for departments to significantly and directly influence and reduce their value for accountability purposes.

As part of its annual review of the SDS, DPC discouraged departments from including standards more relevant to whole-of-government objectives and outcomes. However, there has been little progress in this area, with 25 of the 28 original service standards still included in the 2016–17 SDS. In addition, the Department of Environment and Heritage Protection developed a new measure on improving Great Barrier Reef water quality, also more relevant to a whole-of-government objective.

At face value, it appears that there isn't a clear strategy or alignment of activities around reporting performance in whole-of-government public reporting.

For example, Section 12 of the *Queensland Plan Act 2014* requires the premier to prepare a report for each financial year on the progress made, during the financial year, to implement the Queensland Plan. While this requirement has been met, the *Queensland Plan Annual Progress Report 2014–15* does not include any performance against targets or measures. Instead, it highlights a range of activities undertaken by Queensland Government (state and local), industry, community groups, and not-for-profit organisations.

International examples

An increasing number of international jurisdictions provide regular online progress updates on government priorities for public consumption. They publish data in an accessible and usable form — performance data that is well signposted and easy to find, understand and work with.

These public accountability tools have a statement of priorities at the core of the public sector system and report to the public on the achievement of outcomes. Two examples are *Scotland Performs* and New Zealand's *Better Public Services: Results for New Zealanders*.

They provide high level assurance for citizens that the government is focused on, and making a difference to, the issues that are important to them. A public sector-wide report consolidates reporting of individual department results, rather than providing information in a multitude of ways and publications.

Whole of government reporting can:

- focus on a small set of results important for citizens

- share information across agency boundaries

- increase transparency.

Scotland Performs

Scotland Performs measures and reports on Scotland's progress against a wide range of indicators set out in its National Performance Framework (NPF). Figure 3D provides an overview of *Scotland Performs* and of *Performance at a Glance* — their online government report on progress towards economic and social goals.

Figure 3D
Reporting results: Scotland Performs

Scotland Performs		
Citizens can judge for themselves how Scotland is progressing by going to *Performance at a Glance* — a web page that uses arrows to indicate if performance is improving, worsening, or being maintained. The indicators provide a broad measure of national and societal wellbeing, incorporating a range of economic, social, and environmental indicators and targets. Assessments of progress are regularly updated from the latest evidence, and notes explain progress.		
NPF measurement set		Example
7 purpose targets	Purpose targets are high level targets that show progress towards the government's purpose.	*Economic growth*
16 national objectives	National outcomes describe what the Scottish Government wants to achieve and the kind of Scotland they want to see.	*The most attractive place for doing business in Europe*
55 national indicators	National indicators track progress towards the purpose and national outcomes.	*Increase the business start-up rate*

Source: Queensland Audit Office extracted from Scotland Performs

New Zealand — Better Public Services: Results for New Zealanders

In 2012, New Zealand began implementing its *Better Public Services* approach. Delivering results requires groups of agencies and sectors to work together in different ways from how they currently operate, as well as publicly report on their progress towards achieving goals.

Figure 3E outlines the *Better Public Services* approach.

Figure 3E
Better Public Services

New Zealand Better Public Services
This approach involved identifying 10 priority areas, setting measurable targets, and then appointing agencies to work together. Targets were publicly announced and a minister and CEO were named to lead and be responsible for each result area.
The government set 10 challenging results and targets to achieve over five years, across five result areas: ▪ reducing welfare dependence ▪ supporting vulnerable children ▪ boosting skills and employment ▪ reducing crime ▪ improving interaction with government.
The progress snapshot — available on the *Better Public Services* website — shows performance over the last five years against set targets. The easy-to-read dashboard indicates whether performance is: ▪ on track ▪ on track, but with changes not yet embedded ▪ progressing, but with issues to resolve ▪ in need of urgent attention.
Case studies highlight the work in delivering on the 10 priority areas. They: ▪ recognise and celebrate projects that demonstrate public sector success and innovative approaches to delivering better public services ▪ spotlight innovative and responsive initiatives where agencies have worked together.

Source: Queensland Audit Office extracted from Better Public Services

Getting better outcomes for the public — within appropriate legal and constitutional settings — is the highest calling for government. Both the Scottish and New Zealand examples are designed to actively focus on and deliver better results to their citizens, particularly on complex, long-term issues that cross agency boundaries.

They both demonstrate success where sectors mobilise around specified results, deliberately tackling complex issues, or matters that might fall between the responsibilities and accountabilities of individual agencies.

Key themes from these examples include:

▪ identifying a small number of critical, measurable results that reflect government priorities

▪ appointing chief executives to lead sectors in delivering these results

▪ producing results-orientated action plans, to set out how priority results will be delivered

▪ formal and regular public reporting on progress against action plans.

4. Recommendation three — performance statements

Chapter in brief

While our recommendation in our original audit that departments be required to publish an audited performance statement in their annual reports was not accepted, we asked all departments if they had plans to include an audited performance statement in future annual reports.

In the absence of an audited performance statement, we also asked departments to explain how they obtain assurance over published performance information in their Service Delivery Statements and annual reports, to ensure the information is complete, accurate, and fairly represents their performance.

Main findings

- All 20 departments confirmed they had no plans to publish an audited performance statement in future annual reports.

- Eight of the 20 departments commented that they would continue to report in line with the Department of the Premier and Cabinet (DPC) guidelines and requirements.

- One department includes an unaudited performance statement in its annual report and another department will investigate its inclusion in future annual reports, to provide increased transparency and relevance for their customers and service users.

- The key assurance mechanisms to obtain assurance over published performance information used by departments are:
  - annual review of performance information by Queensland Treasury and DPC
  - internal quality assurance processes over performance data
  - management oversight of performance information and reporting.

- We found in a number of performance audits that controls over performance data are weak or absent. This has led to inaccurate external reporting of performance information. In these cases, departmental internal controls are not providing sufficient assurance that the reported performance adequately reflects actual performance.

Audit conclusions

Although departments use a range of internal controls to ensure they publish reliable performance information, they are not always effective. Having performance statements audited may add incremental cost, however, departments should balance this cost against the importance of confidence in the accuracy and completeness of performance information reported to the public.

The release of the Australian Accounting Standards Board's Exposure Draft (ED) 270: *Reporting Service Performance Information* recognises the importance of reporting service performance by public sector entities. Departments that proactively improve performance measures will be better placed to meet the requirements of this standard if mandated.

Introduction

Publishing performance information is essential for accountability, transparency, driving continuous improvement in performance, and engendering trust and confidence in public sector service delivery.

Performance statements are included in annual reports by Commonwealth entities as required by Section 39 of the *Public Governance Performance and Accountability Act 2013* (PGPA Act). These statements report results achieved against intended targets, goals, and measures. The statements are designed to provide a consistent approach to reporting across all entities. They bring together relevant non-financial performance information into one place — much as the financial statements for an entity consolidate financial performance information in one place. The aims are to improve the readability of this information and to provide a clear line of sight between planned and actual performance.

The lack of corroborated performance statements in annual reports can reduce public confidence in the delivery of government services. Government can improve public trust in performance reports if independent auditors sign off on the non-financial performance information. This would show they were reporting relevant and appropriate information that fairly represented performance.

Central agencies did not support our recommendation that departments be required to publish an audited performance statement in their annual reports to complement their audited financial statements. They considered that implementing an audited performance statement process would be costly and complex.

However, departments are able to go further than minimum requirements. We asked all departments if they had plans to include an audited performance statement in future annual reports. In the absence of an audited performance statement, we asked departments to explain how they obtain assurance over published performance information in their Service Delivery Statements (SDS) and annual reports, to ensure the information is complete, accurate, and fairly represents their performance.

Audit conclusions

Although departments use a range of internal controls to ensure they publish reliable performance information, they are not always effective.

We found in a number of performance audits that controls over non-financial performance data are weak or absent. They do not provide sufficient assurance that the reported performance adequately reflects actual performance. Departments should balance any incremental cost of having performance statements audited against the importance of confidence in the accuracy and completeness of publicly reported performance information.

A proposed Australian Accounting Standards Board standard on reporting service performance information would require departments to publish service performance information annually in a way that is useful for accountability and decision-making purposes. This includes the extent to which the entity has achieved its service performance objectives and should enable users of the report to assess the efficiency and effectiveness of the service performance. The lack of appropriate efficiency and effectiveness measures in some service areas means that not all departments are currently well placed to meet this requirement if it is mandated.

Performance statements

All 20 departments confirmed they had no plans to publish an audited performance statement in future annual reports. Eight of the 20 departments commented that they would continue to report in line with the Department of the Premier and Cabinet (DPC) guidelines and requirements. Given that audited performance statements are not a requirement, these departments do not intend to include them in future annual reports.

Since our original audit, one department — the Department of Health — has voluntarily included an unaudited performance statement in its annual report. Another department will investigate this recommendation for possible inclusion in future annual reports, to provide increased transparency and relevance for their customers.

Assurance over performance information

DPC and Queensland Treasury (QT) proposed in their responses to our original report, an alternative to an audited performance statement. They encouraged departments to consider:

- continued engagement and consultation with the central agencies (QT and DPC) as part of the continuous improvement in performance information

- using a department's internal audit function to audit or review their performance measures and reporting

- an independent review of performance measures.

We asked departments to explain how they obtain assurance over published performance information in their SDS and annual report and identified three other assurance mechanisms commonly used by departments:

- internal quality assurance processes over performance data

- management oversight of performance information and reporting

- a data dictionary for SDS service standards.

Figure 4A shows the number of departments who use each mechanism to obtain assurance over published performance information.

Figure 4A
Assurance mechanisms used by departments

Assurance mechanism	No. of departments
Engagement and consultation with central agencies	20
Internal audit review	5
Independent review of performance measures	4
Internal quality assurance processes over performance data	14
Management oversight of performance information and reporting	14
Data dictionary for SDS service standards	12

Source: Queensland Audit Office based on departments' responses

The central agencies work progressively with all departments to improve performance measurement and reporting as part of the established annual review process of performance information in the SDS.

Fourteen departments undertake internal quality assurance processes, which include:

- systems with inbuilt internal controls and checks and balances to ensure, to the extent practicable, the completeness and accuracy of data

- identifying a service standard/measure owner identified for each measure. These officers are responsible to their business group executives for ensuring the measures are collected, analysed, and reported in accordance with the data dictionary

- business area attestation to the CFO on the efficiency, effectiveness, and economy of financial controls.

Fourteen of the 20 departments specifically reported that they use management oversight as an assurance mechanism. In most cases, this involved the regular review of key performance indicators (including SDS measures) by committees and senior management.

Twelve of the 20 departments stated that they have data dictionaries for each measure to provide assurance of the measure's data and calculation methods. The dictionaries outline system and data sources, and the methodology the departments follow to ensure consistent calculation of results.

Four of the 20 departments use at least one assurance mechanism, while 12 of the 20 departments have two or three assurance mechanisms in place. The remaining four departments use four or five mechanisms to obtain assurance over published performance information in the department's SDS and annual report, to ensure the information is complete, accurate, and fairly represents agency performance.

Audit issues with performance data

In a number of performance audits, we identified issues with the accuracy of externally reported performance data. Absent or weak controls over non-financial performance data has led to inaccurate reporting of performance information — information that is not subject to independent scrutiny. Figure 4B provides examples where we have reported such issues.

Figure 4B
Reported issues with performance data

Report	Issues
Report 4: 2013–14 Follow-up — management of offenders subject to supervision in the community.	In our follow-up, we noted that more than one third of community corrections offenders returned to corrective services in 2012–13. This was based on data publicly reported in the Report on Government Services (ROGS). In a public briefing on the follow-up report by the Legal Affairs and Community Safety Committee in October 2015, the Department of Justice and Attorney-General stated that they had found an anomaly in the protocol used to pull the data that led them to revise the figures. At that stage they were unable to provide the source of data or current figures. The Queensland Audit Office (QAO) is following up with a more in-depth look into this issue in our current audit on the reliability and integration of criminal justice data.
Report 3: 2014–15 Emergency department performance reporting	We found controls over emergency department data were weak or absent. They did not provide sufficient assurance that the reported performance adequately reflects actual performance. The quality of the data reported relied primarily on the integrity and diligence of individuals — in both entering and validating data in a system without audit logs and which allowed a large degree of anonymity.
Report 1: 2016–17 Strategic procurement	The Department of Housing and Public Works published benefits figures in its 2013–14 annual report without properly validating them. QAO could only verify 46.9 per cent of reported cash savings with supporting evidence. It also incorrectly reported savings as 'cash savings', which would lead users of its report to mistakenly believe that the Procurement Transformation Division had improved the Queensland Government's cash position.

Source: Queensland Audit Office

These examples show weakness in the internal controls over performance information that some departments publish in their annual reports and other external reports. The current internal quality assurance mechanisms do not always provide sufficient assurance that they are reporting relevant and appropriate information that accurately represents performance.

Proposed standard on reporting service performance information

In August 2015, the Australian Accounting Standards Board (AASB) released Exposure Draft (ED) 270: *Reporting Service Performance Information*.

ED 270 proposes mandatory requirements for not-for-profit entities in both the private and public sectors for reporting service performance information.

This standard would require departments to report service performance information at least annually on:

- the entity's service performance objectives

- key outputs, including the inputs used to produce those outputs

- any outcomes the entity is seeking to influence

- the entity's efficiency and effectiveness in achieving its service performance objectives.

Comments closed on 29 April 2016. AASB proposed that this [draft] standard be applicable to annual reporting periods beginning on or after 1 July 2018, but entities can adopt it earlier.

Both DPC and QT are monitoring progress with ED 270 and have provided responses to the AASB. They are considering the draft, and any developments, to ensure the draft Performance Management Framework (PMF) Policy is consistent with the standard, if approved.

Our initial review of the draft PMF policy against the proposed principles and requirements of ED 270, found that the draft PMF policy:

- is consistent with ED 270, in that both documents require performance information to be reported against agency service objectives and both require measures of efficiency and effectiveness

- states the government is required to report regularly to the community about the outcomes achieved against its objectives — with departments required to provide input on their contribution to these achievements (when directed). This appears consistent with Item C of ED 270 (reporting performance information on any outcomes the entity is seeking to influence)

- does not specify that performance information be reported on key outputs, including the inputs to produce the outputs.

In the event of ED 270 being mandated, DPC has confirmed it will look at capturing the requirement for performance information to be reported on key outputs, including the inputs to produce the outputs, within the *Annual report requirements for Queensland Government agencies* document. In addition, all departments should monitor the outcome requirements of ED 270 and assess how well placed they are to meet the requirements if mandated.

Appendices

Appendix A — Full responses from agencies

As mandated in section 64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report with a request for comments to the Department of Premier and Cabinet and Queensland Treasury.

The head of these agencies are responsible for the accuracy, fairness and balance of their comments.

This appendix contains the Department of Premier and Cabinet's response.

Comments received from Director-General, Department of Premier and Cabinet

Queensland
Government

For reply please quote: *PU/NT – TF/16/13872 – DOC/16/160351*
Your reference: *9153P Mr John Hanwright*

Department of the
Premier and Cabinet

0 7 NOV 2016

Mr Anthony Close
Acting Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr Close

Thank you for your letter of 17 October 2016 in which you invite comment on a follow-up review of the implementation of *Report No. 18: 2013–14 Monitoring and reporting performance* (Report No. 18).

It is acknowledged that central agencies, the Department of the Premier and Cabinet (DPC) and Queensland Treasury, play a key role in setting financial and performance management policy, and providing implementation guidance and support to departments. It is for this reason that I approved a comprehensive review of the Queensland Government Performance Management Framework (the PMF) as a result of the findings identified in Report No. 18, specifically in response to Recommendation 2 of the report regarding mandatory guidance.

The PMF guidance material for the Service Delivery Statements (SDS) was updated by DPC, in consultation with the Queensland Audit Office, leading into the 2016–17 budget process. Further improvements to existing guidelines and the development of new supporting tools is currently being finalised to support departments' needs and compliance with the PMF and other legislative requirements.

I note this body of work is acknowledged and supported in your follow-up report.

In addition, the requirement for departments to include a line item budget for each material service in the SDS will be incorporated into a new PMF policy and will be implemented in the 2017–18 State Budget (SDS) by Queensland Treasury.

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Comments received from Director-General, Department of Premier and Cabinet

The follow-up report acknowledges progress made by departments in reporting more outcome, efficiency and effectiveness measures than it did in 2013–14 and in applying a service logic approach to define service areas. I note that, in 2016–17, 48 per cent of public expenditure had associated standards of efficiency and effectiveness, a notable improvement from 28 per cent in 2013–14.

I have been working with Directors-General of all departments to ensure that improvements are made to performance measures. These efforts will continue with the introduction of the new PMF policy and guidance material.

I note the follow-up report states that central agencies have not established a way for departments to report effectively on whole-of-Government objectives and, as a result, departments are still including these measures in their SDS and in a variety of other reports.

Whole-of-Government objectives and outcomes are currently reported in a variety of places. For example, a progress report on the implementation of Government election commitments has been published which demonstrates how Government has been delivering on these commitments and making progress in achieving the Government's objectives for the community. Other fit-for-purpose reports, such as the State of the Environment report, show progress towards specific whole-of-Government objectives and outcomes. Departmental annual reports also publically report on whole-of-Government objectives and outcomes.

Despite the ongoing work and recent improvements in monitoring and reporting of performance across government, I recognise that there is still potential to improve. We are committed to working with the Queensland Audit Office to monitor, review and improve the implementation of the PMF, to ensure we deliver on the Government's priorities in the most efficient and effective way.

Again, thank you for providing me with the opportunity to comment on the proposed follow-up report.

Yours sincerely

Dave Stewart
Director-General

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Appendix B — Audit objectives and methods

The Queensland Audit Office follow-up process provides accountability in identifying agency progress in implementing audit recommendations or undertaking suitable alternative actions.

The objective of the follow-up audit is to assess the status and effectiveness of the implementation of recommendations resulting from *Monitoring and reporting performance* (Report 18: 2013–14). The audit addressed the objective through the following sub-objectives and lines of inquiry.

Figure B1
Audit sub-objectives and lines of inquiry

	Sub-objectives		Lines of inquiry
1	The departments have actioned the recommendations.	1.1	The departments have implemented the recommendations in accordance with their response or have taken appropriate alternative actions.
		1.2	The departments have implemented the recommendations in a timely manner.
2	The departments have addressed the performance or systems issues that led to the recommendations.	2.1	The departments have addressed the issues that led to the recommendations.
		2.2	The departments' actions have resulted in performance or systems improvements.

Source: Queensland Audit Office

Entities subject to this audit

All state government departments were included in the scope of this audit.

Audit process

As part of the strategic audit planning process for 2016, we asked each department to self-assess its progress against the following criteria:

F — Recommendation fully implemented

P — Recommendation partially implemented

AA — Alternate action undertaken

NA — No substantial action taken.

We also asked each department to comment on how they have implemented each recommendation or comment on their planned future actions.

As part of this follow-up audit, we requested further information from departments to assess the effectiveness of their implementation actions. We asked each department to:

- describe the process followed in applying a service logic approach and provide any documents resulting from the process

- provide the budget value for each material service listed under each service area in the 2016–17 Service Delivery Statement

- comment on any challenges and/or impediments in applying a service logic approach, and perceived value to the organisation in using a service logic approach

- say whether they had plans to publish an audited performance statement in future annual reports

- explain how they obtain assurance over published performance information in the department's Service Delivery Statements and annual report, to ensure the information is complete, accurate, and fairly represents their performance.

We completed a desktop review of the questionnaires and supporting documents, and followed up with departments where we needed further assurance on their actions.

The review process included:

- ensuring the responses addressed the intent of the recommendation

- assessing improvements in monitoring and reporting arising from our recommendations

- reviewing documents for evidence to support department responses

- conducting interviews to clarify responses.

Appendix C — Service logic model

Creating a service logic model

We have provided guidance on how to create a service logic model.

The first step in creating a service logic model is analysing the service and identifying the long-term desired end result or outcome.

This can be done in two ways:

- If a department has a clear understanding of the long-term desired outcome, it can start at the end. It can work backwards and identify the chain of outcomes, outputs, activities, and resources that lead to the final outcome. The steps are to identify:

  - who is expected to achieve the expected outcomes
  - what activities must be provided, produced, or completed to achieve the desired outcomes
  - what resources are needed to accomplish the activities.

- Alternatively, if staff and stakeholders are more comfortable talking about what they do, the department can focus on activities. The activities approach to the service logic model connects program resources and activities to desired results.

Any team developing a service logic model could use the checklist in Figure C1 to review and refine the model.

Figure C1
Logic model review checklist

Model component	Review questions
Inputs	▪ Have you listed all the major resources? ▪ Do the resources seem comprehensive? ▪ Do the inputs match the service?
Activities	▪ Have you included all the major activities that make up the service area? ▪ Is it clear what the service area actually does? ▪ Do the activities seem sufficient?
Outputs	▪ Is each output measurable, tangible, and a direct product or result of the service activities? ▪ Do the outputs lead to desired outcomes, but are not themselves the expected changes? ▪ Does each output have activities and resources associated with it?
Outcomes	▪ Does each outcome represent the results or impacts that occur because of the activities and services? ▪ Are outcomes written as change statements? ▪ Are outcomes meaningful, relevant, realistic, and attainable?
Review	▪ Do the inputs, outputs, and outcomes link together in a sequence to achieve the desired result? Is the model logical? ▪ Are the steps (that turn inputs into outputs into outcomes) sensible and logical? ▪ Can the service be delivered with available resources? ▪ What might be unintended or negative outcomes?

Source: Queensland Audit Office

The first step is to identify all activities, and then repeatedly ask why they need to conduct these activities. A chain of connections is created that links the activities to the desired end results. Lastly, the department lists all the resources needed to ensure the chain of connections is achieved.

Developing a service logic model is an iterative process and can change over time. Often a service logic model is a work in progress that is refined as services develop or there is a change in organisational or service objectives.

Auditor-General Reports to Parliament

Reports tabled in 2016–17

Number	Title	Date tabled in Legislative Assembly
1.	Strategic procurement	September 2016
2.	Forecasting long-term sustainability of local government	October 2016

www.qao.qld.gov.au/reports-resources/parliament