

## Improving Performance Information

Public sector audit has a key part to play in safeguarding public money, ensuring proper accountability, upholding proper standards of conduct in public services and helping public services achieve value for money.

The Public Audit Forum was established in 1998. It brings together the national audit agencies on a purely advisory basis to provide a focus for developmental thinking about public audit. It has a remit to build on the existing co-operation between the national audit agencies: to enhance the efficiency and effectiveness of public audit, to provide a strategic focus on issues cutting across their work and to help develop broadly consistent approaches to public audit.

# The Public

A key element in the Forum is a working group which draws on the experience and expertise of public auditors, the bodies they audit, the auditing profession and the wider community.

The Public Audit Forum has published the following reports to date:

- The Principles of Public Audit: a statement by the Public Audit Forum (October 1998).
- The Service which Auditees can Expect from Public Auditors: a consultation document (October 1998).
- Implications for Audit of the Modernising Government Agenda: a paper by the Public Audit Forum (April 1999).
- What Public Sector Bodies can expect from their Auditors: a consultation paper (June 1999).
- What Public Sector Bodies can expect from their Auditors (final paper March 2000).
- Propriety and Audit in the Public Sector: a consultation paper (May 2000).
- Data Matching and the Role of Public Sector Auditors: a consultation paper (August 2000).
- Audit Implications of Electronic Service Delivery in the Public Sector (April 2001).
- Propriety and Audit in the Public Sector (final paper August 2001).
- Central Government Audit in the UK after Devolution (January 2002).

# Audit Forum

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This report, past publications and other information about the Public Audit Forum are available on its web site at [www.public-audit-forum.gov.uk](http://www.public-audit-forum.gov.uk).

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## Foreword

Since the early 1990s, successive performance management initiatives have put an increased emphasis on the use of published performance indicators as the primary means by which public bodies account for the non-financial aspects of their performance to resource providers, service users and other stakeholders. Performance information may also be used to monitor and manage performance.

'Performance information' covers a wide range of quantitative data and statistics, including financial and non-financial information. This publication is primarily concerned with those formally defined performance indicators (PIs), which are intended or required to be published to stakeholders.

The process of setting PIs is a matter for government and public bodies themselves. However, the different users of performance information want to know that published PIs are fit for purpose, reliably recorded and reported, and give consistent and comparable messages about how a body is performing, both over time and in comparison with similar types of bodies. This has given rise to a need for PIs, and the systems and processes that underpin them, to be audited.

Against this background, the Public Audit Forum has developed this paper to clarify the respective responsibilities of those specifying performance indicators, accountable bodies and auditors and where those different responsibilities begin and end. It also outlines good practice guidance for PI-setting bodies and accountable bodies on how they can meet their respective responsibilities.

The paper is aimed at all those with an interest in improving performance information in the public sector: government departments and regulators, board members, senior management, audit committees, and external and internal auditors.

Our intention is that, given that the framework for setting and reporting on PIs and the role of the audit agencies in different sectors and countries is so different, the principles set out in this paper should be used and tailored by the different audit agencies to meet the specific requirements of their regimes. As such the Public Audit Forum will keep it under review.

The Public Audit Forum considers that the publication of this paper will contribute to the development of an agreed, consistent framework for improving, and providing assurance on, performance information across the public services, in a way that is relevant to the needs of specific sectors and countries.

We consider that the paper should be of particular interest to those responsible for setting performance indicators and the top management of organisations across the public sector. We are therefore pleased to endorse this paper.



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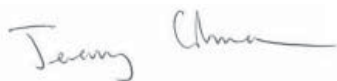
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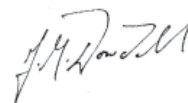
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## Executive Summary

1. Published performance indicators are the primary means by which public bodies account for the non-financial aspects of their performance. They may also be used to monitor and manage performance.
2. 'Performance information' covers a wide range of quantitative data and statistics, including financial and non-financial information. This publication is primarily concerned with those formally defined performance indicators (PIs), which are intended or required to be published to stakeholders. The different users of performance information need assurance that published information is reliable, consistent and comparable, both over time and between similar types of bodies. This has given rise to a demand for such information to be 'audited'.
3. However, there are a number of inherent difficulties in auditing performance information, which means that audit regimes have historically focused on reviewing and reporting on the underlying systems and processes for recording, preparing and publishing performance information, rather than the reported figures themselves. The Public Audit Forum is concerned that this may have given rise to a significant expectations gap, as the scope of auditors' work may be narrower and the nature and level of any assurance being given may be less than accountable bodies and other stakeholders realise.
4. The Public Audit Forum (PAF) has therefore developed this paper to clarify the respective responsibilities of those specifying PIs, accountable bodies and auditors and where those different responsibilities begin and end. It also outlines good practice guidance for PI-setting bodies and accountable bodies on how they can meet their respective responsibilities.
5. Given that the framework for setting and reporting on PIs and the role of the audit agencies in different sectors and countries is so different, it is intended that the principles set out in this paper should be used and tailored by the different audit agencies to meet the specific requirements of their regimes.

## PI-setting bodies

6. PI-setting bodies need to be clear about the aims, objectives and desired outcomes from producing each PI. These can then be translated into robust and practical definitions and conditions, in accordance with which accountable bodies can put in place arrangements for preparing and producing their PIs.
7. The key areas that PI-setting bodies need to consider, as described in this guidance, are:
  - ◆ Frameworks for developing PIs, which should be<sup>1</sup>:
    - ◆ **focused** on the organisation's aims and objectives;
    - ◆ **appropriate** to, and useful for, the stakeholders who are likely to use it;
    - ◆ **balanced**, giving a picture of what the organisation is doing and covering all significant areas of work;
    - ◆ **robust**, in order to withstand organisational changes or individuals leaving;
    - ◆ **integrated** into the organisation, being part of the business planning and management processes; and
    - ◆ **cost effective**, balancing the benefits of the information against the costs.
  - ◆ What makes a good performance indicator – good PIs will be expected to have the following attributes:
    - ◆ relevant (to the objectives of the organisation producing the indicators, to the people involved in producing the indicators and for the intended purpose);
    - ◆ avoid perverse incentives;
    - ◆ attributable;
    - ◆ reliable;
    - ◆ verifiable and robust;
    - ◆ timely; and
    - ◆ consistent.
  - ◆ Defining the indicators – PIs should be unambiguous and supported by clear definitions to ensure that data will be collected on a consistent basis and to enable meaningful comparison of the performance of different accountable bodies.
  - ◆ Considering accountable bodies' existing information and systems – does the information needed to produce individual PIs exist within accountable bodies or do new systems need to be set up from scratch or existing systems need to be amended?
  - ◆ Obtaining assurance – what level of assurance on the accuracy, completeness and reliability of the PIs is required and how will it be obtained?

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<sup>1</sup> *Choosing the Right FABRIC: A framework for performance information; Audit Commission, Cabinet Office, HM Treasury, NAO and Office for National Statistics, 2001*

## Accountable bodies

8. The paper describes how accountable bodies need to establish and maintain an organisation-wide commitment to data quality, characterised by:
  - ◆ involving top management and those charged with governance in the monitoring and review of PIs and using PIs in the wider performance management of the organisation;
  - ◆ designating a senior individual with overall responsibility for data quality;
  - ◆ putting in place robust systems and processes for the collection, compilation and reviewing of PIs;
  - ◆ training and developing staff; and
  - ◆ fair and balanced reporting of PIs to stakeholders in a way that is accessible and meaningful to the intended user, whether internal or external.

## Auditors

9. The paper discusses auditors' responsibilities in relation to planning and carrying out audit work in relation to PIs.
10. The scope and objectives of audit work in relation to PIs vary in different sectors and countries, reflecting the different mandates of the national audit agencies, and will be specified in legislation or by the national audit agency. Such powers and responsibilities may be specific or may form part of auditors' more general powers and responsibilities in relation to aspects of accountable bodies' performance management arrangements.
11. Before agreeing to accept audit work in relation to PIs, the national audit agencies will need to be clear as to the scope and objectives of any audit work.
12. Auditors will set out their approach in their audit planning document, which they will discuss with the accountable body. The approach will be planned to provide the level of assurance specified by the respective audit agency as well as to meet their own responsibilities.
13. In carrying out the audit, auditors will obtain such evidence and explanations from the accountable body and carry out work to form their conclusions. Auditors will use their professional judgement to set the level of testing required, according to the particular circumstances at the accountable body, the nature of the PI and their professional assessment of the audit risks relating to data quality or the system to be audited.
14. Auditors will report the findings of their work in such a way as to make clear the nature of (and any limitations on) the work they have carried out and make their findings and conclusions, and any recommendations, clear and explicit.

## Introduction

1. Since the early 1990s, successive performance management initiatives have put an increased emphasis on the use of published performance indicators as the primary means by which public bodies account for the non-financial aspects of their performance to resource providers, service users and other stakeholders (e.g. the Citizen's Charter, local authority performance indicators/best value performance indicators, public service agreements and specific performance standards and targets). Performance information may also be used to monitor and manage performance, for example as the basis for awarding earned autonomy or for resource allocation.
2. 'Performance information' covers a wide range of quantitative data and statistics, including financial and non-financial information. Performance indicators (PIs) are a sub-set of performance information. This publication is primarily concerned with those formally defined PIs which are intended or required to be published to stakeholders.
3. PIs may be set for different purposes and to meet the needs of different users:

Type of indicator	Users	Purpose
National	Public and stakeholders	Setting and meeting national priorities
	Government and Parliament	National publication
	Managers and staff	Accountability
Local	Public and stakeholders	Setting and meeting local priorities
	Directors and members	Accountability
	Managers and staff	

4. They may also be set by different means, for example:
  - ◆ externally to the audited body, by a government department or regulator, such as local authority (best value) performance indicators;
  - ◆ through a process of negotiation between the audited body and a government department or regulator, e.g. PSA targets; and
  - ◆ internally, by the body's own management, as a means of measuring and managing performance.
5. The different users of performance information need assurance that published information is reliable, consistent and comparable, both over time and between similar types of bodies. This has given rise to a demand for such information to be 'audited'.

6. However, there are a number of inherent difficulties in auditing performance information. These may be summarised as follows:
  - ◆ the quality of the data underlying performance information in the public sector is variable: internal controls over the recording of activity data and preparation of performance information are not as well developed as for financial information, for example, and in practice there may be less ownership of performance information by those charged with governance than of the financial statements;
  - ◆ there are no generally accepted standards governing the preparation of performance information: each PI is subject to its own 'counting rules', not all of which are capable of objective verification. Similarly, there are no specific professional auditing standards in this area, although the principles of other standards can be applied, in particular, the International Auditing and Assurance Standards Board's International Standards on Assurance Engagements;
  - ◆ the volume of activity that underpins individual PIs means that to provide limited assurance on the accuracy of a particular PI requires, in the absence of strong internal controls, intensive audit effort.
7. Audit regimes have historically focused on reviewing and reporting on the underlying systems and processes for recording, preparing and publishing performance information, rather than the reported 'figures' themselves. As part of their review of systems, and to indicate the likely accuracy of other indicators, auditors may carry out accuracy checks on a selection of specific PIs.
8. However, many stakeholders assume that any audit activity in relation to performance information means that the performance indicators have been 'audited' and are thus 'accurate' and can be relied upon accordingly. The main risk from this situation would be that the users of the performance information, e.g. a government department or regulator, may make a policy or take decisions on the basis of inaccurate information. This may in turn lead to a failure to achieve value for money or deliver improved performance. There is also a risk of misleading stakeholders if accountable bodies publish incorrect performance information.
9. This misunderstanding about the nature of audit work in relation to PIs gives rise to a significant expectations gap as the scope of auditors' work may be narrower and the nature and level of any assurance being given may be less than accountable bodies and other stakeholders realise.

10. At the same time, the weight attached to performance indicators as the basis for reducing the burden of regulation and awarding freedoms and flexibilities (in some sectors) has significantly increased the importance attached to performance information. It has also given an incentive to misrepresent performance information and data to show the body's performance in the best possible light, through 'aggressive performance management'.
11. Against this background the scope, basis and limitations of auditors' work and any conclusions reached need to be made explicit and clearly communicated in the auditor's engagement letter (or equivalent) and reflected in the auditor's report on the work.
12. The Public Audit Forum (PAF)<sup>2</sup> has therefore developed this guidance to clarify the respective responsibilities of those specifying PIs, accountable bodies and auditors and where those different responsibilities begin and end. It also outlines good practice guidance for PI-setting bodies and accountable bodies on how they can meet their respective responsibilities.
13. The following terms are used throughout the publication:
  - ◆ *performance indicators (PIs)* are a formally defined and measurable indicator of performance, which may or may not be targeted. In the context of this publication, PIs are those intended or required to be published externally in either specific performance reports or general purpose reports, such as annual reports;
  - ◆ *performance indicator (PI)-setting bodies* are all public sector bodies which are responsible for developing and specifying *performance indicators (PIs)* on which *accountable bodies* intend or are required to report. It will include *accountable bodies* which develop and specify internally-set *PIs* for publication and external reporting;
  - ◆ *accountable bodies* are all entities which collect, compile and publish *performance indicators* as defined by a *PI-setting body*; and
  - ◆ *auditor* is any external auditor of public sector bodies.

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<sup>2</sup> The Public Audit Forum comprises five national audit agencies – the National Audit Office (NAO), the Northern Ireland Audit Office (NIAO), the Audit Commission for Local Authorities in England, the Wales Audit Office and Audit Scotland. It brings together the audit agencies on an advisory basis to provide a focus for developmental thinking about public audit. It has a remit to build on the existing co-operation between the national audit agencies to enhance the efficiency and effectiveness of public audit, to provide a strategic focus on issues cutting across their work and to help develop common standards for public audit.

## PI-setting bodies

14. PI-setting bodies need to be clear about the aims, objectives and desired outcomes from producing each PI. These can then be translated into robust and practical definitions and conditions, in accordance with which accountable bodies can put in place arrangements for preparing and producing their PIs.
15. The key areas that PI-setting bodies need to consider, and which are described in this guidance, are:
  - ◆ Frameworks for developing PIs;
  - ◆ What makes a good performance indicator;
  - ◆ Defining the indicators;
  - ◆ Considering accountable bodies' existing information and systems; and
  - ◆ Obtaining assurance.

### Frameworks for developing PIs

16. When developing individual or a suite of PIs, PI-setting bodies need to address:
  - ◆ which topics / areas should be measured; and
  - ◆ which aspects of those areas should become indicators.
17. The framework for developing individual or a suite of PIs needs to be:
  - ◆ **focused** on the organisation's aims and objectives;
  - ◆ **appropriate** to, and useful for, the stakeholders who are likely to use it;
  - ◆ **balanced**, giving a picture of what the organisation is doing and covering all significant areas of work;
  - ◆ **robust**, in order to withstand organisational changes or individuals leaving;
  - ◆ **integrated** into the organisation, being part of the business planning and management processes; and
  - ◆ **cost effective**<sup>3</sup>, balancing the benefits of the information against the costs.
18. It is important in particular that the PIs are balanced, coherent and relevant as a whole and not just individually. There are a number of frameworks which can be used to develop a suite of PIs; for example, the 'three Es' approach or the balanced scorecard. (There is a (non-exhaustive) list of suggested reading at the end of this guidance to assist PI-setting bodies.)

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<sup>3</sup> *Choosing the Right FABRIC: A framework for performance information*; Audit Commission, Cabinet Office, HM Treasury, NAO and Office for National Statistics, 2001

## Example 1 The Balanced Scorecard

The balanced scorecard approach to performance measurement was originally developed in the private sector. If measurement focuses on sales and profits, managers can appear successful in the short term while ignoring long term development of the business, for example customer relations or staff training. The balance scorecard approach tackles this by measuring both the ultimate outcome of the business and aspects of the business that need to be maintained in the long term. It is balanced between financial and non-financial measures and across stakeholders.

The balanced scorecard groups performance measures under four headings. Four which are often used are:

- ◆ The business processes perspective – are the processes within the business working well? Is the organisation producing what it needs?
- ◆ The financial perspective – is the organisation operating efficiently and within budget?
- ◆ The learning perspective – does the organisation develop its staff and take on board developments in technology? and
- ◆ The customer perspective – how do the organisation's customers perceive it? Is the organisation satisfying its main customers?

Different groups may be used depending on what factors are important for the success of an organisation; for example 'meeting the goals of civil service reform' or 'meeting PSA targets' for a government department. The scorecard should be balanced between the overall objectives of the organisation and the processes and milestones that need to be met in order to achieve these in the short and long term.

Source: *Choosing the Right FABRIC: A framework for performance information*; Audit Commission, Cabinet Office, HM Treasury, NAO and Office for National Statistics, 2001

## What makes a good performance indicator

19. Good PIs will be expected to have the following attributes:

- ◆ Relevant;
  - ◆ to the objectives of the organisation producing the indicators
  - ◆ to the people involved in producing the indicators
  - ◆ for the intended purpose
- ◆ Avoid perverse incentives;
- ◆ Attributable;
- ◆ Reliable;
- ◆ Verifiable and Robust;
- ◆ Timely; and
- ◆ Consistent.

a *Relevant*, in three main ways:

**Relevant to the objectives of the organisation producing the indicators**

- ◆ Indicators should be linked to the key aims and objectives of the organisation that is to produce the PIs. This will mitigate the risk of the PIs just relating to easily-measurable targets or easily-collectable performance information rather than a set of focused, relevant and objective-led indicators.

**Relevant to the people involved in producing the indicators**

- ◆ To encourage 'ownership' of the performance information being collected, and therefore commitment to ensure the accuracy of the PIs being produced, it is important that indicators are perceived as relevant by those who are preparing them. If they are not, there is a danger that data collection systems and the PI production process will not be regarded as important and therefore will probably not be efficient or effective.

**Relevant for the intended purpose**

- ◆ PI-setting bodies need to take into account the intended purpose of both individual and the overall suite of PIs at all stages of designing and setting the indicators.
- ◆ Part of the 'intended purpose' of PIs is to be relevant to the end user. If the end user (including, for externally reported PIs, service users and taxpayers, partner bodies and regulators) cannot relate to or understand the PIs, they will not be able to hold bodies to account for their performance.

b *Avoid perverse incentives*

Individual PIs should be designed with regard to the ultimate desired outcome. For example, it would be perverse to define an indicator that encourages efficient processes, but at the expense of service quality.

If PI-setting bodies can ensure that both individual, and the overall suite of, PIs reflect the other six attributes then the risk of creating perverse incentives is reduced; in particular if the indicators provide a balanced coverage of the body's aims and objectives and are well-defined, the risk of distorting behaviour in unintended ways is reduced.

c *Attributable*

Performance against particular indicators should be capable of being influenced directly, either wholly or to a significant extent, by the accountable body and those managers who are accountable and responsible for the production of those PIs.

Service / departmental managers should understand the extent to which they are able to influence the performance area for which they are accountable. Together with *relevance*, this will foster a sense of ownership and commitment to ensure the accuracy of the indicators.

Particular issues may arise with 'cross-cutting' indicators, where more than one service / departmental manager has responsibility for the indicator.

d *Reliable*

PIs should be statistically valid and should be designed so that changes in the indicator are directly and accurately linked to actual changes in performance: data systems based on a small population of data may give rise to large fluctuations in indicated performance, which may not actually represent real changes in performance.

e *Verifiable and Robust*

PIs should be set in such a way that they can be objectively verified and recalculated where appropriate by reference to underlying activity data or other information sources.

If PI-setting bodies require the indicators to be audited, they should pay particular attention to setting the definitions, ensuring that they are specific and unambiguous.

f *Timely*

Effective PIs are based on data which is produced frequently enough to ensure that any changes in performance can be tracked quickly enough for action to be taken (whether to bring performance back on track or to achieve any targeted improvements in performance).

The timescale in which performance data is available can depend on what type of PI the data will be supporting: for example, data required for more strategic and long-term PIs may only be available on an annual basis. In contrast, where data is needed to produce PIs concerned with the operational management of a service area / department, it may be available on a quarterly, monthly or even weekly basis.

g *Consistent*

PI-setting bodies should avoid frequent changes in both the number and type of PIs to be produced by accountable bodies, and their definitions, as this:

- ◆ undermines the ability to compare accountable bodies' performance over time;
- ◆ may confuse the users of performance information; and
- ◆ imposes potentially significant costs, incurred in amending existing or creating new systems, on accountable bodies.

PI-setting bodies may wish to consider the use of specialists where appropriate, for example statisticians, systems designers or programmers, to help them create a more effective performance information system.

### Defining the indicators

20. It is important that PIs should be unambiguous and supported by clear definitions to ensure that data will be collected on a consistent basis and to enable meaningful comparison of the performance of different accountable bodies.
21. Definitions should be intelligible to all users of a set of PIs. This should apply to both the detailed definitions used by those calculating an indicator as well as to overall meanings, when considered by users of the service / department whose performance is being measured.
22. PI-setting bodies should ensure that definitions are clear, avoid jargon and are not too complex. If they are defined too narrowly, some accountable bodies may find it impossible to collect the exact data as required. Alternatively, PIs that are defined too broadly can lead to misinterpretation and inconsistency in calculation.
23. PI-setting bodies are also responsible for defining the scope of the regime and other issues such as:
  - ◆ which accountable bodies are subject to the PI regime and which PIs will apply to which accountable bodies;
  - ◆ how many PIs are to be produced;
  - ◆ whether accountable bodies will have to achieve set targets and, if so, for which PIs;
  - ◆ the periods over which the PIs are to apply;
  - ◆ whether individual PIs rely on performance information / data from other sources (that is, other agencies, entities or existing indicators);
  - ◆ the level of assurance required from accountable bodies as to the reliability of the PI systems in place and the controls that are in place; and
  - ◆ the arrangements necessary to ensure that PIs are prepared and, where appropriate, submitted for audit.

### Considering accountable bodies' existing information and systems

24. PI-setting bodies must consider whether the information needed to produce individual PIs exists within accountable bodies or whether systems will either need to be set up from scratch or existing systems amended. In this respect they will need to bear in mind that not all accountable bodies will have the same information systems and that these may differ in quality between bodies and even within different parts of the same body.

25. The process of defining the PIs can highlight ambiguities or uncertainties in the systems and performance data required which will need to be addressed at an early stage. For example, the accountable body may have to collect certain data or maintain records in ways that, in practice, are essential to produce the PIs in accordance with definitions, although these methods may not be obvious at first. PI-setting bodies should be aware that it may take some time for systems to be amended or put in place to be able to produce performance data as required by definitions.
26. Information systems may already be in place to provide data for other uses and PI-setting bodies need to take care to:
  - ◆ utilise this data wherever appropriate;
  - ◆ avoid unnecessarily defining PIs in such a way that they require different or additional information to be collected that reflects a different performance from that shown in data already available.
27. Where PIs are set which rely on data collected for other indicators, PI-setting bodies need to take into account the definitions and information systems already put in place for those indicators and consider whether the data will fully meet the needs of the indicators they are developing.
28. PI-setting bodies will also need to define the quality of data to be produced for the PIs in advance, striking an appropriate balance between the completeness and accuracy of the data and the cost to the accountable bodies of collecting it. If the level of data quality is agreed at the same time as the PI definitions, this will help PI-setting bodies to consider whether the necessary information systems are, or can be put, in place at the accountable bodies.
29. The best way to take into account the state of accountable bodies' existing systems and information is to consult with them directly. This will help to ensure that the views of all relevant parties in the PI-setting process are considered and that the process is focused in a timely way on key practical issues.

### Obtaining assurance

30. PI-setting bodies need to decide what level of assurance they require on the accuracy, completeness and reliability of the PIs that accountable bodies will be producing. There are different methods for obtaining assurance, for example the accountable officer or board may sign off the PIs or the PIs may be subject to external audit.
31. If the systems for collecting and compiling PIs are specified externally to the accountable body and they and the PIs are to be audited, PI-setting bodies should consult the relevant audit agencies on a timely basis to enable them to put in place the necessary arrangements to satisfy themselves of the auditability of the PIs, to determine what level of assurance can be given and to develop an appropriate audit approach.

## Accountable bodies

32. Accountable bodies are responsible for the collection, compilation and accurate reporting of PIs and for maintaining supporting records. These arrangements should form part of the accountable body's wider system of internal control, for monitoring and reviewing performance and ensuring data quality.
33. In meeting these responsibilities, accountable bodies will need to establish and maintain an organisation-wide commitment to data quality. Key characteristics of this are:
  - ◆ involving top management and those charged with governance in the monitoring and review of PIs and using PIs in the wider performance management of the organisation;
  - ◆ designating a senior individual with overall responsibility for data quality;
  - ◆ putting in place robust systems and processes for the collection, compilation and reviewing of PIs;
  - ◆ training and developing staff; and
  - ◆ fair and balanced reporting to stakeholders.

## Involving top management and those charged with governance

34. To reinforce the sense of ownership and commitment to ensuring the quality of the organisation's PIs, top management and those charged with governance need to demonstrate that the PIs being collected, compiled and reported are reviewed and acted upon by the accountable body. Top management's commitment to data quality can be communicated throughout the organisation by using the PIs to monitor and review performance, identify areas for closer investigation and for planning purposes.
35. Accountable bodies also demonstrate their commitment to data quality by taking the process of monitoring and 'signing off' PIs for external reporting as seriously as the monitoring of financial information and the approval of the annual accounts. To this end, top management may commission reviews or the arrangements put in place to assure data quality and undertake regular evaluations of the risks to the reliability and / or accuracy of the performance information being produced.
36. Accountable bodies may also wish to report on the arrangements top management has put in place to assure itself of the quality of published performance information and the level of accuracy obtained.
37. A common obstacle to data quality is that performance information is not always perceived as being relevant to the 'day job'. Staff involved in collecting, compiling and reporting PIs need to gain some perceptible benefit for their effort in ensuring data quality. This can be achieved by ensuring that the arrangements put in place to collect, compile and report PIs support staff in their daily work wherever possible.

38. When members of staff are clear that they are accountable for a certain area of performance and which PIs relate to that area, they are more likely to be motivated to aim for, and secure, improvements in data quality. Staff are then able to understand how their performance relates to the organisation's overall performance.
39. The arrangements for collecting, compiling and reporting PIs can be integrated into the organisation's wider business planning and management processes. Having integrated systems can help to reduce the burden on accountable bodies.

### Designating a senior individual with overall responsibility for data quality

40. To reinforce top management's commitment to data quality, accountable bodies may wish to appoint a senior individual with overall responsibility for data quality.
41. That individual would be accountable to top management for coordinating the PI-reporting process at the accountable body and, in particular, for providing assurance that:
  - ◆ PIs are prepared in accordance with the conditions and definitions set by PI-setting bodies;
  - ◆ draft PIs have been reviewed thoroughly and are supported by adequate working papers;
  - ◆ PIs are ready for submission and publication by agreed deadlines; and
  - ◆ systems for collecting and compiling PIs are in place and working in practice.
42. At a more detailed level, the individual would put in place the following arrangements for externally-set PIs:

#### Example 2 Suggested contents of a PIs schedule

- ◆ a complete list of all PIs to be produced at the accountable body, which can be analysed by department, PI reference number, deadline for publication or current status;
- ◆ general information for each PI, such as which service / department it refers to, who is responsible for calculating that PI, any deadlines for internal review, submission to the PI-setting body and / or audit (where appropriate) and publication;
- ◆ the PI-setting bodies for which the PIs are being prepared and the key contacts at each body; and
- ◆ the status of each PI, for example whether the underlying data is being collected or is complete, whether the PI is ready for review, for submission for audit (where appropriate) or publication.

- ◆ setting up a central schedule of PIs and maintaining it regularly. This can be used for monitoring progress against reporting timetables, to follow up missed deadlines or other problems and to ensure that the PI-setting body is informed promptly of delays;
- ◆ ensuring that any new PIs requirements are communicated to those responsible for collecting data for and compiling specific PIs. For example, where PI-setting bodies address communications to the chief executive or chief financial officer, the individual can set up arrangements to ensure the relevant documentation is referred promptly to the appropriate members of staff within the accountable body;
- ◆ reporting to top management on a regular basis. The frequency may differ during the year; for example, weekly meetings may be required during the busy PI-producing period and fewer meetings at other times of the year;
- ◆ setting up and reviewing quality control and monitoring arrangements to ensure that underlying performance data will support robust PIs; and
- ◆ acting as the main point of contact for liaising with PI-setting bodies, internal and external auditors and other relevant bodies.

### **Robust systems and processes for the collection, compilation and reviewing of PIs**

43. Accountable bodies need to put in place systems and processes, incorporating appropriate controls, to ensure that:
  - ◆ performance data is collected and compiled accurately in accordance with the definitions prescribed by the PI-setting bodies;
  - ◆ the collection and compilation of performance data is subject to departmental checks and management supervision and review before being reported to top management; and
  - ◆ performance data is supported by adequate working papers, documenting the basis of the reported PI and the derivation of the information that underpins it.
44. Accountable bodies may wish to ensure that such systems and processes are adequately resourced and fit for purpose and to define and document the processes used to collect and report data. They can conduct periodic reviews as part of their annual programme of reviews of their whole systems of internal control, to satisfy themselves that controls over the integrity of data quality are working effectively.
45. It is also good practice to review system controls on a regular basis to ensure that they remain proportionate to any risk that the data will be inaccurate or unreliable.
46. Internal audit, and other internal assurance functions, may play a key part in reviewing the systems for collecting, compiling and reporting PIs, as part of a planned risk-based approach to provide assurance to the audit committee (or equivalent) on the adequacy and effectiveness of the accountable body's arrangements for risk management (and the controls required to manage risks), governance and internal control.

47. It is recommended that accountable bodies set standards for documentation and working papers (which meet internal requirements and where appropriate are agreed with auditors) and put in place arrangements to monitor compliance with the standards by all those responsible for collecting, compiling and reporting PIs.
48. A common obstacle to data quality is that performance information is not actively used by accountable bodies. To ensure continuous improvement in the quality of data, systems need to be utilised well.
49. Systems that are not considered to be user-friendly or irrelevant may become more so through lack of use and eventually could be circumvented or ignored.
50. Responsibility for data quality may be assigned to a sub-committee of the board or equivalent with responsibility for assuring itself that a clear 'audit trail' exists: this would show who has taken responsibility for the accuracy and completeness of PIs at each stage of their preparation and provide confidence that more general controls are in place.
51. For the accountable body to satisfy itself that the basis of its performance data is consistent over time, relevant systems and associated internal controls need to be documented, and reported PIs need to be supported by adequate working papers.

### Example 3 Good working papers

The basic requirement of good working papers is that they should allow reviewers (including managers, internal or external auditors) to trace easily any aspect of the PI to the underlying supporting evidence.

In good practice, working papers are likely to detail the following:

- ◆ the PI to which they relate;
- ◆ the date of preparation and the name of the person preparing the papers;
- ◆ cross references to the system(s) or copies of system printouts from which the information is taken;
- ◆ where appropriate, a reconciliation of income and expenditure figures in the PI to working papers and account codes;
- ◆ an explanation of significant variances from the previous period and from forecasts / targets;
- ◆ evidence of any independent review of the PI, by managers or internal audit; and
- ◆ copies of any correspondence with the PI-setting body.

### **Training and developing staff**

52. When the members of staff responsible for collecting and compiling PIs are trained in the whole system, they can see how their discrete part fits into the overall system. This encourages greater understanding of the system and an ongoing commitment to maintaining data quality.
53. For their part, managers need to develop their own competency in managing performance information and to understand how the use of PIs can help them in their day jobs.
54. Staff responsible for collecting and compiling individual PIs should also be trained in any new PIs requirements (for example, changes in definitions) and how to compile good working papers. Training also helps members of staff to become informed users, enabling them to challenge the performance for which they are collectively responsible.
55. Accountable bodies may wish to consider the use of specialists, where appropriate. These may include statisticians, systems designers or programmers and can help to create a more accurate and effective performance information system.

### **Fair and balanced reporting to stakeholders**

56. When PIs are reported, for example in an annual report or separate publication, they should be complete and presented in a fair and balanced way that is accessible and meaningful to the intended user, whether internal or external.
57. It is good practice to provide comparative figures for prior periods and / or comparable organisations or groups of organisations, with a commentary highlighting significant changes over time or variations between planned and actual performance and what this means for overall trends in performance. Accountable bodies may also wish to provide a commentary to put the published PIs in context and to describe any limitations of data which may have occurred.
58. In order to give users greater assurance as to the reliability of the PIs, it may also be helpful to outline the systems and processes put in place to assure the quality of published performance information.
59. If a body is reporting a PI and is dependent on another organisation for some of its information, it should consider the reliability of that information. If it is unable to satisfy itself about its reliability and the information is material to the PI it would be good practice to draw attention to this limitation.

## Auditors

60. Before agreeing to accept audit work in relation to PIs, the national audit agencies will need to be clear as to the scope and objectives of any audit work and may ask themselves the following questions:

- ◆ is the work intended to cover only systems underpinning the PIs or individual PIs themselves and if so, which?
- ◆ what level of assurance (if any) is to be provided?

The audit agencies will work with PI-setting bodies and, where appropriate, accountable bodies to agree how best to meet their assurance needs.

61. The scope and objectives of audit work in relation to PIs vary in different sectors and countries, reflecting the different mandates of the national audit agencies, and will be specified in legislation or by the national audit agency. Such powers and responsibilities may be specific or may form part of auditors' more general powers and responsibilities in relation to aspects of accountable bodies' performance management arrangements.
62. Where auditors' responsibilities in relation to PIs involve considering whether the accountable body has put in place adequate arrangements for collecting, recording and publishing performance information, auditors will review, and examine evidence that is relevant to, such arrangements in accordance with published guidance.
63. Although in carrying out such an assessment, auditors may review individual PIs, they are not required in such cases to form a view on the completeness or accuracy of the information that accountable bodies publish. Such audit work is not designed to identify all errors in an indicator, although auditors will bring any significant errors to the attention of management.
64. Auditors will meet their responsibilities by planning and performing their work to provide the level of assurance specified by the different audit agencies. In doing so, they will apply such criteria as may be specified by the relevant national audit agency.
65. In carrying out the audit, auditors will obtain such evidence and explanations from the authority and carry out work to form their conclusions. Auditors will use their professional judgement to set the level of testing required, according to the particular circumstances at the accountable body, the nature of the PI and their professional assessment of the audit risks relating to data quality or the system to be audited.
66. Wherever possible they will seek to place reliance on the control environment put in place by the accountable bodies. Auditors may also take assurance from the work of others, including internal audit and other specialists, for example IT auditors or performance specialists.

67. Where the arrangements already set out in this guidance do not operate effectively the time required for audit is likely to increase. Where the arrangements are performing as designed, auditors will be able to complete their work as planned so that accountable bodies, as well as auditors, can achieve agreed deadlines.
68. Auditors will set out their approach in their audit planning document, which they will discuss with the accountable body.
69. In carrying out their work they will document the audit evidence and the conclusions reached. They will also put into place quality control and monitoring arrangements over the work performed.
70. Where differences of opinion arise as to the interpretation of any of the definitions prescribed by the PI-setting body, auditors will try to resolve any differences with the accountable body during the audit process. If differences remain, they will report the facts as appropriate to top management or the PI-setting body.
71. Auditors will report the findings of their work in such a way as to make clear the nature of (and any limitations on) the work they have carried out and make their findings and conclusions, and any recommendations, clear and explicit.

## Suggested Reading

Audit Commission, Cabinet Office, HM Treasury, NAO and Office for National Statistics, *Choosing the Right FABRIC: A framework for performance information*, 2001

Audit Commission, *Aiming To Improve: The Principles of Performance Management*, 2000

Audit Commission, *On Target: The Practice of Performance Indicators*, 2000

NAO, *Good Practice in Performance Reporting in Executive Agencies and Non-Departmental Public Bodies*, 2000

CIPFA, *Measuring Up*, 1998

Accounts Commission, *The Measures of Success: Developing a Balanced Scorecard to Measure Performance*, 1998





