

**Department of Finance submission to
the Joint Committee of Public Accounts and
Audit**

***Inquiry into the Annual Performance Statements
2021–22***

May 2023

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Introduction

1. The Department of Finance (Finance) welcomes the opportunity to provide a submission to the Joint Committee of Public Accounts and Audit's Inquiry into the Annual Performance Statements 2021–22.
2. A key element of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) is that Commonwealth entities and companies must report on how the entity's or company's performance, in achieving its purposes, will be measured and assessed.
3. The Commonwealth Performance Framework (performance framework) that took effect from July 2015, with the support of the then Joint Committee of Public Accounts and Audit, improves the line of sight between what Commonwealth entities intend to deliver and what is delivered. Corporate plans (and Portfolio Budget Statements) and annual reports (including annual performance statements) are the bookends of the framework.
4. The performance measures developed by Commonwealth entities and companies should have regard to the entity's or company's operating environment, organisational capability and risks, and meet any requirements specified by the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule).
5. Performance planning and reporting should draw clear links between the entity's key activities and the results achieved, and provide 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.
6. This submission provides:
 - a. Finance's observations in relation to the 2021-22 Audits of the Annual Performance Statements; and the Auditor-General Report No. 13 of 2022–23: Audits of the Annual Performance Statements of Australian Government Entities, 2021–22 (the ANAO Report);
 - b. an outline of the PGPA Act and amendments made to the performance framework; and
 - c. information on Finance's stewardship of the framework role including advice and support to Commonwealth entities.

Annual Performance Statements 2021–22

7. In October 2021, the then Finance Minister requested annual performance statement audits be undertaken under section 40 of the PGPA Act.
8. The Auditor-General undertook audits of the 2021–22 annual performance statements of 6 entities: the Attorney-General’s Department; the Department of Social Services; the Department of Veterans’ Affairs; the Department of Agriculture, Water and the Environment; the Department of Education, Skills and Employment; and the Department of the Treasury.
9. The audits assess whether an entity’s performance measures meet the requirements set out in sections 16E(2) item 5 and section 16EA of the PGPA Rule. The ANAO assesses whether an entity’s reporting is consistent with the requirements of the Rule and presents fairly the performance of the entity in achieving its purposes.
10. The ANAO Report focusses on the application of the performance framework by entities.
11. Finance observes that the assurance audits are demonstrating that entities subject to audit are continuing to improve their performance reporting. Supporting this, the audit finds that *‘the annual performance statements were largely effective in meeting the requirements of the performance framework and accurately reporting the performance of the entity in achieving its purposes’*. However, the audit also found *‘some exceptions where entities did not have appropriate preparation processes, methodologies and assurance over the completeness and accuracy of results to support good quality performance reporting’*.
12. More broadly, Finance notes that entities both subject to audit and not yet audited are sharing and applying lessons learned from the audits to support continuous improvement in their performance reporting, including the quality and structure of corporate plans and annual performance statements.

Audit methodology

13. The reporting of non-financial outcomes across the diverse activities of government means that performance measurement, and auditing of that, is inherently complex. That contrasts for example, with the more mature financial statements reporting and audit framework, which draws on a common financial measurement base across all entities.
14. The cycle of planning, measuring, evaluating and reporting results to the Parliament, Ministers and the public is key to public sector resource management outcomes. The 2015 amendments (refer to paragraph 22) introduced a framework for measuring and assessing performance, including requiring effective monitoring and evaluation. Measuring performance in the public sector requires adequate and relevant non-financial information.
15. To that end, the performance reporting framework encourages entities to develop and publish measures that reflect outcomes achieved and value created, with the Auditor-General being explicit that the audit program also aims to support this objective.

16. An issue identified by the Auditor-General is the potential for the audits to inadvertently drive the development and publishing of only those performance measures that are readily auditable.
17. The Report acknowledges that the audit methodology is yet to be settled and it will continue to be refined to ensure it remains fit-for-purpose and encourages entities to improve the quality of their performance reporting. To assist with this, the Auditor-General has established an Expert Advisory Panel that has been tasked with guiding the maturity of the audit program as it reaches full implementation. Finance is represented on the panel.
18. The settling of the audit methodology will assist entities to better understand the audit approach and in turn to use non-financial performance information to report on their objectives and outcomes rather than to achieve compliance only.

Capability

19. The [Independent Review of the Australian Public Service](#) identified a number of constraints that impact the ability of entities to attract and retain staff, and build staff capability. This is evident in those teams responsible for coordinating performance reporting with a particular issue being staff retention and the role they play in building performance measurement and reporting capacity within the entity.
20. Finance has also observed a contrast between the size and capability of central teams dedicated to financial reporting and those dedicated to non-financial performance reporting. A key difference between the two functions being the critical and greater role that program managers have in developing and managing performance measures, relative to financial reporting.

PGPA Act and amendments to the Commonwealth performance framework

21. Finance is responsible for administering the PGPA Act. The Act provides a framework that requires Commonwealth entities to manage public resources properly. The principles-based framework underpinned by the Act allows accountable authorities of Commonwealth entities to tailor their internal processes so that they are appropriate to the operating context of their entity.
22. A key feature of the PGPA Act was the introduction of the performance framework. In April 2015, Rules were put in place to set out the content requirements of Commonwealth entity corporate plans and annual performance statements. The framework requires entities to put in place performance measurement and reporting arrangements to demonstrate how they are achieving their purposes.

23. In September 2018, a statutory review of the PGPA Act and Rule, the [Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule](#) (the Review) was undertaken by Ms Elizabeth Alexander AO and Mr David Thodey AO. They found that ‘...the PGPA Act and Rule established a coherent, principles-based system of governance and accountability, and a performance framework for the Commonwealth’¹.
24. In November 2019, Finance consulted with the then Joint Committee of Public Accounts and Audit requesting approval of proposed amendments to the PGPA Rule to implement a number of the recommendations of the Review. Amendments specific to the performance framework, which came into effect in the 2020-21 reporting period included the introduction of new corporate plan requirements regarding the reporting of:
- key activities undertaken to achieve the entity’s purposes;
 - key risks that the entity manages and how these are managed;
 - details of who the entity cooperates with to achieve its purposes;
 - how any subsidiary of the entity contributes to the entity achieving its purposes;
 - the setting of targets where it is reasonably practicable to set targets; and,
 - the introduction of section 16EA of the PGPA Rule which sets out the characteristics of performance measures.
25. In December 2021, the [Finance Secretary Direction - Requirements for Performance Information included in Portfolio Budget Statements](#) was amended to align with the PGPA Rule amendments. This included linking performance information in Portfolio Budget Statements (PBS) to the corporate plan through mapping programs to the entity’s key activities.

Finance’s stewardship role

26. In a principles-based environment Finance takes a stewardship approach to supporting entities meet the requirements and intent of the PGPA framework. This involves the development and maintenance of a range of support tools and activities.

Guidance material

27. Finance reviews and updates the Resource Management Guides (RMGs) to support entities to understand the requirements, including those that go to reporting, under the PGPA Act. The Committee directed a recommendation to Finance in *Report 492 Governance in the Stewardship of Public Resources* that went to Finance reviewing and updating as required, the RMGs for Commonwealth entities (recommendation 1).
28. The RMGs are reviewed and updated to reflect changes in government policy or Finance law, to take account of recommendations made by Parliamentary Committees and ANAO Reports and highlight better practice examples to support entities. A digital first

¹ See the [Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule](#) Report, September 2018 (p. 1).

approach to guidance is used to reduce the risk of entities referring to out-dated guidance.

Communities of Practice

29. Performance Communities of Practice (CoP) forums are held on a regular basis. These have included interstate, tailored and online sessions adjusted for the effects of the pandemic.
30. For example, in November 2022, Finance focussed on performance statements amendments to the PGPA Rule, the Finance Secretary Direction and learnings from the assurance audit program. The first two forums, which were a hybrid of face-to-face and online, were attended by over 300 officials representing over 130 Commonwealth entities. Responses were provided to over 100 questions and comments received during the forums.
31. The CoP program will continue with forums to be held at key points in the reporting cycle. Included in the program is the establishment of a Regulatory Performance CoP in collaboration Finance’s Regulatory Reform Group. This CoP is designed to assist entities with regulatory functions integrate the reporting of regulatory performance into the performance framework reporting requirements.
32. In addition, regular engagement and specific presentations are made in other CoP forums established by Finance and other entities. This has included the Risk and Internal Audit CoPs; the Australian Public Service Commission (APSC) Workforce Planning forum; and a Masterclass for the APS Academy established by the APSC.

Tailored Commonwealth Performance Framework 101 sessions

33. In February 2023, Finance commenced a program of Commonwealth Performance Framework 101 sessions tailored to the needs of the requesting entity. As at end April 2023, sessions have been held for 18 entities, with over 250 officials at all levels attending. This program will continue with more sessions already scheduled.
34. The sessions are designed to provide an understanding of the requirements and intent of the framework, with a focus on each entity’s approach to corporate planning, the provision of performance information in the PBS and the reconciliation of performance measures and related analysis in annual performance statements. Learnings from the assurance audit program are incorporated into the sessions.

Support for accountable authorities

35. The Finance Secretary writes to all new accountable authorities to advise of their duties and responsibilities under the PGPA Act. This is supplemented by the offer of face-to-face briefings, which are commonly accepted by accountable authorities.
36. Finance’s engagement with new accountable authorities supports Commonwealth entities to build and strengthen governance and accountability by supporting and equipping accountable authorities to understand their duties in governing their entity.
37. In addition, a suite of RMGs (including [eLearning modules](#)) are available on the Finance website.

PGPA Newsletters

38. [PGPA Newsletters](#) are distributed regularly and published online. These newsletters advise officials of PGPA framework matters including PGPA Rule amendments and enhancement to the RMG suite. There are over 3300 subscribers to the newsletter across the Commonwealth.

PGPA Entity Survey

39. Finance undertakes an annual survey of all Commonwealth entities and companies seeking feedback on the operation of the Commonwealth resource management framework. The survey is designed, built and delivered by an outsourced professional research service provider.
40. The most recent survey results indicate that the PGPA Act provides a flexible framework that enables internal controls to be applied appropriately to the particular operating context of Commonwealth entities and companies. These results show progressive improvement by Commonwealth entities and companies in applying the framework and satisfaction with Finance’s support.

Digital Annual Reports and annual performance statements

41. Following an open tender process, Finance is re-developing the digital annual reporting tool to support publishing of 2022-23 annual reports. Future work includes exploring the digitisation of elements of the PBS and corporate plans, having regard to the benefits that can be achieved through digitisation such as ease of access to performance information, maintaining a clear line of sight and introducing data and analytical capability.
42. An example of this digital approach is displayed in Finance’s [Structure.gov.au](#), with the digitalisation of elements of the PBS including appropriation and linked program information.

Further information on the PGPA Framework is outlined in [Attachment A](#).