

# Performance Measurement of Supreme Audit Institutions in 4 Anglo-Saxon Countries: Leading by Example

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## **I. Introduction**

In Japan, performance measurement has been introduced into government ministries and agencies since January 2001, and to independent administrative institutions since April of the same year. Nonetheless, throughout the country, a working system for performance measurement has yet to be established, and measures have not yet achieved their anticipated results. Also, even in advanced countries, such as America and many European nations (which Japan models itself after), performance measurement is still in the process of trial and error. The supreme audit institutions (SAIs) of these countries are currently conducting performance measures in order to establish the foundations for evaluation and improve their quality by leading other government agencies and government-funded institutions by example.

In this paper, as a reference for Japan's government ministries and agencies, as well as for independent administrative institutions, etc., in conducting performance measurement, I would like to introduce the type of performance measurement presently conducted by SAIs in Europe and America, and examine approaches to improve the quality of such measurement.

Specifically, as examples from advanced countries, this paper will introduce performance measurement as carried out in the following four countries: Australia, Canada, New Zealand, and the United States, where the author conducted field surveys between 2001 and 2002. (Please note that this paper presents the author's personal views and does not represent any official opinion of the Board of Audit of Japan.)

## **II. Objectives and Structure of Performance Measurement**

### **1. Objective of performance measurement**

The SAIs of advanced European and American nations to be introduced later in this paper evaluate their own performance in order to achieve the following objectives:

#### **(1) Fulfilling their accountability to the people**

SAIs are established as national agencies to achieve certain objectives (hereinafter termed "outcomes") and they are producing outputs to achieve such outcomes for the people. SAIs are therefore required to clearly demonstrate to the people the present and intended progress made in such activities, thereby fulfilling their accountability to the people. Accordingly, it is considered important for these institutions to explain in advance to the people what outcomes they plan to achieve through the production of outputs, identify the degree of progress they have made towards the achievement of these outcomes on a regular and continuing basis, and clearly and specifically present to the public the outputs produced and the outcomes achieved.

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## **(2) Achieving outcomes through the improvement of outputs**

In order to produce outputs, SAIs input resources obtained from the outside into their organizations and conduct organizational activities, including audits and audit support activities. It is therefore considered necessary for these institutions to identify the outputs produced and the outcomes achieved in their activities on a regular and continuing basis, and to improve outputs by empirically analyzing the effects of outputs on outcomes. To meet this requirement, the institutions need to timely and appropriately obtain information about the outputs produced and the progress made towards the achievement of outcomes. If they have not achieved sufficient outcomes as planned, they need to take any necessary measures at an early stage, such as improving outputs in terms of both quantity and quality.

## **2. Structure of performance measurement**

Performance measurement is basically conducted by setting the objectives to be achieved, identifying the actual results, and, if necessary, analyzing the reasons for the results falling below the expected level of achievement. To do this, it is necessary to formulate a plan that sets out a target period, specific details of the objectives to be achieved, measurable performance indicators and quantitative targets, etc. After the end of the target period, it is also necessary to evaluate quantitatively and objectively the progress towards the achievement of the predetermined objectives.

The SAIs of advanced European and American countries that will be introduced in this paper conduct performance measurement, systematically setting target periods and the subjects to be evaluated as explained below:

### **(1) Target period**

The basic outcomes to be achieved by SAIs are prescribed by the laws governing the establishment of these audit institutions. Specific objectives, however, are set in response to the government's policies, fiscal situation, and the problems caused by the external environment surrounding the institutions, such as the overall socioeconomic situation. These objectives should be maintained unless the external environment changes, and the effects of the outputs produced by SAIs often require a certain time to appear as outcomes. In consideration of the time passing before a change is made in the external environment, the time lag between outputs and outcomes, and other factors, SAIs need to make mid- to long-term plans, with a target period extending over multiple fiscal years. At the same time, within the institutions, budgets are drawn up annually. The activity cycles of these institutions are based on annual budgets, which financially support their activities. It is therefore logical to set their performance indicators and quantitative targets and measure the actual results on an annual basis. This enables the institutions to improve their outputs, both in terms of quantity and quality and to review the performance indicators and quantitative targets by comparing the quantitative targets and the actual results each year and analyzing the reasons if the level of attainment falls considerably low. As a result, the institutions need to systematically and consistently formulate an annual plan according to the objectives that they have set in their mid- to long-term plans. At the end of the target period of these mid- to long-term plans, the annual achievements can be analyzed chronologically and then the total achievement throughout the period can be comprehensively evaluated. Thus, in general, SAIs systematically formulate two plans: a mid- to long-term plan with a target period covering multiple fiscal years; and a single-year plan.

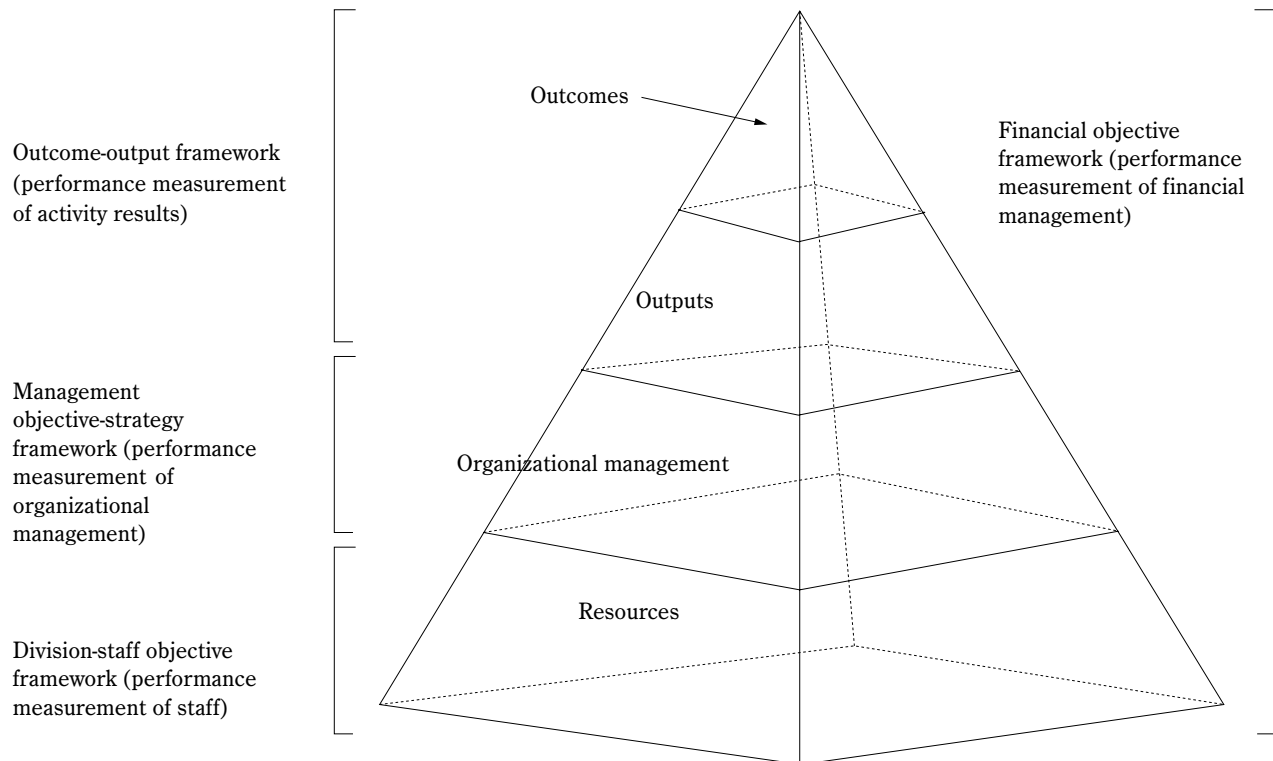
### **(2) Subjects to be evaluated**

The activity cycle of SAIs, as viewed from the relation between purpose and means, is composed of the following elements in a top-to-bottom direction: achievement of outcomes, production of outputs, organizational management, and input of resources. To achieve certain outcomes, it is therefore necessary to systematically and consistently analyze the hierarchical relationship between a purpose and the means in a downwards direction. Also, the activity cycle viewed from the relation between a cause and the result is composed of the following elements in an upwards direction: input of resources, organizational management, production of outputs, and achievement of outcomes. In order to analyze why sufficient outcomes have not been achieved, it is necessary to compare the actual results with the specific objectives and to analyze the degree of contribution made by lower elements to

higher ones. Furthermore, SAIs are financially restricted because they are funded through parliamentary appropriations or because their financial resources include fees collected from the audited entities.

In line with the activity cycle as described above, institutions systematically divide their performance measurement structures into the following four frameworks:

Figure 1. Performance measurement structure of a SAI



**a. Outcome-output framework (performance measurement of activity results)**

Within the outcome-output framework, SAIs plan what outcomes they should achieve within a certain target period and what outputs they will produce to achieve those outcomes. Generally, outcomes may include contributions to the improvement of the government’s administration, fiscal management, and assurance of reliable financial information. The specific outcomes to be achieved are, however, set based on the SAI establishment law, the government’s policies, national fiscal situation, etc. The outputs to be produced may generally include the objectives to be set regarding the quantity, quality, and timeliness of performance audit reports, financial statement audit reports, etc. The specific outputs to be produced are, however, set based on the SAI’s audit authority, budget size, and the desirable effects of outputs on outcomes.

After the end of the target period, actual results are compared with the objectives set within the outcome-output framework, and the activity results are evaluated, including the progress towards the achievement of outcomes and a review of the output composition.

**b. Management objective-strategy framework (performance measurement of organizational management)**

Within the management objective-strategy framework, SAIs make plans that decide the objectives regarding organizational management, including audit activities and audit support activities and the strategies to achieve

these management objectives. This is to attain the objectives set within the outcome-output framework, which is positioned higher in the hierarchic performance measurement structure, and to promote efficient organizational management within a certain budget size. For such strategies to achieve management objectives, the institutions generally plan to (1) exchange opinions with parliamentarians and conduct satisfaction surveys targeting audited entities in order to identify audit needs; (2) optimize the outputs and develop better auditing methods in order to carry out accurate audits; (3) mid-hire experts and provide training to employees in order to secure high-quality personnel; (4) review audit plans and restructure the internal organization in order to respond to changes in the external environment; (5) utilize IT technologies and promote outsourcing in order to improve business management efficiency. Specific strategies are set based on the relationship of the SAI with Parliament, audit methods, the government's official system, etc.

After the end of the target period, actual results are compared with the objectives set within the management objective-strategy framework, and the organizational management results are evaluated, including the achievement of management objectives and a review of business management.

**c. Division-staff objective framework (performance measurement of staff)**

Within the division-staff objective framework, SAIs make plans that decide the specific details and objectives to be achieved in audit activities and audit support activities by divisions making up the institutions, and by each institution staff in order to attain the objectives set within the management objective-strategy framework and the outcome-output framework, which are frameworks positioned higher up the overall structure.

After the end of the target period, actual results are compared with the objectives set within the division and staff objective framework, and staff performance is evaluated, including the achievement of their performance objectives and a review of their positions. Also, in order to give incentives to employees to encourage them to achieve their objectives, employee performance management systems have been introduced, under which salaries are graded according to the progress made by each employee towards the achievement of their objectives. The results of the audit activities and audit support activities conducted by employees directly represent the outputs produced by SAIs. The institutions thus recognize that employees are the most important resources for them to produce effective outputs and to improve the efficiency of their organizational management.

**d. Financial objective framework (performance measurement of financial management)**

Within the financial objective framework, SAIs also make plans that set the financial objectives that they should achieve within a certain target period. Generally, objectives regarding the management of net cash flows, results of financial operation, management of capital assets, etc. may be set as financial objectives. Specific objectives are set based on the budgeting system, ratio of remunerations to financial sources, output performance objectives, etc.

After the end of the target period, actual results are compared with the objectives set within the financial objective framework, and financial management results are evaluated, including the achievement of financial objectives and a review of the budget required.

### **III. Performance Measurement of Supreme Audit Institutions in 4 Anglo-Saxon Countries**

The following provides specific details of performance measurement as carried out by the SAIs in Australia, Canada, New Zealand, and the United States.

#### **1. Australia**

##### **1.1 Outline of the SAI**

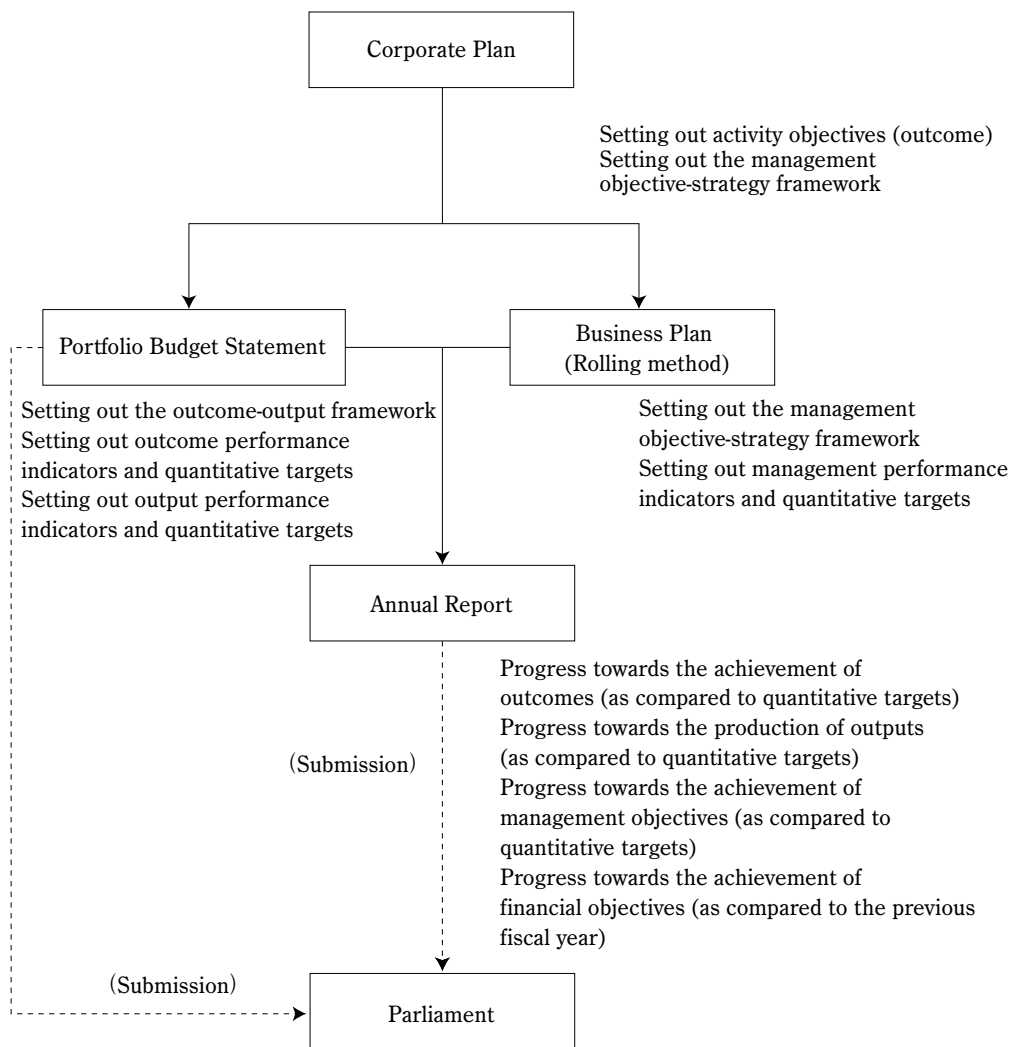
In Australia, the Australian National Audit Office (ANAO) is established as the SAI of the country, based on the Auditor-General Act 1997. There are some differences between the ANAO and the Board of Audit of Japan, including (1) the ANAO belongs to Parliament; (2) it is at the discretion of audited entities whether to accept the recommendations made by the ANAO; (3) some of the revenues are the fees paid by the corporations funded by the federal government and their subsidiaries in compensation for the audits on financial statements; (4) performance audit reports are made per audit and each of them is individually and directly submitted to Parliament; (5) financial statement audit reports are submitted to Parliament as part of the annual reports of the federal government agencies, together with their financial statements.

In 2001-02 (from July 2001 to June 2002), (1) there were 282 employees in the ANAO; (2) the total cost was AU\$50.28 million; (3) the cost was allocated at the ratio of 35:58:7 between performance audits, financial audits, and other activities; (4) the entities to be audited totaled 256 institutions, including 82 federal government agencies and 174 other government-related agencies, such as corporations (termed “Commonwealth authorities” and “Commonwealth companies”) funded by the federal government and their subsidiaries; (5) the ANAO made 46 performance audit reports; and (6) the number of financial statement audit reports made was 272.

**1.2 Structure of performance measurement**

The ANAO, in order to evaluate its own performance, creates (1) a mid-term organizational plan (“Corporate Plan”); (2) a Portfolio Budget Statement; (3) a mid-term business plan (“Business Plan”); and (4) an Annual Report. (For the ANAO’s performance measurement structure, see Figure 2.)

Figure 2. Structure of performance measurement (Australian National Audit Office)



**(1) Corporate Plan**

The ANAO formulates a Corporate Plan to fulfill its roles in appropriate response to changes in the external environment and to illustrate its basic ideas regarding the creation of the Portfolio Budget Statement and the Business Plan. The target period of the Corporate Plan is set at three fiscal years. In this Plan, the ANAO sets out its activity objectives (“Vision”) as well as the management objective-strategy framework.

## **(2) Portfolio Budget Statement**

Based on the decision of the federal government made in April 1997, the ANAO creates and submits a Portfolio Budget Statement to Parliament before the start of each fiscal year, in order to report the outcomes to be achieved and the outputs to be produced in that year. In the Portfolio Budget Statement, the ANAO sets the measurement criteria required for the performance measurement of its activity results in the year, including the (1) outcome-output framework; (2) outcome performance indicators and quantitative targets; and (3) output performance indicators and quantitative targets. The outcomes shown in the Statement are the same as the activity objectives set out in the Corporate Plan described in (1) above.

## **(3) Business Plan**

The Business Plan sets the organizational management objectives to be achieved in order to attain the output and outcome objectives, and its target period is set at three fiscal years. The Business Plan is reviewed annually based on the rolling-forward method after Parliament approves the Portfolio Budget Statement. In the Plan, the ANAO sets the criteria required for the performance measurement of its organizational management for that year, including the management objective-strategy framework, management performance indicators, quantitative targets, etc. The management objective-strategy framework is the same as the one set in the Corporate Plan described in (1) above.

## **(4) Annual Report**

The ANAO creates and submits an Annual Report to Parliament after the end of each year in order to report the implementation of the Portfolio Budget Statement and the Business Plan based on Section 28 of the Auditor-General Act 1997. In the Annual Report, the ANAO evaluates its activities and its organizational and financial management performance for that year, including (1) progress towards achievement of the outcomes (as compared to the quantitative targets); (2) progress towards the production of outputs (as compared to the quantitative targets); (3) progress towards the achievement of the management objectives (as compared to the quantitative targets); and (4) progress towards the achievement of financial objectives (as compared to the previous fiscal year).

### **1.3 Performance measurement of activity results**

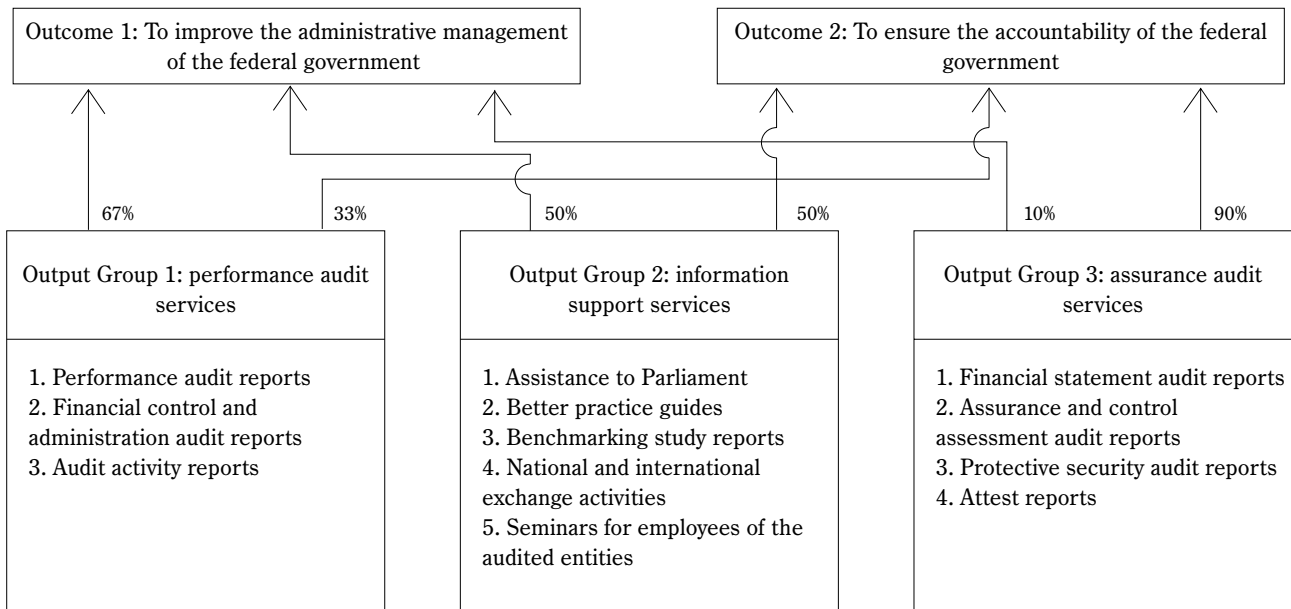
#### **(1) Outcome and output framework, and performance objectives**

The ANAO, in order to evaluate its activity results, sets out the following in the Portfolio Budget Statement: (1) outcomes to be achieved by the ANAO; (2) performance indicators and quantitative targets required for the quantitative evaluation of the progress towards the achievement of outcomes; (3) outputs to be produced to achieve the outcomes; (4) performance indicators and quantitative targets required for the quantitative evaluation of the progress towards the production of outputs. For fiscal 2001-02, the ANAO set the following outcome and output framework and performance objectives. (See Figure 3 for the outcome-output framework.)

##### **a. Outcomes**

In the Portfolio Budget Statement 2001-02, the ANAO plans to improve the administrative management of the federal government as "Outcome 1" and to ensure the accountability of the federal government as "Outcome 2," thus setting two outcomes to be achieved. Also in the Statement, in order to quantify progress towards the achievement of these two outcomes, the ANAO sets performance indicators and quantitative targets, paying attention to the effects of outputs on outcomes. For example, regarding the improvement of the administrative management of the federal government (Outcome 1), they set the following quantitative targets: (1) to increase the percentage of recommendations in performance audit reports accepted by audited entities to 90%; (2) to increase audited entities' level of satisfaction with performance audit at least to "3" (among five scores from 1 to 5 with "1" as the lowest); and (3) to achieve a ratio of benefits from performance audits to cost (ratio of financial benefits from performance audit products including savings compared to the full cost of outputs) to 2:1.

Figure 3. Outcome-output framework (Australian National Audit Office)



Note: For the contribution (%) of the Output Groups to the achievement of outcomes, the evaluation results of 2001-02 are shown.  
 Source: *Portfolio Budget Statement 2001-02*; ANAO (2001)

**b. Outputs**

In the Portfolio Budget Statement 2001-02, the ANAO sets the following three items as the Output Groups required to achieve Outcomes 1 and 2 as shown in a. above: (1) performance audit services (Output Group 1); (2) information support services (Output Group 2); and (3) assurance audit services (Output Group 3). Also, for each of the Output Groups, the Office sets detailed outputs. For example, in the performance audit services (Output Group 1), it sets out the following three items: (1) performance audit reports; (2) financial control and administration audit reports; and (3) audit activity reports.

In the Statement, the ANAO also sets performance indicators and quantitative targets regarding the quantity, quality, and cost of outputs in order to quantify progress towards the production of each output. For example, for the performance audit reports classified in performance audit services (Output Group 1), the Office sets (1) the number of reports to be made at 46 as a performance indicator and quantitative target regarding the quantity; (2) the average period required to complete a report at 11 months as a performance indicator and quantitative target regarding the quality; and (3) the amount to be spent at AU\$20.06 million as a quantitative target regarding cost. The cost-related targets set for each output are calculated based on a full accrual basis and the total costs tabulated per outcome are approved by Parliament as the budget of the ANAO. If Parliament passes a supplementary budget, the ANAO’s budget is modified accordingly.

**(2) Evaluation results**

The ANAO, in the Annual Report, evaluates the performance of its activity results, including progress towards the achievement of outcomes and the production of outputs based on the outcome-output framework and the performance indicators and quantitative targets set out in the Portfolio Budget Statement. For 2001-02, the following results are shown:

**a. Outcomes**

The ANAO makes the evaluation of progress towards the attainment of outcomes in the Annual Report 2001-02, for example, regarding Outcome 1 (the improvement in the administrative management of the federal government), (1) the actual percentage of recommendations in performance audit reports agreed by audited entities is 91% against a target of 90%; (2) the level of audited entities’ satisfaction with performance audits is 3.7 against a target of 3 or higher; and (3) the ratio of benefits from performance audits to the cost (ratio of financial benefits from

performance audit products, including savings compared with the full cost of outputs) is 10:1, against a target of 2:1. Based on these results, the ANAO concludes that Outcome 1 has been generally achieved. (For details, see Table 1.)

Table 1: Progress towards the achievement of outcomes (Australian National Audit Office)

(2001-02)

Outcome	Performance indicator	Quantitative target	Actual result
Outcome 1: Improving the administrative management of the federal government	Percentage of recommendations in performance audit reports agreed by audited entities	90%	91%
	Level of audited entities' satisfaction with performance audits (among scores 1 to 5 with 1 as the lowest)	3 or higher	3.7
	Ratio of benefits from performance audits to cost (Ratio of financial benefits from performance audit products, including savings, compared to the full cost of outputs)	2 : 1	10 : 1
	Average cost of completing performance audit reports	AU\$0.3 million	AU\$0.31 million
	Compliance of performance audits with ANAO Auditing Standards (%)	100%	100%
Outcome 2: Ensuring the accountability of the federal government	Percentage of unqualified audit opinions issued	100%	97.4%

Source: *Annual Report 2001-02*; ANAO (2002)

## b. Outputs

The ANAO makes the evaluation of progress towards the production of outputs in the Annual Report 2001-02: for example, regarding performance audit reports classified in the Output Group 1, (1) 46 performance audit reports were produced against a target of 46; (2) the average time to complete a performance audit report was 11.4 months against a target of 11 months; and (3) the cost of creating performance audit reports was AU\$15.27 million against a target of AU\$20.06 million. Based on these results, the ANAO concludes that the quality-related objective has not been achieved. (For details, see Table 2.)

### 1.4 Performance measurement of organizational management

#### (1) Management objective-strategy framework and performance objectives

The ANAO, in order to evaluate its organizational management, sets the following in the Business Plan: (1) organizational management objectives; (2) strategies to achieve the objectives; and (3) performance indicators and quantitative targets to quantify the progress towards the achievement of such organizational management objectives. (For the ANAO's management objective-strategy framework, see Table 3.)

For example, in the Business Plan 2001-04, the ANAO sets out the following four management objectives: (1) to meet clients' needs appropriately (Objective 1); (2) to deliver high quality audit services (Objective 2); (3) to use highly performing people (Objective 3); and (4) to promote more efficient business management (Objective 4). Furthermore, in order to achieve Objectives 1 through 4, the ANAO sets out specific strategies. For example, as a strategy to meet clients' needs appropriately (Objective 1), the ANAO plans to enhance its dialogue and relationship with all members of Parliament, particularly the Joint Committee of Public Accounts and Audit (JCPAA) and other Parliamentary Committees, so that they are well informed about the ANAO's activities, and so that it, in turn, can provide them with timely and constructive assistance.

Also in the Business Plan 2001-04, in order to quantify the progress being made towards the achievement of its objectives, the ANAO sets out performance indicators and quantitative targets, paying attention to the effects of strategies on objectives. For example, regarding Objective 1 (to meet clients' needs appropriately), it sets specific targets including the following: (1) 90% of parliamentarians acknowledge the value of the ANAO activities; (2) 75% of parliamentarians are satisfied with the timeliness of audit reports; and (3) 95% of the ANAO's audit recommendations are supported by the JCPAA. The management objective-strategy framework is regarded as a means to produce outputs and achieve outcomes. Accordingly, a part of the performance indicators and



Table 2: Progress towards the production of outputs (Australian National Audit Office)

(2001-02)

Output Group	Output	Performance indicator	Quantitative target	Actual result
Group1: Performance audit services	Performance audit reports	Quantity: number of reports produced	46 reports	46 reports
		Quality: Average time to complete a report	11 months	11.4 months
		Cost	AU\$20.06 million	AU\$15.27 million
	Financial control and administration audit reports	Quantity: number of reports produced	4 reports	2 reports
		Quality: Average time to complete a report	11 months	20 months
		Cost	AU\$0.97 million	AU\$0.59 million
	Audit activity reports	Cost	AU\$1.97 million	AU\$1.93 million
Group2: Information support services	Assistance to Parliament	Cost	AU\$0.73 million	AU\$0.61 million
	Better practice guides	Quantity: number of guides produced	5 guides	5 guides
		Cost	AU\$0.61 million	AU\$0.70 million
	Benchmarking study reports	Quantity: number of reports produced	3 reports	4 reports
		Cost	AU\$0.43 million	AU\$1.34 million
	National and international exchanges	Cost	AU\$0.24 million	AU\$0.46 million
	Seminars for employees of audited entities	Quantity: number of seminars held	twice	twice
		Cost	AU\$0.05 million	AU\$0.22 million
Group3: Assurance audit services	Financial statement audit reports	Quantity: number of reports produced	290 reports	272 reports
		Quality: Percentage of reports completed by the deadline	93%	83%
		Cost	AU\$23.59 million	AU\$25.01 million
	Assurance and control assessment audit reports	Quantity: number of reports produced	7 reports	9 reports
		Quality: average time to complete a report	11 months	11.6 months
		Cost	AU\$1.07 million	AU\$2.35 million
	Protective security audit reports	Quantity: number of reports produced	1 report	1 report
		Quality: average time to complete a report	11 months	11 months
		Cost	AU\$0.05 million	AU\$0.21 million
	Attest reports	Cost	AU\$0.36 million	AU\$1.59 million

Source: *Annual Report 2001-02*; ANAO (2002)

quantitative targets set within this framework are the same as those set in the Portfolio Budget Statement to quantify progress towards the achievement of outcomes and production of outputs.

Table 3. Management objective-strategy framework (Australian National Audit Office)

Objective	Strategy
1. To meet clients' needs appropriately	<ol style="list-style-type: none"> <li>1. Enhancing ANAO's dialogue and relationship with all members of Parliament, particularly the JCPAA and other Parliamentary Committees, so that they are well informed about the ANAO's activities and so that it, in turn, can provide them with timely and constructive assistance.</li> <li>2. Building on productive and professional relationships with each of the ANAO's audit clients, including federal government agencies, so that the ANAO can continue to meet their needs and contribute to public sector reform.</li> <li>3. Periodically reviewing the relevance and mix of the ANAO's products and services, striving for innovative approaches and improving the quality and effectiveness of its products and services.</li> </ol>
2. To deliver high quality audit services	<ol style="list-style-type: none"> <li>1. Optimizing the mix of ANAO's products and services.</li> <li>2. Strengthening ANAO's information management capabilities by measures such as utilizing IT technologies and centrally managing reference materials.</li> <li>3. Strengthening the interdependence of, and the communications between working groups in order to maximize performance over the entire organization.</li> </ol>
3. To use highly performing people	<ol style="list-style-type: none"> <li>1. Implementing a comprehensive workforce planning strategy to ensure that the ANAO supports a diverse workforce.</li> <li>2. Continuing to develop the leadership capabilities and skills in people management.</li> <li>3. Increasing the level of employees' and clients' (Parliament, government agencies, etc.) satisfaction in conducting audits.</li> <li>4. Providing a rewarding environment for personal and career growth so that the ANAO can retain its staff.</li> <li>5. Assisting all staff to reach their full potential through clear statements of the ANAO's expectations, effective performance management mechanisms, and targeted learning and development.</li> </ol>
4. To promote more efficient business management	<ol style="list-style-type: none"> <li>1. Improving the ANAO's business practices and cost-effectiveness through innovation and benchmarking.</li> <li>2. Maintaining an appropriate balance between quantity, quality, and cost by carrying out audits in response to client needs.</li> <li>3. Reviewing the ANAO's organizational capabilities to ensure the fulfillment of all its responsibilities.</li> <li>4. Enhancing internal information and communication capabilities to support decision making practices and better teamwork.</li> <li>5. Ensuring that the ANAO's IT business processes and applications provide optimal support for its audit activities.</li> <li>6. Making more effective use of consulting companies.</li> </ol>

Source: *Corporate Plan 2001-04*; ANAO (2001)

## (2) Evaluation results

The ANAO, in the Annual Report, evaluates the performance of its organizational management, including progress towards the achievement of its management objectives based on the management objective-strategy framework and the performance indicators and quantitative targets set out in the Business Plan.

The ANAO makes the evaluation of progress towards the achievement of management objectives in the Annual Report 2001-02, for examples, regarding Objective 1 (to meet clients' needs appropriately), (1) the actual percentage has not been surveyed to determine if the target that 90% of parliamentarians acknowledge the value of the ANAO activities has been met; (2) the actual percentage has not been surveyed to determine if the target that 75% of parliamentarians are satisfied with the timeliness of audit reports has been met; and (3) the actual percentage is 100% against the target that 95% of audit recommendations is supported by the JCPAA. Based on these results, the ANAO demonstrates its decision to conduct a satisfaction survey targeting parliamentarians in 2002-03. (For progress towards the achievement of management objectives, see Table 4.)

### 1.5 Performance measurement of staff

The ANAO, in order to progressively achieve the outcomes, outputs and management objectives set out in the organization's Portfolio Budget Statement and Business Plan, formulates a Product and Operational Plan for each of its divisions (termed "Service Groups") every fiscal year. The plan shows each Service Group's performance indicators and quantitative targets based on the entire organization's performance indicators and quantitative targets. Each of the Groups operates under the supervision of the Group Executive Director and the Executive

Table 4. Progress towards the achievement of management objectives (Australian National Audit Office)

(2001-02)

Management objective	Performance indicator	Quantitative target	Actual result
Objective 1: To meet clients' needs appropriately	Percentage of parliamentarians who acknowledge the value of ANAO activities	90%	Not surveyed
	Percentage of parliamentarians who are satisfied with the timeliness of audit reports	75%	Ditto
	Percentage of audit recommendations supported by the JCPAA	95%	100%
	Audited entities' level of satisfaction with performance audits (among scores 1 to 5 with 1 as the lowest)*	3 or higher	3.7
	Percentage of recommendations agreed by audited entities*	90%	Performance audits : 91% Financial statement audits: 93%
	Percentage of participation in national and international exchanges	100%	100%
	Participants' level of satisfaction with the seminars held targeting the employees of audited entities (among scores 1 to 5 with 1 as the lowest)	4 or higher	3.8
Objective 2: To deliver high quality audit services	Number of performance audit reports, financial control and administration audit reports, and audit activity reports produced*	50 reports	50 reports
	Number of better practice guides and benchmarking study reports produced*	8 guides and reports	9 guides and reports
	Number of assurance and control assessment audit reports and protective security audit reports produced*	8 reports	13 reports
	Number of financial statement audit reports produced*	290 reports	272 reports
	Percentage of unqualified audit opinions issued in financial statement audit reports*	100%	97.4%
	Number of overseas secondments to the ANAO	2 persons	3 persons
	Frequency of seminars for the employees of audited entities*	Twice	Twice
	Compliance of performance audits with the ANAO Auditing Standards (%)*	100%	100%
	Ratio of benefits from performance audits to cost (ratio of financial benefits from performance audits products, including savings, compared to the full cost of outputs)*	2 : 1	10 : 1
	Timeliness of completing financial statement audit reports*	93%	83%
Objective 3: To use highly performing people	Improvement (% on previous year results) regarding audited entities' level of satisfaction with ANAO staff	2%	2%
	ANAO staff turnover within employment periods	18%	17.9%
	Percentage of ANAO staff who think it necessary to diversify staff composition (sex, language, countries of birth)	Unset	28%
	Percentage of ANAO staff who think it necessary to improve personnel management	Ditto	36%
Objective 4: To promote more efficient business management	Average time to complete a performance audit report*	11 months	11.4 months
	Average cost of completing a performance audit report*	AU\$0.3 million	AU\$0.31 million
	Cost recovery rate of performance audits and financial statement audits	100%	97%

Note: Those marked with an asterisk (\*) in the performance indicator column are identical to the performance indicators and quantitative targets set in the Portfolio Budget Statement to evaluate the progress towards the achievement of outputs and outcomes.

Source: *Annual Report 2001-02*; ANAO (2002)

Director. Those in the Senior Executive Service officers are paid "performance pay" according to the progress towards the achievement of the objectives based on the performance indicators and quantitative targets set out in the Product and Operational Plan. For example, in 2001-02, a total of AU\$46,300 was paid as performance pay to those qualifying among the 22 persons in the Senior Executive Service officers.

General employees conclude Performance Agreements with their managers, in which performance objectives for the employees are defined based on the performance indicators and quantitative targets set for the Service Group in the Product and Operational plan. General employees are evaluated semiannually (among scores 1 to 3 with 1 as the lowest) regarding their progress towards the achievement of the objectives set in their performance agreements. Based on the evaluation results, their salaries are regularly increased or special bonuses are paid. The ANAO thus gives all its employees an incentive to achieve their performance objectives.

## 1.6 Performance measurement of financial management

The ANAO, in order to evaluate its financial management, selects and calculates its own performance indicators from among financial statements such as the Statement of Financial Performance and Statement of Financial Position. The ANAO compares the actual results of the fiscal year against those of the previous fiscal year and reports the comparison in its Annual Report. The ANAO's financial statements are audited by an external auditor (a private audit corporation) appointed as Auditor-General based on Section 57 of the Financial Management and Accountability Act 1997, thereby ensuring the reliability of the actual results. The ANAO does not preset performance indicators and quantitative targets to quantify progress towards the achievement of its financial objectives.

For example, in its Annual Report 2001-02, as a result of calculating the net surplus (total operating revenues minus total operating expenses minus capital usage charge) as a performance indicator, the net surplus amounted to AU\$2.1 million against AU\$3.29 million for the previous year (a decrease of 36.2%). The ANAO concludes that the decrease occurred because the total operating expenses and the capital usage charge increased at a rate beyond the increase rate of the total operating revenues. Specifically, (1) total operating revenues increased to AU\$53.09 million from AU\$51.86 million of the previous fiscal year (increase of 2.4%); (2) total operating expenses increased to AU\$50.28 million from AU\$48.13 million of the previous fiscal year (increase of 4.5%); and (3) the capital usage charge increased to AU\$0.71 million from AU\$0.44 million of the previous fiscal year (increase of 61.4%). (For progress towards the achievement of the ANAO's financial objectives, see Table 5.)

Table 5. Progress towards the achievement of financial objectives (Australian National Audit Office)

Performance indicator	Actual result	Actual result of the previous fiscal year	(2001-02)
			(unit: AU\$10,000)
			Variance
(Financial position)			
Total operating revenues	5309	5186	123 (up 2.4%)
Total operating expenses	5028	4813	215 (up 4.5%)
Capital usage charge	71	44	27 (up 61.4%)
Net surplus (total operating revenues – total operating expenses – capital usage charge)	210	329	– 119 (down 36.2%)
(The people's equity)			
Total assets	2328	2270	58 (up 2.6%)
Total liabilities	1751	1903	– 152 (down 8.0%)
Net assets (total assets – total liabilities)	577	367	210 (up 57.2%)

Source: *Annual Report 2001-02*; ANAO (2002)

## 2. Canada

### 2.1 Outline of the SAI

The Office of the Auditor General of Canada (OAG) is established as the SAI of the country based on the Auditor General Act enacted in 1977. There are differences between the OAG and the Board of Audit of Japan, including the following: (1) the OAG actually belongs to Parliament; (2) it is at the discretion of audited entities whether to accept the recommendations made by the OAG; (3) the OAG carries out environmental audits (such as those on the progress towards the achievement of the mid-term sustainable development strategies formulated by federal government agencies); (4) the Report of Auditor General of Canada is composed of chapters, which are created for different audits and each chapter is directly tabled to Parliament three times a year; (5) financial statement audit reports of Crown corporations are submitted to Parliament via the ministries in charge as parts of their annual reports, together with their financial statements, at the end of the fiscal year.

For 2001-02 (from April 2001 to March 2002), (1) the OAG had 519 employees; (2) the Office's total costs were CA\$67.95 million; (3) the OAG spent this amount at a ratio of 53:29:18 for performance audits, financial audits, and other activities, respectively; (4) the entities to be audited totaled 127, including 33 federal government agencies, 70 corporations funded by the federal government ("Crown corporations") including their subsidiaries, three local

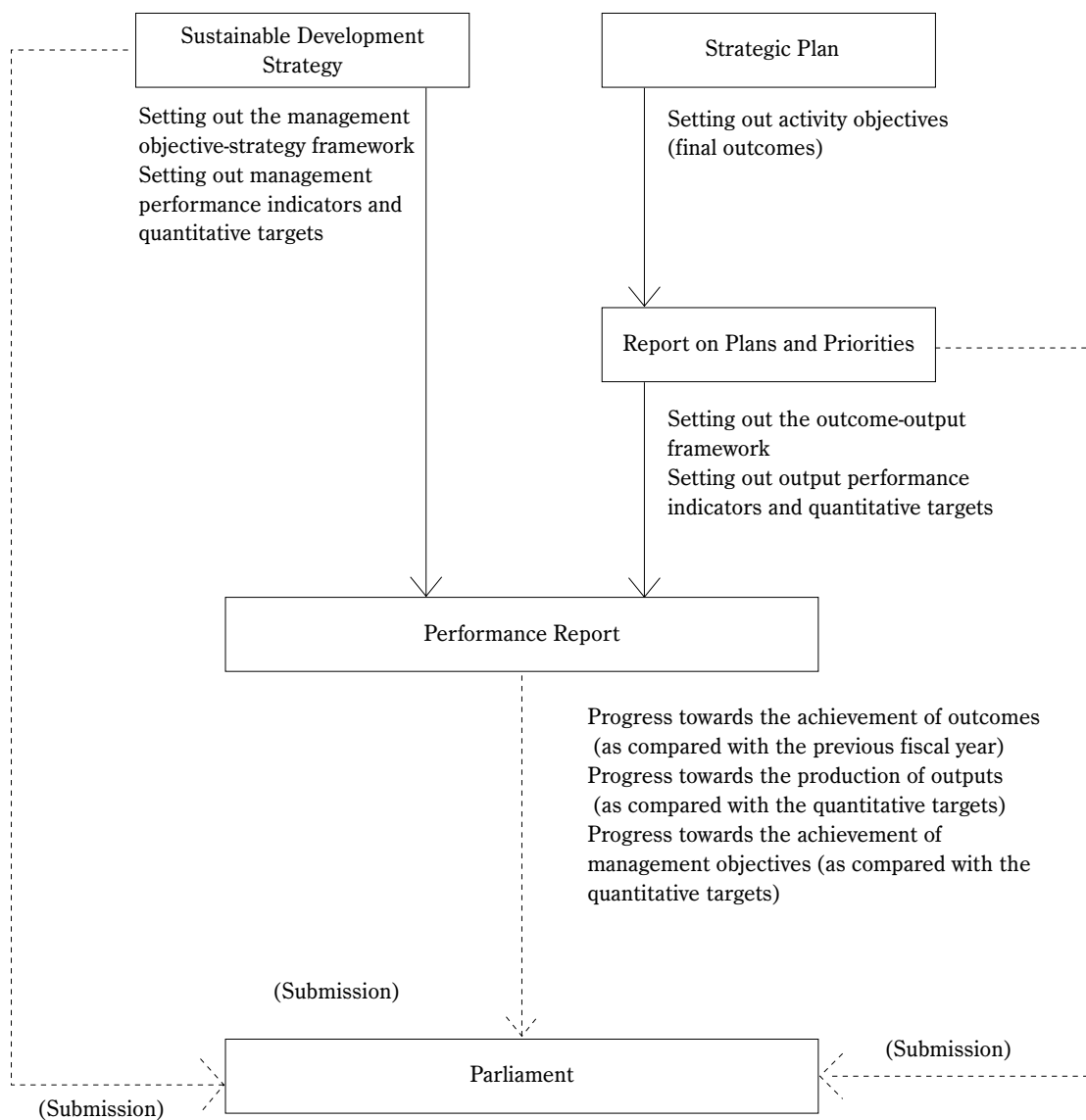
public entities (“territorial governments”), and 21 corporations funded by the territorial governments including their subsidiaries; (5) the number of chapters produced for the Report of the Auditor General of Canada was 10; and (6) the number of financial statement audit reports produced was more than 100.

The OAG does not evaluate its own financial management.

### 2.2 Structure of performance measurement

The OAG, in order to evaluate its own performance, formulates (1) a long-term strategic plan (“Strategic Plan”); (2) a mid-term sustainable development strategy (“Sustainable Development Strategy”); (3) Report on Plans and Priorities; and (4) a Performance Report. (For the performance measurement structure of the OAG, see Figure 4.)

Figure 4. Structure of performance measurement (Office of the Auditor General of Canada)



### **(1) Strategic Plan**

The target period of the Strategic Plan is set at 10 years for the OAG to fulfill its roles while appropriately responding to changes in the external environment and to provide its basic ideas regarding the annual creation of the Report on Plans and Priorities. The target period of 10 years corresponds to the Auditor General's term of office. The OAG sets out its activity objectives ("Vision") in the Strategic Plan.

### **(2) Sustainable Development Strategy**

The target period for the Sustainable Development Strategy is set at three years for the OAG to report the organizational management objectives to be implemented in order to produce outputs and achieve outcomes, especially those to be attained based on environmentally-aware organizational management. The Strategy is submitted to Parliament. Sustainable development strategies are produced by federal government agencies based on the Auditor General Act, amended in 1995 in response to an increase in people's interest in the environmental impacts of governmental activities. The OAG is not obliged to produce this Strategy under the amended act, but it does so voluntarily. The OAG, in its Sustainable Development Strategy, sets the management objective-strategy framework, management performance indicators and quantitative targets, etc. that are required as performance criteria for the performance measurement of its organizational management in that fiscal year.

### **(3) Report on Plans and Priorities**

The Report on Plans and Priorities is submitted to Parliament as part of the OAG's budget, which is formulated by the end of the fiscal year, in order for the OAG to report the outputs to be produced and outcomes to be achieved by the Office. This is based on the project to improve reporting to Parliament introduced in 1996. In the Report, the OAG sets the criteria required for the performance measurement of its activities conducted in the fiscal year, including the immediate, intermediate, and end outcome-output framework, output performance indicators and quantitative targets, etc. The end outcomes set in the Report are the same as the activity objectives set in the Strategic Plan mentioned in (1) above.

### **(4) Performance Report**

The Performance Report is submitted to Parliament as part of the OAG's budget to be formulated after the end of the fiscal year, in order for the OAG to report the implementation of the Sustainable Development Strategy and the Report on Plans and Priorities. This is also based on the project to improve reporting to Parliament introduced in 1996. In the Report, the OAG details the results of its activities and organizational management performance measurement, including (1) progress towards the achievement of outcomes (as compared with the previous fiscal year); (2) progress towards the production of outputs (as compared with the quantitative targets); and (3) progress towards the achievement of management objectives (as compared with the quantitative targets).

## **2.3 Performance measurement of activity results**

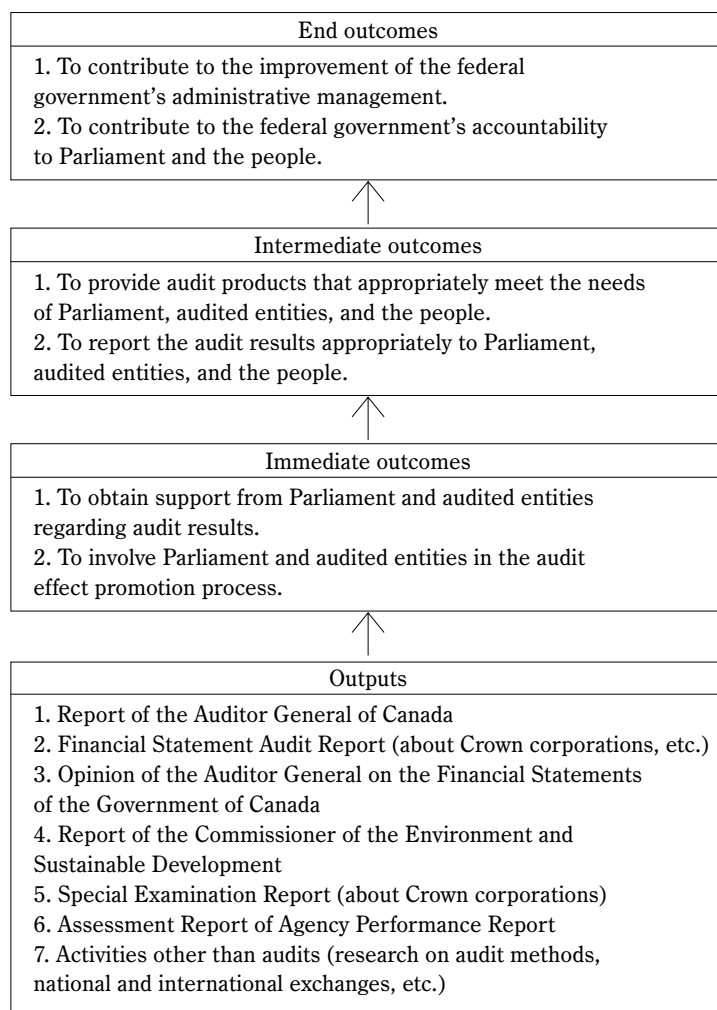
### **(1) Outcome-output framework and performance objectives**

The OAG, in order to evaluate its activity results, set the following in the Report on Plans and Priorities: (1) outcomes to be achieved; (2) outputs to be produced to achieve the outcomes; (3) performance indicators and quantitative targets to quantify progress towards the production of outputs. In 2001-02, for example, the OAG had the following outcome-output framework and performance objectives. (For the outcome-output framework of the OAG, see Figure 5.)

#### **a. Outcomes**

In the Report on Plans and Priorities 2001-02, in consideration of the time required for the effects of outputs to be revealed as outcomes, the OAG sets out in three stages the outcomes to be achieved: immediate outcomes; intermediate outcomes; and end outcomes. For example as immediate outcomes to be achieved, it aims to obtain support from Parliament and audited entities regarding the audit results and to involve Parliament and audited entities in the audit effect promoting process. As intermediate outcomes to be achieved, it plans to provide audit products that appropriately meet the needs of Parliament, audited entities and the people and to report the audit results appropriately to Parliament, audited entities and the people. As end outcomes, it determines to contribute

Figure 5. Outcome-output framework (Office of the Auditor General of Canada)



Source: *Estimates 2001-02 Part III - Report on Plans and Priorities*; OAG (2001)

to the improvement of the federal government's administrative management and contribute to the accountability of the federal government to Parliament and the people. The OAG, however, does not preset the performance indicators and quantitative targets to quantify progress towards the achievement of these outcomes.

#### **b. Outputs**

In the Report on Plans and Priorities 2001-02, the OAG sets the following seven items as the outputs to be produced to achieve the outcomes described in "a." above: (1) Report of the Auditor General of Canada; (2) Financial Statement Audit Report (about Crown corporations, etc.); (3) Opinion of the Auditor General on the Financial Statements of the Government of Canada; (4) Report of the Commissioner of the Environment and Sustainable Development; (5) Special Examination Report (about Crown corporations); (6) Assessment Report of Agency Performance Report; and (7) activities other than audits (research on audit methods, national and international exchanges, etc.)

Also in the Report, the OAG sets cost-related performance indicators and quantitative targets in order to quantify the progress towards the production of outputs. For example, regarding the Report of the Auditor General of Canada, the OAG sets the targeted cost at CA\$35.40 million (cost after approval of the supplementary budget). The cost-related targets set for each of the outputs are recalculated on a full accrual basis according to the budget amount calculated on a modified accrual basis, and are accordingly modified if Parliament passes a supplementary budget.

Until the previous fiscal year, the OAG had been setting performance indicators and quantitative targets

Table 6. Progress towards the achievement of outcomes (Office of the Auditor General of Canada)

(2001-02)

Outcome	Performance indicator	Actual result	Reference
Immediate Outcome 1: To obtain support from Parliament and audited entities regarding the audit results  Immediate Outcome 2: To involve Parliament and audited entities in the audit effect promotion process	Participation of OAG staff in parliamentary committee hearings (frequency)	41 times	34 times (2000-01), 43 times (1999-2000), 52 times (1998-99)
	Percentage of performance audits subject to parliamentary committee hearings	71%	56% (2000-01), 63% (1999-00), 63% (1998-99)
	Percentage of parliamentarians thinking that financial statement audits contribute to the enhancement of the people's trust in the federal government's financial position	67%	
	Percentage of parliamentarians considering that the recommendations and findings made in the Report of the Auditor General of Canada and Opinion of the Auditor General on the Financial Statements of the Government of Canada had a positive impact on their specific committee work	55%	
	Percentage of parliamentarians belonging to the Standing Committee on Environment and Sustainable Development who believe that the recommendations and comments made in the Report of the Commissioner of the Environment and Sustainable Development are useful for the activities of the Committee	42%	
	Percentage of chief financial officers and chairs of audit committees of Crown corporations who believe that the OAG provides them with useful information	85%	
	Percentage of chief financial officers and chairs of audit committees of Crown corporations who agree with the OAG's comments	96%	88% (1999-00), 83% (1997-98)
	Percentage of managers of Crown corporations who believe that the special audits of Crown corporations are useful	80%	
	Percentage of chief financial officers who want to make improvements according to comments made by the OAG	64%	
Intermediate Outcome 1: To provide audit products that appropriately meet the needs of Parliament, audited entities and the people  Intermediate Outcome 2: To report the audit results appropriately to Parliament, audited entities and the people	Percentage of parliamentarians belonging to the Standing Committee on Public Accounts who believe that the OAG's audit results influence their decision-making	100%	
	Percentage of parliamentarians belonging to the Standing Committee on Environment and Sustainable Development who believe that the OAG's audit results regarding the environment and sustainable development influence their decision-making	75%	
	Percentage of recommendations in the Report of the Auditor General of Canada (made in the previous fiscal year 2000-01) endorsed by the Standing Committee on Public Accounts	76%	53% (1999-00), 59% (1998-99)
	Percentage of recommendations in the Report of the Auditor General of Canada (made in the past four years from 1996 to 2000) completely followed by the federal government agencies	25%	25% (1995-99), 28% (1994-98)
	Percentage of recommendations in the Report of the Auditor General of Canada (made in the past four years from 1996 to 2000) partially followed by the federal government agencies	49%	47% (1995-99), 40% (1994-98)
	Percentage of environment-related recommendations (made in the past four years from 1996 to 2000) completely followed by the federal government agencies	8%	9% (1995-99), 10% (1994-98)
	Percentage of environment-related recommendations (made in the past four years from 1996 to 2000) partially followed by the federal government agencies	67%	65% (1995-99), 62% (1994-98)
	Percentage of objectives set in the Sustainable Development Strategies achieved by the federal government agencies	35%	20% (2000-01), 10% (1999-00)
	Percentage of chief financial officers and chairs of audit committees of Crown corporations who believe that the OAG's financial statement audits contribute to the quality improvement of their financial statements	81%	81% (1999-00), 71% (1997-98)

Source: Performance Report 2001-02; OAG (2002)



regarding the number of chapters of the Report of the Auditor General of Canada and the number of financial statement audit reports. However, in and after 2001-02, the Office has not set such indicators and targets, as a result of focusing on outcomes in its performance measurement.

## (2) Evaluation results

The OAG, in the Performance Report, evaluates the performance of its activity results, including progress towards the achievement of immediate and intermediate outcomes and production of outputs based on the outcome-output framework and performance indicators and quantitative targets set out in the Report on Plans and Priorities. In the Performance Report 2001-02, for example, the OAG evaluates its activities as follows:

### a. Outcomes

The OAG has set performance indicators to evaluate the progress towards the achievement of immediate and intermediate outcomes, paying attention to the effects of outputs on these outcomes. In its Performance Report 2001-02, the Office compares the actual results of the fiscal year with those of the previous fiscal year. For example, regarding one of the immediate outcomes to be achieved (to involve Parliament and audited entities in the audit effect promotion process), it measured the percentage of its performance audits subject to parliamentary committee hearings, which was 71% in 2001-02 against 56% of the previous fiscal year and 63% of the fiscal year before last. The percentage thus increased and the OAG has concluded that improvements have been made regarding this immediate outcome. For one of the intermediate outcomes to be achieved (to provide the audit products that appropriately meet the needs of Parliament, audited entities and the people), the Office measured the percentage of its recommendations endorsed by the Standing Committee on Public Accounts, which was 76% in 2001-02 as compared to 53% in the previous fiscal year and 59% in the fiscal year before last. The percentage thus increased and the OAG has concluded that improvements have been made also regarding the intermediate outcome. (For the progress towards the achievement of outcomes, see Table 6.) The OAG has not evaluated progress towards the achievement of end outcomes.

### b. Outputs

In the Performance Report 2001-02, the OAG concludes that the quantitative target has not been achieved regarding the Report of the Auditor General of Canada, because the actual cost amounted to CA\$36.20 million against the target of CA\$35.40 million. (For progress regarding the production of outputs, see Table 7.)

Table 7. Progress towards the production of outputs (Office of the Auditor General of Canada)

Output	Performance indicator	Quantitative target	(2001-02)
			(unit: CA\$1million)
			Actual result
Production of the Report of the Auditor General of Canada	Cost	35.4	36.2
Production of the Financial Statement Audit Report	Cost	17.2	15.2
Production of the Opinion of the Auditor General on the Financial Statements of the Government of Canada	Cost	5.4	4.6
Production of the Report of the Commissioner of the Environment and Sustainable Development	Cost	2.3	2.4
Production of the Special Examination Report	Cost	2.1	2.3
Production of the Assessment Report of Agency Performance Report	Cost	1.0	1.0
Activities other than audits (research on audit methods, etc.)	Cost	6.2	6.2
Total		69.6	67.9

Note: The cost-related targets are those set after the approval of the supplementary budget.

Source: *Performance Report 2001-02*; OAG (2002)

## 2.4 Performance measurement of organizational management

### (1) Management objective-strategy framework and performance objectives

The OAG, in order to evaluate its organizational management, paying attention to the environment, sets the following in the Sustainable Development Strategy: (1) organizational management objectives (“Objectives”); (2) strategies to be implemented to achieve the Objectives (“Activity”); and (3) performance indicators and quantitative targets to quantify progress towards the achievement of the Objectives. (For the OAG’s management objective-strategy framework, see Table 8.) The OAG does not preset quantitative targets for some performance indicators.

For example, in the Sustainable Development Strategy 2001-04, the OAG sets the following management objectives: (1) to incorporate environment and sustainable development (E&SD) as an integral part of audit work

Table 8. Management objective-strategy framework (Office of the Auditor General of Canada)

Objective	Activity
1. To incorporate environment and sustainable development (E&SD) as an integral part of audit work	<ol style="list-style-type: none"> <li>1. Improve consideration given to E&amp;SD issues during the audit planning phase.</li> <li>2. Consider undertaking joint audits with auditors from other jurisdictions when E&amp;SD issues reach beyond the federal government’s mandate.</li> <li>3. Create E&amp;SD practice guides.</li> <li>4. Assess the nature of E&amp;SD work done for Office products.</li> <li>5. Assess compliance of performance audits and special examinations that deal with E&amp;SD issues with audit plans.</li> </ol>
2. To help strengthen the capacity of federal, territorial and international organizations to continually improve their management of E&SD issues	<ol style="list-style-type: none"> <li>1. Undertake examinations and conduct studies to develop tools to enhance capabilities, such as better practice guides.</li> <li>2. Participate in international forums.</li> </ol>
3. To monitor the replies by departments to letters (petitions) presented by Canadians about environmental and sustainable development concerns	<ol style="list-style-type: none"> <li>1. Encourage federal government agencies to set up petition processes.</li> <li>2. Monitor the type of petitions received by federal government agencies.</li> <li>3. Monitor the replies of federal government agencies to such petitions.</li> <li>4. Report the replies of federal government agencies.</li> </ol>
4. To continually improve the in-house Sustainable Development Management Process	<ol style="list-style-type: none"> <li>1. Identify non-conformance and implement corrective actions.</li> </ol>
5. To reduce consumption and waste by OAG staff	<ol style="list-style-type: none"> <li>1. To reduce paper consumption, provide information and promote alternatives, such as electronic filing.</li> <li>2. Review staff activities to identify waste reduction opportunities.</li> <li>3. Promote reuse of materials.</li> <li>4. Develop an awareness program for employees.</li> <li>5. Conduct internal audits to evaluate waste reduction effects.</li> <li>6. Implement a waste reduction action plan.</li> <li>7. Promote more environmentally-friendly facilities.</li> </ol>
6. To purchase, provide and use goods and services in an environmentally responsible manner	<ol style="list-style-type: none"> <li>1. Update the OAG procurement policy to include an environmental component.</li> <li>2. Promote use of teleconferencing, videoconferencing, and Web-based communications.</li> <li>3. Promote and monitor the purchase of environmentally-friendly goods and services during building refit.</li> </ol>
7. To enhance the awareness and capability of OAG staff to promote E&SD issues in their audit work.	<ol style="list-style-type: none"> <li>1. Provide OAG staff with sources of information, including the development of E&amp;SD practice guides.</li> <li>2. Promote E&amp;SD consultation services within the Office.</li> <li>3. Evaluate whether training programs that meet the needs of OAG staff are provided or not.</li> <li>4. Provide the Office staff with appropriate and timely training courses.</li> <li>5. Develop an action plan for E&amp;SD related activities targeting OAG staff.</li> <li>6. Encourage staff assignments between environment-related divisions and audit-related divisions.</li> <li>7. Establish an Auditor General Green Award to recognize employees who help promote the E&amp;SD.</li> </ol>

Source: 2001-04 Sustainable Development Strategy for the Office of the Auditor General; OAG (2000)

(Objective 1); (2) to help strengthen the capacity of federal, territorial and international organizations to continually improve their management of E&SD issues (Objective 2); (3) to monitor the replies by departments to letters (petitions) presented by Canadians about environmental and sustainable development concerns (Objective 3); (4) to continually improve the in-house Sustainable Development Management Process (Objective 4); (5) to reduce consumption and waste by OAG staff (Objective 5); (6) to purchase, provide, and use goods and services in an environmentally responsible manner (Objective 6); and (7) to enhance the awareness and capability of OAG staff to promote E&SD issues in their audit work (Objective 7). Furthermore, the Office has set the specific strategies to achieve Objectives 1 through 7. For example, as a strategy to achieve Objective 1 (to incorporate E&SD as an integral part of audit work), the Office has decided to improve consideration given to E&SD issues during audit planning phase.

Also, in the Sustainable Development Strategy 2001-04, the OAG sets performance indicators and quantitative targets paying attention to the effects of strategies on management objectives, in order to quantify progress towards the achievement of management objectives. For example, regarding Objective 1 (to incorporate E&SD as an integral part of audit work), the Office has set the following targets: (1) to increase the percentage of audit planning documents that considered E&SD issues to 90% (by 2004); (2) to increase the expenditures on E&SD audit products as percentage of total audit costs to 20% (by 2004); (3) to increase the percentage of chapters and special examinations that integrated E&SD issues to 30%.

## **(2) Evaluation results**

The OAG, in the Performance Report, evaluates the performance of its organizational management, including progress towards the achievement of management objectives based on the management objective-strategy framework and the performance indicators and quantitative targets set out in the Sustainable Development Strategy. The OAG publicly announces only progress regarding some of the performance indicators and quantitative targets.

For example in the Performance Report 2001-02, regarding progress towards the achievement of Object 1 (to incorporate E&SD as an integral part of audit work), the OAG concludes that the Objective has been achieved because the percentage of chapters and special examination that integrated E&SD issues increased to 52% against the target of 30%. The OAG, however, has not publicly disclosed the results concerning other performance indicators and quantitative targets. (For the progress towards the achievement of management objectives, see Table 9.)

## **2.5 Performance measurement of staff**

The OAG, for the steady achievement of outcomes, outputs, and management objectives set out in the entire organization's Sustainable Development Strategy and Report on Plans and Priorities, makes its executives from Directors to Deputy Auditor Generals conclude performance agreements with their superiors. In these performance agreements, the OAG details the specific performance indicators and quantitative targets for executives based on the entire organization's performance indicators and quantitative targets. These executives are then paid performance pay according to their progress towards the achievement of their performance objectives based on the performance indicators and quantitative targets set out in their performance agreements, as incentives. For example in 2001-02, Directors received between CA\$0 and CA\$8,750 as performance pay according to their performance, and Deputy Auditor Generals received between CA\$0 and CA\$14,000.

## **3. New Zealand**

### **3.1 Outline of the SAI**

In New Zealand, the Audit Office (AO) is established as the SAI of the country, based on the Public Audit Act 2001. There are some differences between the AO and the Board of Audit of Japan, including: (1) the AO belongs to Parliament; (2) the organization is divided into the Office of the Auditor-General, which mainly carries out performance audits, and Audit New Zealand, which mainly carries out financial audits; (3) entities to be audited include local public entities and corporations funded by them; (4) the AO controls payments made through the government's bank accounts through the issuance of written payment approvals ("Controller Statements"); (5) the

Table 9. Progress towards the achievement of management objectives (Office of the Auditor General of Canada)

(2001-02)

Management objective	Performance indicator	Quantitative target	Actual result
1. To incorporate environment and sustainable development (E&SD) as an integral part of audit work	Percentage of audit planning documents that considered E&SD issues	90% by 2004	Undisclosed
	Percentage of audit plans placing special emphasis on E&SD issues	20% by 2004	Undisclosed
	Percentage of expenditures on E&SD audit issues	20% by 2004	Undisclosed
	Percentage of the Reports of the Auditor General of Canada and the Special Examination Reports dealing with E&SD issues	30%	52%
	Percentage of recommendations made in the Reports of the Auditor General of Canada and the Special Examination Reports dealing with E&SD issues	30%	Undisclosed
	Number of parliamentary committee hearings held for reports on audits dealing with E&SD issues	Unset	Undisclosed
	Percentage of recommendations on E&SD issues accepted by audited entities	65% by 2004	Undisclosed
	Percentage of media coverage of reports on audits dealing with E&SD issues	Unset	Undisclosed
	Percentage of OAG website dealing with environmental and sustainable development issues	25% by 2004	Undisclosed
2. To help strengthen the capacity of federal, territorial and international organizations to continually improve their management of E&SD issues	Number of participation in external meetings dealing with E&SD issues	Unset	Undisclosed
3. To monitor the replies by departments to letters (petitions) presented by Canadians about environmental and sustainable development concerns	Number of petitions handled by the Commissioner of the Environment and Sustainable Development	Unset	28 petitions
4. To continually improve the in-house Sustainable Development Management Process	Number of internal reviews	Once a year	Undisclosed
	Number of external reviews	Once by 2004	Undisclosed
5. To reduce consumption and waste by OAG staff	Annual consumption of paper per employee	8,549 pages	8,728 pages
	Portion of solid waste diverted from landfill	Unset	Undisclosed
	Dollar value of consumable supplies per employee	Unset	CA\$394.51
6. To purchase, provide, and use goods and services in an environmentally responsible manner	Percentage of stocked goods that have environmentally responsible characteristics	Up 2% per year	Undisclosed
	Percentage of contracts where environmentally responsible considerations were included in the decision making criteria	Unset	Undisclosed
7. To enhance the awareness and capability of OAG staff to promote E&SD issues in their audit work	Number of practice guides created	Unset	Undisclosed
	Number of learning events held that relate to E&SD awareness and training	Seven times a year	Five times
	Percentage of audit staff who participated in E&SD audits training sessions	50% by 2004	Undisclosed
	Ability of OAG staff to recognize sustainable development related audit issues	Unset	96%
	Percentage of OAG staff who consider themselves to be actively committed in terms of environmentally sound behaviour	Unset	Undisclosed

Source: 2001-04 Sustainable Development Strategy for the Office of the Auditor General; OAG (2000)  
Performance Report 2001-02; OAG (2002)

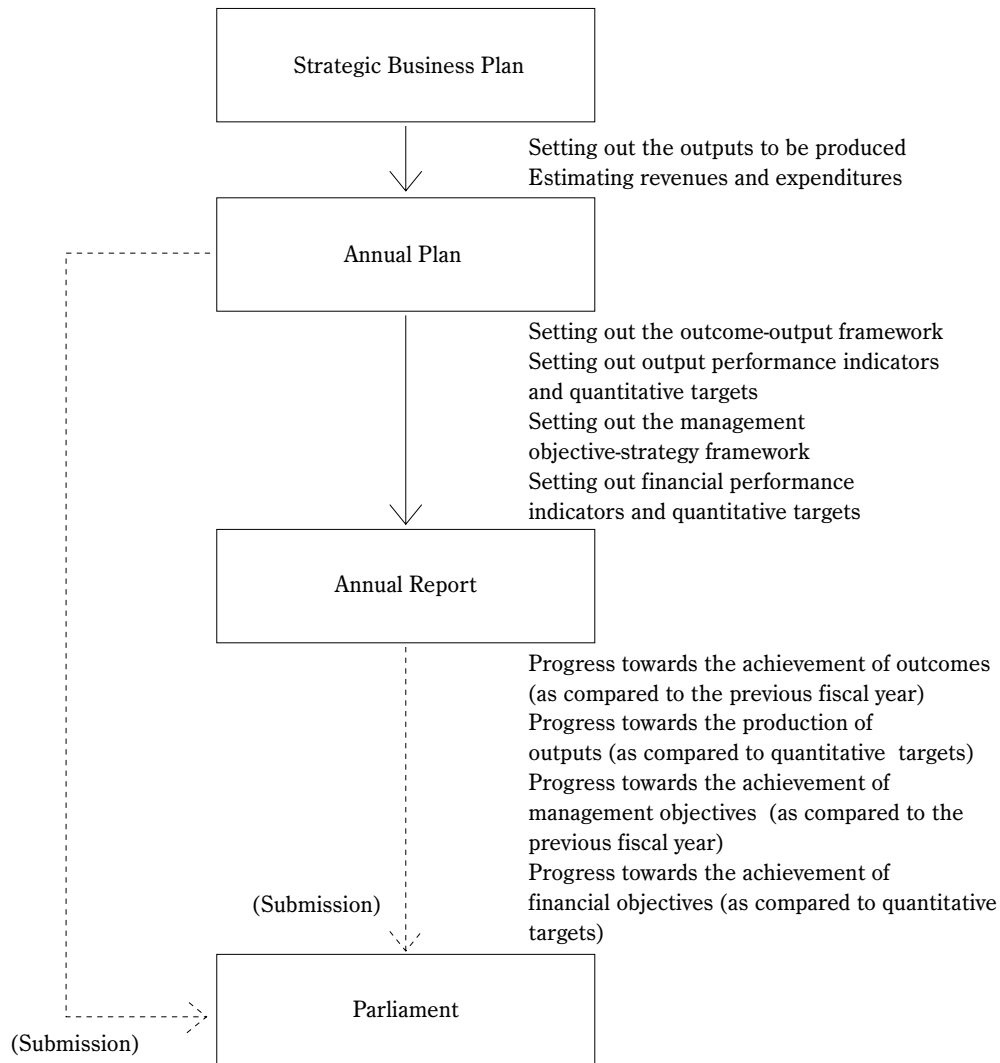
Office's revenues are mainly obtained from the fees paid by the audited entities in compensation for financial audits; (6) for a significant part of the financial audits, Audit New Zealand competes with private audit corporations in audit tenders; (7) performance audit reports are produced per audit and separately and directly tabled to Parliament; (8) financial statement audit reports are submitted to Parliament as part of the annual reports of governmental agencies together with their financial statements.

In 2001-02 (from July 2001 to June 2002), (1) there were 248 employees in the AO; (2) total costs amounted to NZ\$36.81 million; (3) the costs were allocated at the ratio of 12:87:1 between performance audits, financial audits, and other activities; (4) the entities to be audited totaled 3,955, including 47 governmental agencies; 3,343 institutions such as government-funded corporations (“Crown entities”), state-owned enterprises and their subsidiaries; 86 local public entities; and 479 corporations funded by local public entities and their subsidiaries; (5) the AO made 18 performance audit reports; and (6) the number of financial statement audit reports made was 3,650.

### 3.2 Structure of performance measurement

The AO, in order to evaluate its own performance, (1) creates a mid-term strategic business plan (“Strategic Business Plan”), (2) creates an Annual Plan, and (3) produces an Annual Report. (For the AO’s performance measurement structure, see Figure 6.)

Figure 6. Structure of performance measurement (Audit Office of New Zealand)



#### (1) Strategic Business Plan

The AO formulates a Strategic Business Plan, setting the target period at four years, in order for the Office to fulfill its roles in appropriate response to changes in the external environment and to show its basic ideas in

formulating its Annual Plans. In the Plan, the AO sets out the following: (1) entities to be audited; (2) outputs to be produced; and (3) estimated revenues and expenditures.

## **(2) Annual Plan**

The AO formulates and submits an Annual Plan to Parliament by the beginning of each fiscal year, in order to report the outcomes to be achieved, outputs to be produced, and organizational management objectives to be implemented to achieve the foregoing in that fiscal year based on Section 36 of the Public Audit Act 2001. In the Plan, the AO sets out the criteria required for the performance measurement of its activity results, organizational management, and financial management for the fiscal year, including the (1) outcome-output framework; (2) output performance indicators and quantitative targets; (3) management objective-strategy framework; and (4) financial performance indicators and quantitative targets. The outputs set out in the Annual Plan are the same as those set out in the Strategic Business Plan described in (1) above. Before the enforcement of the Public Audit Act 2001, the Annual Plan had been created pursuant to Section 34.A of the Public Finance Act 1989 and called a "Forecast Report."

## **(3) Annual Report**

The AO creates and submits an Annual Report to Parliament after the end of the fiscal year, in order to report the implementation of its Annual Plan based on Section 37 of the Public Audit Act 2001. In the Report, the AO evaluates its activity results, organizational management performance, and financial management performance, including (1) progress towards the achievement of outcomes (as compared to the previous fiscal year); (2) progress towards the production of outputs (as compared to quantitative targets); (3) progress towards the achievement of management objectives (as compared to the previous fiscal year and to other factors); and (4) progress towards the achievement of financial objectives (as compared to quantitative targets).

### **3.3 Performance measurement of activity results**

#### **(1) Outcome-output framework and performance objectives**

The AO, in order to evaluate its activity results, sets out the following in its Annual Plan: (1) outcomes to be achieved by the AO; (2) outputs to be produced to achieve the outcomes; (3) performance indicators and quantitative targets to quantify progress towards the production of outputs. For 2001-02, the AO set the following outcome-output framework and performance objectives. (For the AO's outcome-output framework, see Figure 7.)

##### **a. Outcomes**

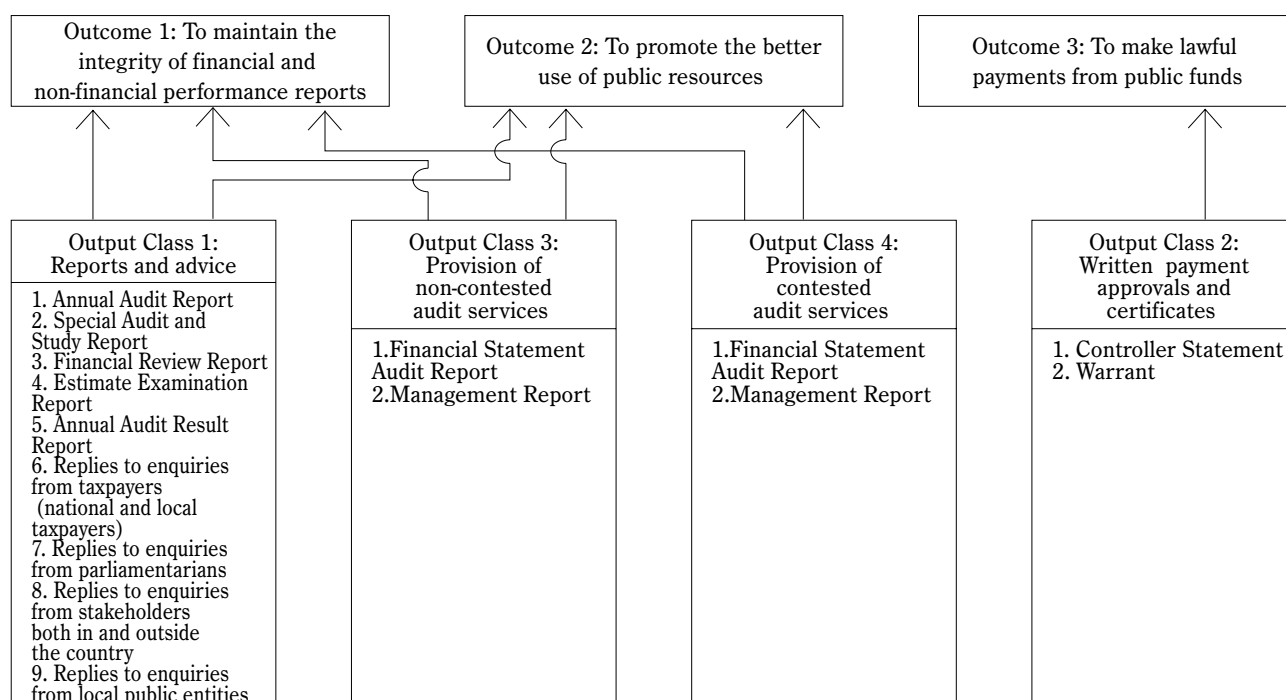
In its Forecast Report 2001-02, the AO plans to achieve the following three outcomes: (1) to maintain the integrity of financial and non-financial performance reports (Outcome 1); (2) to promote the better use of public resources (Outcome 2); and (3) to make lawful payments from public funds (Outcome 3). The AO does not preset the performance indicators and quantitative targets to quantify the progress towards the achievement of these outcomes.

##### **b. Outputs**

In the Forecast Report 2001-02, as the outputs to be produced to achieve Outcomes 1 to 3 described above, the Office sets out the following four output classes: (1) reports and advice (Output Class 1); (2) written payment approvals and certificates (Output Class 2); (3) provision of non-contested audit services (Output Class 3); and (4) provision of contested audit services (Output Class 4). Also, the Office sets detailed outputs for each of the Output Classes. For example, for Output Class 4 (provision of contested audit services), it sets the following two specific outputs: Financial Statement Audit Reports and Management Reports.

Also in its Forecast Report, in order to quantify the production of specific outputs, the AO sets performance indicators and quantitative targets regarding the quantity, quality, timeliness, and cost of outputs. For example, for Financial Statement Audit Reports in Output Class 4 (provision of contested audit services), the Office sets the following output performance indicators and quantitative targets: (1) the number of financial statement audits outstanding at the end of the fiscal year: 160 audits (as a target for quantity); (2) compliance with New Zealand Auditing Standards: 100% (as a target for quality); (3) percentage of reports completed within five months after the end of the fiscal year: 50% (as a timeliness target for schools) to 100% (as a timeliness target for government

Figure 7. Outcome-output framework (Audit Office of New Zealand)



Source: *Forecast Report 2001-02*; AO (2001)

agencies); and (4) cost of producing reports including Management Reports: NZ\$27.73 million after the approval of any supplementary budget. The cost-related targets set out for each of the outputs are calculated on a full accrual basis and the costs tabulated per output class are included in the Estimate of Appropriations as the budget of the AO and subject to the approval by Parliament. Accordingly, the costs are modified if Parliament approves a supplementary budget.

## (2) Evaluation results

The AO, in the Annual Report, evaluates the performance of its activity results, including progress towards the achievement of outcomes and production of outputs based on the outcome-output framework and performance indicators and quantitative targets set out in the Annual Plan. For example for 2001-02, the Office evaluates its performance as follows:

### a. Outcomes

The AO, in order to evaluate its progress towards the achievement of outcomes, chooses performance indicators

Table 10. Progress towards the achievement of outcomes (Audit Office of New Zealand)

(2001-02)

Outcome	Performance indicator	Actual result	Actual result of the previous fiscal year
Outcome 1: To maintain the integrity of financial and non-financial performance reports	Percentage of non-standard audit reports	11.7%	7.9%
	Number of reviews carried out by the AO regarding audits conducted by private auditing corporations	45 reviews	50 reviews
Outcome 2: To promote the better use of public resources	Percentage of parliamentarians acknowledging the value of AO reports	70%	70%
	Percentage of audited entities acknowledging the value of better practice guides (Special Audit and Study Reports)	64%	Not surveyed

Source: *Annual Report 2001-02*; AO (2002)

Table 11. Progress towards the production of outputs (Audit Office of New Zealand)

(2001-02)

Output class	Output	Performance indicator	Quantitative target	Actual result	
Class 1: Reports and advice	Annual Audit Report Special Audit and Study Report	Quantity: number of reports produced (Annual Audit Reports) (Special Audit and Study Reports)	2 reports 8 reports	3 reports 10 reports	
		Quality: percentage of reports subject to peer review and audited entity confirmation of factual accuracy	100%	100%	
		Cost	NZ\$2.95 million	NZ\$2.95 million	
	Financial Review Report Estimate Examination Report	Quantity: number of reports produced (Financial Review Reports) (Estimate Examination Reports) (Annual Audit Result Reports)	110 reports 40 reports 110 reports	89 reports 27 reports 134 reports	
		Quality: percentage of reports and advice subject to peer review and audited entity confirmation of factual accuracy	100%	100%	
		Timeliness: -Percentage of reports presented to parliamentary committees at least two days before their examination -Percentage of reports submitted to ministers in charge before examination by parliamentary committees	100% 100%	100% 100%	
	Annual Audit Result Report	Cost	NZ\$0.59 million	NZ\$0.55 million	
		Responding to enquiries from taxpayers (national and local taxpayers)	Quantity: number of enquiries received (from national taxpayers) (from local taxpayers) (from parliamentarians)	60 enquiries 180 enquiries 60 enquiries	54 enquiries 167 enquiries 53 enquiries
			Quality: percentage of reports and advice subject to peer review and audited entity confirmation of factual accuracy	100%	100%
	Responding to enquiries from parliamentarians	Timeliness: - Initial response within five working days - Cleared within 30 working days	100% 80%	96% 72%	
		Cost	NZ\$0.46 million	NZ\$0.45 million	
		Responding to enquiries from stakeholders both within and outside the country	Cost	NZ\$0.63 million	NZ\$0.58 million
	Responding to enquiries from local public entities	Quantity: number of enquiries received	80 enquiries	123 enquiries	
		Quality: percentage of reports and advice subject to peer review	100%	100%	
		Timeliness: - Initial response within five working days - Cleared within 30 working days	100% 80%	99% 88%	
Cost		NZ\$80,000	NZ\$80,000		
Class2: Written payment approvals and certificates	Controller Statement Warrant	Quantity: numbers issued (Controller Statements) (Warrants)	240 statements 15 warrants	245 statements 6 warrants	
		Quality: Issuance of authorities regarding the correctness of the application	100%	100%	
		Timeliness: signed before noon on day of submission	100%	100%	
		Cost	NZ\$0.27 million	NZ\$0.24 million	
Class 3: Provision of non-contested audited services	Financial Statement Audit Reports	Quantity: number of audits outstanding at the end of the fiscal year	200 audits	169 audits	
		Quality: compliance with New Zealand Auditing Standards	100%	100%	
	Management Reports	Timeliness: -Percentage of Financial Statement Audit Reports completed within five months after the end of the fiscal year -Percentage of Management Reports completed within six weeks from the date on which the Financial Statement Audit Reports were created	75~100% 100%	47% 96%	
		Cost	NZ\$5.91 million	NZ\$4.51 million	
Class 4: Provision of contested audit services	Financial Statement Audit Report	Quantity: number of audits outstanding at the end of the fiscal year	160 audits	374 audits	
		Quality: compliance with New Zealand Auditing Standards	100%	100%	
	Management Report	Timeliness: -Percentage of Financial Statement Audit Reports completed within five months after the end of the fiscal year -Percentage of Management Reports completed within six weeks from the date on which the Financial Statement Audit Reports were created	50~100% 100%	35% 96%	
		Cost	NZ\$27.73 million	NZ\$27.40 million	

Note: The cost-related targets are those set after the approval of any supplementary budget.

Source: Annual Report 2001-02; AO (2002)



paying attention to the effects of outputs on outcomes. In the Annual Report 2001-02, based on such indicators, the Office compares the actual results of the fiscal year with those of the previous fiscal year. For example, the Office concluded that there was still room for improvement regarding the achievement of Outcome 1 (to maintain the integrity of financial and non-financial performance reports), because as a result of calculating the percentage of non-standard audit reports that do not contain unqualified opinions as a performance indicator, the percentage increased in 2001-02 to 11.7% compared with the previous year (7.9%). (For progress towards the achievement of outcomes, see Table 10.)

#### b. Outputs

The AO makes the evaluation of progress towards the production of outputs in the Annual Report 2001-02; for example, regarding financial statement audit reports in Output Class 4 (provision of contested audit services), (1) the number of financial statement audits outstanding at the end of the fiscal year was 374 against a target of 160; (2) compliance with the New Zealand Auditing Standards was 100% against a target of 100%; (3) the percentage of reports completed within five months after the end of the fiscal year was 35% against a target of 50% to 100%; and (4) the cost amounted to NZ\$27.40 million against a target of NZ\$27.73 million. Based on these results, the AO concludes that the quantitative target for timeliness had not been achieved. (For the progress towards the production of outputs, see Table 11.)

### 3.4 Performance measurement of organizational management

#### (1) Management objective-strategy framework

The AO, in order to evaluate its organizational management, sets out its organizational management objectives (“Operating Goals”) and the strategies to achieve these goals. (For the AO’s management objective-strategy framework, see Table 12.) The Office does not preset the performance indicators and quantitative targets to quantify the progress towards the achievement of these goals.

For example, in the Forecast Report 2001-02, the AO sets out the following three goals: (1) to ensure that the Office continues to deliver excellent audit services (Operating Goal 1); (2) to appropriately respond to changes occurring in the external environment (Operating Goal 2); and (3) to lead by example (Operating Goal 3). Also, the Office sets out specific strategies to achieve these goals. For example, to achieve Goal 1 (to ensure that the Office continues to deliver excellent audit services), it sets out several strategies, including planning and conducting all audits professionally and having regard to the full mandate of the Office.

Table 12. Management objective-strategy framework (Audit Office of New Zealand)

Management objective (“Operating Goal”)	Strategy
1. To ensure that the Office continues to deliver excellent audit services	<ol style="list-style-type: none"> <li>1. Plan and conduct all audits professionally and with regard to the full mandate of the Office.</li> <li>2. Carry out audits focusing on the performance and accountability of audited entities.</li> <li>3. Place particular emphasis on the audits of entities to be newly audited following the enforcement of the Public Audit Act.</li> <li>4. Place particular emphasis on the completion of all audits that the Office is legally required to perform.</li> <li>5. Place particular emphasis on effective communication with those who have a key interest in the results of the Office’s work.</li> </ol>
2. To appropriately respond to changes occurring in the external environment	<ol style="list-style-type: none"> <li>1. Maintain sound awareness of changes in the public sector.</li> <li>2. Introduce a mechanism for giving more flexible responses to changes as an organization.</li> <li>3. Perform progressive audits for the changing needs of the public sector.</li> </ol>
3. To lead by example	<ol style="list-style-type: none"> <li>1. Fulfill a leadership role in necessary areas, particularly in performance reporting.</li> <li>2. Practice what the Office preaches to audited entities.</li> <li>3. Operate under a philosophy of continuous improvement.</li> <li>4. Maintain administrative, corporate, and technical capabilities.</li> <li>5. Place particular emphasis on measuring and reporting the achievements of the Office’s goals and desired outcomes.</li> <li>6. Appropriately respond to the findings of an external peer review conducted late in 2000-01.</li> <li>7. Successfully manage the transition process following the appointment of a new Auditor-General.</li> </ol>

Source: *Forecast Report 2001-02*; AO (2001)

## **(2) Evaluation results**

The AO, in the Annual Report, evaluates the performance of its organizational management, including progress towards the achievement of goals based on the management objective-strategy framework set out in the Annual Plan. The Office regards the management objective-strategy framework as a means to produce outputs and achieve outcomes, and in order to measure progress towards the achievement of the Operating Goals, uses the performance indicators set out in the Annual Plan to quantify the relevant progress.

In the Annual Report 2001-02, as a performance indicator to evaluate progress towards the achievement of Operating Goal 1 (to ensure that the Office continues to deliver excellent audit services), the Office uses the “number of financial statement audits outstanding at the end of the fiscal year” set out as a performance indicator to evaluate progress towards the production of outputs. It concludes that there is still room for improvement because the actual outstanding audits for 2001-02 numbered 543 reports against a target of 360 and the number increased as compared to 395 in the previous fiscal year.

### **3.5 Performance measurement of staff**

The AO, in order to progressively produce the outputs and achieve the outcomes and operating goals set in the organization’s Annual Plan, makes its employees conclude performance agreements with their superiors on an annual basis. In the agreements, the Office shows employees their own performance objectives based on the entire organization’s ones. As incentives for employees, salaries are regularly raised, bonuses are paid, promotions are made, and commendations are given, according to the progress they have made towards the achievement of their objectives.

### **3.6 Performance evaluation of financial management**

#### **(1) Prospective financial statements and financial performance objectives**

For the specific subjects to be evaluated regarding its financial management, the AO uses a Statement of Prospective Financial Performance, a Statement of Prospective Financial Position, a Statement of Prospective Cash Flows, etc. in its Annual Plan, and based on these statements selects and calculates specific performance indicators and quantitative targets for the evaluation of its financial management. The Office evaluates its financial management in terms of (1) operating results; (2) working capital management; (3) resource utilization; (4) taxpayers’ funds; and (5) net cash flows, and sets performance indicators and quantitative targets for each of these.

For example, in the Forecast Report 2001-02, the AO sets the following performance indicators and quantitative targets: (1) surplus of NZ\$0.27 million regarding operating results; (2) net current assets at year-end of NZ\$1.91 million regarding working capital management; (3) total physical assets at year-end of NZ\$2.95 million regarding resource utilization; (4) level at year-end of NZ\$3.59 million regarding taxpayers’ funds; and (5) surplus on operating activities of NZ\$0.47 million regarding net cash flows. (All those figures are after the approval of the supplementary budget.)

#### **(2) Evaluation results**

The AO, in the Annual Report, evaluates the performance of its financial management, including progress towards the achievement of its financial objectives based on the performance indicators and quantitative targets set out in the Annual Plan as well as the comparison of the prospective financial statements with the actual results. The Office’s actual financial statements are audited by an external auditor (a private auditing corporation) appointed by Parliament based on Section 40 of the Financial Law 1989, thereby ensuring the credibility of the statements.

For example, in the Annual Report 2001-02, in evaluating progress towards the achievement of financial objectives, the AO concluded as follows regarding its operating results: although the Office has not achieved its objectives regarding revenue and expenses, it has achieved the objective for surplus because: (1) revenue amounted to NZ\$37.49 million against a target of NZ\$38.96 million; (2) expenses reached NZ\$36.81 million against a target of NZ\$38.69 million; and (3) surplus came to NZ\$0.68 million against a target of NZ\$0.27 million. (For progress towards the achievement of financial objectives, see Table 13.)

Table 13. Progress towards the achievement of financial objectives (Audit Office of New Zealand)

(2001-02)

Performance indicator	Quantitative target	Actual result
(Operating results)		
Revenue	NZ\$38.96 million	NZ\$37.49 million
Expenses	NZ\$38.69 million	NZ\$36.81 million
Surplus (revenue – expenses)	NZ\$0.27 million	NZ\$0.68 million
(Working capital management)		
Net current assets at year-end (current assets – current liabilities)	NZ\$1.91 million	NZ\$2.07 million
Current ratio (current assets/current liabilities)	170%	145%
Average receivables and work in progress	43 days	68 days
Average payables outstanding	20 days	44 days
(Resource utilization)		
Total physical assets at year-end	NZ\$2.95 million	NZ\$2.63 million
Additions as % of physical assets	46%	30%
(Taxpayers' funds)		
Level at year-end (total assets – total liabilities)	NZ\$3.59 million	NZ\$3.59 million
(Net cash flows)		
Deficit on operating activities (revenue – expenses)	NZ\$0.47 million	(NZ\$30,000)
Deficit on investing activities (revenue – expenses)	(NZ\$1.18 million)	(NZ\$0.64million)
Deficit on financing activities (revenue – expenses)	(NZ\$0.35 million)	(NZ\$0.35million)
Net decrease in cash held (total revenue – total expenditures)	(NZ\$1.06 million)	(NZ\$1.02million)

Note: The quantitative targets are those set after the approval of the supplementary budget.

Source: *Annual Report 2001-02*; AO (2002)

## 4. United States

### 4.1 Outline of the SAI

In the United States, the General Accounting Office (GAO) is established as the SAI of the country based on the Budget and Accounting Act of 1921. There are some differences between the GAO and the Board of Audit of Japan, including: (1) the GAO belongs to Congress; (2) it is at the discretion of audited entities whether to accept the recommendations made by the GAO; (3) the Office's revenues include the fees to be paid by the federal government-funded corporations in compensation for financial statement audits; (4) reports are made per audit and are individually and directly submitted to Congress; (5) approximately 90% of the Office's reports are made upon request from Congress.

In fiscal 2002 (from October 2001 to September 2002), (1) there were 3,210 employees in the GAO; (2) total costs amounted to US\$456.63 million; (3) the costs were allocated at a ratio of 55:7:38 between performance audits, financial audits, and other activities; (4) the entities to be audited totaled 69 institutions, including 14 federal government departments and 55 federal government independent establishments and government corporations; (5) the GAO made approximately 1,000 performance audit reports; and (6) the number of financial statement audit reports made was 4.

The GAO does not evaluate its financial management performance.

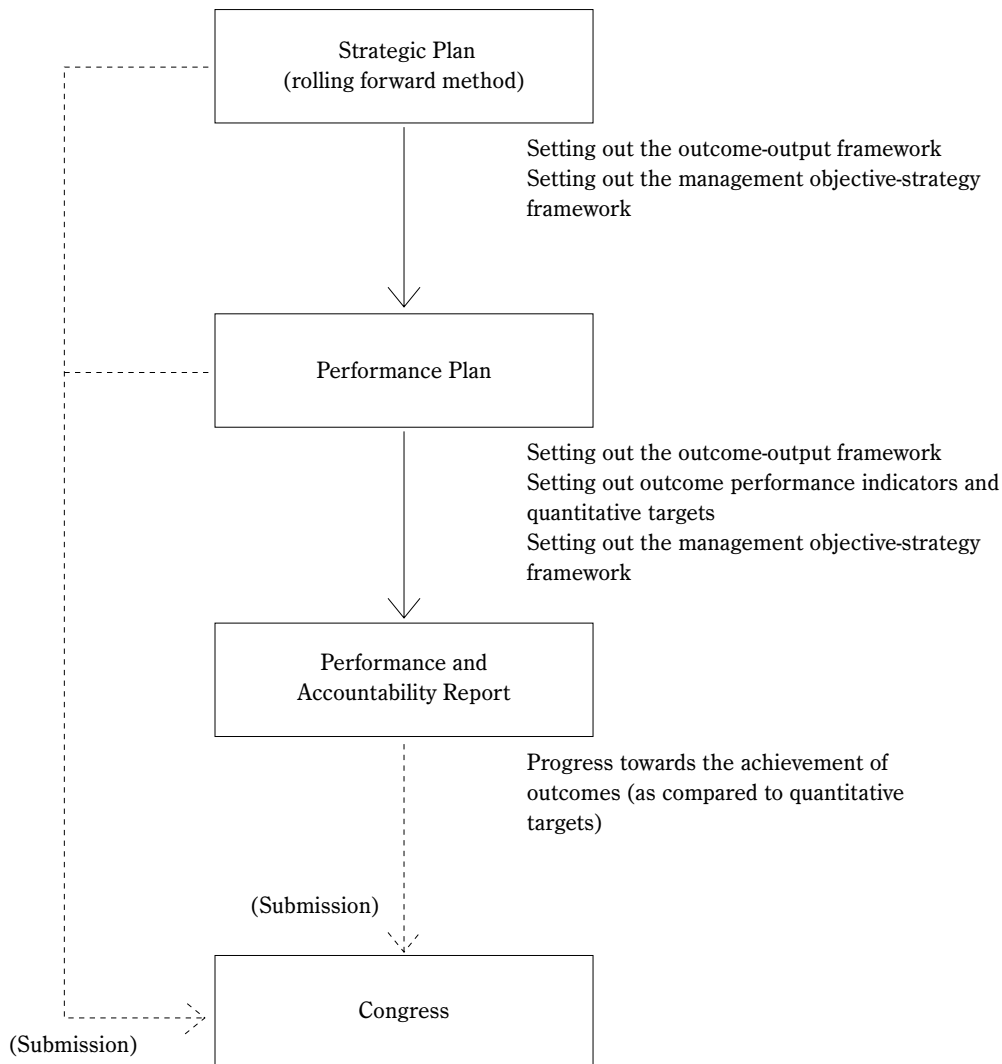
### 4.2 Structure of performance measurement

The GAO, in order to evaluate its own performance, creates (1) a long-term strategic plan ("Strategic Plan"); (2) a Performance Plan; and (3) a Performance and Accountability Report. (For the GAO's performance measurement structure, see Figure 8.)

#### (1) Strategic Plan

Pursuant to the provisions of the Government Performance and Results Act of 1993, the GAO formulates a Strategic Plan to fulfill its role in making appropriate response to changes in the external environment and to illustrate its basic ideas regarding the creation of annual Performance Plans. The target period of the Strategic Plan is set at six fiscal years. This Strategic Plan is reviewed every two years, when the composition of the Houses

Figure 8. Structure of performance measurement (General Accounting Office of the United States)



is changed by election, based on a rolling forward method, and subsequently submitted to Congress. In the Plan, the GAO sets out the outcome-output framework, management objective-strategy framework, etc.

**(2) Performance Plan**

The GAO, in order to report the outcomes, etc. to be achieved within the fiscal year according to the provisions of the Government Performance and Results Act of 1993, creates and submits a Performance Plan to Congress before the beginning of the fiscal year. The Performance Plan is revised as necessary, when the Strategic Plan is reviewed or the GAO’s budget is modified by Congress. In the Performance Plan, the Office sets out the criteria required for the evaluation of its activity results for the fiscal year, including (1) an outcome-output framework; (2) outcome performance indicators and quantitative targets; and (3) a management objective-strategy framework. The outcome-output framework and the management objective-strategy framework are the same as those set out in the Strategic Plan mentioned in (1) above.

**(3) Performance and Accountability Report**

In order to report the implementation of its Performance Plan in compliance with the provisions of the Government Performance and Results Act of 1993, the GAO creates and tables to Congress a Performance and Accountability Report after the end of the fiscal year. In the Report, the Office evaluates the performance of its

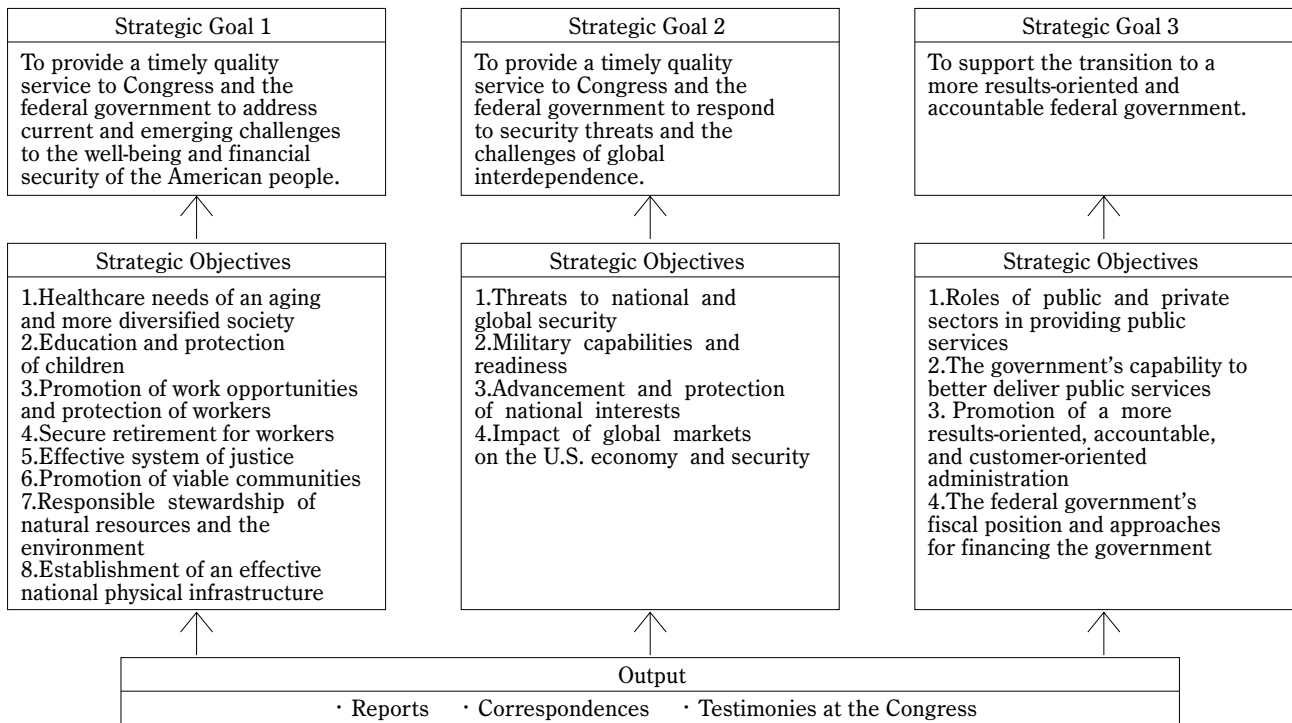
activities conducted in the year, including progress towards the achievement of outcomes (as compared to quantitative targets).

**4.3 Performance measurement of activity results**

**(1) Outcome-output framework and performance objectives**

The GAO, in order to evaluate its activity results, sets out the following in its Performance Plan: (1) outcomes to be achieved by the Office (“Strategic Goals”); (2) performance indicators and quantitative targets required for quantifying progress towards the achievement of outcomes; (3) areas to be dealt with for the achievement of outcomes (“Strategic Objectives”). For fiscal 2002, the GAO set the following outcome-output framework and performance objectives. (For the GAO’s outcome-output framework, see Figure 9.)

Figure 9. Outcome-output framework (General Accounting Office of the United States)



Source: Revised Final Performance Plan for Fiscal 2002; GAO (2002)

**a. Outcomes**

In the Revised Final Performance Plan for Fiscal 2002, the GAO plans to achieve the following three outcomes: (1) to address current and emerging challenges to the well-being and financial security of the American people (Strategic Goal 1); (2) to respond to security threats and the challenges of global interdependence (Strategic Goal 2); and (3) to support the transition to a more results-oriented and accountable federal government (Strategic Goal 3).

Also in the Plan, the Office sets performance indicators and quantitative targets, paying attention to the effects of outputs on outcomes in order to quantify progress towards the achievement of Strategic Goals 1 to 3. There are five performance indicators set out commonly for the Goals, but the quantitative targets differ for each goal, according to the quantity of outputs to be produced for the achievement of the goal. For example, regarding Strategic Goal 1 (to address current and emerging challenges to the well-being and financial security of the American people), the GAO sets out the following targets: (1) financial benefits (increase of revenues and savings) of US\$17 billion will be generated as a result of findings and recommendations made by the Office; (2) the number of actions (statutory or regulatory changes, and improvements of core business processes) taken by the Congress and audited entities will reach 218; (3) the percentage of recommendations made four fiscal years ago (in fiscal

1998) that have been followed by audited entities will be 75% of the total; (4) the number of recommendations made in the Office's reports will total 359; and (5) the number of testimonies given by the GAO staff at the congressional hearings will be 93. Also in the Plan, in order to quantify progress towards the achievement of the outcomes at the agencywide level, the Office sets another two indicators and quantitative targets: "percentage of reports completed by the deadline: 98%" and "percentage of reports including recommendations: 45%," in addition to the five performance indicators set out commonly for each Strategic Goal and the total values of the quantitative targets set out for each Strategic Goal.

Furthermore, in the Plan, the GAO sets out Strategic Objectives for each of the Strategic Goals in order to help achieve them. For example, regarding Strategic Goal 1 (to address current and emerging challenges to the well-being and financial security of the American people), the Office sets out the following eight Strategic Objectives: (1) healthcare needs of an aging and more diversified society; (2) education and protection of children; (3) promotion of work opportunities and protection of workers; (4) secure retirement for workers; (5) effective system of justice; (6) promotion of viable communities; (7) responsible stewardship of natural resources and the environment; and (8) establishment of an effective national physical infrastructure.

#### **b. Outputs**

The GAO produces reports that outline the results of its audits, including performance audits and financial audits, as well as relevant correspondence. In the Revised Final Performance Plan for Fiscal 2002, the Office plans to produce these outputs in order to achieve outcomes as a whole and does not set specific outputs for each of the outcomes. Also, the Office does not set any performance indicators or quantitative targets to quantify progress towards the production of outputs.

### **(2) Evaluation results**

The GAO, in the Performance and Accountability Report, evaluates the performance of its activity results, including progress towards the achievement of outcomes based on the outcome-output framework and performance indicators and quantitative targets set out in the Performance Plan. For fiscal 2002, the Office evaluated the results as follows:

#### **a. Outcomes**

The GAO makes the evaluation of progress towards the attainment of outcomes in the Performance and Accountability Report 2002; for example, regarding Strategic Goal 1 (to address current and emerging challenges to the well-being and financial security of the American people), (1) the audited entities increased their financial benefits by US\$24.1 billion thanks to the findings and recommendations of the GAO against a target of US\$17 billion; (2) 226 actions were taken by the Congress and audited entities in response to the findings and recommendations made by the GAO against a target of 218 actions; (3) the percentage of recommendations made by the GAO four fiscal years ago (in fiscal 1998) that were adopted by audited entities reached 72% against a target of 75%; (4) the number of recommendations included in the GAO's reports came to 524 against a target of 359; and (5) the GAO staff testified at congressional hearings 111 times against a target of 93 times. Based on these results, the GAO concludes that strategic Goal 1 has been generally achieved.

Also in the Report, in evaluating progress towards the achievement of outcomes at the agencywide level, the GAO concludes that the quantitative targets were met regarding the five performance indicators set out commonly for each Strategic Goal. Regarding additional indicators set out for Office's entire performance, although the percentage of reports including recommendations was 53% against a target of 45%, the percentage of reports completed by the deadline was 96% against a target of 98%. Based on these results, the GAO concludes that the quantitative target for the indicator of timeliness was not met. (For progress towards the achievement of outcomes, see Table 14.)

Furthermore, in order to evaluate progress towards the achievement of outcomes in terms of cost efficiency, the GAO calculated the net cost of each outcome on a full accrual basis in the Report. For example, for the net cost required for the achievement of Strategic Goal 1 (to address current and emerging challenges to the well-being and financial security of the American people), the Office spent US\$178.38 million, which accounts for 39% of the entire net cost.

Table 14. Progress towards the achievement of outcomes (General Accounting Office of the United States)

(Fiscal 2002)

Outcome	Performance indicator	Quantitative target	Actual result
Strategic Goal 1 To provide a timely quality service to Congress and the federal government to address current and emerging challenges to the well-being and financial security of the American people.	Profits and savings achieved thanks to the GAO's findings and recommendations	US\$17 billion	US\$24.1 billion
	Actions (revisions to laws and regulations and improvements of operational management) taken by the Congress and audited entities in response to the GAO's findings and recommendations	218 actions	226 actions
	Percentage of recommendations made by the GAO four fiscal years ago (in fiscal 1998) that have been followed by audited entities	75%	72%
	Number of recommendations included in the GAO's reports	359 recommendations	524 recommendations
	Number of testimonies given by the GAO staff at congressional hearings	93 times	111 times
	Net cost	Unset	US\$178.38 million
Strategic Goal 2: To provide a timely quality service to the Congress and the federal government to respond to security threats and the challenges of global interdependence.	Profits and savings achieved thanks to the GAO's findings and recommendations	US\$7.8 billion	US\$8.4 billion
	Actions (revisions of laws and regulations and improvements of operational management) taken by the Congress and audited entities in response to the GAO's findings and recommendations	178 actions	218 actions
	Percentage of recommendations made by the GAO four fiscal years ago (in fiscal 1998) that have been followed by audited entities	75%	83%
	Number of recommendations included in the GAO's reports	460 recommendations	618 recommendations
	Number of testimonies given by the GAO staff at congressional hearings	49 times	38 times
	Net cost	Unset	US\$110.54 million
Strategic Goal 3: To support the transition to a more results-oriented and accountable federal government.	Profits and savings achieved thanks to the GAO's findings and recommendations	US\$5.3 billion	US\$5.2 billion
	Actions (revisions of laws and regulations and improvements of operational management) taken by the Congress and audited entities in response to the GAO's findings and recommendations	374 actions	462 actions
	Percentage of recommendations made by the GAO four fiscal years ago (in fiscal 1998) that have been followed by audited entities	75%	82%
	Number of recommendations included in the GAO's reports	381 recommendations	808 recommendations
	Number of testimonies given by the GAO staff at congressional hearings	58 times	65 times
	Net cost	Unset	US\$140.97 million
In total	Profits and savings achieved thanks to the GAO's findings and recommendations*	US\$30 billion	US\$37.7billion
	Actions (revisions to laws and regulations and improvements in operational management) taken by the Congress and audited entities in response to the GAO's findings and recommendations*	770 actions	906 actions
	Percentage of recommendations made by the GAO four fiscal years ago (in fiscal 1998) that have been followed by audited entities*	75%	79%
	Number of recommendations included in the GAO's reports*	1,200 recommendation	1,950 recommendation
	Number of testimonies given by the GAO staff at congressional hearings*	200 times	216 times
	Percentage of reports completed by the deadline	98%	96%
	Percentage of reports including recommendations	45%	53%
	Net cost	Unset	US\$453.04 million

Note 1: The quantitative targets and actual results marked with asterisks (\*) in the performance indicator column are the totals for Strategic Goals 1 to 3.

Note 2: Because the net costs for each of the goals do not include indirect costs, the total does not correspond to the overall net cost.

Source: *Performance and Accountability Report Fiscal 2002*; GAO (2003)

**b. Outputs**

The GAO attributes importance to outcomes in its performance measurement, and in the Performance and Accountability Report Fiscal 2002, it does not disclose the actual results of progress towards the production of outputs, including the number of reports and correspondences produced and their net costs.

**4.4 Performance measurement of organizational management**

The GAO, in order to evaluate its organizational management, sets out the following in its Performance Plan: (1) organizational management objective (“Strategic Goal”); (2) strategies to be implemented for the achievement of the goal (“Strategic Objectives”); and (3) activities to be conducted for the implementation of the strategies (“Performance Goals”). (For the GAO’s management objective-strategy framework, see Table 15.) Because the Office regards the management objective-strategy framework as the means to achieve Strategic Goals 1 to 3, it does not set specific performance indicators and quantitative targets to quantify progress towards the achievement of the management objective itself.

For example, in the Revised Final Performance Plan for Fiscal 2002, the GAO plans to maximize the value of the Office by being a model federal agency and a world-class professional service provider. Also, as strategies to achieve this management objective, the Office formulates the following five strategies: (1) to sharpen the GAO’s focus on

Table 15. Management objective-strategy framework (General Accounting Office of the United States)

Strategic Goal	Strategic Objective	Performance Goal
Maximize the value of the GAO by being a model federal agency and a world-class professional service provider.	1. To sharpen the GAO’s focus on the needs of clients (Congress) and stakeholders (audited entities).	1. Continuously update awareness of client needs. 2. Develop and implement stakeholder protocols and refine client protocols. 3. Identify stakeholders’ requirements and measures.
	2. To enhance the leadership of managers and improve operational management methods.	1. Foster an attitude of stewardship to ensure a commitment to the GAO’s mission. 2. Implement an integrated approach to strategic management. 3. Continue to provide leadership in strategic human capital management planning and execution. 4. Maintain integrity in financial management. 5. Use IT technologies to improve the GAO’s crosscutting business processes. 6. Provide a safe and secure workplace.
	3. To promote institutional knowledge and experience.	1. Expand the GAO’s use of the Internet as a knowledge tool. 2. Develop a framework to manage the collection, use, distribution, and retention of organizational knowledge. 3. Strengthen relationships with other national and international public audit institutions.
	4. To continuously improve the GAO’s business and management processes.	1. Reengineer internal business and administrative processes. 2. Reengineer the GAO’s product and service lines. 3. Review the GAO’s human resource assignments.
	5. To encourage employees to be ever more professional.	1. Maintain an environment that is fair and family-friendly. 2. Promote competency-based rewards and treatment. 3. Implement strategic training programs to improve employees’ competencies. 4. To provide employees with world-class equipment and facilities.

Source: Revised Final Performance Plan for Fiscal 2002; GAO (2002)



the needs of clients (Congress) and stakeholders (audited entities) (Strategic Objective 1); (2) to enhance the leadership of managers and improve operational management methods (Strategic Objective 2); (3) to promote institutional knowledge and experience (Strategic Objective 3); (4) to continuously improve the GAO's business and management processes (Strategic Objective 4); and (5) to encourage employees to be ever more professional (Strategic Objective 5). In addition, the Office plans specific activities to implement these objectives. For example, as an activity to implement Strategic Objective 1 (to sharpen the GAO's focus on clients' and stakeholders' needs), it plans to develop and implement stakeholder protocols and refine client protocols.

#### **4.5 Performance measurement of staff**

The GAO, in order to progressively achieve the outcomes and management objective set out in its Performance Plan, which is a plan for the entire organization, has been implementing a competency-based performance system for analysts, specialists and attorneys since fiscal 2002. In this system, the Office shows employees their own specific performance objectives based on the entire organization's objectives. As incentives for employees, salaries are regularly raised, bonuses are paid, promotions are made, and commendations are given according to their progress towards the achievement of the objectives set out in their performance plans. The GAO is now examining the introduction of a similar staff performance management system for the professionals and support staff on the administrative side of the Office.

### **IV. Approaches to Qualitative Improvement**

Based on the actual results of performance measurement conducted by SAIs as described in Section III above, the following approaches could be undertaken to make qualitative improvements.

#### **1. Analyzing the contribution of outputs**

If a SAI concludes in the measurement of its own performance that the desired outcomes have not been fully achieved, it is necessary for the institution to analyze the causes in order to review the necessity and priority of outputs and to improve its organizational management. It is particularly important to analyze the contribution of outputs to the achievement of outcomes from the viewpoint of purpose and means (cause and result). If the contribution made by existing outputs is assessed to be small based on the results of the analysis, the quantity and quality of the outputs should be improved or the production of new outputs should be examined. When multiple outputs are produced to achieve a specific outcome, more resources will be allocated to an output that has made more contribution than others, thereby promoting progress towards the achievement of the outcome within a certain budget.

For example, the Australian National Audit Office (ANAO) concluded in the Annual Report 2001-02 that it had generally achieved Outcome 1 (to improve the administrative management of the federal government) but had not achieved Outcome 2 (to ensure the federal government's accountability). (See Table 1.) On the other hand, in analyzing the contribution (%) of outputs to the achievement of outcomes, the ANAO concluded that the contribution of performance audit services (Output Group 1) to Outcome 1 was 67% and that to Outcome 2, 33%; the contribution of information support services (Output Group 2) to Outcome 1 was 50% and that to Outcome 2, 50%; and that the contribution of assurance audit services (Output Group 3) to Outcome 1 was 10% and that to Outcome 2, 90%. (See Figure 3.) In consideration of these analysis results, in order to promote the achievement of Outcome 2, the ANAO might review the resource allocation among the Output Groups and assign more resources to Output Group 3, which made a greater contribution to Outcome 2.

#### **2. Ensuring accuracy and objectivity of actual results**

In performance measurement of their organizations, SAIs compare the pre-established quantitative targets with actual results in order to evaluate progress towards the achievement of objectives. In such measurement it is therefore necessary to ensure the accuracy of actual results. Also, because SAIs measure their own performance, they need to ensure the objectivity of the actual results to guarantee their accountability to the people. Specifically, it is important for them to ensure the accuracy of individual results by asking a third party to validate the credibility of their information processing systems used for the tabulation of actual results and to further ensure

objectivity by involving the third party in data collection and tabulation.

For example, the ANAO has the Audit Committee as an organization to support the Auditor-General and the Committee validates the credibility of the information processing system used for the tabulation of financial and non-financial performance data. The Audit Committee is chaired by an external expert (a former representative partner of a private auditing corporation named Pricewaterhouse Coopers) and comprises members, including executives of the ANAO, and an external auditor (from KPMG, a private auditing corporation), appointed to carry out the financial statement and performance audits of the ANAO pursuant to Section 41 of the Auditor-General Act of 1997.

In the United States, the General Accounting Office (GAO) uses the “financial benefits generated by findings and recommendations of the GAO” as a performance indicator to quantify progress towards the achievement of Strategic Goals 1 to 3. In tabulating the actual results for this indicator, the GAO staff in charge of performance audits are obliged to file an accomplishment report backed by documentation linking their work to the benefits, and to provide an estimate of the benefits’ monetary value by independent third parties, including the audited entities, congressional committees, and the Congressional Budget Office.

### **3. Additional implementation of qualitative analysis**

In performance measurement, it is desirable to set quantitative performance indicators in order to evaluate progress towards the achievement of outcomes in an objective manner. Depending upon the nature of the outcomes, however, quantitative analysis alone will be insufficient if quantitative indicators reflect only one aspect of the outcomes, or a long period of time is required for outcomes to appear as measurable values, or only output-based quantitative indicators are set out. In such cases, it is also necessary to implement qualitative analysis to supplement the results of quantitative analysis. It is also important to set qualitative targets that enable the evaluation of progress based on specific facts, and to compare actual results with these targets for the comprehensive evaluation of progress towards the achievement of outcomes.

For example, the GAO classifies the purpose-means framework into Strategic Goals, Strategic Objectives, Performance Goals, and Key Efforts in a vertical direction. For Key Efforts, setting a target period at two fiscal years, the GAO makes a specific plan to achieve the upper Performance Goals. The GAO conducts qualitative analysis every two years and concludes that the Performance Goal has been achieved when at least 75% of the Key Efforts set out for the goal have been implemented. For example, in its Revised Final Performance Plan for Fiscal 2002, the GAO planned to implement the following six issues as Key Efforts for 2002-03 in order to achieve the Performance Goal 1 (to evaluate Medicare reform, financing, and operations) set for Strategic Objective 1 of the Strategic Goal 1: (1) analyze the potential consequences of Medicare structural reforms; (2) assess the effects of expanding managed care in Medicare; (3) evaluate the Centers for Medicare and Medicaid Services’ (CMS) management of Medicare; (4) evaluate methodologies for setting fair reimbursement rates for Medicare providers; (5) assess the effects of different payment rates on access to, and quality of, health care services; and (6) evaluate CMS’s safeguards and program controls over provider payments and beneficiary access and quality. In the Performance and Accountability Report 2002, the GAO included an intermediate report that all the six issues would be implemented within fiscal 2003.

### **4. Implementation of a customer satisfaction survey**

In the measurement of their own performance, it is necessary for SAIs to identify the effects of outputs on their users, in order to evaluate progress towards the achievement of outcomes in a comprehensive manner and to obtain information required for the improvement of their organizational management and the staff’s business management. Specifically, it is important to supplement the measurement results obtained from other performance indicators by conducting satisfaction surveys targeting the output users and comparing the results with the pre-established quantitative targets.

For example, the ANAO interviews parliamentarians once every few years to survey their level of satisfaction with the range of performance audits being conducted by the ANAO; the allocation of human resources and budget between its performance audit services and assurance audit services; the timeliness of its audit reports, etc. The ANAO also commissions a questionnaire survey and interviews to an external consulting company, which puts

questions to the senior managers and managers of audited entities, who are in charge of the operations to be audited, upon completion of each performance audit. In the questionnaire and interviews, the ANAO surveys the managers' level of satisfaction with the audit methods, the auditors' understanding of the operations to be audited, recommendations made by the Office, etc. (The ANAO also conducts a satisfaction survey targeting the staff of audited entities for its financial statement audit services.)

### **5. Implementation of a satisfaction survey targeting employees**

At SAIs, the strategies for organizational management are actually implemented by employees, and in measuring their own performance, it is necessary for the institutions to understand the effects of organizational management on employees, in order to provide motivation to employees and to optimize staffing within the institutions. Specifically, it is important to conduct satisfaction surveys targeting employees and compare the results with the pre-established quantitative targets, thereby obtaining the information required to improve outputs, organizational management, and the staff's business management.

For example, the ANAO has been conducting a questionnaire survey for its employees since 1998-99 to identify their levels of satisfaction with the workplace, their jobs, personnel management, etc. The employees are not obliged to answer the questionnaire, and the percentage of those who voluntarily answered was 75% in 2001-02.

## **V. Conclusion**

In the advanced countries introduced in this paper, drastic reforms are being conducted following the introduction of performance measurement systems, including those concerning budget systems, public accounting systems, and national public employee systems. These systems and the relevant performance measurement systems are designed to organically generate synergistic effects, such as the reflection of measurement results into budgeting, the application of cost information to performance measurement, and incentives to employees.

In Japan, however, only the performance measurement system has been introduced to government ministries and agencies, without reforms to the related systems. Also, for the performance measurement system of independent administrative institutions, only parts of the related systems have been reformed, including the introduction of accrual basis accounting. For Japan's government ministries and agencies, independent administrative institutions, etc., the examples of advanced foreign countries are therefore only partially useful. For performance measurement conducted in Japan to be upgraded to the level of those carried out in advanced foreign countries, sweeping reforms of the related systems will also be required.

### **(References)**

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