Beyond Compliance: Reporting and managing KPIs in the public sector

Report 3 – April 2012
BEYOND COMPLIANCE: REPORTING AND MANAGING KPIs IN THE PUBLIC SECTOR

This report has been prepared for submission to Parliament under the provisions of section 25 of the Auditor General Act 2006.

Performance audits are an integral part of the overall audit program. They seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities, and identify opportunities for improved performance.

The information provided through this approach will, I am sure, assist Parliament in better evaluating agency performance and enhance parliamentary decision-making to the benefit of all Western Australians.

GLEN CLARKE
ACTING AUDITOR GENERAL
19 April 2012
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Good performance information is an essential part of good management in public and private sector organisations. In the public sector it is a key element of the accountability and transparency that Parliament and the community expect. For nearly 20 years Western Australian agencies have provided compulsory effectiveness and efficiency Key Performance Indicators (KPIs) in their annual reports and we have been required to audit them. Our annual audits have provided focus and helped to improve the quality of information provided to Parliament and the public, and we felt it was timely to review the broader maturity of KPI reporting in the Western Australian public sector.

Given that agencies have been doing this for 20 years we had high expectations of their performance. We were pleased to find good performance in all areas and some agencies performing strongly across the board who had moved beyond compliance into mature performance reporting.

There were also areas where agencies commonly struggled. These included making their KPI reporting easily understood for non-specialist readers, setting well-based targets to measure against and making sure KPIs covered all areas of agency activity. Some of these challenges are partly a result of applying the same reporting framework to agencies that vary considerably in role, size and capacity. They also reflect that in the public sector goals and outcomes are often competing, hard to measure and difficult to communicate simply.

The current framework covers agencies with central policy and advice roles as well as those that directly deliver services. It covers 155 agencies ranging in size and capacity from those with 20,000 staff to those with one employee. It also covers agencies with complex and contradictory goals and outcomes such as those tasked with protecting and conserving natural resources as well as allowing access to them, or with regulating as well as encouraging industry.

These broader issues need to be borne in mind when considering both the good practice and challenges found in this report, and in ensuring that KPI reporting in Western Australia continues to develop and provide benefits for agencies, Parliament and the public.
Executive Summary

Background

Regular reporting of good performance information makes for strong public sector accountability. It tells Parliament and the public about the work agencies do. It should also help agencies make decisions and track how they are performing. In turn, this improves overall public sector performance.

There are many ways to measure and report on performance. In Western Australia (WA) there is a long-standing framework that requires agencies to use Key Performance Indicators (KPIs) to report on how well they meet outcomes and carry out their most important responsibilities.

For nearly two decades WA agencies have had to include audited KPIs in their annual reports. The Auditor General is required to annually provide an opinion on each agency’s KPIs. While agencies across Australia and other jurisdictions commonly report on their performance, the requirement for a formal opinion on KPIs is unique to WA.

Many benefits have come from annual audited KPIs. Chief among them is that agencies now routinely think about their performance and how to report it. This makes it easier for Parliament, the public and government to assess if agencies are meeting their most important outcomes. There is no single measure of savings to the State or better performance in particular agencies. However, it is clear that the decisions made by Parliament and agencies are better informed because of regular KPI reporting.

Reporting on KPIs can assist agencies at a practical level as well as helping government and the community assess performance. In particular, it can:

- help agencies to compare their activities with other jurisdictions over time
- improve agency planning, management and resource allocation
- help to identify best practice benchmarks
- increase agency effectiveness and efficiency
- inform government policy development and decision-making
- help members of Parliament and the general public decide whether government policies are effective and implemented efficiently
- assist members of Parliament and the general public assess agency and whole of government progress against agreed goals, outcomes and services.

In an organisation with a mature approach to managing performance, KPIs are the tip of the system. Beyond basic accountability and transparency, KPIs should support and reflect operational management. This can include having operational indicators and measures that come together to create KPIs. In turn, information from KPIs is used to help ongoing management decisions.

This performance audit took a different approach from our annual opinion work. Rather than report on individual agencies, it assessed how mature the KPI process was across a number of agencies. It also draws some broader conclusions about how the WA approach to KPIs is currently placed and asks what might need to be done to continue getting the best from the process.
This report identifies examples of good practice we found. It also highlights a number of challenges faced by the 10 agencies we audited. While the results are informative, and point to a number of issues all agencies should consider, they cannot be taken as representative of the public sector as a whole.

In a situation where agencies have been required to report KPIs since 1985, and they have been audited annually for at least 16 years, our expectations were high. We were looking to find whether the selected agencies had fully integrated the purpose of KPI reporting into their management. We tested for performance against six attributes of better practice. Appendix One presents these attributes as a set of checkpoints for managing KPIs.

Audit conclusion

There was a range of maturity in how agencies managed and reported their KPIs. All agencies performed strongly or better in some key areas and generally met the specific legislative and other requirements. Two agencies showed a high level of maturity in that they were strong or better in most of the areas we looked at.

The best performers had gone beyond simple compliance. Their annual reports had clear and easily understood KPI information, they had developed good processes that delivered what they needed, had designed appropriate indicators, and used KPIs to guide and inform management decisions. Better practice tended to occur where an agency’s core business could easily be linked to concrete outcomes.

We also found areas where agencies had difficulties in managing KPIs. The key challenges agencies faced were:

- making annual reporting about KPIs easily understood by non-specialist readers
- having a sound basis for setting targets against which performance will be measured
- ensuring that the suite of KPIs covered the most important parts of agency activity, and that they were the best way to measure performance
- documenting processes and guidance for managing and reporting KPIs.

Some of the difficulties agencies faced reflect the constraints that can arise from a ‘one-size-fits-all’ framework that includes compulsory outcomes-based KPIs. In some cases, agency core business or aspects of it made it hard to identify clear and measurable outcomes. This made it more difficult to develop good KPIs, and to use the information to manage operations. For others, their capacity to develop better practice was sometimes limited by their size or level of resources. There was also limited practical guidance for some parts of the KPI process. Addressing these constraints would help ensure that reporting KPIs continues to deliver benefits in public sector performance and accountability.
Key findings

- All agencies performed strongly or better in some key areas. They also generally met the specific legislative and other requirements. Two agencies had a high level of maturity and were strong or better in most of the areas we assessed. Table 1 shows the number of agencies assessed as better practice, strong or limited against each of the attributes.

- The ‘one-size-fits-all’ approach of the outcomes-based and compulsory KPI framework might no longer be the most effective way for all agencies to report on their performance. In trying to meet the framework and report on outcomes, some agencies have ended up with KPIs that on the surface seem irrelevant or unhelpful. Such cases run the risk of reducing confidence in the overall KPI system.

- There was little practical guidance available to agencies to assist them to establish or enhance their KPIs. There was also no forum available for agencies to share information and learning about KPIs.

- Annual KPI reporting generally complied with government requirements. However, agencies struggled to provide information that could be easily understood by non-specialist readers. This was a particular challenge for agencies reporting complex and technical information. This reduced the usefulness of annual reports for Parliament and the public.

- Some agencies integrated KPIs into general operations well. Most agencies had staff responsible for monitoring KPIs. However, half of the agencies could not demonstrate they had documented routine processes to use KPIs and supporting information to manage performance.

- All agencies had measurable KPIs specific to their functions. Agencies need to find a balance between reporting important broad indicators and those clearly under their control. Several agencies struggled to strike this balance.

- Most agencies need to improve the development, review and comprehensiveness of their KPIs. Good KPIs should be individually appropriate and work as a set to cover the key areas of agency activity.

- Data collection and internal reporting was generally sound. The KPIs for all agencies could be substantiated and all bar two agencies had effective controls in place for each stage of all workflow processes for KPIs. Agencies faced challenges in developing and administering surveys to generate KPI data, particularly in measuring direct outcomes of agency activities.

- Targets generally supported agency goals but many agencies had not documented the reasoning behind the targets they had set. This meant that agencies could not demonstrate why targets had been set at particular levels or whether they were based on research and independent standards or benchmarks.
### Executive Summary

#### Table 1: Overall performance against attributes

*All agencies were assessed as ‘strong’ or ‘better practice’ for some attributes. Two agencies were ‘strong’ or ‘better practice’ in most areas.*

#### Recommendations

**Government should:**

- consider if the current outcomes-based KPI approach should be reviewed to improve suitability for all agencies
- ensure agencies are provided with sufficient practical guidance and advice to assist them develop, report and improve their KPIs.

**Agencies should ensure that:**

- annual reporting includes all KPIs approved by the Under Treasurer and makes clear which information has been audited
- annual reporting of KPIs provides sufficient information in plain English to allow Parliament and the general public to readily understand agency performance
- KPIs provide comprehensive coverage of all their core business activities
- targets are based on sound and well documented reasoning.
Response from agencies

Department for Child Protection
The high level of public interest in the Department’s work in keeping children and young people safe from abuse and harm, in addition to providing a range of other support services to families and individuals, is acknowledged. The findings of this audit reflect the Department’s strong commitment to providing high quality performance reporting and will be used to consider improvements in 2012-13.

Department of Corrective Services
The Department of Corrective Services (DCS) welcomes the comprehensive review that the Office of the Auditor General has undertaken to confirm the department’s commitment to excellence in performance measurement and reporting.

The DCS was very pleased to find an independent authority recognising the maturity of this agency’s KPIs and performance reporting processes by the very favourable ratings it achieved in the majority of the main six attributes assessed by your review team.

The Department welcomes the audit recommendations and will take steps to address them. The review has been invaluable in identifying minor areas for refinement and affirming the continuous improvement processes that the agency has undertaken in this vital accountability and corporate governance area, particularly in the last few years.

Department of Fisheries
The Department of Fisheries is supportive of the findings and recommendations of the audit. The Department is of the view that these will provide a valuable resource for the Department in the preparation of its guidelines for the selection, presentation and periodic review of Key Performance Indicators.

Department of Local Government
The Department of Local Government has benefitted from its involvement in the Maturity of KPI and Performance Reporting audit. The report is a lucid summation of the public sector’s developed strengths in performance measurement and provides valuable advice to progress improvement.

The Department has actioned the appointment of a dedicated resource to focus on performance matters. The newly appointed Strategic Planning Manager will pursue the development of more comprehensive Key Performance Indicators for the Department to measure the outcomes of our business and contribute to the overall transparency of Government.

Department of Sport and Recreation
The Department of Sport and Recreation appreciates the opportunity to have been a participant in the audit. The findings are relevant and timely, notably that a one size fits all approach may no longer be the most effective way for agencies to report on their performance. It is clear that the existing frameworks require review in order to make KPI reporting easier and understandable and commensurate with scale and risk. The Department also recognises that KPIs for policy, planning and research functions cannot be effectively assessed within existing frameworks.
Department of the Premier and Cabinet
The Department of the Premier and Cabinet (DPC) welcomes the findings of the recent performance audit undertaken by the Office of the Auditor General. DPC acknowledges the challenges faced in reporting on its performance through a 'one-size-fits-all' approach, and concurs with the Auditor General that the unique role of delivering services to support the Premier and Executive Government further compounds this challenge. Work has already commenced to improve on current performance reporting practices to ensure DPC delivers benefits in public sector performance and accountability.

Department of Water
The Department of Water (DoW) welcomed the opportunity to be included in the Reporting and Managing KPIs Audit and supports the report’s findings and recommendations. The DoW reviewed its strategic plan in 2011, implemented a new structure in 2012 and a review of KPIs and their reporting and management is a priority for 2012-13. To achieve this, the DoW will:

- develop a new set of KPIs (November 2012)
- review layout of KPIs within the Annual Report to provide improved clarity (June 2013)
- integrate KPIs into the agency’s performance management system (June 2013)
- implement management processes to ensure that KPI targets are robust.

Economic Regulation Authority
The Economic Regulation Authority (ERA) welcomed the opportunity to be involved in this audit, as the ERA continually strives for maximum efficiency and effectiveness across all its functions. As a statutory authority, the ERA recognises the value and importance of best practice performance monitoring and reporting across the government sector. The ERA is a strong advocate of business transparency, be that performance or decision-making.

As part of normal business, coupled with the outcomes of this audit, the ERA is currently reviewing its policies and procedures to better align with the best practice recommendations.

Main Roads Western Australia
Main Roads welcomes and supports the conclusions and recommendations from this performance audit review. This review has highlighted areas where we are performing well in addition to identifying areas for improvement. Main Roads Corporate Executive has already approved a work plan aimed at addressing ongoing improvement and implementation has already begun. It has been very helpful to us in confirming our approach and future direction as we seek to further improve our performance and the services we provide.

Swan River Trust
The Swan River Trust accepts the report in relation to Key Performance Indicators. The Trust will continue efforts to provide easily understood explanatory notes to accompany some of the more complex indicators. More generally, the Trust has advised of its intention to work with the Office of the Auditor General and Department of Treasury to review all key performance indicators as part of the monitoring, evaluation and reporting framework which will support the implementation of the River Protection Strategy.

Executive Summary
Audit focus and scope

The objective of this audit was to assess the maturity of KPI processes in selected agencies.

We assessed performance against six attributes of better practice. We based these attributes on our experience auditing KPIs over 20 years and a review of the international literature. They cover aspects of managing KPIs and reporting performance information to Parliament and the public. The attributes were:

- annual reports enable transparency of performance reporting
- KPIs are integrated into the agency’s performance management
- KPIs are measurable and under the control of the agency
- KPIs are comprehensive, well designed and contextualised
- data collection and reporting is robust and consistent
- KPIs include reasonable targets.

Each attribute was supported by a set of specific criteria. From this, agency performance against each attribute was classified as:

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better Practice</td>
<td>the agency met all criteria for the attribute</td>
</tr>
<tr>
<td>Strong</td>
<td>the agency met all key criteria for the attribute</td>
</tr>
<tr>
<td>Limited</td>
<td>the agency did not meet all key criteria</td>
</tr>
</tbody>
</table>

Compliance with requirements was the base-line we expected. Where agencies were assessed as ‘Strong’ they had met all the key components of each attribute. Agencies assessed as ‘Better Practice’ met all the criteria for a particular attribute. The report does not give an ‘overall’ assessment of each agency.

In conducting the audit we interviewed agency staff and examined agency documentation. We also drew on our annual audit of individual agency KPIs. However, this audit used a different methodology and a broader scope than the annual assurance audits of the relevance, appropriateness and fair representation of KPIs. As part of the audit we shared detailed findings with each of the agencies and made recommendations on process improvements they might make.

The agencies audited were:

- Department for Child Protection
- Department of Corrective Services
- Economic Regulation Authority
- Department of Fisheries
- Department of Local Government
- Main Roads Western Australia
- Department of the Premier and Cabinet
- Department of Sport and Recreation
- Swan River Trust
- Department of Water

This audit was carried out in accordance with the Australian Auditing and Assurance Standards.
There is a well-established framework for KPI practice, but there is room to improve it

The challenges of a ‘one-size-fits-all’ approach

Agencies need support to meet their obligations to provide good KPI information. As we expected in a system that has been established for more than 20 years, there is a substantial framework in place. However, it is based on a ‘one-size-fits-all’ approach which may no longer be the most effective way for all agencies to report on their performance.

There is great variability in the type, size and complexity of agencies and what they do. This is not reflected in how they are allowed to report on their performance. Currently approximately 155 agencies in the WA public sector must use the KPI framework. They include departments, offices, boards, authorities and commissions. The present situation requires a very small agency such as the Anzac Day Trust, with a budget of $314 000 and one staff, to have outcomes-based KPIs with the same structure and purpose as the Department of Health.

There are also particular types of activity that are not amenable to outcomes-based KPI reporting. For example, Premier and Cabinet’s core role is to support the Premier, ministers and parliamentarians. Compared to Main Roads, for example, it is not easy for Premier and Cabinet to have meaningful outcomes-based KPIs.

Agencies often deliver a diverse range of services. It can be difficult to find a small set of outcomes that can adequately cover all those services, and that can measure whole-of-agency performance. Agencies like the Department of Education are obvious cases in point. On a smaller scale, the main role of Local Government is to build capacity in local government authorities. However, it is also home to the Office of Multicultural Interests which works to improve public sector awareness and multicultural practice in general. This makes it difficult for the framework to fit to Local Government’s needs.

Some agencies find it hard to use the framework because of their legislation. For instance, the Economic Regulation Authority’s enabling legislation states that it can only report KPIs for its administrative function. Its KPIs cannot report on the Authority’s regulatory activities.

There were numerous cases where these factors resulted in problematic KPIs that at face value could seem irrelevant or unhelpful. A number of examples are outlined in the following sections of the report. Finally, there was only limited guidance on how best to set and then report on KPIs.

The existing framework

KPI reporting in WA is based on a legislative and regulatory framework that requires:

- agencies to report efficiency and effectiveness indicators against each of their defined outcomes and services
- each indicator to be relevant, appropriate and free from bias
- each indicator to be approved by the Under Treasurer
- the Auditor General to give an opinion on each indicator
- the suite of KPIs to be reported in the agency’s annual report.
Agencies were first required to report performance indicators under the Financial Administration and Audit Act 1985 (FAAA). The FAAA also required the Auditor General to issue an opinion on these indicators. At that time government reporting was based on outputs. Agencies progressively introduced performance reporting and the Auditor General began issuing formal opinions on KPIs in 1993. In 2006 the Financial Management Act 2006 and the Auditor General Act 2006 replaced the FAAA. During the intervening years government reporting had moved to an outcomes basis.

The main compliance requirements for agencies are outlined in Treasurer’s Instruction 903 (TI 903) and Treasurer’s Instruction 904 (TI 904). The TIs outline the approval process for KPIs, and their subsequent reporting requirements. The Public Sector Commission also provides information on government goals and agency annual reporting requirements.

Between 2003 and 2009 agencies had to submit their Outcome Based Management structure including KPIs to the Outcome Structure Review Group (OSRG). The OSRG was an interagency committee chaired by the then Department of Treasury and Finance. It reviewed proposed new and changed KPIs and made recommendations on their approval to the Under Treasurer. Since the OSRG was wound up there has been no single forum where agencies can go for general or practical guidance on improving their KPI processes.

Under TI 904 agencies now have to submit all changes in outcomes, services and KPIs only to the Under Treasurer for approval. This routinely happens during the budget process and results in formally approved wording for each outcome, service and KPI.

TI 904 requires agencies to report on both effectiveness and efficiency KPIs. Effectiveness KPIs show the extent to which agencies have achieved or contributed to agency-level outcomes. Efficiency KPIs relate to the level of resources (financial, human, physical or time) required to deliver each service.

TI 903 specifies the minimum performance information to be provided in annual reports and provides a standard layout. Annual reports must present information in a clear and succinct way, and focus on outcomes.

TI 904 and TI 903 also set out how KPIs and related information should be presented in annual reports. They require:

- clear identification of audited KPIs
- statement of agency outcomes and services
- the relationship between government goals, agency outcomes and agency services
- key effectiveness indicators for each outcome
- key efficiency indicators for each service
- comparison of achieved results against targets for each KPI
- explanatory notes for material variations between actual results and targets
- explanatory notes for changes to agency outcomes, services and KPIs.

There is a well-established framework for KPI practice, but there is room to improve it...
There is a well-established framework for KPI practice, but there is room to improve it

Annual reports deal with more than KPIs. Financial statements must be reported in specific ways, for example. Also, each annual report must include statements on record-keeping, statutory compliance and other general governance issues. Beyond these requirements, agencies have considerable scope in reporting their performance. There is no central agency role in reviewing or approving the narrative of agency reports. Nor does the Auditor General routinely give assurance on general reporting.

The legislation requires the Auditor General to provide an annual opinion on the approved KPIs for each agency. This opinion is based on whether the KPIs:

- are relevant and appropriate to assist users to assess the agency’s performance
- fairly represent indicated performance for the audit period.

This opinion is similar to the opinion provided on financial statements. It gives assurance on how KPI material has been constructed and reported. It is not a proof that all material used to create the KPIs is accurate. Nor does it show that KPIs are the best that can be selected, or that they give the best possible view of agency performance.

The WA government has five overarching goals to which all agencies must align their KPIs. This helps create a clear line of sight from agency activity to state-wide impact. The Public Sector Commission provides some information on these government goals through its annual reporting framework. The material provided by the Commission was not always consistent with that provided by Treasury, though this was generally about precise wording. We note that agencies were sometimes unsure which wording should be used in annual reports.

The five government goals are:

- Financial and Economic Responsibility
- Outcomes Based Service Delivery
- Social and Environmental Responsibility
- State Building – Major Projects
- Stronger Focus on the Regions.

Four of the goals allow for reasonably straightforward KPIs and reporting. However, ‘Outcomes Based Service Delivery’ is more problematic. It describes a process (how things will be done) rather than an outcome. It also appears to have become something of a catch-all when agencies are trying to align their KPIs to these government goals. We note that the government goals do not include whole-of-sector targets or goals against which agencies can assess their efforts.
Annual reports must provide sufficient and clear information on KPIs to maximise their usefulness to Parliament and the general reader. They should clearly define the relationship between the KPIs, agency level outcomes and services, and government goals. Each KPI should be described and it should be clear how it measures performance against outcomes or services. The report should explain how the KPI was calculated, why a particular target was set and any material variance between expected performance and actual performance. Trend data for three to five years should be provided to enhance understanding of actual performance.

Each government agency must table an annual report in Parliament. These reports allow members of parliament and the general public to assess how agencies have performed. TI 903 and TI 904 require agencies to disclose performance information including KPIs in their annual reports.

Annual reports serve more than one purpose. This can pose difficulties for agencies. The most important ‘client’ of an annual report is Parliament. It is Parliament that appropriates funds for government activity, and must therefore be informed of agency performance. However, agencies also have to ensure their general reporting and KPIs meet their Minister’s needs. Ministers have a clear responsibility and accountability for agency performance.

Making KPI reporting easy to understand

Doing this well can be difficult. Main Roads and Corrective Services are two agencies whose annual reports comply with requirements and are easy to read. In particular, the Main Roads annual report made complex KPIs easy to understand and assess. It did this by using an easy to follow format and good graphs and tables (See Figures 1 and 2).

![Figure 1: Clear presentation of complex KPIs: Main Roads 2011 Annual Report](source: Main Roads)
Most agencies struggled to make things clear in their annual reports. Nine agencies included some KPIs which did not have sufficient clear contextual information. This limited their usefulness to Parliament and the general public. Agencies with technical and complex KPIs tended not to perform well in this area. Technical or scientific indicators were often not explained in plain English. For instance, the annual reports for Fisheries, the Swan River Trust and Water contained large amounts of technical and complicated information. This information was often unclear to a non-specialist reader.

![Graph of Smooth Travel Exposure](source: Main Roads)

**Figure 2: Effective use of text and graph: Main Roads 2011 Annual Report**

What is obvious to agency staff working in an area is not always obvious to readers. Agencies have to make these connections clear to increase the benefit of this reporting.

For example, it is not clear how that Premier and Cabinet’s KPI *Printing and publishing services are secure, timely and confidential* adequately measures the outcome *Executive Government receives appropriate support*. Similarly, it was not clear how Fisheries’ KPI *The participation rate in recreational fisheries was a measure of The conservation and sustainable development of the State’s fish resources*. In both cases, explanations might have resolved the issue.
Using approved wording and linking KPIs to agency outcomes

The way KPIs are reported affects how useful the information provided is. Annual reports for seven of the 10 agencies included wording for outcomes, services and KPIs that did not match the wording approved by the Under Treasurer. This can impact the meaning and interpretation of the KPI.

Table 2 gives an example of how changing the wording of an outcome significantly changed its apparent meaning. It would also logically affect how it should be measured.

<table>
<thead>
<tr>
<th>Approved Wording</th>
<th>Wording in Annual Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Western Australian public sector which practices the principles of multiculturalism and the empowerment of culturally and linguistically diverse communities to fully participate in Western Australian life</td>
<td>A Western Australian public sector which recognises that Western Australians play a significant role in setting policies that shape their society</td>
</tr>
</tbody>
</table>

Table 2: Example of unapproved wording change

All 10 agencies had outcomes and services that linked to their purpose and function. This is a major foundation for an effective KPI process. However, at four agencies it was not clear how some of their KPIs measured the nominated outcome or service. Two examples are shown in Table 3.

<table>
<thead>
<tr>
<th>KPI</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premier and Cabinet</td>
<td>The Premier and Ministers receive high quality, rigorous and timely policy advice</td>
</tr>
<tr>
<td>Level of Commonwealth recurrent core services funding allocated to Western Australia over time</td>
<td></td>
</tr>
<tr>
<td>Swan River Trust</td>
<td>The long-term community benefit of the Swan Canning river system is protected and enhanced</td>
</tr>
<tr>
<td>Percentage of development recommendations which have attracted negative responses from the community</td>
<td></td>
</tr>
</tbody>
</table>

Table 3: Unclear connections between KPIs and outcomes

The KPI in the Premier and Cabinet example is an important broad indicator for the State (as discussed below). However, it is not clear how Commonwealth funding decisions can be used as a measure of the quality of advice received from the Department. In the Trust example, there is no clear connection between community responses to development recommendations and an enhanced community benefit.
Providing trend data and clearly identifying KPI material

Good practice requires providing three to five years of data in annual reports or explaining why trend data is not available. Seven agencies did this. Fisheries, Swan River Trust and Water did not provide sufficient trend data for all of their KPIs. For Water, this was reasonable as it resulted from changes to their KPIs, but this was not explained in the report.

KPIs approved by the Under Treasurer are required to be audited by the Auditor General and must be clearly identified in the annual report. Three agencies did this by having a separate clearly marked section in their report for audited KPIs. Five agencies separated their KPI information from other performance information but did not clearly identify them as audited KPIs. Two agencies did not clearly identify their KPIs as audited. This increases the chances that readers will confuse audited material with other general information.
Well-designed KPIs are important planning, management and policy-making tools for public sector agencies. They can highlight areas where improvement is required. A mature KPI system should be integrated throughout an organisation. Agencies cannot make the most of their KPIs if they are not well integrated into overall management.

We assessed whether agency processes and approaches allowed them to make best use of KPI information to manage agency operations. We looked for systematic approaches adapted to the size and needs of the agency. The key criteria were supporting KPIs with lower level performance indicators (PIs), having a system to bring KPI information into day-to-day management, and having personnel with clear responsibility for KPIs.

Five agencies had integrated KPIs into their agency performance management well. The other five agencies were assessed as limited in this area largely because they had not documented their processes.

**Using Performance Indicators to support KPIs**

One way to integrate KPIs into overall management is for them to be supported by PIs. These should logically build to create the KPI and also connect to the outcome or service being measured.

Corrective Services did this well. For example, the agency has a KPI on the *Number of Escapes (Adult)*. This is obviously a key matter for the agency, the public and Parliament. This KPI is supported by a number of PIs including adult escape numbers for individual prisons, escape figures for metropolitan and regional prisons, and a measure of the rate of escapes per prisoner. The KPI and its PIs all align to the outcome *A safe, secure and decent corrective services which contributes to community safety and reduced offenders’ involvement in the justice system*.

Not all KPIs can be supported by PIs. One example is the Fisheries effectiveness KPI for *The gross value of State fisheries production*. This is based on annually published national economic data gathered from industry. While there could be individual measures of specific fisheries that aggregate to the one annual figure, it would be difficult to have supporting PIs that impacted on routine departmental operations. Again, the challenge is to achieve an appropriate mix of stand-alone KPIs and those supported by other indicators.

Five agencies had routine processes to use their KPIs and PIs to manage agency performance. The most common method was to hold regular meetings across various levels of the agency. For example:

- the Swan River Trust used weekly, monthly, quarterly and annual meetings and reports to use its KPIs to manage performance
- Child Protection used KPIs and PIs internally at Corporate Executive, Senior Management and District Level to manage agency performance. These included quarterly and monthly reports to Corporate Executive which provided information on the agency’s three services overall and at a district level.
Having clear responsibilities for KPIs

All agencies had assigned responsibility for managing KPIs although the approaches differed, usually based on the size of the agency. Eight agencies had clearly designated staff responsible for KPIs. However, in two agencies the responsibility was not formalised into job descriptions. Formalising roles and responsibilities improves accountability and continuity.

Where responsibility was clearly assigned, it was often split across numerous positions. For example, each of the Swan River Trust’s Branch Managers was responsible for collecting KPI data for their service area. The Business Services Manager was responsible for compiling annual KPI reports. Sport and Recreation has a relatively flat organisational structure. It splits responsibility for KPI monitoring and reporting across five positions.

Other agencies had centralised the role. Corrective Services had one Team Leader who developed, implemented and monitored its measures, and prepared reports and briefings for the executive. Premier and Cabinet had a Principal Policy Officer responsible for monitoring KPIs. It recently established a new Director position with this responsibility.

Local Government had recently appointed a Strategic Planning Manager to lead, coordinate and formulate its performance indicators, measurement, reporting and evaluation. Fisheries and Water had staff who practically managed KPI information, but whose role was not formalised. Fisheries was planning to review the position statements for the two staff deemed responsible for KPIs.

Communicating performance within agencies

It is important that all agency staff know how it is performing and understand why they undertake certain activities. A communication system that reports performance across the agency is important to meeting this need.

Three agencies had communication systems that reported performance across the agency rather than only to senior management. They used a variety of communication methods. Corrective Services had an online performance and statistics portal as its primary communication mechanism. Main Roads produced a monthly newsletter summarising the key items discussed by its Corporate Executive. Rather than report on all KPIs, the newsletter gave a snapshot of overall performance. It was distributed by email to all staff who logged on to the Main Roads internal network.
Ensuring KPIs are measurable

For KPIs to be most useful they must be measurable and quantifiable. We expected agency KPIs to perform well in this area as it is a key focus of our annual KPI audits. It was also an area with strong guidance available in the Treasurer’s Instructions.

It was not surprising to find that all agencies performed well in this area.

Balancing KPIs under agency control with reporting broad information

Generally, KPIs should report on matters that are important to agencies achieving their desired outcomes. A suite of KPIs based on activities or outcomes largely outside their control does not provide the best picture of agency performance. However, there are times when it is in the public interest to report an indicator which an agency has little influence over. Agencies need to make clear and logical connections between their activity and such broad indicators or information. We note that there is no limit on agencies including such information in the general parts of their annual reports.

The challenge for agencies is to balance reporting big picture items with measuring their own impact on outcomes. There were a number of cases where agencies reported obviously important indicators where they had limited control or influence over the outcome.

Fisheries reports on *The gross value of State fisheries production*. The dollar value of this measure will be affected by factors such as fish prices, the value of the Australian dollar, international economic conditions and other factors not under Fisheries’ control. However, it is an important indicator and should be reported by this agency.

Similarly, it is entirely appropriate that Sport and Recreation reports on the *Western Australian participation rate in physical activities*. While Sport and Recreation certainly contributes to promoting, maintaining and increasing participation in these activities, there are other factors that impact on the result.

The Swan River Trust met this challenge well. One of its agency level outcomes is *The ecological health of the Swan Canning river system is protected and enhanced*. While the Trust does not control what goes into the rivers, for example, it has set effectiveness KPIs that measure its contribution to protecting them. It does this by measuring water quality, foreshore rehabilitation and changes in people’s attitudes and behaviours.

Local Government provided another good example of measuring influence. Its desired outcome is *To build the capability of the local government sector to deliver economic and social services to communities*. To measure performance against this outcome, Local Government has a KPI that gauges improvement in the sector. To do this it has developed a capability index based on 12 criteria. This is an innovative solution to a complex task.
There were cases, however, where agency influence over the activity or the outcome was limited. This led to KPIs with little benefit.

Premier and Cabinet had a number of such examples. The Department has accepted the need to review this aspect of its KPIs. We also note that the role of Premier and Cabinet makes it difficult to identify outcomes that lead to reasonable and meaningful KPIs. Two examples were:

- **Proportion of signed national agreements reflecting Cabinet agreed positions**
- **Level of Commonwealth recurrent core services funding allocated to Western Australia over time.**

These are important measures for government and for Cabinet in particular. It is not clear, however, that they either measure the effectiveness of the Department, or that the Department has any real control over the outcomes.

The Sport and Recreation KPI on the **Extent to which stakeholders (sporting groups) reflect social policy in their operations** was another case where the link to agency activity was either not established or not made clear.
KPIs should help agencies manage their operations as well as report activities and achievements to Parliament and the general public. To maximise their benefit KPIs should give a full and balanced picture of the work agencies carry out. This means that KPIs also need to be well designed individually and as a set. Selecting widely agreed measures and reviewing the KPIs routinely are important to achieving this.

Treasury requires KPIs to provide a substantial overview of agency operations and material expenses. However, there is little guidance available to agencies on how to ensure KPIs, individually and as a set, are well designed and cover their outcomes and services.

Agencies generally struggled in this area. No agency was considered better practice for this attribute, although Main Roads and Corrective Services were assessed as strong. The remaining eight agencies had a number of limitations.

**Developing and reviewing KPIs**

Most agencies developed their KPIs at the corporate executive and senior management level. Only Corrective Services, Main Roads and Water had clearly consulted more widely across the agency, particularly with those responsible for generating the data.

Child Protection, Corrective Services and Main Roads all demonstrated that their KPIs were based on independent standards such as national indicators or benchmarks. Using measures like these increases the confidence that non-specialist readers including Parliament and the public can have in the measures.

Corrective Services has done this well. It has developed a booklet based on international best practice to inform their KPI development. It also has a number of KPIs that use national benchmarking. Average out of cell hours, Number of escapes, Successful completion of community corrections orders – Adult and Cost per day of keeping a prisoner in custody are indicators required under the national Report on Government Services framework. Corrective Services also used information from the National Corrections Advisory Group for other benchmarks.

Agencies are required to prepare KPI information for budget reporting purposes. However, most agencies could not demonstrate that they had a formal system for reviewing KPIs for relevance, appropriateness and comprehensiveness. Many relied on the opinion provided in the annual audit of KPIs as proof that they had the best possible set. This misinterprets the role of audit.

Corrective Services and Main Roads had regular review processes. Main Roads, for example, has a five-year cycle to review its suite of KPIs. The next review is due in 2012. Further, the delegated owner of each KPI annually reviews its methodology and suggests improvements to their Executive Director.

Agencies had not considered the potential for significant perverse incentives or unintended consequences to arise from their KPIs. That is, they had not thought about:

- how KPIs might impact on staff behaviour
- what staff might do to ensure KPI targets are achieved
- where these behaviours might have adverse effects on the services they deliver.
Some agencies told us that they could rely on professional codes of ethics or similar to ensure that KPIs were not and could not be misused. This audit found no issues with staff professionalism. However, good staff cannot replace some formal assessment of unintended responses to KPIs.

The Swan River Trust and Local Government have indicated that they intend to consider the potential for unintended consequences in future KPI reviews.

**Making KPIs comprehensive**

Six agencies had a suite of KPIs that covered all their major activities. The KPIs for the Economic Regulation Authority were restricted by legislation to its management functions. The KPIs for the remaining three agencies did not cover all major activities. Water’s KPIs did not cover the integration of water and land use planning. Local Government did not have a KPI relating to grants it administered totalling $12 million. Child Protection did not have an effectiveness KPI for its role in carrying out ‘Working with Children’ checks.

A key limiting factor for many agencies was a lack of documentary evidence of the work they had done to develop and review their KPIs. This limited the assurance we could provide on this part of their work. A lack of documentation also makes it hard for agencies to review their KPIs, particularly if they are unable to maintain continuity of relevant staff.
Robust and consistent data collection and reporting is essential for effective agency management at all levels. It is also necessary for agency transparency and accountability to Parliament and the general public.

**Ensuring data is accurate**

To ensure that reporting is accurate agencies need to have good data controls through the whole KPI process. We check these during our annual audits and expected to find that agencies had effective controls in place. Eight agencies had effective controls in place for each stage of the KPI workflow. Two agencies were in the process of rectifying some issues that had limited their performance in this area. Child Protection had some problems with a core data base and Main Roads had some weaknesses in its data checking. Our annual KPI audit recalculated and confirmed the reported results for all 10 agencies.

All agencies, regardless of size or type, need to document how their KPI information will be measured, recorded and reported. This helps to ensure accuracy and consistency. The more complex the agency, the greater the need for this information to be collected and formalised into a comprehensive manual. A comprehensive manual should define:

- all KPIs
- the elements that make up each KPI
- the methodology used to construct the KPI
- the purpose of the KPI and why it is a measure of effectiveness or efficiency
- data collection and/or entry methods
- data sources and storage systems
- targets and target rationales.

Comprehensive manuals should also describe the data owners, the reporting cycle for the KPI, whether it is audited and a schedule for review.

Main Roads and Corrective Services had manuals that effectively supported KPIs. Main Roads had one annually updated document as its KPI manual. Corrective Services had a set of guidance documents that together made a comprehensive KPI manual.

Child Protection, Sport and Recreation, the Swan River Trust and Water each had a number of documents that set a solid foundation for comprehensive KPI manuals. Local Government has recognised the value of a KPI manual and is planning to develop one.

If agencies do not document processes and responsibilities, they risk losing valuable knowledge and the capacity to track data. We acknowledge that balancing resources in this area can be difficult, especially for small agencies like the Economic Regulation Authority and Sport and Recreation.
Managing and using surveys

Surveys are often used to measure effectiveness. It is important that they are well controlled and reported, especially if agencies rely on them for most of their KPIs. Seven agencies used surveys to generate KPI data. The majority of Local Government and Sport and Recreation effectiveness KPIs were based on survey information.

Local Government, Main Roads, and Sport and Recreation had good controls around their surveys. Nonetheless, there were numerous challenges to all agencies in developing and administering surveys. For example, a number of agencies used community or client perceptions surveys to measure satisfaction with agency services or outcomes. This is a reasonable concept, but in all cases the way people answered was likely to be significantly affected by factors outside agency control. Agencies were also challenged by technical issues to do with survey sample sizes, data collection and calculation. It was often not clear that agencies were making informed decisions on how many respondents were needed or where they should come from.

Another challenge was that surveys often measured characteristics largely out of the control of the agency. As noted above, this is a difficult balance to strike.

Main Roads ensured its surveys measured factors over which it had significant control. This meant that it could make supportable conclusions about its performance. It used an annual community survey to measure satisfaction with:

- Main Roads overall
- road safety
- maintenance
- the provision of cycleway and pedestrian facilities.

Administering surveys is not the core business of any agency. As a result, agencies often use external consultants to develop, administer and analyse surveys. While this makes sense, agencies must have realistic expectations about what surveys actually tell them. They must also ensure that there is a real link between the questions asked and the KPI characteristics being measured. As noted above, the Main Roads perceptions survey is a good example of a survey with questions that clearly and specifically relate to the KPI being measured.
To be effective, KPI targets need to balance being achievable with being aspirational. They should also reflect key strategic objectives. Targets based on a documented, reasonable rationale help agencies focus on continuous improvement. They also help agencies deliver services in the best interests of the community.

Corrective Services and Main Roads met all the criteria in this area. They had documented reasons for nearly all of their KPI targets. Further, the targets were reasonable and clearly supported key strategic documents.

Four agencies had documented why they had set particular targets. Main Roads and Corrective Services had gone further and based their targets on a combination of internal and external sources. Corrective Services had detailed and comprehensive documentation on each KPI target.

Many agencies did not document the rationale behind their efficiency KPIs well, but the Swan River Trust did. For example, an initial benchmark for the Average cost per square metre of foreshore undergoing protection and rehabilitation works was set based on 2004-05 results. This became the target for the next two years. It was argued that maintaining this rate would show cost savings if as expected the cost of materials increased. Any additional improvements would show increased efficiency.

Six agencies had not documented why they had set particular KPI targets. This again limited the assurance we could give on this part of their business. In many cases agencies appeared to set targets based only on past performance. These targets might have been reasonable when they were set. However, not having a documented rationale makes it difficult for agencies to justify changes. It also increases the risk that agencies might lose track of when a target stops being meaningful.
These attributes were developed based on our experience auditing KPIs over 20 years and a review of the international literature.

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<tr>
<th>Attribute</th>
<th>Checkpoints</th>
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<tr>
<td>Annual reports are transparent</td>
<td>KPIs are approved and linked to government goals&lt;br&gt;Effectiveness and efficiency KPIs logically connect to agency outcomes and services&lt;br&gt;The annual report provides clear context for KPIs. This includes how KPIs show performance against desired outcomes and services. All changes to KPIs are explained&lt;br&gt;Audited KPIs are clearly identified and/or separated from other performance information&lt;br&gt;Each KPI provides trend data of three to five years, or explains why this cannot be provided</td>
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<tr>
<td>KPIs are integrated into management</td>
<td>KPIs clearly relate to key planning documents&lt;br&gt;Most KPIs are supported by other performance indicators&lt;br&gt;KPIs and performance indicators are routinely used to manage agency performance&lt;br&gt;Specific staff are responsible and authorised to monitor and report on KPIs&lt;br&gt;There is a system to report performance across the agency</td>
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<tr>
<td>KPIs are measurable and under reasonable control of the agency</td>
<td>KPIs are specific to the function and activities of the agency&lt;br&gt;KPIs are logically measurable&lt;br&gt;The agency has reasonable control or influence over the characteristics measured by the KPIs. (Some factors might be too important not to report, no matter the level of control, but most KPI results should be the responsibility of the agency.)</td>
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<td>KPIs are comprehensive and well designed</td>
<td>All relevant parts of the agency are involved in developing KPIs&lt;br&gt;Relevant parts of the community are consulted when developing and reviewing KPIs&lt;br&gt;KPIs are based on independent standards, such as industry related research methodology or national indicators, where possible&lt;br&gt;Agencies routinely review the relevance and appropriateness of KPIs&lt;br&gt;Agencies assess potential for unintended consequences resulting from their KPIs&lt;br&gt;KPIs cover all major areas of agency activity</td>
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<td>Data collection is robust and consistent</td>
<td>The agency has a comprehensive KPI manual or guide&lt;br&gt;There are effective controls for all workflow processes for KPIs&lt;br&gt;Survey outcomes and methods are controlled and reviewed</td>
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<tr>
<td>KPIs include reasonable targets</td>
<td>There is a documented rationale for KPI targets&lt;br&gt;The targets support and reflect the objectives in key planning documents</td>
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