



Australian Government

Department of Finance

**Rosemary Huxtable PSM
Secretary**

Our Ref: SEC0014732

Ms Susan Cardell
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Ms Cardell

In response to your Committee Secretary's letter of 25 July 2017, please find attached a submission from the Department of Finance (Finance) to the Joint Committee of Public Accounts and Audit's inquiry on the Commonwealth Performance Framework Inquiry based on Auditor-General's Report No. 58 (2016-17).

Finance looks forward to discussing the submission with the Committee at the public hearing scheduled for Wednesday, 6 September 2017.

Yours sincerely

[Redacted Signature]
Rosemary Huxtable
Secretary

15 August 2017

Commonwealth Performance Framework – Inquiry based on Auditor-General's Reports 31 (2015-16), 6 (2016-17) and 58 (2016-17)

Joint Committee of Public Accounts and Audit

**Submission by the Department of Finance in
Relation to Auditor General's Report 58 (2016-17)**

August 2017

Introduction

1. The Department of Finance (Finance) has been invited to provide a submission to the inquiry in relation to Report No. 58 (2016-17). Finance previously provided a submission to this inquiry on 11 November 2016 concerning Report No. 6 (2016-17).
2. Audit report 58 (2016-17) examined the implementation of the annual performance statements requirements under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and enhanced Commonwealth performance framework that sits as part of the legislative scheme.

Response to the findings of Auditor-General Report No. 58 (2016-17)

3. The ANAO has highlighted the need for further clarity in guidance around the role of Audit Committees. It noted that Finance has previously acknowledged this in recent discussions with audit committee chairs.
4. Since the finalisation of the audit, Finance has published a paper on the role that Audit Committees play in reviewing the appropriateness of performance information (See [Appendix A](#)). This paper clarifies the role of audit committees in providing accountable authorities with independent advice and assurance on the appropriateness of their performance reporting. The paper was developed in consultation with key stakeholders. The Finance Secretary has written to all Accountable Authorities to draw their attention to this paper.
5. Since the audit, Finance has also updated RMG-134 – *Annual Performance Statements for Commonwealth Entities* to incorporate lessons learned from the 2015-16 annual performance statements and to include the clarifications in the paper discussed at paragraph 4 above.

Implementing the enhanced Commonwealth performance framework – progress to date

6. Finance continues to work with entities to improve performance information and reporting.
7. In September 2016, Finance published a quick reference guide to complement RMG-131 – *Developing Good Performance Information*. This spoke to the principle of performance information being relevant, reliable and complete (See [Appendix A](#)).
8. Finance ran a number of Performance Community of Practice sessions through April 2017 in Canberra, Sydney and Melbourne to discuss lessons learned from the development of 2015-16 annual performance statements.
9. The lessons learned paper on 2015-16 annual performance statements was released in May 2017 and RMG-134 was updated as discussed at paragraph 5 above.
10. Through May and June 2017, Finance provided direct feedback to 34 entities in Canberra, Sydney and Melbourne, on their 2015-16 annual performance statements

and continues to provide feedback on draft 2016-17 annual performance statements and draft 2017-18 corporate plans.

11. In June 2017, Finance conducted a workshop on performance information and reporting for the Indigenous Land Councils based in the Northern Territory. This work is continuing with other indigenous entities, in collaboration with the Department of the Prime Minister and Cabinet.
12. Finance is working to identify other sector-based opportunities to collaborate across groups of entities to improve performance information and reporting.
13. In July 2017, Finance conducted a Community of Practice meeting for private consulting companies to provide an overview of the enhanced Commonwealth performance framework with emphasis on performance information and reporting.



Australian Government
Department of Finance

Functions of audit committees: Reviewing the appropriateness of performance reporting, including for 2016-17 annual performance statements

This note provides information in relation to audit committees reviewing the appropriateness of an entity's performance reporting as required by s17(2)(b) of the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule). It is provided in response to a number of recent queries in relation to the 2016-17 annual performance statements.

Role and functions of the Accountable Authority

It is a requirement of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) that the accountable authority of a Commonwealth entity must:

- govern the entity in a way that promotes the achievement of the purposes of the entity (s15(b)).
- cause records to be kept that properly record and explain the entity's performance in achieving its purposes (s37(1)), and enable the preparation of annual performance statements (s37(2)).
- measure and assess the performance of the entity in achieving its purposes in compliance with the PGPA Rule (s38(1) & (2)).
- prepare annual performance statements which provide information about the entity's performance in achieving its purposes (s39(2)(a)).
- ensure that the entity has an audit committee, which must be constituted, and perform functions, in accordance with any requirements prescribed by the rules (s45(1) & (2)).

Section 16E of the PGPA Rule provides that the accountable authority of an entity must produce at the commencement of each reporting period a corporate plan for the entity that covers a period of at least 4 years. This is to include, for each reporting period covered by the plan, a summary of how the entity will achieve its purposes, how any subsidiary will contribute to the same, and how the performance of the entity in achieving its purposes will be measured and assessed, including any measures, targets and assessments to be used.

Section 16F of the PGPA Rule requires that the accountable authority must produce an annual performance statement at the conclusion of each reporting period, which sets out the result of the measurement and assessment outlined in the corporate plan and any related budget statement.

The Commonwealth's performance reporting framework includes the PGPA Act, the PGPA Rule and any formal guidance issued by the Department of Finance. This document forms part of that guidance.

Role and functions of the Audit Committee

The role of an audit committee is to provide independent advice and assurance to the entity's accountable authority. It is a requirement of s.17(2) of the PGPA Rule that the functions of an audit committee must include reviewing the appropriateness of the accountable authority's financial reporting, performance reporting, system of risk oversight and management, and system of internal control. The PGPA Rule requires that the accountable authority must, by written charter, determine the functions of the audit committee (Rule s17(1)). This charter must include the requirements of s17(2) of the PGPA Rule, including the requirement in s17(2)(b) that functions of the audit committee must include reviewing the appropriateness of the accountable authority's performance reporting.

In this context, "appropriateness" has its ordinary meaning of suitable or fit for purpose. This would involve an audit committee reviewing the performance information, systems and framework, and the completeness and accuracy of performance reporting, (including application of the PGPA Act, PGPA Rule and supporting guidance) that underpin the performance reporting of an entity. This would provide a level of assurance to the accountable authority that is comparable to the level of assurance that the audit committee gives in relation to financial reporting, system of risk oversight and management and internal controls. An accountable authority is responsible for implementing and reporting against the framework in their entity – the Audit Committee's role is one of advice, assurance and support.

Where there are formal standards in relation to a matter listed in s17(2) of the PGPA Rule, for example relevant accounting standards and rules in relation to financial reporting, then an audit committee would reach a view on appropriateness with reference to the requirements of these standards or rules. i.e. that the entity's financial statements, as a whole, give a true and fair view of its financial position, performance and cash flows, in conformity with the standards.

In the case of performance reporting, an audit committee would reach a view on the appropriateness, of the entity's performance reporting as a whole, with reference to the Commonwealth's performance reporting framework, (including the relevant requirements, directions or guidance for entities corporate plans and PBSs). There is also other guidance material issued by the Department of Finance supporting the performance framework and there are periodic observations made by the Australian National Audit Office and the Joint Committee of Public Accounts and Audit. An audit committee would have regard to these when reviewing the appropriateness of the accountable authority's performance reporting.

From time to time, an audit committee itself may wish to commission an internal audit review of the performance reporting of the entity to inform the committee and entity management.

In the Quick Reference Guide - RMG 131 – Developing Good Performance Information (at Attachment A) issued by Finance in September 2016, good performance information (the bedrock of the performance reporting framework), is characterised as being relevant, reliable and complete.

- **Relevant** performance information should clearly state who benefits and how they benefit from an entity's activities.
- **Reliable** performance information should use information sources and methodologies that are fit-for-purpose and verifiable.
- **Complete** performance information, when read as a whole, should articulate whether the purposes of an entity are being achieved.

This Quick Reference Guide can be used to assist in determining the appropriateness of performance reporting. The Australian National Audit Office [*Implementation of the Annual Performance Statements Requirements 2015–16* \(ANAO Report No.58 2016–17\)](#) may also provide a useful reference point for audit committees reviewing the appropriateness of an entity's performance reporting.

Assurance provided by the Audit Committee

A reasonable level of assurance on the appropriateness of an entity's performance reporting is consistent with our expectations of the assurance provided by audit committees, as required in s17(2) of the PGPA Rule.

However, those audit committees that are unable to provide a reasonable level of assurance (for example, limited assuranceⁱ) for the 2016-17 performance reporting cycle, should discuss the level of assurance they are able to provide with their accountable authority. This would include a discussion of what the audit committee proposes to do to provide a reasonable level of assurance to the accountable authority in the 2017-18 performance reporting cycle, and would include documenting this approach in their charter or workplan.

Further information

For further information on the role of Audit Committees, see [RMG 202 – Audit committees for Commonwealth entities and Commonwealth companies](#).

For further information on the role of Accountable Authorities, see [RMG 200 – Guide to the PGPA Act for Secretaries, Chief Executives or governing boards \(accountable authorities\)](#)

For further information on developing good performance information, see [RMG 131 – Developing Good Performance Information and Quick Reference Guide](#).

ⁱ Providing a limited assurance to an accountable authority would involve an audit committee reviewing an entity's annual performance statement and key supporting documentation, and making inquiries, noting that nothing has come to its attention to suggest that the statement is not prepared in accordance with the performance framework. This is the minimum acceptable standard for any audit committee's work, and should clearly detail all activities completed in arriving at the conclusion.

QUICK REFERENCE GUIDE - RMG 131 DEVELOPING GOOD PERFORMANCE INFORMATION

Characteristics of good performance information	Developing good performance information
<p>RELEVANT</p> <p>Performance information should clearly state who benefits and how they benefit from the entity's activities.</p>	<p><u>RMG 131: Developing Good Performance Information</u> outlines the issues to consider when developing good performance information.</p> <p>A concise and measurable statement of the purposes of an entity underpins a robust performance reporting framework. Good performance information should enable stakeholders to assess how an entity's activities support the achievement of its purposes, and if there has been a proper use of public resources in undertaking these activities.</p> <p>The questions below, drawn from RMG 131 (page references noted), will help entities develop good performance information.</p> <p><u>Does the performance information:</u></p> <ol style="list-style-type: none"> 1. Draw on qualitative and quantitative information to demonstrate the extent to which the purpose is being achieved through the activities being undertaken? (Pages 2-10,15-18,23,24,29,41)
<p>RELIABLE</p> <p>Performance information should use information sources and methodologies that are fit-for-purpose and verifiable.</p>	<ol style="list-style-type: none"> 2. Demonstrate who is benefiting, and how they benefit from the activities being undertaken, including how the activities contribute to achieving a purpose? (Pages 15,16,19,20,25,26) 3. Enable an assessment of public resources being used effectively, efficiently, economically and ethically in striving to achieve the purpose? (Pages 4,11,20,27,28,41) 4. Report against appropriate baseline information and short, medium and long term qualitative and quantitative measures? (Pages 14,21,29,31,42) 5. Use appropriate qualitative and quantitative methodologies that are accurate and verifiable to support a rich performance story? (Pages 24,31,32)
<p>COMPLETE</p> <p>Performance information, when read as a whole, should articulate whether the purposes of the entity are being achieved.</p>	<ol style="list-style-type: none"> 6. Use all relevant data sources? (Pages 22,23,32) 7. Get published at an appropriate time and frequency to inform decision making and report short, medium and long term results of an activity? (Pages 4,11,31,41) 8. Reflect the joined-up nature of an activity? (Pages 24,25) 9. Enable comparisons across relevant entities and jurisdictions? (Pages 14,28,36) 10. Drive continuous performance improvement throughout the implementation of an activity? (Page 11)