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Joint Committee of Public Accounts and Audit  
Inquiry into the Annual Performance Statements 2021-22

28 July 2023

Opening Statement by the Auditor-General

1. Good morning Chair and Committee Members.
2. Thank you for the opportunity to appear before the committee today as part of the inquiry into the Annual Performance Statements 2021-22.
3. Annual performance statements are an essential component of the Commonwealth Performance Framework. They were introduced under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), to provide the Parliament with meaningful information on an entity's performance in achieving its purposes.
4. Performance statements complement the information presented by Commonwealth entities in financial statements by reporting on how well entities are using public money and whether the entity has delivered its purposes as intended. In short, they help answer the key question – is the entity doing a good job?
5. The ANAO's audits of performance statements are designed to support the Parliament in its oversight of entity performance by providing assurance on the information reported by entities. Performance statements that provide relevant, reliable and meaningful information enable the Parliament to scrutinise the progress and impact of government policies and programs.
6. The requirement for Commonwealth entities to provide meaningful performance information is not new and has been in force well before the ANAO commenced annual audits of performance statements from 1 July 2021, following completion of a two-year pilot. While accountable authorities of Commonwealth entities have been required to prepare annual performance statements since 1 July 2015, reporting in annual reports on performance under previous frameworks has been in place for many decades.
7. Auditor-General Report No. 13 2022-23, *Audits of Annual Performance Statements of Australian Government Entities – 2021-22* (End of Year Report), to which this inquiry refers, reflects on the outcome of the first year of the performance statements audit program.

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8. Observations from our audit work indicate that there is an increasing focus by entities on their performance measurement and reporting, including improved governance and preparation processes. This demonstrates that audits of annual performance statements can positively influence the quality and reliability of performance reporting to the Parliament. Moreover, our sector engagement shows that some entities not yet subject to audit are investing to improve the quality of information presented in performance statements.

9. Feedback the ANAO has received from audited entities, which is reflected in submissions to this inquiry, is that there is a resource cost associated with performance statements reporting.

10. The resource impact on entities, especially when being audited for the first time, is largely reflective of an under-investment by entities in building their performance reporting frameworks. This is despite legislative obligations requiring accountable authorities to prepare annual performance statements being in place for nearly a decade.

11. Some entities view performance statements as a compliance exercise to be completed annually. They do not appear to value the information they report in performance statements or see it as essential to an entity's internal management to the same degree as financial information. In particular, not all entities regularly monitor and review the performance information at the executive level, whereas periodic monitoring is an established practice for financial reporting.

12. As entities build their capacity and capability to use and report meaningful performance information, audit risks and costs will reduce. The ANAO expects performance statements to become relatively stable over time as entity maturity grows, with changes largely being made in response to changes in the operating environment and government priorities, including new policies and programs and Machinery of Government changes. The ANAO is already seeing a lower cost this year in some audits, including a first-year audit where the Department of Industry, Science and Resources had a relatively robust performance framework prior to the audit commencing.

13. Conducting annual audits of performance statements ensures that Parliament receives the same level of assurance on performance statements as it does for financial statements. Mandatory annual audits could also be expected to keep audit costs down, for both the entity and the ANAO. For the ANAO there will be additional start-up costs if audits are conducted periodically and not annually. This includes obtaining a thorough understanding of the entity and changes that have occurred since the previous audit. Additional challenges for entities flowing from less than annual auditing of performance statements could include, maintaining senior management commitment to rigorous performance monitoring and reporting, resulting in a reduction in capability and proper recording.

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14. Past experience has shown that periodic, rather than annual, external review of performance information is unlikely to drive the desired level of improvement in performance measurement and reporting. Annual audits provide an incentive in the system for entities to prepare annual performance statements to the standard necessary to meet the Parliament’s purposes. This incentive has not been present under previous Commonwealth frameworks for monitoring and evaluating performance, which have each failed to meet expectations.

15. One area of focus for the ANAO is to bring forward the commencement date for an audit. This will enable earlier insights to be provided to entities to assist them improve the quality of performance information included in the following year’s Portfolio Budget Statements and corporate plan.

16. As the Committee is aware, timing of performance statements audits is currently dependent on a request from the Finance Minister under section 40 of the PGPA Act. The Finance Minister’s request for the 2023-24 program of audits was received on 18 July. This will allow earlier commencement of audits compared to previous years.

17. The End of Year Report notes that the ANAO will continue to refine the audit methodology to ensure it remains fit-for-purpose and provides appropriate incentives for entities to improve performance monitoring and reporting. This is consistent with the approach taken for performance and financial statements auditing.

18. This year saw the ANAO provide all entities with Audit Strategy Documents to more clearly define the audit methodology and timeframes. The ANAO also recently published the first performance statements audit insights document. The focus of insights documents is on supporting entities to apply general guidance to their own circumstances and on how to make incremental improvements over time. In addition, the ANAO will be publishing its performance statements audit manual on its website towards the end of August.

19. Unlike financial statements, performance statements are not supported by detailed technical standards and guidance on disclosure requirements. The Commonwealth performance framework is principles-based and provides flexibility for entities to customise their statements and determine which performance elements are most relevant and significant for their purposes and individual circumstances. Within this framework which provides significant discretion to the accountable authority, the ANAO still needs to form an opinion as to whether the purposes of the framework have been met. This includes assessing whether the information reported by entities is meaningful and providing assurance to the Parliament that the performance information accurately reflects the purposes and impact and effectiveness of the entity’s activities.

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20. The ANAO has established an Expert Advisory Panel, which will be important to guide maturity of the audit program as it reaches full implementation. Feedback from the Panel will help to guide further improvements to the audit program, including incentives to strengthen capability and culture.

21. The ANAO aims to work closely with the Department of Finance, as the policy owner of the Commonwealth Performance Framework, to support ongoing improvements to performance reporting and evaluation. This will include providing insights to Finance on how the Rule is operating following the 2022–23 audit cycle.