



DEPARTMENT OF HEALTH

Internal Audit of Corporate Plan Performance Reporting and Performance Indicators

Final Report
May 2018

For additional inquiries, please contact:
Susan Ryan
Managing Director
12 / 14 Moore Street Canberra ACT 2601
Phone: (02) 6113 3904
Email: susan.ryan@protiviti.com.au



Timeline

Milestone	Dates
Entry Interview	15 February 2018
Approved Audit Plan	13 March 2018
Commence Fieldwork	19 March 2018
Completion of Fieldwork	27 April 2018
Draft Report to Department's Internal Audit team	10 May 2018
Draft Report to Audit Sponsor	14 May 2018
Final Report including Management Comments	22 May 2018
Final report provided to the Audit Committee	June 2018
Completion of the Audit Satisfaction Survey	May 2018

Sign-Off

I acknowledge the findings and recommendations enclosed in this report and undertake to have the agreed actions completed within the identified time frame.

.....
Charles Wann
First Assistant Secretary
Financial Management Division
Department of Health

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Susan Ryan
Managing Director
Protiviti



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1. Executive Summary

1.1 Background

In the 2017-18 financial year, the Department of Health (the Department) was budgeted to spend \$87.9 billion on health and aged care. Under the enhanced Commonwealth performance framework, comprised by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule), the Department is accountable to the Parliament and the Australian community for demonstrating whether Departmental staff and public money have been used efficiently to achieve meaningful results. There have been multiple sources of guidance issued from the Department of Finance and the Australian National Audit Office (ANAO), including the most recent Department of Finance 'The Enhanced Commonwealth Performance Framework, 2016-17 Annual Performance Statements: Lessons Learned' (April 2018).

To meet this requirement, the Department uses the Portfolio Budget Statement (PBS), the Corporate Plan and the Annual Performance Statement to measure current performance of the Department against planned targets (listed in the PBS and Corporate Plan), enabling the Department to demonstrate progress towards meeting the six key outcomes and fulfilling its overall purpose to the public.

The enhanced Commonwealth performance framework driven by the PGPA Act creates various obligations on Commonwealth entities with respect to performance reporting. As organisations, including the Department, update their performance frameworks and refine their measures to meet these requirements, these changes must necessarily be undertaken in phases in line with public reporting cycles.

The Department is currently in the process of developing a draft performance measurement and reporting framework to enhance its performance reporting capability. Under this draft framework, the draft 2018-19 PBS has been refined, reducing the number of performance measures down from 100 to 87, enabling a more targeted approach to the assessment of performance across all program areas.

Management are aware of the weaknesses in the Department's previous approach to performance reporting in meeting the requirements of the enhanced Commonwealth performance framework and are developing and rolling out a formal performance framework to address known gaps. The recommendations in this report are aimed at supporting the Department as it defines its performance framework.

1.2 Overall Audit Conclusions

The objective of the internal audit was to examine the Department's framework for identification, selection and design of Corporate Plan performance criteria and assess the Department's processes for the collection, quality assurance and analysis of the corresponding performance data. Overall we found that there are a number of weaknesses in the identification, selection and design of performance measures in the Corporate Plan. These weaknesses in the design of measures and quality of data to report against measures found in the Department are common across agencies, as identified in the recent Department of Finance 'The Enhanced Commonwealth Performance Framework, 2016-17 Annual Performance Statements: Lessons Learned' (April 2018). While the Department is in the process of designing a performance framework to address known weaknesses, these changes will need to be supported by senior management and clearly defined protocols and processes documented to support the implementation of the new performance framework.

Additionally, for a sample of all five measures we found the Department has weaknesses in the collection, quality assurance and analysis of performance information. However, we note the draft performance framework has been designed to address the known weaknesses.

The internal audit identified two recommendations to support continuous improvement to the



framework and improve performance reporting for the upcoming 2017-18 annual performance statement. The recommendations reflect the need to develop performance measures to provide sufficient quantitative and qualitative data and to strengthen the quality assurance around the performance data collected.

1.3 Summary of Findings and Recommendations

The findings and recommendations raised in this review are summarised in the below table. The risk rating associated with the recommendation reflects the assessment of consequence and likelihood of the related risk exposure of the finding using the Department's Risk Management Matrix and definitions included in **Attachment A**.

Finding	Recommendation	Risk Rating
Finding 1: Limited formal guidance on protocols for regular review of performance measures	Recommendation 1: FMD should: a) Update and roll out the new performance framework which includes clear protocols for regular reviews of performance measures (not included in the new framework) to address Finding 1. b) Create a roadmap which shows: <ul style="list-style-type: none">How the Department will achieve alignment between the performance framework components (Corporate Plan, PBS and Annual Performance Statement) over time in line with Department of Finance guidance to address Finding 2;Timeline and approach for evolving all performance measures (specifically the process for identification, selection and design of the performance measures) in line with better practice guidelines to address Finding 3 and improve performance data as discussed in Finding 4;A plan to update the centralised database of performance information so that each performance measure is associated with a sufficient evidence base, as discussed in Finding 4;A timeline for showing how performance reporting already produced for public accountability mechanisms (such as senate estimates) can be collected and considered as interim monitoring for achievement of performance measures as detailed in the Corporate Plan. This is related to Finding 4; andA plan for implementing a risk-based approach for monitoring of performance measures in line with Finding 5.	Medium
Finding 2: Limited alignment between performance framework components		
Finding 3: Weaknesses in the identification, selection and design of the performance measures		
Finding 4: Weaknesses in collection of performance data		
Finding 5: Weaknesses in quality assurance		
Finding 4: Weaknesses in collection of performance data	Recommendation 2: FMD should roll out key components of the draft quality assurance and performance collection processes to address the weaknesses in record keeping (Finding 4), performance data (Finding 4), and quality assurance (Finding 5) in time for the 2017-18 Annual Performance Statement exercise. This should specifically include the approval and 'check and challenge' templates in line with ANAO principles.	Medium
Finding 5: Weaknesses in quality assurance		

1.4 Management Comments

Management agrees with and accepts the findings and recommendations in this report. A number of



activities and projects are planned or already underway that will address the recommendations, including:

- the new Performance Reporting and Measurement Framework and supporting artefacts, scheduled to be launched on 1 July 2018;
- a project to streamline, improve and align performance information consistent with Department of Finance guidance;
- improved collection and monitoring processes, including the development of a centralised database to be accessible on the Department's Intranet page.

The Department also acknowledges the need for senior management to support the implementation of the new performance framework and associated activities to improve performance information.

1.5 Restriction of Use

This report is intended solely for use by the Department of Health, and should not be distributed to any third party without the consent of Protiviti, which will not be unreasonably withheld. This document is not to be used for any other purpose, except as required by law, without our prior express consent.



2. Background, Objective, Scope and Approach

2.1 Background

The Department leads and shapes Australia's development of health policies to improve the health and wellbeing of all Australians.

The *Public Governance, Performance and Accountability (PGPA) Act 2013*

Since the introduction of the PGPA Act which came into effect on 1 July 2014, there has been increased focus on the design and measure of key performance indicators (KPIs) of public organisations. The enhanced Commonwealth performance framework, comprising the PGPA Act and the PGPA Rule, promotes the use of performance information that can draw clear links between the use of public resources and the results achieved¹. The Department is required to adopt the framework in measuring and reporting on the performance of its activities. This includes a statutory obligation to prepare corporate plans each financial year.

The Department of Finance has issued a range of Resource Management Guidelines (RMGs) in relation to the enhanced Commonwealth performance framework prescribed within the PGPA Act. These include:

- RMG No.130 - Overview of the enhanced Commonwealth performance framework;
- RMG No.131 - Developing good performance information;
- RMG No.132 - Corporate plans for Commonwealth entities;
- RMG No.134 - Annual performance statements for Commonwealth entities; and
- RMG No.135 - Annual reports for non-corporate Commonwealth entities.

The Corporate Plan must include the planned performance of the entity including details of the methodology, data and information that it will use to measure and assess its performance.²

In addition to the RMGs there have been multiple sources of guidance issued from the Department of Finance and the Australian National Audit Office (ANAO), including the most recent Department of Finance 'The Enhanced Commonwealth Performance Framework, 2016-17 Annual Performance Statements: Lessons Learned' (April 2018).

Performance Reporting in the Department

The Department's performance outcomes for the next four years are contained in the 2017–18 Health Portfolio Budget Statements (PBS), under six outcomes.

1. Health system policy, design and innovation
2. Health access and support services
3. Sport and recreation
4. Individual health benefits
5. Regulation, safety and protection
6. Ageing and aged care

The *Department of Health Corporate Plan 2017-18* outlines 18 measures to support these six

¹ Resource Management Guide No. 130, *Overview of the enhanced Commonwealth performance framework* (April 2015), Department of Finance, pg. 4.

² Resource Management Guide No. 132, *Corporate plans for Commonwealth entities* (January 2017), Department of Finance



outcomes. The full list of the Department's 100 performance measures and their targets is contained in the 2017–18 *Health PBS*. The Department has previously revised the performance framework, where it reduced the number of performance measures from 200 to 100. The Department is continuing to review the performance framework.

Ongoing Developments

The enhanced Commonwealth performance framework driven by the PGPA Act creates various obligations on Commonwealth entities with respect to performance reporting. As organisations, including the Department, update their performance frameworks and refine their measures to meet these requirements, these changes must necessarily be undertaken in phases in line with public reporting cycles.

The Department has developed a draft performance measurement and reporting framework. Under this draft framework, the draft 2018-19 PBS reduces the number of performance measures to 87. The new performance measurement and reporting framework will also include the following key features:

- 'Check and challenge' of each performance measure by FMD in line with ANAO guidance;
- First Assistant Secretaries (FAS) to provide clearance and assurance of the PBS content relevant to their area of responsibility;
- An update of the performance information in the 2018-19 Corporate Plan;
- Risk rating to be applied to each measure to determine whether they are supported by appropriate level of assurance and to test veracity of data;
- A new process for how the integrity of performance information published in the Department's 2017-18 Annual Performance Statements will be quality assured; and
- A working group with range of stakeholders to undertake a review of program performance measures.

Further details on the performance framework including a high-level timeline are included in **Attachment B**.

2.2 Objective

The internal audit examined the Department's framework for the identification, selection and design of Corporate Plan performance criteria and assessed the Department's processes for the collection, quality assurance and analysis of the corresponding performance data.

2.3 Scope

The scope of the internal audit included:

1. Understanding and documenting the Department's performance framework for the identification, selection and design of performance measures and the collection, quality assurance and analysis of the corresponding performance data;

For a sample of performance measures, the internal audit:

2. Examined the processes for 'identification' and 'selection' of performance criteria to assess whether performance criteria linked with policy/ program objectives;
3. Assessed whether the 'design' of metrics and targets comprehensively support the performance criteria;
4. Assessed whether the 'collection' of performance data is produced in a timely manner from an appropriate and reliable source;
5. Assessed whether 'quality assurance' processes have been completed by an appropriate person, and provide for sufficient validation; and



6. Assessed whether 'analysis' methodologies produced unbiased results that link to performance criteria and targets and tell a "story" about performance over time.

2.4 Scope Limitations

The scope of this internal audit did not include:

- Any legal advice in relation to compliance with the enhanced Commonwealth performance framework, comprising of the PGPA Act and the PGPA Rule;
- Advice on how actual performance is tracking against the Department's outcomes and KPIs;
- A review of the full financial year data sources for the 2017-18 Annual Performance Statement, as this audit was limited to assessing a sample of performance data sets starting from the period 1 July 2017 to the date of fieldwork;
- An assessment of the Department's compliance with other financial obligations outlined in the PGPA Act; or
- An assessment of the Department's performance framework against the six KPIs in the Australian Government's Regulator Performance Framework (RPF) (except to the extent that they overlap with PGPA performance measures).

The assessments made during this internal audit have been provided in good faith and in the belief that such statements and opinions are not false or misleading. Due to the limited duration of the internal audit, Protiviti has relied on information that was provided by the Department. Protiviti does not express an opinion as to whether the information supplied is accurate and no warranty of accuracy or reliability will be given. Furthermore, we have not implied and it should not be construed that we have verified the information provided to us, or that our enquiries could reveal any matter that a more extensive examination might disclose.

The Department is responsible for maintaining an effective internal control structure. The purpose of the internal audit was to assist management in discharging this obligation. Due to the inherent limitations in any internal control structure, it is possible that errors or irregularities might have occurred and have not been detected. Further, the overall control environment within which the reviewed control procedures operate has not been audited.

Please note that an internal audit is not designed to detect all weaknesses in control procedures as the audit is not performed continuously throughout the period and the tests performed were conducted on a sample basis. Any projection of the evaluation of the control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Considerable professional judgement is required in determining the overall assessment. Accordingly, others could evaluate the results differently and draw different conclusions.



3. Positive Practices

We identified that the following positive practice within the current performance framework.

Updates to the Performance Framework

While the audit findings identify a number of areas for improvement in performance management, relevant management in the Department are aware of the gaps in the performance framework and have made efforts to improve the performance framework. Ongoing improvements include the implementation of the three lines of defence model and the design of quality assurance processes relating to performance monitoring. While many of these initiatives are still being developed, they represent a positive step for continuous improvement of the framework to more closely align with better practice.

Appropriate FAS sign-off

For the sample of performance measures reviewed for the 2017-18 reporting period, we identified that all five measures had received the appropriate FAS approval and sign-off.



4. Findings

4.1 Finding 1: Limited Formal Guidance on Protocols for Regular Review of Performance Measures

While we note there is a new performance framework being rolled out, this needs to be supported by clearly defined guidance on protocols for regular review of performance measures to accurately reflect, and evolve, the Department's performance story.

Discussion

While the Department has recently developed the draft performance framework and reduced the number of performance measures from 200 to 100, based on stakeholder discussions and measures sampled, the content of the performance measures has largely remained unchanged since they were first developed. The performance measures do not necessarily reflect current priorities and better practice principles for development of performance measures provided by the Department of Finance and the ANAO (as outlined in the RMGs). This is discussed below in Findings 2 and 3. We note there have been previous consultations by FMD to drive updates to performance measures however, this has achieved only incremental improvement. For example, the International Policy Engagements program performance measure has largely remained the same since the 2007-08 PBS as shown in the table below:

	2007-08	2017-18
Title	International Policy Engagement	International Policy
Performance criteria	Effective international health policy engagement	Engaging internationally on health issues.
Measure	Feedback from international organisations.	Australia's health system integrates evidence-based international norms and standards and remains at the forefront of international best practice.
Target	Domestic health policy informed by international experience. Australian contribution to health policy and programs in our region acknowledged.	Australia's engagement and active participation at the World Health Organisation, the Organisation for Economic Co-operation and Development Health Committee and Asia-Pacific Economic Cooperation Health Working Group contributes to development and adoption of international best practice, improved governance and focus on identifying and responding to global health security.

As shown above, the performance criteria wording has undergone minor changes, but the performance information and data sources for the measure remain unchanged.

While the continuation of a measure over time is not in itself problematic, limited updating of performance measures is problematic because:

- Performance measures have not been updated to meet Department of Finance or ANAO better practice (as discussed later in Finding 3) to be robust and measureable;
- There are long-standing performance measures that are not viewed by internal stakeholders as being meaningful, as they have limited value in measuring performance of the program and the overall outcome; and
- Long-standing and outdated performance measures may not clearly link to current organisational priorities preventing the Department from making appropriate decisions around planned



performance and resourcing.

Discussions with internal stakeholders have identified the following potential barriers to making significant change to performance measures:

- There is a perception that there is limited opportunity to adjust performance measures given the tight timetables to develop PBS, Corporate Plan and Annual Performance Statements; and
- There is resistance to change from the business areas (with the mindset that the measures have always been done this way).

While we note there is a new performance framework being rolled out, this needs to be supported by senior leadership and clearly defined guidance on protocols for regular review of performance measures so that information is updated to accurately reflect the Department's performance story.

Risk Exposure

Outdated performance measures caused by lack of review by owners of performance measures will result in ineffective performance measures and targets. This will also result in poor planning of resources to meet business priorities.

4.2 Finding 2: Limited Alignment between Performance Framework Components

There is currently a lack of clarity and alignment in the linkage between the performance framework's key components, specifically between the Corporate Plan, PBS and Annual Performance Statement. This is not in line with the better practice issued by the Department of Finance.

Discussion

RMG132 states that 'it is important for the PBS and the Corporate Plan to work together and complement each other to ensure a consistent performance story is able to be presented in the annual performance statements'. This is illustrated in the below diagram:

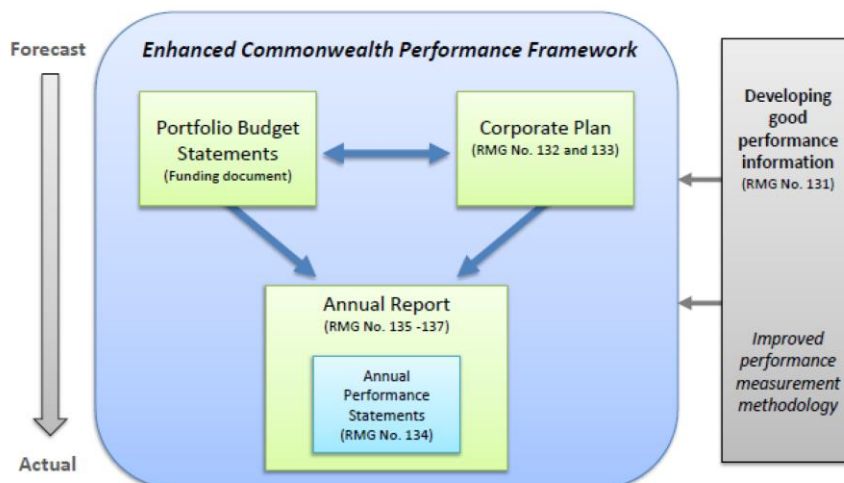


Figure 1: The enhanced Commonwealth performance framework

This emphasis on alignment is confirmed in the Department of Finance's most recent guidance³ which affirms the following two principles:

1. **Clear alignment to entity purposes** – wherein annual performance statements should allow the reader to form a judgement as to how the entity has performed against the measures in its Corporate Plan and PBS; and

³ Department of Finance, *The Enhanced Commonwealth Performance Framework, 2016-17 Annual Performance Statements: Lessons Learned* (April 2018).



2. **The importance of ensuring a clear read between performance documents** – which indicates that clear structuring and mapping of performance information across the PBS, Corporate Plan and Annual Performance Statement, is important to allow the reader to follow the relationship between the documents.

The Department's Corporate Plan currently does not meet the above guidance and there are gaps between various components of the performance framework and Department of Finance guidance as shown in the table below:

Better Practice	Current State and Gaps
As stated in RMG 134, 'all performance criteria published in the Corporate Plan and PBS must be attributed to purpose(s) (e.g. strategic priorities) and reported against in the Annual Performance Statement'.	The performance measures in the 2016-17 Annual Performance Statement are reported against six outcomes (rather than the four strategic priorities outlined in the Corporate Plan), creating unclear alignment between the two performance documents and how each of the programs/performance measures listed in the PBS worked towards achieving the strategic objectives stated in the Corporate Plan. Gap: The Annual Performance Statement links strongly to the PBS, but there is not clear alignment with the Corporate Plan.
RMG 132 recommends entities use the Corporate Plan to provide detailed performance criteria to expand on the high-level measures in the PBS. The RMG states that 'entities must explain how they will measure and assess their performance in achieving their purposes over the reporting periods covered by the Corporate Plan'.	Currently the Department's Corporate Plan is not used in this manner for performance reporting and is instead a summary interpretation of the PBS with no mechanism in place to compensate for this misalignment. The measures listed in the 2016-17 PBS are not listed in the 2016-17 Corporate Plan. This was evident with the 2017-18 performance documents, with only a sample of the 2017-18 PBS measures listed in the 2017-18 Corporate Plan. Gap: The Corporate Plan does not expand on the PBS.

Accordingly, there are limited linkages between the Department's Corporate Plan, PBS and Annual Performance Statement which do not fully reflect the Department of Finance guidance. In instances such as the above where an agency does not align with better practice we recommend the agency prepare a roadmap with a plan on how to meet the better practice over time. We understand that, given the significant number of performance measures, it will not be efficient for the Department to create the linkages between the Corporate Plan, PBS and Annual Performance Statement in 2017-18 or 2018-19. However, once the number of performance measures is significantly reduced, it will be more appropriate to create this linkage to confirm compliance with the most recent Department of Finance guidance and to provide an enhanced 'performance story'.

Risk Exposure

Unclear alignment between the Corporate Plan, PBS and Annual Performance Statement will increase the likelihood of non-conformance to Commonwealth better practice, and an unclear performance story.

4.3 Finding 3: Weaknesses in the Identification, Selection and Design of Performance Measures

The Department's performance measures do not align with the quantitative and qualitative requirements of ANAO better practice requirements.

Discussion

The ANAO has reported that quality performance measures should have the following six characteristics that have been grouped into three categories, which are represented in the diagram below. This criteria in

combination with the RMGs has been used as a diagnostic tool to assess the Department's identification, selection and design of performance measures for a selection of 2017-18 performance measures.

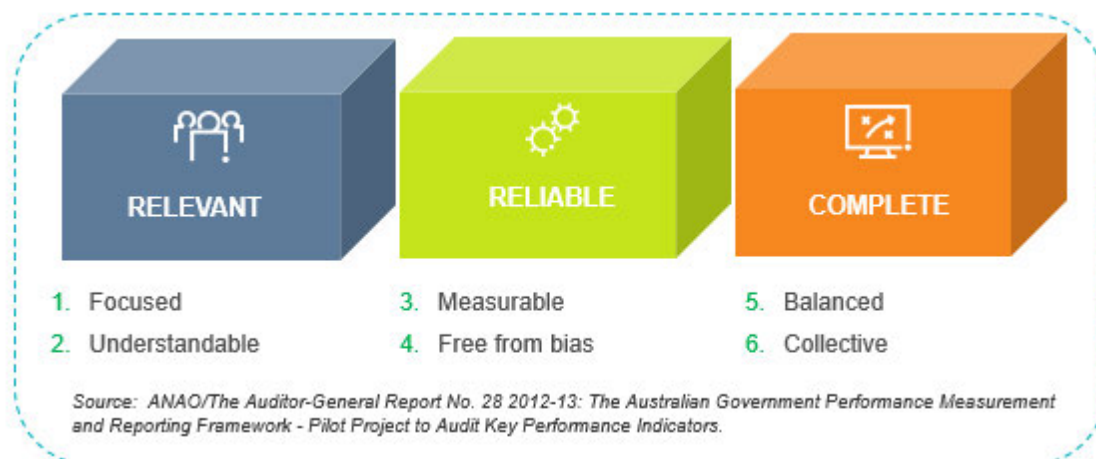


Figure 2: ANAO Diagnostic Tool for Performance Measures

We applied the above diagnostic tool to a sample of measures detailed in **Attachment C**. Programs included in this assessment were Programs 1.4, 1.5, 2.7 and 6.2. We identified the following key weaknesses across samples 1.4, 1.5 and 2.7 (with 6.2 being considered compliant):

- **Limited measurability:** The associated indicators were mostly qualitative making it difficult to show trends of the performance over time. Limited metrics or quantifiable data is used, providing a challenge to identifying trends of performance. For example, in Program 1.5 International Policy the measures of 'integration of norms' and 'strengthening relationships' are difficult to measure.
- **Risk of bias:** The measures were ambiguous and vague, increasing the possibility of misinterpretation and bias of performance assessment. Additionally, there was a lack of strong data sources and measurements. (This is shown in the below case study).
- **Lack of balance:** There was limited balance in the measures. There was limited combination of qualitative and quantitative measures to tell a performance story. For example, in Program 1.4 (Health Peak and Advisory Bodies) which references maintaining agreements with health-related national peak and advisory bodies there is limited detail in the measure about how these agreements facilitate two way communication, and whether the Department is engaging with the correct bodies or receiving the correct information.
- **Limited representation as a collective:** The information supporting the individual indicators contains gaps (in completeness of story, links to outcomes and mix of qualitative and quantitative data) which undermines the ability to fully represent performance of the outcome. For example in program 1.5 (International Policy) there is an incomplete story about how references international fora and Memorandums of Understanding achieved the desired outcome.



Case Study: Program 1.4 -Health Peak and Advisory Bodies.

This program is required to report against the performance criteria – ‘Engaging with the health sector to communicate and facilitate the development of informed health policy’ and the target for 2017-18 financial year is to ‘maintain agreements with health-related national peak and advisory bodies in order to harness input into the Australian Government’s health agenda, through information sharing and relevant, well-informed advice’.

This performance measure is high-level, ambiguous and does not allow the program owner to provide a meaningful performance story for the Department to reflect on. To meet the performance measure’s target, the Department can continue the current 22 agreements with health-related national peak and advisory bodies. Accordingly, the current measure is focused on activities, rather than outcomes. Through discussions with management we identified value and outcomes (resulting from engagement activities) through the agreements. However this is not shown in the performance story as presented.

For the sample of measures reviewed four out of five did not meet most aspects of the ANAO better practice with respect to design of performance measures. As the Department reduces and reviews its performance measures, it should take into consideration the ANAO better practice principles to assist in shaping the individual performance measures and overall performance story.

Risk Exposure

Insufficient design of performance measures will increase the likelihood result in an incomplete or inaccurate performance story.

4.4 Finding 4: Weaknesses in Collection of Performance Data

There are weaknesses in the framework for the collection of performance data, including inaccurate central record-keeping with regards to data sources

Discussion

Good Quality and Insightful Data

The Department of Finance has indicated that record-keeping and good quality data is key to effective performance reporting and the management of activities. The Department of Finance has emphasised that this is particularly important when performance criteria are not well designed⁴:

‘Entities with poor performance criteria can further enhance the technical aspects of their annual performance statements to help them to present a meaningful performance story. This can be done by developing good quality and insightful data that helps the entity to measure its performance results, their impact on stakeholders, and in delivering the results sought by government, and the efficiency and effectiveness with which the entity carries out its role and achieves its purposes.’

While the measures sampled indicate that the performance measures of the Department have gaps in design, there is an opportunity to improve the performance story through collection and use of good quality data. This is shown in the case study on the following page:

⁴ Department of Finance, *The Enhanced Commonwealth Performance Framework, 2016-17 Annual Performance Statements: Lessons Learned* (April 2018).



Case Study: Program 2.7 - Hospital Services

This program is measured against a high-level and ambiguous performance criteria – ‘supporting the States and Territories to deliver efficient public hospital services through providing advice to the Minister and external stakeholders in relation to public hospital funding policy’. The design of this performance measure does not meet the ANAO diagnostic tool (as shown in Attachment C).

Under Finance’s guidance, such a measure (even if insufficient by design) could be improved through use of high quality and insightful data. However, the key data sources used to assess performance focuses on key dates (e.g. cabinet meetings) and does not use data sources that identify what advice was provided and how the program impacted the delivery of public hospital services. The central record system for this program identifies the source data as ‘internal’ and the record source is listed as ‘PDMS Ministerial Correspondence’ without any further reference to underlying records or a TRIM link.

This represents a missed opportunity to enhance the technical aspects of the performance story through quality and insightful data that is supported by sufficient records.

Public Accountability Mechanisms

There is limited use of additional reporting channels to feed into the performance framework. There is an opportunity to incorporate other reporting channels, such as senate estimates, to leverage existing performance information and use it to show interim monitoring of performance measures in between annual cycles.

Risk Exposure

Insufficient data sources used to support performance measures will result in a distortion of performance results, resulting incorrect reporting of information.

Insufficient quality of performance information will compromise the integrity of performance reporting.

4.5 Finding 5: Weaknesses in Quality Assurance

There is limited evidence of quality assurance activities conducted on performance reporting data. The current approval process does not enable transparent and complete supporting data and reflects limited application of the agreed risk hierarchy against performance reporting evidence.

Discussion

For the approval process, Program Owners should provide all performance information (including supporting data) for each of the performance measures to allow the approver/senior responsible officer to make a well-informed decision about the measure and its current performance.

We have identified there are limited quality assurance activities currently conducted on performance reporting. This includes:

- **Approval process for PBS and Annual Performance Statement:** For the sample reviewed, the Department’s approval process does not provide supporting data when presenting the performance measure to the appropriate internal stakeholder for approval. For example, when program owners presented their performance measures to the relevant FAS for sign-off for the 2017-18 PBS and 2016-17 Annual Performance Statement, the FAS was only provided with the performance criteria, performance measure and its targets (which is all that is included in the published 2017-18 PBS and 2016-17 Annual Performance Statement). There was no supporting performance information on how the sample measures were assessed against performance and what data sources were used to report against targets.
- **Limited ‘check and challenge’:** There has been limited defined processes to support the FMD in checking and challenging the performance information contained within the Annual Performance Statement. We acknowledge that the new draft performance framework will seek to strengthen this



process through application of ANAO principles⁵ and we support this. We note that in the new performance framework there is a design for a risk-based approach to the level of “check and challenge” implemented and we support this including the use of tiered quality assurance checklists.

Risk Exposure

Limited check and challenge of performance information for the annual report will increase the likelihood of inaccurate and unreliable performance information being provided to the public.

⁵ Including ANAO Report No.282012-13 *The Australian Government Performance Measurement and Reporting Framework*.



5. Recommendations

The following recommendations are made in response to all the findings noted in this audit:

Recommendation 1	
Risk Rating	Medium (Consequence: Moderate. Likelihood: Unlikely)
Recommendation 1: FMD should:	
a) Update and roll out the new performance framework which includes clear protocols for regular reviews of performance measures (not included in the new framework) to address Finding 1.	
b) Create a roadmap which shows:	
<ul style="list-style-type: none">How the Department will achieve alignment between the performance framework components (Corporate Plan, PBS and Annual Performance Statement) over time in line with Department of Finance guidance to address Finding 2;Timeline and approach for evolving all performance measures (specifically the process for identification, selection and design of the performance measures) in line with better practice guidelines to address Finding 3 and improve performance data as discussed in Finding 4;A plan to update the centralised database of performance information so that each performance measure is associated with a sufficient evidence base, as discussed in Finding 4;A timeline for showing how performance reporting already produced for public accountability mechanisms (such as senate estimates) can be collected and considered as interim monitoring for achievement of performance measures as detailed in the Corporate Plan. This is related to Finding 4; andA plan for implementing a risk-based approach for monitoring of performance measures in line with Finding 5.	
Management Comments	
Accepted and Agreed.	
Accountable Position	Agreed Completion Date
First Assistant Secretary, Financial Management Division	a) 31 August 2018 b) 31 October 2018

Assurance

The following will provide assurance that the risk has been managed:

- Updated performance framework which includes clear protocols for regular reviews of performance measures;
- Roadmap for the performance framework (which includes details on alignment of performance framework components, timeline for the evolution of measures, a plan for an updated database, a plan for implementing risk based monitoring, and a plan for inclusion of public accountability mechanisms); and
- 2019-20 PBS and Corporate Plan measures (which show a reduction in number of performance measures).



Recommendation 2

Risk Rating

Medium

(Consequence: Moderate. Likelihood: Unlikely)

Recommendation 2: FMD should roll out key components of the draft quality assurance and performance collection processes to address the weaknesses in record keeping (Finding 4), performance data (Finding 4), and quality assurance (Finding 5) in time for the 2017-18 Annual Performance Statement exercise. This should specifically include the approval and 'check and challenge' templates in line with ANAO principles.

Management Comments

Accepted and Agreed.

Accountable Position

Agreed Completion Date

First Assistant Secretary, Financial
Management Division

31 August 2018

Assurance

The following will provide assurance that the risk has been managed:

- Spot check results on the performance data provided for the 2017-18 Annual Performance Statement which show compliance with the new quality assurance processes.



6. Observations

During the audit, we identified the following observations that the Department should consider in its endeavours to continuously improve and enhance its management of performance reporting.

6.1 Observation 1: Limited Interim Monitoring

There is limited interim monitoring of performance throughout the year. Program owners are only required to report against the PBS and Corporate Plan annually. There is limited monitoring of progress to regularly check whether the measure's target will be achieved by the end of the financial year. As the measures are updated to meet ANAO requirements, there may be opportunity to create more regular tracking to provide early indicators of when criteria are not being met. This interim monitoring may not be required for all performance measures, but may be appropriate for a selection of measures.

6.2 Observation 2: The Role of the Program Assurance Committee

The Program Assurance Committee (PAC) is being rolled out (in accordance with the newly developed performance framework) to provide oversight and assessment of 28 program groups, and monitor performance and effectiveness. However, the PAC will primarily rely on a self-assessment tool rather than objective data. For this to add value there will be need to be clear definition of where this PAC sits in the Department's assurance framework. .

6.3 Observation 3: External Data Sources

We note that many of the Department's performance measures rely on external data sources. This is not in itself problematic, as it is expected that a mature performance framework utilises both internal and external data to provide a complete performance story. However, it is important that the level of reliance on data outside of the Department's control is factored into the quality assurance framework on performance reporting. We note the new performance framework contains a risk-assessment to tier the approach to quality assurance based on the risk relating to data, including those from external sources and we support this approach.

6.4 Observation 4: The Role of the Audit and Risk Committee

We note that there has been ongoing work to address known weaknesses in the performance framework. This has been a journey that has been closely monitored by the Audit and Risk Committee and we encourage this continued oversight as the new performance framework is rolled out.



Attachment A: Risk Rating Definitions

This internal audit report includes a range of findings and observations. The risk exposure of these findings and observations have been identified based on the internal audit work performed. A risk rating associated with the findings has been determined based on an assessment of the consequence and likelihood of the related risk exposure of the finding. We have used the Department Risk Assessment Matrix at Diagram 3.

Opportunities have been identified to address each finding / observation. Diagram 4 provides an outline of the expected management response to, and monitoring of, recommendations. This has also been taken from the Department's Risk Management Framework.

Diagram 3: Risk Assessment Matrix


 Australian Government Department of Health			RISK ASSESSMENT MATRIX				
Date Approved:			Likelihood				
			Rare	Unlikely	Possible	Likely	Almost Certain
General description of Consequences			Exceptional circumstances only	Not expected to occur	Could occur at some time	Will probably occur in most circumstances	Expected in most circumstances
Consequence	Would stop achievement of functional goals/objectives	Severe	High	High	Extreme	Extreme	Extreme
	Would threaten functional goals/objective(s)	Major	Medium	Medium	High	High	Extreme
	Requires significant adjustment to overall function to achieve objective(s)	Moderate	Medium	Medium	Medium	High	High
	Would threaten an element of the function and would require some adjustment to achieve objective(s)	Minor	Low	Medium	Medium	Medium	High
	Lower consequence to achievement of objectives.	Insignificant	Low	Low	Low	Medium	Medium

Diagram 4: Risk Tolerance

Rating	Risk Tolerance Table – Action Required
Extreme	Must be given immediate senior management attention. Risk assessment and approved plan, including treatments, must be undertaken.
High	Must have considerable management attention to reduce risk to as low as reasonably possible. Risk assessment and approved plan, including treatments, must be undertaken.
Medium	Risk should be managed and monitored. Risk assessment and approved plan required. If controls are working effectively then additional treatments are optional.
Low	Risk should be managed and risk and controls monitored.



Attachment B: Timeframe for Performance Framework Update

The below table identifies the timeframe for key assurance and oversight activities in the updated in the performance framework, as outlined in the document 'Draft performance measurement and reporting framework - 2018 assurance activities' (21 March 2018).

Deliverable	Timeframe	Assurance and Oversight Activities
2018-19 Portfolio Budget Statements	December 2017 – May 2018 Status: Underway	<ul style="list-style-type: none">FMD to monitor compliance with statutory reporting requirements.Each performance measure 'checked and challenged', with recommendations made in accordance with guidelines, ANAO reports and Joint Committee of Public Accounts and Audit findings [FMD].FAS to provide clearance and assurance of the PBS content relevant to their area of responsibility. Assurance relates to accuracy, adherence to PGPA Act reporting requirements and record keeping.Ministerial and accountable authority approval.
Performance Information in 2018-19 Corporate Plan	March – July 2018 Status: To commence shortly	<ul style="list-style-type: none">FMD to monitor compliance with statutory reporting requirements.Extract of performance measures to be developed in accordance with guidelines and recommendations from internal audit and other oversight mechanisms. [FMD/program owners]Proposed performance measures to be provided to Audit and Risk Committee in June for feedback. Copy of draft Corporate Plan to be provided out of session, depending on timing.
2017-18 Annual Performance Statements	June – October 2018	<ul style="list-style-type: none">FMD to monitor compliance with statutory reporting requirements.Risk rating to be applied to each measure to determine whether they are supported by appropriate level of assurance and to test veracity of data.Program owners to provide updates on performance targets.'Check and challenge' in relation to performance reporting content, with recommendations made in accordance with guidelines, ANAO reports and JCPAA recommendations [FMD].FAS to provide clearance and assurance of the Annual Performance Statement content relevant to their area of responsibility. Assurance relates to accuracy, adherence to PGPA Act reporting requirements and record keeping.Draft Annual Performance Statements to be provided to ARC for early feedback.Ministerial and accountable authority approval.
Review of Performance Measures	TBC – September – December 2018 (to inform next annual performance reporting cycle)	<ul style="list-style-type: none">Establish a working group with range of stakeholders to undertake a review of program performance measures.Apply risk framework and maturity model to all measures to inform how program owners are measuring performance.Amend and finalise performance measures for next reporting cycle.



Attachment C: Result of Diagnostic Tool

A summary of our assessment of the sample using the diagnostic tool is shown in the table below:

Sample of Performance Criteria	ANAO Diagnostic Tool	Comments	
Program 1.4: Health Peak and Advisory Bodies <u>Performance criteria:</u> Engaging with the health sector to communicate and facilitate the development of informed health policy. <u>Performance Measure:</u> Successfully harness the health sector to share information relating to the Australian Government's health agenda. <u>2016-17 Estimated Result:</u> The Department maintained agreements with health-related national peak and advisory bodies to disseminate information and provide advice on health issues, which were considered when health policies and program were developed.	Relevant	1	✓ (Focused): The estimated result addresses the performance criteria and details major activities by including reference to agreements.
		2	✓ (Understandable): The measure allows the reader to understand the performance criteria/program in plain English.
	Reliable	3	P (Measureable): The measure can partially be quantified since it refers to maintaining agreements (however, it does not specify the number). Therefore trends of performance cannot be measured or analysed. There should be further information about whether it is ideal to increase the number of agreements, to increase coverage or focus or the types of activities engaged in under the agreements.
		4	P (Free from bias): The results and performance information can be easily misinterpreted and open to bias when determining whether the target has been achieved. From the information provided, it may be difficult to ascertain if the agreements themselves drive quality and volume of contributions of health sector contributions to health policy. There are limited details in the measure about whether these agreements facilitate two way communication, and whether the Department is engaging with the correct bodies or receiving the correct information.
	Complete	5	✗ (Balanced): There are no quantitative measures in this measure, creating an unbalanced overall performance story. There needs to be sufficient data from a range of quantitative and qualitative sources. This may include further information about the performance criteria or the compliance reporting for funding arrangements (to show consultation with members, sharing information, contributions to the Department). It is unclear the actual impact on policy development these agreements have had from the current information provided.
		6	P (Collective): While the measure aligns to the objective, it is unclear the actual impact on policy development these agreements have had.



<p>Program 1.5: International Policy</p> <p><u>Performance criteria:</u> Engaging internationally on health issues.</p> <p><u>Performance Measure:</u> a. Australia's health system integrates evidence-based international norms and standards and remains at the forefront of international best practice. b. Australia's relationships with key countries are strengthened and its interest in health are supported.</p> <p><u>2016-17 Estimated Result:</u></p> <p>a. The Department actively engaged internationally to protect the health of Australians and advance Australian interests. Significant fora included the:</p> <ul style="list-style-type: none"> World Health Organisation Western Pacific Regional Committee meeting. Organisation for Economic Co-operation and Development Ministerial meeting and Health Committee. Asia-Pacific Economic Cooperation Senior Officials Meetings. Commonwealth Fund International Symposium. <p>b. The Department has worked to strengthen and invigorate long standing relationships as well as build new relationships with emerging countries in the Western Pacific region.</p> <ul style="list-style-type: none"> A health cooperation Memorandum of Understanding between Australia and the United States was signed in January 2017. India-Australia and Germany-Australia Memoranda of Understanding were completed in April and May respectively. <p>The Memoranda of Understanding provide platforms to form strategic partnerships on new health related technologies and to continue dialogue on managing global health challenges.</p>	Relevant	1	✓	(Focused): The estimated result links to the performance criteria and lists some major activities undertaken by the entity.
		2	✓	(Understandable): This measure allows the reader to understand the performance criteria and key activities undertaken in plain English.
	Reliable	3	P	(Measureable): The measures are not quantifiable as they are presented. No metrics are used so it is not possible to accurately measure performance and the trends. The integration of international norms cannot be measured, nor can the strength of relationships. Sufficient information is not provided around activities (e.g. what was the Department's contribution in these fora or the impact of the international engagement). It is not clear what the related outcome is for supporting 'interest in health'. The proxy metrics (such as the channels for international engagement) should be included in the measures so that it links to the estimated result. For example, stakeholder feedback or relationship surveys.
		4	P	(Free from bias): It is unclear whether these four listed fora represent achievement of the goal level of engagement, or whether there were areas where the Department intended to engage internationally but did not. For example, there is no reference to how or where international norms and standards have been integrated into the health system or the focus areas of the fora.
	Complete	5	P	(Balanced): There is opportunity to consider how Departmental input contributes towards the outcomes of the meetings. It is unclear whether increased MOUs and fora represent improved quality of international engagement. For example, there is no reference to how or where international norms and standards have been integrated into the health system or the focus areas of the fora.
		6	P	(Collective): It is unclear how international engagement is progressing as a whole. There is opportunity to discuss outcomes such as health related technology advancements or examples / case studies of the strength of relationships. However, this measure is currently focused on activities (MOUs and fora). The performance should clarify demonstrate the value from the selected fora and MOUs as chosen platforms for international engagement.



Program 2.7: Hospital Services <u>Performance criteria:</u> Supporting the States and Territories to deliver efficient public hospital services. <u>Performance Measure:</u> Provide advice to the Minister and external stakeholders in relation to public hospital funding policy. <u>2016-17 Estimated Result:</u> The Department provided advice and analysis in relation to public hospital funding, including development of the National Health Reform Agreement Addendum.	Relevant	1	P	(Focused): Delivery of program is unspecific and the performance cannot be measured as it does not provide specific targets/goals or major activities undertaken. This provides an unclear link to the program objective and how it is going to be achieved and measured against targets. As the criteria related to 'efficient' public hospital services, there should be a measure that demonstrates provision of advice to contribute to efficiency, including reform agendas.
		2	P	(Understandable): The measure allows the reader to understand the performance criteria/program. However, sufficient information is not provided around activities (e.g. it does not provide detail around how it will provide advice and analysis around hospital funding or how it will measure performance and achieve its targets). There is opportunity to include further information about the detail of the analysis being provided, such as case studies.
	Reliable	3	P	(Measureable): The measure can be considered measurable since advice was provided. However, there is no detail about the frequency, quality or detail of the advice. As there are no defined metrics, it is not possible to accurately measure performance and the trends and whether it has sufficiently achieved its targets. Consider qualitative measures such as case studies.
		4	x	(Free from bias): Due to the measure being qualitative, vague and the measure performance is based on a weak data source (e.g. key dates), performance information can be easily misinterpreted and open to bias when determining whether the target has been achieved. The provision of advice cannot necessarily be linked with the level of support to deliver efficient public hospital services. It is also unclear whether additional provision of advice to the minister would be considered a positive or negative impact.
	Complete	5	P	(Balanced): It is unclear whether there are other channels (such as engagement with states/territories) which should be considered as channels for supporting advice and whether the advice to the Minister is the key platform for providing support.
		6	P	(Collective): There is no detail on the collective outcomes. While management has an understanding of the positive outcomes (such as the level of state and territory agreement) this is not captured in this performance measure.



<p>Program 6.2: Home Support and Care</p> <p><i>Performance criteria: Providing home support for older people who need assistance to keep living independently.</i></p> <p><u>Performance Measure:</u></p> <ul style="list-style-type: none"> a. Commonwealth Home Support continues to assist older people to stay independent and live in their homes and communities for longer. b. The Commonwealth Continuity of Support Program continues to be implemented in a phased approach to support eligible older people with a disability. <p><u>2016-17 Estimated Result:</u></p> <ul style="list-style-type: none"> a. Services continue to be provided through the Commonwealth Home Support Program, including growth funding to support the changing needs and growth in Australia's ageing population. b. Commenced implementation of services in regions across Queensland, New South Wales and Tasmania. 	Relevant	1	✓	(Focused): The criteria/measures link to the program objective.
		2	✓	(Understandable): The measure allows the reader to understand the performance criteria/program.
	Reliable	3	P	(Measureable): The measure is not easily quantifiable and only states that the Department is implementing two programs to meet the program objective/outcome. There are no specific measurable targets that demonstrate the trend of performance (e.g. no metric measuring the progress of how many people are using each of the programs and whether this amount is increasing or decreasing, are recipients satisfied with the product, does it allow recipients to remain independent). There is limited detail concerning each measure's targets and what activities the Department are undertaking to increase the amount of people receiving home support or the Commonwealth Continuity of Support Program.
		4	P	(Free from bias): Due to the measure being high level, qualitative, vague, performance information/results can be easily misinterpreted and open to bias when determining whether the target has been achieved, as it is unclear whether the proportion of the population that is intended to be assisted is actually being assisted.
	Complete	5	✓	(Balanced): In the context of Program 6.2 there is a mixture of qualitative and quantitative measures, to provide information on activities.
		6	✓	(Collective): Overall, the measures show various qualitative and quantitative aspects of the activities engaged in to address the overarching objective.



Program 6.2: Home Support and Care <i>Performance criteria:</i> Providing older people access to a range of ongoing care services to keep living in their own homes <i>Performance Measure:</i> Provide support to older people with complex care needs to keep them living independently in their own homes through the Home Care Packages Program. a. Number of allocated Home Care Packages <u>2016-17 Estimated Result:</u> 90,763.	Relevant	1	✓	(Focused): The measure links to the program objective and contributes to the overall achievement of the outcome. The measure is targeted in regards to how it will deliver and meet the performance measure's targets.
		2	✓	(Understandable): The measure provides sufficient information concerning the delivery of the measure. It provides the reader with context around the selection of the Home Care Packages to recipients and the criteria the Department follow to select the most appropriate recipients.
	Reliable	3	✓	(Measureable): The measure is quantifiable – Number of allocated Home Care Packages provided to older people with complex care needs to keep them living independently in their own homes. This enables performance trends to be identified overtime. The overall dollar value of these packages could also provide a meaningful comparison overtime.
		4	✓	(Free from bias): Due to the measure being a metric and being based on a strong data source (Aged Care Planning Region (ACPR) and Home Care Packages Data Report), there is limited opportunity for misinterpretation. However, the dollar value may provide greater context.
	Complete	5	✓	(Balanced): In the context of Program 6.2 there is a mixture of qualitative and quantitative measures, to provide information on activities.
		6	✓	(Collective): Overall, the measures show various qualitative and quantitative aspects of the activities engaged in to address the overarching objective.

Legend:	Symbol
Meets criteria	✓
Does not meet criteria	✗
Partially meets criteria	P