

Joint Committee of Public Accounts and Audit
Answers to Questions on Notice
Inquiry into Annual Performance Statements 2021-2022

Department/Agency: Australian National Audit Office

Outcome/Program Group: Outcome 1, Program 1.3 Performance Statements Audit

Topic: Inquiry into Annual Performance Statements 2021-2022

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Questions:

1. Noting the Machinery of Government change related to DAWE, can ANAO provide an update to the Committee on current and planned performance statements audit activity related to the agriculture and environment portfolios?
2. The ANAO issued unqualified audit opinions for the Attorney-General's Department, Treasury and the then Department of Education, Skills and Employment. Please advise the Committee of some of the strengths you saw in these entities, and areas for continued improvement noting all still had moderate or significant audit findings.
3. In its submission Treasury noted the risk that the compliance approach to performance statements audit could increase compliance but not necessarily the quality of these statements. Does ANAO also see this as a risk? a. If so, how does ANAO plan to address with in the performance statement audit methodology?
4. Can the ANAO provide more detail on what it considers an 'emphasis of matter' in performance statements audit and why the ANAO assessed this was necessary for DSS's performance measure relating to the 1800RESPECT line?

Answers:

1. The ANAO is currently auditing the 2022-23 annual performance statements of the Department of Agriculture, Fisheries and Forestry (DAFF). It is expected that the Auditor's Report will be provided to the Minister for Finance, as required under section 40 of the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act), in October 2023.

In correspondence dated 18 July 2023, the Minister for Finance, Senator the Hon Katy Gallagher, requested audits of 14 annual performance statements for the 2023-24 reporting period, including the Department of Agriculture, Fisheries and Forestry. The Minister did not request an audit of the 2023-24 performance statements for the Department of Climate Change, Energy, the Environment and Water.

Entity performance statements to be audited beyond the 2023-24 audit cycle will be at the request of the Minister for Finance as required by the PGPA Act.

2. In auditing annual performance statements for 2021-22 across six agencies – including the Attorney-General’s Department, the Department of the Treasury and the then Department of Education, Skills and Employment – ANAO auditors observed a number of developing strengths:
 - **Leadership** – entities with a strong performance culture have clear direction and sponsorship from the top. This includes recognising that information on performance is essential to good management and that the preparation of performance statements is not a tick-the-box, compliance exercise but an important element for accountability and transparency and demonstrating that the entity is responsibly using public resources and delivering value for taxpayers’ money.
 - **Systems and processes** – entities were investing in the systems and processes that underpin the accuracy and completeness of their performance information. They had also established an appropriate authorising environment for the team responsible for the entity’s performance reporting.
 - **Integrated control document** – the entities had developed an integrated control document that identified information systems and databases that store data for performance measures. This document also clearly defined business rules, including for the selection of performance measures and the calculation and sign-off of results. The document provided a single ‘source of truth’ on the entity’s performance framework, including the meaning, context, rationale and responsibility for each performance measure.
 - **Capability** – there was a clear commitment by the entity to measuring and reporting performance, which provides incentives for staff to invest in skills development. This extends to encouraging staff to use performance measurement skills to support policy and program development and inform advice to government.

Areas for improvement across all entities that were audited include:

- **Governance** – Ensure performance reporting and preparation of annual reports is supported by an enterprise performance framework. An enterprise-level performance framework can assist an entity to move beyond a narrow approach to compliance with the PGPA Act requirements to making performance information an integral part of the operation of an entity. An effective performance framework would incorporate program evaluation.
- **Defining roles and responsibilities** – The roles and responsibilities within the organisation for performance monitoring, reporting and evaluation should be clearly documented, including accountability for results. Every purpose, key activity and performance measure should have an owner. Ideally the owner should be a person, not a committee or team. Reported results should be reviewed and signed off by senior management before publication.
- **Regular monitoring and reporting to senior management** – Regular performance monitoring and reporting to senior management can assist entities to assess progress towards achieving performance goals and help guide operational and strategic decisions. Preparing performance statements should not be viewed as an annual compliance exercise. Knowing how well an entity

is performing can help to guide operational and strategic decisions to improve policies and programs and identify potential risks.

- ***Assuring data quality*** – Entities should establish processes to obtain assurance on how data has been collected and how results have been calculated, including from third parties.
- ***Maintaining proper records*** – Ensuring that measures and results reported in annual performance statements are supported by appropriate evidence. Entities should allocate sufficient time to gather relevant records and information to support the audit. Preparing signing packs that include all relevant evidence for a reported result can provide assurance to program owners and those with responsibility for signing off on reported results. Signing packs can also improve audit efficiency.

Future audits will include a focus on these areas for improvement and the extent to which opportunities to improve performance measurement systems are being taken.

3. The ANAO agrees that there is a risk that a narrow focus on compliance when conducting performance statements audits could increase compliance without necessarily increasing the quality of performance statements. Ultimately, the ANAOs audit approach aims to improve the quality of performance reporting and provide assurance to the Parliament that the statements accurately present an entity's performance in the reporting period.

The ANAO will continue to refine its audit methodology to ensure it remains fit-for-purpose, drives continuous improvement and encourages entities to deliver meaningful performance reporting to the Parliament. This includes ensuring entities meet both the technical requirements and intent of the Commonwealth Performance Framework.

Improvement in the audit methodology will be informed through feedback from entities and experience, and by developments internationally and in the private sector in relation to non-financial information, such as sustainability reporting. This will include ensuring that the methodology incentivises entities to positively embrace performance reporting requirements and prepare performance statements that report performance effectively rather than a focus on complying with minimum reporting requirements or meeting the minimum standard they think will satisfy the auditor.

As the audit methodology evolves, an area of particular focus will be to ensure that entities are not resolving auditing findings by removing performance measures or limiting performance information to avoid potential audit findings. In this context, the audit methodology will pay attention to whether the entity's measures, in combination, are adequate to reflect achievement of its purposes and key activities.

The ANAO has established a Performance Statements Expert Advisory Panel. The Expert Panel will support the future development of the audit methodology and ensure that it contributes to high quality performance information and reporting. The Panel will be particularly important as a source of advice to guide the ANAO in the refinement of its audit approach and roll-out of the performance statements audit program.

For the 2022-23 audit program, the ANAO refined the audit criteria to make it clear that the focus was on assessing whether the information reported in annual performance statements was meaningful to the user and complied with the requirements of the PGPA Act and Rule. The audit criteria are:

- Are the entity’s key activities, performance measures and specified targets appropriate to measure and assess the entity’s performance in achieving its purposes;
 - Are the performance statements prepared based upon appropriate records that properly record and explain the entity’s performance; and
 - Do the annual performance statements present fairly the entity’s performance in achieving the entity’s purposes in the reporting period.
4. In its 2021–22 annual performance statements on page 65 under the result for ‘Additional funding for 1800RESPECT’, the Department of Social Services (DSS) notes:

The department did not have a process in place to independently validate the reported number of calls answered in less than 20 seconds.

In other words, DSS was not able to rely on data validation from the telephony provider (Medibank Health) or any other third party that 74.89 per cent of calls to the service in 2021–22 were answered within 20 seconds.

This disclosure is important context for the reader to understand the reported result for the 1800RESPECT initiative.

The Auditor-General’s opinion was not qualified in respect of this matter. Rather, an Emphasis of Matter (EOM) paragraph was included in the auditor’s report to draw the reader’s attention to DSS’ disclosure given it is fundamental to the users’ understanding of the reported result in the performance statements. The EOM disclosure was important as the department has identified that 1800RESPECT is an important departmental responsibility and a key initiative under the *National Plan to Reduce Violence against Women and the Children 2010-2022*.

The Standard on Assurance Engagements ASAE 3000—*Assurance Engagements Other than Audits or Reviews of Historical Financial Information* provides the basis for including Emphasis of Matter in audit opinions. Paragraph 68 of the standard requires that they be distinguished from matters that would lead to a qualified audit opinion:

The assurance practitioner’s conclusion shall be clearly separated from information or explanations that are not intended to affect the assurance practitioner’s conclusion, including any Emphasis of Matter, Other Matter, findings related to particular aspects of the engagements, recommendations or additional information included in the assurance report. The wording used shall make it clear that an Emphasis of Matter, Other Matter, findings, recommendations or additional information is not intended to detract from the assurance practitioner’s conclusion. (Ref: Para. A158–A160)

Paragraph 73 of the ASAE 3000 standard provides guidance on what constitutes an Emphasis of Matter and when they should be included:

If the assurance practitioner considers it necessary to:

- a) *Draw intended users' attention to a matter presented or disclosed in the subject matter information that, in the assurance practitioner's judgement, is of such importance that it is fundamental to intended users' understanding of the subject matter information (an Emphasis of Matter paragraph); or*
- b) *Communicate a matter other than those that are presented or disclosed in the subject matter information that, in the assurance practitioner's judgement, is relevant to intended users' understanding of the engagement, the assurance practitioner's responsibilities or the assurance report (an Other Matter paragraph),*

and this is not prohibited by law or regulation, the assurance practitioner shall do so in a paragraph in the assurance report, with an appropriate heading, that clearly indicates the assurance practitioner's conclusion is not modified in respect of the matter. In the case of an Emphasis of Matter paragraph, such a paragraph shall refer only to information presented or disclosed in the subject matter information.