



Auditor-General for Australia



22 December 2017

Ms Elizabeth Alexander AM and Mr David Thodey AO
c/o PGPA Act Review Secretariat
Department of Finance
One Canberra Avenue
FORREST ACT 2603

Dear Ms Alexander and Mr Thodey

**Review of the *Public Governance, Performance and Accountability Act 2013*—
supplementary submission**

I am writing to provide you with a supplementary submission to the statutory review of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and Public Governance, Performance and Accountability Rule 2014 (PGPA Rule). I am doing so with the benefit of having reviewed submissions provided by Australian Government entities.

Annual reports

A focus area of the review, which has been addressed in a number of entity submissions, is: whether there would be benefit in bringing forward and potentially legislating an earlier annual report delivery and tabling date.

As noted in the ANAO's submission of 10 November 2017, the effect of section 46 of the PGPA Act is that accountable authorities must prepare and present annual reports for their entity to the responsible Minister by 15 October. While there are rules on the preparer of the annual report and performance statement, there is no requirement for the responsible Minister to present the annual report to Parliament in time for Supplementary Budget Estimates in October. The framework could usefully address this issue by amending the PGPA Act to specify a date by which annual reports must be tabled to provide sufficient time for Parliamentarians to review performance information before Supplementary Budget Estimates.

A number of submissions provided to you by Australian Government entities suggest that the timing of the ANAO's audits of financial statements may be an impediment to earlier tabling of annual reports. I have recently presented for tabling ANAO Report No.24 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June*

2017 (the Report), which contains some data and analysis relating to these issues. The report can be found at <https://www.anao.gov.au/work/financial-statement-audit/australian-government-entities-2017> (see paragraphs 2.11 to 2.24).

Of the 239 entities involved in the ANAO's 2016–17 program of mandated financial statements audits, 178 entities were required to present annual reports to the responsible Minister in accordance with relevant legislative requirements. The Report provides an analysis (as at 30 November 2017) of the timeframes for: issued auditors' reports; approval of annual reports by the relevant accountable authority; and annual reports tabled in Parliament.

Of the 178 entities required to table an annual report in 2016–17:

- 54 auditors' reports (30 per cent) were signed within two months of the reporting date; and
- 108 auditors' reports (61 per cent) were signed between two and three months of the reporting date.

In relation to the dates of annual reports being tabled in the Parliament:

- two entities tabled their annual reports within three months of the reporting date;
- 151 entity annual reports were tabled between three and four months of the reporting date; and
- the annual reports of the remaining 25 entities were tabled four months or more after the reporting date.

The length of time taken to approve and table entity annual reports from the date the auditor's report was provided was:

- approve the annual report: from zero to 91 days with an average time of 17 days; and
- table the annual report: from 13 to 102 days with an average time of 47 days.

Auditing implementation of the PGPA Act framework

As discussed in the ANAO's submission of 10 November 2017, the ANAO undertakes a wide-ranging audit program which touches on almost all aspects of the resource management, governance and performance framework established under the PGPA Act and Rule, including entities' compliance with the framework and the Department of Finance's (Finance) administration at a whole-of-government level. Recent ANAO audit coverage has included implementation of the new corporate plan, performance statements and risk management regimes.

The ANAO undertakes audits in accordance with its auditing standards and against legal and policy frameworks set by others—the Parliament, the Government and regulators, as well as rules set by accountable authorities. While the PGPA framework is broadly principles-based, it also establishes specific requirements as found in the PGPA Act, the PGPA Rule, related Rules (including those applying to procurement and grants administration), related policies (such as the Commonwealth Risk Management Policy) and accountable authority instructions issued pursuant to the PGPA Act. The ANAO’s audits review implementation against these framework requirements, having regard to the guidance issued by policy owners such as the Department of Finance through its Resource Management Guides.

Some entities have suggested in their submissions to the PGPA Review that detailed auditing of compliance against specific framework requirements is not consistent with the principles-based approach underpinning the framework. This is problematic from my perspective, as it suggests that compliance with requirements established by the Parliament, regulators and accountable authorities themselves is to be treated as discretionary by auditors. I am also concerned about the effect of such signals on entity staff, who may respond by failing to treat compliance with mandated requirements as a necessary part of sound public administration.

In contrast, the ‘earned autonomy’, ‘differential regulation’ and ‘reduced disclosure’ approaches mentioned in a number of entity submissions would involve approved adjustments to requirements, which the ANAO would audit against. The ANAO’s Report No.24 mentioned above notes (at paragraphs 11 to 12) efforts to reduce the volume and complexity of disclosures in financial statements and the ANAO’s support for these initiatives, to the extent that the needs of the Parliament are met.

Better practice guides

A number of entity submissions have also commented on the need for better practice guides. The ANAO recently decided to discontinue and cease distributing a range of better practice guides, following consideration of a recommendation of the Independent Review of Whole-of-Government Internal Regulation (known as the Belcher Red Tape Review). The review recommended that ‘the ANAO take the opportunity, where regulators and policy owners have developed or are developing policy guidance material, to review whether there is a continuing need for it to develop, release and maintain its own separate guidance’.

The broadly consistent feedback received as part of the ANAO’s consultation with the Australian Parliament, public sector entities and committees was that where another entity has, or will be, producing a similar resource and has committed to continue to do so, the ANAO could add more value by monitoring the effectiveness of this resource (and potentially partnering with the entity in its production), whilst ceasing to produce its own resource.

The ANAO seeks to disseminate audit learnings in a number of ways, beginning with the identification in individual audit reports of key learnings that may be considered by Australian Government entities. This was the approach adopted in the recent ANAO audits of corporate planning, performance statements and risk management, which had regard to the relatively early stage of these initiatives and on this basis did not make recommendations. The ANAO focused instead on identifying key learnings and opportunities for improvement for audited entities and the sector as a whole. This approach was supported by the Joint Committee of Public Accounts and Audit in its recent *Report 469: Commonwealth Performance Framework* (December 2017), which reviewed this series of audits. The Committee also indicated that it intended to refer to the PGPA Review a number of issues identified in the ANAO's recent performance audits of corporate planning (recommendation 2).

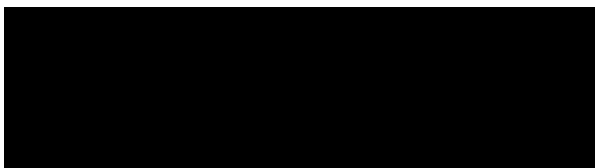
We have also begun publishing insights from our performance audits, on both an ad hoc and quarterly basis. Our first effort was released on 21 November 2017 (<https://www.anao.gov.au/work/audit-insights/corporate-planning-performance-statements-and-risk-management-under-pgpa>), while our first quarterly compilation was released on 13 December 2017 (<https://www.anao.gov.au/work/audit-insights/insights-performance-audit-reports-tabled-july-september-2017>).

Performance statements audits

As mentioned above, the Joint Committee of Public Accounts and Audit released *Report 469: Commonwealth Performance Framework* in December 2017. The Committee made 10 recommendations relating to the administration of the PGPA framework, including a recommendation that the Australian Government amend the framework, as a matter of priority, to enable mandatory annual audits of entity performance statements by the ANAO of entities selected by the Auditor-General (recommendation 6). The Committee indicated that it intends to refer this matter to the attention of the PGPA Review.

The ANAO's contact officer for these matters is Dr Tom Ioannou (Group Executive Director, [REDACTED]) should the review require any further information.

Yours sincerely



Grant Hehir
Auditor-General