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Report 430

**Review of Auditor-General's Reports Nos. 47 (2010-11) to 9 (2011-12)
and Reports Nos. 10 to 23 (2011-12)**

Joint Committee of Public Accounts and Audit

May 2012
Canberra

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Contents

Foreword	vii
Membership of the Committee	xi
List of abbreviations	xiv
List of recommendations	xvii
1 Introduction	1
Background to the Review	1
The Committee's report.....	2
2 Audit Report No.5 2011-12 Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework3	
Introduction	3
Adoption of the Outcomes and Programs Framework	3
Key Performance Indicators	4
Linking KPIs to annual reports and PBSs	5
The ANAO Audit	5
Audit objectives and scope	5
Overall audit conclusion	6
ANAO recommendations	7
The Committee's review	8
Progress towards implementing ANAO recommendations.....	8
KPI methodologies	9
Developing KPIs.....	11

Linking KPIs in cross-agency projects.....	12
Monitoring and review of KPIs.....	13
KPI reporting of Federal-State agreements.....	14
Committee comment.....	15
3 Audit Report No.7 2011-12 Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund.....	21
Introduction	21
Project establishment.....	22
Project initiation.....	22
Project assessments and approvals.....	23
Program status.....	23
Grant guidance and support for agencies	24
JCPAA's previous scrutiny of the Infrastructure Portfolio	25
The ANAO Audit	25
Audit objectives and scope	25
Overall audit conclusion	26
ANAO recommendations	28
The Committee's review	28
Infrastructure's response history	29
IEP stream of the Jobs Fund.....	29
Commonwealth Grant Guidelines	35
Departmental guidance and training	36
Committee comment.....	37
4 Audit Report No.21 2011-12 Administration of Grant Reporting Obligations	41
Introduction	41
The ANAO Audit	42
Audit objectives and scope	42
Overall audit conclusion	43
ANAO recommendations	45
The Committee's review	46
Progress towards the implementation of ANAO recommendations.....	46

Advice provided by agencies to Ministers	49
Competitive grants processes	50
The role of Finance's Grants Framework Unit	50
Non-compliance with guidelines	51
Reporting deficiencies	52
Committee comment	54
Appendix A — Public Hearings	61
Review of Auditor-General's Reports Nos. 47 (2010-11) to 9 (2011-12)	61
Review of Auditor-General's Reports Nos. 10 to 23 (2011-12)	62
Appendix B - Submissions	63

LIST OF TABLES

Table 1	ANAO recommendations, Audit Report No.05 2011-12	7
Table 2	ANAO recommendations, Audit Report No.07 2011-12	28
Table 3	ANAO recommendations, Audit Report No. 21 2011-12	45



Foreword

The Joint Committee of Public Accounts and Audit, as prescribed by the *Public Accounts and Audit Committee Act 1951*, examines all of the reports of the Auditor-General tabled in Parliament. The report details the findings of the Committee's examination of the audit reports tabled between June 2011 and February 2012.

The Committee examined three reports in detail, focusing on transparency and accountability— particularly in terms of decision-making and performance measurement.

Following the Committee's recent policy inquiry into national funding agreements and an ongoing interest in performance measurement, the Committee decided to review the ANAO's report on the 'Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework'. Of significant concern to the Committee was that although the Outcomes and Programs Framework is in its third year, the audit showed the majority of agencies reviewed continued to find it challenging to develop Key Performance Indicators (KPIs) that provide measurable information on a program's progress. Only one third of 50 agencies reviewed by the ANAO had developed meaningful and measurable KPIs to evaluate their work.

After reviewing the report and hearing evidence from the ANAO and the Department of Finance and Deregulation (Finance), the Committee concluded that Finance needs to do more to support agencies by providing improved guidance with best practice models for developing KPIs and taking a proactive role in agency engagement during the development phase. Further, work needs to be done to improve the integration of KPIs into key accountability documents, such as portfolio budget statements and agency annual reports, to ensure a clear read on program performance at agency level, as well as for multi-agency or multi-jurisdiction programs.

Another area of ongoing concern for the Committee is grant administration. With the release of a further damning audit report into a key component of the

Government's economic stimulus package, the Committee felt it was necessary to look more closely at the Auditor-General's findings regarding the \$150 million Infrastructure Employment Projects (IEP) stream of the Jobs Fund.

The IEP stream did not achieve the anticipated economic stimulus objectives within the designated timeframe. The ANAO audit highlighted that it took over a year before any jobs were reported as either created or retained. Alarmingly, of the approved contracted projects, none were located in the Government's designated Priority Employment Areas. Administrative deficiencies were also identified, including departure from the intent of the Commonwealth Grants Guidelines, absence of an agreed implementation strategy and program guidelines which did not clearly outline the processes for projects to be considered for funding.

In its appearance before the Committee, the Department of Infrastructure and Transport provided some indication that the Department was working to implement sound governance structures, with the development of a 'program management toolkit and training package'. However, the lack of acknowledgement of the problems found in this audit and the subsequent provision of incomplete responses to questions on notice provided little reassurance that adequate steps have been taken to ensure there would not be a repeat of identified problems with future programs.

As such, the Committee has recommended that the ANAO include the Department of Infrastructure and Transport in an audit that is currently underway into 'Agencies Implementation of Audit Recommendations'. The Committee will be looking closely at the results of this audit and any other relevant reports released in the meantime to assess Infrastructure's progress.

The IEP audit report raised questions more broadly as to the clarity of the Commonwealth Grant Guidelines, so the Committee took the opportunity to examine a subsequent report released by the Auditor-General into the 'Administration of Grant Reporting Obligations' by Australian Government agencies. This report found there were significant shortcomings in the practices adopted by agencies during grant selection processes.

Grants expenditure runs into the billions each year. Monies provided through grants require full transparency, accountability, and probity. The Commonwealth Grant Guidelines must be clear. Agencies should have sufficient ongoing support from the Finance Department to understand and implement the guidelines and other requirements. In turn, agencies need to support ministers to ensure decisions can stand up to full public scrutiny.

Similar to findings in the review of the KPI audit, agencies did not seem clear on the requirements or take advantage of best practice models - resulting in poor quality advice to ministers. The grants audit found that competitive grant

selection processes were significantly under-utilised, despite this being suggested as best practice in the Commonwealth Grant Guidelines. Further, there was evidence of inadequate departmental support of ministers with a lack of clear recommendations in briefs and failing to ensure ministers met reporting requirements.

The Committee acknowledges the work of Finance in developing the Guidelines, and the provision of useful updates for agencies by way of Finance Circulars, and most recently the release of model Chief Executive Instructions. Nevertheless, with continued levels of non-compliance and the refutations by ministers as to what was required to be reported, there are clearly still practical problems with the system. Not only do the guidelines need to be clarified, but agencies also need sufficient support.

The Department of Finance and Deregulation was provided ongoing funding to support agencies through the Grants Framework Unit, but chose to redirect the funding to areas reviewing the broader financial framework. While accepting that grants are a subset of the framework, Finance missed the opportunity to maximise the momentum following the introduction of the Commonwealth Grant Guidelines in 2009.

The advice that Finance is soon to release revised guidelines and has increased staffing in the Grants Framework Unit was good news. However, it is too early to say whether this will solve the problems of agencies non-compliance with the Commonwealth Grant Guidelines, both the mandatory and best practice components, or result in agencies improving their briefing practices.

The Committee will be looking closely at future audits to determine whether the Departments examined in this report have delivered on the range assurances given to the Committee at the recent hearings and responded in a full and timely manner to both the recommendations of the ANAO and the JCPAA.

Rob Oakeshott MP
Chair



Membership of the Committee

Chair Mr Robert Oakeshott MP

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List of abbreviations

AAU	Agency Advice Unit
AG	Auditor-General
ANAO	Australian National Audit Office
APS	Australian Public Service
BFB	Budget Framework Branch
CEIs	Chief Executive Instructions
CGGs	Commonwealth Grant Guidelines
DEEWR	Department of Education, Employment and Workplace Relations
DIT	Department of Infrastructure and Transport
DITRDLG	Department of Infrastructure, Transport, Regional Development and Local Government
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
GFC	Global Financial Crisis
GFU	Grants Framework Unit
IEP	Infrastructure Employment Projects
Infrastructure	Department of Infrastructure and Transport

JCPAA	Joint Committee of Public Accounts and Audit
KPI	Key Performance Indicator
LECs	Local Employment Coordinators



List of recommendations

2 Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework

Recommendation 1

That the Department of Finance and Deregulation include at least one recognised Key Performance Indicator methodology in its written guidance to government entities about the preparation of Key Performance Indicators.

Recommendation 2

The Joint Committee of Public Accounts and Audit recommends that:

- the Department of Finance and Deregulation provide advice to all government entities that when providing new or amended Key Performance Indicators (KPIs) to their relevant Agency Advice Unit, the methodology used in the preparation of the KPIs must also be available for review; and
- Finance consult with the Department of the Prime Minister and Cabinet to consider a requirement for agencies to state the 'KPI methodology used' in their annual reports.

Recommendation 3

That the Department of Finance and Deregulation, in consultation with the ANAO, report to the Joint Committee of Public Accounts and Audit in six months from the tabling of this report on:

- progress being made on guidance for agencies to improve the development and integration of effective Key Performance Indicators (KPIs) in program design, Portfolio Budget Statements, and annual reports;

- improvements to the KPI guidance aimed to enhance cross-agency and cross-jurisdictional KPI development, use and reporting; and
- how the ANAO's audit methodology is envisaged to fit within and support the overall KPI framework, and support ongoing policy enhancements.

3 Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund

Recommendation 4

That the ANAO include the Department of Infrastructure and Transport in the performance audit currently underway '*Agencies Implementation of ANAO Audit Recommendations*'.

4 Administration of Grant Reporting Obligations

Recommendation 5

That the Department of Finance and Deregulation strengthen the advice within the revised Commonwealth Grant Guidelines and related material to ensure that a clear recommendation to approve or reject a grant application is to be made on every Ministerial brief presented for consideration.

Recommendation 6

That the Department of Finance and Deregulation prioritise the revision and release of enhanced Commonwealth Grant Guidelines.

Recommendation 7

That the Department of Finance and Deregulation report in writing to the Joint Committee of Public Accounts and Audit within six months of the tabling of this report on the implementation of the ANAO's recommendations and improvements made to the Commonwealth Grant Guidelines (and related Finance initiatives) - specifically addressing: initiatives to improve the quality of Ministerial briefs; and mechanisms for reporting of non-compliance and reporting of own-electorate grants.

