Joint Committee on Public Accounts and Audit

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Inquiry into the Annual Performance Statements 2021–22

2022 - 2023

Division: Corporate Division
Topic: Timing suggestions
Reference: Spoken (28 July 2023)
MP: Julian Hill

Question:

CHAIR: You acknowledge that we've covered in the previous sessions some of the specifics or more granular suggestions about timing of the process.

I'd invite all of you to just take on notice, if you have any specific suggestions or observations about that timing flow if you could get them into us within a couple of weeks because I think it would be a fair bet, committee hasn't discussed it, but a fair bet the committee would be likely to repeat our previous recommendation that this become mandatory and an annual activity, the external audit function on performance statements for departments of state and big commonwealth entities.

On that basis, then tidying up the flow of things so that it has maximum utility and minimal kind of friction would just make sense and I don't think there is any resistance, we just need guidance collectively about what broadly the parameters of any suggestions we make are so they're not kind of silly. So I'll leave that with you.

Answer:

Cadence of audits

During the hearing the Auditor-General indicated that annual audits would be more cost effective for the Australian National Audit Office (ANAO) as the assurance framework is established in the first year making successive audit years more efficient. This makes an ongoing annual audit program achievable for the ANAO.

Treasury acknowledges this cadence may create efficiencies for ANAO but notes that the resource impact flowing from the audit program on reporting entities has not been analysed or costed. Treasury understands that the ANAO are in the practice of periodically rotating their audit teams resulting in a loss of audit efficiencies. An ongoing annual audit program would effectively mean a recommencement of the audit for the entity when a new team starts.

As discussed by witnesses at the hearing, responses to an audit process require two reporting cycles to implement due to the final management letter being delivered after the corporate plan is published on 31 August so the value of an annual approach is questionable.

Aligning the performance statements audit with the financial statements audit cadence would likely further embed the compliance focus of the audits due to time constraints and resource imposts on both departments and the ANAO.

However, should regular performance statements audits become mandatory, it is Treasury's view that the cadence of entity audits should be risk based rather than an ongoing annual audit of the performance statements. If a set cadence is required then an alternate option may be a bi-annual audit process. A bi-annual cycle would allow entities time to implement audit findings and mature performance reporting with the ANAO audits focused on assurance and continuous improvement.

Under a regime of annual audits, the principal driver for corporate planning and performance reporting may become an immediate audit response, either servicing audit requests or rapidly addressing audit findings, rather than maturing organisational performance. There is a risk that Departments may not have the staffing capacity or strategic space to elevate the performance conversation from reactive compliance to how to meaningfully measure the unique value-add the entity delivers to the Australian public.

In implementing a bi-annual process, the ANAO could implement a risk-based approach where entities that have no qualifications are audited on bi-annual basis at the beginning of the program and those at higher risk could be considered for annual audits until issues addressed. This would lessen the resource impact of annualised audits on entities which already have evidence of a corporate performance framework which aligns with the *Public Governance, Performance and Accountability Rule 2014*.

Treasury understands ANAO's intention to start the audit process in November of the reporting period to allow more time for the audit team to conduct assessments of entity's preparations. As the reporting cycle finishes in October with the approval of the responsible minister to table the entity's annual report in the Parliament, entities will have no strategic preparation time or opportunity to rest performance reporting teams.

Impact of cadence on capability

Treasury's experience is that performance reporting teams require a broad range of capability, including program management, strategic planning, evaluation, policy development and implementation, with a sound understanding of governance and organisational culture. Finding staff with this unique blend of skills is difficult. The prospect of an annual audit program may make retaining and attracting staff to a performance reporting role more difficult. Our lived experience is that finding people with the right capability mixture is difficult and that this is compounded by potential staff being concerned that this is a becoming a compliance driven approach rather than having a focus on the effective performance of the department.

From the perspective of an entity involved with the program, if audits of the performance statements are programmed on an ongoing annual basis, performance and reporting teams across the Commonwealth could require additional resources to support both the audit and maintain a focus on performance. Given our experience of the audit program and its impact on the department, we are strongly of the view that a risk based approach to the cadence of the audit program as referenced above should be implemented.