

# Summary and recommendations

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## Background

1. The current performance measurement and reporting requirements for Commonwealth entities (corporate and non-corporate) are established under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the accompanying *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule). The introduction of the PGPA Act was intended to establish a strong performance reporting system to demonstrate to the Parliament and the public that resources are being used effectively and efficiently.<sup>1</sup>
2. The PGPA Act and PGPA Rule, and any formal guidance issued by the Department of Finance, are collectively referred to as the Commonwealth performance framework (the framework).<sup>2</sup> The framework is principles based, and focuses on entities designing their performance measurement and reporting to provide sufficient performance information to users, including operating context, to allow an assessment of progress against intended purposes. The aim is to provide users with a greater understanding of how entities have utilised resources, not just in producing outputs, but also the entity's impact and efficiency in delivering outcomes.
3. The Auditor-General has flagged to the Joint Committee of Public Accounts and Audit (JCPAA) and the Parliament, the intention to position the ANAO to conduct annual audits of performance statements. This would provide a similar level of assurance to the Parliament and the public as provided by mandatory annual audits of financial statements.<sup>3</sup> The JCPAA provided their support for this approach, and in *Report 469: Commonwealth Performance Framework*, released on 7 December 2017, recommended amending the PGPA Act in this context. The Committee also referred this matter to the attention of the Independent Review of the PGPA Act.
4. This performance audit follows ANAO Report No.58 2016–17 *Implementation of the Annual Performance Statements Requirements 2015–16*, which was the ANAO's first examination of entities' implementation of the annual performance statements (performance statements) requirements. Report No.58 identified a number of key learnings for entities in regard to the appropriateness of performance criteria; processes supporting the development, collection and assurance of performance information; and recordkeeping to support the results reported in the performance statements. The timing of this audit is intended to inform entities' development of 2018–19 Corporate Plans and the publication of 2017–18 Performance Statements.
5. The Department of the Environment and Energy (Environment), the former Department of Employment (Employment)<sup>4</sup>, the Australian Trade and Investment Commission (Austrade) and the Australian Sports Commission (the Sports Commission) were selected to participate in

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1 *Public Governance, Performance and Accountability Bill 2013 Explanatory memorandum*, paragraph 85.

2 Department of Finance, *Functions of Audit Committees: Reviewing the Appropriateness of Performance Reporting, including for 2016–17 Annual Performance Statements*, p. 2.

3 Commonwealth, JCPAA Official Committee Hansard, Commonwealth performance framework—Auditor-General's reports No. 6 (2016–17), 31 (2015–16) and 58 (2016–17), 6 September 2017, Mr Grant Hehir, Auditor-General.

4 The Department of Employment was renamed the Department of Jobs and Small Business following the Administrative Arrangements Order amendment, issued 20 December 2017.

this audit on the basis of a review of their respective 2016–17 Corporate Plans. The mixture of entities, reflected by two departments of state, a non-corporate Commonwealth entity, and a corporate Commonwealth entity, was considered to provide the opportunity to make observations that would be relevant to a range of Commonwealth entities. By sharing key learnings this audit aims to continue to facilitate improved understanding and implementation of the performance reporting framework.

### **Audit objective, rationale and criteria**

6. The objective of the audit was to continue to examine the progress of the implementation of the annual performance statements requirements under the PGPA Act and the PGPA Rule by the selected entities. The audit was also designed to:

- provide insights to entities more broadly, to encourage improved performance; and
- continue the development of the ANAO’s methodology to support the possible future implementation of annual audits of performance statements.

7. To form a view against the audit objective, the following high level criteria were adopted:

- the selected entities complied with the requirements of the PGPA Act and PGPA Rule;
- the performance criteria presented in the selected entities’ PBS, corporate plans, and performance statements were appropriate<sup>5</sup>;
- the selected entities had effective supporting frameworks to develop, gather, assess, monitor, assure and report performance information; and
- sufficient records were retained to support the results reported by the selected entities against the performance criteria in the performance statements.

### **Conclusion**

8. All of the entities met the requirement to publish performance statements under section 39 of the PGPA Act. Each of the entities’ performance statements also contained the basic elements (statements, results and analysis) set out in section 16F of the PGPA Rule. However, improvements to the quality of those elements, including the development of purposes that better define impact, and more appropriate performance measures, are still required by entities to support the presentation of meaningful performance information to the Parliament and the public under the PGPA Act.

9. Each of the entities had processes to support the coordination and collation of the performance statements. The ANAO observed the scale and complexity of processes varied depending on the entity, and the implementation of those processes required improvement in some instances. The effectiveness of the systems, methodologies, and assurance processes established for the collection and reporting of performance information also varied across the selected entities. In particular, this impacted the accuracy of information presented in Environment’s and the Sports Commission’s performance statements.

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<sup>5</sup> The criteria for assessing the appropriateness of an entity’s performance measures can be found at Appendix 3.

10. Observations made in this report indicate that there is still some way to go in the maturity of entities' implementation of the annual performance statements requirements.

## Supporting findings

### Measurement and reporting of performance

11. All of the entities met the requirement to publish performance statements under section 39 of the PGPA Act. Each of the entities' performance statements also contained the basic elements (statements, results and analysis) set out in section 16F of the PGPA Rule. However, improvements to the quality of those elements presented by Employment, Environment and the Sports Commission are required for the performance statements to provide more meaningful information to the Parliament and the public.

12. Each of the entities' corporate plans had areas that may be improved to support the quality of performance measurement and reporting presented in the performance statements. This included clearly describing the impact intended to be achieved in an entity's purpose, and focusing on outlining significant, rather than minor or supporting, activities to provide a meaningful basis for measuring performance.

13. Each of the entities' performance criteria require improvement to support the reporting of progress against their purpose/s. The majority of the selected entities' performance criteria were assessed as either demonstrating all, or most of, the characteristics of relevance. However, less performance criteria were able to fully demonstrate the characteristics of reliability, with the majority only mostly or partly meeting this criterion. The completeness of performance criteria is a particular area requiring consideration, including increasing the use of effectiveness and efficiency measures, or where appropriate, making clear the intention to use input, activity and/or output measures as proxies. Entities are also not realising the full potential arising from the minimum four year horizon of corporate plans, by developing performance criteria that assess a mixture of short, medium and long-term objectives.

14. The selected entities had all either made minor improvements to their 2017–18 Corporate Plan, or were establishing arrangements to consider and/or implement improvements to their 2018–19 performance measurement and reporting cycle. The observations within this report should be considered as part of any ongoing efforts by each of the selected entities to improve performance measurement and reporting in future reporting periods.

### Systems and processes to support measurement and reporting of performance

15. Each of the entities had processes to support the coordination and collation of the performance statements. The ANAO observed the scale and complexity of processes varied depending on the entity, and the implementation of those processes required improvement in some instances. This included where a central unit charged with developing and improving an entity's performance reporting lacked sufficient influence to effect changes necessary to improve an entity's performance measurement and reporting.

16. The effectiveness of systems and methodologies established for the collection and reporting of performance information varied across the selected entities. An absence of clearly

documented methodologies, or where the chosen methodology led to a result that did not reflect the measure as described, were areas requiring improvement by each of the entities.

17. Processes were established by all four entities to provide assurance that the results reported in the performance statements were an accurate representation of performance. Observations made in other sections of this report regarding the appropriateness of the selected entities' measures, systems, methodologies, and the accuracy of results supported by suitable records, indicate that there is still some way to go in the maturity of entities' consideration of, and audit committees' assurance and advice on, entity performance reporting.

18. The results and analysis presented in Austrade's and Employment's performance statements accurately presented their performance. Environment's and the Sports Commission's performance statements each presented results and analysis that contained inaccuracies and/or were not supported by suitable records.

## Recommendations

**Recommendation no.1**  
**Paragraph 2.81** Entities review their performance measurement and reporting frameworks to develop measures that provide the Parliament and public with an understanding of their efficiency in delivering their purpose/s.

**Department of Jobs and Small Business response:** *Agreed.*

**Department of the Environment and Energy response:** *Agreed.*

**Australian Trade and Investment Commission response:** *Agreed.*

**Australian Sports Commission response:** *Agreed.*

**Recommendation no.2**  
**Paragraph 2.105** Environment review the design of its performance measurement and reporting framework to ensure it is addressing the requirements of the *Public Governance, Performance and Accountability Act 2013*, to demonstrate progress against its purpose/s and provide meaningful information to the Parliament and the public.

**Department of the Environment and Energy response:** *Agreed.*

**Recommendation no.3**  
**Paragraph 2.110** The Sports Commission review the design of its performance measurement and reporting framework and in particular its purpose, to address the requirements of the *Public Governance, Performance and Accountability Act 2013*.

**Australian Sports Commission response:** *Agreed.*

**Recommendation no.4**  
**Paragraph 3.69** Environment, Austrade and the Sports Commission review their audit committee charters to ensure they reflect the requirements of section 17 of the *Public Governance, Performance and Accountability Rule 2014*.

**Department of the Environment and Energy response:** *Agreed.*

**Australian Trade and Investment Commission response:** *Agreed.*

**Australian Sports Commission response:** *Agreed.*

## Summary of entity responses

19. Summary responses from the selected entities are provided below, while the full responses are provided at Appendix 1.

### Department of Jobs and Small Business

The Department of Jobs and Small Business is continuing to make improvements to its performance framework. The work of the ANAO in the performance audit of the *Implementation of the Annual Performance Statements Requirements 2016–17* has provided valuable analysis to inform the work already underway to improve the Department's performance information. As the ANAO intended, the timing of this audit will support the Department in its development of the 2018–19 Corporate Plan and the publication of its 2017–18 Annual Performance Statements.

### Department of the Environment and Energy

The Department agrees to recommendations 1, 2 and 4.

The Department welcomes the report and acknowledges that it contains valuable information to guide improvements to the implementation of performance reporting of the audited entities, and more broadly across the Australian Public Service. The Department also recognises the report will support clarification of our audit committee's role in improving the effectiveness of non-financial performance reporting.

The Department is committed to addressing the issues raised in the report. As with other major reform agendas, we note mature implementation of the enhanced Commonwealth performance framework will take several years. We have already commenced a targeted review and revision of our performance measurement and reporting framework. This provides a sound basis from which continuous improvement of our performance reporting systems and processes can build.

The scheduled review of the Portfolio Audit Committee Charter in 2017 was put on hold until the release of this report, specifically to reflect its key learnings, and finalisation of the Department of Finance's guidance for audit committees.

The Department will now progress with the scheduled review of the Portfolio Audit Committee charter.

### Australian Trade and Investment Commission

Austrade agrees with the ANAO's findings, which will assist Austrade in ongoing performance measurement reform across the entire cycle of planning, monitoring, analysis and reporting. Austrade will continue active engagement with the Department of Finance, including participation in the Community of Practice.

### Australian Sports Commission

The Australian Sports Commission welcomes the ANAO's findings and acknowledges the support provided by the ANAO through the review process. In early 2017, under the direction of a new Chief Executive Officer, the ASC commenced the development of a new strategic plan and has commenced a process of enhancing its performance framework. The ASC will use the findings in this report to continue to improve the plan and performance framework.

### Department of Finance

The Department of Finance supports the findings of the report.

## Key learnings for all Australian Government entities

20. The key learnings summarised in ANAO Report No.58 2016–17 *Implementation of the Annual Performance Statements Requirements 2015–16*, remain a valid reference point for entities seeking to improve their performance measurement and reporting. Below is a summary of further key learnings identified during this audit that may be considered in meeting the performance statements requirements set out by the PGPA Act and PGPA Rule.

### **Corporate planning and performance frameworks**

- Design a framework that encompasses the complete cycle of performance measurement and reporting.
- Establish expertise to provide advice and guidance on performance measurement and reporting, accompanied by sufficient executive support.

### **Presentation of results and analysis**

- Performance statements should not rely on additional information presented elsewhere in an annual report to provide a complete picture of performance.
- Focus on the quality of analysis presented in the performance statements, including the overall progress against the purpose.
- Establish a connection to how the risk and capability elements outlined in the corporate plan have influenced performance.

### **Relevance, reliability and completeness of performance criteria**

- Performance criteria should be designed to address the accountability needs of the Parliament and the public, focusing on the impact and efficiency that is being achieved.
- The use of input, activity and output measures as proxies for effectiveness, collectively or individually, should be explicitly stated in the corporate plan and performance statements.
- Avoid using technical terms or language that requires a higher level of assumed knowledge by the Parliament and the public.
- Describe the method of measurement or assessment for each performance criteria in the corporate plan.
- Consider performance criteria that assess a mixture of short, medium and long-term objectives including, where appropriate, beyond the four year horizon of the corporate plan.

### **Systems, processes and methodologies**

- Identify data sources and assess collection methods as part of the development of performance measures to determine whether suitable information will be available at the end of the reporting period.
- Clearly document the methodologies used to determine performance results to promote consistent and accurate reporting.

**Assurance processes**

- Develop a clear understanding by management representatives of the performance framework to increase the level of assurance provided by management certifications.
- An audit committee may still provide reasonable assurance while concluding that an entity's performance reporting requires improvement to be appropriate, provided this is drawn to an accountable authority's attention.

**Accurate presentation of entity performance**

- Evaluate whether current arrangements supporting the accurate presentation of information in the performance statements are sufficient to meet the requirements of the PGPA Act.