



### Driving change through leadership

1. The Secretaries Board should periodically assess progress by Commonwealth entities in achieving the objectives of the PGPA Act, in particular meeting high standards of governance, performance and accountability and providing meaningful information to the Parliament and citizens. This work could be informed by portfolio secretaries monitoring progress achieved by entities within their portfolio.

The department supports this in principle. To reduce administrative burden, any additional reporting or briefing should be limited to achieving the outcomes of the PGPA Act. In a resource-constrained environment, it will be important to ensure the value of the outcome is balanced with the increase in workload and addresses the potential for internal red tape that may be created for an entity to deliver department level reporting or briefing. Guidance around how an entity should monitor progress would be appreciated.

### Performance framework

2. The PGPA Rule should be amended to raise the minimum standard for performance reporting by including a requirement that performance information must be relevant, reliable and complete. This will require entities to improve the quality of their performance measures.

The department supports this recommendation and has already undertaken a comprehensive review of performance information consistent with this requirement (relevant, reliable and complete). Guidance demonstrating a best practice approach to this would be appreciated.

3. The Secretaries Board should take initiatives to improve the quality of performance reporting, including through the greater use of evaluation, focussing on strategies to improve the way entities measure the impact of government programs.

The department supports this recommendation and agrees that regular program and impact evaluation is best practice, however it does have a resourcing impact for entities.

The primary purpose of evaluation activities should be to contribute to evidence-based policy development and improvements to program or system design. The department would therefore recommend that consideration is given to whether evaluation outputs are best reported as part of annual performance reporting or as soon as available.

7. The Finance Minister should request that the Auditor-General pilot assurance audits of annual performance statements to trial an appropriate methodology for these audits.

The department supports this recommendation and is a participant in the first 'in-flight' audit to be undertaken by the ANAO on the annual performance statements.



8. Finance should encourage the Australian Accounting Standards Board to develop a standard for performance reporting to assist entities and audit committees to develop and review performance reporting. We also support the Auditing and Assurance Standards Board further developing an auditing standard for performance reporting to assist auditors with auditing performance reporting.

The department supports this recommendation in principle, however the development of a standard for performance reporting by the Australian Accounting Standards Board that deals specifically with performance information may be problematic. Compliance with a standards framework (similar to financial statements) would have a resourcing impact and may be unnecessarily onerous and therefore disproportionate to the potential benefit.

The development of an auditing standard by the Auditing and Assurance Standards Board would be appreciated.

#### Managing and engaging with risk

12. Accountable authorities of large Commonwealth entities, or entities with complex risks, should consider appointing a Chief Risk Officer to support the accountable authority to implement a strong risk culture and behaviours across all levels of the organisation.

The department supports this recommendation. The department has appointed a Chief Risk Officer to support the Accountable Authority and the Risk, Business Continuity and Security Committee with executing their responsibilities in relation to risk management practices, risk appetite, risk culture, and the need to focus on the ongoing monitoring and engagement with risk.

The department has found this appointment to be a valuable addition to the department's risk governance framework.

13. Accountable authorities of large entities, or entities with complex risks, should consider establishing a separate risk committee, with an independent chair and membership linkage with the audit committee, to strengthen the governance of risk. Where an entity establishes a separate risk committee, the risk committee should be responsible for reviewing the appropriateness of the entity's system of risk oversight and management, with the audit committee's functions amended accordingly.

The department supports this recommendation in principle, however, entities should be given the flexibility to determine whether the risk committee is a sub-committee of Executive Board or the Audit Committee. The department has established a separate Risk, Business Continuity and Security Committee with an independent chair and membership linkage with its Audit and Assurance Committee, and would recommend the role of this important governance forum being formalised through the PGPA framework.



## Audit Committees

15. The independence of audit committees should be strengthened by requiring all audit committee members to be independent, with independence defined as not being an official or employee of a Commonwealth entity.

The department notes this recommendation, and makes the following points for consideration:

- The introduction of a majority of external members on audit committees has strengthened the independence of committees in undertaking their functions. However, mandating that all members be external will have cost implications for entities in a resource-constrained environment.
- There are benefits to having internal members at the appropriate level on audit committees. They bring valuable departmental insights to the deliberations of the Committee, provide strong links with the business and assist with raising the visibility of audit committee work.
- The department has also found that, external members who are officials of other entities (not Education) add value and additional insights to the deliberation of the Committee through their experience at their own entity. This also encourages knowledge sharing and collaboration across the Commonwealth.

16. The accountable authority and senior management of entities should be actively engaged with their audit committees, including attending meetings, to give their authority and imprimatur to audit committee activities in their entity. This will ensure that audit committees are briefed on the operations and performance of the entity and are able to question management on matters and information relevant to the role of the audit committee.

The department supports this recommendation and notes that this is current practice for the department's Audit and Assurance Committee.

17. Accountable authorities should ensure:

- (a) their audit committee members, both individually and as a group, have the appropriate qualifications, knowledge, skills and experience to meet their responsibilities, as required in the PGPA Rule;
- (b) committee members are sourced broadly, with greater representation from other industries, sectors and locations; and
- (c) the remuneration of audit committee members is commensurate with the importance of their responsibilities and the commitment required.

The department supports this recommendation and notes that this already forms part of the department's current practice when appointing audit committee members.



21. Finance should initiate a learning program similar to those offered by professional bodies such as the Chartered Accountants Australia and New Zealand, the Australian Institute of Company Directors and the Actuaries Institute, for audit committee chairs to facilitate sharing information about the performance of audit committee functions.

The department supports this recommendation and suggests considering whether existing training provided by Chartered Accountants Australia and New Zealand and the Australian Institute of Company Directors could be leveraged to achieve the intended outcome, rather than initiating a new program.

22. Audit committees should be subject to greater transparency by requiring disclosure in annual reports of their charter; membership; the qualifications, skills and experience of each committee member; details of each member's attendance at meetings; and the remuneration of each audit committee member, broadly consistent with the practice of Australian Securities Exchange (ASX) listed companies.

The department supports this recommendation in principle, noting the following:

- To ensure consistency, Finance should provide clear guidance to entities about the information and level of detail that must be disclosed.
- Consideration should also be given to whether the annual report is the most effective reporting mechanism for this information. For example, publication on the entity's public facing website, which could be maintained more frequently, or using the existing remuneration information on AusTender, may be more appropriate.

#### Clarifying reporting requirements and reducing the reporting burden

26. Finance should amend the PGPA Rule on corporate plans to require the plans to outline how entities will achieve their purpose(s) over a four-year reporting horizon, how they cooperate and coordinate with others, and to identify key risks and how these will be managed.

The department supports this recommendation and suggests that Finance should also provide guidance, for example, in a Resource Management Guide, to support entities in delivering this outcome.

28. Finance should explore opportunities to better link performance and financial information presented in entities' corporate plans and annual reports.

The department supports this recommendation in principle, however would not support an approach that limits the department's flexibility in managing the allocation of departmental resources to address emerging priorities and pressures throughout the year.



### Annual report timing and parliamentary scrutiny

29. Annual reports should be presented to the Parliament on or before 30 September. This would ensure the Parliament has annual reports available before the Senate Supplementary Budget Estimates hearings. Annual reports should be presented to the responsible minister no later than seven days before this date.

The department supports this recommendation in principle, noting the following:

- The department supports the clarity provided by fixed deadlines for each of the final steps in the annual report process, including specific timeframes for both submission to the Minister and for tabling
- The concurrent introduction of more rigorous standards for performance reporting and reduced tabling timeframes will be challenging for entities to achieve. The department would need to review its performance information at the beginning of the relevant reporting period, to ensure data is available in a timely manner, to support an earlier deadline for performance reporting.
- Parliamentary tabling dates need to take into account the time required to prepare the financial statements (including audit committee consideration) and for the ANAO to audit the financial statements of all Commonwealth entities. This may be challenging for entities to achieve.

30. The Parliament and Finance should continue to implement a fully digital reporting platform and reporting process for annual reports and other relevant reporting requirements, with a view to entities phasing out hard copy reporting by 2019–20. Sufficient resources and funding should be allocated to achieve this goal.

The department supports this recommendation in principle. Whilst consistency and comparability of entities' annual reports is important, 'one size' will not fit all entities. The platform needs to take into account the reduced disclosure requirements that differentiate between Tier 1 and Tier 2 reporting entities, the application of materiality and the requirements of the Australian Accounting Standards.

### Cross-government cooperation

33. The Secretaries Board should leverage its leadership role by driving the implementation of priorities and objectives identified by the Government, including the development and reporting of whole-of-government performance information.

The department notes this recommendation and suggests that whole-of-government reporting should also consider cross-jurisdictional arrangements. The department already reports multi-jurisdictional performance information; including aligning its performance targets with Council of Australian Governments' (COAG) Education Council targets.

### *Opportunity through learning*



## Reporting of executive remuneration

34. Accountable authorities should disclose executive remuneration in annual reports on the following basis, as shown in Appendix C to this report:
- (a) the individual remuneration, including allowances and bonuses, of the accountable authority and their key management personnel, in line with the disclosure of ASX listed companies; and
  - (b) the number and average remuneration (including allowances and bonuses) of all other senior executives and highly paid staff, by band, consistent with the reporting arrangements in place up to 2013–14.

The department notes this recommendation. Further clarity would be required on whether key management personnel executive remuneration disclosures should be based upon the employee's remuneration package, expenses (as calculated in accordance with the Australian Accounting Standards) or cash payments (as per employee payment summary). The preferred option, to base the disclosure on the employee's remuneration package, would improve consistency and comparability across entities and over time. This option is also consistent with the current disclosure of Secretaries' remuneration which is already publicly available. The requirement and cost of auditing the key management personnel remuneration information should also be considered.

The costs and benefits of extending executive remuneration disclosures beyond key management personnel, and the ASX and Australian Accounting Standard reporting requirements, needs to be taken into account.

The department also recommends consideration should be given to publishing this information on the department's public facing website, with references in the annual report to the published information.

The proposed reporting format for the accountable authority and each key management personnel (Table C1 of Appendix C, page 59 of the report refers) may inadvertently disclose personal information about individuals. The proposed reporting format for other senior executives (in Table C2 of Appendix C, page 60 of the report refers) is also likely to reveal information about individuals that may be identifiable.

To ensure compliance with the *Privacy Act 1988*, the department suggests that any requirement to report on executive remuneration should either be subject to individuals providing consent for their personal information to be disclosed, or be supported by legislation authorising the department to publish such information.



35. Accountable authorities should provide an explanation of their entity's remuneration policy and practice, consistent with the practice of ASX listed companies, similar to the remuneration report in a company's annual report.

The department notes this recommendation and suggests that guidance is provided on the expected level of detail required in relation to disclosing the department's remuneration policy and practice.

Consistent with the comments provided at recommendation 34, the department recommends considering whether the annual report is the most effective reporting mechanism for this information.

### Reporting of contracts and consultancies

36. The definition of 'consultancy' and the use of the 'consultancy flag' to identify consultancy contracts in AusTender should be clarified to ensure that spending on consultancies is reported consistently and accurately by non-corporate Commonwealth entities in their annual reports.

The department supports this recommendation. Further guidance to assist entities with accurately and consistently reporting of consultancies would be of value.

The department also recommends that the AusTender reporting threshold for consultancies and contracts more generally, be reviewed to determine whether it remains commensurate with the value and risk of Commonwealth expenditure, and is still reflective of an entities accountability and transparency responsibilities to the public.

37. Non-corporate Commonwealth entities should provide the following information on expenditure on contracts and consultancies in their annual reports:

- (a) total aggregate expenditure on contracts and consultancies and the number of new and ongoing contracts in the reporting period (extending the current reporting requirements for consultancies to contracts in general); and
- (b) lists of all organisations and/or individuals that receive 5 per cent or more of the entity's total expenditure on contracts and consultancies, respectively (or, where this includes fewer than five organisations/individuals, the five organisations/individuals that receive the greatest level of expenditure).

The department supports this recommendation in principle, noting that additional reporting requirements should seek to improve transparency and accountability without duplicating information already available on Austender. Implementation of changed reporting arrangements should allow sufficient time for agencies to reconfigure financial management information systems and underlying processes to capture the required information.



## Finance support

38. Finance should enhance its role in providing advice and support to Commonwealth entities and companies to reflect maturing practices by:
- continuing communities of practice and one-on-one interactions with entities;
  - enhancing guidance material to be more pragmatic and practical in nature, with appropriate case studies, in consultation with entities and a cross-portfolio advisory committee;
  - periodically reviewing guidance material to ensure it remains appropriate; and
  - developing Finance's internet presence and its use of web-based materials.

The department supports this recommendation. In the department's response to the review, we identified a number of matters, which we consider may require clarification in the PGPA Act, Regulations or Resource Management Guidance. These matters included:

- requirements to obtain approval for low risk contingent liabilities
- interaction of powers in PGPA Act and program legislation
- interaction of the PGPA Act and Legal Services Directions in relation to a settlement of a monetary claim, and
- reporting of section 83 breaches.

Since making its submission the department has identified an additional matter in relation to section 74 regarding retainable receipts. The PGPA framework only allows for the recovery of costs of providing a good or service. That is, entities may not retain receipts associated with a risk margin or contingency fee. This means the prices charged by shared services providers cannot include a margin to build up a research and development fund to invest in future capital enhancements to achieve greater efficiencies.

While there are ways of attracting the necessary investment, the combination of requirements under the PGPA framework, Budget Process Operational Rules and the ICT investment approval process, significantly increases red tape and administrative burden on both the shared service provider and its clients.

Whilst these matters have not been specifically addressed in the draft report, we note that this recommendation may provide an avenue for addressing them.

## Technical and other matters

40. Finance and the Attorney-General's Department should explore how legal advice on the PGPA Act and Rule can be shared across Commonwealth entities.

The department supports this recommendation. This may reduce legal expenditure across the Commonwealth and would promote consistent interpretation and application of the PGPA legal framework. We recommend that Finance and the Attorney-General's Department consult entities on any proposed process for sharing legal advice before it is introduced.