



Australian Government
The Treasury



Joint Committee on Public Accounts and Audit

Submission - Inquiry into Annual Performance
Statements 2021–22

16 May 2023

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Introduction

The Australian National Audit Office (ANAO) audit of the Department of the Treasury (Treasury) annual performance statements 2021–22 commenced on 3 November 2021. Treasury’s 2022–23 annual performance statements have been selected for the ANAO audit program.

Treasury was one of three departments to receive an unmodified audit opinion as part of the Auditor-General’s report: Audits of the Annual Performance Statements of Australian Government Entities — 2021–22 (the Report). The Report recognised Treasury’s investment in developing robust governance arrangements and preparation processes. The benefits of Treasury’s mid-cycle performance review to provide a progress update on performance and identify potential refinements through its quality assurance processes was also noted in the report.

Treasury received a number of moderate audit findings and is working to improve performance reporting preparations and methodologies.

The audit process has required a high level of engagement with the ANAO audit team, and this had implications for Treasury’s resourcing. Treasury appreciated the ANAO’s genuine engagement and transparency through the 2021–22 audit process demonstrated through the ability to provide feedback on draft ANAO audit opinion documentation. The ANAO audit team demonstrated a genuinely collaborative approach to resolve issues as they were identified and provide information to Treasury’s governance committees on the audit process.

Treasury has feedback about the approach to the audit of performance reporting, guidance available to inform entities that are included in the audit program, resourcing implications, and the benefits to public accountability.

The ANAO's approach to auditing annual performance statements

Audit methodology

The Report states that the ANAO will continue to refine its audit methodology to ensure it remains fit-for-purpose and encourages entities to improve the quality of their performance reporting¹.

The Audit of Annual Performance Statements Requirements 2021–22 Terms of the Engagement provided to the Treasury Secretary on 20 December 2021 included a high-level outline of audit activities and process as part of the audit methodology and scope. The ANAO did not provide Treasury an audit strategy for the 2021–22 audit. The documentation to Treasury did not provide detail on the audit methodology or process that would assist with Treasury's preparations for the audit.

Therefore, on commencement of the audit process, Treasury did not have sufficient information to assess the depth of engagement that would occur, the resourcing required or an understanding of how the requirements of the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule) and auditing standards would be applied to the process. The ANAO team progressively provided information through weekly meetings on the audit process as it became available creating substantial levels of uncertainty.

Feedback on technical matters from the audit team and the application of an audit approach in the context of the PGPA Rule frequently required confirmation through internal ANAO processes. Treasury appreciated the feedback to improve performance reporting but was concerned that the ANAO's position was being developed as issues arose and was not predetermined.

Treasury's impression was the ANAO could have made more preparations to support the audit team for the audit and had not clearly defined requirements of a standardised performance audit methodology. Treasury appreciates that the ANAO does not publish its audit methodology or the interpretations of the PGPA Rule. The provisions of more information on the audit methodology on commencement and consistent communications on the ANAO interpretation of the PGPA Rule and audit methodology, and the related internal decision-making, would have been beneficial.

Performance measurement requires a level of technical understanding and interpretation of the PGPA Rule. Entities are reliant on the Department of Finance resource management guides (RMG) to apply the requirements of the PGPA Rule. Entities are at a disadvantage if the ANAO interpretation of the PGPA Rule does not align with or is not covered by the RMG. The provision of simple tools such as a glossary of terms to give meaning to the ANAO application of the PGPA Rule and audit methodology would have assisted Treasury and the audit team.

An audit strategy has been provided as part of the 2022-23 audit process demonstrating ANAO is maturing its approach.

Financial statements approach

The Report notes the current approach to performance statements audits borrows heavily from financial statements auditing practices². The ANAO has taken a compliance approach to auditing

¹ Page 50, Audits of the Annual Performance Statements of Australian Government Entities — 2021–22.

² Page 51, Audits of the Annual Performance Statements of Australian Government Entities — 2021–22.

annual performance statements. The use of experienced financial statement auditors and audit methodology has not aligned well with the intent of the Commonwealth Performance Framework.

Financial statements audits are well established with defined data sources, terminology, and audit objectives. A financial statements audit approach has a strong focus on compliance with little interpretation of requirements.

Treasury appreciates the educative and collaborative approach taken by the ANAO audit team and this has improved Treasury's performance reporting in the 2021–22 period. The combined efforts of Treasury and the audit team has improved the performance measures in the Corporate Plan 2022–23.

Adopting a financial statements approach to performance statements auditing does not consider the diversity of methodologies required to report performance on a broad range of activities. The PGPA Rule and related requirements involves interpretation. The ANAO has at times focused on a compliance approach with a black and white interpretation of the PGPA Rule requirements. As the audit process is maturing, there currently exists gaps in the guidance within the resource management guides (RMG) which ANAO and the relevant entities must interpret. The views of the ANAO and entities can differ. The RMG could be reviewed by Department of Finance to address issues arising from the ANAO audit program to ensure they address ANAO audit findings.

A compliance approach does not translate effectively to performance reporting, particularly reporting on policy related performance measures. There is a risk that entities that aim to provide transparent and innovative reporting may reduce their reporting to provide minimal information and simplified quantitative measures.

The ANAO reported there was some evidence that entities were taking a compliance-based approach to developing and reporting performance measures to minimise the risk of audit qualification³. The Report does not provide an evaluation of the drivers for this compliance-based approach or consider that it was the application of the audit methodology that has instilled a compliance-based outcome.

The Report highlights the reduction in the number qualifications from the 2020–21 to 2021–22 reporting periods⁴. A reduction in qualifications is an indicator of compliance and not the quality of performance reporting. This raises the possibility that the narrow financial statements audit approach could contribute to a Commonwealth-wide culture that reduces public accountability.

We suggest that the audit of annual performance statements requires a fit-for-purpose audit methodology that clearly defines the intent of the PGPA Rule and focuses on assessing the quality of performance reporting and the benefit of public accountability. Our experience is that this gives rise to a specific challenge for entities in measuring the effectiveness of policy advice that the current methodology struggles to accommodate.

Application of the Department of Finance Guidance

Treasury relied on the Department of Finance resource management guides (RMG) to apply the requirements of the PGPA Rule and develop the Corporate Plan 2021–22. The ANAO audit did not apply the RMG requirements consistently and only where it supported the ANAO interpretation of the

³ Page 11, Audits of the Annual Performance Statements of Australian Government Entities — 2021–22.

⁴ Page 25, Audits of the Annual Performance Statements of Australian Government Entities — 2021–22.

PGPA Rule and therefore the ANAO audit opinion. There did not appear to be consistent ANAO advice on the application of the RMG and suggests that not all sections of the RMG represent better practice.

The ANAO position on the RMG placed Treasury and other entities in a situation where they are not confident that they can rely on the Department of Finance guidance. Entities are being audited against an interpretation of the PGPA Rule that may differ to the RMG or not be addressed in the guidance. However, this situation is not assisted by the fact that the ANAO has not published guidance on this interpretation or provided formal advice on how entities should address this divergence of advice.

Treasury understands that the ANAO discussed specific issues on interpretation of the RMG with the Department of Finance and the consensus view did not agree with Treasury's interpretation. This outcome highlights for Treasury an information gap between the PGPA Rule, RMG and the ANAO interpretation used for the audits. Entities are dependent on the RMG providing clear guidance on requirements. While previously these documents were considered "guidance" we are concerned that they are now being used to inform audit findings. To address this, we would suggest that some consideration should be given to ensuring the RMG provide clear advice on any exacting requirements.

If the intent of the audit program is to assist with the development of capability and improve performance reporting, and the ANAO is taking an educative approach to engaging entities, then we suggest that there needs to be guidance that entities can use in the performance reporting and auditing processes. Treasury appreciates that the ANAO is developing the performance statements audit program, but there is an opportunity broaden the this learning process to audited entities or entities more broadly.

It is important that the ANAO work with Department of Finance to review the relevant RMG to address the 2021–22 audit findings and the lessons learnt through the audit program.

Benefits to Public Accountability

Treasury was advised by the ANAO to remove explanatory information from the analysis in the department's annual performance statements to mitigate the potential risk of bias. This included factual descriptions about the key policy work of Treasury that could be evidenced by publicly available information but was not directly a product of the performance methodology, in this case a stakeholder survey. Treasury understood the ANAO concerns and was willing to only include information that provided a balanced view. The information was removed to facilitate a solution under timing pressures. The net-effect was that the Treasury 2021–22 annual performance statements had less information about what Treasury did to achieve that target. The inclusion or removal of the information from the analysis did not change the accuracy of the performance result.

Treasury agrees that the performance information in the analysis must be factual, accurate, evidenced, and unbiased in the context of the performance result. The ANAO's interpretation of the PGPA Rule requirement to provide an unbiased basis for the measurement and assessment of the entity's performance⁵ appears to be overly cautious. This interpretation has potential to reduce or remove meaningful context from performance statements and, to some extent, the benefits of public reporting.

Based on this experience, Treasury believes that public reporting would be better served by the inclusion of more contextual information where this would inform the reader and to accept some

⁵ *Public Governance, Performance and Accountability Rule 2014*, section 16EA(c)

levels of risk as it is impractical to eliminate all bias. The financial statements auditing practices enforces a compliance approach as opposed to a principles-based approach to measuring non-financial performance. In particular, for policy outcomes a broader narrative can assist in providing a meaningful understanding of the achievements of an organisation.

Resourcing implications

Engagement with ANAO

Treasury appreciates the ANAO audit team’s genuine and transparent engagement through the 2021–22 audit process, and feedback through the interim process to make adjustments for the annual performance statements and corporate plan. Treasury also appreciates the ability to provide feedback on draft ANAO audit opinion documentation. There was a collaborative approach to resolve issues as they were identified and provide information to Treasury’s governance committees on the audit process. These combined efforts have improved Treasury’s performance reporting.

Treasury has a small performance reporting team that is dedicated to the delivery of the corporate plan, portfolio budget statements non-financial performance information and the annual performance statements. The audit process significantly increased the workload of the Treasury team through information requests and responding to feedback from the ANAO.

At key points in the audit process the Treasury team was overwhelmed by the volume of information requests and unable to complete key priorities to develop the annual performance statements. The audit process also had significant resourcing implications for other areas of Treasury that were involved through reporting on specific performance measures. Treasury’s observation was that the performance audit required significant levels of investment from Treasury and the ANAO audit team, which tested the resourcing and had wellbeing impacts for both parties. Conducting these audits annually has a significant resource impact for ANAO and entities. A different cadence could be considered whereby entities are only audited every two to three years. In between audits entities could focus on maturing their performance framework based on ANAO findings.

The Report recognised the benefits of Treasury’s mid-cycle performance review to provide a progress update on performance and identify potential refinements through its quality assurance processes⁶. Treasury recommends this early review by the ANAO of mid-cycle performance information to reduce timing and resourcing pressures at the end of the performance cycle. This may be a useful practice that could be applied by all entities where this is appropriate and beneficial to the entity.

Across the Commonwealth

Performance planning and reporting requires a specialist skillset to develop and deliver fit-for-purpose performance frameworks. Unlike Financial Statements which are underpinned by the accounting professional there is not a prescribed professional area of expertise related to annual performance statements. Treasury’s experience is that this is not a common skillset in the APS and that teams are typically small. A wider consideration for the public service is how to build capability when small teams are under pressure delivering what is required in the audit process. .

⁶ Page 44, Audits of the Annual Performance Statements of Australian Government Entities — 2021–22

Treasury appreciates that ANAO audit teams undertook training for the performance statements audits during the audit period. Audit teams with experience in performance reporting are critical to complement an audit methodology that specific to performance statements.

The audit program is revealing varying levels of maturity in audited entities. The implementation of better practices requires time and resourcing, and the Report does not provide practical linkages to operationalise those improvements.

There are broader opportunities to improve capability and culture in the public sector to make the required improvements to performance reporting. A focus on improved strategic workforce planning is required, for both auditees and auditors, if the audit program is to become sustainable and beneficial to all entities.

Areas of better practice

The Report indicates that an area of better practice are preparation processes that enable the finalisation of performance statements audits in a timeframe for the audited performance statements to be included in entity annual reports, consistent with the approach for entity financial statements⁷. Treasury's experience from the audit of the 2021–22 reporting period is that this would not be possible for Treasury and ANAO audit teams. This is due to the differing processes involved in developing performance statements in comparison to financial statements as noted above, with less standardised and consistent measures and systems used in the analytic and reporting processes.

Performance Statements Audits Expert Advisory Panel

Treasury strongly supports the establishment of the Expert Advisory Panel to guide maturity of the audit program and as a source of advice to the ANAO. Treasury understands the Expert Advisory Panel brings together people with a broad mix of skills and expertise who have an interest in promoting high quality performance information and reporting.

Ms Roxanne Kelley PSM, Deputy Secretary Corporate and Foreign Investment Group of Treasury, is an Expert Advisory Panel member.

⁷ Page 38, Audits of the Annual Performance Statements of Australian Government Entities — 2021–22