

"Changing our stripes – Can the public sector push the boundaries of private sector performance?"

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Auditor-General

**IIA - Asia Pacific Public
Sector Conference**



Agenda

- Are there issues with public sector KPIs?
- Is this important to internal audit?
- How have governments tried to improve KPIs?
- A way forward

Parliament's needs

Section 38B of the New South Wales *Public Finance and Audit Act 1983*

“Audit of all or any particular activities of an authority to determine whether the authority is carrying out those activities **effectively** and doing so **economically** and **efficiently** and in compliance with all relevant laws.”

Section 3A 1(b) (i) *Audit Act 1994 Victoria* - Objectives

“To determine whether authorities are achieving their objectives **effectively** and doing so **economically** and **efficiently** and in compliance with all relevant Acts.”

National Commission of Audit

“Current arrangements make it difficult for the community to determine whether money is being well spent ... delivering on ... objectives and how efficiently and effectively ...”

“Most performance information is focused on financial accountability – particularly whether the money was actually spent or spent on time”

“The quality and usefulness of current reporting of performance in budget-related documents ... varies markedly”

NSW Commission of Audit

“Reporting on outcomes and results is not enough. Accountability to the public and the Parliament also requires a full integration between:

- commitments made to the public by government on resource **inputs** to fund service delivery objectives
- **resource allocation decisions** made by government in the budget process, consistent with the public commitments
- **transparent reporting** by government of how the public commitments made on investment into inputs will translate into service delivery outcomes. “

Queensland Auditor-General

"... the widespread lack of service standards and targets for the efficiency of services is of particular concern."

"... measuring and monitoring the ongoing performance of the business is a core governance responsibility. Not knowing whether major government services are cost-efficient hampers effective decision making,"

NSW Auditor General's Reports

“More transparency is needed on the performance and cost of services delivered to the public”

Internal audit

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and **governance processes**"

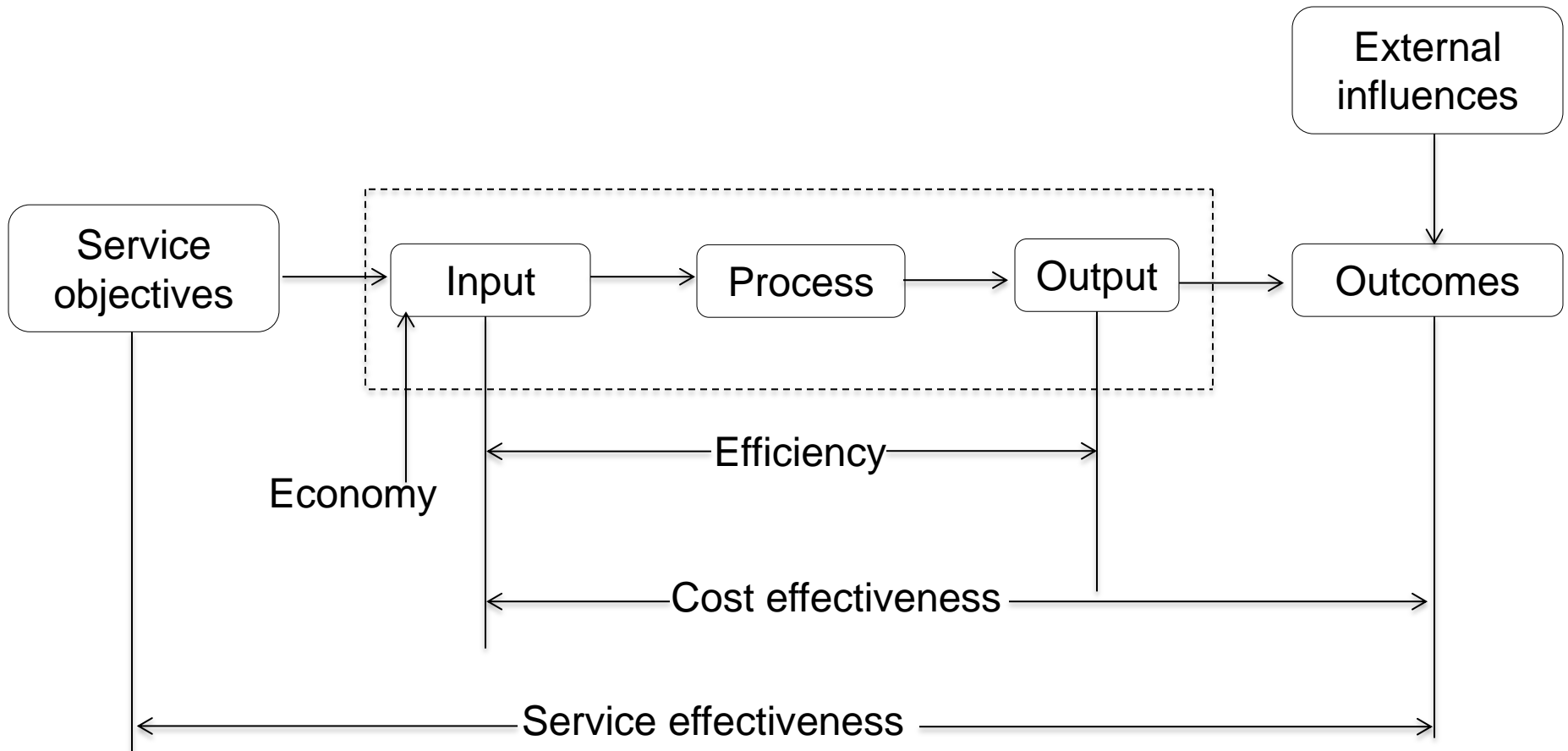
Governance



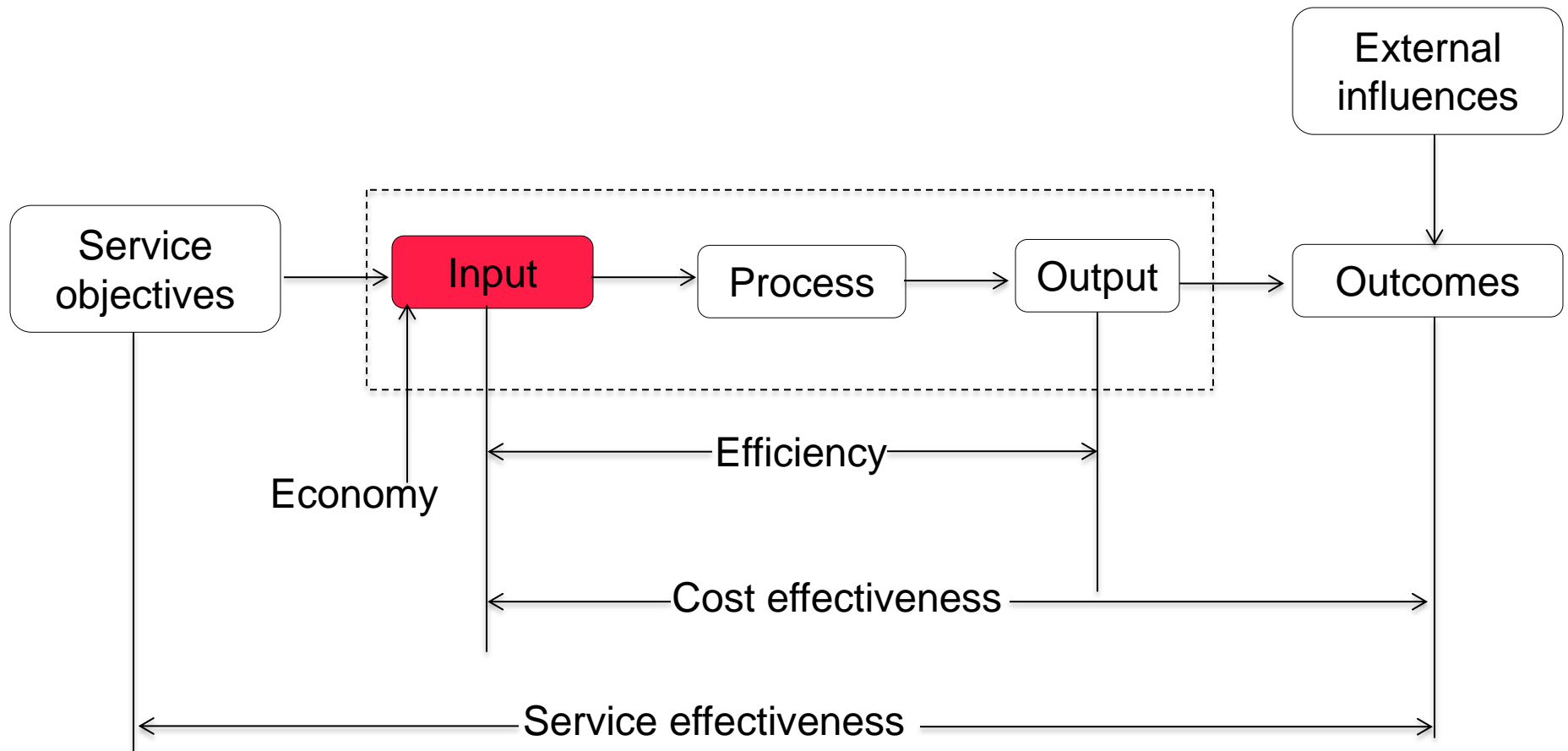
Measuring and monitoring performance is a key governance responsibility

MANAGEMENT AND OVERSIGHT
3. CLEAR ACCOUNTABILITY AND DELEGATIONS
2. REGULAR REPORTING AGAINST PLANS
1. STRATEGIC AND BUSINESS PLANS

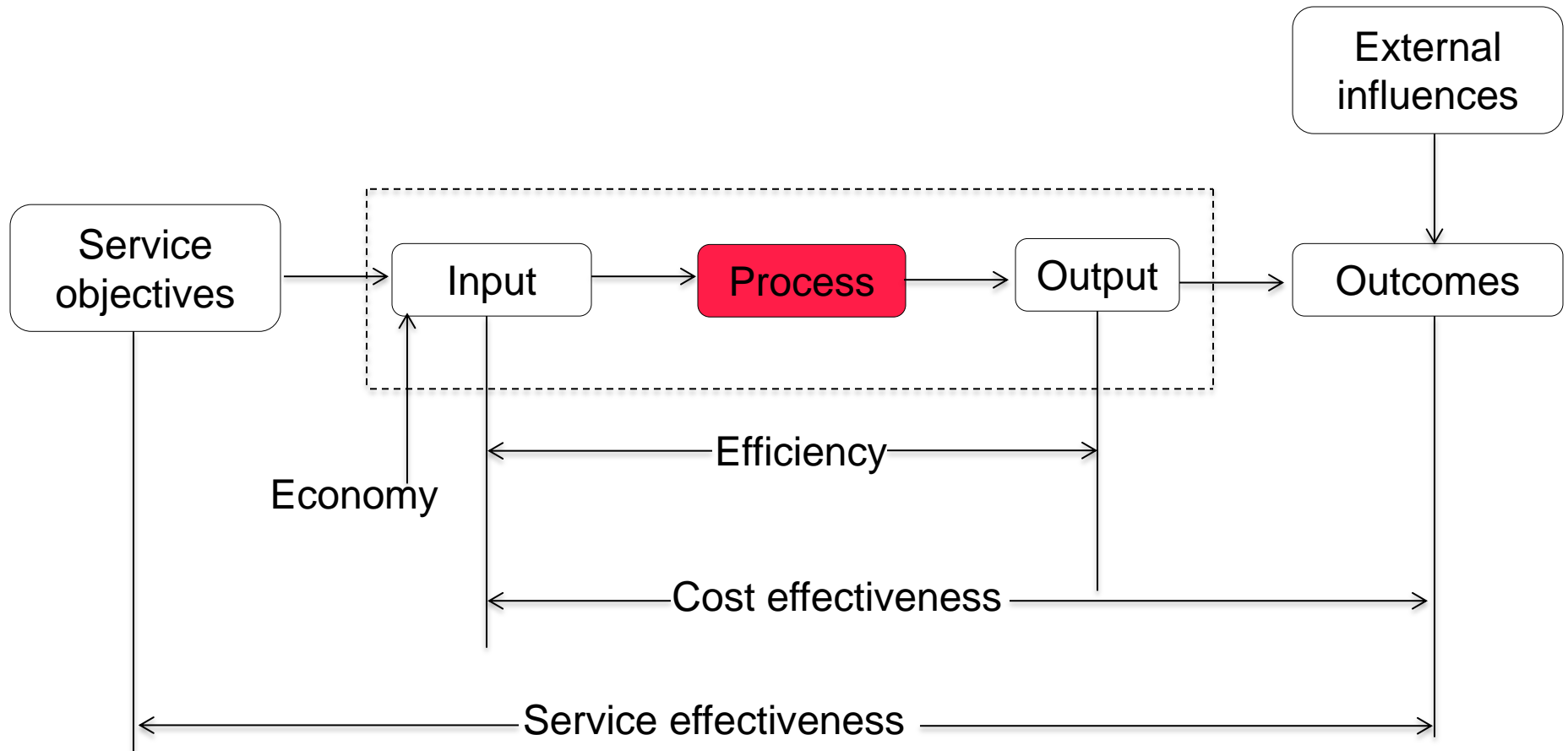
Service delivery



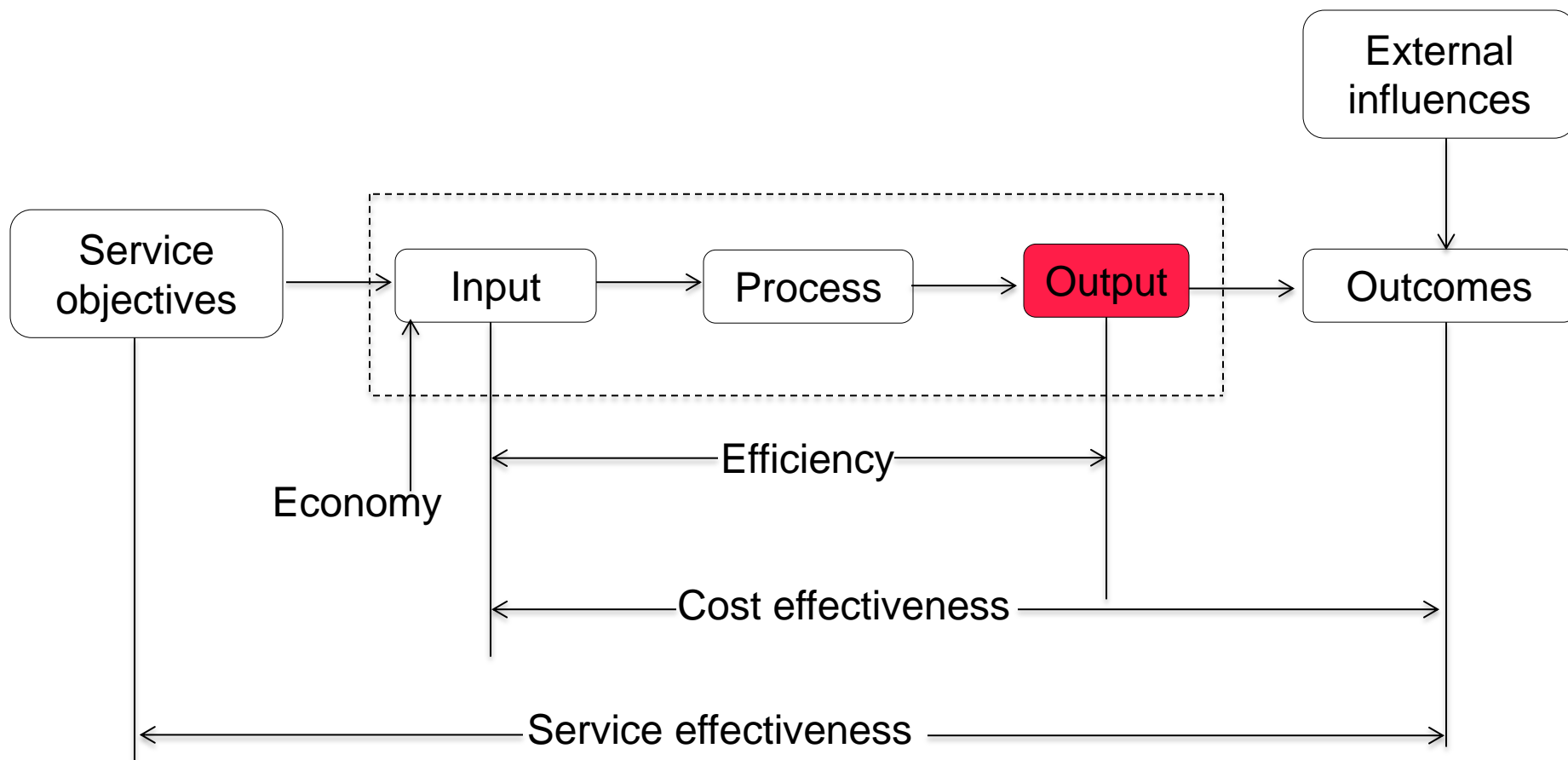
Pre-1970s – Input Management



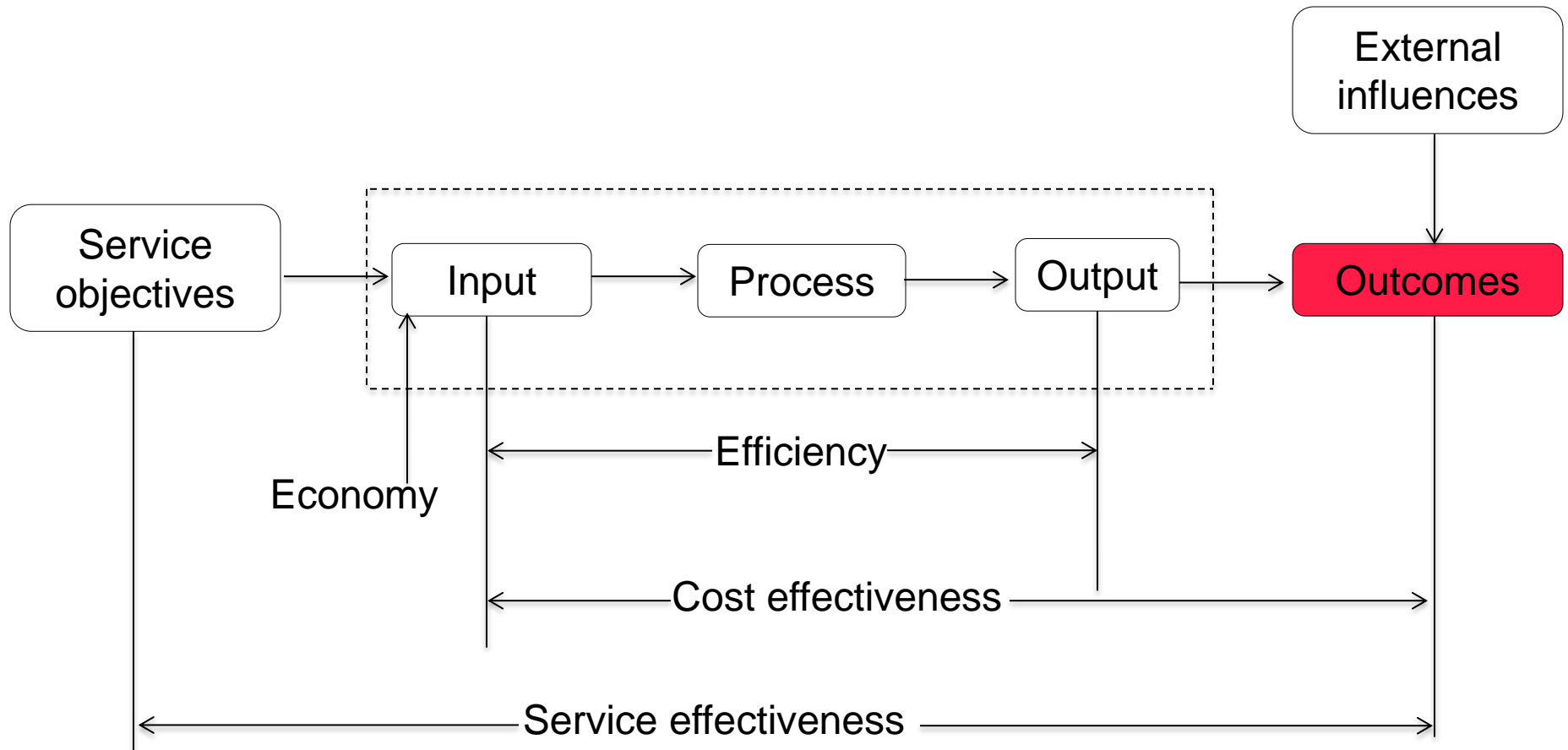
80s – Program management and budgeting



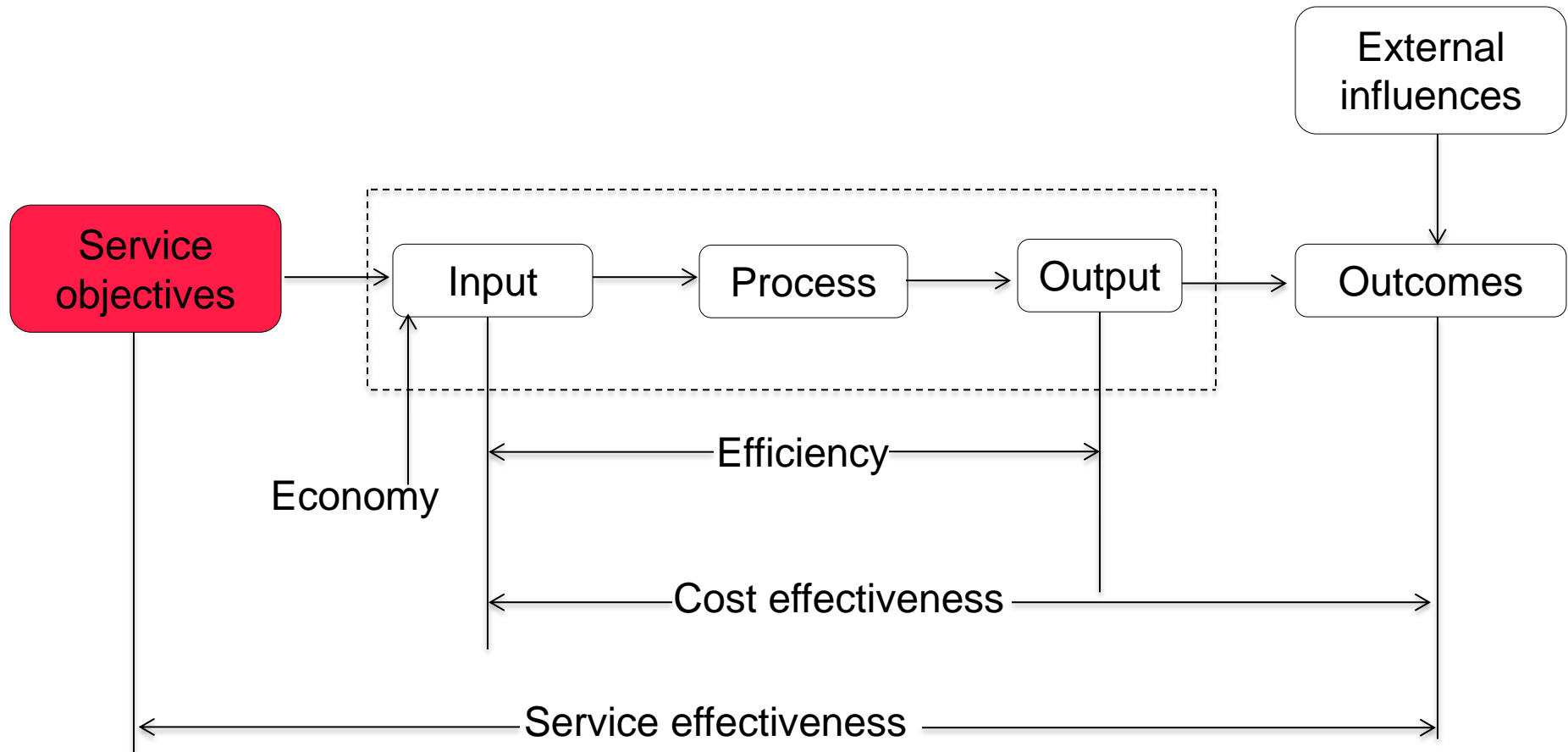
1990s – Output management



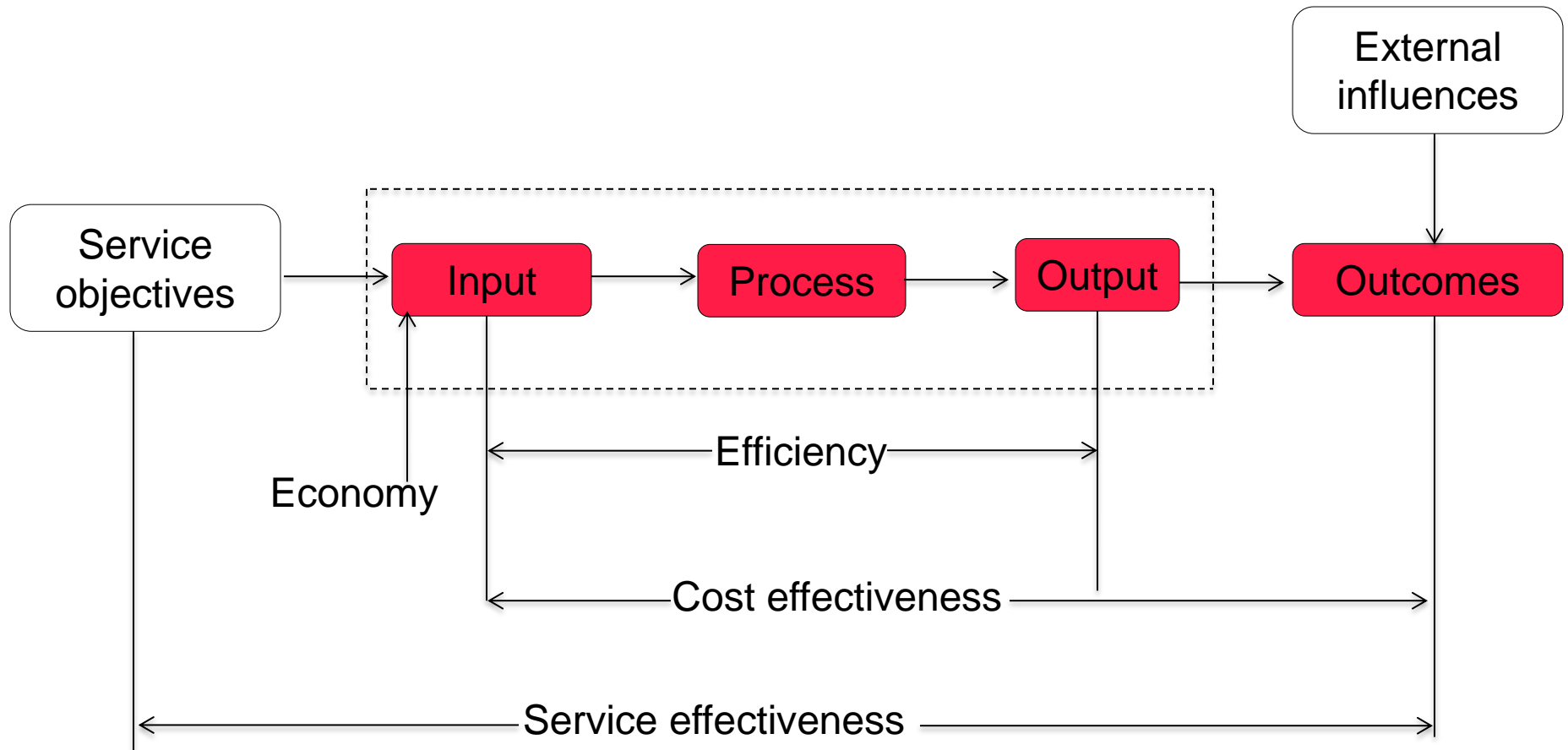
Now – Outcomes (programs?)



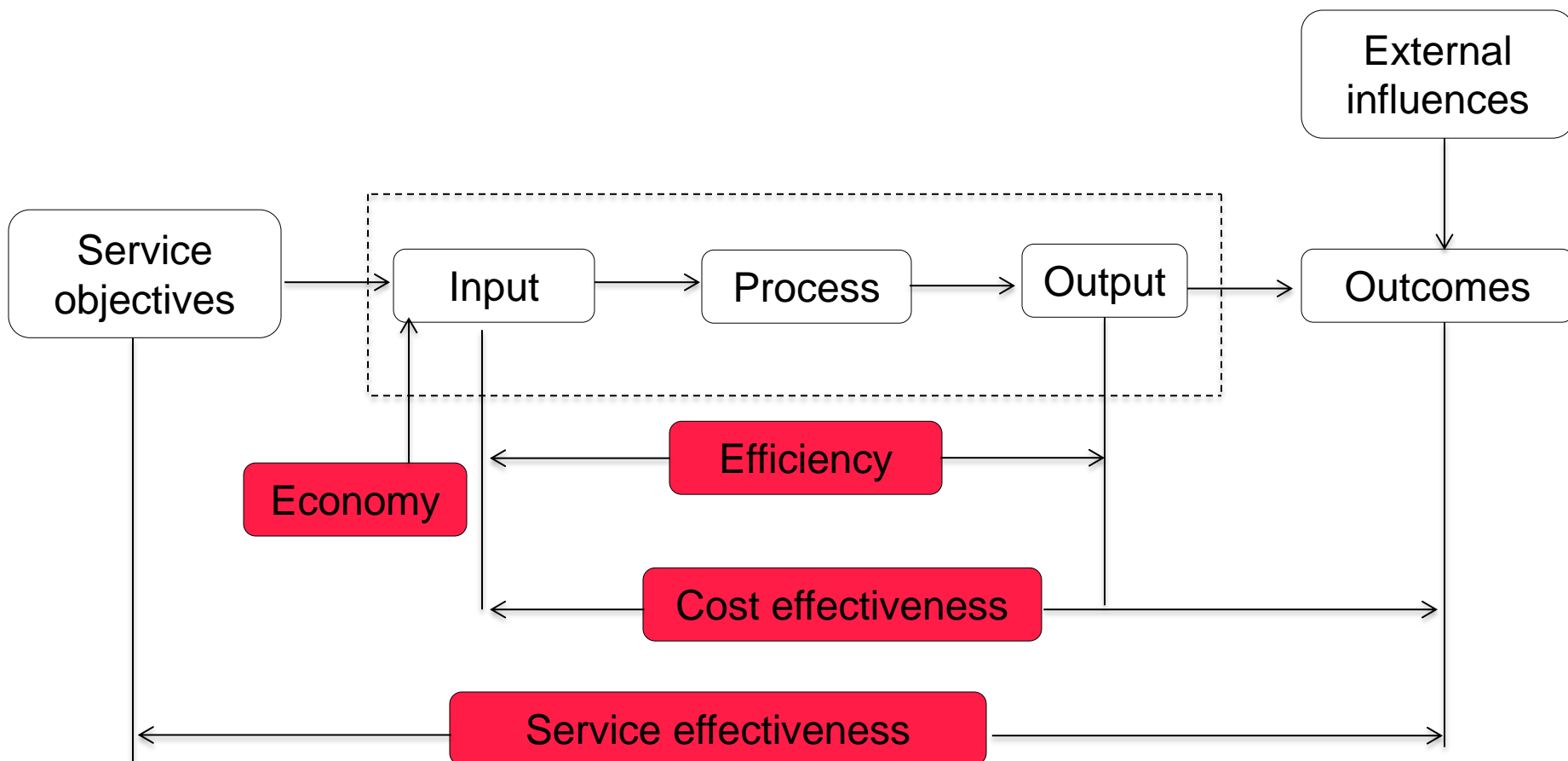
A way forward – Setting service objectives



A way forward – Assess whole service delivery process



A way forward – Setting KPIs



KPIs - Economy

Demonstrate inputs are purchased at best value

- From competitive markets
- Use of benchmarking
- Financial controls

KPIs - Efficiency

Demonstrate that the process for transforming inputs to outputs (or delivering programs) is efficient

- Procured through competitive process
- Benchmarked against similar delivery
- Time series demonstrates improvement

Efficiency

“Budget underspend does not demonstrate efficiency, as overspend does not demonstrate inefficiency. It is simply the direct measure of input cost; and at best it could be a proxy indicator of activity ...”

“Similarly, completing projects and initiatives on budget, on time, or delivering activities when planned ... are simply activity standards”

KPIs – Cost effectiveness

Demonstrate that the method chosen to achieve the outcome is best value

- Quality business case
- Regular evaluation – benefit realisation
- Benchmarking

KPIs – Service effectiveness

Reflect how well the actual outputs of a service achieve the agency's stated purpose of the service and contribution to whole-of-government outcomes

Effectiveness

“A propensity by departments ... to use output-based standards of the quality and timeliness of their services as proxies for service effectiveness”

“Measure of service quality are, at best, indirect indicators of effectiveness. The quality of a service can be quite high but still not be effectiveness; eg clients of a weight loss clinic may be very satisfied with the service but not have lost any weight”

Focus on KPIs



Indicators

Important/key

High-level

Economy, Efficiency &
Effectiveness

Thank you