

# **Audits of the Annual Performance Statements of Australian Government Entities — 2021–22**

[Across Entities](#)

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Canberra ACT  
9 February 2023

Dear Mr Speaker  
Dear President

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken audits of the annual performance statements across six Australian Government entities requested by the Minister for Finance in October 2021. The report is titled *Audits of the Annual Performance Statements of Australian Government Entities — 2021–22*. I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website — <http://www.anao.gov.au>.

Yours sincerely



Grant Hehir  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## **AUDITING FOR AUSTRALIA**

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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## Executive summary

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1. An effective system of measuring and reporting performance is essential if government is to achieve its policy goals in a way that is transparent and accountable. It enables Parliament and the public to hold Australian Government entities accountable for the proper use of public resources and regulatory powers, and for the effectiveness of their service delivery. It allows entities to assess their outcomes and the impact of their programs and services on outcomes. It also supports entities to improve data quality and data analytic and evaluation capability.
2. The *Public Governance Performance and Accountability Act 2013* (PGPA Act) establishes an explicit framework for monitoring and evaluating performance. It recognises that financial information, by itself, does not show whether publicly funded programs and activities are achieving their objectives and outcomes.<sup>1</sup> It places obligations on accountable authorities for the quality and reliability of performance information and requires Australian Government entities to provide meaningful information to the Parliament. This is an important aspect of the Australian Government's public accountability system and enables the Parliament and the public to assess whether Australian Government entities deliver the outcomes for which they are funded. Without information on entities' outcome achievement, the government lacks a sound basis for future investment and policy decisions.<sup>2</sup>
3. The Joint Committee of Public Accounts and Audit (JCPAA) has played an active and important role in the implementation of the PGPA Act. The JCPAA has recommended amending the PGPA Act to enable mandatory audits of annual performance statements by the Auditor-General to encourage the provision of high-quality performance information to support parliamentary accountability of entity performance.<sup>3</sup> In noting the success of the pilot of performance statements auditing, the JCPAA recommended amending the *Auditor-General Act 1997* so that audits of annual performance statements are able to be initiated without the need for approval or direction from the Finance Minister.<sup>4</sup>
4. This report reflects on the outcome of the first year of implementation of the program of auditing entities' performance statements.<sup>5</sup> The introduction of performance statements audits is the most significant change in Commonwealth public sector auditing in 40 years, since the implementation of performance auditing in the early 1980s. Performance statements audits are an important element of the enhancements to public management and accountability introduced by the PGPA Act and will give the Parliament assurance on an annual basis over the usefulness and reliability of reporting by entities on their performance.
5. Audits were conducted on the 2021–22 performance statements of six entities: the Attorney-General's Department (AGD), the Department of Social Services (DSS), the Department

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1 Revised Explanatory Memorandum, Public Governance, Performance and Accountability Bill 2013, 8 [55].

2 Victorian Auditor-General's Report, *Measuring and Reporting on Service Delivery* 2021, p. 23.

3 Joint Committee of Public Accounts and Audit, *Report 469: Commonwealth Performance Framework – Inquiry Based on Auditor-General's Reports 31 (2015–16), and 6 and 58 (2016–17)*, December 2017, p. 49.

4 Joint Committee of Public Accounts and Audit, *Report 491: Review of the Auditor-General Act 1997*, March 2022, p. 25, available from [https://parlinfo.aph.gov.au/parlInfo/download/committees/reportjnt/024665/toc\\_pdf/Report491ReviewoftheAuditor-GeneralAct1997.pdf](https://parlinfo.aph.gov.au/parlInfo/download/committees/reportjnt/024665/toc_pdf/Report491ReviewoftheAuditor-GeneralAct1997.pdf) [accessed 13 December 2022]. A government response has not yet been provided to the Committee.

5 In 2019–20 and 2020–21 the ANAO undertook a pilot of performance statement auditing.

of Veterans' Affairs (DVA), the Department of Agriculture, Water and the Environment (DAWE), the Department of Education, Skills and Employment (DESE) and the Department of the Treasury (Treasury). These audits have demonstrated that entities are continuing to improve the quality of their performance reporting enabling the Parliament to have confidence in the performance statements.

## Commonwealth Performance Reporting

6. The Commonwealth Performance Framework sets out requirements for performance reporting and the preparation of annual performance statements to promote accountability and transparency of entity performance. The Framework consists of the PGPA Act, the accompanying Public Governance, Performance and Accountability Rule 2014 (PGPA Rule) and guidance issued by the Department of Finance (Finance), as the policy owner and standard-setter.

7. Currently, the PGPA Act makes provision for annual performance statements to be examined by the Auditor-General at the request of the Finance Minister or the responsible Minister. This enables the Auditor-General, where a request is received and an audit undertaken, to provide a level of assurance that is comparable to that provided by financial statements audits. The PGPA Act also requires that the requesting Minister table a report by the Auditor-General on an entity's performance statements in the Parliament as soon as practicable after receipt.<sup>6</sup> This is a different process to the tabling of financial statements audit reports, where the auditor's report is included with the financial statements in an entity's annual report that is tabled by the responsible Minister in the Parliament.

8. Following recommendations from the JCPAA and the Independent Review of the PGPA Act, and a request from the Minister for Finance in August 2019, the Australian National Audit Office (ANAO) undertook a pilot of performance statements auditing. During the pilot there was improvement in the standard of performance statements preparation and reporting for each of the audited entities<sup>7</sup>, demonstrating that audits of annual performance statements can improve the quality and reliability of performance reporting to Parliament.

9. After completion of the pilot, the ANAO was funded as part of the 2021–22 Budget to implement, in a staged way an ongoing program of performance statements audits, from six audits in 2021–2022 increasing to 24 audits from 2025–26. The program of performance statements audits is included in the Prime Minister and Cabinet Portfolio Budget Statements (PBS) and the ANAO's Corporate Plan. Implementation of auditing of entities' annual performance statements provides the Parliament the same level of assurance over the quality and reliability of non-financial performance information that it currently receives for financial information presented in entity financial statements.

## Findings from the 2021–22 performance statements audits

10. Chapter 2 of this report presents the findings of the six audits.

11. Across the six audits, entities' annual performance statements were largely effective in meeting the requirements of the performance framework and accurately reporting the

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6 *Public Governance, Performance and Accountability Act 2013*, subsection 40(3).

7 The Department of Social Services, the Attorney-General's Department and the Department of Veterans' Affairs participated in the performance statements pilot.



performance of the entity in achieving its purposes. There were, however, some exceptions where entities did not have appropriate preparation processes, methodologies and assurance over the completeness and accuracy of results to support good quality performance reporting.

12. The notable exception was that the ANAO identified that reporting on seven of the ten performance measures in the DAWE performance statements relating to the Agriculture Objective did not meet the requirements of the PGPA Rule. As a result, the DAWE performance statements did not enable the user or reader to form an accurate assessment of the department's performance in meeting this objective, which is to 'assist industry to accelerate growth towards a \$100 billion agricultural sector by 2030'.

13. In 2021–22, the Auditor-General issued modified audit conclusions for three of the six entities (50 per cent), which compares favourably to 2020–21 where all entities were issued a modified audit conclusion. AGD, DESE and the Treasury each received an unmodified audit opinion. DAWE, DSS and DVA received a modified audit conclusion. Qualifications related to 13 of the 199 performance measures, which represents a reduction from 2020–21 in the proportion of qualified performance measures from 15 per cent to 7 per cent.

## The development of entities' external performance reporting processes

### Better practice

14. Chapter 3 identifies areas of better practice in entity performance reporting, demonstrating a progressive maturation in entity processes and practices. Specific areas of note include improvements to:

- performance statements governance and preparation processes, enabling the finalisation of performance statements audits in a timeframe that would enable the audited performance statements to be included in entity annual reports, consistent with the approach for financial statements (paragraphs 3.2–3.6);
- the timeliness and quality of supporting documentation for performance measures, which assists entities to develop appropriate performance measures consistent with the requirements of the Commonwealth Performance Framework (paragraphs 3.7–3.12);
- the structure and quality of performance information in entity performance statements. Entities improved the clarity and alignment of their purposes, key activities and performance measures included in their performance statements (paragraphs 3.13–3.16);
- the use of surveys by entities, where appropriate, to measure and report their performance, including by strengthening survey methodologies and quality assurance processes (paragraphs 3.17–3.22); and
- use of external experts to support performance reporting was generally well planned and documented. The entities used a variety of experts' measurement and analysis to inform their performance reporting (paragraphs 3.23–3.25).

## Areas for improvement

15. Chapter 3 also identifies opportunities for further improvement in entity performance reporting practices to support the production of high-quality, meaningful performance information on a consistent basis. These include:

- entities developing an enterprise level performance framework to integrate performance reporting into a cycle of ongoing planning, monitoring, evaluation and review (paragraphs 3.28–3.32);
- periodic monitoring and reporting of performance results. Processes to periodically monitor and report against performance measures vary across entities, whereas it is an established better practice in relation to financial information (paragraph 3.33–3.41);
- development and reporting of outcome-based performance measures and targets (paragraphs 3.42–3.53); and
- integrating reporting requirements to reduce the reporting burden and improve clarity, establishing the performance statements as the primary vehicle for reporting the performance of Commonwealth entities (paragraphs 3.54–3.60).<sup>8</sup>

## The ANAO's approach to auditing annual performance statements

16. To date, the ANAO has taken an educative approach to engaging with entities on annual performance statements audits. This approach has assisted in improving the quality of entities' annual performance statements and the resolution of interim audit findings. It has also provided audit teams with insight into differences and similarities between entity approaches to planning, measuring and reporting their performance.

17. Performance statements audits are structured similarly to financial statements audits with a planning, interim and final phase, to allow entities time to correct issues noted and align with annual report tabling. As in financial statements audits, the intent of this structure is to enable the auditee to address matters identified at the interim phase of the audit and to reflect on final findings in the following reporting year.

18. To leverage the benefits of performance statements audits, the ANAO seeks to commence audits as soon as possible in a new financial year. Among other things, early commencement enables the ANAO to work collaboratively with entities to identify opportunities for improvement, which can be reflected in the preparation of the entity's Corporate Plan and PBS for the next financial year. In the current legislative framework, the timing of a request from the Finance Minister or responsible Minister influences the commencement of auditing.

## Future developments

19. The ANAO will continue to refine its audit methodology to ensure it remains fit-for-purpose and encourages entities to improve the quality of their performance reporting. This includes supporting entities to meet both the requirements of the PGPA Rule and the spirit

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<sup>8</sup> E Alexander AM and D Thodey AO, *Independent Review of the Public Governance, Performance and Accountability Act 2013 and Rule*, Commonwealth of Australia, September 2018, Recommendation 25, p. 36, available from [https://www.finance.gov.au/sites/default/files/2019-08/PGPA\\_Independent\\_Review\\_-\\_Final\\_Report.pdf](https://www.finance.gov.au/sites/default/files/2019-08/PGPA_Independent_Review_-_Final_Report.pdf) [accessed 7 December 2022].

and intent of the Commonwealth Performance Framework. The ANAO has established an Expert Advisory Panel, which will be important to guide maturity of the audit program as it reaches full implementation.

20. During the 2021–22 audit cycle, there was some evidence that entities were taking a compliance-based approach to developing and reporting performance measures to minimise the risk of audit qualification, as opposed to producing complete and meaningful performance information. The ANAO will seek to identify the extent of this practice during the 2022–23 audit cycle and identify how the performance statements audit methodology can better incentivise entities to improve the quality of performance reporting rather than seeking to meet the minimum standards that will satisfy the auditor. The ANAO will provide feedback to Finance on how the Rule is operating following the 2022–23 audit cycle.



## **Audit findings**

# 1. Commonwealth performance reporting

## Chapter coverage

This chapter describes Commonwealth performance reporting requirements and the context and progress of the Australian National Audit Office's (ANAO) performance statements audit program.

## Commonwealth Performance Framework

The Commonwealth Performance Framework sets out requirements for performance reporting and the preparation of annual performance statements to promote accountability and transparency of entity performance. The Framework consists of the *Public Governance Performance and Accountability Act 2013* (PGPA Act), the accompanying Public Governance, Performance and Accountability Rule 2014 (PGPA Rule) and guidance issued by the Department of Finance (Finance), as the policy owner and standard-setter.

## Improved performance reporting

Currently, the PGPA Act makes provision for annual performance statements to be examined by the Auditor-General at the request of the Finance Minister or the responsible Minister. This enables the Auditor-General, where a request is received and an audit undertaken, to provide a level of assurance that is comparable to that provided by financial statements audits. The PGPA Act also requires that the requesting Minister table a report by the Auditor-General on an entity's performance statements in the Parliament as soon as practicable after receipt.<sup>a</sup> This is a different process to the tabling of financial statements audit reports, where the auditor's report is included with the financial statements in an entity's annual report that is tabled by the responsible Minister in the Parliament.

Following recommendations from the JCPAA and the Independent Review of the PGPA Act, and a request from the Minister for Finance in August 2019, the Australian National Audit Office (ANAO) undertook a pilot of performance statements auditing. During the pilot there was improvement in the standard of performance statements preparation and reporting for each of the audited entities<sup>b</sup>, demonstrating that audits of annual performance statements can improve the quality and reliability of performance reporting to Parliament.

After completion of the pilot, the ANAO was funded as part of the 2021–22 Budget to implement, in a staged way an ongoing program of performance statements audits, from six audits in 2021–2022, increasing to 24 audits from 2025–26. The program of performance statements audits is included in the Prime Minister and Cabinet Portfolio Budget Statements (PBS) and the ANAO's Corporate Plan. Implementation of auditing of entities' annual performance statements provides the Parliament the same level of assurance over the quality and reliability of non-financial performance information that it currently receives for financial information presented in entity financial statements.

Note a: *Public Governance, Performance and Accountability Act 2013*, subsection 40(3).

Note b: The Department of Social Services, the Attorney-General's Department and the Department of Veterans' Affairs participated in the performance statements pilot.

## The Commonwealth Performance Framework

1.1 Performance information shows how effectively the public sector has performed. The intended benefit of performance reporting is to improve the efficiency and effectiveness of program delivery, as well as to provide accountability for achieving results that matter to the Parliament and the public. It allows entities to learn from experience, improve program performance and provide strategic, evidence-based policy advice to government. It enables government to allocate limited resources to where they have the most impact.

1.2 The Parliament, through the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), introduced requirements for the preparation of meaningful performance information and annual performance statements that provide accountability and transparency on whether policies and programs are achieving their intended purposes. This recognises that performance of the public sector is more than financial.<sup>9</sup>

1.3 The Commonwealth Performance Framework (the framework) sets out requirements for performance reporting and the preparation of annual performance statements. It consists of the PGPA Act, the accompanying Public Governance, Performance and Accountability Rule 2014 (PGPA Rule) and guidance issued by the Department of Finance (Finance). (See Appendix 2)

1.4 The framework aims to:

- improve both financial and non-financial performance information by placing obligations on officials for the quality and reliability of performance information — for the Parliament to properly fulfil its oversight function, performance information is crucial to assessing whether policy goals are being achieved<sup>10</sup>; and
- provide the Australian Parliament and the public with transparent and meaningful information through a combination of financial and non-financial reporting.

1.5 The framework is designed to enable greater parliamentary and public scrutiny and accountability for improved performance. It also assists entities to improve the design and delivery of policies and programs and allocate resources accordingly.

### The requirements of the Commonwealth Performance Framework

1.6 The framework requires entities to:

- prepare and publish a corporate plan that sets out the entity's purposes and key activities and the results it plans to achieve.<sup>11</sup> As a statement of planned performance an entity's corporate plan is closely linked to its Portfolio Budget Statements (PBS) and annual report<sup>12</sup>;
- specify performance measures and targets (where reasonably practicable), against which the entity's performance in achieving its purposes will be measured and assessed<sup>13</sup>; and

9 Revised Explanatory Memorandum, Public Governance, Performance and Accountability Bill 2013, 2 [17].

10 Revised Explanatory Memorandum, Public Governance, Performance and Accountability Bill 2013, 13 [87].

11 PGPA Rule, section 16E.

12 Revised Explanatory Memorandum, Public Governance, Performance and Accountability Bill 2013, 31 [231].

13 PGPA Rule, subsection 16E(2)(5).

- prepare statements about the annual performance of the entity in achieving its purposes, including analysis of factors that have had a significant impact on the entity's performance, which are included in the entity's annual report.

1.7 A key objective of the framework is to establish an integrated performance reporting system to demonstrate to the Parliament and the public that public resources are being used efficiently and effectively by Australian Government entities.<sup>14</sup> To this end, the framework aims to improve the 'line of sight' between what was intended and what was delivered.<sup>15</sup> A reader should be able to identify what was planned to be achieved through the performance measures presented in the PBS and the entity's corporate plan and the actual results achieved through reporting against the performance measures presented in the entity's annual performance statements.

1.8 The clear line of sight between an entity's planning documents and its key reporting document is known as 'the clear-read' principle. In its March 2021 guide to preparing the 2021–22 PBS, Finance states:

there must be a clear linkage from the Appropriation Bills to the PB statements, to individual entities' corporate plan and annual report. Entities should present performance information clearly and consistently (and ensure it is reconcilable) between publications within and across reporting cycles.<sup>16</sup>

1.9 To achieve a clear line of sight between planned and actual performance, the framework, through a Finance Secretary's Direction<sup>17</sup>, establishes requirements for entities to clearly structure their performance information in their PBS and corporate plan.

### **Portfolio Budget Statements requirements for performance measures**

1.10 The requirements for reporting program performance in PBS are set out in a Direction issued by the Finance Secretary under subsection 36(3) of the PGPA Act (the Direction). The Direction sets out the minimum mandatory requirements for performance information to be included in PBS.<sup>18</sup>

1.11 The Finance Secretary's Direction issued in December 2021 states that for each existing program, the entity must 'report at least one high level performance measure and planned performance results, including targets where it is reasonably practicable to set a target'. For new or materially changed programs, the entity is required to report all performance measures and planned performance results, including targets where it is reasonably practicable to set a target.<sup>19</sup>

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14 Explanatory Memorandum, Public Governance, Performance and Accountability Bill 2013, 13 [85].

15 Explanatory Memorandum, Public Governance, Performance and Accountability Bill 2013, 8 [53].

16 Department of Finance, *Guide to preparing the 2021–22 Portfolio Budget Statements*, March 2021, [Internet], available from <https://www.finance.gov.au/government/managing-commonwealth-resources/managing-money-property/managing-money/annual-appropriations/portfolio-budget-statements> [accessed 22 November 2022].

The Department of Finance also provides guidance for the October 2022 Portfolio Budget Statements preparation. *Guide to preparing the 2022–23 Portfolio Budget Statements*, September 2022, p. 13, [Internet], available from <https://www.finance.gov.au/government/managing-commonwealth-resources/managing-money-property/managing-money/annual-appropriations/portfolio-budget-statements> [accessed 22 November 2022].

17 The Finance Secretary's Direction was issued in May 2017 and updated in December 2021.

18 Department of Finance, *Guide to preparing the 2022–23 Portfolio Budget Statements*, February 2022, p. 37.

19 Department of Finance, *Guide to preparing the 2022–23 Portfolio Budget Statements*, February 2022, p. 37.



## Corporate plan requirements for performance measures

1.12 Subsection 16E(2) item 5 of the PGPA Rule requires that the entity's corporate plan include details of how the entity's performance will be measured and assessed through 'specified performance measures for the entity that meet the requirements of section 16EA' and 'specified targets for each of those performance measures for which it is reasonably practicable to set a target'.

1.13 Section 16EA of the PGPA Rule states that the performance measures for an entity meet the requirements of this section if, in the context of the entity's purposes or key activities, they:

- (a) relate directly to one or more of those purposes or key activities; and
- (b) use sources of information and methodologies that are reliable and verifiable; and
- (c) provide an unbiased basis for the measurement and assessment of the entity's performance; and
- (d) where reasonably practicable, comprise a mix of qualitative and quantitative measures; and
- (e) include measures of the entity's outputs, efficiency and effectiveness if those things are appropriate measures of the entity's performance; and
- (f) provide a basis for an assessment of the entity's performance over time.

1.14 An integral part of the ANAO's performance statements audit methodology is an assessment of whether the entity's performance measures meet the requirements of section 16EA of the PGPA Rule, as well as the requirement for targets in subsection 16E(2). These requirements form the test of whether an entity's performance measures are 'appropriate' to measure and assess the entity's performance in achieving its purposes.

## Context of performance statements reporting

1.15 The PGPA Act was enacted to promote high standards of governance, performance and public accountability. The Explanatory Memorandum to the PGPA Bill stated that '[I]t was the first time that the importance of performance had been explicitly recognised in Commonwealth legislation.'<sup>20</sup> It explained that measuring performance in the public sector is about more than financial reporting and requires adequate and relevant non-financial information.<sup>21</sup>

1.16 The PGPA Act requires the accountable authority to measure and assess how well the Commonwealth entity has performed in achieving its purposes and prepare annual performance statements, creating equivalent accountability for non-financial information to that for financial information reported in financial statements. In this way, entities report on the money they have used and what they have achieved with that money.

1.17 The requirement for Australian Government entities to prepare annual performance statements under the PGPA Act took effect from 1 July 2015 with entities preparing and reporting annual performance statements for the first time in the 2015–16 reporting period.

1.18 The standards of accountability and transparency that apply to financial statements and performance statements are different due to differences in legislative requirements. For example,

<sup>20</sup> Explanatory Memorandum, Public Governance, Performance and Accountability Bill 2013, 12 [83]. The Explanatory Memorandum acknowledged that 'performance of the public sector is more than financial'. Refer Explanatory Memorandum (replacement) Explanatory Memorandum, Public Governance, Performance and Accountability Bill 2013, 2 [16].

<sup>21</sup> Explanatory Memorandum, Public Governance, Performance and Accountability Bill 2013, 7 [52].

the requirement for all Commonwealth entity financial statements to be audited by the Auditor-General is mandated in the *Auditor-General Act 1997*, whereas the PGPA Act specifies that the conduct of performance statements audits is subject to request from the Finance Minister or the responsible Minister.

1.19 In addition, while the PGPA Act requires the accountable authority of a Commonwealth entity to include a copy of the annual performance statements in the entity's annual report that is tabled in Parliament<sup>22</sup>, there is no requirement for the accountable authority to include a copy of the auditor's opinion in the annual report, which is required for financial statements. Rather, the PGPA Act requires the requesting Minister to table a copy of the Auditor-General's opinion in each House of the Parliament as soon as practicable after receipt. Department of Finance guidance on annual reports (Resource Management Guides 135 and 136) notes that 'Normally annual reports are tabled on or before 31 October and it is expected annual reports are tabled prior to the October Estimates Hearings. This ensures annual reports are available for scrutiny by the relevant Senate standing committee.' To support accountability, the ANAO's timeframe for finalising performance statements audits aims to make the Auditor-General's opinion available to Parliament in line with the timing for tabling of entity annual reports (noting the audit reports are to be tabled by the Finance Minister or requesting Minister).

1.20 The JCPAA has recommended amending the PGPA Act to enable mandatory audits of annual performance statements by the Auditor-General to encourage the provision of high-quality performance information to support parliamentary accountability of entity performance<sup>23</sup> and amending the *Auditor-General Act 1997* so that audits of annual performance statements are able to be initiated without the need for approval or direction from the Finance Minister.<sup>24</sup> This would ensure similar accountability and transparency requirements for financial and performance statements.

## Performance statements audit pilot

1.21 Effective independent assurance is fundamental to good performance reporting and assists in maintaining users' trust. It provides public organisations, Parliament, and the public with the confidence they need to rely on that reported information.<sup>25</sup>

1.22 In Report 469, tabled in December 2017, the JCPAA recommended that the government amend the PGPA Act to enable mandatory audits of annual performance statements by the Auditor-General of entities selected by the Auditor-General for review.<sup>26</sup>

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22 Subsection 39(1)(b).

23 Joint Committee of Public Accounts and Audit, *Report 469: Commonwealth Performance Framework – Inquiry Based on Auditor-General's Reports 31 (2015–16), and 6 and 58 (2016–17)*, December 2017, p. 49.

24 Joint Committee of Public Accounts and Audit, *Report 491: Review of the Auditor-General Act 1997*, March 2022, p. 25, available from [https://parlinfo.aph.gov.au/parlInfo/download/committees/reportjnt/024665/toc\\_pdf/Report491ReviewoftheAuditor-GeneralAct1997.pdf](https://parlinfo.aph.gov.au/parlInfo/download/committees/reportjnt/024665/toc_pdf/Report491ReviewoftheAuditor-GeneralAct1997.pdf) [accessed 13 December 2022].

25 Controller and Auditor-General New Zealand, *The problems, progress and potential of performance information*, 2021, p. 24.

26 Joint Committee of Public Accounts and Audit, *Report 469: Commonwealth Performance Framework – Inquiry Based on Auditor-General's Reports 31 (2015–16), and 6 and 58 (2016–17)*, December 2017, available from [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Joint/Public\\_Accounts\\_and\\_Audit/CPF/Report\\_1](https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/CPF/Report_1) [accessed 5 December 2021].

1.23 In September 2018, an Independent Review of the operation of the PGPA Act recommended that:

The Finance Minister, in consultation with the Joint Committee of Public Accounts and Audit, should request that the Auditor-General pilot assurance audits of annual performance statements to trial an appropriate methodology for these audits. The Committee should monitor the implementation of the pilot on behalf of the Parliament. (Recommendation 8)<sup>27</sup>

1.24 In August 2019, the Minister for Finance wrote to the Auditor-General requesting the conduct of a program of pilot assurance audits of annual performance statements of Australian Government entities subject to the PGPA Act, in consultation with the JCPAA.<sup>28</sup>

1.25 The Auditor-General agreed to the Finance Minister's request and in 2020 commenced a pilot of performance statements audits, comprising the 2019–20 performance statements of the Attorney-General's Department (AGD), the Department of Social Services (DSS) and the Department of Veterans' Affairs (DVA). The same three entities' 2020–21 annual performance statements were audited in 2020–21 as part of the pilot.

1.26 The pilot demonstrated that accessible and understandable audit conclusions can be issued that clearly set out to the user the extent to which the performance statements can be relied upon to assess the performance of the entity. There was improvement in the standard of performance statements preparation and reporting for each of the audited entities, demonstrating that mandated audits of performance statements can drive more transparent and meaningful performance reporting to the Parliament.

1.27 In the first year of the pilot, the Auditor-General provided his opinions to the Minister for Finance on 2 December 2020. These opinions were tabled by the Minister on 3 February 2021. In the second year of the pilot, the Auditor-General provided his opinions to the Minister for Finance on 9 December 2021. These opinions were tabled by the Minister on 8 April 2022.

1.28 In April 2022, the ANAO tabled its report on the pilot to Parliament.<sup>29</sup>

### **Ongoing program of performance statements audits**

1.29 Following the first year of the pilot, as part of the 2021–22 Budget, the ANAO was provided funding to support the staged implementation of a program of performance statements audits, from three audits in 2020–21 increasing to six audits in 2021–22, 10 audits in 2022–23, 14 audits in 2023–24, 19 audits in 2024–25 and 24 audits from 2025–26. The 24 audits proposed by 2025–26 were the 15 departments of state (increased to 17 after Machinery of Government changes in July 2022) plus nine controls entities that are material by nature. A review of this scope will determine

27 E Alexander AM and D Thodey AO, *Independent Review of the Public Governance, Performance and Accountability Act 2013 and Rule*, Commonwealth of Australia, September 2018, p. 3 and p. 17.

28 Minister for Finance, Correspondence to Auditor-General of Australia, 21 August 2019, available from <https://www.anao.gov.au/work/request/performance-statements-audit-pilot-program> [accessed 1 February 2023].

29 Auditor-General Report No.23 2021–22 *Audits of the Annual Performance Statements of Australian Government Entities — Pilot Program 2020–21*, available from [http://www.anao.gov.au/sites/default/files/Auditor-General\\_Report\\_2021-22\\_23.pdf](http://www.anao.gov.au/sites/default/files/Auditor-General_Report_2021-22_23.pdf) [accessed 8 December 2022].

whether the program should be expanded. Significantly, this funding establishes assurance of non-financial reporting as a core component of assurance to the Parliament.<sup>30</sup>

1.30 The Auditor-General's functions include auditing the annual performance statements of Australian Government entities in accordance with the PGPA Act as set out in section 15 of the *Auditor-General Act 1997*. The ANAO's role in conducting audits of annual performance statements is currently subject to the request of the Minister for Finance or the responsible Minister for an Australian Government entity rather than initiated by the Auditor-General. The pilot and the six audits undertaken in 2021–22 have been conducted at the request of the Minister for Finance under section 40 of the PGPA Act.<sup>31</sup>

## 2022–23 performance statements audit program

1.31 The performance statements audit program will expand in 2022–23 to cover 10 entities.<sup>32</sup> Table 1.1 shows the expansion in the number of performance statements audits from 2020–21, which was the last year of the pilot.<sup>33</sup> Table 1.1 also shows that implementation of the new program from 2021–22 involves the addition of new entities, to those already subject to audit, in each subsequent year. This approach enables the ANAO to leverage the knowledge and expertise gained from auditing an entity to improve the efficiency and effectiveness of the audit, reducing cost and improving processes for both the ANAO and audited entities. This improves the sustainability of the audit program and value for money.

**Table 1.1: Entities included in performance statements audit program 2020–2023**

2020–21	2021–22	2022–23
<ul style="list-style-type: none"> <li>Attorney-General's Department</li> <li>Department of Social Services</li> <li>Department of Veterans' Affairs</li> </ul>	<p>The three entities audited in 2020–21 and the following three entities:</p> <ul style="list-style-type: none"> <li>Department of Agriculture, Water and the Environment</li> <li>Department of Education, Skills and Employment</li> <li>Department of the Treasury</li> </ul>	<p>The six entities<sup>a</sup> audited in 2021–22 and the following four entities:</p> <ul style="list-style-type: none"> <li>Department of Health and Aged Care</li> <li>Department of Industry, Science and Resources</li> <li>Department of Infrastructure, Transport, Regional Development, Communications and the Arts</li> <li>Services Australia</li> </ul>

Note a: As a result of Machinery of Government changes that took effect from 1 July 2022, the Department of Agriculture, Water and the Environment became the Department of Agriculture, Fisheries and Forestry and the Department of Education, Skills and Employment became the Department of Education.

30 Australian National Audit Office, *Annual Report 2020–21*, p. 4.

31 *Public Governance, Performance and Accountability Act 2013*, section 40.

32 As a result of Machinery of Government changes from 1 July 2022, DAWE and DESE are replaced by DAFF and Department of Education. DCCEEW and DEWR are new entities and will not be included in the audit program for 2022–23.

33 The pilot commenced in 2019–20 with the three entities audited, however the ANAO withdrew from the DSS audit engagement in November 2020. All three audits were undertaken in 2020–21.

1.32 On 25 October 2022, the Auditor-General wrote to the Minister for Finance, proposing to expand the program to 10 performance statements audits in 2022–23 consistent with the funding provided for the program.

1.33 The Auditor-General's October 2022 correspondence to the Minister referenced the 1 July 2022 Machinery of Government (MOG) changes, proposing to continue the program of work with the six entities audited in 2021–22 and add four new entities; the Department of Health and Aged Care, Services Australia, as well as the newly created Departments of Employment and Workplace Relations (DEWR) and Climate Change, Energy, the Environment and Water (DCCEEW). Many of the programs managed by the new departments were included in the 2021–22 audit cycle in their originating departments. The Minister's response on 16 January 2023 replaced DEWR and DCCEEW with the Department of Industry, Science and Resources and the Department of Infrastructure, Transport, Regional Development, Communications and the Arts in the 2022–23 audit program.

1.34 In addition, the Auditor-General asked the Minister for Finance to approve a proposed program of work for 2023–24 and 2024–25. The Minister's response on 16 January 2023 did not address the proposed work program from 2023–24.

### **ANAO future areas of audit focus**

1.35 To ensure that the quality of performance reporting continues to improve, the 2022–23 performance statements audits will focus on further maturing the ANAO's auditing approach and building entities' understanding of performance reporting, including in relation to:

- the application of materiality and completeness in the context of an entity's performance measures and reported results, to ensure that the performance statements provide a comprehensive and meaningful assessment of an entity's performance;
- whether the entity's key activities and performance measures adequately cover the entity's purposes, to ensure the entity's performance results align with the purposes;
- performance measures relating to regulation, to ensure these are adequate to report on the entity's regulatory responsibilities; and
- whether the entity's performance statements are fair, balanced and understandable, to provide the reader with meaningful information on the entity's performance.

1.36 Practice across the public sector is still evolving. The ANAO will provide the Parliament with updates on the progress of the performance statements audit program through an annual report. On 22 October 2021, the Finance Minister noted that a JCPAA inquiry to review the audit methods and outcomes each year during the roll-out of the performance statements audit program would inform incremental improvements in the program and inform the design of legislation going forward.<sup>34</sup>

### **Performance Statements Expert Advisory Panel**

1.37 The ANAO has established a Performance Statements Expert Advisory Panel. The Panel membership includes the ANAO, the Department of Finance, the Department of the Treasury, the

34 Australian National Audit Office, Performance Statements Audit Pilot Program: Correspondence from Senator the Hon Simon Birmingham [Internet], available from <https://www.anao.gov.au/work/request/performance-statements-audit-pilot-program-0> [accessed 27 January 2022].

Parliamentary Budget Office, a state or territory Auditor-General and several entities' audit committee chairs.

1.38 The Expert Advisory Panel's role will include:

- providing advice on how the audit process can contribute to improving performance information and reporting so it assists to:
  - improve policy design and evaluation;
  - enable more effective service delivery and regulation; and
  - provide better advice to inform government decisions;
- providing views on the appropriateness of the current performance statements audit methodology; and
- assisting to improve the ANAO's understanding of strategic and operational issues, including national and international developments related to non-financial performance information and reporting.

1.39 At the commencement of the performance statements pilot in 2019, a Governance Committee was established to provide advice to the Auditor-General on audit methodology and options to scale the program. The Committee's contribution was important to the success of the pilot. The Expert Advisory Panel will be important to mature the audit program as it reaches full implementation.

## Emerging context for performance reporting and evaluation

1.40 The capacity of the sector to evaluate its policies and programs has received recent prominence in several contexts. For example, Productivity Commission reports have recommended investing in a better evidence base in key policy areas.<sup>35</sup>

1.41 In October 2022, the Minister for Finance described the government's intent to coordinate current initiatives to promote evaluation:

Evaluation is also a priority for this Government. It helps us see if we're actually doing what we said we would. To understand what is working and what isn't. And being accountable to all

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35 See Productivity Commission, *In need of repair: The National Housing and Homelessness Agreement: Study report*, August 2022, Recommendation 5.10, p. 164, available at <https://www.pc.gov.au/inquiries/completed/housing-homelessness/report/housing-homelessness.pdf> [accessed 16 November 2022].

The recommendation states: 'The Australian, State and Territory Governments should establish a 'what works' centre for housing policy to gather, and make accessible, evaluations on housing policies and programs, and pull together insights from the housing evidence base. The centre could be established within an existing institution such as the Australian Housing and Urban Research Institute, or the proposed Housing Australia.'

See also Productivity Commission, *Review of the National Disability Agreement, Productivity Commission Study Report*, January 2019, Recommendation 4.1, p. 119, available at <https://www.pc.gov.au/inquiries/completed/disability-agreement/report/disability-agreement.pdf> [accessed 16 November 2022].

The recommendation states: 'The new National Disability Agreement (NDA) should include a commitment to undertake policy and program evaluation, in addition to its performance reporting requirements. Detailed arrangements for the policy evaluation program should be set out in a schedule to the NDA, and should include:

- a timetable that specifies when and what types of policies and programs will be evaluated
- protocols for undertaking the evaluations.

The Steering Committee for the Review of Government Service Provision should have ongoing responsibility for the administration of the policy evaluation program. The results and findings from evaluations should be publicly reported and disseminated through the National Disability Report.'



Australians. This work has begun. Currently the Department of Finance is implementing the Commonwealth Evaluation Policy and Toolkit. Treasury is scoping how evaluation can help deliver measurable outcomes for Australians. The Office of Best Practice Regulation will support agencies to develop best-practice policy in all areas, not just regulation. We will align these functions and build the evaluation capability to drive service improvements.<sup>36</sup>

1.42 High-quality performance information is a necessary condition for effective evaluation. Effectively designed performance measures enable an entity to continuously monitor the performance of key activities, obtain regular feedback and collect appropriate data to underpin evaluation activities.

1.43 In turn, evaluation can assist entities to determine whether program objectives have been achieved or if adjustments need to be made, including to the design of key activities, performance measures, data collection and analytic approaches. To realise these benefits, entities will need to consider how best to integrate their evaluation and performance frameworks to form a continual cycle.

1.44 Department of Finance guidance notes that performance measurement and monitoring is used to contribute to an evidence base for future evaluations or review, particularly in helping to develop a program logic.<sup>37</sup> In this context, performance statements audits can contribute by assisting entities to build a robust evidence base, monitor progress and strengthen data analytic capability to improve their capacity to evaluate their policies and programs.

1.45 Reliable and verifiable information sources and measurement methods, which is a key area of focus for audits, will drive improvement in the quality of data collected and used by entities, strengthening the evidence base for performance reporting, and policy and program evaluation. Information sources and methods that are not reliable and verifiable can compromise data integrity, which adversely impacts the accuracy and quality of evaluation and policy advice to inform government decisions.

1.46 Performance statements audits have shown that the quality of data and data analysis across entities is variable. Strengthening these capabilities will enable entities to generate deeper insights, provide better advice to inform government decisions, and enable more effective service delivery and regulation to improve social and economic outcomes.<sup>38</sup>

1.47 A key challenge for entities is to determine which data are needed and worth collecting, including data that may take several years to mature. Entities need to also recognise that what is seen as key today may change over time. Therefore, performance information requirements may need to evolve over time if they are to remain relevant.

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36 Senator the Hon. Katy Gallagher, 'Albanese Government's APS Reform Agenda', *Speech to the Institute of Public Administration*, 13 October 2022, available from <http://ministers.pmc.gov.au/gallagher/2022/albanese-governments-aps-reform-agenda> [accessed 16 November 2022].

37 Department of Finance, *Resource Management Guide 130*, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/planning-and-reporting/commonwealth-performance-framework/evaluation-commonwealth-rmg-130> [accessed 6 December 2022].

38 D Thodey AO et al., *Our Public Service, Our Future*, Independent Review of the Australian Public Service, September 2019, p. 24.

## Structure of the report

1.48 This report presents the findings of the 2021–22 annual performance statements audits (chapter 2), the areas of better practice and those for improvement (chapter 3), and the ANAO’s approach to performance statements audits (chapter 4).



## 2. Findings from the 2021–22 performance statements audits

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### Chapter coverage

This chapter provides the key findings of the 2021–22 annual performance statements audits and details the bases for the modified audit conclusions over entity performance statements.

### Key findings

Across the six 2021–22 audits, entities' annual performance statements were largely effective in meeting the requirements of the performance framework and accurately reporting the performance of the entity in achieving its purposes. There were, however, some exceptions where entities did not have appropriate measures or adequate processes to support good quality performance reporting.

The notable exception was that the Australian National Audit Office's (ANAO) identified that reporting on seven of the ten performance measures in the Department of Agriculture, Water and Environment's (DAWE) performance statements relating to the Agriculture Objective did not meet the requirements of the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule). As a result, the DAWE performance statements did not enable the user or reader to form an accurate assessment of the department's performance to meet this objective, which is to 'assist industry to accelerate growth towards a \$100 billion agricultural sector by 2030'.

In 2021–22, the Auditor-General issued modified audit conclusions for three out six entities (50 per cent), which compares favourably to 2020–21 where all entities were issued a modified audit conclusion. AGD, DESE and the Treasury each received an unmodified audit opinion. DAWE, DSS and DVA received a modified audit conclusion. Qualifications related to 13 out of 199 performance measures, which represents a reduction from 2020–21 in the proportion of qualified performance measures from 15 per cent to 7 per cent.

2.1 ANAO's performance statements audits improve transparency and provide Parliament with assurance over the quality and reliability of entities' annual performance statements. They are also designed to identify areas where improvements can be made across the sector by presenting specific findings and recommendations to audited entities.

2.2 Findings and recommendations are communicated to entities at several stages during the audit to enable entities to address identified issues prior to finalising their performance statements for the reporting period. Where findings remain unresolved, these can be addressed by entities in the following year.

### 2021–22 performance statements audits

2.3 The ANAO conducted six performance statements audits in 2021–2022 of the following entities: the Attorney-General's Department (AGD), the Department of Social Services (DSS), the Department of Veterans' Affairs (DVA), the Department of Agriculture, Water and the Environment (DAWE), the Department of Education, Skills and Employment (DESE) and the Department of the Treasury (Treasury). (Appendix 1)

2.4 The Auditor-General provided his audit opinions to the Minister for Finance on 25 October 2022. The Minister tabled these opinions in the Senate on 16 December 2022. The *Public Governance Performance and Accountability Act 2013* (PGPA Act) requires that the Minister requesting an audit of an entity's annual performance statements must table a copy of the Auditor-General's report in each House of Parliament as soon as practicable after receipt.<sup>39</sup>

2.5 The audits demonstrate how entities can establish sound practices and improve the standard of their performance reporting processes and their performance information over the reporting period.

2.6 The 2021–22 audits demonstrate that first year auditees can be issued with an unqualified audit opinion. DESE and Treasury each received an unqualified audit opinion, recognising the investment of these entities in developing robust governance arrangements and preparation processes.

2.7 The 2021–22 audits also showed that 'repeat' auditees can address matters that were a basis for qualification from the previous year. AGD, DSS and DVA each addressed matters contained in their 2020–21 auditor's reports. These outcomes reflect early planning and a considered approach to resolving audit findings.

## Key findings

2.8 Audit findings are raised in response to the identification of potential risks to an entity's performance statements preparation, including where performance measures do not adequately measure the entity's performance and prior year findings that have not been satisfactorily addressed. The rating scale for findings for the 2021–22 audit program is presented in Appendix 5.

2.9 Across the six 2021–22 audits, entities' annual performance statements were largely effective in meeting the requirements of the performance framework and accurately reporting the performance of the entity in achieving its purposes. In particular, the results reported against the performance measures in the annual performance statements and accompanying supporting analysis were generally accurate and supported by appropriate records. There were, however, some exceptions where entities did not have appropriate measures or adequate processes to support performance reporting.

2.10 A total of 31 findings were reported to entities as a result of the 2021–22 performance statements audits. These comprised 10 significant, 11 moderate, and 10 minor findings. Appendix 4 presents these findings against 19 themes.

- The theme with the highest number (14) of significant and moderate findings related to the use of reliable and verifiable methodologies and data sources to support the reported results of individual performance measures. This included methodologies supporting the calculation of results not being sufficiently robust and data sources that were not reliable and verifiable.
- There were two significant audit findings relating to performance measures that did not provide an unbiased basis for measurement and assessment.

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39 *Public Governance Performance and Accountability Act 2013*, subsection 40(3).

- There were two significant and two moderate findings relating to an entity's inability to provide assurance over the completeness and accuracy of results.
- There was one significant and two moderate findings relating to poor recording keeping processes including inadequate oversight by management.

2.11 Table 2.1 summarises significant and moderate audit findings by theme presented to entities in 2021–22.

**Table 2.1: Significant and moderate audit findings by theme**

	Disclosure and presentation	Preparation processes including record keeping	Methodology	Completeness and Accuracy
Attorney-General's Department		x		
Department of Social Services		x	x	x
Department of Veterans' Affairs		x	x	x
Department of Agriculture, Water and the Environment	x	x	x	x
Department of Education, Skills and Employment			x	x
Department of the Treasury		x	x	

Key: x indicates where an entity has received either a significant or moderate finding relevant to this theme.

Notes: Appendix 4 expands on this table by identifying sub-themes that relate to specific audit findings.

Appendix 4 contains the theme 'Construct of Measure', which is not included in this table as there were no significant or moderate audit findings relating to this theme.

Source: ANAO compilation of findings.

2.12 Table 2.2 summarises findings by category presented to entities in 2021–22. Of the 'repeat' entities audited in 2021–22, the ANAO observed that the number of audit findings reduced from 20 findings in 2020–21 to 10 findings in 2021–22.

**Table 2.2: Performance statements audit findings by category**

Category	Closing position (2020–21)	New findings (2021–22)	Resolved findings (2021–22)	Closing position (2021–22)
Entities in the 2020–21 pilot				
A — significant	4	2	(4)	2
B — moderate <sup>a</sup>	6	2	(4)	4
C — minor <sup>b</sup>	10	2	(8)	4
Subtotal	20	6	(16)	10
Newly audited entities				
A — significant	N/A	11	(3)	8
B — moderate <sup>c</sup>	N/A	10	(3)	7
C — minor	N/A	13	(7)	6
Subtotal	0	34	(13)	21
All audited entities				
A — significant	4	13	(7)	10
B — moderate	6	12	(7)	11
C — minor	10	15	(15)	10
<b>Total</b>	<b>20</b>	<b>40</b>	<b>(29)</b>	<b>31</b>

Note a: One category B finding was downgraded to a category C finding during the interim audit phase.

One category B finding was downgraded to a category C finding during the final audit phase.

Note b: One category C finding was upgraded to a category B finding during the final audit phase.

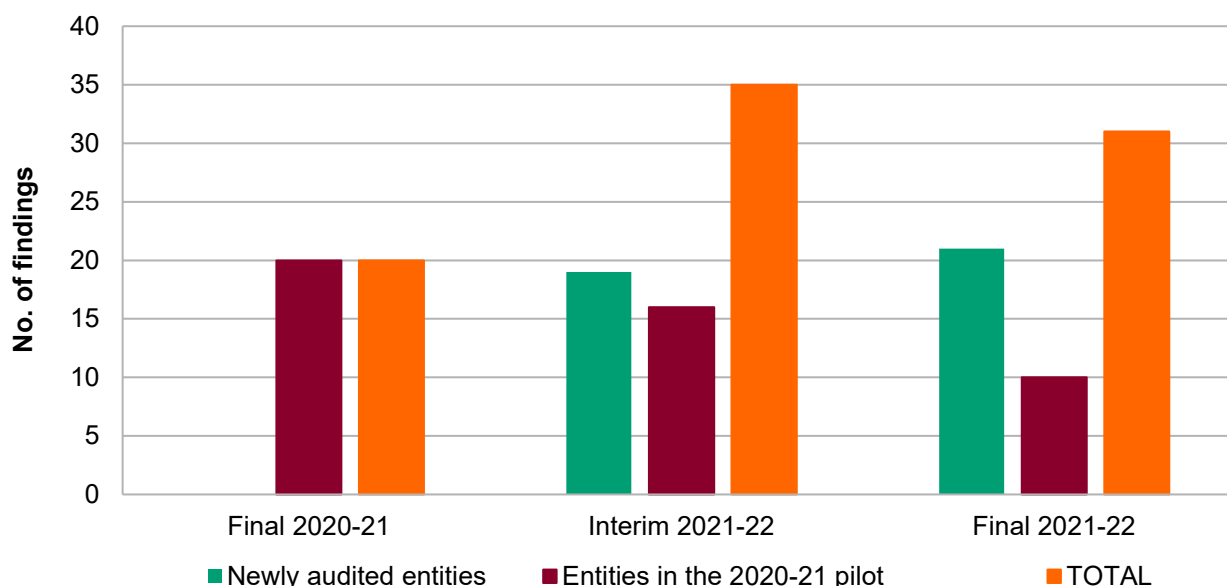
Note c: One category B finding was upgraded to a category A finding during the final audit phase.

Source: ANAO compilation of findings.

2.13 Importantly, the ANAO observed that entities sought to resolve findings reported at the close of 2020–21, and findings identified during the reporting period, where possible. Entities resolved 29 findings during the year, with 31 remaining open at year end. The ANAO has actively worked with entities to support the resolution of findings to ensure that annual performance statements present accurate and meaningful performance information.

2.14 The ANAO also observed improvement in the resolution of findings from interim to final audit phases. Of the 35 unresolved interim audit findings, 23 (66 per cent) were resolved by the end of the year.

2.15 Figure 2.1 below shows the number of unresolved findings at the conclusion of each audit phase for the six audited entities. The figure shows a reduction in the number of findings by the 2020–21 pilot entities.

**Figure 2.1: Findings by audit phase**

Source: ANAO compilation of findings.

## Bases for qualification

2.16 Performance statements audits are conducted under the ANAO auditing standards that adopt the Australian Standard ASAE 3000: *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the Auditing and Assurance Standards Board. Under this standard, the auditor can issue an unmodified or a modified conclusion. An auditor's conclusion may be 'modified' in one of three ways:

- A 'qualified conclusion' may be expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that the performance statements as a whole are largely compliant with the PGPA Act or the PGPA Rule, but there are matters of non-compliance that, individually or in aggregate, are material but not pervasive to the performance statements. This could include where the auditor is unable to obtain sufficient appropriate audit evidence for specific performance measures, which, while material, is not pervasive to the performance statements. A qualified conclusion may also be referred to as an 'except for' qualification, as the qualification does not apply to the annual performance statements as a whole, but to specific measures reported in the statements.
- A 'disclaimer of conclusion' is expressed when the auditor, having been unable to obtain sufficient appropriate audit evidence on which to base the conclusion, determines that the possible effects on the [performance] statements of undetected non-compliance could be both material and pervasive.

- An ‘adverse conclusion’ is expressed when the auditor, having obtained sufficient appropriate audit evidence, determines that matters of non-compliance, individually or in aggregate, are both material and pervasive to the [performance] statements.<sup>40</sup>

2.17 For the six 2021–22 performance statements audits, AGD, DESE and Treasury were issued an unmodified conclusion and DAWE, DSS and DVA were issued a modified conclusion, in the form of an ‘except for’ qualification. This is an improvement from 2020–21 where AGD, DSS and DVA audits were issued a modified conclusion. Two of the entities that were not part of the pilot and were audited for the first time, DESE and Treasury, received an unmodified conclusion.

2.18 Table 2.3 summarises the number of measures forming the basis of qualification across all six entities. This table shows that the three entities that received a modified audit conclusion in 2020–21 resolved all or the majority of these issues in their 2021–22 performance statements.

**Table 2.3: Number of measures forming the basis of qualification**

Entity	Closing position (2020–21)	Identified in 2021–22	Resolved in 2021–22	Closing position (2021–22)
Entities included 2020–21 pilot				
Attorney-General's Department	6	0	(6)	0
Department of Social Services	8	0	(7)	1
Department of Veterans' Affairs	2	2	(2)	2
Subtotal	16	2	(15)	3
Newly audited entities in 2021–22				
Department of Agriculture, Water and the Environment	N/A	10	0	10
Department of Education, Skills and Employment	N/A	0	0	0
Department of the Treasury	N/A	0	0	0
Subtotal	0	10	0	10
<b>Total</b>	<b>16</b>	<b>12</b>	<b>(15)</b>	<b>13</b>

Source: ANAO 2020–21 and 2021–22 audit results.

2.19 Where appropriate, an auditor’s report may include an ‘Emphasis of Matter’ paragraph. The inclusion of this paragraph does not modify the auditor’s opinion.

<sup>40</sup> Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraph A191.

2.20 Most commonly, an ‘Emphasis of Matter’ paragraph is a tool available to auditors to highlight important information. Such a paragraph is included in the auditor’s report when it is considered necessary to draw to the reader’s attention to a matter presented in the performance statements that, in the auditor’s judgement, is of such importance that it is fundamental to the users’ understanding of the performance statements. There was one Emphasis of Matter in 2021–22 in the audit report on DSS’ performance statements.

### 2021–22 modified audit conclusions

2.21 The ANAO’s conclusion on three of the six 2021–22 performance statements audits was an ‘except for’ qualification, which is described as follows in the auditor’s reports:

In my opinion, except for the effects and possible effects of the matters described in the Bases for Qualified Conclusion section of my report, the attached 2021–22 Annual Performance Statements of the Entity are prepared, in all material respects, in accordance with the requirements of Division 3 of Part 2-3 of the *Public, Governance, Performance and Accountability Act 2013* (the Act).

2.22 Table 2.4 and Table 2.5 summarise the audit conclusions for all six audited entities. Of the three entities that were audited for the first time in 2021–22, DAWE had an ‘except for’ qualification, with DESE and Treasury receiving unmodified audit conclusions. The ANAO issued modified audit conclusions for DVA and DSS in both 2020–21 and 2021–22.

**Table 2.4: Summary of audit conclusions**

Reporting year	Number of audited entities	Number of ‘except for’ qualifications	Number of unmodified audit conclusions
2021–22	6	3	3
2020–21	3	3	0

Source: ANAO 2021–22 and 2020–21 audit results.

**Table 2.5: Summary of qualified measures as a proportion of total measures**

	AGD	DSS	DVA	DAWE	DESE	Treasury
Number of measures	15	37	46	47	42	12
Number of qualified measures	0	1	2	10	0	0

Note: Across the six entities’ performance statements, there are 199 performance measures underpinned by 238 targets.

Source: ANAO 2021–22 audit results.

### Department of Agriculture, Water and the Environment

2.23 DAWE’s 2021–22 performance statements reported on 47 performance measures underpinned by 51 targets. The auditor’s report on DAWE’s annual performance statements was qualified with respect to 10 of the 47 performance measures.<sup>41</sup>

41 Following machinery of government changes that took effect on 1 July 2022, the department became the Department of Agriculture, Fisheries and Forestry (DAFF). DAWE’s environment and water functions moved to the new Department of Climate Change, Energy, the Environment and Water (DCCEEW).

## Qualifications

2.24 The ANAO identified that reporting on seven of the ten performance measures relating to the Agriculture Objective did not meet the requirements of the PGPA Rule. As a result, the performance statements did not enable the user to form an accurate assessment of the department's performance to meet this objective, which is to 'assist industry to accelerate growth towards a \$100 billion agricultural sector by 2030'.

2.25 The reasons underpinning the modified audit conclusion for the seven performance measures that were qualified are described below.

Progress on the Commonwealth's obligations under the National Drought Agreement (AG-03)

2.26 Performance measure AG-03 reports on the progress of the Commonwealth's obligations under the National Drought Agreement. The department is the lead Commonwealth agency where each jurisdiction self-assesses its progress against ratings. There was no supporting material for these assessments and no validation of the reported results for the ANAO to assess. Consequently, the requirements for performance measures to be based on a verifiable methodology and information sources and to provide an unbiased basis for measurement and assessment were not satisfied.<sup>42</sup>

2.27 In addition, this performance measure does not meet the requirement of subsection 16F(1) of the PGPA Rule to measure and assess the achievement of the entity's purposes in the reporting period. The result is based on 2020–21 self-assessments and does not report on performance in the 2021–22 reporting period.

Performance measures on market access and regulatory costs (AG-04, AG-05, AG-06, AG-07, AG-08)

2.28 The five measures relate to the department's role in supporting market access, protection and sustainment. The five measures did not meet the requirement of subsection 16EA(b) of the PGPA Rule for using sources of information and methodologies that are reliable and verifiable.

2.29 Performance measures AG-04 and AG-05 report on the department's 'market access achievements'. The measures relate to actions taken by the department that results in access to a new international market, improved access to an existing market, prevention of disruptions to trade with an existing market and restoration of market access.

2.30 The methodology for AG-04 and AG-05:

- relies on verbal advice to support industry value estimates. These estimates then form the basis from which to calculate an estimate of potential trade achieved from a 'market access achievement'. No documentation was provided to verify this verbal advice. While in some cases the department has overridden these industry value estimates, there is no internal guidance or procedure to support these decisions; and
- excludes lost market access and foregone opportunities which means the reader does not have an unbiased basis with which to assess market access achievements.

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42 Subsection 16EA(b) of the PGPA Rule requires an entity's performance measures to be based on information sources and methodologies that are reliable and verifiable. Subsection 16EA(c) requires an entity's performance measures 'provide an unbiased basis for the measurement and assessment of the entity's performance'.



2.31 Performance measure AG-06 relates to the department's role in managing point of entry failures. The ANAO identified that the department does not have reliable or verifiable sources of information and methodologies for recording and reporting point of entry failures.

2.32 The audit found that the department's 'distressed consignment' tracking sheet did not record some point of entry failures, with the department stating that 'missing entries may be the result of administrative error by staff'. The department has also stated that 16 point of entry failures that were recorded in the tracking sheet should not have been included 'due to the scope of definition of POE failure'.

2.33 Transparency for this measure could also be improved by reporting the number of point of entry failures in addition to the percentage of all consignments, as the percentage might fall while the number of failures rises. This would more accurately reflect a key objective of the *Export Controls Act 2020* which is to ensure that (all) exported goods meet relevant importing country requirements.

2.34 Performance measure AG-07 relates to the reductions in the department's regulatory costs for agricultural exporters.

2.35 The measure claims savings to the department from staff reductions; principally, the reduced number of Food Safety Meat Assessors (FSMAs) employed by the department, which must then be provided by exporters. The methodology is not a reliable basis for measuring and assessing the 'reduction of \$21.4 million in the department's regulatory costs for agricultural exporters by 2024'. The methodology does not capture 'cost recovery expense', as per the target.

2.36 Performance measure AG-08 relates to reductions in compliance costs for agricultural exporters.

2.37 The ANAO identified that the department does not have a robust methodology for calculating compliance costs for agricultural exporters. It has not substantiated the time to prepare for an audit beyond the single industry expert estimate and has not explained how the exporters who participated in the anonymous user research are representative of industry.

Farm businesses making capital investments (AG-09)

2.38 Performance measure AG-09 reports on the proportion of farm businesses making capital investments with a specified target of new farm capital investment increasing. The performance statements state that an increase in new capital investments is 'a proxy for measuring stronger confidence and a direct indicator of sectoral growth' (per the Agriculture Objective). The result is 'partially achieved' with the following figures reported:

- five-year average to 2018–19: 56 per cent;
- five-year average to 2019–20: 55 per cent; and
- five-year average to 2020–21: 55 per cent.

2.39 The reported result of 'partially achieved' is not correct and is identified as a material misstatement in the auditor's report. In the absence of an increase in the percentage of farm businesses making new capital investments, the result should have stated 'not achieved'.

Increased responsiveness to post-border detections (BI-04)

2.40 Performance measure BI-04 reports on whether the department has ‘increased responsiveness’ to post-border biosecurity detections. The target is that ‘incidents are managed in a timely way to decrease the risk to the environment’.

2.41 The data sources and methodology for this measure have not been clearly identified. It is unclear, therefore, whether the information presented in the performance statements represents ‘partial’ achievement of ‘increased responsiveness’, management of incidents in a timely way, or a decreased risk to the environment.

2.42 Without a reliable and verifiable methodology to assist measuring the result, the ANAO cannot verify the accuracy of the result reported in the performance statements.

Performance measures on World and National Heritage Listed Properties (EN-07-1 and EN-07-2)

2.43 Performance measures EN-07-1 (World Heritage-listed properties) and EN-07-2 (National Heritage-listed properties) report on the percentage of listed properties with management plans that are consistent with principles in the Environment Protection and Biodiversity Conservation (EPBC) regulations. The department seeks annual updates from World Heritage property and National Heritage property place managers (third parties) and enters this information into ‘stocktake spreadsheets’ (World and National). These spreadsheets are the key data source for this performance measure.

2.44 The ANAO was not able to obtain sufficient evidence to verify the accuracy of the reported results for these measures. The audit has assessed that these measures fail the requirement of subsection 16EA(b) of the Rule, given the department:

- was not able to provide complete and accurate records to support the reported results;
- stated that it ‘has not verified the assurance from place managers of their plans’ consistency with the National Heritage management principles’;
- provided the audit with evidence from place managers that was inconsistent with data in the stocktake spreadsheets; and
- only provided the ANAO with partial evidence to verify the data in the spreadsheets, stating that not all place managers respond to requests for information and the department does not always retain the documentation.

## **Department of Social Services**

2.45 DSS’ 2021–22 performance statements reported on 37 performance measures underpinned by 50 targets. The auditor’s report on the DSS’ annual performance statements was qualified with respect to one performance measure, a reduction from eight measures in 2020–21. There was also an Emphasis of Matter relating to one measure (see paragraph 2.50).

### ***New qualification***

Volunteering and Community Connectedness Be Connected (2.1.5-1)

2.46 The 2020–21 performance measure for the ‘Be Connected’ program (2020–21 performance measure 2.1.5-2) was qualified given DSS had not gained appropriate assurance over the reported results from two surveys of program participants.

2.47 The measure was changed in the 2021–22 reporting period from a measure of satisfaction, to a measure of outputs (the number of learners supported within a target range of 11,000 to 14,000).

2.48 DSS was not able to verify the number of learners. DSS did provide caveats that the reported number of learners does not include those who independently accessed the online learner portal and learners who received support from a Network Partner but did not register.

2.49 DSS did not meet the requirement of subsection 16EA(b) of the PGPA Rule, as the department was unable to verify the accuracy and the completeness of the reported result. It was determined the reported results could not be relied upon, notwithstanding the caveats disclosed in the statements.<sup>43</sup>

### *Emphasis of matter*

Family safety performance measure (2.1.2-1)

2.50 DSS' 2021–22 annual performance statements included a performance measure (2.1.2-1) relating the National Plan to Reduce Violence against Women and their Children 2010–2022 (the national plan).

2.51 One of the initiatives under the national plan relates to 1800RESPECT. The ANAO identified that the department did not have a process in place to independently validate the reported result from the department's service provider on the number of calls answered in less than 20 seconds, and was unable to provide assurance that the reported result is accurate.

2.52 An Emphasis of Matter was included in the 2021–22 auditor's conclusion to draw the user's attention to the caveats and disclosures included in the annual performance statements for this measure. The Emphasis of Matter relating to the 1800RESPECT component of the Family Safety performance measure directed the reader's attention to DSS' disclosure in the performance statements that the department did not have a process in place to independently validate the reported number of calls answered in less than 20 seconds.<sup>44</sup>

2.53 The auditor's conclusion was not modified with respect to this matter. In correspondence to the ANAO on 23 November 2022, the DSS Secretary notes 'I fully accept that the findings are for the audit office to make and that there was a gap in our verification process' but did 'not consider...[the] issue posed a significant risk to the performance statements or constituted a material mis-statement to justify the A finding'.

### *Resolved qualifications from 2020–21 audit*

Family safety performance measure (2.1.2-1)

2.54 The audit report stated in relation to 2.1.2-1:

I assessed performance measure 2.1.2-1 as not being appropriate. The target applied to report against performance measure 2.1.2-1 relates to the implementation of the Entity's initiatives as part of the 'National Plan to reduce Violence against Women and their Children 2010–22'. The target is a measure of the Entity's activity and does not relate directly to the achievement of the

43 The caveats state that the reported number of learners does not include those who independently accessed the online learner portal and learners who received support from a Network Partner but did not register.

44 Department of Social Services, *Annual Report 2021–22*, p. 65, available from [https://www.dss.gov.au/sites/default/files/documents/10\\_2022/2021-22-annual-report.pdf](https://www.dss.gov.au/sites/default/files/documents/10_2022/2021-22-annual-report.pdf) [accessed 1 February 2023].

Entity's purposes related to performance measure 2.1.2-1 which is contributing to a reduction in violence against women and their children. Furthermore, I was unable to obtain sufficient appropriate evidence over the completeness and accuracy of the Entity's records in regard to the reported achievement of this measure.

2.55 In 2021–22, the department revised the construct of the measure, aligning the measure and the target, and developed a more robust methodology, which resolved the issues that were the basis of a qualified audit conclusion in 2020–21.

Volunteer grants performance measure (2.1.5-1)

2.56 DSS revised this performance measure in 2021–22 due to the inherent bias of the prior year survey to determine an outcome and to meet the requirements of the PGPA Rule. The revised measure is as follows:

- Measure: Extent to which volunteers of the grant recipient organisations are supported to conduct their volunteer work; and
- Target: Number of volunteer grants awarded.

2.57 The ANAO verified the 2021–22 result for the revised volunteer grants measure. On this basis, the qualification is considered resolved.

Data Exchange (DEX) related performance measures (2.1.1-1, 2.1.4-1, 2.1.4-2, 2.1.5-2 and 3.1.3-1)

2.58 In its 2020–21 annual performance statements, DSS reported against five performance measures where service providers in receipt of DSS funding entered data on their clients into DEX.<sup>45</sup> The department did not have adequate internal controls in place to validate the accuracy of the results reported by service providers to mitigate the risk that the reported results were not unbiased.

2.59 DSS' main action to address this finding was to engage Australian Survey Research (ASR) to conduct a client survey to 'validate and verify provider data to help ensure that it is accurate and unbiased'. DSS conducted a test to see the extent to which ASR survey responses matched what service providers had reported in DEX. DSS concluded that 'the alignment tests have validated the DEX data and shown that there is minimal positive reporting bias by service providers'.

2.60 Given the implementation of these processes, the qualification is considered resolved.

## Department of Veterans' Affairs

2.61 The auditor's report on DVA's 2021–22 annual performance statements was qualified with respect to two of 46 performance measures (compared with two of 43 measures in 2020–21).

### *New qualification*

Reliable and verifiable data sources and methodologies, and other record keeping matters (measures 3.1.1 and 3.1.2)

2.62 With respect to the two measures in Program 3.1 *Provide and maintain war graves* (measures 3.1.1 and 3.1.2), DVA could not demonstrate processes to support the completeness, accuracy and reliability of data in the War Graves System and did not use sources of information

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45 The Data Exchange commenced on 1 July 2014 as the Department of Social Services' new approach to program performance reporting. It is based the two-way partnership of information sharing between funding agencies and service providers. See <https://dex.dss.gov.au/about> [accessed 1 February 2023].

that were reliable or verifiable to support the reporting of a result. In addition, the Department's assurance process of departmental staff visiting a selection of war graves to assess work undertaken by contractors was not effectively implemented during the period. The department was unable to provide the ANAO with information in regard to the selection of locations to be assessed, how the locations were selected, what sites were visited or reports providing the outcomes of the reviews.

2.63 While the department accurately stated 'unable to report' against the results for these two measures and the disclosure in the performance statements noted the issues of incomplete data, these measures are material to the performance reporting as maintenance of war graves is a part of the department's purpose. On this basis the ANAO issued a qualified audit conclusion.

### *Resolved qualification*

Inability to obtain sufficient evidence to support the result

2.64 DVA's 2020–21 performance statements contained a measure in Program 1.5 *Financial assistance to eligible students* (measure 1.5.4) relating the progress of students through their education or career training. DVA's records to support the result were incomplete with the department unable to provide evidence to support the current or previous year enrolment details for sampled students. The reported result was based on the presumption that students had progressed through the relevant level of education.

2.65 For the performance measure relating to support through Open Arms in Program 2.5 *Mental and allied healthcare services* (measure 2.5.6), DVA was unable to provide records to show it had appropriate controls to assure the reliability of the underlying systems from which the performance measure was reported. The ANAO was therefore unable to obtain sufficient appropriate audit evidence to assess the completeness and accuracy of those records, and was unable to conclude whether the results reported against this measure were accurate and complete, and supported by appropriate records.

2.66 The DVA Executive Management Board approved the removal of these measures for the 2021–22 reporting period. On this basis, the 2020–21 qualification was removed.

### 3. The development of entities' external performance reporting processes

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#### **Coverage of chapter**

This chapter highlights areas of better practice and where opportunities exist to improve the quality of performance information in annual performance statements.

#### **Areas of better practice**

Areas of better practice in performance reporting include:

- performance statements governance and preparation processes, enabling the finalisation of performance statements audits in a timeframe that would enable the audited performance statements to be included in entity annual reports, consistent with the approach for entity financial statements;
- the timeliness and quality of supporting documentation for performance measures, which assists entities to develop appropriate performance measures consistent with the requirements of the Commonwealth Performance Framework;
- the structure and quality of performance information in entity performance statements. Entities improved the clarity and alignment of their purposes, key activities and performance measures included in performance statements;
- use of surveys by entities, where appropriate, to measure and report their performance, including strengthening survey methodologies and quality assurance processes; and
- use of external experts to support their performance reporting was generally well planned and documented. The entities used a variety of experts' measurement and analysis to inform their performance reporting.

#### **Opportunities for improvement**

Opportunities to improve entity performance reporting include:

- entities developing an enterprise level performance framework to integrate performance reporting into a cycle of ongoing planning, monitoring, evaluation and review;
- periodic monitoring and reporting of performance results. Most entities have not established processes to periodically monitor and report against performance measures, including to audit committees, whereas it is an established better practice in relation to financial information;
- development and reporting of outcome-based performance measures and targets;
- integrating reporting requirements to reduce the reporting burden and improve clarity, establishing the performance statements as the primary vehicle for reporting the performance of Commonwealth entities; and
- strengthening capacity across the sector. Entities are seeking additional support and guidance on the development and reporting of high-quality performance information.

## Areas of better practice

3.1 There are several areas of better practice in performance reporting that the Australian National Audit Office (ANAO) has identified following the completion of the six 2021–22 annual performance statements audits. These emerging practices indicate that entities are committed to improving their processes to plan, measure and report their performance to the Parliament in accordance with the performance reporting requirements of the *Public Governance Performance and Accountability Act 2013* (PGPA Act) and Public Governance, Performance and Accountability Rule 2014 (PGPA Rule).

### Performance statements governance and preparation processes

3.2 Strong governance and preparation processes — including the way entities plan, assess and report their performance information — enable entities to effectively prepare high quality performance statements. These can reduce the risk of untimely, inaccurate or unreliable reporting. They can also support management reporting throughout the year creating efficiencies. Good governance and preparation also assists performance statements audits to be conducted in a timeframe that would enable the audited performance statements to be included in entity annual reports, consistent with the approach for entity financial statements.

3.3 During the 2021–22 reporting period, all six entities improved aspects of their governance and preparation processes. For example, entities:

- established a schedule for preparing annual performance statements with key deliverables and deadlines;
- clarified lines of responsibility between the central governance team responsible for the preparation of the annual performance statements and program divisions, which are responsible for the operational performance of key activities and programs;
- developed timely and high-quality supporting documentation on each performance measure;
- improved risk assessment processes to identify areas of risk that could impact the quality and accuracy of the annual performance statements; and
- improved processes to monitor and report performance results internally during the reporting period and to engage and update audit committees.

3.4 Governance teams<sup>46</sup> and program divisions cooperated to deliver entities' performance reporting requirements. The respective roles and responsibilities of the governance teams and divisions in preparing the performance statements were documented, including accountability for the reported results. This includes the role of governance teams supporting program divisions to understand how performance measures and targets can be designed and how they can evolve as programs develop.

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46 Each entity included in the 2021–22 annual performance statements audits utilised a central governance team to coordinate and compile the annual performance statements. This team provided a central contact point for entity divisions, the audit committee and the executive within each entity.

3.5 Each entity's audit committee reviewed the entity's performance statements preparation timetable. The audit committee also reviewed the appropriateness of the accountable authority's performance reporting.<sup>47</sup>

3.6 To date, entities have initially focused on internal administrative processes to meet the requirements of the PGPA Rule. As processes mature and capability improves, entities' focus should shift to designing and using performance information to drive decision-making and evaluation.

### **Timely and high-quality supporting documentation for performance measures**

3.7 Entities' preparation of supporting documentation<sup>48</sup> for performance measures has significantly improved since the commencement of the pilot in 2019–20, including through effective collaboration between entities to share documentation.<sup>49</sup>

3.8 Entities use supporting documentation to detail how data sources and methods will inform the reporting of a result. The level of detail varies depending on the measure and the entity. For example, the Department of Social Services (DSS) relies on third party data for several of its measures. For these measures, the department's supporting documentation sets out the data source and methodology through a 'dossier' and a 'data process map' of the data sources. These identify the controls and assurance at each stage of the data handling and reporting process.

3.9 Entities also use supporting documentation to identify the risk that a data source or methodology may not be reliable, verifiable or unbiased.<sup>50</sup> Several entities identify in the documents known limitations or caveats with data sources and methodologies, which assists to guide ongoing improvements.

3.10 The supporting documentation indicates that entities are understanding and assessing their performance information in terms of whether they meet the requirements of the Rule. As entity capability improves, these documents can support entities to take a more strategic approach to performance reporting, rather than a compliance-based focus. For example, DSS' documents set out:

- why the target is being reported and what it is aiming to demonstrate;
- the factors that will assist the entity meet the target;
- the risk of not achieving the target;
- a 'key activity logic model' that places the measure in the context of the key activity's inputs, roles, outputs, and short and long-term outcomes; and
- how long the measure will be reported and how it might evolve as the key activity progresses.

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47 Department of Finance, 'A guide for non-corporate Commonwealth entities on the role of audit committees', *Resource Management Guide 202*, p. 13, available from <https://www.finance.gov.au/publications/resource-management-guides/audit-committees-rmg-202> [accessed 22 November 2022].

48 Entities use different names to describe this documentation: DSS — 'Program Profiles'; DVA — 'Audit Trails'; DAWE — 'Measure Profiles'; Treasury — 'Methodology Control documents'; DESE — 'Performance Measure Assessment Tool'; AGD — 'Performance Measure Document Packs'.

49 For example, DSS provided documentation to other entities to assist in developing their supporting documentation.

50 PGPA Rule, subsection 16EA(b) and subsection 16EA(c). Section 16EA of the Rule came into effect for the 2020–21 reporting period.



3.11 DSS' use of a logic model enables the department to identify the stage of the policy or program that is being measured and how the measure may evolve over time as the policy or program matures.<sup>51</sup>

3.12 The process for creating and approving supporting documentation was similar across the six entities. Entities established a template for these documents through a governance team<sup>52</sup>, which each program division then completed. The documents identify a senior 'measure owner' within the division. The Attorney-General's Department's (AGD) performance measure documents also contain a checklist which identifies the respective responsibilities of the business unit and the governance team.

## Structure and quality of performance information

3.13 As a statement of planned performance, entity corporate plans set out an entity's purposes and key activities and the outcomes the entity plans to achieve.<sup>53</sup>

3.14 Over the 2021–22 reporting period, each entity improved the way it identifies and aligns its purposes, key activities and performance measures and targets in its performance statements, which will benefit the development of future corporate plans.

3.15 The key to structuring performance information is to identify the entity's purposes, then key activities, and the measures that align to these purposes and key activities. In its guidance on preparing corporate plans, the Department of Finance states:

The corporate plan must identify the key activities that an entity will undertake during the entire period of the corporate plan in order to achieve the purposes of the entity.

A key activity is a distinct, significant program or area of work undertaken by an entity to assist in achieving the entity's purposes.

The corporate plan does not need to describe everything an entity does to deliver its purposes. The focus of the corporate plan is on those activities that make a significant contribution to achieving the purposes of the entity.<sup>54</sup>

3.16 An internal framework can assist entities identify the key activities that make a significant contribution to an entity's purposes. For example, DSS has developed an internal policy for key activities. The policy establishes a 'key activity framework' to guide program owners to nominate key activities. It requires the responsible officer in divisions to document their decisions and the rationale for nominating a key activity. The decision must be endorsed by the department's audit committee and agreed by the accountable authority.

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51 Logic models describe how and why a desired change is expected to happen in a particular context. Logic models are typically a step-by-step diagram, linking inputs and activities of a program to the expected outputs and outcomes of the program. Department of Finance, 'Evaluation in the Commonwealth' *Resource Management Guide 130*, October 2022.

52 Some entities used consultancy services to design the template.

53 Explanatory Memorandum, Public Governance, Performance and Accountability Bill 2013, 30.

54 Department of Finance, 'Corporate plans for Commonwealth entities', *Resource Management Guide 132*, August 2022.

## Use of surveys

3.17 Entity measures based on independently conducted and internally-managed surveys had clear methodologies. This included identifying the survey sample population and size, controls over the survey process and consideration of an acceptable response rate.

3.18 AGD, the Department of Veterans' Affairs (DVA) and the Department of the Treasury (Treasury) each commissioned an external expert to conduct stakeholder surveys to report against several of their performance measures.<sup>55</sup> In planning these surveys, the entities:

- provided their stakeholder listings to the firm (survey population);
- agreed a methodology to conduct the survey; and
- provided the firm with questions or engaged with the firm to design the questions.<sup>56</sup>

3.19 Although these surveys were commissioned, the responsibility for understanding the survey process and the accompanying risks lies with the entity. The entities implemented appropriate oversight arrangements commensurate to risk.

3.20 AGD and DVA also conducted several internal surveys to report performance results.

3.21 DVA conducted internal surveys for three of its 2021–22 performance measures. For these measures, the DVA's documentation includes a diagram to explain the systems and processes used to conduct the survey, handle the data and report a result.

3.22 AGD had three surveys that were internally managed. Two of these were supported by an internal communications area within AGD, which managed the distribution and collation of surveys on behalf of the relevant divisions using an online survey platform. The third internal survey was managed by a team independent of the functions being surveyed. The survey managed by the division was conducted using dedicated survey software. AGD retained sufficient records to show how the selected sample population and size were identified and the controls over the survey process, including the handling of survey results.

## Use of experts

3.23 Entities used a variety of experts to inform their performance reporting. Entities' use of experts was generally well planned and documented.

3.24 In 2021–22, the six entities' use of experts included:

- existing datasets and surveys from the Australian Bureau of Statistics (ABS);
- existing datasets and surveys from other statutory entities, including the Commonwealth Scientific and Industrial Research Organisation, the Australian Institute of Health and Welfare and the Australian Curriculum, Assessment and Reporting Authority;

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55 DVA commissioned a firm to conduct its Client Benefits Client Satisfaction Survey. The results from this survey relate to six of the measures reported in DVA's 2021–22 performance statements.

AGD commissioned a firm to conduct its Stakeholder Survey. The results from this survey relate to nine of the measures reported in AGD's 2021–22 annual performance statements.

Treasury commissioned a firm to conduct its Stakeholder Survey. The results from this survey relate to seven of the 12 measures reported in Treasury's 2021–22 annual performance statements.

56 The exception was DVA which commissioned a firm to develop the survey questions.

- consortia of scientific experts who were engaged with the Department of Agriculture, Water and the Environment (DAWE), including the Terrestrial Ecosystem Research Network and the Commonwealth Environmental Water Officer's on-ground monitoring, evaluation and research program (Flow-MER); and
- methodologies generated by experts, including the survey firms commissioned by AGD, DVA and Treasury.

3.25 When planning to use experts' pre-existing data and methods, entities should assess the expert's assumptions and identified limitations. Datasets maintained by professional statistical and research organisations will often contain notes on data quality with comment on accuracy, timeliness, accessibility and caveats. In light of these assumptions and limitations, entities should consider:

- whether the data and method remain adequate to report a result against the measure and target; and
- the form of disclosures to draw the reader's attention to these factors in the annual performance statements, including where data is not specifically from the current reporting period, due to the time required to capture and verify large or complex data sets.

## Areas for improvement

3.26 A clear structure for measuring and evaluating performance will help show whether performance is improving within an entity and across the Commonwealth more broadly.<sup>57</sup>

3.27 There are areas where entities can improve their approaches to performance reporting. Addressing these areas will help entities use their performance information more effectively, and drive efficiencies in preparing their performance statements.

## Developing an enterprise level performance framework

3.28 As noted above, entities initially focus on establishing internal processes to meet the requirements of the PGPA Rule and reporting timeframes. A key part of this process has been to create supporting documentation for performance measures and identify a performance structure. This documentation sets out the intent of the measure, the method and data sources for measurement and the key risks to reporting a result.

3.29 While these are important first steps, performance reporting should not simply be seen as a compliance exercise to meet legislative requirements. Performance reporting should be an integral part of the operation of an entity, including regularly measuring and assessing whether the entity is achieving its purposes, and whether the entity's measures are suitable to measure and assess performance and support the making of data-informed decisions. This not only helps the entity to manage its performance effectively but also enables it to be accountable to the Parliament, government and the public.

3.30 Development of an enterprise level performance framework can assist an entity to move beyond a narrow approach to compliance with the PGPA Act requirements and, as well as improving transparency and accountability, achieve better informed and more effective decision-making at

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57 Revised Explanatory Memorandum, Public Governance, Performance and Accountability Bill 2013, 12 [86].

both strategic and operational levels. The key pillars of an enterprise level performance framework include:

- a **planning** stage, which involves identifying key activities and measures that link to an entity's purposes;
- a **monitoring** stage, involving periodically reviewing performance information against anticipated results;
- a **reporting** stage, where the performance statements are prepared and presented; and
- a **review** stage, where measures are reviewed to ensure they remain appropriate for the next reporting cycle.<sup>58</sup>

3.31 An effective framework would also incorporate evaluation, to enable a deeper analysis of key activities and programs. Evaluation is an integral element of the Commonwealth Performance Framework.<sup>59</sup>

3.32 All entities should consider an enterprise approach to performance reporting. To date, DSS is the only entity of the six auditees in 2021–22 that has commenced preparing an enterprise level performance framework. DSS' document is designed to internally plan, manage and report performance information across the reporting cycle. Other entities that were part of the 2021–22 audit program have put in place aspects of these processes, including internal review of interim performance results.

## Periodic monitoring

3.33 Periodically monitoring progress against anticipated results can help to guide operational and strategic decisions. It can facilitate early identification of potential issues and their timely resolution and can inform the re-allocation of resources where necessary. It can also support capacity and capability building and foster an evaluative culture within entities, where high quality performance information and management is valued and expected to be part of strategic planning and budgeting.

3.34 Periodic monitoring is an established practice for financial reporting. Most Commonwealth entities monitor their budgets on a monthly basis. Audit committees are also provided regular updates of financial performance and risks at each audit committee meeting.

3.35 This is not the case for performance information, where periodic monitoring and reporting is not an established practice. Four of the audited entities reviewed their performance results during the reporting period, although the frequency of reviews varied.

3.36 The benefits of periodic reporting were demonstrated during the Treasury audit. As a result of a mid-cycle review Treasury was able to provide a progress update on performance to date and identify potential refinements through its quality assurance processes. This resulted in changes to the measures for the 2021–22 financial year and enhancements for measures included in the 2022–23 Corporate Plan.

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58 See also Department of Finance, 'Developing performance measures', *Resource Management Guide 131*, February 2020.

59 Refer to the Finance website for a description of the elements for the performance framework at: <https://www.finance.gov.au/government/managing-commonwealth-resources/planning-and-reporting/commonwealth-performance-framework> [accessed 27 November 2022]

3.37 For some measures, data will not be available until after the end of the reporting period. In these circumstances, the entity should consider how it will reliably report and disclose results for the reporting period, including the use of an incomplete set of data in the performance statements. For example:

- DAWE's 2021–22 performance statements contain a measure on the recycling rate for television and computer waste. DAWE did not have access to formal reporting for all four quarters of the reporting period at time of publication. It explained in its performance statements that full annual figures against the scheme's recycling target will be published on the scheme's website when formal reporting for the fourth quarter has been received, and that full year results will be in the 2022–23 annual report (see Appendix 6)<sup>60</sup>;
- The Department of Education, Skills and Employment (DESE)'s 2021–22 performance statements contain five measures based on data from the Higher Education Statistics Collection. It explained in its performance statements that the results are based on preliminary information, and that final information will be published on the department's website (see Appendix 6).<sup>61</sup>

3.38 Entities should consider which measures can be periodically monitored and determine the appropriate frequency for monitoring.

3.39 Regular monitoring and reporting within an entity, for example to governance and audit committees, will assist entities to understand organisational performance during the year and improve the performance management process. Regular reporting will also improve the audit process. As with 'hard close' for financial statements, audit procedures can be conducted on measures reported during the year, reducing the time and effort required during the final phase of the audit and at year end.

3.40 Periodic monitoring is a good indicator of the quality of information management within the entity, including record keeping and quality assurance processes.

3.41 Monitoring performance results can also identify data shortcomings for performance measures and programs that are at risk of not delivering on expectations. This could inform the need for an evaluation or deeper analysis to complement reporting through performance statements.

## Developing and reporting outcome-based performance measures and targets

3.42 An objective of the PGPA Act is to provide meaningful information to the Parliament and the public.<sup>62</sup> In the context of an entity's performance, meaningful information identifies who benefits and how. It explains the impact of the entity's activities.

3.43 Some entities developed measures based on the available data and evidence that most easily supported a result. While the PGPA Rule requires reliable and verifiable information sources,

60 Department of Agriculture, Water and the Environment, *2021–22 Annual Report*, p. 50, available at <https://www.transparency.gov.au/annual-reports/department-agriculture-fisheries-and-forestry/reporting-year/2021-22-5> [accessed on 7 December 2022].

61 Department of Education, Skills and Employment, *2021–22 Annual Report*, p. 50, 53, 54, 60, 63, available at <https://www.education.gov.au/about-department/resources/2021-22-dese-annual-report> [accessed on 7 December 2022].

62 *Public Governance, Performance and Accountability Act 2013*, section 5.

these sources should not drive the choice of performance measures. Measure selection should be based on a clear logic model that draws the links between the entity's purposes and key activities and the information that best explains how well the entity is performing in achieving its purposes. DSS' internal policy to identify a key activity and its key activity logic models are good examples of how an entity can plan to design its performance measures and targets.

3.44 Entities are established to undertake activities to deliver services that achieve an impact. In planning performance measures, entities should have sight of the impact they are aiming to achieve and how this can be measured over time. As programs mature, it could be reasonably expected that performance measures will move from output measures to measures of effectiveness. It is not unusual for performance information to evolve over time to ensure it remains fit for purpose.

3.45 Effectiveness measures can provide a measure of impact. They provide the reader with an assessment of the outcome the entity has achieved. Output measures may be a proxy for whether services have been delivered to a population at the right time and cost.<sup>63</sup>

3.46 The PGPA Rule requires entities to include measures of the entity's outputs, efficiency and effectiveness, where those are appropriate to measure the entity's performance. While measures of output are part of the framework, entities should ultimately be seeking to measure the effectiveness of their policies and programs.

3.47 Program logic models are a useful tool to understand how programs and policies should mature, and how measures should evolve as this occurs. The models describe how a program's inputs and activities are intended to deliver outputs, and how these outputs are intended to deliver short and long-term outcomes.

3.48 DSS' performance measure documents identify the proposed measure on a continuum from inputs, outputs, short-term outcomes and long-term outcomes. Where the measure is identified as an output, the document notes when it might change to measure outcomes.

3.49 For many government programs, outcomes may take many years to achieve. Outcome-based measures can be complemented by intermediate measures that reflect anticipated results over the short, medium and longer term. For example:

- DESE's 2021–22 performance statements contain a measure on Year 12 completion rates for people aged 20–24. The long-term target is an increase to 96 per cent by 2031. In year, DESE reports the attainment rate as part of a graph that shows that actual and projected trend to the 2031 target (see Appendix 6).<sup>64</sup>
- DAWE's 2021–22 performance statements contain a measure on long-term reduction in waste per capita. The long-term target is a reduction in waste to 2,400 kilograms per person by 2030. In-year, the measure reported is an output measure with a target of \$7.72 million invested in product stewardship arrangements. DAWE explained that the

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63 Department of Finance, 'Developing performance measures', *Resource Management Guide 131*, April 2022.

64 Department of Education, Skills and Employment, *2021–22 Annual Report*, p. 42, available from <https://www.education.gov.au/about-department/resources/2021-22-dese-annual-report> [accessed on 7 December 2022].

actions reflected in the output measure will support future reductions in waste generation per capita (see Appendix 6).<sup>65</sup>

3.50 Intermediate measures can provide early and timely reporting of progress and setbacks, allowing for policy learning and adjustments to program and service delivery. Intermediate measures could include inputs and be complemented by narrative and analysis detailing actions and interventions undertaken by the entity aimed at making progress towards the long-term outcome.

3.51 The impact of an entity's contribution to a government program or policy may be difficult to measure. For the most part, one performance measure is unlikely to tell the full performance story, and a handful of well-crafted measures will be required to enable a useful and meaningful assessment of how well the entity is performing. Several entities have measures that assess the impact of an outcome where the entity's contribution is one of several factors that contribute to the achievement of that outcome.

3.52 DAWE, for example, reported on performance measures that assess the ecological health of the environment based on the contribution of the Commonwealth Environmental Water Office (CEWO). In its 2021–22 performance statements, DAWE explained the complexity of isolating CEWO's contribution to this outcome:

There are varying degrees to which observed outcomes can be confidently attributed to the delivery of environmental water. Where inundation of a wetland is 100% due to Commonwealth environmental water we have high confidence in attributing an observed outcome to the CEWH intervention, particularly where this is consistent with results in previous years or established scientific understanding of flow-ecology relationships.

In many cases Commonwealth environmental water is only a portion of the total flow down a river or the volume delivered to a wetland. The extent to which we can attribute change to environmental water is subject to scientific analysis, which is completed outside of the reporting period for departmental annual reports. Formal analysis and monitoring reports are generally available 6–12 months after the reporting period.<sup>66</sup>

3.53 One way to capture an entity's contribution to an overall outcome is to report a combination of output and effectiveness measures. AGD's 2021–22 performance statements, for example, contain three measures that in combination report on the reduction in Total Injury Frequency Rate (TIFR) by companies (See Appendix 6).<sup>67</sup> This includes an output measure on number of safety audits conducted, an effectiveness measure surveying accredited companies on their satisfaction with training and guidance delivered by the OFSC) that could affect a reduction in the TIFR, and a third measure reporting the TIFR. In this way, AGD is able to indicate to the reader the possible correlation between the output measure (audits conducted), the effectiveness measure

65 Department of Agriculture, Water and the Environment, *2021–22 Annual Report*, pp. 42–43, available from <https://www.transparency.gov.au/annual-reports/departments-agriculture-fisheries-and-forestry/reporting-year/2021-22-5> [accessed on 7 December 2022].

66 Department of Agriculture, Water and the Environment, *2021–22 Annual Report*, available from <https://www.transparency.gov.au/annual-reports/departments-agriculture-water-and-environment/reporting-year/2021-22-7> [accessed 1 February 2023].

67 These are companies accredited under the Work Health and Safety (WHS) Accreditation Scheme. See Appendix 6.



(satisfaction of accredited companies), and the overall effectiveness measure (reduction in injury rate).

## Integrating reporting requirements

3.54 The key reporting artefacts for the Commonwealth Performance Framework comprise the entity's Portfolio Budget Statements (PBS), Corporate Plan and annual performance statements, which are included in the entity annual report. Presentation of performance information in these artefacts is underpinned by the clear read principle, which requires a clear line of sight between an entity's planning documents and its annual performance statements.

3.55 The Independent Review of the PGPA Act noted that parallel performance reporting frameworks that duplicate aspects of the PGPA Act performance framework create an additional reporting burden for entities and dilute the significance of portfolio budget statements, corporate plans and annual reports as the key sources of performance information for entities. In addition, reporting on performance of entities across a number of reports reduces the clarity of performance information and accountability for performance to the Parliament.<sup>68</sup>

3.56 The Independent Review went on to recommend that other performance reporting frameworks should be reviewed and their reporting requirements integrated into annual performance statements.

3.57 The Department of Finance released Resource Management Guide 128 *Regulator Performance* in December 2022, noting that regulator performance reporting should be incorporated into an entity's reporting processes (with a focus on the corporate plan and annual performance statements) as required under the PGPA Act and PGPA Rule.<sup>69</sup>

3.58 Entities are integrating regulatory performance measures into their performance statements reporting. For example:

- DAWE's 2021–22 performance statements contain a measure on the Water Efficiency Labelling and Standards (WELS) Scheme that the department describes in the statements as an 'effectiveness and regulatory' measure type. In addition to the result reported in the performance statements, Part 3 of DAWE's annual report presents information on the WELS Scheme's effectiveness and operations in line with the legislative requirements of the *Water Efficiency Labelling and Standards Act 2005*. The information presented in Part 3 complements the result and analysis in the performance statements (see Appendix 6).<sup>70</sup>
- Treasury's 2021–22 performance statements contain three performance measures relating to Treasury's regulatory functions. Treasury notes in the statements that the

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68 E Alexander AM and D Thodey AO, *Independent Review of the Public Governance, Performance and Accountability Act 2013 and Rule*, Commonwealth of Australia, September 2018, p. 35.

69 Department of Finance, 'Regulator Performance', *Resource Management Guide 128*.

70 Department of Agriculture, Water and the Environment, *2021–22 Annual Report*, available from <https://www.transparency.gov.au/annual-reports/departments-agriculture-fisheries-and-forestry/reporting-year/2021-22-5> [accessed on 7 December 2022].



surveys that are used to assess each of these measures align with the three principles of the Regulator Performance Guide (see Appendix 6).<sup>71</sup>

3.59 Entities should continue to integrate their regulatory performance into their performance reporting. Where there is a legislative requirement to report on the operation of legislation, entities should consider how to appropriately reflect this integral part of the entity's purposes in the performance statements. Where a performance measure complements information reported as part of a legislative requirement, entities should avoid duplicating information and cross reference the relevant parts of the annual report.

3.60 Effective integration does not mean that annual performance statements should be loaded up with all performance related information. Providing references to other reporting, complemented by appropriate commentary, could support improved transparency without unnecessarily congesting the performance statements.

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71 Department of the Treasury, *2021–22 Annual Report*, p. 49, available from [https://treasury.gov.au/sites/default/files/2022-10/p2022-329943-tsy-annual-report-2021-22\\_2.pdf](https://treasury.gov.au/sites/default/files/2022-10/p2022-329943-tsy-annual-report-2021-22_2.pdf) [accessed 7 December 2022].

## 4. The ANAO's approach to auditing annual performance statements

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### Chapter coverage

This chapter explains the Australian National Audit Office's (ANAO's):

- general approach to auditing annual performance statements;
- phases of a performance statements audit;
- areas of focus in auditing an entity's performance statements; and
- future developments to ensure that performance statements audits encourage meaningful performance reporting.

To date, the ANAO has taken an educative approach to engaging with entities on annual performance statements audits. This approach has assisted in improving the quality of entities' annual performance statements and the resolution of interim audit findings. It has also provided audit teams with insight into differences and similarities between entity approaches to planning, measuring and reporting their performance.

Performance statements audits are structured similarly to financial statements audits with a planning, interim and final phase, to allow entities time to correct issues noted and align with annual report tabling. As in financial statements audits, the intent of this structure is to enable the auditee to address matters identified at the interim phase of the audit and to reflect on final findings in the following reporting year.

To leverage the benefits of performance statements audits, the ANAO seeks to commence audits as soon as possible in a new financial year. Among other things, early commencement enables the ANAO to work collaboratively with entities to identify opportunities for improvement, which can be reflected in the preparation of the entity's Corporate Plan and PBS for the next financial year. In the current legislative framework, the timing of a request from the Finance Minister or responsible Minister influences the commencement of auditing.

### Future developments

The ANAO will continue to refine its audit methodology to ensure it remains fit-for-purpose and encourages entities to improve the quality of their performance reporting. This includes supporting entities to meet both the requirements of the PGPA Rule and the spirit and intent of the Commonwealth Performance Framework. The ANAO has established an Expert Advisory Panel, which will be important to guide maturity of the audit program as it reaches full implementation.

During the 2021–22 audit cycle, there was some evidence that entities were taking a compliance-based approach to developing and reporting performance measures to minimise the risk of audit qualification, as opposed to producing complete and meaningful performance information. The ANAO will seek to identify the extent of this practice during the 2022–23 audit cycle and identify how the performance statements audit methodology can better incentivise entities to improve the quality of performance reporting rather than seeking to meet the minimum standards that will satisfy the auditor. The ANAO will provide feedback to Finance on how the Rule is operating.

## General approach to auditing performance statements

4.1 Since its establishment in 1901, the ANAO has provided the Parliament with assurance that public sector entities' financial statements have complied with the relevant accounting standards and present fairly the financial position of the entity.<sup>72</sup>

4.2 Through the annual auditing of financial statements, the Parliament can be assured that financial reporting in the Australian public sector is robust. Entities have well-established processes and expertise to prepare their financial statements to a high quality and engage efficiently with the audit. Financial statements do not, however, provide the total information required to enable the reader to understand the results achieved from the use of public resources.

4.3 The current approach to performance statements audits borrows heavily from financial statements auditing practices. The aim is to provide reasonable assurance on the quality and reliability of entity performance statements.

4.4 Under the Commonwealth Performance Framework, it is for entities to determine how best to report their performance, including the selection and design of performance measures and targets and the structure and format of performance statements. The ANAO assesses whether entity reporting is consistent with the requirements of the PGPA Rule and presents fairly the performance of the entity in achieving its purposes.

4.5 While entities' processes to prepare their performance statements are maturing, some entities lack the capability and expertise to produce meaningful performance information and high-quality performance statements. Over the past three years, entities' engagement with performance statements audits has improved but gaps remain in terms of process, understanding and execution.

4.6 Unlike financial statements preparation, performance statements preparation and the development of meaningful performance information is an underdeveloped professional discipline across the public sector and there is no purpose-built set of professional competency standards to support preparers of such information. Noting this, the ANAO's approach to engaging entities in performance statements audits involves a higher degree of education than in other audit products.

4.7 The Department of Finance provides Resource Management Guides and has established a performance statements Community of Practice.

4.8 Performance statements audits are conducted under the ANAO Auditing Standards. These standards are based on the Standard on Assurance Engagements ASAE 3000 issued by the Auditing and Assurances Standards Board.<sup>73</sup>

4.9 The ANAO is currently finalising a performance statements audit manual, which will be published on its website. The manual will address the performance statements audit process. The audit manual will be reviewed regularly as the audit process matures and evolves through experience.

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72 The ANAO also conducts performance audits, which involve the independent and objective assessment of part of an entity's operations and administrative support systems. Through this activity, the ANAO reports to Parliament on areas where improvements can be made to aspects of public administration.

73 Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

4.10 The ANAO has met with program delivery and governance teams of entities throughout the reporting year. An important part of these meetings was to explain examples of better practice in performance reporting and the phases of the audit.

4.11 For each of the 2021–22 audit engagements, this approach has been important. It has improved the quality of entities' performance statements. It has also provided audit teams with insight into differences and similarities between entity approaches to planning, measuring and reporting their performance.

4.12 Entities should be cognisant of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), Division 2 — Objects of this Act — 'to provide meaningful information to the Parliament and the public'. In order to fully comply with its intent, rather than technically comply with its elements, entities should consider whether their measures — individually and in aggregate — provide the Parliament with meaningful performance information. The focus should not only be on meeting the requirements of the PGPA Rule but also the spirit and intent of the performance framework.

4.13 As with financial statements audits, annual auditing of annual performance statements will:

- assist entities to improve the quality and reliability of their annual performance statements; and
- provide the Parliament with reasonable assurance that the performance statements contain accurate and reliable information about the entity's performance in achieving its purposes.

## Phases of a performance statements audit

4.14 Annual performance statements' audits are structured similarly to financial statements audits with a planning, interim and final phase to allow entities time to correct issues noted and align with annual report tabling (see Appendix 3). As with financial statements, the intent of this structure is to enable the auditee to address matters identified at the interim phase of the audit and to reflect on final findings in the following reporting year, including the preparation of the entity's forthcoming corporate plan and Portfolio Budget Statements (PBS).

### Planning phase

4.15 The planning phase of performance statements audits establishes a collaborative approach between the entity and the ANAO. A key focus for the auditors is to understand the entity, its purposes, key activities and performance measures and its processes for preparing the performance statements and the supporting documentation for each performance measure. The planning phase of the audit should assist the entity to ensure that it has adequate processes in place to meet reporting deadlines and to report reliably to the Parliament at year end.

4.16 The aim of the planning phase is to develop an appropriate audit strategy plan that is presented to the entity's executives and audit committee. The plan sets out the audit criteria, key milestones and responsibilities.

4.17 Chapter 1 highlighted the importance of starting audits early to enable entities to reflect interim audit findings in their PBS. For this to occur, it is preferable for engagement to occur by the

second quarter of the financial year. Under the current arrangement, this requires a request by Minister for Finance to undertake the audits.

## **Interim phase**

4.18 The intent of the interim phase of performance statements audits is to assist the entity to understand whether its performance measures are appropriate to report reliably on the entity's performance in achieving its purposes.

4.19 The interim phase of the audit aims to understand and test the effectiveness of entity internal controls prior to the entity's preparation of its annual performance statements. During the interim phase, the audit team assesses the performance material in the corporate plan and the PBS and the internal control framework that supports the production of the performance statements. This provides an understanding of the likelihood or risk of errors within the performance statements and allows for detailed testing to be planned and undertaken.

4.20 Where the entity periodically monitors performance, testing can be undertaken to reduce the scope of audit procedures required in the final phase. This is similar to the 'hard close' process for financial statements audits and can assist to improve the efficiency of the final phase.

4.21 At the conclusion of the interim audit phase an Interim Management Letter (IML) is provided to the entity. The IML indicates the ANAO's assessment of the internal control environment, the 'clear read' of performance information, whether the structure of the performance information is effective and whether the entity's performance measures meet the requirements of the PGPA Rule. The IML contains the ANAO's findings and recommendations at a detailed level, and is provided to the entity for comment and response.

4.22 The IML is designed to assist the entity to address matters relating to the performance statements and/or particular measures prior to the final phase of the audit, and to provide the entity with an opportunity to produce performance statements on which the ANAO will be able to provide an unqualified conclusion.

## **Final phase**

4.23 During the final phase of the audit, the ANAO's focus is on testing the accuracy and reliability of the performance information and analysis contained in the entity's performance statements. The audit concentrates on whether:

- the performance statements meet the requirements of the PGPA Rule and the presentation of annual reports in section 17AC of the PGPA Rule;
- the entity workpapers sufficiently demonstrate how data sources, evidence and the methodology were applied to calculate the reported results;
- the ANAO is able to obtain sufficient evidence to verify the reported results based on the entity's methodology for measurement and assessment;
- the entity provided adequate assurance over the systems used to report performance information, and the evidence generated from these systems; and
- the IML findings and recommendations have been adequately addressed.

4.24 The audit process then assesses the overall results of testing and evidence obtained to form the preliminary audit conclusion. The preliminary audit conclusion is normally discussed with the

entity in advance of provision to the accountable authority to ensure the results of the audit are clearly understood and to allow for any last details to be finalised.

4.25 Once completed, the entity's accountable authority provides the signed annual performance statements and requested management representations to the ANAO and the Auditor-General provides his independent assurance report to the Finance Minister (or responsible requesting Minister).

4.26 The ANAO also prepares a Final Management Letter (FML) which contains the ANAO's findings and recommendations from the overall audit. Consistent with the approach for financial statements, the FML categorises findings as significant (A), moderate (B) and minor (C) to emphasise their relative importance and support entities to prioritise improvement efforts.

4.27 The FML is provided to the entity for comment and response. The entity's responses to, and action on, the FML findings and recommendations are a key reference point for the ANAO in commencing an audit of the entity's performance statements for the following reporting year.

## Key areas of focus across the audit

4.28 Across the three phases of the audit, the ANAO is focussed on:

- the structure and alignment of performance information ('clear read');
- whether measures and targets meet the requirements of the PGPA Rule; and
- the accuracy and completeness of results and other information presented in the performance statements.

4.29 Entities should plan their engagement with the audit to meet these requirements.<sup>74</sup>

## Structure of performance information

4.30 The Joint Committee of Public Accounts and Audit (JCPAA) has expressed its expectation that entities will implement the 'clear read' principle in their reporting.<sup>75</sup> A 'clear read' means that an entity's information is:

- reconcilable throughout an entity's PBS, corporate plan and performance statements within one reporting cycle;
- presented clearly and consistently throughout an entity's PBS, corporate plan and annual report across multiple reporting cycles; and
- compatible between Commonwealth entities — in terms of comparability, consistency of reporting structure and level of information provided.<sup>76</sup>

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74 The areas of focus correspond to the audit criteria for the audit engagement.

75 Joint Committee of Public Accounts and Audit, *Report 453: Inquiry into the Commonwealth Performance Framework*, December 2015, available from [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Joint/Public\\_Accounts\\_and\\_Audit/Performance\\_Framework/Report\\_453](https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/Performance_Framework/Report_453) [accessed 17 November 2022].

76 Auditor-General Report No.19 2019–20 *Commonwealth Resource Management Framework and the Clear Read Principle*, pp 20–21, available from [https://www.anao.gov.au/sites/default/files/Auditor-General\\_Report\\_2019-2020\\_14.pdf](https://www.anao.gov.au/sites/default/files/Auditor-General_Report_2019-2020_14.pdf) [accessed 17 November 2022].

4.31 The ANAO works with entities to understand how the entity has applied clear read in its key performance documentation.

### **Measures and targets that meet the requirements of the Rule**

4.32 At both the interim and final phase of the audit, a performance statements audit assesses whether each measure meets the requirements of the Rule. The audit's interim assessment of measures against the requirements of the Rule is based mainly on the discussions with the auditee and supporting documentation. The final assessment has the benefit of the actual result in the draft performance statements, the supporting evidence and the entity's workpapers.

4.33 The experience of the 2021–22 audit indicates that the IML assessment of performance measures is a good guide to the audit's final assessment in the FML. Unless addressed, measures identified in the IML as at risk of not meeting the requirements of the Rule have generally had the same assessment in the FML.

4.34 Entities should have formal quality assurance processes in place to gain assurance over the reliability and verifiability of the data sources and the methodologies used to produce performance results. These processes will, in turn, provide assurance over the completeness and accuracy of the reported results. Periodic monitoring and reporting can assist entities to identify the robustness of quality assurance processes.

### **Complete and accurate results**

4.35 In the final phase of the audit, a key focus is on the completeness and accuracy of the reported results in the performance statements. The audit's tests for accuracy may include enquiry, inspection, re-calculation, re-performance, observation, confirmation and analytical procedures.<sup>77</sup> The audit team determines the procedure selected with the objective of obtaining sufficient appropriate audit evidence.<sup>78</sup>

4.36 When planning their performance measures, entities should ensure that an accurate and complete result can be reported at the end of the reporting period. This requires the entity to be able to gain assurance over systems used to generate data. These systems may include those that are operated by third parties.

4.37 In the final phase of the audit, the audit team:

- verifies each disclosure in the performance statements with supporting evidence provided by the entity;
- assesses whether limitations and caveats in reporting a result are adequately disclosed; and
- assesses whether the information in the statements meets the Rule's requirement for information that is 'relevant, reliable, concise, understandable and balanced'.<sup>79</sup>

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77 Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraphs A9 and A109.

78 Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraph A81.

79 *Public Governance, Performance and Accountability Rule 2014*, subsection 17AC(2).

4.38 The reader's needs are a key consideration in whether the disclosures in the entity's performance statements are adequate. Where there are known limitations with the completeness or accuracy of data, or the method for producing a result, these should be clearly explained to the reader. These disclosures are important for the reader to form an assessment of the reported result and the entity's performance.

## Future developments

4.39 Since the 1980s, Australian governments have implemented a series of management reforms aimed at making policy and service delivery programs more efficient, transparent and responsive to community needs.<sup>80</sup> An important element to these reforms has been to find an approach that provides for a level of accountability through timely and meaningful performance information commensurate with the degree of agency autonomy in a devolved resource management framework. Despite an emphasis on meaningful performance information, the coverage and quality of performance information has consistently been a subject of criticism.<sup>81</sup> A key distinction between previous reforms and the current Commonwealth Performance Framework is that previous reforms did not incorporate legislative obligations for entities to prepare and report meaningful information on performance in annual performance statements or for performance statements to be independently audited by the Auditor-General as required under the PGPA Act.

4.40 In contrast to financial statements auditing, performance statements auditing is in its infancy. Consequently, it is not supported by detailed standards and guidance on disclosure requirements to support preparers of annual performance statements or auditors. In effect, the PGPA Rule is the standard. Entity feedback is that further support and guidance is required, including communication on emerging insights and developments.

4.41 The audit methodology will continue to evolve as the audit program expands. Improvement will be informed through 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. Information on performance should be valued and be seen as essential to good management to the same degree as financial information.

4.42 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.

4.43 For 2021–22, there were notable developments in the audit methodology as set out below.

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80 For example, the Financial Management Improvement Program established in 1984, the implementation of a centrally driven and monitored whole-of-government evaluation strategy in 1988, the introduction of the Outcome and Outputs Framework from the 1999–2000 Budget and implementation of the Outcomes and Programs Framework from 2008 as part of implementing Operation Sunlight.

81 Auditor-General Report No.5 2011–12, *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*.



- Assessing what information is material — materiality plays a critical role in performance statements auditing. Information is considered material if omitting, misstating or obscuring it could reasonably be expected to influence decisions of the primary users, being the Parliament. All entity performance measures reported in an entity's PBS, corporate plan and annual performance statements are presumed to be material. This recognises that the entity has determined that these are the best measures to demonstrate its performance.
- Clarification of what constitutes accurate reporting — several entities reported that they were 'unable to report' results against some performance measures, supported by detailed disclosures. The audit methodology was sufficiently robust to recognise where such reporting would not lead to a modified opinion.

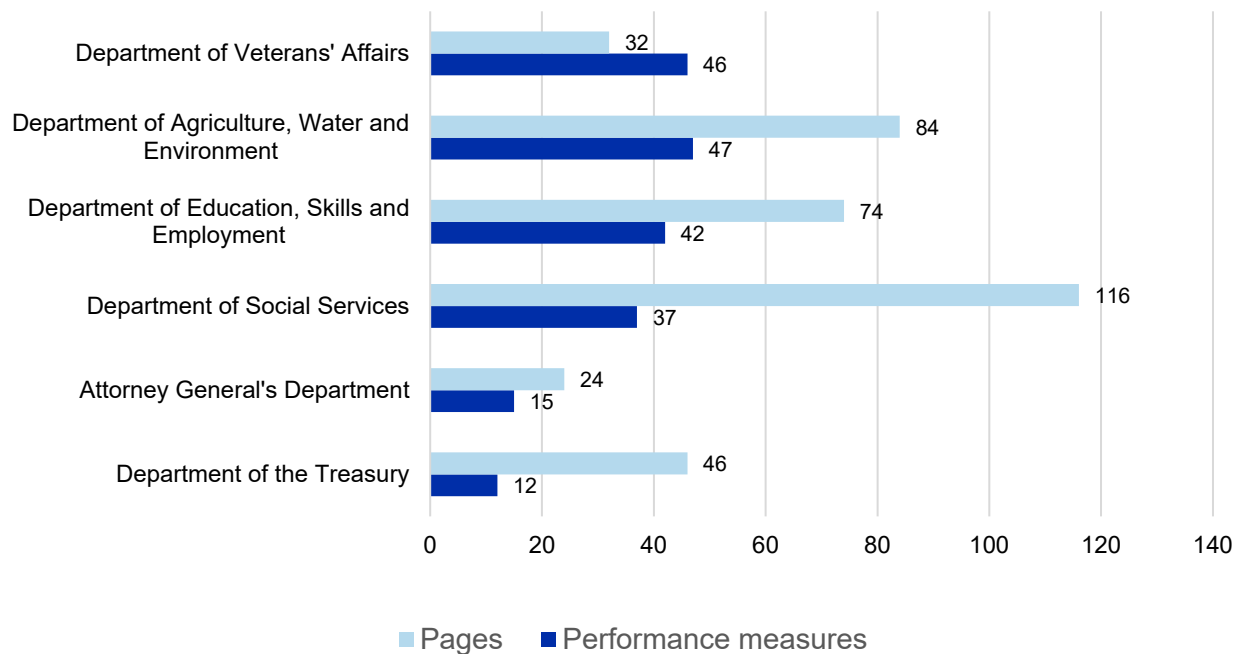
4.44 The 2021–22 audits also identified additional areas requiring clarification and change. As a result, there are several emerging areas of focus for the 2022–23 audit cycle.

4.45 The structure and content of the audit report is being reviewed to ensure it remains fit-for-purpose and provides appropriate information to promote accountability and high-quality performance statements. Recent changes to financial statements opinions, such as inclusion of Key Audit Matters, can inform improvements.

4.46 High quality performance statements are fair, balanced, transparent and understandable. The ANAO will focus on the PGPA Rule requirements for measures to be free from bias, including that the performance statements should give fair consideration to favourable and unfavourable aspects of performance. In addition, the performance statements can be made more understandable by using plain language and consistent terminology and where necessary providing definitions for technical terms. Users of information should also not be misled by performance statements omitting material information or disclosing non-material information. Reports that are not understandable undermine public sector accountability.

4.47 Through the auditing approach, the ANAO will assess whether entities have provided the appropriate depth and breadth of information that will help users understand their performance, balancing the need to provide a comprehensive picture of performance while avoiding immaterial information that would make the statements less easy to understand. Figure 4.1 sets out the page length of the performance statements and the number of performance measures for each of the six 2021–22 audited entities.

**Figure 4.1: Page length of performance statements and number of measures**



Source: ANAO analysis.

4.48 The Expert Panel will support the future development of the audit methodology and ensure that it contributes to high quality performance information and reporting (see chapter 1, paragraph 1.38). 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.

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Grant Hehir  
Auditor-General

Canberra ACT  
9 February 2023

## **Appendices**

## Appendix 1 Listing of entities

Reporting entity	Audit Risk Rating	Type of Auditor's Report	Date Performance Statements Signed	Date of signed Performance Statements provided to ANAO	Date Auditor's Report Issued	Annual report approval date <sup>a</sup>	Annual Report Tabling Date	Senate Estimates <sup>b</sup>
Attorney-General's Department	Moderate	✓	26 Sept 22	26 Sept 22	27 Sept 22	26 Sept 22	21 Oct 22	28 Oct 22
Department of Agriculture, Water and the Environment	High	Q	16 Sept 22	14 Oct 22	19 Oct 22 <sup>c</sup>	06 Oct 22	25 Oct 22	28 Oct 22
Department of Education, Skills and Employment	Moderate	✓	19 Sept 22	20 Sept 22	26 Sept 22	19 Sept 22	25 Oct 22	08 Nov 22
Department of Social Services	Moderate	Q E	04 Oct 22	04 Oct 22	06 Oct 22	19 Oct 22	28 Oct 22	08 Nov 22
Department of the Treasury	High	✓	04 Oct 22	04 Oct 22	05 Oct 22	06 Oct 22	27 Oct 22	08 Nov 22
Department of Veterans' Affairs	Moderate	Q	06 Oct 22	06 Oct 22	06 Oct 22	28 Oct 22	08 Nov 22	08 Nov 22

Key: ✓ — auditor's report not modified

E — auditor's report contains an Emphasis of Matter

Q — audit report contains qualification

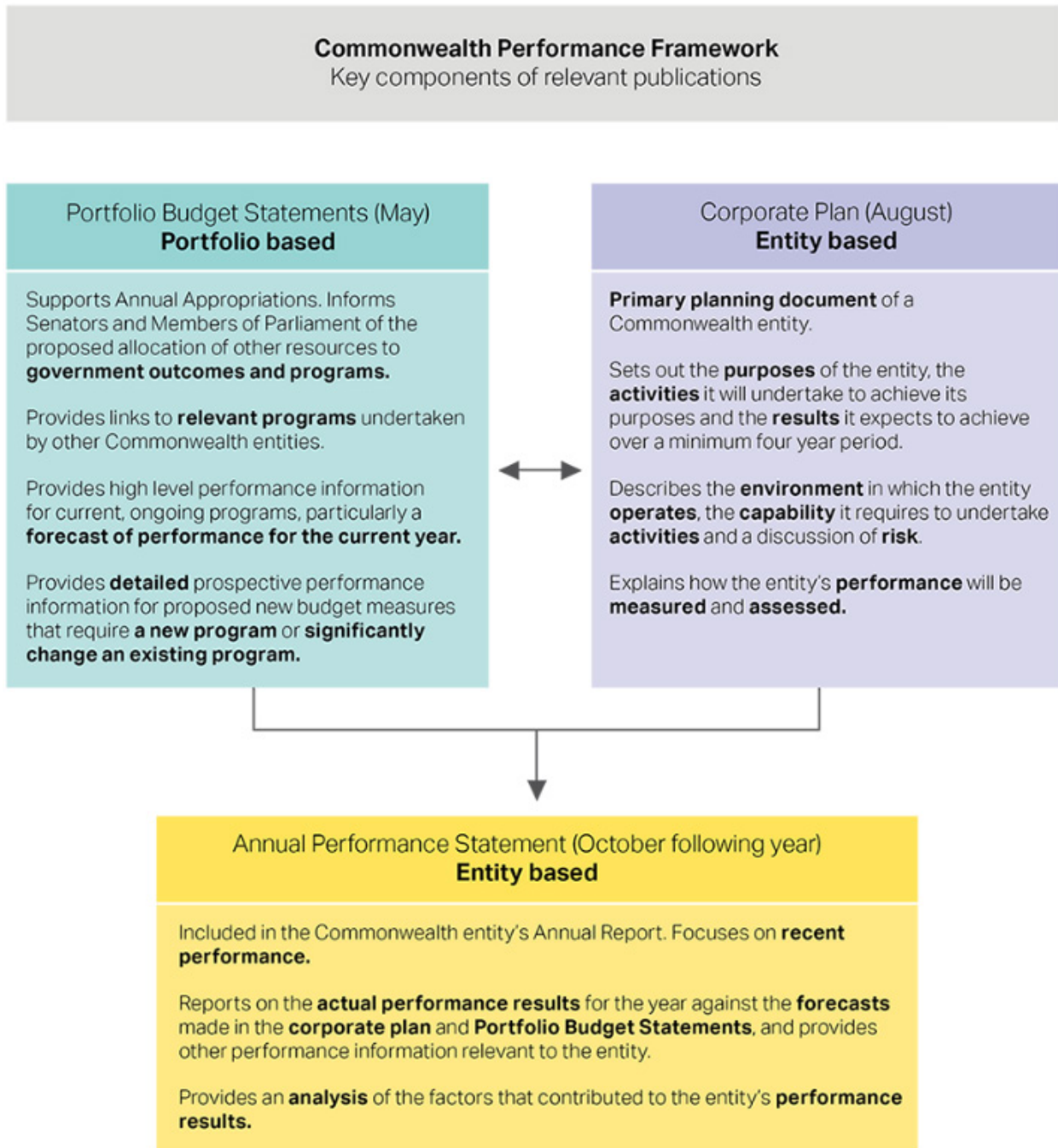
Note a: The date of the accountable authority's approval of the annual report is taken as either the date on the transmittal letter or the date the board approved the annual report.

Note b: This is the first appearance for the portfolio in the 2021–22 budget estimates hearing.

Note c: The Department of Agriculture, Water and the Environment's performance statements were signed on 16 September 2022. The ANAO was not provided a copy of the signed performance statements until 14 October 2022. The ANAO was therefore not able to provide an auditor's report in a timely manner.

Source: ANAO analysis.

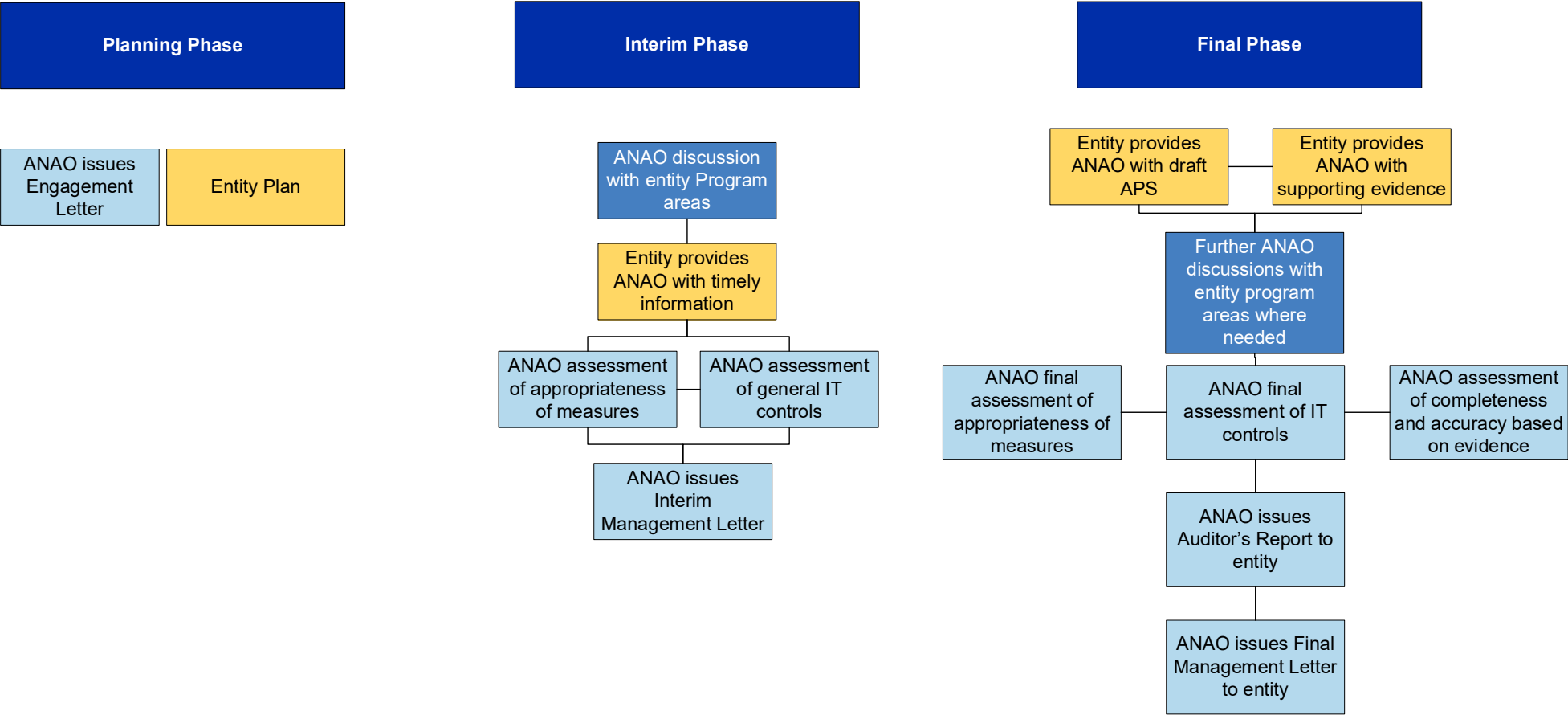
## Appendix 2 Commonwealth Performance Framework diagram



Source: Department of Finance, *Commonwealth Performance Framework* [Internet], 24 November 2021, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/planning-and-reporting/commonwealth-performance-framework> [accessed 31 January 2023].

Reproduced in Portfolio Budget Statements 2021–22.

Appendix 3    The Performance Statements audit process



Source: ANAO analysis.

## Appendix 4 Findings by theme — 2021–22 audits

Theme of findings		Significant	Moderate	Minor
<b>Construct of measure</b>	Unclear alignment of purposes, key activities and measures	–	–	1
	Performance statements do not cover all of the entity's significant key activities.	–	–	1
	Use of composite measures without adequate explanation	–	–	1
	Explanation and disclosure of efficiency proxies	–	–	1
	Inconsistent approach to disclosing target ranges	–	–	1
<b>Methodology</b>	16EA(b) Reliable, Verifiable	8	6	1
	16EA(c) Unbiased	2	–	–
	16EA(d) Qualitative and Quantitative Measures	–	–	2
	16EA(e) Measures of Outputs, Effectiveness and Efficiency	–	–	2
	16EA(f) provide a basis for an assessment of the entity's performance over time.	–	1	–
	Lack of methodology	1	–	–
<b>Disclosure and Presentation</b>	Material misstatement in result reported	1	–	–
	No 'clear read' between Corporate Plan, PBS and Annual Performance Statement	–	1	–
	Clarity of reporting	–	–	2
<b>Completeness and Accuracy<sup>a</sup></b>	Inability to provide assurance over completeness and accuracy of results	2	2	–
	Inability to provide sufficient and timely evidence to support result	1	–	–
	Inability to provide assurance over systems	–	1	1
<b>Performance Statements Preparation</b>	Timely provision of draft statements and supporting documentation to ANAO	1	1	1
	Poor record keeping processes including inadequate oversight by management	1	2	–

Note a: Completeness and accuracy relates to the audit procedures for testing the reported results.

Note: Some audit findings apply to multiple themes. There were 31 audit findings which contained 45 of the above themes.

Source: ANAO analysis.

## Appendix 5 ANAO audit finding categories

The ANAO has categorised its performance statements audit findings as outlined in the following table.

### Audit finding categories

Category	Description
A	Findings that pose a significant risk to the entity's performance statements preparation; these include findings that could result in material misstatement of the entity's performance statements.
B	Findings that pose moderate risk to the entity's performance statements preparation; these may include prior year findings that have not been satisfactorily addressed.
C	Findings that pose a low risk to the entity's performance statements preparation; these may include findings that, if not addressed, could pose a moderate risk in the future.
L1	Instances of significant potential or actual breaches of the Constitution, instances of significant non-compliance with the entity's enabling legislation, legislation that the entity is responsible for administering, and the PGPA Act.
L2	Instances of non-compliance with subordinate legislation, including the PGPA Rules.



## Appendix 6 Performance measures referenced in-text as examples

### Periodic Monitoring – Chapter 3

Department of Agriculture, Water and the Environment, *2021–22 Annual Report*, p. 50

#### Measure EN-10

Measure EN-10	The recycling rate for televisions and computers increases to 80% by 2026–27.
Measure type	Effectiveness and regulatory.
Target	70% of television and computer waste arising in 2021–22 recycled by June 2022.
Result	Partially achieved.

Department of Education, Skills and Employment, *2021–22 Annual Report*, p. 50

Measure PM010	The rate of attrition for domestic Bachelor students
Target	Lower than 15%
Result rating	Achieved
Result value	12.8% (result based on preliminary 2021 data)

Department of Education, Skills and Employment, *2021–22 Annual Report*, p. 53

Measure PM014	Proportion of domestic undergraduates who are from a low socio-economic background (based on Statistical Area level 1)
Target	16% or higher
Result rating	Achieved
Result value	16.6% (result based on preliminary 2021 data)

Department of Education, Skills and Employment, *2021–22 Annual Report*, p. 54

Measure PM015	Proportion of higher education students who are Indigenous
Target	2% or higher
Result rating	Achieved
Result value	2.1% (result based on preliminary 2021 data)

Department of Education, Skills and Employment, 2021–22 Annual Report, p. 60

Measure PM021	Indigenous Higher Degree by Research (HDR) completions
Target	Increase from previous year
Result rating	Not achieved
Result value	The number of Indigenous HDR completions reported in 2021 is 69, compared with 71 Indigenous HDR completions reported in 2020, <sup>xvix</sup> which represents a decrease of 2 completions (result based on preliminary 2021 data).

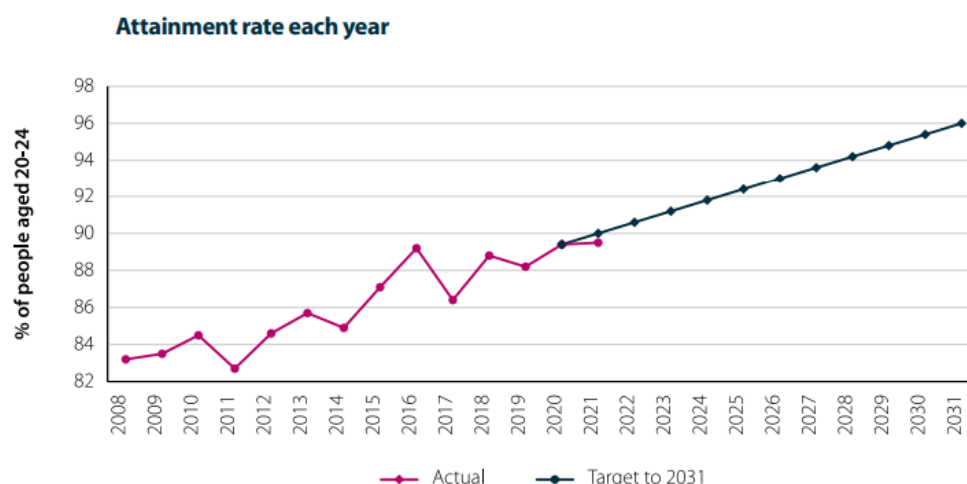
Department of Education, Skills and Employment, 2021–22 Annual Report, p. 63

Measure PM027	Number of students enrolled in offshore and transnational education and training delivered by Australian providers
Target	Numbers stabilised
Result rating	Achieved
Result value	23.8% (result based on preliminary 2021 data)

### Outcome-based performance measures – Chapter 3

Department of Education, Skills and Employment, 2021–22 Annual Report, p. 42–43

Measure PM060	Increase the proportion of people (age 20–24) who have completed Year 12 or equivalent or gaining a qualification at Australian Qualifications Framework Certificate III or above
Target	Increase to 96% by 2031 (from 89.4% in 2020) <sup>xii</sup>
Result rating	On track
Result value	89.5%



Department of Agriculture, Water and the Environment, *2021–22 Annual Report*, p. 49

#### Measure EN-09

EN-09	Reduction in kilograms of waste per capita generated in Australia every year from 2,700 kg to 2,400 kg per person by 2030.
Measure type	Output.
Target	\$7.72 million invested in product stewardship arrangements.
Result	Achieved.

Attorney-General's Department, *2021–22 Annual Report*, p.29

#### Performance measure 4.4:

#### The Office of the Federal Safety Commissioner

The legislative functions of the Office of the Federal Safety Commissioner (OFSC) are delivered efficiently and effectively, including by promoting work health and safety in relation to building work and implementing the Work Health and Safety Accreditation Scheme.

Performance targets	Result	2021–22 result	2020–21 result
4.4.1 Greater than 80% of accredited companies agree that:	Achieved		
(i) guidance, educational and promotional material is clear, easy to understand and fit-for-purpose		91%	88%
(ii) OFSC accreditation has improved their workplace safety performance		95%	93%
4.4.2 The Work Health and Safety Accreditation Scheme is effectively implemented through the completion of at least 500 onsite safety audits each financial year	Not Achieved	463	489
4.4.3 Companies accredited under the Work Health and Safety Accreditation Scheme collectively report a lower Total Injury Frequency Rate (TRIFR) than the previous calendar year	Achieved	6.88	7.24

## Integrating reporting requirements – Chapter 3

Department of Agriculture, Water and the Environment, *2021–22 Annual Report*, p. 79

Measure WA-01	
Measure WA-01	The Water Efficiency Labelling and Standards (WELS) scheme is improved.
Measure type	Effectiveness and regulatory.
Target	<ul style="list-style-type: none"><li>• Compliance with regulations is maintained or improved.</li><li>• Stakeholder engagement is maintained or improved in the design of regulatory policies, standards and conditions.</li></ul>
Result	Achieved.

The Treasury, *2021–22 Annual Report*, p. 49

Activity 5	
Administer Treasury's regulator functions	
Performance measure 8	Percentage of key stakeholders agree that regulator activities are responsive to the environment and builds trust.
Methodology	Survey of key stakeholders <sup>16</sup> of performance against principles of regulator best practice.
Target	70%