

# **Commonwealth Resource Management Framework and the Clear Read Principle**

Across Entities

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Canberra ACT  
27 November 2019

Dear Mr President  
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit across entities titled *Commonwealth Resource Management Framework and the Clear Read Principle*. 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

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# Audit snapshot

## Auditor-General Report No.14 2019–20

### *Commonwealth Resource Management Framework and the Clear Read Principle*



#### Why did we do this audit?

- ▶ Commonwealth entities spend significant amounts of public money to deliver government outcomes each year.
- ▶ To enable the Parliament to hold the Government to account for the delivery of those outcomes, there should be a clear read through entities' reporting between the allocation and use of public resources, and the results being achieved.



#### Key facts

- ▶ The JCPAA has described that a clear read is demonstrated by entities' reporting:
  - within a reporting cycle;
  - across reporting cycles; and
  - between entities.
- ▶ The Department of Finance is responsible for administering the resource management and performance reporting frameworks under the Finance Minister. This role includes providing support and guidance to assist entities, and monitoring implementation by entities.
- ▶ Entities are responsible for providing the Parliament and the public with meaningful information.
- ▶ The entities selected for this audit were the Departments of Defence, Health and Home Affairs.



#### What did we conclude?

- ▶ The Department of Finance's design and the selected entities' implementation of the clear read principle is partially effective.
- ▶ Parliamentary expectations relating to a clear read have not been fully realised.
- ▶ Finance's current guidance to entities focuses on a clear read within the reporting cycle, and does not adequately address a clear read across reporting cycles, or between entities.



#### What did we recommend?

- ▶ The Auditor-General made three recommendations to the Department of Finance. They relate to amending requirements and guidance, and monitoring advice provided to entities to improve implementation of the clear read principle.

# Summary and recommendations

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## Background

1. The use and management of public resources within the Commonwealth public sector is governed by the Commonwealth Resource Management Framework (the framework). The framework is underpinned by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), PGPA Rule and supporting directions and guidance.

2. A key objective of the principles-based framework is to establish a strong performance reporting system to demonstrate to the Parliament and the public that resources are being used efficiently and effectively by Commonwealth entities. Implementation of the framework was expected to improve both financial and non-financial performance information by placing obligations on officials for the quality and reliability of performance information. The benefits were expected to include:

...achieving a clear line of sight between the information in appropriation Bills, corporate plans, Portfolio Budget Statements and annual reports. Entities will need to define, structure and explain their purposes and achievements to create a clear read across these documents.<sup>1</sup>

3. The Minister for Finance is responsible for administering the framework and is supported by the Department of Finance (Finance).<sup>2</sup> Finance is responsible, under the Minister, for the whole-of-government administration of the framework and related legislation. Finance is also able to issue directions and guidance on all elements of the framework.

4. The Commonwealth Performance Framework — a key element of the Commonwealth Resource Management Framework — took effect from 1 July 2015 and ‘aims to improve the line of sight between what was intended and what was delivered’.<sup>3</sup> Finance describes the performance framework as delivering the following benefits:

The public and the parliament — like the shareholders of a company and financial supporters of charitable institutions — have a right to know what results are being achieved with the money they have provided. A balanced and complete performance framework should provide both financial and non-financial information that allows judgements to be made on the public benefit generated by public expenditure.<sup>4</sup>

5. The framework has been subject to scrutiny by the Joint Committee of Public Accounts and Audit (the JCPAA), and an independent review under subsection 112(4) of the PGPA Act. Recommendations arising from this scrutiny have encompassed the design of the framework and its administration by Finance, and included matters related to the clear read, or line of sight, in key mandated publications produced by entities under the framework.

6. The role of key publications produced by entities under the framework is as follows:

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1 Public Governance, Performance and Accountability Bill 2013 Revised Explanatory Memorandum, p. 7.

2 Known as the Department of Finance and Deregulation until September 2013, references to Finance in this report mean either the Department of Finance or the Department of Finance and Deregulation.

3 Department of Finance, *Managing performance* [Internet], available from [www.finance.gov.au/resource-management/managing-performance](http://www.finance.gov.au/resource-management/managing-performance), [accessed 12 June 2019].

4 Department of Finance, *Enhanced Commonwealth Performance Framework* [Internet] available from [www.finance.gov.au/resource-management/pmra/performance](http://www.finance.gov.au/resource-management/pmra/performance), [accessed 6 June 2019].

- Portfolio Budget Statements (PBS) — the primary financial planning document for entities;
- Corporate Plans — the primary non-financial planning document for entities; and
- Annual Reports — incorporate the performance statements and audited financial statements of entities, which report respectively on the non-financial and financial results achieved by entities.

7. Entities are expected to provide meaningful information to the Parliament and the public in their corporate plans and annual performance statements, together with the PBS, financial statements and annual reports.<sup>5</sup> Finance issues reporting templates and guidance to assist entities in the preparation and presentation of these documents.

8. In December 2015 the JCPAA described — in *Report 453: Development of the Commonwealth Performance Framework* — a 'clear read' of entities' performance information as exhibiting the following characteristics:

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

9. In this report, the ANAO has referred to these characteristics collectively as 'the clear read principle'.

## **Rationale for undertaking the audit**

10. Commonwealth entities spend significant amounts of public money to deliver government outcomes each year. The Commonwealth Resource Management Framework is intended to contribute to an accountable and transparent public sector by enabling the Parliament to hold the Government to account for the delivery of those outcomes through the scrutiny of entities' performance reporting.

11. To meet this aim, reporting by entities under the framework — through PBSs, corporate plans and annual reports — should provide a 'clear read' and a 'line of sight' between the allocation and use of public resources, and the results being achieved. Parliamentary review of the framework, in particular by the JCPAA, has resulted in recommendations to support implementation of a 'clear read'.

12. The JCPAA also recommended in December 2017 (during the third performance reporting cycle) that the ANAO 'consider conducting an audit of one complete Commonwealth performance reporting cycle, including whether a clear read of performance information has effectively been established, with consistent terminology and improved 'line of sight' across performance reporting documentation'.<sup>6</sup> This performance audit addresses the agreed recommendation.

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5 Department of Finance, *Managing performance* [Internet], available from [www.finance.gov.au/resource-management/managing-performance](http://www.finance.gov.au/resource-management/managing-performance), [accessed 12 June 2019].

6 Joint Committee of Public Accounts and Audit, *Report 469: Commonwealth Performance Framework*, December 2017, Recommendation 5, p. 48.

## Audit objective and criteria

13. The objective of the audit was to examine the effectiveness of the design and implementation of the clear read principle under the Commonwealth Resource Management Framework.

14. To form a conclusion against the objective, the ANAO adopted the following high-level audit criteria:

- the Department of Finance effectively established the clear read principle in the Commonwealth Resource Management Framework, and monitored its implementation; and
- the Department of Defence (Defence), the Department of Health (Health) and the Department of Home Affairs (Home Affairs) addressed Parliamentary expectations, and established a clear read through their 2017–18 performance measurement and reporting.

## Conclusion

15. The Department of Finance's design and the selected entities' implementation of the clear read principle under the Commonwealth Resource Management Framework has been partially effective and Parliamentary expectations have not been fully realised.

- The expectations of Parliament's Joint Committee of Public Accounts and Audit, as expressed in three reports, was that the characteristics of the clear read principle would be exhibited by entity reporting: within the annual performance reporting cycle; across multiple reporting cycles; and between entities (for example, in respect to joined-up or linked activities).

16. Finance has informed entities of the clear read principle, provided guidance on some aspects of achieving a clear read, and carried out monitoring and assessment of entities' implementation of framework requirements. Finance's current guidance is focused on supporting entities to implement the clear read principle within a reporting cycle. Expanding this guidance to address implementation of the clear read principle across reporting cycles and between entities would contribute to the realisation of the Parliament's expectations. Finance could further improve its support of entities' implementation of the clear read principle by directly providing entities with advice based on its assessments of entity reporting, and monitoring the effectiveness of its own activities on implementation.

17. The selected entities' implementation of the clear read principle:

- within the 2017–18 reporting cycle — was mostly effective in the case of Health and partially effective in the case of Defence and Home Affairs;
- across reporting cycles — was partially effective in the case of Home Affairs and not effective in the case of Defence and Health; and
- between entities — was partially effective in the case of the three departments. A clear read was most evident in those areas where reporting was underpinned by framework requirements, in particular for the presentation of information in entity PBSs and annual reports.

## Supporting findings

### Design and monitoring of the clear read principle by Finance

18. As recommended by the JCPAA in *Report 453: Development of the Commonwealth Performance Framework* (December 2015), and agreed to by the Government, Finance has incorporated examples of better practice in its guidance and in its reports on lessons learned, which support entities to implement the clear read principle within a reporting cycle. However, Finance has not fully addressed this recommendation as examples of better practice reporting of joined-up programs have not been included in its guidance to entities. There also remains scope to further support entities by providing additional examples in its guidance, focusing on how to achieve a clear read across multiple reporting cycles, and promoting comparability between entities.

19. Finance's guidance requires improvement to adequately support entities' implementation of the clear read principle. Current guidance is focused on supporting entities to implement the clear read principle for performance information within a reporting cycle. There remains scope to promote the integration of non-financial and financial performance information through PBSs, corporate plans and annual reports. The guidance does not adequately support entities to demonstrate a clear read across reporting cycles, or between entities. In particular, the reporting of linked programs — to enable the Parliament to obtain sufficient understanding of the planned and actual performance of those programs — requires attention.

20. Finance has undertaken monitoring and review activities, including assessments of the compliance and quality of entities' performance reporting documents, but has not yet established an ongoing evaluation initiative as recommended by the JCPAA in *Report 453: Development of the Commonwealth Performance Framework* (Recommendation 3), and agreed to by the Government. Finance is taking steps to address Recommendation 4 made in JCPAA *Report 469: Commonwealth Performance Framework* (December 2017), relating to a more comprehensive monitoring and evaluation program for the ongoing implementation of the Commonwealth Performance Framework.

21. Finance has communicated the broad learnings from its monitoring activities through lessons learned papers and communities of practice events. Further, Finance has provided feedback to entities when requested, and has launched [transparency.gov.au](https://transparency.gov.au), which is intended to facilitate comparisons of data between government entities. There remain opportunities for Finance to further support implementation of the clear read principle by: advising entities of the outcomes of its assessments of entity reports; maintaining records of the advice provided; and monitoring the effectiveness of its advisory activities.

### Establishment of the clear read principle in entities' 2017–18 reporting

22. The selected entities have assessed, and made improvements to, the quality of performance information they have provided to the Parliament and the public under the Commonwealth Performance Framework. This process has included the implementation of recommendations and addressing observations made by Parliamentary committees on aspects of entities' performance reporting. There is scope for the selected entities to improve their compliance with the framework requirements for corporate plans and performance statements.

23. While the selected entities' reporting did not fully demonstrate to the Parliament and the public a clear read of their performance within the 2017–18 performance cycle, each entity demonstrated one or more examples of better practice in the areas examined by the ANAO.

24. Health's 2017–18 reporting most closely reflected the clear read characteristics identified by the JCPAA, in particular by taking steps to establish connections between financial and non-financial performance in its 2017–18 annual report. The clear read of Defence's and Home Affairs' 2017–18 reporting would have been enhanced if their PBSs and corporate plans clearly demonstrated their alignment, and the results of financial and non-financial performance were integrated. The analysis presented by the selected entities in their performance statements, and elsewhere in their annual reports, could have been improved to better demonstrate a clear read within the reporting cycle.

25. The selected entities' reporting could better demonstrate to the Parliament and the public a clear read across performance cycles. In particular, there is scope to: explain changes to an entity's performance framework between performance cycles; and provide comparative results to support the reader's understanding of an entity's performance over time.

26. A clear read between the selected entities' reporting of their performance in the 2017–18 performance cycle was established in those areas underpinned by framework requirements for the presentation of entity PBSs and annual reports. The clear read between entities was less evident where similar framework requirements did not exist, including in respect to the presentation of corporate plans and the identification of linked programs.

## Recommendations

### Recommendation no.1

#### Paragraph 2.8

The Department of Finance updates guidance issued under the Commonwealth Resource Management Framework to include better practice examples of reporting that:

- (a) is reflective of joined-up/linked programs; and
- (b) facilitates comparison between entities.

**Department of Finance response:** *Agreed.*

### Recommendation no.2

#### Paragraph 2.47

The Department of Finance amends the:

- (a) Finance Secretary's Direction to require a linked program presented in an entity's Portfolio Budget Statements to also be reflected in the linked entity's, or entities', Portfolio Budget Statements; and
- (b) corporate planning and annual report requirements to require entities to report on linked programs that were presented in the Portfolio Budget Statements.

**Department of Finance response:** *Noted.*

**Recommendation  
no.3**

**Paragraph 2.66**

The Department of Finance:

- (a) advises entities of the results arising from any assessments of their Portfolio Budget Statements, corporate plans or annual performance statements;
- (b) maintains records of advice provided to entities; and
- (c) monitors the impact of its advice in improving implementation of the framework by entities.

**Department of Finance response:** *Agreed.*

## Summary of entity responses

27. Summary responses from the Departments of Finance, Defence, Health and Home Affairs are provided below. Full responses can be found at Appendix 1.

### Department of Finance

Finance considers that the Report does not reflect the ongoing work in this area. In particular, amendments proposed to the Public Governance, Performance and Accountability Rule 2014 and the Finance Secretary Direction will improve the link between Portfolio Budget Statements and corporate plans and improve the content of entity corporate plans.<sup>7</sup>

Finance will continue to work with entities on ways to improve the presentation of Portfolio Budget Statements, corporate plans and annual performance statements to facilitate the clear read principle.

### Department of Defence

Defence acknowledges the recommendations and findings to update the guidance and information available to support agencies to strengthen performance information in and across reporting cycles.

Defence is committed to ongoing improvement in its measurement and reporting of performance in line with the broader findings of the audit. The ANAO audit analysis and findings will help Defence strengthen its approach to the 2020-21 performance framework and 2019-2020 annual performance statements.

### Department of Health

The Department of Health (the department) welcomes the findings in the report and will implement the suggested opportunities to improve performance reporting to Parliament and the public.

It was pleasing to note the department was found to be largely effective in reflecting the clear read principles across the 2017-18 performance cycle. The enhanced performance reporting elements of the *Public Governance, Performance and Accountability Act* (2019) and the Rule has facilitated clear linkages and a consistent narrative between performance reporting documents, including the Portfolio Budget Statements, Corporate Plan and Annual Report.

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<sup>7</sup> ANAO comment: subsequent to receiving the Department of Finance's comments, the ANAO has added paragraphs 1.23 and 1.39 to this report.

## Department of Home Affairs

The Department welcomes the overall conclusions and findings of the audit.

The Department notes the ANAO's observations that the Department, and other selected entities, considered the implementation of the clear read principle and made improvements to the quality of performance information provided to Parliament and the public. In relation to this, the Department notes that the Senate Standing Committee described the overall standard of the Department's performance reporting in its 2017-18 Annual Report as 'extremely high'.

The Department also acknowledged the ANAO's finding that the clear read principle was partially implemented by the selected entities. In this context, the Department notes the ANAO's conclusion that existing guidance for entities on implementing the clear read principle has not yet been fully developed across all three areas examined. This is reflected in the three recommendations made by the ANAO, specifically related to updating and amending the Department of Finance's existing guidance documentation available to entities. This context is important in any assessment of the Department's application of the principle.

The Department will consider the findings and continue to improve our implementation of the clear read principle under the Enhanced Commonwealth Performance Framework.

## Key messages from this audit for all Australian Government entities

28. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Australian Government entities.

### Performance and impact measurement

- When preparing PBSs, corporate plans and annual reports, entities should consider the needs of the Parliament as the primary user of these documents. In particular, the Parliament's need for a clear read within reporting a cycle, across reporting cycles and between entities, which is aided by clear, consistent, comparable and reconcilable reporting.
- Entity processes for preparing PBSs, corporate plans and annual reports should be coordinated so as to implement the clear read principle across the product suite and the complete cycle of performance measurement and reporting. Effective coordination facilitates a holistic approach to the preparation and publication of PBSs, corporate plans and annual reports.
- Significant change to an entity's operating environment that impact its purposes, activities, capability, risk and/or performance, should trigger a review of the corporate plan. The resource management and performance reporting frameworks provide entities with the flexibility to update and reissue corporate plans at any time. The purpose of the corporate plan as an entity's primary planning document, and the needs of the Parliament as a user of this document, should be considered when deciding whether to reissue it.
- Effective integration of financial and non-financial performance information in annual reports can provide the Parliament and the public with an improved understanding of the connections between the resources agreed by the Parliament and the outcomes delivered.
- Explaining changes to PBSs and corporate plans across reporting cycles, and providing comparative results in performance statements, assists the Parliament and the public to monitor performance over time.



## **Audit findings**

# 1. Background

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## Introduction

1.1 Commonwealth entities spend significant amounts of public money each year to deliver government outcomes. In the *Budget 2019–20*, the Australian Government identified that Commonwealth entities would have responsibility for administering approximately \$500.9 billion in expenses ‘to deliver services for individuals, families and businesses’.<sup>8</sup> The use and management of public resources within the Commonwealth public sector is governed by the Commonwealth Resource Management Framework (the framework), which is underpinned by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).<sup>9</sup>

1.2 A key objective of the PGPA Act is to establish a strong performance reporting system to demonstrate to the Parliament and the public that resources are being used efficiently and effectively by Commonwealth entities.<sup>10</sup> Implementation of the PGPA Act was expected to improve both financial and non-financial performance information by placing obligations on officials for the quality and reliability of performance information.<sup>11</sup> The benefits were expected to include:

...achieving a clear line of sight between the information in appropriation Bills, corporate plans, Portfolio Budget Statements and annual reports. Entities will need to define, structure and explain their purposes and achievements to create a clear read across these documents.<sup>12</sup>

1.3 The PGPA Act is principles-based.<sup>13</sup> In this respect the Revised Explanatory Memorandum for the PGPA Bill noted that:

The primary legislation contains the main principles and requirements and will be supported by rules ... The rules made by the Finance Minister under the Bill will replace a range of instruments under the current legislation, including the ... [current] Regulations and Finance Minister’s Orders. They will be used to prescribe the requirements and procedures necessary to give effect to the governance, performance and accountability matters covered by the Bill.

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8 The Commonwealth of Australia, *Budget 2019–20, Agency Resourcing Budget Paper No. 4 2019–20*, p. 1.

9 The Act was passed in June 2013 and came into effect on 1 July 2014.

10 Public Governance, Performance and Accountability Bill 2013 Revised Explanatory Memorandum, paragraphs 85–87. See also section 5(b) of PGPA Act which states that an object of the Act is to establish a performance framework across Commonwealth entities. Section 5(c) (ii) of the Act states that a further object of the Act is to require the Commonwealth and Commonwealth entities to provide meaningful information to the parliament and the public.

11 The Department of Finance has stated that the PGPA Act was established having regard to five guiding principles. Principle three is ‘performance of the public sector is more than financial’. Department of Finance, *Public Management Reform Agenda* [Internet], available from [www.finance.gov.au/resource-management/pmra/about](http://www.finance.gov.au/resource-management/pmra/about) [accessed 6 June 2019].

12 Public Governance, Performance and Accountability Bill 2013 Revised Explanatory Memorandum, p.7.

13 The principles as presented in the Revised Explanatory Memorandum are: government should operate as a coherent whole; a uniform set of duties should apply to all resources handled by Commonwealth entities; performance of the public sector is more than financial; and engaging with risk is a necessary step in improving performance.

1.4 The Minister for Finance (Minister) is responsible for administering the framework and is supported by the Department of Finance (Finance).<sup>14</sup> The Minister has made two rules relating to the framework to date:

- Public Governance, Performance and Accountability Rule 2014 (the Rule); and
- Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (the Financial Reporting Rule).

1.5 These rules are expected to ‘provide the detailed, technical guidance to support the nuanced application of the framework’s requirements’.<sup>15</sup> Finance is responsible, under the Minister, for the whole-of-government administration of the framework and related legislation. Finance is able to issue directions and guidance on all elements of the framework. Since the commencement of the PGPA Act, Finance has issued two directions under subsection 36(3) of the PGPA Act. The first direction applied to estimates provided for the 2016–17 Portfolio Budget Statements. The second (and current) relates to estimates provided for the 2017–18 Portfolio Budget Statements and later years.

## The Commonwealth Performance Framework

1.6 The Commonwealth Performance Framework — a key element of the resource management framework — took effect from 1 July 2015 and ‘aims to improve the line of sight between what was intended and what was delivered’.<sup>16</sup> Finance describes the performance framework as delivering the following benefits:

The public and the parliament — like the shareholders of a company and financial supporters of charitable institutions — have a right to know what results are being achieved with the money they have provided. A balanced and complete performance framework should provide both financial and non-financial information that allows judgements to be made on the public benefit generated by public expenditure.<sup>17</sup>

1.7 The role of key publications in the framework is as follows:

- Portfolio Budget Statements (PBS) — the primary financial planning document for entities;
- corporate plans — the primary non-financial planning document for entities; and
- annual reports — incorporate the financial statements and Annual Performance Statements (performance statements) of entities, which report respectively on the financial and non-financial results achieved by entities.

1.8 Entities are expected to provide meaningful information to the Parliament and the public in their corporate plans and annual performance statements, together with the PBS, financial statements and annual reports.<sup>18</sup> Finance issues reporting templates and guidance to assist entities

14 Known as the Department of Finance and Deregulation until September 2013. References to Finance in this report mean either the Department of Finance or the Department of Finance and Deregulation.

15 *Public Governance, Performance and Accountability Bill 2013 Revised Explanatory Memorandum*, p.58.

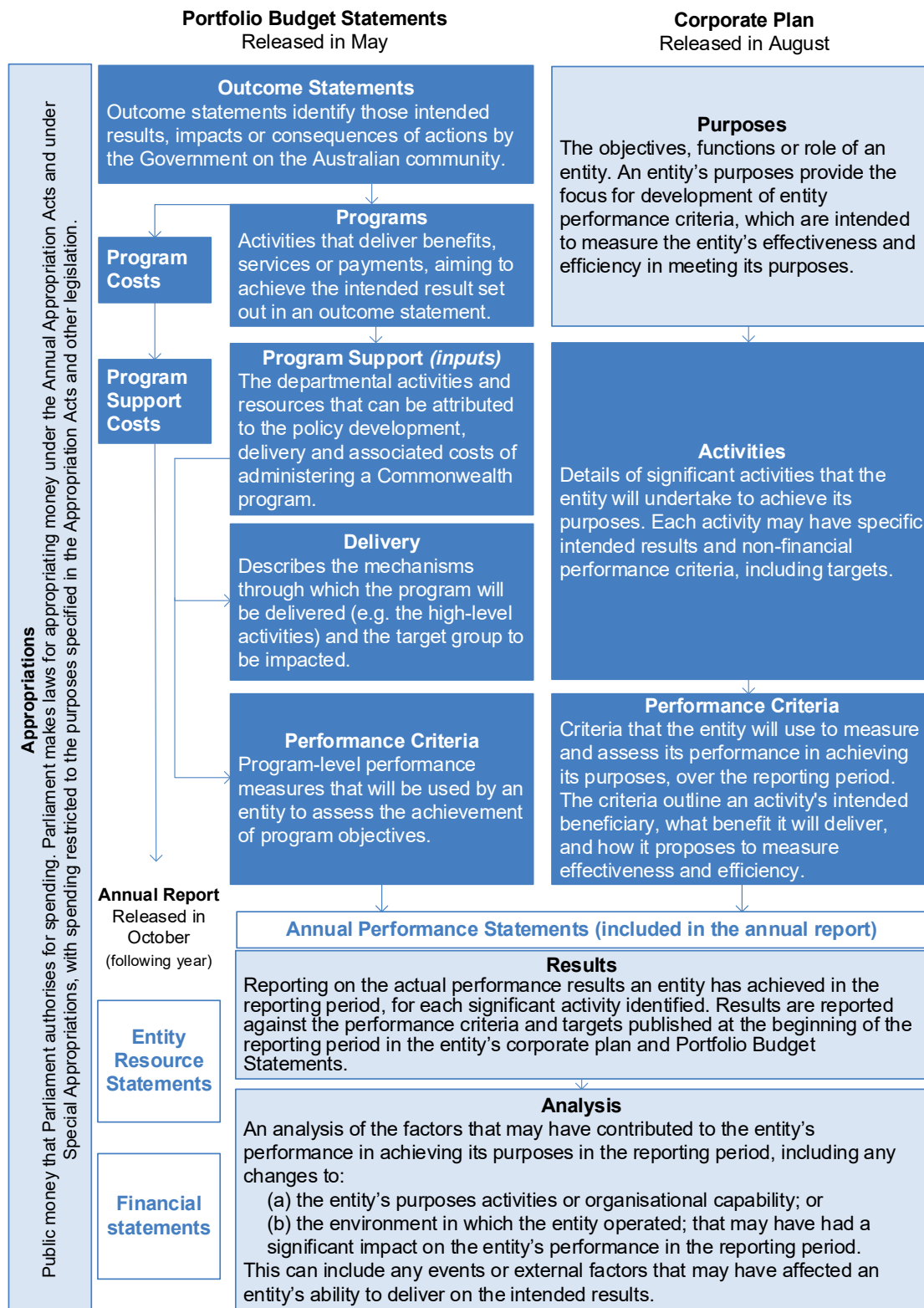
16 Department of Finance, *Managing performance* [Internet], available from [www.finance.gov.au/resource-management/managing-performance](http://www.finance.gov.au/resource-management/managing-performance), [accessed 12 June 2019].

17 Department of Finance, *Enhanced Commonwealth Performance Framework* [Internet] available from [www.finance.gov.au/resource-management/pmra/performance](http://www.finance.gov.au/resource-management/pmra/performance), [accessed 6 June 2019].

18 Ibid. *Managing performance* [Internet].

in the preparation and presentation of these documents. The information entities are required and/or guided to present in the key framework publications, are set out in Figure 1.1 below.

**Figure 1.1: Commonwealth performance reporting**



Source: ANAO analysis of Appropriation acts, PGPA Act and Rule, and accompanying Finance guidance.

## Parliamentary review

1.9 The Parliament's Joint Committee of Public Accounts and Audit (the JCPAA) has an ongoing general oversight role with regard to the PGPA Act, and reviews all rules under the PGPA Act before they are tabled in the Parliament.<sup>19</sup> In addition, the JCPAA has a specific role in approving any changes to the annual report rule for Commonwealth entities under Division 6 of the PGPA Act.<sup>20</sup>

1.10 The JCPAA has conducted three inquiries relating to the performance framework since the PGPA Act was implemented.<sup>21</sup> The reports on these inquiries are:

- *Report 453: Development of the Commonwealth Performance Framework*, December 2015;
- *Report 457: Development of the Commonwealth Performance Framework — Second Report*, May 2016; and
- *Report 469: Commonwealth Performance Framework*, December 2017.

1.11 In Report 469, the JCPAA commented that:

Improving the Commonwealth Performance Framework, to ensure line of sight between the use of public resources and the outcomes achieved by Commonwealth entities, has been a long-term focus of the JCPAA. In JCPAA Report 453, *Development of the Commonwealth Performance Framework*, the Committee made the following observations relevant to this inquiry:

- the importance of a 'clear read' of performance information — with performance information being presented clearly and consistently throughout all relevant reports produced by a Commonwealth entity within the annual reporting cycle, and across annual reporting cycles
- the importance of establishing clear criteria (such as relevance, reliability and completeness) that performance information should satisfy
- the importance of strong and sustained leadership at all levels, including senior leadership teams within entities, to ensure the effectiveness of the new performance reporting framework
- the importance of establishing effective performance monitoring, reporting and evaluation regimes for improved accountability.<sup>22</sup>

19 Parliament of Australia, *Role of the Committee* [Internet], available from [www.aph.gov.au/Parliamentary\\_Business/Committees/Joint/Public\\_Accounts\\_and\\_Audit/Role\\_of\\_the\\_Committee](http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/Role_of_the_Committee), [accessed 6 June 2019].

20 *ibid.*, [accessed 6 June 2019]. With regards to the 'annual report rule', PGPA Act s.46 (3) states that the annual report must comply with any requirements prescribed by the rules.

21 There were also two JCPAA inquiries during the development of the PGPA Act. The reports on these inquiries are *Report 438: Advisory Report on the Public Governance, Performance and Accountability Bill 2013*, June 2013 and *Report 441: Inquiry into Public Governance, Performance and Accountability Act 2013 Rules Development*, May 2014.

22 Joint Committee of Public Accounts and Audit, *Report 469: Commonwealth Performance Framework*, December 2017, paragraph 1.4.

1.12 As part of the inquiry underpinning Report 469, the Department of Finance advised the JCPAA in November 2016 that it ‘believes it will take three to five reporting cycles for mature practice to emerge’ from entities’ implementation of the performance framework.<sup>23</sup>

## Characteristics of a ‘clear read’ of performance information — JCPAA

1.13 In the report from its initial (2015) inquiry into the performance framework — *Report 453: Development of the Commonwealth Performance Framework* — the JCPAA described the achievement of a ‘clear read’ as follows:

Another concept within the Framework is that of a ‘clear read’ between planning and reporting. In providing a ‘clear read’, entities must ensure that a reader can easily reconcile planned performance information presented in corporate plans and PBSs with acquittal information presented in annual performance statements and annual reports. While accounting for the diversity of entities’ roles within the Commonwealth, a ‘clear read’ also applies to working towards compatibility of performance information across entities.<sup>24</sup>

1.14 The JCPAA further commented that:

The Committee believes that a ‘clear read’ also relates to the compatibility of information across several entities — in terms of consistency of reporting structure and level of information provided. A further issue is the ability to clearly communicate the performance of co-delivered or ‘joined-up’ programs — those that are managed by multiple government entities.<sup>25</sup>

1.15 The Committee also noted that a ‘clear read’ of performance information requires clear and consistent use of terminology between budgetary and other performance information.<sup>26</sup>

1.16 Box 1 summarises the key characteristics of a ‘clear read’ or ‘clear line of sight’ based on the JCPAA’s statements in Report 453.

### Box 1: What are the key characteristics of a ‘clear read’ of performance information?

In *Report 453: Development of the Commonwealth Performance Framework* (December 2015) the JCPAA described a ‘clear read’ of entities’ performance information as exhibiting the following characteristics:

- performance information is presented clearly and consistently and is reconcilable throughout an entity’s PBS, corporate plan and annual report **within** one reporting cycle;
- performance information is presented clearly and consistently throughout an entity’s PBS, corporate plan and annual report **across** multiple reporting cycles; and

23 Department of Finance, Submission to the Joint Committee of Public Accounts and Audit’s Commonwealth Performance Framework – Inquiry based on Auditor-General’s Reports 6 (2016-17) and 31 (2015-16), 11 November 2016.

24 Joint Committee of Public Accounts and Audit, *Report 453: Development of the Commonwealth Performance Framework*, December 2015, paragraph 3.15, p. 23.

25 *ibid.*, paragraph 4.6, p. 54.

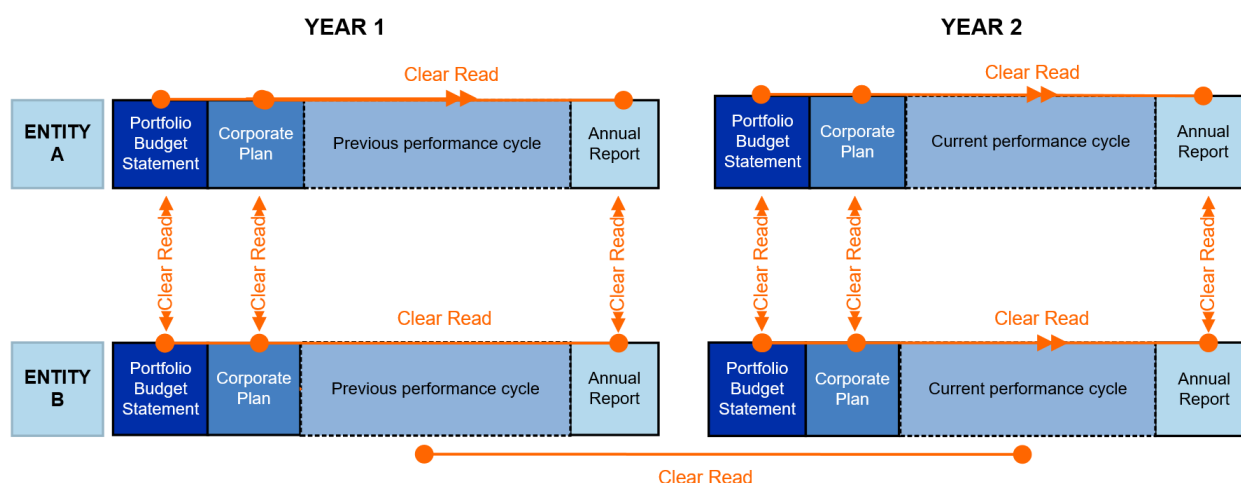
26 *ibid.*, pp. 24, 43, 64.

- compatibility of performance information **between** Commonwealth entities — in terms of comparability, consistency of reporting structure and level of information provided.<sup>27</sup>

In this audit report, the ANAO has referred to these characteristics collectively as ‘the clear read principle’.

1.17 Figure 1.2 illustrates how reporting by entities under the performance framework would be connected to demonstrate a ‘clear read’ as described by the JCPAA in Report 453.

**Figure 1.2: Demonstrating the clear read principle as described by the JCPAA**



Source: ANAO analysis of JCPAA Report 453: *Development of the Commonwealth Performance Framework*.

## Recommendations to improve implementation of the clear read principle

### Joint Committee of Public Accounts and Audit

1.18 Since 2015, the JCPAA has made four recommendations directed to the implementation of a ‘clear read’ and ‘line of sight’ across performance information (see Table 1.1). Two recommendations were made to Finance as part of the first inquiry of the performance framework. A further recommendation was made to Finance as part of the third inquiry into the performance framework. The ANAO also received a recommendation as a result of the third inquiry.

**Table 1.1: JCPAA clear read recommendations**

Report and Recommendation No.	Recommendation	Response
Report 453, Recommendation 1 (December 2015)	The Committee recommends that relevant Resource Management Guidance issued by the Department of Finance demonstrates, via better practice examples, how a ‘clear read’ of performance information might be achieved — throughout an entity’s annual performance reporting cycle and for joined-up programs.	The Government agrees. (September 2016)
Report 453, Recommendation 3 (December 2015)	The Committee recommends that the Department of Finance commit to an ongoing monitoring, reporting and evaluation initiative for the Commonwealth Performance Framework, performance information in Portfolio Budget	The Government agrees.

<sup>27</sup> To assist the reader, the ANAO has used ‘between’ in the third characteristic, rather than ‘across’ as used by the JCPAA. This modification is intended to help differentiate between the second and third characteristics.

Report and Recommendation No.	Recommendation	Response
	<p>Statements and the broader Public Management Reform Agenda. Summary results from this initiative should be publicly reported and submitted to the Committee.</p> <p>Further, the Committee requests that the Department of Finance consider how it might implement this initiative — including providing details on what may be monitored and included or excluded from summary reports — and inform the Committee of its preferred approach in time for its next meeting with the Committee in February 2016.</p>	(September 2016)
Report 469, Recommendation 4 (December 2017)	<p>The Committee recommends that the Department of Finance (Finance) undertake a more comprehensive monitoring and evaluation program for the ongoing implementation of the Commonwealth Performance Framework, including reporting on:</p> <ul style="list-style-type: none"> <li>• the quality of performance information</li> <li>• 'line of sight' across performance reporting documentation</li> <li>• progress in terms of the broader Public Management Reform Agenda</li> <li>• whole-of-government outcomes for implementation of the framework</li> </ul> <p>Finance should provide a yearly report to the Committee on the above matters by way of a snapshot on the 'health' of the Commonwealth Performance Framework, with this report to also be published on the Finance website.</p>	The Department of Finance agrees. (June 2018)
Report 469, Recommendation 5 (December 2017)	<p>The Committee recommends that the Australian National Audit Office consider conducting an audit of one complete Commonwealth performance reporting cycle, including whether a clear read of performance information has effectively been established, with consistent terminology and improved line of sight across performance reporting documentation.</p>	The ANAO agrees. This performance audit addresses the agreed recommendation. (June 2018)

Source: ANAO analysis of Joint Committee of Public Accounts and Audit reports.

### 2018 review of the PGPA Act and Rule

1.19 Subsection 112(4) of the PGPA Act requires the Minister for Finance to cause an independent review to be conducted of the operation of the PGPA Act and rules as soon as practicable after 1 July 2017. The review was asked to give consideration to the enhanced Commonwealth Performance Framework, including the provision of:

Timely and transparent, meaningful information to the Parliament and the public, including clear read across portfolio budget statements, corporate plan, annual performance statements and annual reports.<sup>28</sup>

<sup>28</sup> E Alexander AM and D Thodey AO, *Independent Review into the Operation of the Public Governance, Performance and Accountability Act 2013 and Rule*, Commonwealth of Australia, September 2018, p. iv.

1.20 The review commenced in September 2017 and its final report was released in September 2018 with 52 recommendations. The review observed that ‘With strong support from the Joint Committee of Public Accounts and Audit, the Act promoted the idea of a clear read of performance information between portfolio budget statements, corporate plans and annual reports.’<sup>29</sup>

1.21 The Government responded to the report on 2 April 2019, noting that:

...the Government accepts, in principle, the 48 out of 52 recommendations of the Independent Review into the operation of the *Public Governance, Performance and Accountability Act 2013* and Rule that are within its area of responsibility.<sup>30</sup>

1.22 The report made a number of recommendations directed to improving performance reporting. Three of these related to the clear read of information being presented to the Parliament and the public by entities (see Table 1.2 below).

**Table 1.2: PGPA Review clear read recommendations**

Recommendation No.	Recommendation
Recommendation 10	The Department of Finance should develop ‘lessons learned’ papers that cover complete performance cycles to identify good-practice examples of a clear read of performance information across portfolio budget statements, corporate plans and annual reports.
Recommendation 28	The Department of Finance should clarify and explain the integrated performance reporting requirements and linkages in portfolio budget statements, corporate plans and annual reports to achieve transparency to the Parliament, with reference to the views of the Joint Committee of Public Accounts and Audit and in consultation with the Australian National Audit Office.
Recommendation 29	The Department of Finance should explore opportunities to better link performance and financial results so that there is a clear line of sight between an entity’s strategies and performance and its financial results.

Source: E Alexander AM and D Thodey AO, *Independent Review into the Operation of the Public Governance, Performance and Accountability Act 2013 and Rule*, Commonwealth of Australia, September 2018.

1.23 During the course of this performance audit, Finance circulated a consultation paper<sup>31</sup> outlining proposed amendments to the Rule and Finance Secretary’s Direction. The consultation paper outlined that the amendments are intended to implement several recommendations made in the PGPA Review. Finance advised in that consultation paper that consultation on the amendments ‘would inform the Government’s response to the Independent Review, expected in early 2020’.

## Previous ANAO audit coverage

1.24 The ANAO routinely examines entities’ implementation of PGPA Act requirements in the course of its work. Entities’ implementation of specific non-financial performance reporting

29 *ibid.*, p. 11.

30 Department of Finance, *PGPA Independent Review Government Response*, [Internet], available from [www.finance.gov.au/sites/all/themes/pgpa\\_independent\\_review/report/PGPA\\_Independent\\_Review\\_Government\\_Response.pdf](http://www.finance.gov.au/sites/all/themes/pgpa_independent_review/report/PGPA_Independent_Review_Government_Response.pdf) [accessed 6 June 2019].

31 The paper was circulated for comments by late October 2019.

requirements has been examined through two series of audits examining the compliance and quality of entities' corporate plans and annual performance statements.

1.25 In this series of audits, the ANAO has made a number of observations relating to entities' implementation of the clear read principle. In particular, the ANAO has highlighted the benefit of:

- clear and concise purposes, that are easily identifiable in the corporate plan;<sup>32</sup>
- establishing connections between corporate plan elements, such as risk oversight and management and environment<sup>33</sup>, and reflecting their influence over the results and analysis in the performance statements;<sup>34</sup>
- consistency and completeness of the presentation of performance criteria, targets and results across PBSs, corporate plans and performance statements. This includes drawing users' attention to, or clearly explaining, overlapping measures or changes;<sup>35</sup>
- consistency in the presentation of corporate plan elements across entities;<sup>36</sup> and
- establishing links between the funding reported in the PBS through programs, and the performance criteria presented in corporate plans.<sup>37</sup>

## Rationale for undertaking the audit

1.26 Commonwealth entities spend significant amounts of public money to deliver government outcomes each year. The Commonwealth Resource Management Framework is intended to contribute to an accountable and transparent public sector by enabling the Parliament to hold the Government to account for the delivery of those outcomes through the scrutiny of entities' performance reporting.

1.27 To meet this aim, reporting by entities under the framework — through PBSs, corporate plans and annual reports — should provide a 'clear read' and a 'line of sight' between the allocation and use of public resources, and the results being achieved. Parliamentary review of the framework, in particular by the JCPAA, has resulted in recommendations to support implementation of a 'clear read'.

1.28 The JCPAA also recommended in December 2017 (during the third performance reporting cycle) that the ANAO 'consider conducting an audit of one complete Commonwealth performance

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32 Auditor-General Report No. 6 2016–17 *Corporate Planning in the Australian Public Sector 2015–16*; No. 54 2016–17 *Corporate Planning in the Australian Public Sector 2016–17*; and No. 36 2017–18 *Corporate Planning in the Australian Public Sector 2017–18*.

33 Auditor-General Report No. 36 2017–18 *Corporate Planning in the Australian Public Sector*, paragraphs 2.58 and 2.91.

34 Auditor-General Report No. 33 2017–18 *Implementation of the Annual Performance Statements Requirements 2016–17*, paragraph 2.14.

35 Auditor-General Report No. 17 2018–19 *Implementation of the Annual Performance Statements Requirements 2017–18*, paragraphs 2.36–40.

36 Auditor-General Report No. 33 2017–18 *Implementation of the Annual Performance Statements Requirements 2016–17*, paragraph 1.32; and No. 17 2018–19 *Implementation of the Annual Performance Statements Requirements 2017–18*, paragraph 1.42.

37 Auditor-General Report No. 33 2017–18 *Implementation of the Annual Performance Statements Requirements 2016–17*, paragraphs 2.40–41; and No. 17 2018–19 *Implementation of the Annual Performance Statements Requirements 2017–18*, paragraphs 3.19–23.

reporting cycle, including whether a clear read of performance information has effectively been established, with consistent terminology and improved 'line of sight' across performance reporting documentation'.<sup>38</sup> This performance audit addresses the agreed recommendation.

## Audit approach

### Audit objective, criteria and scope

1.29 The objective of the audit was to examine the effectiveness of the design and implementation of the clear read principle under the Commonwealth Resource Management Framework.

1.30 To form a conclusion against the objective, the ANAO adopted the following high-level audit criteria:

- the Department of Finance effectively established the clear read principle in the Commonwealth Resource Management Framework, and monitored its implementation; and
- the Department of Defence (Defence), the Department of Health (Health) and the Department of Home Affairs (Home Affairs) addressed Parliamentary expectations, and established a clear read through their 2017–18 performance measurement and reporting.

1.31 This audit focused on the 2017–18 performance reporting cycle, the third reporting cycle under the current arrangements (see Figure 1.2 on page 21). The reporting cycle commenced with the publication of PBSs in May 2017 and concluded with the tabling of annual reports in September or October of 2018 — approximately 18 months later. The next opportunity to consider a complete performance reporting cycle would not occur until the conclusion of the 2018–19 performance cycle in October 2019.

1.32 The audit considered Finance's design activities up to the 2019–20 performance reporting cycle with reporting focusing on the extent to which Finance's guidance established the clear read principle (see Box 1) to inform entities and Finance's activities to address agreed recommendations from JCPAA Report 453 and Report 469 (see Table 1.1).

1.33 The Departments of Defence, Health and Home Affairs each have responsibility for significant Commonwealth expenditure, which contributed to their inclusion in this audit. The ANAO also selected the entities on the basis that:

- Defence received two recommendations in the JCPAA's *Report 470: Defence Sustainment Expenditure* related to the Department's reporting under the framework, including that the Department 'ensure a clear read of both financial and descriptive performance information'.
- Health has a large number of outcomes and programs, and was referred to in the Department of Finance's 'lessons learned' papers as having demonstrated good practice in implementation of the framework.
- Home Affairs experienced significant changes during 2017–18 following the establishment of the Home Affairs portfolio.

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38 Recommendation 5, *ibid.*, p. 48.

1.34 The audit has examined the extent to which entities have established the clear read principle in performance reporting and improved the quality of information presented to the Parliament over time. Reporting in 2016–17, 2017–18 and 2018–19 and plans for 2019–20 have been reviewed.

1.35 In April 2019, the JCPAA released *Report 477: Commonwealth Financial Statements – Second Report, and Foreign Investment in Real Estate*. In this report, the JCPAA recommended that the ANAO consider:

...undertaking an audit of one complete Commonwealth financial reporting cycle (for one or more Commonwealth entities), focused on clarity of terminology and a clear read of financial information (line of sight) across aggregated and disaggregated financial reporting documentation (budget papers, Portfolio Budget Statements, annual reports and financial statements) — including ease of tracking financial reporting information over time.<sup>39</sup>

1.36 On 5 September 2019, the Auditor-General responded to the above recommendation, advising the JCPAA that it would be considered as a possible next step in a series of clear read audits as part of the ANAO's future audit work program planning.<sup>40</sup>

## Audit methodology

1.37 The audit involved:

- reviewing guidance and other information that Finance has issued to assist entities to establish a clear read across their PBSs, portfolio additional estimates statements, corporate plans and annual reports;
- reviewing submissions, transcripts of hearings and reports from JCPAA inquiries into the PGPA Act and Rules;
- comparing the PBSs, portfolio additional estimates statements, corporate plans and annual reports (incorporating annual performance statements and financial statements) of the Departments of Defence, Health and Home Affairs to assess whether a clear read has been established;
- examining records supporting the development and publication of PBSs, portfolio additional estimates statements, corporate plans and annual reports for the Departments of Defence, Health and Home Affairs to assess whether the clear read principle was considered across their reporting; and
- discussions with officials from the Departments of Finance, Defence, Health and Home Affairs.

1.38 To assess the extent to which the JCPAA's expectations of a clear read of performance information have been communicated through Finance guidance and implemented by entities, the ANAO has applied the characteristics in Table 1.3 below. The characteristics were developed with reference to the JCPAA's expectations as set out in Box 1 above, and the object of the PGPA Act that

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39 Joint Committee of Public Accounts and Audit, *Report 477: Commonwealth Financial Statements – Second Report, and Foreign Investment in Real Estate*, Recommendation 5, p.ix.

40 *Executive Minute – Australian National Audit Office Report 477 Recommendations 5 and 7*, 5 September 2019, available from [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Joint/Public\\_Accounts\\_and\\_Audit/FinancialStatements17-18/Government\\_Response](https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/FinancialStatements17-18/Government_Response) [accessed 25 September 2019].

entities provide meaningful information.<sup>41</sup> These characteristics, and Figure 1.3 demonstrating the clear read principle, were discussed with Finance prior to the commencement of this audit.

**Table 1.3: Assessment characteristics of the clear read principle**

Characteristic	Description	Clear read element addressed (Box 1)
Clear	Information presented in budget statements, corporate plans and annual reports can be understood by the Parliament and the public.	<ul style="list-style-type: none"> <li>• Within a reporting cycle.</li> </ul>
Consistent	Information presented across budget statements, corporate plans and annual reports can be interpreted consistently by the Parliament and the public.	<ul style="list-style-type: none"> <li>• Within a reporting cycle; and</li> <li>• Across reporting cycles.</li> </ul>
Reconcilable	Planned performance presented across budget statements and corporate plans can be easily reconciled to actual performance in annual reports by the Parliament and the public.	<ul style="list-style-type: none"> <li>• Within a reporting cycle.</li> </ul>
Comparable	Information presented across budget statements, corporate plans and annual reports can be compared across reporting cycles, and to other entities, by the Parliament and the public.	<ul style="list-style-type: none"> <li>• Across reporting cycles; and</li> <li>• Between entities.</li> </ul>

Source: ANAO analysis of JCPAA Report 453 and the PGPA Act.

1.39 The proposed changes to the Rule and Direction (as set out in a consultation paper discussed in paragraph 1.23) have not been examined as part of this audit as they had not been finalised by Finance as at the end of October 2019.

## Report structure

1.40 This performance audit examined the current Finance guidance and reporting by entities, having regard to the Parliament's expectations concerning a clear read as expressed by the JCPAA (summarised in Box 1 on page 20). In consequence there are many overlapping elements in the analysis and this audit report is technical in nature.

1.41 In light of this the report includes tables summarising the chapter findings. The tables relate to:

- Finance's establishment of the clear read principle in directions and guidance issued to entities, having regard to the JCPAA's expectations (see Table 2.3); and
- whether the selected entities established a clear read in their 2017–18 reporting to the Parliament and the public, consistent with Finance guidance and the JCPAA's expectations (see Table 3.1).

1.42 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of \$357,300.

1.43 The team members for this audit were Jennifer Hutchinson, Kara Ball and Sally Ramsey.

41 The objects of the Act include, at subsection 5(c)(ii), that Commonwealth entities are required 'to provide meaningful information to the Parliament and the public'.

## 2. Establishment and monitoring of the clear read principle by Finance

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### Areas examined

This chapter considers whether the Department of Finance (Finance) effectively established the clear read principle, as expressed by the Parliament's Joint Committee of Public Accounts and Audit (JCPAA), in the Commonwealth Resource Management Framework, and monitored its implementation.

### Conclusion

Finance has informed entities of the clear read principle, provided guidance on some aspects of achieving a clear read, and carried out monitoring and assessment of entities' implementation of framework requirements. Finance's current guidance is focused on supporting entities to implement the clear read principle within a reporting cycle. Expanding this guidance to address implementation of the clear read principle across reporting cycles and between entities would contribute to the realisation of the Parliament's expectations. Finance could further improve its support of entities' implementation of the clear read principle by directly providing entities with advice based on its assessments of entity reporting, and monitoring the effectiveness of its own activities on implementation.

### Areas for improvement

The ANAO has made three recommendations to Finance. They relate to amending requirements and guidance, and monitoring advice provided to entities to improve implementation of the clear read principle.

2.1 The JCPAA, through its inquiries into the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and Commonwealth Performance Framework, has expressed the Parliament's expectations with regard to the clear read principle (Box 1). This chapter assesses whether the Department of Finance (Finance), in its role administering the Commonwealth Resource Management Framework, has:

- implemented recommendations made by the JCPAA, and agreed to by the Government, in regard to establishing the clear read principle;
- provided entities with adequate guidance to support their implementation of the clear read principle; and
- effectively monitored implementation of the clear read principle, including in response to recommendations made by the JCPAA, and agreed to by the Government, in regard to Finance's monitoring and evaluation of the framework.

### Has Finance implemented the JCPAA's recommendation to provide examples of better practice to support entities' implementation of the clear read principle?

As recommended by the JCPAA in *Report 453: Development of the Commonwealth Performance Framework* (December 2015), and agreed to by the Government, Finance has incorporated examples of better practice in its guidance and in its reports on lessons learned, which support

entities to implement the clear read principle within a reporting cycle. However, Finance has not fully addressed this recommendation as examples of better practice reporting of joined-up programs have not been included in its guidance to entities. There also remains scope to further support entities by providing additional examples in its guidance, focusing on how to achieve a clear read across multiple reporting cycles, and promoting comparability between entities.

2.2 In *Report 453: Development of the Commonwealth Performance Framework*, the JCPAA stated that:

Guidance produced by Finance stresses the importance of achieving a ‘clear read’, however, at present there is a lack of examples or case studies of better practice. Such examples may provide entities with a useful compass during a period of significant change and assist entities to more rapidly understand the expectations from reporting. Examples may also assist in achieving some level of consistency between reports from different entities.

2.3 The JCPAA recommended (Recommendation 1, Report 453) that Finance demonstrate, via better practice examples in its resource management guidance, how a ‘clear read’ of performance information might be achieved — throughout an entity’s annual performance reporting cycle and for joined-up<sup>42</sup> programs.<sup>43</sup> The Government agreed to the recommendation in September 2016.

2.4 As outlined in paragraphs 1.4 and 1.5, Finance issues directions and guidance (known as Resource Management Guides or RMGs) under the PGPA Act to assist accountable authorities in discharging their responsibilities under the framework.<sup>44</sup> The resource management guidance applying in the 2017–18 reporting period is set out in Table 2.1.

**Table 2.1: Guidance issued by Finance — 2017–18 performance reporting period**

Portfolio Budget Statements	Corporate Plans	Annual Performance Statements	Financial Statements	Annual Reports
RMG 130 — Overview of the enhanced Commonwealth Performance Framework				
Guide to the preparation of the 2017–18 PBS	RMG 132 — Corporate plans for Commonwealth entities RMG 131 — Developing good performance information	RMG 134 — Annual Performance Statements for Commonwealth entities	RMG 125 — Commonwealth Entities Financial Statements Guide	RMG 136 — Annual Reports for non-corporate Commonwealth entities

Source: ANAO analysis.

2.5 The clear read principle is referenced in a number of Finance’s RMGs, as outlined in Table 2.2 below. Two RMGs included examples of better practice, drawn from Finance’s reports on lessons learned (discussed further from paragraph 2.56).

42 The term ‘joined-up programs’ reflects the JCPAA’s terminology used in Report 453. Finance advised the ANAO during the audit that the term ‘linked programs’ is used by the department to describe the same concept. These two terms are used interchangeably in this report.

43 Joint Committee of Public Accounts and Audit, *Report 453: Development of the Commonwealth Performance Framework*, p. 55.

44 An index of all Resource Management Guides is available on the Department of Finance’s website, <https://www.finance.gov.au/resource-management/index/rmg/>, [accessed 21 June 2019].

**Table 2.2: References to ‘clear read’, and better practice examples in Finance’s Resource Management Guides**

Guidance	Is ‘clear read’ referenced? Were relevant better practice examples included?
RMG 125 Commonwealth Entities Financial Statements Guide, March 2018	‘Clear read’ is referenced. No examples of a clear read are included.
RMG 130 Overview of the enhanced Commonwealth Performance Framework, July 2016	‘Clear read’ is referenced. No examples of a clear read are included.
RMG 131 Developing good performance information, April 2015	‘Clear read’ is referenced. No examples of a clear read are included.
RMG 132 Corporate plans for Commonwealth entities, January 2017	‘Clear read’ is referenced. Better practice examples (nos. 1–7, and 11) focus on: <ul style="list-style-type: none"> <li>• Purposes that are clear, concise, well-integrated with other elements and understandable to broad audience.</li> <li>• A ‘well-structured’ corporate plan, based on distinct purposes.</li> <li>• Clear, concise and succinct performance information.</li> <li>• Clearly illustrating the reporting periods that performance information will be reported in.</li> </ul>
RMG 134 Annual Performance Statements for Commonwealth entities, July 2017	‘Clear read’ is referenced. Better practice examples (nos. 1, 6, 8, 10 and 11) focus on: <ul style="list-style-type: none"> <li>• A diagram that demonstrates the alignment between outcomes and programs presented in the PBS, purposes in the corporate plan, and the relevant section of the performance statements. Finance notes that the graphic ‘enhances the annual performance statements’ clear read and illustrates the alignment between purposes in the corporate plan and outcomes and programs in Portfolio Budget Statements.’</li> <li>• Clear and consistent presentation of the purpose in the performance statements.</li> <li>• Highlighting changes to a performance measurement methodology within the reporting cycle.</li> <li>• Explaining changes to targets that occurred within the reporting cycle.</li> <li>• Providing clear direction to a user of the source of performance criteria when presenting results.</li> </ul>
RMG 135 Annual Reports for non-corporate Commonwealth entities, May 2018	‘Clear read’ is referenced. No examples of a clear read are included.

Source: ANAO analysis.

2.6 Finance's guidance for the preparation of the PBS also referenced the 'clear read'.<sup>45</sup> Entities were provided with templates that demonstrated how to: link PBS programs to purposes in the corporate plan; and present new or modified criteria in the PBS across reporting cycles.

2.7 The better practice examples and templates that Finance has included in its guidance illustrate elements of a clear read of performance information within a reporting cycle, and across reporting cycles. Finance has not included examples of better practice reporting of joined-up or linked programs as sought by the JCPAA (and agreed by Government in September 2016). Examples of better practice reporting that promotes comparability between entities (one of the three key characteristics outlined by the JCPAA) are also not included in Finance guidance.

### Recommendation no.1

2.8 Finance updates the guidance issued under the Commonwealth Resource Management Framework to include better practice examples of reporting that:

- (a) is reflective of joined-up/linked programs; and
- (b) facilitates comparison between entities.

**Department of Finance response:** *Agreed.*

2.9 (a): *Agree, noting that enhancements to Finance guidance relating to the reporting of linked programs is dependent on Government consideration of the issues raised in Recommendation 2.*

2.10 (b): *Agree, noting that improvements to comparisons between entities need to be consistent with the principles-based framework.*

### Is the guidance provided by Finance adequate to support entities' implementation of the clear read principle?

Finance's guidance requires improvement to adequately support entities' implementation of the clear read principle. Current guidance is focused on supporting entities to implement the clear read principle for performance information within a reporting cycle. There remains scope to promote the integration of non-financial and financial performance information through PBSs, corporate plans and annual reports. The guidance does not adequately support entities to demonstrate a clear read across reporting cycles, or between entities. In particular, the reporting of linked programs — to enable the Parliament to obtain sufficient understanding of the planned and actual performance of those programs — requires attention.

2.11 As discussed in paragraph 1.3, the PGPA Act is principles-based. The success of entities' implementation of those principles will be influenced by the quality of the guidance and support they are provided by Finance, the framework administrator. The ANAO examined whether Finance's guidance<sup>46</sup> has helped establish the clear read principle in the Commonwealth Resource




<sup>45</sup> Department of Finance, *Guide to preparing the 2017–18 Portfolio Budget Statements*, March 2017.

<sup>46</sup> In this chapter, references to Finance guidance encompass the Finance Secretary's Direction, RMGs, and the *Guide to preparing the 2017–18 Portfolio Budget Statements*.

Management framework, focusing on the extent to which Finance guidance addresses the three key characteristics of a clear read as expressed by the JCPAA (as summarised in Box 1).


2.12 Table 2.3 provides a high level summary of the ANAO's findings formed on the basis of the detailed analysis presented in this chapter.

**Table 2.3: Establishment of the clear read principle by Finance — summary**

Key characteristics of the clear read principle as expressed by JCPAA (Box 1)	Extent to which Finance has established the principle
Performance information is presented clearly and consistently and is reconcilable throughout an entity's PBS, corporate plan and annual report <b>within a reporting cycle</b> .	
Performance information is presented clearly and consistently throughout an entity's PBS, corporate plan and annual report <b>across multiple reporting cycles</b> .	
Compatibility of performance information <b>between Commonwealth entities</b> — in terms of comparability, consistency of reporting structure and level of information provided.	

Legend:  Finance has mostly established the clear read principle

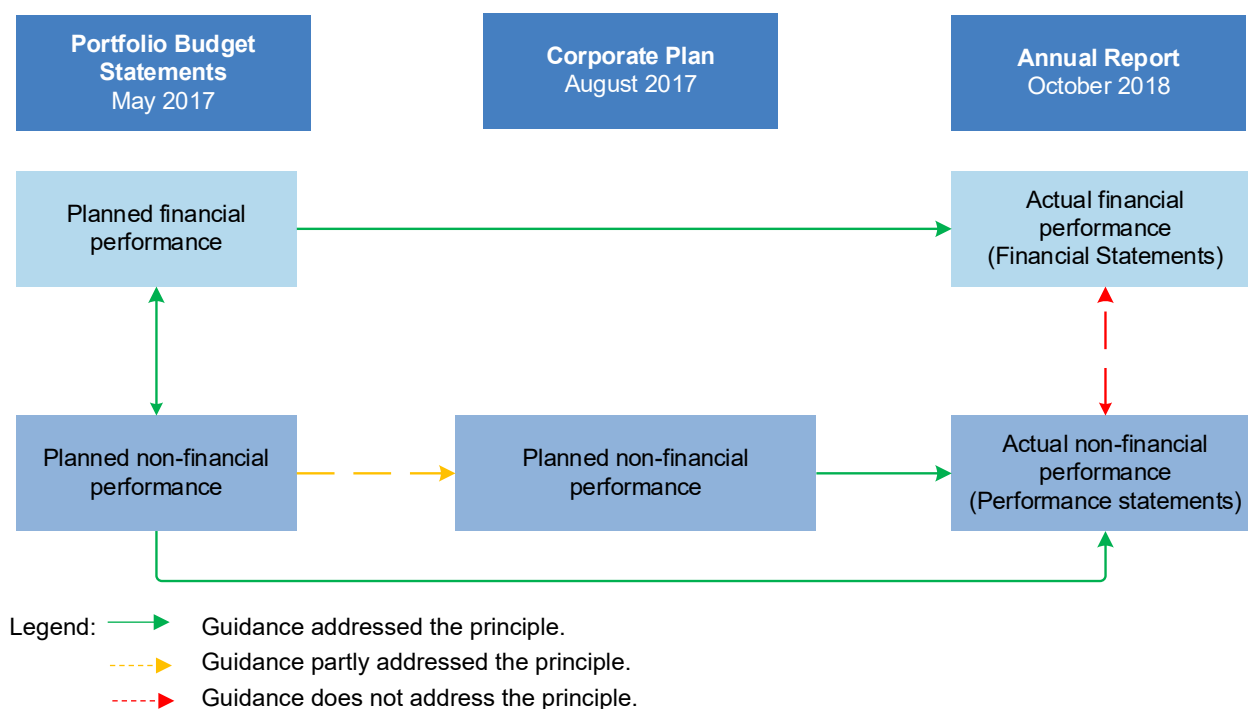
 Finance has partly established the clear read principle

 Finance has not established the clear read principle.

Source: ANAO analysis.

### **Guidance supporting the provision of clear, consistent and reconcilable performance information *within a reporting cycle***

2.13 Finance's guidance has mostly established the clear read principle to support entities' implementation of the principle within a reporting cycle. Figure 2.1 on the following page shows those areas of Finance's guidance that address the clear read principle (green arrows) and areas where the design could be improved (yellow and red arrows).

**Figure 2.1: Assessment of the clear read within a reporting cycle 2017–18**

Source: ANAO analysis of Finance guidance.

2.14 The PGPA Act, the Rule and the Finance Secretary's Direction provide a basis for implementation of the clear read within a cycle (green arrows) by establishing requirements for entities to:

- prepare estimates for the budget statements in accordance with the Finance Secretary's Direction. The direction requires an entity to present at least one performance criteria for each PBS program (see Appendix 2);
- prepare financial statements that comply with the Australian Accounting Standards, including *AASB 1055 Budgetary Reporting*, by presenting analysis in the audited financial statements that provides a comparison of planned financial performance set out in the PBS to actual financial performance; and
- acquit their planned non-financial performance set out in the PBS and the corporate plan in the annual performance statements.

2.15 These requirements are supported by Finance's resource management guides and other guidance material, as discussed from paragraph 2.4.

2.16 Areas where the PGPA Rule, Finance Secretary's Direction, and/or guidance could be improved with regard to delivering a clear read within the cycle are:

- actual financial and non-financial performance in annual reports (red arrow); and
- planned non-financial performance set out in the PBS and in corporate plans (yellow arrow).

## *Connecting actual financial and actual non-financial performance in annual reports*

2.17 The explanatory memorandum for the PGPA Bill states that under the PGPA Act and Rule, an integrated entity annual report ‘brings together information about an entity’s strategy, governance and financial and non-financial performance’ and that:

An integrated annual report is an important way to strengthen accountability, along with improving the consistency of reporting requirements and achieving a clearer line of sight between reporting documents.<sup>47</sup>

2.18 As discussed in paragraph 1.6, Finance has also stated that the Parliament and the public have a right to know what results are being achieved with the money they have provided, and that:

A balanced and complete performance framework should provide both financial and non-financial information that allows judgements to be made on the public benefit generated by public expenditure.<sup>48</sup>

2.19 Under the PGPA Act, entities are required to report actual financial performance in financial statements<sup>49</sup>, and non-financial performance in performance statements.<sup>50</sup> Subsections 43(4) and 39(1)(b) of the PGPA Act respectively, require these statements to be presented to the Parliament in the entity’s annual report.

2.20 There is no requirement in the PGPA Rule for entities to integrate, or relate, the analysis presented in the performance statements to the financial statements, or to the report on financial performance.<sup>51</sup> Presenting analysis in the annual report that integrates these results would provide a basis for the Parliament to connect the outcomes delivered by an entity to the costs associated with their delivery. Finance’s annual report guidance references this concept, noting that:

A strong emphasis is placed on compatibility between budget and performance information documents, and entities should focus on presenting an annual report that combines with the entities’ annual performance statement to provide a clear end-of-cycle picture of an entity’s performance.

2.21 However, there is no detailed guidance, or examples, to demonstrate how this concept should be applied in practice by entities.<sup>52</sup> Addressing this matter could improve the quality of information provided to the Parliament and the public, enabling judgements to be made on an entity’s holistic performance, rather than financial and non-financial performance separately.

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47 *Public Governance, Performance and Accountability Bill 2013 Revised Explanatory Memorandum*, paragraph 252.

48 Department of Finance, *Enhanced Commonwealth Performance Framework* [Internet] available from [www.finance.gov.au/resource-management/pmra/performance](http://www.finance.gov.au/resource-management/pmra/performance), [accessed 6 June 2019].

49 Section 42, PGPA Act.

50 Section 39, PGPA Act.

51 Entities are required to include a report on financial performance, in addition to the financial statements, in the annual report. This is set out in subsection 17AD(c)(ii) of the PGPA Rule (see Appendix 3).

52 Refer to paragraph 3.58 of this audit for discussion of the Department of Health’s approach to integrating financial and non-financial performance information in its 2017–18 performance statements.

### *Connecting planned performance between the PBS and corporate plan within a reporting cycle*

2.22 The Finance Secretary's Direction under subsection 36(3) of the PGPA Act requires: entities to present planned performance criteria and forecasted results in the PBS; and the 'mapping the PBS outcomes, programs and performance criteria to the entity's purposes as expressed in its corporate plan.'<sup>53</sup>

2.23 The decision to issue a direction was noted in the Government response to JCPAA Report 453 Recommendation No. 1. The response noted that a Finance Secretary's Direction would 'provide for a clear read throughout an entity's annual performance reporting cycle and for joined-up programs.'<sup>54</sup> The direction is reproduced at Appendix 2 and the background to the direction is outlined in Box 2 below.

#### **Box 2: Background to the Finance Secretary's Direction**

As part of the JCPAA's role in overseeing the development of the Commonwealth Performance Framework, the committee considered an early proposal by Finance to remove non-financial performance information from the PBSs. The Committee did not accept this proposal and made commencement of the performance framework conditional on the retention of performance information in the PBSs,<sup>55</sup> noting that:

...the relevant minister is responsible for the performance of a relevant entity, and that by not presenting information on planned performance to the parliament at the time of the budget 'weakens' the responsibility of the Executive.<sup>56</sup>

To address the committee's views, Finance proposed the use of a Finance Secretary's Direction that would require entities to include specific information in their PBS. The Committee agreed to this approach, but noted:

The lack of a clear description regarding how the budget terms of 'outcomes' and 'programs' relate to the Framework terms of 'purposes' and 'activities' is likely to increase inefficiencies for entities in document compilation, and makes it difficult for Parliament and the public to obtain a 'clear read' across documents. The Committee encourages Finance to:

- Provide a clear explanation of how these two sets of terms relate; and
- Consider whether to transition to only one set of terminology over the medium term.<sup>57</sup>

Other performance reporting requirements are set out in the PGPA Rule.

53 Department of Finance, *Requirements for Performance Information included in Portfolio Budget Statements*, Finance Secretary's Direction under subsection 36(3) of the *Public Governance, Performance and Accountability Act 2013*, 3 March 2017.

54 *Australian Government response to the Joint Committee of Public Accounts and Audit Report 453: Development of the Commonwealth Performance Framework*, September 2016. The department also noted that as they arose, better practice examples would be communicated to entities through a number of channels, including updated written guidance where it was determined to be appropriate.

55 Joint Committee of Public Accounts and Audit, *Report 453: Development of the Commonwealth Performance Framework*, December 2015, paragraph 3.62, p. 36.

56 *ibid.*, paragraph 3.60, p. 36.

57 *ibid.*, paragraph 4.45, p. 64.

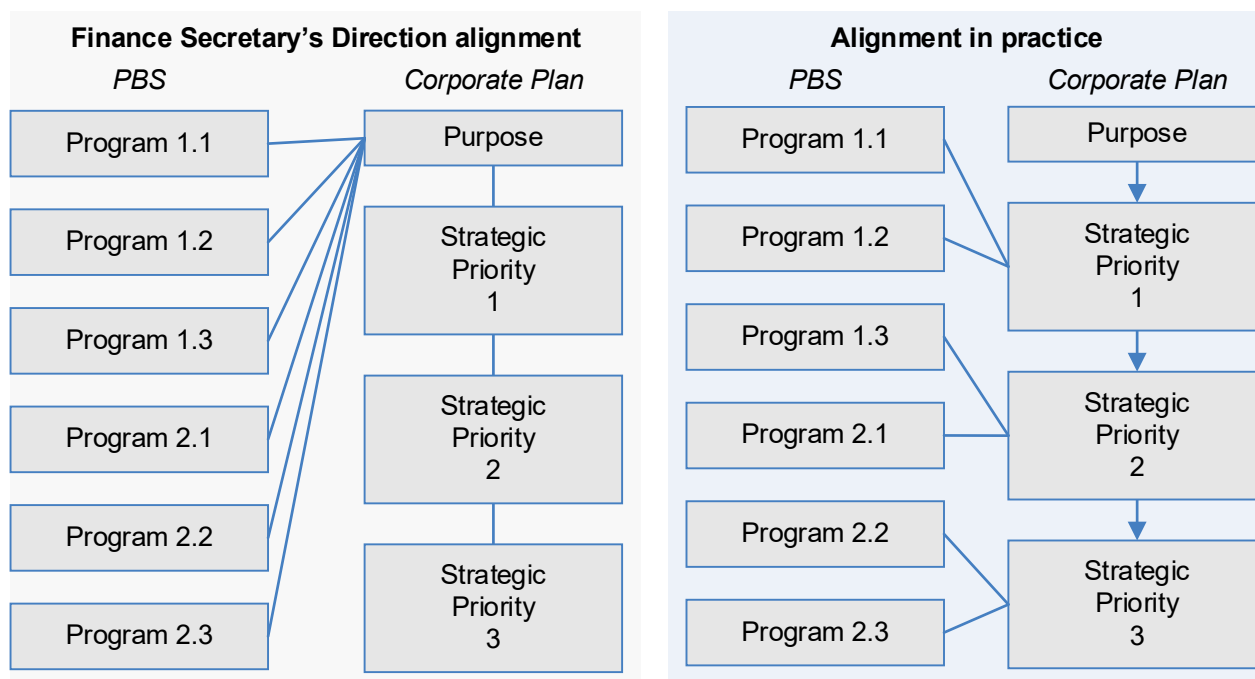
2.24 The Finance Secretary’s Direction does not sufficiently establish a clear read throughout an entity’s annual performance reporting cycle as described by Finance to the JCPAA. The ANAO has previously observed that where an entity’s PBS outcomes and programs are not clearly aligned to the purposes and underpinning activities of the corporate plan, this can make it difficult for a reader to determine the connection between planned resources and performance measurement.<sup>58</sup>

2.25 Auditor-General Report No.17 2018–19 *Implementation of the Annual Performance Statements Requirements 2017–18* — the most recent ANAO examination of the performance framework — commented in respect to the Finance Secretary’s Direction that:

Finance may also consider whether the Finance Secretary’s Direction is assisting to establish this alignment [between financial and non-financial performance], or if requiring entities to map their PBS program performance information to a level lower than the purpose, such as objectives or activities, would improve this line of sight.<sup>59</sup>

2.26 To illustrate the problem, Figure 2.2 provides an example of the difficulty which arises where an entity has a series of strategic priorities set out in the corporate plan that underpin a single purpose (see the ‘Alignment in practice’ section of Figure 2.2). Under the Finance Secretary’s Direction, the alignment of PBS programs to those strategic priorities is not visible as the programs are required to be mapped to the purpose only (see the ‘Finance Secretary’s Direction alignment’ section of Figure 2.2).

**Figure 2.2: Example of the reported alignment between the PBS and corporate plan to address the Finance Secretary’s Direction, compared to the alignment in practice**



Source: Example developed by the ANAO based on analysis of the Finance Secretary’s Direction.

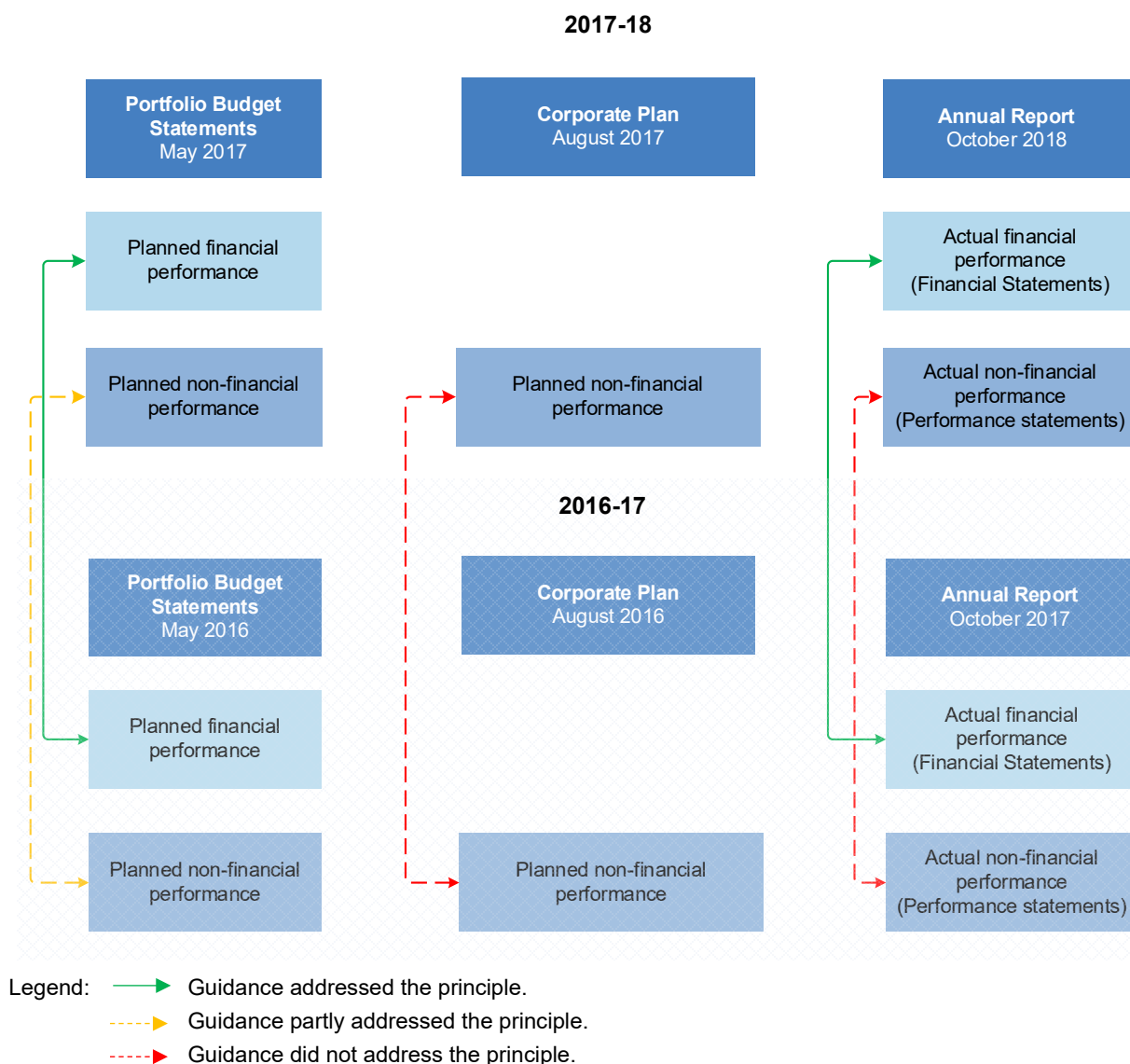
58 Auditor-General Report No.17 2018–19 *Implementation of the Annual Performance Statements Requirements 2017–18*, December 2018, paragraphs 3.19–3.23.

59 *ibid*, paragraph 3.21.

## Guidance supporting the provision of consistent and comparable performance information across reporting cycles

2.27 Finance's guidance has partly established the clear read principle to support entities' implementation of the principle across reporting cycles. Figure 2.3 shows those areas of the direction and guidance that address the clear read principle (green arrows) and areas where the design could be improved (yellow and red arrows).

**Figure 2.3: Clear read across reporting cycles (2016–17 and 2017–18)**



2.28 The PGPA Act provides a basis for implementation of the clear read across cycles (green arrows) by establishing requirements for entities to:

- prepare estimates for the budget statements as directed by the Minister for Finance. This is further supported by Finance's *Guide to preparing the 2017–18 Portfolio Budget Statements*, and accompanying templates, which set out the presentation of planned

- financial performance, including estimated actuals for the previous financial year to enable comparison across cycles; and
- prepare financial statements that comply with the Australian Accounting Standards, by presenting prior year results in the audited financial statements<sup>60</sup>, and disclosing any material changes to, or errors in, those comparative results.<sup>61</sup> This is supported by the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015, and Finance guidance.
- 2.29 Areas where the PGPA Rule and/or Finance guidance could be improved are:
- non-financial performance set out in corporate plans and performance statements across reporting cycles (red arrows); and
  - non-financial performance set out in the PBS across reporting cycles (yellow arrow).

*Comparing non-financial performance information presented in corporate plans and performance statements across reporting cycles*

2.30 Under the framework, an entity is not required to highlight and/or explain changes made to the corporate plan across reporting cycles.<sup>62</sup> This includes changes to key elements such as an entity's purpose, activities and/or planned performance measures across years. Changes to these elements (in particular performance measures) between reporting periods should be explained to a reader to address the clear read principle. Finance does not address these matters in its guidance.

2.31 This approach contrasts with the approach taken to an entity's financial performance, where the results from the previous reporting period are required to be included in the financial statements. Further, any material changes to an entity's accounting policy between years, and the associated financial impact, must be described to the reader in the financial statements.<sup>63</sup> Implementation of the clear read principle would be strengthened if entities were expected to adopt a similar standard for financial and non-financial reporting, by: presenting comparative results in the performance statements; and explaining changes and/or errors across reporting cycles.

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60 Australian Accounting Standards Board, *AASB 101 Presentation of Financial Statements*.

61 Australian Accounting Standards Board, *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*.

62 Subsection 16E(6) of the PGPA Rule provides direction to an Accountable Authority where a variation to a corporate plan occurs during a reporting period and is 'significant'. It is silent on changes across reporting periods.

63 Subsection 42(2) of the PGPA Act requires entities' financial statements to be prepared in accordance with standards issued by the Australian Accounting Standards Board (AASB). *AASB 101 Presentation of Financial Statements* requires entities' financial statements to include comparatives from the previous financial reporting period. If changes occur between years as the result of changes in accounting policy, estimates or errors, they must be disclosed in accordance with *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*.

### *Comparing non-financial performance presented in PBSs across reporting cycles*

2.32 The Finance Secretary's Direction requires entities to 'include forecasts of program performance against expected targets for the current financial year'.<sup>64</sup> In practice, this means that an entity's 2017–18 PBS was expected to contain a forecast of performance against the measure and target presented in 2016–17, as well as the expected performance for the upcoming year and forward estimates periods. This information was intended to provide users of the PBS with a basis to identify changes to measures between reporting periods.

2.33 An entity's PBS must also include 'all performance criteria, targets and expected dates of achievement' for new programs and programs that have materially changed<sup>65</sup> since the previously presented budget.<sup>66</sup> When the JCPAA was considering the proposed Finance Direction in 2015, Finance advised the Committee that this approach 'gives a much clearer read as to the impact of the moneys that we are seeking the parliament to appropriate and the impact those moneys will have on government activities.'<sup>67</sup> Finance guidance advises entities to mark these material program changes through italicisation and underlining of the new or amended measures — signalling to the PBS user that a change occurred between cycles.

2.34 This approach only partly addresses the issue of providing a clear read across reporting cycles because entities are not required to explain changes to their performance criteria for an existing program that was not subject to a material change.<sup>68</sup> Finance's guidance for the preparation of PBS does not address this matter.

### **Guidance on the provision of comparable performance information between Commonwealth entities**

2.35 In Report 453, the JCPAA observed that a clear read also 'applies to working towards compatibility of performance information across entities'.<sup>69</sup> Finance's guidance reiterates this as an aim of the enhanced Commonwealth Performance Framework, noting that:

The aim is for published performance data to provide high-level information about the extent to which government policy objectives are being met. Such performance information will support a more joined-up view of government activity by providing the parliament and the public with the means to relate contributions by different Commonwealth entities in shared policy areas. For

64 Department of Finance, *Requirements for Performance Information included in Portfolio Budget Statements*, Finance Secretary's Direction under subsection 36(3) of the *Public Governance, Performance and Accountability Act 2013*, 3 March 2017.

65 ANAO comment: the term 'materially changed' is not defined in the Finance Secretary's Direction. Guidance released by Finance advises entities that 'it will be variations in the nature of the program (e.g. the delivery mechanism, objective or target group) as a result of funding decisions that should be used as the ultimate indicator of material changes.'

66 Department of Finance, *Requirements for Performance Information included in Portfolio Budget Statements*, Finance Secretary's Direction under subsection 36(3) of the *Public Governance, Performance and Accountability Act 2013*, 3 March 2017.

67 First Assistant Secretary, Governance and Public Management Reform Taskforce, Department of Finance, Official Committee Hansard, Joint Committee of Public Accounts and Audit, Development of the Commonwealth performance framework, 3 December 2015, p. 2.

68 Under the Finance Secretary's Direction, 3 March 2017, for an entity's existing programs, the PBS must present 'at least one high level performance criterion'.

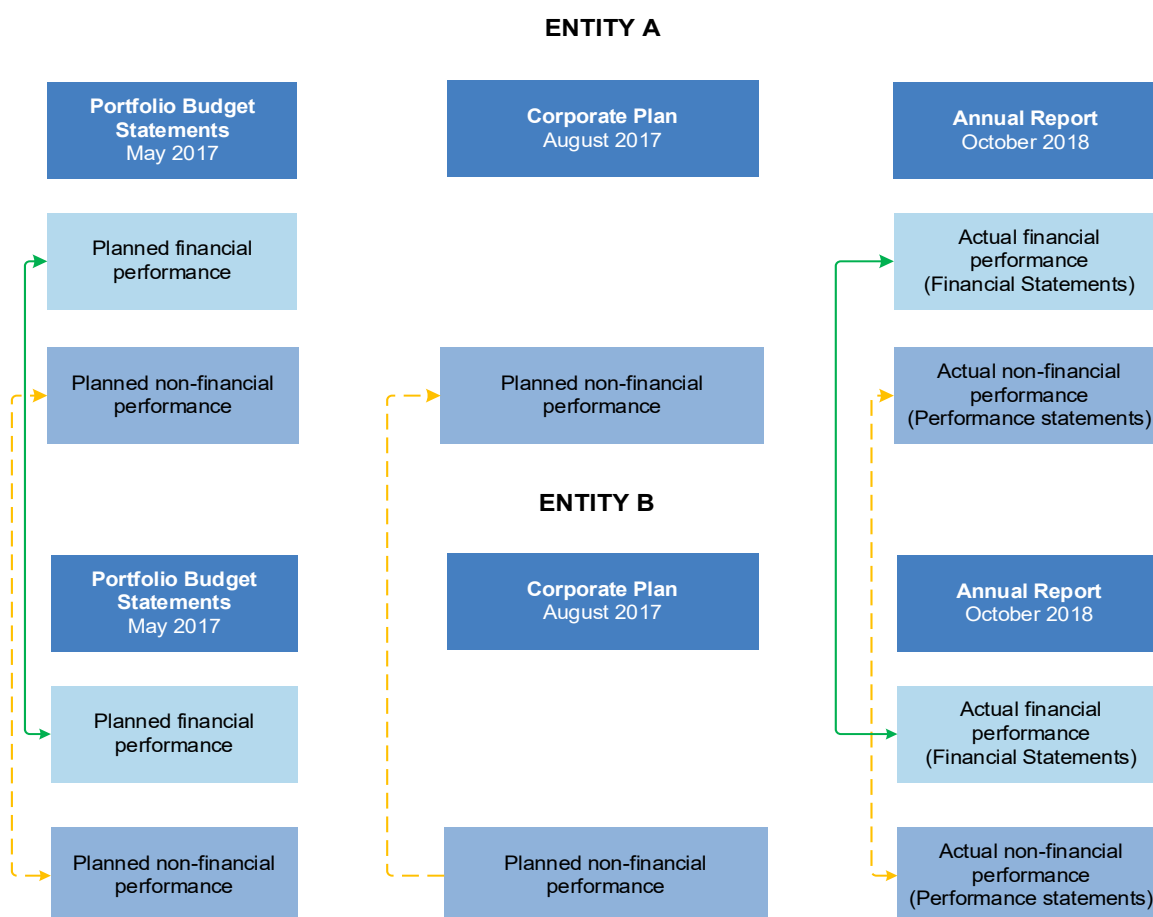
69 Joint Committee of Public Accounts and Audit, *Report 453 Development of the Commonwealth Performance Framework*, December 2015, paragraph 3.15, p. 23.

example, over time, it is anticipated that good-quality data will allow for links to be made between related results in employment, education and health.<sup>70</sup>

2.36 Figure 2.4 illustrates that Finance guidance had partly established the clear read principle to support comparable performance information between entities. Figure 2.4 also identifies areas for improvement to the guidance, specifically in respect to:

- comparing planned and actual non-financial performance between entities (see the corporate plan and annual report yellow arrows); and
- comparing planned and actual delivery of ‘joined up’ or linked programs (see the PBS yellow arrow).

**Figure 2.4: Clear read between Commonwealth entities’ reporting (2017–18)**



Legend: → Guidance addressed the principle.  
- - - - - → Guidance partly addressed the principle.

Source: ANAO analysis of Finance guidance.

2.37 The PGPA Act provides a basis for implementation of the clear read between entities by establishing requirements for entities to:

- prepare estimates for the budget statements as directed by the Finance Minister; and

<sup>70</sup> Department of Finance, *Resource Management Guide 130: Overview of the enhanced Commonwealth Performance Framework*, p. 8.

- prepare financial statements that comply with the Australian Accounting Standards.

2.38 These requirements are supported by Finance guidance. This material includes templates to promote consistency across entities presentation of planned and actual financial performance in the PBS and audited financial statements.

2.39 Areas where the PGPA Rule and/or Finance guidance could be improved are:

- comparing planned and actual non-financial performance between entities; and
- comparing planned and actual delivery of 'joined up' programs.

### *Comparing planned and actual non-financial performance between entities*

2.40 The PGPA Rule outlines the 'matters' that must be included in an entity's corporate plan<sup>71</sup> and performance statements<sup>72</sup> and the specific requirements for annual reports.<sup>73</sup> For example, an entity's corporate plan must contain 'matters' relating to the following topics: 'purpose', 'environment', 'risk oversight and management', 'capability' and 'performance'.<sup>74</sup> The performance statements must contain results and analysis. The accountable authority has discretion over the presentation of these matters.

2.41 Finance's guidance references the benefits of entities publishing non-financial performance information which allows the audience (the Parliament and the public) to compare the performance of different Commonwealth entities, in particular for shared outcomes. The guidance does not provide examples of how entities may achieve this comparability.

2.42 Templates (included in Finance guidance for PBSs and annual reports) are intended to aid consistency in presentation between entities. The guidance for annual reports states that if entities depart from the suggested structure they 'should be prepared to explain their reasons for doing so.' Guidance for performance statements and corporate plans is less prescriptive. Using a suggested format for performance statements to '...enable presentation in a consistent form by entities' is encouraged by Finance in its guidance<sup>75</sup>, while also advising that the corporate plan 'is not obliged to follow the structure of the PGPA rule'.<sup>76</sup>

2.43 The ability to compare information across entities by the Parliament and the public has been identified as an issue by the JCPAA.<sup>77</sup> The ANAO has also commented in previous audit reports on the variability in entities' labelling of corporate plan elements — namely purposes and activities — and the impact of this on the comparability of corporate plans across entities.<sup>78</sup> This variability is

71 PGPA Rule, subsection 16E(2).

72 *ibid.*, subsection 16F(2).

73 *ibid.*, subsection 17AD.

74 The PGPA Rule lists a number of other matters to be included.

75 Department of Finance, *Resource Management Guide 134: Annual performance statements for Commonwealth entities*, p. 32 and Department of Finance, *Resource Management Guide 135: Annual reports for non-corporate Commonwealth entities*, p. 16.

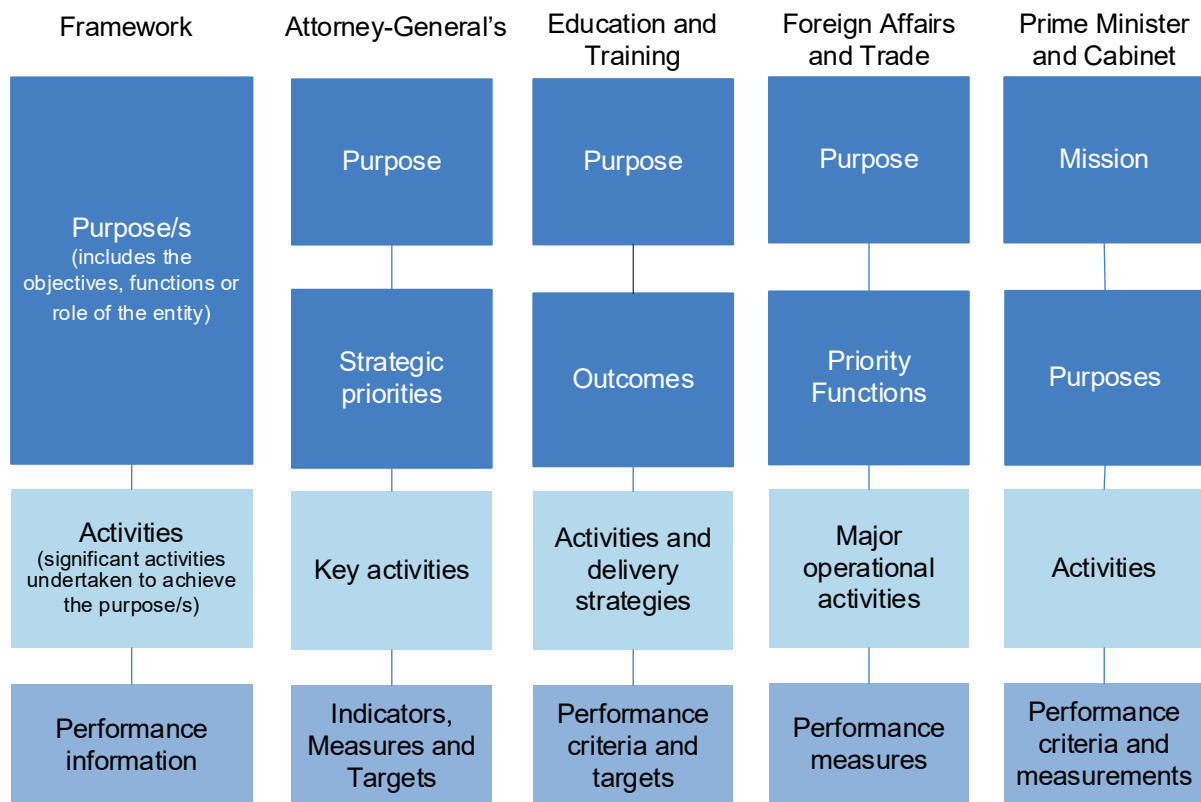
76 Department of Finance, *Resource Management Guide 132: Corporate planning for Commonwealth entities*, pp. 12–13.

77 Joint Committee of Public Accounts and Audit, *Report 453 Development of the Commonwealth Performance Framework*, December 2015, paragraph 4.57, pp. 54–55.

78 See Auditor-General Report No.33 2017–18 *Implementation of the Annual Performance Statements Requirements 2016–17*, March 2018, paragraph 1.34; and No.17 2018–19 *Implementation of the Annual Performance Statements Requirements 2017–18*, December 2018, paragraph 1.42.

illustrated in Figure 2.5, which is drawn from a previous audit and shows that an entity’s purpose may be its objectives, functions or role — a situation which may reduce the comparability of planned and actual non-financial performance between entities. The issue is compounded when attempting to compare actual performance, as entities structure their performance statements (which report on entity performance) to reflect the corporate plan (which addresses anticipated performance).

**Figure 2.5: Comparison of corporate plan elements of selected departments**



Source: Auditor-General Report No. 17 2018–19 *Implementation of the Annual Performance Statements Requirements 2017–18*, December 2018.

### *Comparing planned and actual delivery of ‘joined up’ programs*

2.44 In Report 453, the JCPAA identified ‘the ability to clearly communicate the performance of co-delivered or ‘joined-up’ programs — those that are managed by multiple government entities’ — as an area for improvement in achieving a clear read of entity reporting.<sup>79</sup> The Finance Secretary’s Direction requires entities to report ‘links with the programs and outcomes of other entities’. Finance advised the JCPAA that the direction was intended to provide:

... a useful map that helps senators and members pull the drawstrings together through all PBSs so that they see how government activities are being funded in a particular area.<sup>80</sup>

<sup>79</sup> JCPAA Report 453, p.54.

<sup>80</sup> First Assistant Secretary, Governance and Public Management Reform Taskforce, Department of Finance, Official Committee Hansard, Joint Committee of Public Accounts and Audit, Development of the Commonwealth performance framework, 3 December 2015, p. 3.

2.45 Finance guidance relating to preparation of the PBS provides limited direction to entities as to how to identify these program links<sup>81</sup>, and entities have incorrectly interpreted the requirement. For example, the Department of Defence's 2017–18 PBS lists Finance's Program 1.4 Insurance and Risk Management as a 'linked program' that contributes to the department's achievement of Outcome 2. This contribution is noted as 'working with the Department of Finance to ensure Commonwealth assets are adequately insured and where necessary claims are made in accordance with Commonwealth guidelines and policy'.<sup>82</sup> As all Commonwealth entities engage with Finance in this way, it is not clear how Defence highlighting this as a 'linked program' in the PBS demonstrates the expectation expressed by the JCPAA in paragraph 2.44 about co-delivered or joined-up programs.

2.46 Further, there is no requirement in the PGPA Rule or the Finance Secretary's Direction for the linked programs presented in an entity's PBS to also be: reflected in the other relevant entity's PBS; presented in the corporate plan; or reported against in the annual report.<sup>83</sup> In the absence of such information relating to linked programs, the user of performance documents can be left uncertain as to the impact of other entities' contributions outlined in an entity's PBS. Finance guidance does not address these matters.

## Recommendation no.2

2.47 The Department of Finance amends the:

- (a) Finance Secretary's Direction to require a linked program presented in an entity's Portfolio Budget Statements to also be reflected in the linked entity's, or entities', Portfolio Budget Statements; and
- (b) corporate planning and annual report requirements to require entities to report on linked programs that were presented in the Portfolio Budget Statements.

**Department of Finance response:** *Noted.*

2.48 *Amendments to the Finance Secretary Direction and corporate plan and annual report requirements require consideration by Government and the endorsement of the Joint Committee of Public Accounts and Audit (JCPAA).*

## Has Finance monitored implementation of the clear read principle by entities?

Finance has undertaken monitoring and review activities, including assessments of the compliance and quality of entities' performance reporting documents, but has not yet established an ongoing evaluation initiative as recommended by the JCPAA in *Report 453: Development of the Commonwealth Performance Framework* (Recommendation 3), and agreed to by the Government. Finance is taking steps to address Recommendation 4 made in

81 Refer to Department of Finance, *Guide to preparing the 2017–18 Portfolio Budget Statements*, section 5.4.

82 Defence Outcome 2 is 'We protect and advance Australia's strategic interests through the provision of strategic policy, the development, delivery and sustainment of military, intelligence and enabling capabilities, and the promotion of regional and global security and stability as directed by Government'. Department of Defence, *2017–18 Portfolio Budget Statements*, p. 42.

83 The presentation of linked programs by the selected entities is discussed further in paragraphs 3.88 to 3.89.

JCPAA Report 469: *Commonwealth Performance Framework* (December 2017), relating to a more comprehensive monitoring and evaluation program for the ongoing implementation of the Commonwealth Performance Framework.

Finance has communicated the broad learnings from its monitoring activities through lessons learned papers and communities of practice events. Further, Finance has provided feedback to entities when requested, and has launched [transparency.gov.au](https://transparency.gov.au), which is intended to facilitate comparisons of data between government entities. There remain opportunities for Finance to further support implementation of the clear read principle by: advising entities of the outcomes of its assessments of entity reports; maintaining records of the advice provided; and monitoring the effectiveness of its advisory activities.

## Monitoring the implementation of the enhanced performance framework

2.49 During the development of the performance framework, the JCPAA noted that it ‘wishes to see a clear and ongoing commitment by Finance for a central monitoring, reporting and evaluation initiative’ and that ‘this should provide a focal point for quality assurance, compliance assessment, identification of improvement activities and collection of data in support of the independent review [of the PGPA Act and Rule]’.<sup>84</sup> The JCPAA recommended that Finance:

... commit to an ongoing monitoring, reporting and evaluation initiative for the Commonwealth Performance Framework, performance information in Portfolio Budget Statements and the broader Public Management Reform Agenda. Summary results from this initiative should be publicly reported and submitted to the Committee.<sup>85</sup>

2.50 In September 2016, the Government advised the JCPAA that it agreed to the recommendation and that Finance would ‘continue to monitor the implementation of the enhanced Commonwealth performance framework’ and support ‘entities to help them improve performance reporting’.<sup>86</sup> In December 2017, the JCPAA made a further recommendation (and Finance agreed in June 2018) that Finance:

... undertake a more comprehensive monitoring and evaluation program for the ongoing implementation of the Commonwealth performance framework, including reporting on: ... ‘line of sight’ across performance reporting documentation.<sup>87</sup>

2.51 Finance has undertaken a number of activities to monitor implementation and to support entities to implement the performance framework. Finance has:

- reviewed entities’ compliance with the Finance Secretary’s Direction;
- reviewed entity corporate plans and performance statements and reported on lessons learned;

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84 Joint Committee of Public Accounts and Audit, *Report 453: Development of the Commonwealth Performance Framework*, December 2015, paragraph 4.2. p. 58.

85 Recommendation 3, *ibid.* p.59.

86 *Australian Government response to the Joint Committee of Public Accounts and Audit Report 453: Development of the Commonwealth Performance Framework*, Senator the Hon. Mathias Cormann, Minister for Finance and Deputy Leader of the Government in the Senate, September 2016.

87 Recommendation 4, Joint Committee of Public Accounts and Audit, *Report 469: Commonwealth Performance Framework*, December 2017, paragraph 2.22, p. 10.

- engaged with entities, and provided a mechanism for entities to seek advice from Finance (including establishing an email inbox [pmra@finance.gov.au](mailto:pmra@finance.gov.au)); and
- sought feedback from entities about the performance framework through surveys in 2015, 2016, 2017 and 2018.

2.52 These activities are discussed below in paragraphs 2.54 to 2.68.

2.53 The Government's response to JCPAA Report 453 also noted that Finance expected the PGPA Review<sup>88</sup> 'would comment on the ongoing monitoring, reporting and evaluation of the framework'.<sup>89</sup> The final report of the PGPA Review referred to the use of evaluation as a mechanism for improved performance measurement by entities.<sup>90</sup> The review did not identify, or comment on, a program of ongoing evaluation of the performance framework by Finance. Finance advised the ANAO during this audit that:

The conduct of the Independent Review [of the PGPA Act and Rule] has met the Government's commitment to undertake an evaluation of the framework.<sup>91</sup>

### *Reviewing entities' compliance with the Finance Secretary's Direction*

2.54 Since the introduction of the PGPA Act, Finance has assessed 141 entities' compliance with the Finance Secretary's Direction, on two occasions. Finance assessed the entities':

- 2016–17 PBSs against all requirements in the Direction. Of the 141 entities, 24 entities (17 per cent) were assessed as addressing all requirements. The two main areas of non-compliance were:
  - entities' PBSs did not include expected dates of achievement for existing programs (63 per cent); and
  - forecasts of program performance against expected targets were not reported for the current financial year (35 per cent); and
- 2017–18 PBSs against the requirement 'to provide one high level performance criterion in the PBS for existing programs and whether targets were set for performance criteria.' Of the 141 entity PBSs examined, 134 entities (95 per cent) were assessed as including targets for all existing programs in their 2017–18 PBS.

2.55 Following its assessment of entities' 2016–17 PBSs, Finance's internal documentation commented that the 'two issues should be able to be rectified relatively simply for future PBS through upcoming communication and feedback with entities, updated guidance and information.' In its subsequent assessment of 2017–18 PBSs, Finance did not follow up on entities' compliance with the areas of non-compliance previously identified. Finance has not assessed entity compliance relating to the 2018–19 or 2019–20 PBSs, which were released in May 2018 and April 2019 respectively.

88 The PGPA Review was discussed in paragraphs 1.19 to 1.23 of this report.

89 *ibid.*

90 E Alexander AM and D Thodey AO, *Independent Review into the Operation of the Public Governance, Performance and Accountability Act 2013 and Rule*, Commonwealth of Australia, September 2018, pp. 13–14.

91 Assistant Secretary, Accountability and Reporting Branch, Department of Finance, 23 August 2019.

## *Reviews of corporate plans and annual performance statements and reporting on lessons learned*

2.56 Finance reviewed the 2015–16 corporate plans for 71 entities and identified areas for improvement and examples of better practice. The review formed the basis for a ‘lessons learned’ paper dated February 2016. Finance has continued to review entities’ corporate plans and performance statements, and has released four more lessons learned papers:

- 2016–17 Corporate Plans Lessons Learned, January 2017;
- 2015–16 Annual Performance Statements Lessons Learned, May 2017;
- 2017–18 Corporate Plans Lessons Learned, November 2017; and
- 2016–17 Annual Performance Statements Lessons Learned, April 2018.

2.57 The 2015–16 performance statements lessons learned paper was the first to refer to the importance of a clear read, noting that ‘Creating a clear read between performance documents enhances accessibility and minimises confusion.’ Finance also provided entities with specific examples of how consistency of language and structures, and the numbering of performance criteria, could assist in achieving a clear read between corporate plans and performance statements.<sup>92</sup> In its April 2018 lessons learned paper, Finance reiterated the importance of a clear read of non-financial performance information, as follows:

Clear structuring of performance information across the PBS, corporate plan and annual performance statements helps the reader follow the relationship between the documents. Good mapping between the documents [and] in the annual performance statements themselves is crucial to shaping this relationship.<sup>93</sup>

2.58 In late 2018 the PGPA Review recommended that Finance ‘develop ‘lessons learned’ papers that cover complete performance cycles to identify good-practice examples of a clear read of performance information across portfolio budget statements, corporate plans and annual reports’.<sup>94</sup> Finance advised the ANAO that these papers will be informed by a pilot study that Finance is implementing to address Recommendation 4 made in JCPAA Report 469 (see Table 1.1).<sup>95</sup> In agreeing to the JCPAA’s recommendation, Finance had noted that it would ‘address the full performance cycle’ in future lessons learned papers and undertake a ‘pilot study for the 2017–18 cycle’. Finance further advised the JCPAA that it would ‘publish an assessment of the 2018–19 performance cycle after the tabling of the 2018–19 annual performance statements’.

2.59 Finance commenced this pilot study in November 2018. The pilot involves Finance:

- developing a maturity assessment model;

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92 Department of Finance, 2015–16 Annual Performance Statements Lessons Learned, May 2017, p.3, and Appendix D.

93 Department of Finance, 2016–17 Annual Performance Statements Lessons Learned, April 2018, p.5.

94 E Alexander AM and D Thodey AO, *Independent Review into the Operation of the Public Governance, Performance and Accountability Act 2013 and Rule*, Commonwealth of Australia, September 2018, Recommendation 10, p. 4 and p. 18.

There were two further recommendations in the PGPA Review related to the clear read (see Table 1.2). Finance’s progress in regard to these recommendations is presented in Appendix 4.

95 Joint Committee of Public Accounts and Audit, *Report 469: Commonwealth Performance Framework*, December 2017.

- testing the proposed model with a group of entities<sup>96</sup>; and
- applying the model to a sample of 27 entities' 2017–18 PBSs, corporate plans and performance statements.

2.60 The pilot study was scheduled to be completed in June 2019. Finance advised the JCPAA (in its response to Recommendation 4 made in JCPAA Report 469) that its assessment of the 2018–19 reporting cycle would be released publicly (see paragraph 2.58 above).

2.61 In October 2019, Finance advised the ANAO that the pilot study had been completed in September 2019. Finance further advised that it did not intend to publish the results of the pilot study but that it did intend to share the results of individual assessments with the entities concerned and to share the aggregate results of the pilot study at Communities of Practice forums scheduled for October 2019.

### *Engagement with entities*

2.62 Accompanying the release of a lessons learned paper, Finance has hosted 'Communities of practice' events. These events provided an opportunity for entity representatives to discuss the observations in the lessons learned papers, raise queries with Finance on framework implementation, and share their own experiences. Finance has also held smaller group sessions focused on implementation by particular areas of government, such as cultural institutions.

2.63 In addition, Finance has:

- issued 14 newsletters over the past three calendar years informing entities 'on the latest announcements, events and consultations related to the Public Management Reform Agenda, PGPA Act and related areas of public sector reform';<sup>97</sup>
- maintained an email address which has been used by entities to direct queries to Finance on the framework, and by Finance to respond; and
- met with entities, at their request, to discuss implementation of the framework.<sup>98</sup> Finance advised the ANAO that it did not have an established practice of following up with entities to confirm whether its advice was understood and/or appropriately implemented by the requesting entities.

2.64 Finance also advised the ANAO that the results of its assessments of entities' PBSs, corporate plans and performance statements were not communicated to individual entities unless directly requested by the entity. Providing advice of individual results would help entities identify areas that merit attention.

2.65 Further, Finance did not monitor or maintain records of which entities requested or were provided with feedback about: their compliance with the Finance Secretary's Direction; or Finance's assessment of their corporate plans and performance statements. Monitoring these requests over

96 The entities included in the working group were the: Attorney-General's Department; Department of Foreign Affairs and Trade; Department of Health; Australian Research Council; and Australian Film and Sound Archive.

97 Department of Finance, PGPA Newsletter [Internet], available from <https://www.finance.gov.au/resource-management/newsletter/>, [accessed 4 July 2019]. Three newsletters have been issued to date in 2019, five were issued in 2018 and six were issued in 2017.

98 Finance advised the ANAO in October 2019 that it 'provides extensive one-on-one feedback to entities either through face-to-face or telephone discussions on a range of aspects of the framework, particularly on entity draft corporate plans and annual performance statements'.

time would help Finance assess: issues requiring attention across the public sector; whether entities have made improvements to their performance frameworks as a result of Finance advice; and the effectiveness of its activities in this area.

### Recommendation no.3

2.66 The Department of Finance:

- (a) advises entities of the results arising from any assessments of their PBS, corporate plans or annual performance statements;
- (b) maintains records of advice provided to entities; and
- (c) monitors the impact of its advice in improving implementation of the framework.

**Department of Finance response:** *Agreed.*

### Entity surveys

2.67 Since the PGPA Act commenced, Finance has conducted an annual survey of Chief Financial Officers to obtain entities' views of the framework itself, Finance's role, and self-assessments of their own implementation of the PGPA Act, including the performance framework. The most recent survey, conducted between September and December 2018, indicated that 81 per cent of entities surveyed were satisfied, or very satisfied, with Finance's support. This was a similar result to the previous survey.<sup>99</sup>

2.68 Based on the 2018 survey responses, the report suggested that Finance could improve its support 'by providing more detailed, practical information using concrete examples, provide more targeted workshops and training and providing updates and information sessions for entities'. This is consistent with the observations and recommendations of the JCPAA and the PGPA Review (refer paragraphs 1.19 to 1.22).

### Introduction of the digital reporting tool

2.69 In March 2019, the Minister for Finance announced the launch of the 'Transparency Portal' [www.transparency.gov.au](http://www.transparency.gov.au). The portal is intended 'to make instant comparisons of data between government bodies'.<sup>100</sup> This was accompanied by an amendment to the PGPA Rule, requiring that all entities publish their annual reports on the portal from 2018–19.<sup>101</sup> The portal is the outcome of a pilot exercise by Finance and as at 30 June 2019 it contained the 2017–18 annual reports of 14 entities.

<sup>99</sup> Respondents who were satisfied, or very satisfied in 2018: 81 per cent compared to 2016: 85 per cent.

<sup>100</sup> Senator the Hon. Mathias Cormann and Senator the Hon. Zed Seselja, Joint Media Release, *Launch of Government transparency website*, 13 March 2019, <https://www.financeminister.gov.au/media-release/2019/03/13/launch-government-transparency-website> [accessed 3 June 2019].

<sup>101</sup> Sections 17ABA, 17BCA and 28CA of the PGPA Rule provide that as soon as practicable after the annual report of a non-corporate Commonwealth entity, corporate Commonwealth entity, or Commonwealth company has been presented to the Parliament, it must be published using the digital reporting tool administered by the Finance Minister.

2.70 As at 30 June 2019, the portal also included the 2017–18 corporate plans and PBSs for four departments.<sup>102</sup> The media release accompanying the portal launch noted that the inclusion of these documents was intended to demonstrate the ability of the portal to ‘read between intended budgets, performance targets and results, supporting the comparison of forecasts and actual outcomes for each year’.<sup>103</sup>

2.71 Finance advised the ANAO that the digital reporting tool:

... represents a significant modernisation of the way annual reports are developed and presented publicly. The tool has been endorsed by the JCPAA and has received positive feedback from entities... Finance is exploring options to expand the use of the tool to achieve the Government’s objectives in the medium term.

2.72 The digital reporting tool relies on the submission of quantitative information drawn from entity annual reports and submitted in a standardised form to enable comparison. As discussed in paragraphs 2.40 to 2.46 of this audit, there is currently limited standardisation of the information presented by entities in corporate plans and performance statements, affecting a clear read between entities. In addition, the observations made in this audit (from paragraph 2.22) regarding the alignment between PBSs and corporate plans, relate to the current limits to achieving a clear read within a reporting cycle. These matters would need to be addressed for the digital reporting tool to fully realise the intention, and demonstrate the capability, described in paragraph 2.70 above.

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102 The four entities were: the Department of Education and Training; the Department of Finance; the Department of Foreign Affairs and Trade; and the Department of Parliamentary Services.

103 Senator the Hon. Mathias Cormann and Senator the Hon. Zed Seselja, Joint Media Release, Launch of Government transparency website, 13 March 2019, <https://www.financeminister.gov.au/media-release/2019/03/13/launch-government-transparency-website> [accessed 3 June 2019].

### 3. Entities' establishment of the clear read principle in 2017–18

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#### Areas examined

This chapter examines whether the Department of Defence (Defence), Department of Health (Health) and Department of Home Affairs (Home Affairs) addressed Parliamentary expectations and established a clear read through their 2017–18 performance reporting.

#### Conclusion

The selected entities' implementation of the clear read principle:

- within the 2017–18 reporting cycle — was mostly effective in the case of Health and partially effective in the case of Defence and Home Affairs;
- across reporting cycles — was partially effective in the case of Home Affairs and not effective in the case of Defence and Health; and
- between entities — was partially effective in the case of the three departments, in particular where reporting was underpinned by framework requirements.

#### Areas for improvement

The ANAO has identified the following areas for improvement by the selected entities:

- Alignment between PBSs and corporate plans, the quality of analysis, and the integration of financial and non-financial performance within the reporting cycle.
- Explaining changes to an entity's performance framework across performance cycles, and providing comparative results to support the Parliament's and the public's understanding of an entity's performance over time.
- Identifying and reporting linked programs in entity PBSs.

3.1 Entities are responsible for providing the Parliament and the public with meaningful information through their reporting under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).<sup>104</sup> Demonstrating the 'clear read' characteristics as described by the Parliament's Joint Committee of Public Accounts and Audit (JCPAA)<sup>105</sup> contributes to an entity meeting this responsibility.

3.2 To determine whether the Department of Defence (Defence), Department of Health (Health) and Department of Home Affairs (Home Affairs) have met this responsibility, this chapter examines whether:

- they improved the quality of information presented to the Parliament and the public under the Commonwealth Resource Management Framework (the framework) over time; and

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104 The objects of the PGPA Act include '...to require the Commonwealth and Commonwealth entities ... to provide meaningful information to the Parliament and the public' (s.5(c)(ii)).

105 The key characteristics of a clear read as expressed by the JCPAA are set out in Box 1 of this audit and in Table 3.1.

- their Portfolio Budget Statements (PBS), corporate plans and annual reports demonstrated the clear read principle within the 2017–18 reporting cycle, across multiple reporting cycles, and between the entities.

3.3 Table 3.1 below provides a high level summary of the ANAO's findings formed on the basis of the detailed analysis presented in this chapter.

**Table 3.1: Establishment of the clear read principle by the selected entities (2017–18) — summary**

Clear read principle expressed by the JCPAA (Box 1)	Defence	Health	Home Affairs
Performance information is presented clearly and consistently and is reconcilable throughout an entity's PBS, corporate plan and annual report <b>within one reporting cycle</b> .			
Performance information is presented clearly and consistently throughout an entity's PBS, corporate plan and annual report <b>across multiple reporting cycles</b> .			
Compatibility of performance information <b>between Commonwealth entities</b> — in terms of comparability, consistency of reporting structure and level of information provided.			

Legend: The entity has mostly implemented the clear read principle  
 The entity has partially implemented the clear read principle  
 The entity has not implemented the clear read principle.

Source: ANAO analysis.

## Have the selected entities assessed their implementation of the clear read principle, with a view to improving the quality of information provided to the Parliament and the public under the performance framework?

The selected entities have assessed, and made improvements to, the quality of performance information they have provided to the Parliament and the public under the Commonwealth Performance Framework. This process has included the implementation of recommendations and addressing observations made by Parliamentary committees on aspects of entities' performance reporting. There is scope for the selected entities to improve their compliance with the framework requirements for corporate plans and performance statements.

## Improving the quality of performance information provided to the Parliament and the public

3.4 Finance guidance states that:

It is fundamental to the objectives of the PGPA Act that the presentation of entities' performance to the public and the parliament is meaningful and improves public accountability...It is

understood that the development of improved performance information and reporting frameworks will evolve over the initial reporting cycles under the new arrangements.<sup>106</sup>

3.5 This section examines the processes the selected entities have used to improve the quality of information presented in their PBS, corporate plans and annual reports.

#### *Internal review*

3.6 The selected entities established mechanisms to assess, and make improvements to, the quality of performance information presented to the Parliament and the public over time. These mechanisms have focussed on the entities' compliance with the PGPA Act and PGPA Rule, and the quality of non-financial performance reporting through corporate plans and performance statements.

3.7 Each entity engaged its internal audit function, or consultants, to review and provide feedback on its performance measurement framework. Entities also asked their audit committees to review their corporate plans and performance statements.<sup>107</sup>

3.8 The ANAO's review of the selected entities' reporting in 2016–17, 2017–18 and 2018–19, and plans for 2019–20, indicated that the entities had built on learnings from previous reporting cycles and review processes in the development of their future reporting. The selected entities advised the ANAO that changes had been made to improve their reporting, however in most cases the specific drivers for these changes had not been documented.

#### *Responding to Parliamentary scrutiny of annual reports*

3.9 Under Senate Standing Order 25(20), the annual reports of Commonwealth entities are referred to the relevant Senate standing committee for examination and assessment each year.<sup>108</sup> Senate scrutiny of annual reports is an important source of direct Parliamentary feedback to entities.

3.10 As noted in the recent review of the PGPA Act and Rule, entities have a responsibility to present meaningful information in a timely fashion to the Parliament.<sup>109</sup> Senate standing committees consider and report on whether entity annual reports meet an 'apparently satisfactory' standard, including whether the reports comply with relevant legislation and guidelines. The ANAO reviewed whether the selected entities had addressed the comments of relevant Senate standing committees, and other relevant Parliamentary committee recommendations, when developing their 2017–18 annual reports.

#### *Defence*

3.11 In reviewing Defence's 2016–17 annual report, the relevant Senate standing committee noted that:

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106 Department of Finance, *Resource Management Guide 134: Annual Performance Statements for Commonwealth entities*, July 2017, paragraphs 6 and 7, p. 6.

107 Section 17 of the PGPA Rule requires audit committees to review the appropriateness of an accountable authority's performance reporting.

108 The Senate, *Standing Orders and other orders of the Senate*, August 2018, SO 25(20) available at [www.aph.gov.au/Parliamentary\\_Business/Chamber\\_documents/Senate\\_chamber\\_documents/standingorders](http://www.aph.gov.au/Parliamentary_Business/Chamber_documents/Senate_chamber_documents/standingorders).

109 E Alexander, D Thodey, 2018, *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule*, p.42, available at [www.finance.gov.au/pgpa-independent-review/](http://www.finance.gov.au/pgpa-independent-review/).

...the inclusion of more specific quantitative targets for some measures, where possible, would enhance the quality of the performance information.<sup>110</sup>

3.12 ANAO analysis of Defence's 2017–18 annual report indicates that the committee's views have been addressed. For one of the two specific examples given by the committee — the 'Achievement of ADF recruitment targets' — Defence had an accompanying target of 'meet recruitment targets as specified by the services'. The Committee commented that Defence's 2016–17 annual report 'does not include a breakdown of what the actual targets were, or the figures attained.' In respect to the same measure in Defence's 2017–18 annual report, Defence did provide the total figures attained. While this additional information addressed the Parliament's comments, Defence's 2017–18 annual report no longer included prior year information, requiring a reader to refer to the 2016–17 annual report to determine its performance over time. A stronger basis to compare performance over time had been sought by the committee.<sup>111</sup>

3.13 In reviewing Defence's 2017–18 annual report, the committee noted that the use of page references assisted navigating between the criteria and results presented in Defence' performance statements and source documents (PBS, Portfolio Additional Estimates Statements, and corporate plan). The committee also commented that:

Defence's two 'purposes' as listed in the 2017-18 Corporate Plan, align directly with the two 'Outcomes' as set out in the 2017-18 PBS. The Committee appreciates the work done on the performance framework to bring these elements into alignment to enhance readability between the documents.<sup>112</sup>

3.14 Defence's 2016–17 annual report was also reviewed by the JCPAA as part of an inquiry into Defence's sustainment expenditure. Based on its review, the committee made two recommendations to Defence in March 2018, relating to performance reporting:

#### Recommendation 1

The Committee recommends that the Department of Defence improve its Corporate Plan, Portfolio Budget Statements, Portfolio Additional Estimates Statements, and Annual Report to ensure a clear read of both financial and descriptive performance information.

#### Recommendation 3

The Committee recommends that the Department of Defence appropriately signpost to readers of the hard copy/PDF version of the Defence Annual Report that further information is available online, specifying what online information is available.<sup>113</sup>

3.15 Defence agreed to these recommendations in September 2018, noting that 'Defence has actively worked to improve alignment between the Corporate Plan, Portfolio Budgets Statements,

110 Foreign Affairs, Defence and Trade Legislation Committee, *Annual reports (No. 1 of 2017)*, p. 17, available from [www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Foreign\\_Affairs\\_Defence\\_and\\_Trade/Recent\\_reports](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Foreign_Affairs_Defence_and_Trade/Recent_reports).

111 *ibid.*, p. 18.

112 Foreign Affairs, Defence and Trade Legislation Committee, *Annual reports (No. 1 and No. 2 of 2019)*, p. 23, available from [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Foreign\\_Affairs\\_Defence\\_and\\_Trade/Annual\\_Reports/2019/reports/c02#c02f23](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Foreign_Affairs_Defence_and_Trade/Annual_Reports/2019/reports/c02#c02f23).

113 Joint Committee of Public Accounts and Audit, *Report 470: Defence Sustainment Expenditure*, March 2018, p. 6.

Portfolio Additional Estimates Statements, and Annual Report.’<sup>114</sup> There is evidence of improved alignment of these elements in Defence’s 2017–18 reporting, as discussed in paragraph 3.12, and from paragraph 3.29 of this audit report.

3.16 To address Recommendation 3, Defence’s 2017–18 Annual Report contains an appendix that directs readers to supplementary information available through the department’s website.

#### Health

3.17 In reviewing Health’s 2016–17 annual report, the relevant Senate standing committee made one comment relating to clear read. The committee noted the absence of visual indicators, which had been used in the prior year’s annual report to summarise the proportion of targets met for each outcome. The committee also encouraged Health to consider presenting more performance information in a summarised format ‘to assist in the communication of [Health’s] extensive performance targets’.<sup>115</sup>

3.18 Health addressed these comments primarily through the reintroduction of summary results tables for targets in its 2017–18 annual report. In its review of Health’s 2017–18 annual report, the Senate standing committee welcomed the inclusion of these tables. The committee also noted that the department’s ‘outcomes represent complex policy and administrative responsibilities, and the use of summarised information to present performance information, coupled with more detailed discussion of results, is an effective method of reporting’.<sup>116</sup>

#### Home Affairs

3.19 In reviewing Home Affairs’ 2016–17 annual report, the relevant Senate standing committee made three comments relating to the presentation of the department’s performance information:

- results were not presented as either meeting or not meeting the targets;
- there was ‘limited-to-no explanatory text evaluating individual quantitative criteria’; and
- the committee would prefer a clear and comprehensive explanation of results against individual performance criteria, rather than in the overview section.<sup>117</sup>

3.20 Each of these comments was addressed by Home Affairs in its 2017–18 annual report. As part of its assessment of Home Affairs’ 2017–18 annual report, the Senate standing committee noted that:

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114 Department of Defence, *Executive Minute on Joint Committee of Public Accounts and Audit Report No. 470: Defence Sustainment Expenditure*, 9 November 2018. These recommendations had been made in relation to reporting from 2015–16.

115 Community Affairs Legislative Committee, *Annual reports (No. 1 of 2018)*, p. 10 available at [www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Community\\_Affairs/Annual\\_Reports/2018/Report1](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Annual_Reports/2018/Report1).

116 Community Affairs Legislative Committee, *Annual reports (No. 1 of 2019)*, p. 9 available at [www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Community\\_Affairs/Annual\\_Reports/2019/Report1](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Annual_Reports/2019/Report1).

117 Legal and Constitutional Affairs Legislation Committee, *Annual reports (No. 1 of 2018)*, pp. 5–6 available at [www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Legal\\_and\\_Constitutional\\_Affairs/Annual\\_Reports/2018/Report1](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Legal_and_Constitutional_Affairs/Annual_Reports/2018/Report1).

Home Affairs appears to have addressed comments made in the Report on Annual Reports (No. 1 of 2018) in relation to the clear reporting of KPIs being met or not met.<sup>118</sup>

3.21 The committee also noted that Home Affairs had 'largely explained the causes of having missed the KPIs', and described the overall standard of performance reporting in the annual report as 'extremely high'.<sup>119</sup>

### Selected entities' compliance with framework reporting requirements

3.22 Entity compliance with the PGPA Act and Rule requirements contributes to implementing the clear read principle. This audit assessed the extent to which the selected entities' 2017–18 PBSs<sup>120</sup>, corporate plans and annual reports (including performance statements and financial statements) complied with the requirements. A summary of the selected entities' compliance is presented in Table 3.2 below.

**Table 3.2: Summary of selected entities' compliance with reporting requirements**

Report	Defence	Health	Home Affairs
Portfolio Budget Statements	◆	▲	▲
Corporate plan	▲	▲	▲
Performance statements	▲	▲	▲
Financial statements	◆	◆	◆
Annual report	◆	◆	◆

Legend: ◆ complied with the requirements

▲ compliance with the requirements could be improved

Source: ANAO analysis.

3.23 The main areas of compliance that could have been improved by each of the selected entities were:

- conveying how the 2017–18 corporate plan applied to each of the four reporting periods it considered, and the entities' risk oversight and management systems; and
- the quality of analysis presented in the entities' 2017–18 performance statements.

3.24 The presentation of performance criteria in accordance with the Finance Secretary's Direction was also an area of compliance that required improvement in Health's and Home Affairs' 2017–18 PBSs.

118 Legal and Constitutional Affairs Legislation Committee, *Annual reports (No. 1 of 2019)*, p. 6 available at [www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Legal\\_and\\_Constitutional\\_Affairs/Annual\\_Reports/2019/report1](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Legal_and_Constitutional_Affairs/Annual_Reports/2019/report1).

119 Ibid., p.6–8.

120 Please note, where the ANAO refers to Portfolio Budget Statements (PBS) in this chapter, it should be read as the Portfolio Budget Statements, and any additional or supplementary additional estimates statements issued, which are relevant to the 2017–18 reporting period.

## Did the selected entities' reporting demonstrate a clear read within the 2017–18 performance cycle?

While the selected entities' reporting did not fully demonstrate to the Parliament and the public a clear read of their performance within the 2017–18 performance cycle, each entity demonstrated one or more examples of better practice in the areas examined by the ANAO.

Health's 2017–18 reporting most closely reflected the clear read characteristics identified by the JCPAA, in particular by taking steps to establish connections between financial and non-financial performance in its 2017–18 annual report. The clear read of Defence's and Home Affairs' 2017–18 reporting would have been enhanced if the PBSs and corporate plans clearly demonstrated their alignment, and the results of financial and non-financial performance were integrated.

The analysis presented by the selected entities in their performance statements, and elsewhere in their annual reports, could have been improved to better demonstrate a clear read within the reporting cycle.

3.25 The ANAO assessed whether the selected entities' 2017–18 PBSs, corporate plans and annual reports established connections between planned and actual performance, so as to contribute to a clear read.<sup>121</sup> From this assessment, examples of better practice and opportunities to better demonstrate a clear read within the 2017–18 performance cycle were identified. These examples and opportunities, which are discussed further in the next section, relate to the:

- internal consistency of information within the PBS and/or corporate plan;
- reporting of significant changes that occurred during the reporting period in corporate plans;
- quality of information and analysis presented in the performance statements and elsewhere in the annual report; and
- connections between financial and non-financial performance in the annual report.

### Internal consistency of information within the PBS and/or corporate plan

3.26 The ANAO assessed the presentation of entity PBSs and corporate plans, including alignment of performance information between these two reports, at three levels:

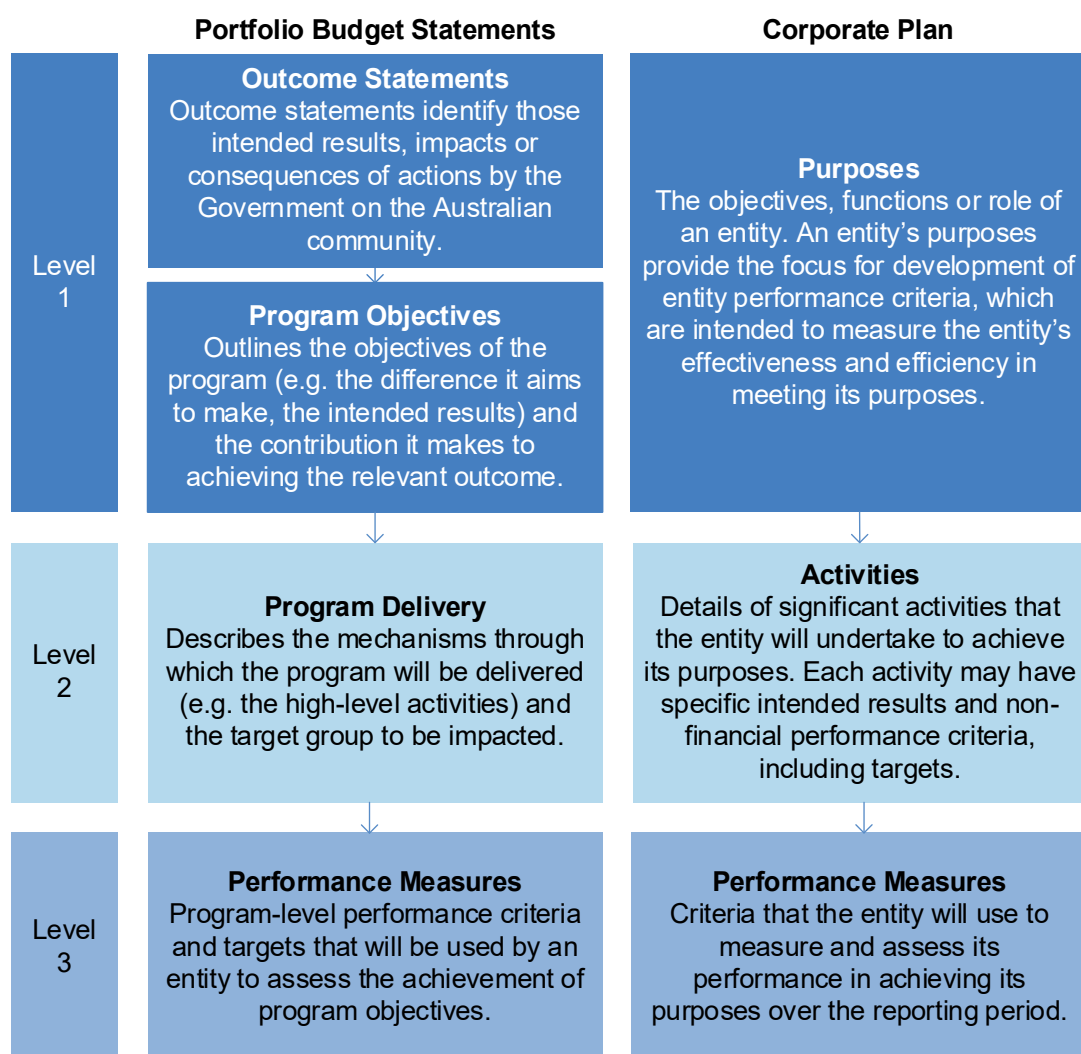
- Level 1 — outcomes and program objectives in the PBS, and purposes in the corporate plan;
- Level 2 — program delivery as set out in the PBS, and activities as outlined in the corporate plan; and
- Level 3 — performance measures set out in the PBS and corporate plan.

3.27 Figure 3.1 (on the following page) illustrates the alignment between the performance information elements of the PBS and corporate plan that would best address the clear read principle at those three levels.

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<sup>121</sup> See Box 1 and Figure 1.2 of this audit for the basis of assessment.

**Figure 3.1: Alignment between the elements of PBSs and Corporate Plans**



Source: ANAO analysis of PBS and Corporate planning requirements and/or guidance issued by Finance and Box 1 of this report.

3.28 When assessed against this model, Defence and Home Affairs could improve the alignment between their 2017–18 PBS and Corporate Plans to better demonstrate the clear read principle. Examples of better practice and opportunities to improve the clear read are discussed below.

### Defence

3.29 There was a one-for-one alignment between Defence's 2017–18 PBS and Corporate Plan at Level 1 (outcomes to purposes), establishing a basis for the clear read. Purpose 1 aligned to Outcome Statement 1 and accompanying programs, and Purpose 2 aligned to Outcome Statement 2 and accompanying programs. No overlaps between those elements were evident. This alignment was presented to the reader through a table in the corporate plan.<sup>122</sup>

3.30 Similarly, at Level 2 (program delivery and activities), there was close alignment between the program delivery items described in the PBS, and the activities and intended results presented in the corporate plan. Readers of the corporate plan are directed to the 'Lead PBS program' for each

<sup>122</sup> Department of Defence, *Corporate Plan 2017–18*, August 2017, p. 3.

activity, which assists the reader to understand the connections between the PBS and corporate plan.

3.31 There were instances where the Level 2 advice was inconsistent with the alignment for Level 1 that was set out in the table. For example, the lead PBS programs listed against the key activities for Purpose 1 are all programs under Outcome 2. In addition, a comparison of the corporate plan activities and intended results listed under Purpose 1 against the delivery items in the PBS indicates an overlap between the outcomes (see Table 3.3 below). Presenting information inconsistently within the corporate plan affects alignment with the PBS.<sup>123</sup>

**Table 3.3: Overlap between Defence PBS delivery and Corporate Plan activities**

PBS alignment (Delivery)	Corporate Plan (Activity and intended results)
<b>Outcome 1: Program 1.1, 1.2 and 1.3</b> 'Ensuring Defence's operational capabilities are available to meet Government direction.'	<b>Purpose 1 activity</b> 'Ensuring Defence's operational capabilities are available to meet Government direction'.
<b>Outcome 2: Program 2.4</b> 'Government being able to deploy defence capability to support Government policy objectives that ensure Defence's operational capabilities are available to meet government direction.'	<b>Purpose 1 intended result</b> 'Government is able to deploy Defence capability to support Government policy objectives.'

Source: Department of Defence, *2017–18 Portfolio Budget Statements* and *2017–18 Corporate Plan*.

3.32 While Defence presented at least one 'high-level' performance criterion for each existing program' under both outcomes,<sup>124</sup> the same criterion and target was repeated across multiple programs in the PBS. For example, 'Operational outcomes meet the requirements of government policy' and 'All operational requirements are met' was repeated for three programs under Outcome 1, and also for Program 2.8: Joint Operations Command. It is unclear from the PBS whether those criteria are intended to be read as a single criterion, relevant to all four programs, or will be reported in the performance statements separately and with different results.

3.33 Defence's 2017–18 Corporate Plan also presented two tables of performance information for each purpose. An example is set out in Table 3.4 on the following page.

<sup>123</sup> The alignment of corporate plan activities and PBS program delivery is clearer in Defence's 2018–19 Corporate Plan, with the activities more explicitly reflecting the wording from the PBS. However, Defence has removed the Lead PBS program notes from the corporate plan, which reduces the level of assistance provided to readers as compared to the 2017–18 PBS.

<sup>124</sup> As required by the Finance Secretary's Direction, 3 March 2017.

**Table 3.4: Two layers of performance information from Defence's Corporate Plan**

A	Performance measure <sup>a</sup>	
	1.i. Required preparedness levels are achieved.	2017–2021
	Measured and reported	Measured bi-annually. Reported annually.
	Methodology	Assessment of preparedness against the Chief of the Defence Force Preparedness Directive.

B	Activity <sup>a</sup>	Intended result	Performance criteria
	Ensure Defence's operational capabilities are available to meet Government direction. Lead PBS program: 2.4 Vice Chief of the Defence Force	Government is able to deploy Defence capability to support Government policy objectives.	<b>Measure:</b> Chief of the Defence Force preparedness levels meet Government requirements. <b>Target:</b> Chief of the Defence Force preparedness levels are achieved as agreed with Government.

Note a: Tables A and B were presented in Defence's 2017–18 Corporate Plan. Only Table B was presented in Defence's 2018–19 Corporate Plan.

Source: Defence Corporate Plan 2017–18, pp. 11–12.

3.34 The first table (A) sets out the 'performance measures' that Defence proposed to use to measure its performance in achieving its purposes in 2017–18. These measures did not link back to the PBS. The second table (B) listed the key activities Defence planned to undertake in 2017–18 to achieve its purposes, along with intended results, measures and targets. The corporate plan did not explain how the information in these two tables was related.

3.35 Where measures in Table A appear to overlap with those presented in Table B, an explanation of their relationship would have assisted a reader to understand what was intended to be reported. Defence has revised this structure in its 2018–19 Corporate Plan, removing the first layer of performance information (Table A). By removing Table A, the presentation of performance information in the corporate plan is clearer.

### Health

3.36 Health's 2017–18 PBS and corporate plan were closely aligned, and the information presented within the documents was clearly set out. Health had six outcomes in its PBS. Each outcome was reflected separately in the corporate plan structure (Level 1). Health also presented performance criteria and targets in the corporate plan at the outcome level (Level 3). Orienting the corporate plan to the PBS outcomes provided clear signals to a reader of how the corporate plan and PBS should be interpreted together, and the absence of overlapping elements minimised the potential for confusion.

3.37 Health directed readers to the PBS for the complete listing of performance criteria, noting that they are intended to reflect the high level activities of the department (Levels 2 and 3). By including all performance criteria in the PBS (rather than only one per existing program), Health provided the Parliament with a complete picture of its expected financial and non-financial performance at the time of the Parliament's consideration of the appropriation bills.

3.38 The corporate plan then provided an extract of 18 measures from the PBS that ‘have been chosen to provide a representation of the kind of work the department undertakes’. This approach, aided by the strong connections between the two documents, allowed the corporate plan to focus on providing the supporting context for users, including the department’s environment, capability and risks that influenced its expected performance. This approach also minimised the risk of users being unable to establish connections between the entity’s financial and non-financial performance.<sup>125</sup>

### Home Affairs

3.39 Home Affairs’<sup>126</sup> 2017–18 PBS and Corporate Plan aligned closely at the:

- outcomes and purposes level (Level 1). The PBS contained three outcomes, which were reflected in the purposes of the corporate plan (see Table 3.5 below); and
- program delivery and activity level (Level 2). The corporate plan listed ‘high-level’ activities under each purpose which encapsulated the program delivery elements set out under the relevant outcome in the PBS.

**Table 3.5: Comparison of Home Affairs’ 2107–18 outcomes and purposes**

Outcome statements recorded in PBS	Purposes described in Corporate Plan
Outcome 1: Protect Australia’s sovereignty, security and safety by managing its border, including through managing the stay and departure of all non-citizens.	Protect Australia
Outcome 2: Support a prosperous and inclusive society, and advance Australia’s economic interests through the effective management of the visa and citizenship programs and provision of refugee and humanitarian assistance.	Promote responsive migration
Outcome 3: Advance Australia’s economic interests through the facilitation of the trade of goods to and from Australia and the collection of border revenue.	Advance trade and revenue

Source: Department of Immigration and Border Protection 2017–18 PBS and Corporate Plan.

3.40 There were opportunities to improve the clear read between Home Affairs’ corporate plan and PBS by including signals. For example, the corporate plan does not inform the reader of the alignment of outcomes and purposes (Level 1) or of performance information (Level 3). At the performance information level (Level 3), Home Affairs’ corporate plan sets out strategic performance measures, or SPMs, under each purpose that ‘convey what the Department expects to achieve over the next four years’ and ‘clearly identify our intended results’. Each SPM was then accompanied by specific key performance indicators and measurements (targets).

3.41 Home Affairs’ internal documentation demonstrated that programs under Outcomes 2 and 3 each related directly to Purposes 2 and 3 respectively. Programs under Outcome 1 contributed to all three departmental purposes. For example, aspects of Programs 1.1 and 1.2 were mapped to Purposes 2 and 3. There was no mapping in the corporate plan to facilitate a clear read and assist a

<sup>125</sup> To further assist readers of the corporate plan, Health may consider providing the PBS program source for the performance criteria in future corporate plans. For example, the third performance criterion presented under Outcome 1 in the corporate plan is sourced from Program 1.5 of the PBS.

<sup>126</sup> Home Affairs was established in December 2017. The following assessment is of the 2017–18 PBS and 2017-18 Corporate Plan for the former Department of Immigration and Border Protection.

user to identify these overlapping elements, making it difficult for a reader to accurately compare the planned financial performance outlined at the outcome and program level in the PBS, to the non-financial performance set out in the corporate plan.

3.42 Home Affairs advised the ANAO that the department 'effectively demonstrate the mapping of SPMs, KPIs, and PBS programs' in its annual report. The 2017–18 Annual Report presented Program 1.5 as the only program that addressed multiple purposes. The reader was not advised of the overlaps noted above for Programs 1.1 and 1.2.

### **Reporting in corporate plans on significant changes within the reporting period**

3.43 The PGPA Rule (subsection 16E(6)) allows an accountable authority to vary a corporate plan during the reporting period. If the variations are assessed as 'significant', the corporate plan must be reissued in accordance with the requirements outlined in section 16E.<sup>127</sup>

3.44 In reviewing the framework, the JCPAA expressed a concern that corporate plans would only be reflective of the point in time at which they were issued. To address this concern, Finance issued guidance stating that:

A plan should be updated to reflect any new purposes or key priorities for an entity; changes in the operating environment; new activities that warrant inclusion in the corporate plan; significant new performance measures, targets or tools that will be used to measure or assess performance; and key changes in the capability of the entity or in its risk management approach.<sup>128</sup>

3.45 The ANAO reviewed changes to the selected entities' operations, estimates and structures in 2017–18 that were documented in entities' Portfolio Additional Estimates Statements and Supplementary Additional Estimates Statements. A summary of the changes in estimates identified in the Portfolio Additional Estimates and Supplementary Additional Estimates for Defence, Health, and Home Affairs is set out in Table 3.6 on the following page.

127 The Accountable Authority assesses whether the variation is significant.

128 Department of Finance, *Resource Management Guide 132 Corporate planning for commonwealth entities*, paragraph 80.

**Table 3.6: Comparison of changes to the selected entities' estimates during 2017–18**

Entity	Portfolio Additional Estimates Statements (February 2018)		Portfolio Supplementary Additional Estimates Statements (May 2018)	
	Estimates	Outcomes	Estimates	Outcomes
Defence	\$1.3 billion increase (3 per cent) for ongoing funding of military superannuation benefits. No change to ASL.	No change to outcomes. Renaming of two programs.	\$947.8 million increase due to expenditure re-profile for existing capability projects.	None
Health	N/A	N/A	\$32.1 million increase for existing program.	None
Home Affairs	\$473.8 million increase to existing administered Program 1.4. \$71.2 million increase from machinery of government (MoG) transfers. >400 ASL increase	New Department. Outcomes 1 & 2 both changed. Six new programs transferred from other entities.	\$126.2 million increase for ICT Systems—upgrade.	None

Source: ANAO analysis of the selected entities' 2017–18 Portfolio Additional Estimates Statements (PAES) and Portfolio Supplementary Additional Estimates Statements (PSAES).

3.46 Increases in estimates reported by Defence and Health pertained to existing functions. Neither entity's outcomes or programs structures were affected by these changes and would not be expected to lead to changes to the corporate plan. Changes identified in Home Affairs' estimates reporting reflected a machinery of government change during 2017–18.

3.47 In July 2017, the planned establishment of a Home Affairs portfolio and lead entity (a Department of Home Affairs) was announced by the Government, bringing together Australia's existing immigration, border protection, law enforcement and domestic security agencies. In August 2017, the then Department of Immigration and Border Protection released its 2017–18 Corporate Plan. The corporate plan contained a section explaining the Government announcement, noting 'in light of the complexity and significance of these reforms, they will be phased in over a period of time'.<sup>129</sup>

3.48 The Home Affairs portfolio was established in December 2017, following an Administrative Arrangements Order (AAO). The AAO established the Department of Home Affairs by renaming the existing Department of Immigration and Border Protection, and transferring a number of functions from other departments to the new entity.

3.49 In advance of the AAO, Home Affairs sought confirmation from Finance that the decision to vary and/or reissue a corporate plan (an entity's primary non-financial planning document) was at the discretion of the entity Accountable Authority. Finance confirmed this was the case. The ANAO

<sup>129</sup> Department of Immigration and Border Protection, *Corporate Plan 2017–18*, p.17.

was advised by Home Affairs and Finance that the two entities met during February 2018, after the establishment of Home Affairs, to discuss matters relevant to Home Affairs' corporate planning. Neither entity could confirm the specific matters that were discussed at that meeting.

3.50 The Secretary of the Department of Home Affairs (the Accountable Authority) did not vary, or reissue, the corporate plan during 2017–18. This meant that the Parliament and the public had limited mechanisms available to inform themselves of the impact of the machinery of government changes to Home Affairs' purposes, environment, risks, capability and/or performance until the 2018–19 Corporate Plan was issued in August 2018. Home Affairs did not retain records of advice to its Secretary that may have informed the decision not to vary, or reissue, the 2017–18 Corporate Plan.

3.51 Home Affairs advised the ANAO that:

The Department did not reissue a Corporate Plan, as the establishment of Home Affairs was a complex Machinery of Government (MoG) change that was not completed until May 2018. The Department issued a Corporate Plan in August 2018, which reflected all of the functions integrated into Home Affairs.

3.52 The entities that transferred functions to Home Affairs as a result of the AAO (the Attorney-General's Department, the Department of Infrastructure and Regional Development, and the Department of the Prime Minister and Cabinet) also did not vary or re-issue their 2017–18 corporate plans.

### **The quality of information and analysis presented in entity performance statements and elsewhere in entity annual reports**

3.53 The PGPA Rule (Section 17AC) requires entities, in preparing their annual reports, to:

- have regard to the interests of the Parliament, and anyone else who may have an interest; and
- present information that is relevant, reliable, concise, understandable and balanced. The requirements note that this may be achieved through mechanisms such as the use of headings and adequate spacing, defining technical terms, and using tables and graphs.<sup>130</sup>

3.54 Overall, the selected entities' annual reports were structured in a way that encouraged ease of understanding by users. In terms of the presentation of information in entities' annual reports, the ANAO noted both better practice examples and opportunities to make the information presented by the selected entities more relevant and understandable.

3.55 Both Health and Home Affairs used infographics at the beginning of each purpose/outcome section of the performance statements to communicate key results and/or highlights. Health also used case studies to emphasise the particular outcome of a program discussed immediately before it. Defence's 2017–18 performance statements would have achieved better alignment if the results and analysis presented against a performance measure better reflected the target. For example, Defence's performance statements reported that it had achieved the target of 'Stakeholders

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<sup>130</sup> PGPA Rule 2014, subsections 17AC(1) and (2).

express high confidence in Defence's engagement'. To demonstrate this achievement, Defence simply presented a list of activities.

3.56 The selected entities' 'Report on financial performance'<sup>131</sup> reflected the 'suggested format' set out in Finance guidance. This format notes that entities should include their most recent forecasted financial result (published in the 2018–19 PBS) as a basis of comparison with the actual financial results. While there is no requirement for entities to provide further explanation of variances between their forecast and actual results, providing an explanation would assist the user of the annual report to better understand entity performance. For example, Home Affairs' annual report indicated that it overestimated its forecast 2017–18 departmental expenses for Program 2.3 by \$65.3 million (16 per cent). The reason for this difference was not explained to a reader.

### **Connections between financial and non-financial performance in the annual report**

3.57 As discussed in chapter 2 of this report (see the red dotted line in Figure 2.1), the current framework is not effective in promoting the Parliament's expectation that an entity's performance reporting should contribute to a clear read by integrating both financial and non-financial performance information.

3.58 Nonetheless, Health demonstrated better practice by connecting reported financial performance and non-financial performance in its 2017–18 Annual Report. Health achieved this by integrating two mandatory annual report elements — the performance statements and entity resourcing tables required under the PGPA Rule (sections 16F and 17AF). Health presented the budgeted expense and resources tables at the end of each outcome section of its performance statements. This approach enabled users of the annual report to identify and compare the related financial and non-financial performance for that outcome.

3.59 Health and other entities could build on this approach by providing analysis and/or linkages between variances highlighted in those tables to the non-financial performance for the accompanying program in the performance statements.

### **Did the selected entities' reporting demonstrate a clear read across performance cycles?**

The selected entities' reporting could better demonstrate to the Parliament and the public a clear read across performance cycles. In particular, there is scope to: explain changes to an entity's performance framework between performance cycles; and provide comparative results to support the reader's understanding of an entity's performance over time.

3.60 To assess whether the selected entities' PBSs, corporate plans and annual reports demonstrated the clear read principle across the reporting cycles for 2016–17, 2017–18 and 2018–19, the ANAO asked two questions:

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131 The PGPA Rule (Section 17AF ) requires the 'Report on financial performance' in an entity's annual report to include: discussion and analysis of financial performance; a table summarising the total resources of, and total payments made by, the entity during the period; and a description of significant changes in financial results compared to the previous period.

- Is the information presented in the PBS, corporate plan and annual report in each performance cycle consistent, and does it enable comparison?; and
- If the information has been added to, amended, or removed between performance cycles, are these changes clearly explained to the reader?

3.61 As discussed in paragraphs 2.25 to 2.26, the framework requirements and accompanying guidance support entities' demonstrating a clear read across performance cycles with respect to planned and actual financial information. This was reflected in the assessment of the financial information presented in the selected entities' PBSs and financial statements, which demonstrated a clear read across the 2016–17 and 2017–18 performance cycles.

3.62 The following sections of the report discuss those areas of entities' non-financial performance reporting that could be improved to better demonstrate a clear read across performance cycles, including:

- the comparability of corporate plans;
- how changes to performance measures were explained; and
- opportunities to improve the comparability of results presented in performance statements.

## **Comparability of corporate plans**

### *Defence*

3.63 The key change between years evident from reviewing Defence's corporate plans was the movement from three purposes in 2016–17 to two purposes in 2017–18.<sup>132</sup> It is unclear why the changes were made, as no explanation is provided to inform a reader. Explaining changes to an entity's purpose/s (the focus of an entity's performance measurement) between years would contribute to the comparability of performance across reporting cycles.

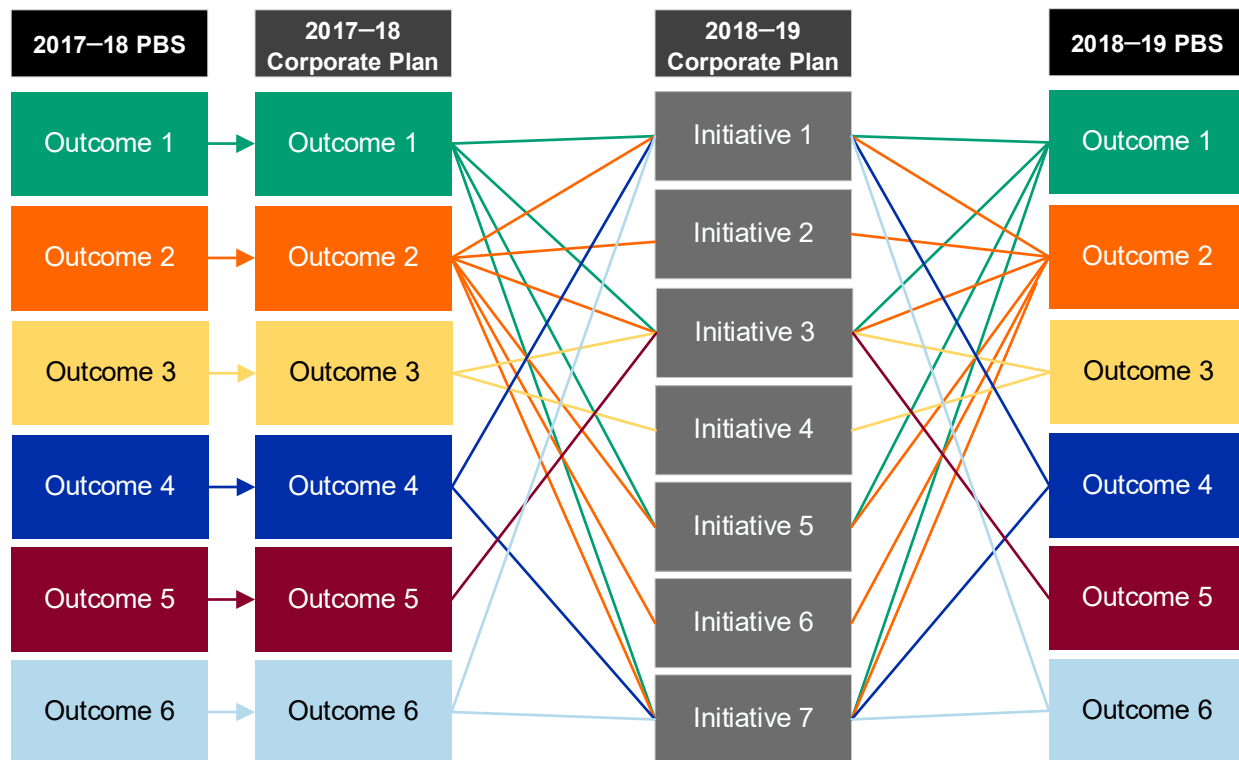
### *Health*

3.64 The reporting structure supporting Health's purpose in the 2018–19 Corporate Plan changed significantly when compared to the 2017–18 Corporate Plan. Figure 3.2 (on the following page) illustrates the impact of these changes on comparability of Health's 2017–18 and 2018–19 corporate plans.

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132 Defence's 2018–19 Corporate Plan reflects the same purposes as 2017–18.

**Figure 3.2: Changes in Health’s reporting structure between the 2017–18 and 2018–19 corporate plans**



Source: ANAO analysis of Health’s 2017–18 Corporate Plan and 2018–19 Corporate Plan.

3.65 As illustrated in Figure 3.2, the reporting structure presented in Health’s 2017–18 Corporate Plan matched the outcome structure presented in the department’s 2017–18 PBS. This approach to reporting made clear the relationship between each outcome in the two documents.

3.66 In contrast, although there were no changes to Health’s outcome structure between the 2017–18 and 2018–19 PBS, the 2018–19 Corporate Plan presented seven ‘initiatives’ and noted which PBS outcome they aligned to. As demonstrated in Figure 3.2, the clear read across the 2017–18 and 2018–19 corporate plans was reduced as a result. This presentation also makes it difficult for a reader to map the planned non-financial performance set out in the 2018–19 Corporate Plan against the planned financial performance of Health’s 2018–19 PBS programs.

### *Home Affairs*

3.67 The 2018–19 Corporate Plan is the first issued by Home Affairs.<sup>133</sup> A comparison of Home Affairs’ 2018–19 Corporate Plan to the former Department of Immigration and Border Protection’s 2017–18 Corporate Plan indicates that the new department has maintained three purposes, expanding each to more closely reflect the amended outcome statements from the 2018–19 PBS. This approach, and the inclusion of an explanation of the machinery of government changes which created the new department, provided users with context for the changes and a basis for comparison with previous corporate plans.

<sup>133</sup> As discussed in paragraph 3.50, the department did not reissue a corporate plan following its establishment midway through 2017–18.

3.68 A key difference compared to 2017–18 is the way in which information relevant to the Australian Border Force (ABF) is presented. The corporate plan describes the ABF as being 'operationally independent' of Home Affairs, and includes a section entitled 'Australian Border Force'. This section provides a message from the ABF Commissioner, describes the ABF's role and strategic and operational priorities, and sets out performance measures.

3.69 The performance measures section for the ABF repeats the strategic performance measures and key performance indicators presented earlier in the corporate plan. None of the measures are amended or described in a way that indicates if and/or how the contribution of the ABF will be differentiated from the rest of the department. This repetition of performance measures, without a clear explanation of how they will be reported against for the ABF, creates uncertainty as to how to compare expected performance to the previous cycle.<sup>134</sup> In response to this observation, Home Affairs advised the ANAO that:

The intention of representing Australian Border Force (ABF) information separately is to provide the reader some clarity as to the purposes where ABF contribute, noting the ABF have its own public image however are part of Department of Home Affairs.

3.70 Home Affairs has addressed this repetition in the 2019–20 Corporate Plan. The ABF section no longer repeats performance measures from earlier sections of the corporate plan, instead presenting the ABF as responsible for the achievement of Home Affairs' Purpose 3 and associated measures.

## **Explaining changes to performance measures**

3.71 Each of the selected entities made changes to its performance measures between reporting cycles. As discussed in paragraph 2.33, where entities change performance criteria in the PBS between years as a result of a material program change, they are required to highlight it by underlining and/or italicising the measure. There is no such requirement for changes to performance measures in an entity's corporate plan or annual report.

### ***Defence***

3.72 In respect to Defence's 2016–17 and 2017–18 corporate plans, three measures were added, three measures were removed, and five measures were revised. No explanation is provided in the 2017–18 corporate plan or annual report for these changes. As noted in paragraph 3.35, Defence removed the 'performance measures' level (refer Table 3.4) in its 2018–19 Corporate Plan. Explaining these changes would have improved the comparability of reporting between reporting cycles.

### ***Health***

3.73 There is limited continuity between the measures and/or targets presented in Health's 2016–17, 2017–18 and 2018–19 corporate plans. Appendix 5 of this audit report shows the progression of performance measures presented across Health's 2016–17, 2017–18 and 2018–19 corporate plans. Table 3.7 on the following page provides examples of the types of changes made to Health's performance measures across the three reporting cycles examined in this audit.

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<sup>134</sup> This also impacts the clear read within the 2018–19 performance cycle, as the alignment to planned financial resources in the PBS is unclear.

3.74 In the 2016–17 Corporate Plan, Health advised readers that the measures listed were not exhaustive and that ‘They have been selected [from the PBS] against what the department views as focus areas over the next four years.’ In the 2017–18 Corporate Plan, the department noted that:

Following is an extract of 18 performance measures [from the PBS] detailing how we intend to measure our performance against our Purpose over the next four years. The 18 measures have been chosen to provide a representation of the kind of work the department undertakes.’

3.75 There is no explanation as to why those performance measures may be different to the ones presented in the previous corporate plan. In 2018–19, the corporate plan no longer advises the reader that the measures are an extract, or selection, from the PBS. The only indications that the listing may not be complete are a descriptive box at the beginning of the ‘Our performance’ section, and the measures being labelled as ‘key’.

3.76 Improvements to entity performance measurement and reporting will necessitate changes to performance measures over time. A clear read is facilitated where such changes are clearly signalled to a reader to assist their understanding of how the measurement has changed, and more importantly, why.

**Table 3.7: Comparison of Health’s’ 2016–17, 2017–18 and 2018–19 corporate plan performance measures**

Measure	2016–17 Corporate Plan	2017–18 Corporate Plan	2018–19 Corporate Plan
Removed between years	Departmental representatives actively engage in meetings of the WHO [World Health Organisation] governing bodies, OECD [Organisation for Economic Co-operation and Development] Health Committee, Asia-Pacific Economic Cooperation (APEC) Health Working Group and other international forums.	Australia’s engagement and active participation at the WHO, the OECD Health Committee and Asia-Pacific Economic Cooperation Health Working Group contributes to development and adoption of international best practice, improved governance and focus on identifying and responding to global health security threats.	N/A or no longer listed.
Consistent across years	Continued review of MBS [Medicare Benefits Schedule] items to ensure they are safe, effective and cost-effective, with the majority reviewed by June 2017.	Continued review of MBS items to maintain a Medicare system that provides high value care to the Australian public based on evidence and best clinical practice.	Continued review of MBS items to maintain a Medicare system that provides high value care to the Australian public based on contemporary evidence and practice.

Measure	2016–17 Corporate Plan	2017–18 Corporate Plan	2018–19 Corporate Plan
Amended across years	<b>Performance measure:</b> Increased access to aged care services and information through My Aged Care.	<b>Performance criteria:</b> Percentage of surveyed users who are satisfied with the service provided by the: a) My Aged Care Contact Centre b) My Aged Care website <b>2017–18 target:</b> a) ≥95% b) ≥65%	<b>Performance criteria:</b> Efficiency of My Aged Care assessments is demonstrated and completed. <b>2018–19 target:</b> Greater than 90 per cent of high priority comprehensive assessments with clinical intervention are completed within two days of referral. Greater than 90 per cent of high priority home support assessments are completed within ten calendar days of referral.
Added across years		<b>Performance criteria:</b> Commonwealth Home Support continues to assist older people to stay independent and live in their homes and communities for longer. <b>2017–18 target:</b> Continue to provide services through the Commonwealth Home Support Program.	<b>Performance criteria:</b> National direction supports a collaborative approach to preventing and reducing the harms from alcohol, tobacco and other drugs. <b>2018–19 target:</b> Continue investment in quality alcohol and drug treatment services. Continue to build the evidence base in relation to alcohol and drugs through high quality research. Work with states and territories, and other relevant agencies to: <ul style="list-style-type: none"> <li>Finalise the next iteration of the National Alcohol Strategy and the National Tobacco Strategy; and continue to focus on the priority areas identified; and</li> <li>Continue reporting on the National Drug Strategy and associated sub-strategies.</li> </ul>

Source: ANAO analysis of the Department of Health's corporate plans for 2016–17, 2017–18 and 2018–19.

### Home Affairs

3.77 As discussed at paragraph 3.48 of this report, Home Affairs was established in late 2017 and this involved the transfer of functions from other entities. In comparing the performance measures presented in the former Department of Immigration and Border Protection's 2016–17 and

2017–18 corporate plans, and Home Affairs’ 2018–19 Corporate Plan, the ANAO notes that there have been minimal changes between years.

3.78 Appendix 6 of this audit demonstrates the mapping of the first level of performance information — strategic performance measures (SPMs) — across the three years, determined on the basis of information presented in the corporate plans. In all but two cases, the SPMs have remained consistent enough to enable comparison across years. The connection between the two new SPMs introduced in 2018–19 and the transfer of functions noted in the Secretary’s foreword to the corporate plan is not explained.

3.79 At the second level of performance information (performance indicators and targets), a total of 54 performance criteria were removed, and 10 new criteria were added, between the 2016–17 and 2017–18 corporate plans. A further 28 criteria were amended in some way when carried through to the 2017–18 corporate plan, but were still comparable. For example, the ‘Number of visa refusals based on security or character grounds’ was presented in 2016–17, and the comparable criterion identified in the 2017–18 corporate plan was ‘100% of non-citizens posing known risks to the Australian community are refused/cancelled before or at the border’.

3.80 In 2018–19, the first year that Home Affairs issued its own corporate plan, 33 performance criteria from 2017–18 were carried forward without change, and 20 criteria were added. All 20 new criteria were associated with the two new SPMs (see paragraph 3.78 above). Five of the existing criteria were amended, either through changing the existing key performance indicator (KPI) description or measurement (target), or providing an additional measurement. Most remained comparable, while others appeared to have changed significantly, as shown in Table 3.8 below. These changes were not explained to the reader.

**Table 3.8: Comparison of Home Affairs’ corporate plan KPIs and measurements between 2017–18 and 2018–19**

Difference	2017–18 Corporate Plan	2018–19 Corporate Plan
Comparable KPI, amended measurement	<p><b>KPI 2.2.2:</b> The number of primary decisions made in the illegal maritime arrivals (IMA) legacy caseload, leveraging relevant intelligence.</p> <p><b>Measurement:</b> Average days to determine cases is decreasing compared with the previous year.</p>	<p><b>KPI 2.2.2:</b> Primary decisions made in the Illegal Maritime Arrivals (IMA) legacy caseload leverage contemporary country information and relevant integrity verifications.</p> <p><b>Measurement:</b> IMA legacy caseload resolutions are reviewed by the Department through quality control and assurance processes.</p>
Amended KPI and measurement	<p><b>KPI 2.2.3:</b> Inform illegal maritime arrivals (IMA) about the need to apply for a Temporary Protection visa or Safe Haven Enterprise visa to resolve status.</p> <p><b>Measurement:</b> Increasing percentage of IMA legacy caseload resolutions year-on-year compared with the previous year.</p>	<p><b>KPI 2.2.3:</b> Temporary Protection Visa and Safe Haven Enterprise Visa holders are informed of the need to reapply before the expiry of their visas.</p> <p><b>Measurement:</b> Outreach to affected communities and stakeholders. Products in languages that guide the reapplication process are developed and published.</p>

Source: Department of Immigration and Border Protection’s 2017–18 Corporate Plan, and Department of Home Affairs’ 2018–19 Corporate Plan.

## Improving the comparability of results or analysis of non-financial performance

3.81 A clear read is facilitated where a user of an entity's annual report is able to identify movements/changes in an entity's performance compared to the previous year, and understand why they occurred. Across the selected entities' annual reports, comparability was improved where the 2017–18 annual report presented the results for both 2017–18 and 2016–17. Of the three entities, Home Affairs was the most consistent in providing results from the prior year for its performance criteria. Comparability was aided by the consistency of Home Affairs' criteria presented across reporting cycles, as discussed in paragraphs 3.77 to 3.80.

3.82 As noted in paragraph 3.71, each entity made changes to the performance criteria presented in its corporate plans and PBSs between years. These changes were made without signalling or explaining the changes to the reader. If the performance statements also do not signal to a reader that changes have occurred, a user needs to search for each criterion in a prior year's performance statements to determine whether it is a new, existing or amended criterion. Each of the selected entities reported against more than 50 criteria in their 2017–18 performance statements.<sup>135</sup> Guiding a reader through changes to measures (in the context of reporting on results) is an important means of supporting external scrutiny.

3.83 Of the selected entities, only Home Affairs drew attention to significant changes to its criteria between cycles in its performance statements. As discussed in paragraph 3.48, the establishment of Home Affairs in 2017–18 involved the transfer of functions from other entities. Home Affairs was then required to report against the established performance criteria for the transferred functions.<sup>136</sup> To address this, Home Affairs' performance statements included a section titled 'Additional performance measures' that provided users with an understanding of the functions transferred to the new department and the measures associated with them. The original sources of the measures (the transferring entities' PBS or corporate plan) were also included to assist a reader seeking further information on the context in which the original measures were set.

## Was a clear read evident between the selected entities' reporting in the 2017–18 performance cycle?

A clear read between the selected entities' reporting of their performance in the 2017–18 performance cycle was established in those areas underpinned by framework requirements for the presentation of entity PBSs and annual reports. The clear read between entities was less evident where similar framework requirements did not exist, including the presentation of corporate plans and the identification of linked programs.

3.84 As discussed in paragraph 1.13, the JCPAA has observed that a clear read 'applies to working towards compatibility of performance information across entities'. Acknowledging that Commonwealth entities cover a diverse range of activities and operations, the ANAO focussed on the consistency of entities' presentation of information within the PBS, corporate plans and annual reports when assessing the clear read between entities' reporting.

135 Defence: 11 measures and 39 criteria; Health: 100 performance targets; Home Affairs: 11 Strategic Performance Measures, 34 Key Performance Indicators; and 19 additional performance measures.

136 PGPA Rule, subsection 17A(3).

3.85 The requirements for PBSs and annual reports, including financial statements and performance statements, has helped drive comparability between the selected entities' PBSs and annual reports. While each of the selected entities had tailored the presentation of its PBS, this did not affect its comparability with that of other entities. For example, Health presented its performance criteria against specific headings outlined in the 'Delivery' section of the PBS, in a horizontal format. Defence and Home Affairs followed the template provided by Finance more closely, presenting information vertically.

3.86 Comparability across entity annual reports is aided by a requirement to direct readers to where the matters required by the Rule are located in the annual report.<sup>137</sup> Each of the selected entities presented this as an appendix to the annual report, and this information provides a useful reference tool for the Parliament and the public to identify elements of the annual report that are intended to be alike.

3.87 The following sections of this report discuss opportunities to improve the comparability of the selected entities' reporting, through improved consistency between:

- the identification and presentation of linked programs under the Finance Secretary's Direction;
- corporate plan structures; and
- information presented in annual reports.

### **Consistent reporting of 'linked programs' in PBSs**

3.88 As discussed in paragraph 2.44, an entity's PBS is required to report 'links with the programs and outcomes of other entities'. Table 3.9 below shows that Defence referred to a linked Home Affairs program in its 2017–18 PBS (Program 1.1: Border Enforcement), while Home Affairs referred to a linked Defence program (Program 1.3: Defence Contribution to National Support Tasks in Australia) in its 2017–18 PBS.<sup>138</sup> Both programs appear to reflect the other entity's contribution to their outcomes.

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137 Section 17AJ of the PGPA Rule provides that an entity must include the list of requirements, set out in Schedule 2 of the PGPA Rule, in the annual report.

138 As discussed in paragraph 3.48, Home Affairs was established in December 2017. The Department of Immigration and Border Protection's 2017–18 PBS has been referred to in this section.

**Table 3.9: Linked programs presented in Defence and Home Affairs' 2017–18 PBSs**

Defence	Home Affairs
<b>Department of Immigration and Border Protection</b> <i>Program 1.1 Border Enforcement</i> Provides security of the Australia's maritime borders from unauthorised maritime arrivals, prohibited imports and exports, illegal exploitation of natural resources and other maritime threats to Australian Sovereignty.	<b>Department of Defence</b> <i>Program 1.3: Defence Contribution to National Support Tasks in Australia</i> The Department of Defence (Defence) undertakes tasks that include: planning and conducting operations to provide security of Australia's maritime borders from unauthorised maritime arrivals, prohibited imports and exports, illegal exploitation of natural resources and other maritime threats to Australian sovereignty including counter-terrorism responses. Defence contributes to Maritime Border Command tasking, providing maritime surveillance and response assets that are tasked routinely in accordance with the Government's priorities.

3.89 However, there is no requirement or guidance, for linked programs to appear in each of the relevant entities' PBSs, limiting comparability. This is demonstrated in Health's 2017–18 PBS, which listed two Home Affairs programs.<sup>139</sup> Home Affairs' contribution to Health's outcome was not similarly reflected in Home Affairs' PBS. As recommended in this report (Recommendation 2), this is an area of the framework that could be improved to provide the Parliament with the information necessary to compare and scrutinise the planned performance of joined-up/linked programs presented in PBSs.

### Improving consistency between corporate plans

3.90 Section 16E of the PGPA Rule sets out the matters that must be included in an entity's corporate plan.<sup>140</sup> Finance guidance notes that there is no requirement for entities to structure these matters in the same order as the Rule, and advises entities that a preferred approach is:

...to weave a discussion of these elements [environment, capability and risk exposure] into an explanation of what activities are undertaken (and how) to achieve an entity's purposes. This is likely to make for a clearer and more cohesive performance story.<sup>141</sup>

3.91 The ANAO's review of the selected entities' 2017–18 corporate plans identified that Health incorporated risk management as part of its 'capability' section, while Defence's capability is described in the 'environment' section. While the selected entities addressed all of the required matters in their 2017–18 corporate plan, giving each matter its own heading would have assisted a reader to identify and compare the relevant information between entities and across reporting cycles. Conventions around the preparation of routine reports deliver consistency which also aids efficiency for both the preparer of the reports and the reader.

<sup>139</sup> Health's PBS referred to the Department of Immigration and Border Protection's Program 2.4: Refugee and Humanitarian Assistance, and Program 1.2 Border Management as linked programs contributing to Health's outcomes.

<sup>140</sup> Those matters are: Environment; Capability; Risk Oversight and Management; and Performance.

<sup>141</sup> Department of Finance, *Resource Management Guide 132: Corporate plans of Commonwealth entities*, p.7 and p.13.

3.92 Comparability would have been further improved if performance frameworks were more closely aligned. Figure 3.3 on the following page illustrates the variability in the selected entities' performance frameworks. For example, in describing entity purposes:

- Defence includes a 'mission', 'primary role' and 'purposes';
- Health includes a 'vision', purpose', 'strategic priorities' and 'outcomes'; and
- Home Affairs includes 'purposes', 'strategic objectives' and 'priorities'.

3.93 Clarity of entity purposes is an essential element of the current performance framework, which is designed to inform the Parliament and community of entities' achievement of their purposes:

It is important to include clearly identifiable purposes to allow a clear read through to the results reported in annual performance statements at the end of the reporting period.<sup>142</sup>

**Figure 3.3: Comparison of the selected entities' corporate plan performance elements**

Framework	Defence	Health	Home Affairs
Purpose/s (includes the objectives, functions or role of the entity)	Mission	Vision	Purposes
	Primary role	Purpose	Strategic objectives
	Purposes	Strategic priorities	Priorities
		Outcomes	
Activities (significant activities undertaken to achieve the purpose)	Performance measures		Strategic performance measures
	Key activities		High-level activities
	Intended results		
Performance information	Performance criteria (measures and targets)	Performance criteria and targets	KPIs
			Measurements

Source: ANAO analysis of the selected entities' 2017–18 corporate plans.

142 Department of Finance, *Resource Management Guide 132: Corporate plans of Commonwealth entities*, paragraph 43, p.18.

## Improving consistency between annual reports

3.94 As set out in Appendix 3 of this report, the framework establishes minimum requirements for annual reports (including financial statements and performance statements) and clear expectations regarding their contents. The comparability of the selected entities' annual reports could be improved through greater consistency in the presentation and analysis of information in the:

- performance statements; and
- report on financial performance.

### *Performance statements*

3.95 As noted in Finance's guidance, the content requirements for corporate plans are closely aligned to performance statements and this 'recognises the close relationship between the main components of the framework'.<sup>143</sup> The variability of entities' approaches to their corporate plans (discussed above in paragraph 3.91) affects the comparability of performance statements. For the selected entities, the different structuring of performance elements in corporate plans has led to differences in the presentation of results in the performance statements. For example, Defence and Home Affairs present analysis against their purposes, while Health presents analysis against each PBS program. Without consistency in these elements of performance reporting a user of multiple annual reports, in particular the Parliament in carrying out its scrutiny function, is left without a clear basis for comparison across entities.

3.96 This is particularly important for those areas of government where the Parliament has expressed a desire for improved performance information on 'joined up' programs. For example, the achievement of outcomes through the delivery of services by Services Australia (until recently known as the Department of Human Services) on behalf of other entities such as Health and the Department of Social Services.

3.97 As discussed in paragraph 2.46, while entities are required to identify 'linked programs' in their PBSs, there is no requirement to then report against those linkages in the annual report — limiting the Parliament's ability to compare multiple entities' contributions to the achievement of that outcome in a particular performance cycle.

### *Reports on financial performance*

3.98 The PGPA Rule (Section 17AF) requires the 'Report on financial performance' in an entity's annual report to include:

- discussion and analysis of financial performance;
- a table summarising the total resources of, and total payments made by, the entity during the period (Finance provides a suggested format for this table in guidance); and
- a description of significant changes in financial results compared to the previous period.<sup>144</sup>

3.99 The selected entities presented this information in different ways in their 2017–18 Annual Reports:

143 Department of Finance, *Resource Management Guide 132: Corporate plans for Commonwealth entities*, p.8.

144 PGPA Rule, subsections 17AF (1) and (2).

- Defence presented all of the information as part of a chapter on its financial performance, separate to the financial statements;
- Health provided discussion and analysis of financial performance in a chapter that incorporates the financial statements. The tables summarising resources and payments were then presented for each outcome within the performance statements; and
- Home Affairs presented all of the information across: a chapter on financial performance which precedes a chapter containing the financial statements; and an accompanying appendix.

3.100 Consistent presentation of the required elements of the 'Report on financial performance' would facilitate a clear read by assisting the user to find and compare entities' financial performance.

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Grant Hehir  
Auditor-General

Canberra ACT  
27 November 2019

## **Appendices**

## Appendix 1 Entity responses



### Australian Government Department of Finance

EC19-000870

**Rosemary Huxtable PSM**  
Secretary

Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Mr Hehir

I refer to your correspondence of 27 September 2019 providing the proposed audit report, *Commonwealth Resource Management Framework and the Clear Read Principle* (the Report) pursuant to section 19 of the *Auditor-General Act 1997*.

The Department of Finance (Finance) notes that the audit criteria included consideration of whether 'the Department of Finance effectively established the clear read principle in the Commonwealth Resource Management Framework, and monitored its implementation'.

The Report has focussed on implementation of the resource management framework in the 2017–18 cycle, this being the third cycle since the revised performance framework was introduced in 2015–16. As noted in the Report, Finance considers it will take up to five reporting cycles for mature practice to emerge from entities' implementation of the performance framework. In the period since the 2017–18 cycle, Finance has continued to enhance its work with entities in this area by issuing Lessons Learned papers, hosting Communities of Practice and providing extensive one-on-one feedback to entities.

The Report acknowledges the principles-based nature of the framework, but does not give sufficient weight to the need for individual accountable authorities to have flexibility in determining the most appropriate way to meet the requirement of the framework. This is particularly important because of the diverse nature of Commonwealth activities. The Report does not sufficiently recognise that the design of the framework and how it is implemented will continue to evolve in the light of practical experience.

Finance notes that Report 469 of the Joint Committee of Public Accounts and Audit (JCPAA), which is extensively referenced in the Audit Report, was issued in December 2017 and that the Government responded to the Report in June 2018. In that report the JCPAA referred a number of matters to the Independent Review into the operations of the *Public Governance, Performance and Accountability Act 2013* and Rule (Independent Review).

Finance is progressively actioning and implementing the recommendations of the Independent Review. To date fourteen recommendations have been actioned and four have been fully implemented. In particular, proposed amendments to the *Public Governance, Performance and Accountability Rule 2014* will directly address aspects of JCPAA Report 469 by clarifying how each element of the corporate plan must be reported across the reporting periods covered by the plan and require entity corporate plans to:

- include key risks and how they will be managed;
- discuss the organisations and bodies with whom an entity cooperates; and
- report the key activities that contribute to the achievement of an entity's purposes.

Amendments are also proposed to the Finance Secretary Direction to support the clear read principle by improving linkages between performance information in Portfolio Budget Statements (PBSs) and corporate plans.

Finance's summary response to the Report is:

*Finance considers that the Report does not reflect the ongoing work in this area. In particular, amendments proposed to the Public Governance, Performance and Accountability Rule 2014 and the Finance Secretary Direction will improve the link between Portfolio Budget Statements and corporate plans and improve the content of entity corporate plans.*

*Finance will continue to work with entities on ways to improve the presentation of Portfolio Budget Statements, corporate plans and annual performance statements to facilitate the clear read principle.*

*Finance's response to the Report's recommendations*

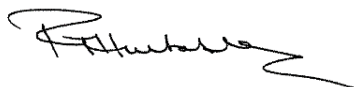
*Recommendation 1(a): Agree, noting that enhancements to Finance guidance relating to the reporting of linked programs is dependent on Government consideration of the issues raised in Recommendation 2.*

*Recommendation 1(b): Agree, noting that improvements to comparisons between entities need to be consistent with the principles-based framework.*

*Recommendation 2: Noted. Amendments to the Finance Secretary Direction and corporate plan and annual report requirements require consideration by Government and the endorsement of the Joint Committee of Public Accounts and Audit (JCPAA).*

*Recommendation 3: Agree.*

Yours sincerely



Rosemary Huxtable  
Secretary

25 October 2019



**Australian Government**

**Department of Defence**

**PO Box 7900 CANBERRA BC ACT 2610**

SEC/OUT/2019/EC19-005313  
CDF/OUT/2019/ EC19-005313

**Mr Grant Hehir**  
Auditor-General  
PO BOX 707  
CANBERRA ACT 2601

Dear Mr Hehir *Dear Grant*

**Australian National Audit Office Section 19 Proposed Report: Commonwealth Resource Management Framework and the Clear Read Principle**

Thank you for your correspondence of 27 September 2019, which contained the Proposed Report for the ANAO performance audit – *Commonwealth Resource Management Framework and the Clear Read Principle*. Defence appreciates the opportunity to review and comment on the Proposed Report.

Defence acknowledges the findings and recommendations to update available guidance and information, in order to support the strengthening of performance information in and across agency reporting cycles.

Defence is committed to ongoing improvement in its measurement and reporting of performance in line with the broader findings of the audit. The ANAO audit analysis and findings will help Defence strengthen its approach to the 2020–21 performance framework and 2019–20 annual performance statements.

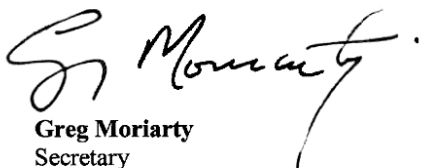
Attached to this letter are Defence's Proposed Amendments, Editorials and Comments (Annex A), Defence's Response to the Proposed Recommendations (Annex B), and the Defence Summary Response (Annex C). These constitute Defence's formal response to the Proposed Report.

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Our point of contact is ANAO Liaison Officer, Miss Alaina Brown who can be contacted by telephone on 02 6266 3103 or email: [alaina.brown@defence.gov.au](mailto:alaina.brown@defence.gov.au).

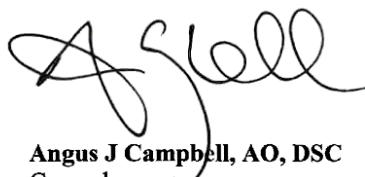
Defence remains committed to assisting you with the successful completion of this audit.

Yours sincerely



**Greg Moriarty**  
Secretary

21 October 2019



**Angus J Campbell, AO, DSC**  
General  
Chief of the Defence Force

22 October 2019

Annexes:

- A) Defence's Proposed Amendments, Editorials and Comments
- B) Defence's Response to the Proposed Recommendation
- C) Defence Summary Response



**Australian Government**

**Department of Health**

Secretary

Mr Grant Hehir  
Auditor-General for Australia  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

*Grant,*  
Dear Mr Hehir

**Department of Health response to the Proposed Audit Report – Commonwealth Resource Management Framework and the Clear Read Principle**

Thank you for providing the Australian National Audit Office's (ANAO) proposed report pursuant to section 19 of the *Auditor-General Act 1947* on the cross-entity audit of the Commonwealth Resource Management Framework and the Clear Read Principle. I appreciate the opportunity to respond to the report.

The wording provided for the Summary Response can be found at Attachment A.

I would like to thank the ANAO for its professionalism throughout the audit.

If you have any questions regarding the department's response please contact Narelle Smith, Assistant Secretary, Corporate Assurance Branch on (02) 6289 5342.

Yours sincerely

*G. A. Beauchamp*  
Glenys Beauchamp

14 October 2019

Phone: (02) 6289 8400 Email: [Glenys.Beauchamp@health.gov.au](mailto:Glenys.Beauchamp@health.gov.au)  
Scarborough House, Level 14, Atlantic Street, Woden ACT 2606 - GPO Box 9848 Canberra ACT 2601 - [www.health.gov.au](http://www.health.gov.au)

- 2 -

**Attachment A**

*The Department of Health (the department) welcomes the findings in the report and will implement the suggested opportunities to improve performance reporting to Parliament and the public.*

*It was pleasing to note the department was found to be largely effective in reflecting the clear read principles across the 2017-18 performance cycle. The enhanced performance reporting elements of the Public Governance, Performance and Accountability Act (2013) and Rule has facilitated clear linkages and a consistent narrative between performance reporting documents, including the Portfolio Budget Statements, Corporate Plan and Annual Report.*

*With over 100 links to over 30 entities across six Outcomes (in 2019-20), the department supports the audit's recommendations for the Department of Finance to provide guidance to entities on reporting linked programs to ensure consistency between entities' reporting, therefore improving transparency and comparability of Portfolio Budget Statements.*

*In line with the clear read principle for non-performance information within our reporting cycle, the department is continuing our significant change management program to drive improvements in how the department undertakes performance reporting as a whole. This change has been supported by a Performance Measurement and Reporting Framework, which addresses several elements of the findings within the audit.*

*The department continues to improve the quality and reliability of its performance reporting and assurance arrangements to support the requirements of the Commonwealth performance framework. In particular, the department is focussed on improving the transparency, consistency and clarity of performance reporting which is presented in plain language and is easy to understand.*

*By ensuring a whole-of-agency view of performance information across the three key performance documents, I am confident there will be continued progress in the delivery of improved reporting within the Portfolio Budget Statements, Corporate Plans and Annual Reports.*



**Australian Government**  
**Department of Home Affairs**

Grant Hehir  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
Canberra ACT 2601

Dear Mr Hehir

Thank you for the opportunity to provide comments on the Australian National Audit Office's (ANAO) report on the *Commonwealth Resource Management Framework and the Clear Read Principle*.

The Department of Home Affairs (the Department) welcomes the opportunity to review the effectiveness of the design and implementation of the clear read principle under the Commonwealth Resource Management Framework and acknowledges the value of the ANAO providing independent analysis and insights into potential areas of improvement.

We note the ANAO's observation that the Department, and other selected entities, considered the implementation of the clear read principle and made improvements to the quality of performance information provided to Parliament and the public. In relation to this, the ANAO acknowledges that the Senate Standing Committee described the overall standard of the Department's performance reporting in its 2017-18 Annual Report as "extremely high".

The Department also acknowledges the ANAO's findings that the clear read principle was partially implemented by the selected entities and that each entity demonstrated examples of better practice in the areas examined by the ANAO. Of note, the comparability for clear read of performance information was aided by the consistency of the Department's criteria presented across reporting cycles, assisting the reader following complex Machinery of Government changes; and the Department's annual reports were structured in a way that encouraged ease of understanding by readers.

In this context, we also note the ANAO's conclusion that existing guidance for entities on implementing the clear read principle has not yet been fully developed across all three areas examined. This is reflected in the three recommendations made by the ANAO specifically related to updating and amending the Department of Finance's existing guidance documentation available to entities. This context is important in any assessment of the Department's application of the principle.

The Department would like to thank the ANAO for their collaborative approach throughout the audit process. We will consider the findings and continue to improve our implementation of the clear read principle under the Enhanced Commonwealth Performance Framework.

Yours sincerely

**Mark Brown**  
Chief Audit Executive

22 October 2019

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PO Box 25 Belconnen ACT 2616 • Telephone: 02 6264 1111 • Fax: 02 6225 6970 • [www.homeaffairs.gov.au](http://www.homeaffairs.gov.au)

## Appendix 2 Finance Secretary's Direction

### Requirements for Performance Information included in Portfolio Budget Statements

#### Finance Secretary Direction under Subsection 36(3) of the *Public Governance, Performance and Accountability Act 2013*

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I, Rosemary Therese Huxtable, Secretary, Department of Finance, issue the following direction under subsection 36(3) of the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act).

Dated *Third day of March, 2017*

Rosemary Therese Huxtable  
Secretary  
Department of Finance

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1. This direction commences on the day it is signed until such time as it is superseded or rescinded.
2. This direction applies to the accountable authorities of Commonwealth entities that prepare, or contribute to, Portfolio Budget Statements published at the time of the annual Commonwealth Budget.
3. In addition to the budget estimates provided in accordance with subsection 36(1) of the PGPA Act, a copy of the entity's Portfolio Budget Statements must be provided to the Finance Secretary prior to the introduction of the annual Appropriation Bills. The Portfolio Budget Statements so provided must include the performance information set out at Attachment A.
4. This information constitutes information relating to the budget estimates for the entity (36(2)(c) of the PGPA Act refers).
5. This direction must be read in conjunction with the Guide to preparing the 2017-18 and subsequent Portfolio Budget Statements.

**Attachment A**

**Requirements for performance information included  
in Portfolio Budget Statements**

An entity must do the following in its Portfolio Budget Statements:

1.	Map outcomes, programs and performance criteria to the entity's purposes as expressed in its corporate plan.
2.	For existing programs, include at least one high level performance criterion, as well as targets and expected dates of achievement.
3.	For new or materially changed existing programs, outline all performance criteria, targets and expected dates of achievement.
4.	Include forecasts of program performance against expected targets for the current financial year. For the budget year and the three forward estimate years, include program performance criteria and expected targets.
5.	Report links with the programs and outcomes of other entities.

## Appendix 3      Subsection 17AD Public Governance, Performance and Accountability Rule 2014

### Box 3: Detail of subsection 17AD Public Governance, Performance and Accountability Rule 2014

The annual report for a non-corporate Commonwealth entity for a reporting period must include the following:

- (a) a review by the accountable authority of the entity for the period;
- (b) an overview of the entity for the period in accordance with section 17AE;
- (c) a report on the performance of the entity for the period that includes:
  - (i) the annual performance statements for the entity for the period in accordance with paragraph 39(1)(b) of the Act and section 16F of this rule; and
  - (ii) a report on the financial performance of the entity for the period in accordance with section 17AF;
- (d) information on the management and accountability of the entity for the period in accordance with section 17AG;
- (da) information about executive remuneration in accordance with Subdivision C;
- (e) the annual financial statements for the entity for the period in accordance with subsection 43(4) of the Act;
- (f) the other mandatory information referred to in section 17AH;
- (g) a letter of transmittal in accordance with section 17AI;
- (h) aids to access in accordance with section 17AJ.

Note 1: The review by the accountable authority may include a summary of significant issues for the entity, an overview of the entity's performance and financial results and an outlook for the next reporting period.

Note 2: Other legislation may require non-corporate Commonwealth entities to include additional matters in the annual report. Guidance material for this section specifies some of that other legislation.

Note 3: For when the annual report must be given to the responsible Minister, see subsection 46(2) of the Act.

## Appendix 4      Status of clear read recommendations from the review of the PGPA Act and Rule

1.      The PGPA Review contained a section ‘Clarifying reporting requirements and reducing the reporting burden’. Under this heading, the Review made the following recommendations.

**Table A.1:      PGPA Review clear read recommendations**

Recommendation number	Recommendation
Recommendation 28	The Department of Finance should clarify and explain the integrated performance reporting requirements and linkages in portfolio budget statements, corporate plans and annual reports to achieve transparency to the Parliament, with reference to the views of the Joint Committee of Public Accounts and Audit and in consultation with the Australian National Audit Office.
Recommendation 29	The Department of Finance should explore opportunities to better link performance and financial results so that there is a clear line of sight between an entity’s strategies and performance and its financial results.

Source: E Alexander AM and D Thodey AO, *Independent Review into the Operation of the Public Governance, Performance and Accountability Act 2013 and Rule*, Commonwealth of Australia, September 2018.

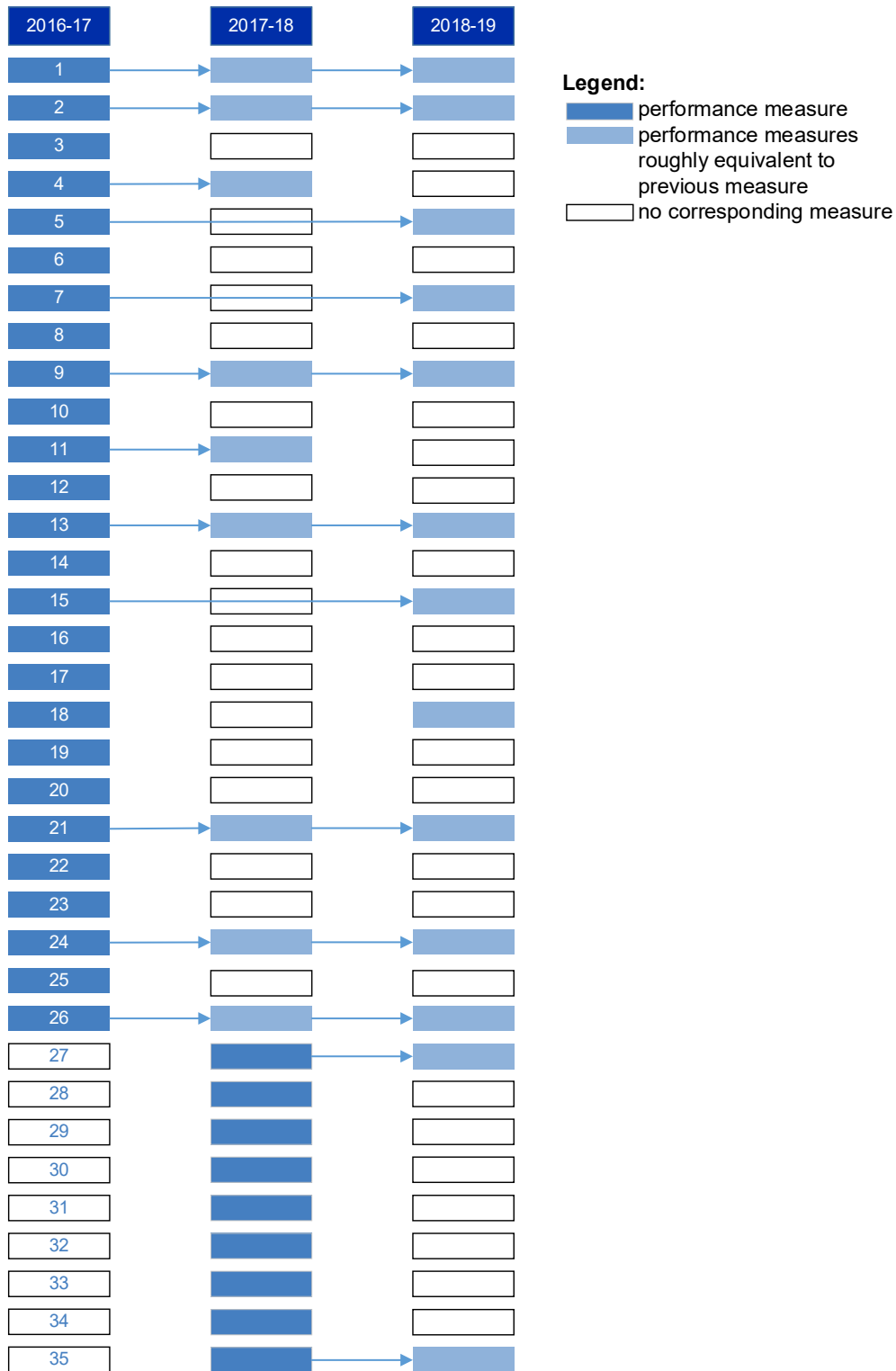
2.      The JCPAA issued a media release in December 2018, noting that the Committee would monitor Finance’s implementation of the Review recommendations, including those related to recommendations from previous JCPAA reports. In addition, it would seek ‘an implementation plan from Finance on those recommendations that can be made available publicly’ and ‘regular reports from Finance on implementation progress that can be made available publicly’.<sup>145</sup>

3.      Finance attended a private hearing with the JCPAA on 5 December 2018 where an implementation plan was discussed. This plan was not released publicly. Finance advised the JCPAA through a private submission that the department intended to consult further with Commonwealth and/or private entities, with a view to updating guidance (Recommendation 28) and determining an appropriate approach to better link performance and financial results (Recommendation 29). The submission indicated that both recommendations would be implemented during the 2019 calendar year.

<sup>145</sup> Parliament of Australia, Media Release, Joint Committee of Public Accounts and Audit, *Independent Report of PGPA Act*, 21 December 2018.

## Appendix 5 Comparability of Health's corporate plan measures across reporting cycles

**Figure A. 1: Comparison of performance measures presented in Health's 2016–17, 2017–18 and 2018–19 corporate plans**



Source: ANAO analysis of Health's corporate plans for 2016–17, 2017–18 and 2018–19.

## Appendix 6 Changes in Home Affairs' Strategic Performance Measures

**Table A.2: Mapping of changes to Home Affairs' Strategic Performance Measures**

2016–17 Corporate Plan	2017–18 Corporate Plan	2018–19 Corporate Plan
SPM 1.1. Australia's visa programmes are responsive to the needs of the economy	SPM 2.1 Immigration and Citizenship programs support the Australian economy and strengthen social cohesion	SPM 2.1 Immigration, citizenship and multiculturalism supports an open, prosperous and socially cohesive Australia
SPM 1.2. The collection of border revenue is managed and enhanced	SPM 3.1. Effective collection of revenue, detection of revenue evasion and compliance with border revenue laws and processes advances Australia's economic interest.	SPM 3.1 Effective collection of revenue, detection of revenue evasion and compliance with border revenue laws and processes advances Australia's economic interest
SPM 1.3. Seamless border management facilitates the flow of legitimate travellers and goods	SPM 2.3. Facilitation of legitimate travel, streamlined visa and citizenship processing and the provision of advice promotes seamless client access	SPM 2.3 Facilitation of legitimate travel, streamlined visa and citizenship processing and the provision of advice promotes seamless client access
	SPM 3.2. Facilitation of legitimate trade and movement of goods, provision of advice and engagement with industry supports seamless trade	SPM 3.2 Facilitation of legitimate trade and movement of goods, provision of advice and engagement with industry supports seamless trade
SPM 1.4. Effective partnerships both within and outside Australia build a strong economy	SPM 3.3. Collaboration with the international community contributes to consistent trade practices, facilitates legitimate trade and the movement of goods, and reduces security risks within global supply chains	SPM 3.3 Collaboration with the international community contributes to consistent global trade practices, facilitates legitimate trade and the movement of goods, and reduces security risks within global supply chains
SPM 2.1. Australia's visa programmes provide a strong foundation for social cohesion	SPM 2.1. Immigration and citizenship programs support the	SPM 2.1 Immigration, citizenship and multiculturalism supports an

2016–17 Corporate Plan	2017–18 Corporate Plan	2018–19 Corporate Plan
SPM 2.2. Australian citizenship is valued	Australian economy and strengthen social cohesion	open, prosperous and socially cohesive Australia
SPM 2.3. Australia contributes to the global management of refugees and displaced populations	SPM 2.2. Provision of orderly and planned humanitarian pathways contributes to the global management of refugees and displaced persons	SPM 2.2 Provision of orderly and planned humanitarian pathways contributes to the global management of refugees and displaced persons
SPM 2.4. The integrity of visa programmes is strengthened by effective regulatory and enforcement activities	SPM 2.5. Effective regulatory, enforcement, detention and status resolution activities promote compliance and promotes timely status resolution at the lowest economic impact to Government	SPM 2.5 Effective regulatory, status resolution, enforcement and detention activities promote program integrity, compliance and timely status outcomes at the lowest cost to Government
SPM 3.1. Threats are detected before, at and after the border	SPM 1.2. People and goods that pose a risk to the Australian community are detected and appropriately managed ahead of, at and after the border	SPM 1.2 People and goods that pose a risk to the Australian community are detected and appropriately managed ahead of, at and after the border
SPM 3.2. The border is strengthened through the control and surveillance of the maritime domain	SPM 1.1. Effective surveillance and response contributes to achieving an increase in compliance in the Australian Maritime Domain	SPM 1.1 Effective surveillance and response contributes to achieving an increase in compliance in the Australian Maritime Domain
SPM 3.3. Collaboration with partners within and outside Australia improves border security	SPM 1.3. Collaboration with the international community enhances our capacity to detect and respond to potential threats to Australia and its partners	SPM 1.3 Collaboration with the international community enhances our capacity to detect and respond to current and potential threats to Australia and its partners, including terrorism, transnational crime, and maritime security and cyber threats

2016–17 Corporate Plan	2017–18 Corporate Plan	2018–19 Corporate Plan
	SPM 2.4. Collaboration with the international community contributes to the global effort to provide international protection, facilitates legitimate travel, and deters the unauthorised movement of people	SPM 2.4 Collaboration with the international community contributes to the global effort to provide international protection, facilitates legitimate travel, and deters the unauthorised movement of people across the border continuum
–	–	SPM 1.4 <sup>a</sup> Prevention of transport security incidents in aviation, maritime and offshore oil and gas sectors supports Australia's economic and social prosperity
–	–	SPM 1.5 Delivery of national security and transnational, serious and organised crime policies, legislation and programs enhances the capacity to detect and respond to current and potential threats to Australia and its partners
–	–	SPM 1.6 Timely, relevant and forward leaning cyber security policy advice, protects and advances Australia's interests online
–	–	SPM 1.7 Delivery of national counter terrorism policies, legislation and programs enhances our capacity to detect and respond to potential threats to Australia and its partners
–	–	SPM 1.8 Provision of national leadership in emergency management reduces the impact of disasters on Australian communities
–	–	SPM 1.9 Australia's critical infrastructure is safe from the national security risks of sabotage, espionage and coercion

Note a: In August 2019, Home Affairs advised the ANAO that SPMs 1.4-1.9 related to functions transferred as part of Machinery of Government changes. Home Affairs further advised that SPM 1.4 maps to functions transferred to Home Affairs from the Department of Infrastructure and SPMs 1.5-1.9 map to functions transferred to Home Affairs from the Attorney-General's Department.

Source: ANAO analysis of Department of Immigration and Border Protection's 2016–17 and 2017–18 Corporate Plans, and the Department of Home Affairs' 2018–19 Corporate Plan.