



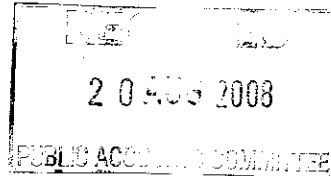
Queensland
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Treasury

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19 AUG 2008

Ms D Jeffrey
Research Director
Public Accounts Committee
Parliament House
BRISBANE QLD 4000



Dear Ms Jeffrey

In response to the invitation from the Public Accounts Committee dated 3 June 2008 to make a submission in regard to the inquiry into the evaluation of the effectiveness of the performance management systems audit mandate, please find attached Treasury Department's submission.

Treasury has framed the submission around the terms of reference provided by the Committee.

If you have any questions or require additional information regarding this submission, please contact Ms Sue Highland, Director, Financial Management Branch on (07) 3405 6064 or sue.highland@treasury.qld.gov.au.

Yours sincerely

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**Inquiry into an evaluation of the effectiveness of the
performance management systems (PMS) audit mandate in terms of
the Parliament's previously expressed position**

Background

In June 2005, Parliament conducted a Strategic Review of the Queensland Audit Office (QAO). Since this review, 12 PMS audits have been conducted on, among other things, output performance reporting, capital works, workforce planning and annual reporting.

Two of these audits (Audit Report Nos 3 and 5 for 2005) were the subject of a PAC inquiry investigating why the recommendations had not been adopted by departments.

As part of the review of the *Financial Administration and Audit Act 1977*, it is proposed that the provisions relating to the Queensland Auditor-General and his Office be removed to form a discreet piece of legislation so that the independence of this position and the Office is reinforced.

Terms of Reference

1A. What is the role of the PMS audit mandate?

The purpose of an audit of performance management systems is addressed clearly in s.80 of the *Financial Administration and Audit Act 1977*.

In summary, it provides that the Auditor-General may conduct an audit of performance management systems of a public sector entity as a separate audit or as part of another audit. This section states the object of the audit **includes** determining whether the systems enable the entity to assess whether its objectives are being achieved economically, efficiently and effectively. The audit may also include a review of the entity's performance measures to determine whether they "are relevant and otherwise appropriate, having regard to their purpose, and fairly represent the public sector entity's performance."

On this basis, the role of the PMS audit mandate is to provide Parliament with independent assurance that agencies have both financial and non-financial systems in place to record data necessary to report on agency performance and that the measures agencies have chosen to assess achievement of their stated objectives are relevant to the purpose.

1B. Does it fulfil its function in the overall accountability process for the Parliament?

This PMS audit process provides Parliament with an independent assessment of the quality of transparency and accountability being achieved in regard to public sector entity management.

The outcome of recent audits indicates the PMS audit is effective in achieving its objective as QAO is providing a valuable role in preventing complacency with regard to performance management. It is doing this by identifying specific improvements both in ways for agencies to strengthen their systems as well as for central agencies to improve guidance and support for agency management in discharging their stewardship function.

1C. What improvements has the mandate brought to the accountability systems?

The Treasurer stated on 16 July 2008 during the Estimates Committee Hearing for Treasury that Government would "continue to make sure we refine those measures in the Service Delivery Statements to ensure that we meet the challenge set us by the Auditor-General".

The Premier in a ministerial statement on 17 April 2008 regarding performance management noted that issues surrounding annual reports, performance management and the efficient exchange of information between government agencies had been identified. She identified that in response, a number of measures were being put in place including the creation of the Public Service Commission, an Expenditure Review Committee and the development of new annual report guidelines. The Premier stated that "my government will continue to explore new ways to improve performance management".

The key improvements achieved to date are evidenced by actions undertaken by public sector management following audit findings. Some examples are listed below:

- *Report to Parliament No. 6 for 2007 - Beyond Agency Risk*

It was recommended that DPC and Treasury develop "a robust and comprehensive whole-of-Government risk management framework that will outline requirements and provide clear guidelines to agencies".

The Strategic Risk Management Guidelines have since been completed by DPC and Treasury, circulated to accountable officers and published on-line.

Treasury and DPC are working collaboratively to address issues raised by the Auditor-General as requiring central agency support by way of guidance material. For instance, work on consolidating and updating documents relating to performance management and measurement practices for agencies is currently underway.

- *Report to Parliament No. 3 and 5 for 2005 and No. 4 for 2007 - Output Performance Reporting*

QAO recommendations from these audits included enhancing the linkages between internal reporting and MPS output performance reporting, ensuring the MPS clearly explains variances between targets and actual performance, ensuring performance information in the MPS and Annual Report are aligned, provide information to enable assessment of the measure and targets and performance of the output, and implementing data collection, processing and monitoring controls over output performance information.

Departmental management has legislative responsibility to manage their agency's performance. Agencies where PMS audits have been conducted have undertaken to implement specific responses to these recommendations, including:

- The then Department of Natural Resources and Mines is "currently developing and implementing new departmental Output Performance Management Framework thereby reshaping its Business Planning and Reporting processes".
- The Department of Transport "will endeavour to further increase linkages between details about the department's actual output performance and targets via tables or body text".

- The Director-General, Disability Services Queensland has "initiated a range of business improvements to improve performance and reporting. These improvements have included commencing a review of the Department's outputs and implementing a revised output performance measurement framework to enhance existing monitoring, management reporting and quality assurance processes".
- The then Department of Local Government, Planning, Sport and Recreation is "committed to implementing a number of the recommendations within the report. This includes enhancing and/or developing policies, procedures and processes, with respect to output measurement and reporting".
- The then Department of State Development, Trade and Innovation "will continue to strengthen the links between its business planning process and reportable performance measures with a view to generating a level of awareness that will enhance the accountability for performance measures and should also reinforce the importance of data quality, both in terms of targets set and achievements against these targets".

2. Is the concept of PMS auditing understood by both auditor and auditee?

While PMS audits may require more 'judgement' than traditional 'compliance' audits which are largely based on many years development of audit programs for financial system audits and audit knowledge of the internal control systems of agencies, the legislative provisions relating to the objective of PMS audits appear to provide a sound basis for a common understanding to be achieved.

3. Is the PMS audit mandate being used effectively by QAO?

Queensland Treasury supports the work undertaken to date by the QAO and believes the focus of external audit in reporting results of PMS audits to Parliament is placing greater emphasis by agencies on this important aspect of management responsibilities.

4. How does QAO assess if individual PMS audits have been effective?

This is a question for QAO to answer directly. However, Queensland Treasury would consider a PMS audit effective if it raised an issue for an agency that the agency had not already been aware of, that the agency conceded was a significant issue and the agency agreed to address.

In general terms, it is assumed that the PMS audit mandate is effective if it:

1. assists agencies to improve reliability and relevance of performance reporting thereby improving performance in terms of delivery of services and products; and
2. assists Parliament in better assessing the performance of public sector agencies in delivering services to the community.

5. How could the effectiveness of the PMS audit mandate be improved?

The QAO has focused on PMS audits per se only in the past few years. Given the complex nature of and associated difficulty of assessing public sector service delivery outcomes from performance measures, it is considered too early to properly assess the effectiveness of the current PMS audit mandate. Further research would need to be undertaken to determine the effectiveness of the outcomes achieved from the previous QAO PMS audits.