

## Chapter 2

### Overview of the annual reports examined

2.1 In accordance with Standing Order 25(20)(a) the Committee has examined annual reports against relevant reporting requirements and found them to be 'apparently satisfactory'. This chapter highlights some of the Committee's findings in relation to agencies' annual reporting.

#### Reports of Commonwealth entities and companies

##### *Availability of corporate plans and budget documents*

2.2 Corporate plans are an integral part of the Commonwealth performance framework which encompasses performance planning, measurement and reporting. The corporate plan is developed at the beginning of the reporting cycle and identifies an entity's purpose, strategies for achieving its purpose/s, and how success will be measured.<sup>1</sup> Therefore, access to an agency's corporate plan when examining the annual report for the corresponding year is necessary in order to reconcile all planned performance measures with those reported on in the annual report.

2.3 All 2018-19 corporate plans (or Statement of Corporate Intent) for the bodies of annual reports examined were located on the Internet. All but three were accessible from agencies' websites. The corporate plans for the Department of Foreign Affairs and Trade's (DFAT), Defence Housing Australia (DHA)<sup>2</sup> and Tourism Australia were located via an Internet search, but were not located from a link on the agency website. The Committee has previously noted the failure of DFAT and DHA to provide a link to earlier corporate plans on their website.<sup>3</sup>

2.4 The Committee reminds agencies of the importance of archiving corporate plans on their websites so they are still available when the annual report is tabled in the following year. The Committee notes that the new Transparency Portal website provides a link to agencies' 2019-20 corporate plans on the agency website. Therefore it will be essential for agencies to maintain an archive of their corporate plans on their website to ensure they continue to be accessible via links from the Transparency Portal.

2.5 It is noted that Portfolio Budget Statements (PBS) and Portfolio Additional Estimates Statements (PAES) of Commonwealth entities also set out performance information, that is, the funding for the entity and how the impact of that expenditure

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1 Department of Finance, *Resource Management Guide No. 132, Corporate Plans for Commonwealth entities*, January 2017, p. 8; *Resource Guide No. 133, Corporate Plans for Commonwealth Companies*, January 2017, p. 5.

2 DHA does not publish its Corporate Plan in order to protect commercial sensitivities, but makes publicly available its Statement of Corporate Intent which provides an overview of its key objectives and priorities for the financial year, see DHA Annual Report 2018-19, p. 42.

3 Senate Foreign Affairs, Defence and Trade Legislation Committee, *Annual reports (No. 1 and No. 2 of 2019)*, July 2019, pp. 32-33 and 43.

will be measured.<sup>4</sup> Therefore, these documents should also be archived on the portfolio department website. It is noted that the Department of Defence had these documents available on its website back to 2004-05; and DFAT had them available on its website back to 2007-08.

2.6 The Committee notes the importance of agencies receiving appropriate guidance on keeping corporate plans available to ensure they continue to be accessible from this new platform.

### *Performance reporting*

#### Navigation between annual reports and source documents

2.7 The Commonwealth Performance Framework encompasses the processes for planning, measuring and reporting of non-financial performance of Commonwealth entities and companies. It is expected that:

Performance planning and reporting should draw clear links between the entity's key activities and the results achieved and provides meaningful performance information with a clear line of sight between planned and actual performance. This allows a reader (including the Parliament) to assess the extent to which an entity's or company's intended results were achieved and the factors that affected performance.<sup>5</sup>

2.8 Annual reports of Commonwealth entities and companies are required to report on performance measures set out in the corporate plan, and if relevant the PBS/PAES. In its audit report, *Commonwealth Resource Management Framework and the Clear Read Principle*, the Australian National Audit Office (ANAO), advised that for the purpose of its audit it referred to the 'clear read principle' as including the following characteristic:

Performance information is presented clearly and consistently and is reconcilable throughout an entity's PBS, corporate plan and annual report within one reporting cycle.<sup>6</sup>

2.9 In examining the annual reports the Committee noted if the performance information was presented clearly and was readily reconcilable between the PBS, corporate plan and annual report within the 2018-19 reporting cycle. It found that in most cases agencies have demonstrated a 'clear read' for performance information across documents; however, the Committee noted some areas for improvement.

2.10 The inclusion of a page reference from the source document in the performance statement, particularly for agencies with a large number of performance measures aided navigation. The annual performance statements for the Department of

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4 Department of Finance, *Resource Management Guide No. 132, Corporate Plans for Commonwealth entities*, January 2017, p. 8.

5 See <https://www.finance.gov.au/government/managing-commonwealth-resources/planning-reporting/commonwealth-performance-framework>, (accessed 5 February 2020).

6 Australian National Audit Office, Report No. 14 2019-20, *Commonwealth Resource Management Framework and Clear Read Principle*, pp. 20-21.

Veterans' Affairs (DVA), Export Finance Australia (EFA), Tourism Australia, DFAT, and the Royal Australian Navy Relief Trust Fund included page numbers to one, or both, source document/s for each performance measure. It was noted that, in addition to providing a page reference in the annual report, DVA also included a specific page reference to the relevant measure from the PBS in the corporate plan. A number of agencies included the reference to a relevant table or departmental program within the source document for each performance which also assisted in navigation.

2.11 The Committee was pleased to note that most annual reports included results for all performance measures listed in the PBS and corporate plan. However, there were some instances where it was not immediately clear where measures listed in the PBS or corporate plan were reported against in the annual report, nor was there an explanation for the omission. For example, one measure for Tourism Australia<sup>7</sup>, and the Australian Strategic Policy Institute (ASPI)<sup>8</sup>, and two measures for the Department of Defence (Defence)<sup>9</sup>, were not located in the agencies' reports on performance. The performance statement for the Australian Signals Directorate (ASD) did not include the performance criterion from the 2018-19 PBS, but the annual report noted that the performance criteria from the 2018-19 corporate plan 'addresses ASD Portfolio Budget Statements 2018-19.'<sup>10</sup>

### Measures and targets

2.12 Reflecting the diversity of functions across the portfolios, agencies use a range of criteria and assessment techniques to measure their performance to demonstrate the extent to which they have achieved their purpose. The Committee has previously noted the challenge for some agencies in developing meaningful and measurable criteria.<sup>11</sup> DFAT's departmental overview noted that:

Measuring policy performance is inherently difficult and the dynamic international environment only adds to the complexity. The department seeks to ensure that our assessments of policy performance are supported by verifiable evidence.<sup>12</sup>

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7 See corporate key performance indicator 'Corporate costs as a percentage of overall budget', Tourism Australia Corporate Plan 2018-2022, p. 30.

8 See performance criterion for Objective 2 'reacting to government and industry demands', ASPI Corporate Plan 2018-2022, p. 7.

9 See performance criteria for Program 2.8 'Effective implementation of the Integrated Investment Program' and 'Operational outcomes meet the requirements of Government Policy', Defence PBS 2018-19, p. 70. It is noted that these criteria were amended for 2019-20, see Defence PBS 2019-20, p. 66.

10 *Australian Signals Directorate Annual Report 2018-19*, p. 22.

11 See for example Senate Foreign Affairs, Defence and Trade Legislation Committee, *Report on Annual Reports (No.1 and No. 2 of 2019)*, p. 35.

12 *Department of Foreign Affairs and Trade Annual Report 2018-19*, p. 14.

2.13 The Committee notes that DFAT amended performance measures for 2018-19 and did not use case studies to the extent it did in the previous year, which the Committee had noted have the potential for bias when selected ex-post.<sup>13</sup>

2.14 The Committee welcomes advice from some agencies on their continuing work on their performance measures in order to provide a more robust framework. For example, Australian Centre for International Agricultural Research (ACIAR) reported that the result for each of the six performance criteria was 'ongoing' and listed a selection of projects and programs that demonstrated achievement of the measure. Discussion of the achievements was not included in the annual performance statement, but provided in the Chief Executive Officer's Review and in five case studies presented throughout the report.<sup>14</sup> The Committee welcomes its undertaking to further develop its performance framework:

ACIAR performance is reported by identifying and listing examples of projects and programs where the output addressed performance criteria and targets...

It is important to note that performance measures are evolving to more closely align to and be measurable against the six high-level objectives presented in the ACIAR 10-Year Strategy, which was launched in February 2018, and to more closely align with the other agencies in the Foreign Affairs and Trade Portfolio. The ACIAR Monitoring and Evaluation framework continues the development and refinement of indicators and their measurability.<sup>15</sup>

2.15 The inclusion of targets where possible for performance measures provides a standard against which to assess performance and improves the quality of performance information. The Committee notes that some bodies could enhance performance information with the inclusion of a target where possible, to clearly set out the expected standard upfront. For example, the performance information presented by Defence for activity 2.6a under 'Intended Result 2.6: Defence provides appropriate health and welfare services' was:

Activity	Performance criterion	Target
2.6a Deliver health support to meet the requirements of the Australian Defence Force.	Quality of health services delivered to Australian Defence Force members and families.	Delivery of health services meets standards.

2.16 This criterion was reported as being achieved. The analysis advised a number of positive quantitative results, including:

There was an improvement in health services quality measures, including a 24 per cent decrease in complaints and a 12.5 per cent decrease in clinical

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13 See for example Senate Foreign Affairs, Defence and Trade Legislation Committee, *Report on Annual Reports (No.1 and No. 2 of 2019)*, p. 35.

14 *Australian Centre for International Agricultural Research Annual Report 2018-19*, p. 22.

15 *Australian Centre for International Agricultural Research Annual Report 2018-19*, p. 22.

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incidents. The annual Joint Health Command customer satisfaction survey reported a slight increase in survey participants who indicated they ‘agree’ or ‘strongly agree’ that the quality of health care was excellent.

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There was an overall increase of 1,493 in Australian Defence Force Family Health Program registrations.<sup>16</sup>

2.17 While the results presented were positive, with a significant decrease in complaints and clinical incidents, the reader does not have the current and expected level of both. Similarly, the Joint Health Command customer satisfaction survey also returned a positive result, that is, movement in the right direction, but the reader does not know what the expected service level is, or whether the slight increase was moving from a low base. It was also reported that there was an increase of 1,493 in the number of registrations in ADF Family Health Program. While an increase was a positive outcome, the reader does not know whether this figure was close to the expectation, significantly below or above. The inclusion of targets for these measures would have provided a stronger base to assess performance for this measure.

#### Trend information

2.18 While not a requirement and not always possible, the inclusion of results from the previous year or years was a helpful inclusion in some performance statements examined. The Committee noted that DVA, EFA and Tourism Australia also included results for the previous year. For a number of its performance criteria, Austrade included results for the previous four years.

#### Statement of preparation by the accountable authority

2.19 Section 16F of the PGPA Rule requires annual performance statements by Commonwealth entities to include a statement of preparation which is endorsed by the accountable authority. This statement must advise that the performance statements were prepared in accordance with, and comply with, the relevant sections of the PGPA Act; specify the reporting period for which they are prepared; and that they accurately present the entity's performance. This statement parallels the statement required by the agency head and chief finance officer in relation to the preparation of an agency's financial statements.<sup>17</sup>

2.20 The Committee noted that all annual performance statements by Commonwealth entities included this statement with the exception of the Australian War Memorial.

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16 *Department of Defence Annual Report 2018-19*, p. 49.

17 *Resource Management Guide 134 – Annual performance statements for Commonwealth entities*, July 2017, pp. 11-12.

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*Enhanced reporting requirements for 2018-19 annual reports*Executive remuneration

2.21 The Committee was pleased to note that most bodies addressed the new disclosure requirements in their annual report in the required format as prescribed under Schedule 3 of the PGPA Rule for both individual key management personnel and in aggregated form for senior executive and other highly paid staff.

2.22 There were a number of corporate Commonwealth entities and companies in the Defence Portfolio where the requirement to report individual executive remuneration for key management personnel (KMP) appeared not to be applicable. These agencies identified the trustees or directors of the body as KMP who were engaged on an honorary basis and did not receive remuneration.<sup>18</sup> The report of the Royal Australian Navy Central Canteens Board (Navy Canteens) included information for one senior executive in the required table.<sup>19</sup> The report for the Army and Air Force Canteen Service (AAFCANS) included details of executive remuneration in aggregate in the notes to the financial statements, which included five senior management personnel.<sup>20</sup>

2.23 The ANAO in its report, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019* advised that it was already required to audit the note in the financial statements relating to remuneration of key management personnel. In its audit of the 2018-19 financial statements, the ANAO advised that in auditing this note in the financial statements, it assessed the additional annual report disclosures to ensure they were consistent.<sup>21</sup> The ANAO reported a number of instances where there were variances between the two, including the following two:

- The Australian War Memorial has incorrectly excluded council members from its annual report KMP disclosures. The council members were, correctly included in the financial statements disclosure.
- The financial statements for the Australian Institute of Health and Welfare and Tourism Australia correctly disclosed KMP. The annual reports included some senior executives who were classified as KMP in the senior executives table rather than the KMP table. As a result, the salary was

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18 These included Royal Australian Air Force Veterans' Residences Trust, Navy Canteens, the Royal Australian Navy Relief Trust Fund, Australian Military Forces Relief Trust Fund, Royal Australian Air Force Welfare Trust Fund, AAF Company and Royal Welfare Recreational Company.

19 *Royal Australian Navy Central Canteens Board Annual Report 2018-19*, p.19.

20 *Army and Air Force Canteen Service Annual Report 2018-19*, p. 44.

21 Australian National Audit Office, Report No. 20 2019-20, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019*, p. 43.

banded and average salary was reported rather than each individual's salary as required by the PGPA Rule.<sup>22</sup>

2.24 With the exception of some variances, including those listed above, the ANAO concluded that:

entities have adopted the new disclosures resulting in increased transparency.<sup>23</sup>

#### Transparency.gov.au

2.25 At the time of preparing this report, the Committee notes that all agencies for the portfolios it oversees except for ACIAR had uploaded content for the 2018-19 annual reports to the Transparency Portal.

#### New staffing statistics

2.26 The Committee also looked at how agencies addressed the new staffing statistics required under the enhanced reporting requirements contained in the PGPA Amendment (Annual Reporting) Rules 2019.

2.27 It found that most reports included the required information in accordance with the templates for the digital reporting tool data for ongoing and non-ongoing staffing as contained in the appendices to the relevant Finance resource management guides.<sup>24</sup> Some agencies, however, such as ASD and EFA, did not present the full breakdown of statistics in this format. The inclusion of staffing data in the recommended templates was useful and the Committee hopes to see all agencies using the relevant templates in future reports.

2.28 The Committee notes that a number of the smaller corporate Commonwealth entities and companies within the Defence Portfolio did not include this information, with some indicating that it was 'not applicable'.<sup>25</sup> It is noted that these are small agencies with staffing arrangements which may preclude this requirement; however as with any reporting requirement that is not applicable to an entity, a clear statement indicating this clarifies why that item was not included in the report. The Committee notes that even though the Royal Australian Air Force Welfare Trust Fund only had two employees, a breakdown of most of the required information was included.<sup>26</sup>

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22 Australian National Audit Office, Report No. 20 2019-20, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019*, p. 44.

23 Australian National Audit Office, Report No. 20 2019-20, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2019*, p. 44.

24 See Department of Finance, *Resource Management Guide No. 135 – Annual reports for non-corporate Commonwealth entities*, May 2019, Appendix G; *Resource Management Guide No. 136 – Annual report for corporate Commonwealth entities*, Appendix D; and *Resource Management Guide 137 – Annual reports for Commonwealth companies*, Appendix B.

25 See *AAF Company Annual Report 2018-19*, p. 21; and *Australian Military Forces Relief Trust Fund Annual Report 2018-19*, p. 32.

26 *Royal Australian Air Force Welfare Trust Fund Annual Report 2018-19*, p. 32.

### *Compliance indexes*

2.29 The PGPA Rule and relevant Finance resource management guides require all bodies to include the list of relevant reporting requirements and details of the location of the information in the annual report.

2.30 The inclusion of this item by most agencies assisted the Committee in its examination of the 2018-19 reports. However, some problems were noted, including some agencies not including a complete or up-to-date list of requirements.<sup>27</sup> The Committee also found instances of agencies grouping a range of required items together as one item and/or providing a reference to a page range, section or chapter, rather than exact page number which did not assist in locating some items.<sup>28</sup> The reports of Navy Canteens and the Royal Australian Air Force Veterans' Residence Trust did not include a compliance index of requirements and the Committee hopes to see it included in future reports. The Committee reminds agencies that the inclusion of an up-to-date and complete compliance index is an important element of accountability in annual reporting.

### *Issues raised in 2017-18 annual reports*

2.31 The Committee thanks agencies for addressing issues that were raised in its last report. The DVA 2018-19 annual report included a correction to its previous report in relation to the section on 'External Scrutiny' which did not include the Senate Foreign Affairs and Trade References Committee's inquiry into suicide by veterans' which reported in August 2017 and the subsequent Government response.<sup>29</sup> The annual report noted that this had also been corrected on the DVA website.

2.32 It was also noted that Tourism Australia included an up-to-date and complete compliance index for a corporate Commonwealth entity in this year's report which assisted in examination of its report.<sup>30</sup>

### **Reports of statutory office holders/offices**

2.33 All reports of statutory office holders/offices met the relevant legislative reporting requirements. On this occasion, the Committee has chosen to follow-up on progress in the area of reform of the *Defence Force Disciplinary Act 1982* (DFDA) which has been raised in earlier reports of statutory office holders within the military justice system and which the Committee has previously noted.<sup>31</sup>

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27 See for example the annual reports of ASD, ASPI, RAAF Welfare Trust Fund, RAAF Welfare Recreational Company, AAFCANS and ACIAR.

28 See for example the annual reports of EFA, Royal Australian Navy Relief Trust Fund, Royal Australian Air Force Welfare Trust Fund and ASPI.

29 *Department of Veterans' Affairs Annual Report 2018-19*, p. 253.

30 *Tourism Australia Annual Report 2018-19*, pp. 162-164.

31 Senate Foreign Affairs, Defence and Trade Legislation Committee, *Annual reports (No. 1 of 2018)*, March 2018, pp. 28-33; and Senate Foreign Affairs, Defence and Trade Legislation Committee, *Annual reports (No. 1 and No. 2 of 2019)*, July 2019, pp. 49-54.



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*Reform of the DFDA in relation to superior service tribunals*

2.34 The Inspector-General of the Australian Defence Force (IGADF), Mr James Gaynor CSC, in his 2017-18 report endorsed the reforms of superior service tribunals proposed by the Judge Advocate General (JAG) in his 2017-18 annual report, and which were noted by the Committee in its 2019 report.<sup>32</sup> The IGADF advised:

...I endorse the remarks by the Judge Advocate General...which identified a range of legislative reform proposals to the superior service tribunals, including those relating to mentally impaired ADF members appearing before service tribunals, improving superior service tribunal procedures to civilian best practice, strengthening the independence of judge advocates, improving courts martial sentencing transparency and effectiveness, and modernising ADF investigative powers...These legislative reform proposals, combined with those improvements that will be pursued as a consequence of the Summary Discipline System Review, will only enhance and promote the military discipline system as a fair, efficient and functional tool in support of command.<sup>33</sup>

2.35 While noting the above issues, the IGADF reflected on the operation of military justice system in 2017-18, concluding:

A fair and effective military justice system is necessary for the ADF's overall operational effectiveness. Based on the information available to the IGADF, the standard of discipline and appropriate support for individual rights across the ADF has remained strong overall. While challenges within the military justice system remain, there has been no indication of any reluctance to deal with them, or implement reform where necessary to reduce the complexity of those challenges.<sup>34</sup>

2.36 As set out in Chapter 1 of this report, Section 196A(1) of the DFDA requires the JAG to report to the Parliament annually on the operation the Act. The Committee noted in its review of the JAG's 2017 annual report the JAG's forthright comments about the need for immediate procedural reform of the DFDA to bring it in line with civilian models of criminal procedure.<sup>35</sup> Therefore, the Committee was pleased to note that the JAG reported 'substantial progress' on implementation of some of those recommended changes during 2018 to improve the efficiency and effectiveness of the military discipline system.<sup>36</sup> In his 2018 annual report, the JAG advised that:

The legislative response has been timely and well adapted to bringing about the changes that both my JAG reports and previous JAG reports of Major

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32 Senate Foreign Affairs, Defence and Trade Legislation Committee, *Annual reports (No. 1 and No. 2 of 2019)*, July 2019, pp. 49-54.

33 *Inspector-General of the Australian Defence Force Annual Report 01 July 2017 to 30 June 2018*, p. 4.

34 *Inspector-General of the Australian Defence Force Annual Report 2018-19*, p. 35.

35 Senate Foreign Affairs, Defence and Trade Legislation Committee, *Annual Reports (No. 1 and No. 2 of 2019)*, pp. 50-52.

36 *Judge Advocate General Report for the period 1 January to 31 December 2018*, pp. 9 and 24.

General Tracey have long recommended. This represents a shift in focus to rebuilding the capacity and efficiency of the court martial system and has moved past the years of no change commencing in September 2009 that followed *Lane v Morrison* during the operation of the Military Justice (Interim Measures) suite of legislation. None of this Interim Measures legislation modernised procedural aspects of the DFDA.

That changed significantly for the better during the reporting period and I was pleased to see the introduction [of the] Defence Legislation Amendment Bill 2018, which was subsequently passed by Parliament...<sup>37</sup>

2.37 The *Defence Legislation Amendment Act 2019* (DLA Act) was assented to on 1 March 2019; however, as the Bill was introduced during the reporting period, the JAG chose to comment on the Bill's amendments in relation to the DFDA in the 2018 annual report. The JAG set out how the amendments contained in the Act would enhance the independence of Judge Advocates and Defence Force Magistrates.<sup>38</sup>

2.38 While welcoming these enhancements to the DFDA, the JAG noted that further reform should be considered in a staged approach and provided a summary of priority areas, including sentencing procedural reform and modernising service police powers.<sup>39</sup> He concluded that:

...further legislative reform to the DFDA is urgently required for it to reflect comparable civilian standards in the administration of justice.

It is now critical to update the mental health provisions of the DFDA to current civilian standards to ensure fairness to all persons charged with service offences. Equally long overdue is reform of the investigation powers of service police. And persons tried and convicted by court martial should be given reasons for the imposition of punishments upon them.

In 2019, among my principal tasks I will continue to work with Defence Legal in update the SAR [Summary Authority Rules] and in the implementation of a robust scheme for publication of upcoming superior tribunal proceedings and their outcomes.<sup>40</sup>

2.39 The Committee will continue to monitor progress on this matter in future reports.

## **Senator the Hon Eric Abetz**

### **Chair**

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37 *Judge Advocate General Report for the period 1 January to 31 December 2018*, p. 9.

38 *Judge Advocate General Report for the period 1 January to 31 December 2018*, pp. 10-11.

39 *Judge Advocate General Report for the period 1 January to 31 December 2018*, pp. 11-15.

40 *Judge Advocate General Report for the period 1 January to 31 December 2018*, pp. 24-25.