



PGPA Act Review
Attention: Review Secretary
Department of Finance
One Canberra Avenue
FORREST ACT 2603

Dear Ms Alexander and Mr Thodey

Public Governance, Performance and Accountability Act (PGPA Act) and Rule – Independent Review

Consultation Draft

On behalf of the Offices of the Australian Accounting Standards Board (OAASB) and the Auditing and Assurance Standards Board (OAUASB), thank you for your recent correspondence and the opportunity to provide comments on the draft report on the PGPA Act and Rule – Independent Review. (the Report)

The OAASB and OAUASB are keenly aware of the role of strong governance, performance and accountability practices as drivers of economic value for organisations operating in the Australian economy.

The AASB and AUASB's vision is to contribute to stakeholder confidence in the Australian economy, (including its capital markets) and external reporting.

In addition we feel that enhanced credibility is achieved by:

- developing, issuing and maintaining accounting and assurance standards and guidance that meet user needs and enhance consistency and quality, and
- contributing to the development of a single set of accounting and assurance standards for worldwide use. ([Strategic and Corporate Plan 2017-2021](#))

The Report recognises the importance of leadership and a values led culture when building trust, transparency, accountability and an aligned purpose. These are the very attributes we aspire to at the Offices of the AASB/AUASB.

Notwithstanding, there are a number of key areas where we have differing views to those expressed in the Report.

This submission is divided in to two sections:

Section 1: Office of the AASB/AUASB: overview of some key comments to the report where it relates to our core responsibilities and functions regarding external reporting.

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Section 2: OAASB/OAUASB comments from the perspective of a non-corporate government entity on specific recommendations in the Report.

We are happy to provide further information, particularly in respect of our Section 1 comments, and we would like to thank you for the opportunity to review the draft Report.

If you require further information on this matter please contact me on 03 96177629, or dpaul@aab.gov.au

Yours sincerely



Damian Paull
National Director
Office of AASB/AUASB

Section 1 – Office of the AASB/AUASB: Overview of some key comments to the report where it relates to our core responsibilities and functions regarding external reporting

This section provides an overview of some specific aspects of the report that relate to our functions and responsibilities and where our opinions differ to the recommendations in the Report.

Audit committee membership

The Offices of the AASB/AUASB agree that the membership of Audit and Risk Committees should be comprised of independent members, however we do not agree with the definition of “independence” as suggested in the Report.

The proposed definition of “independent” – not being an official or employee of a Commonwealth entity.¹ – we believe may suit larger entities, however it will be problematic for smaller ones.

Audit Committees: A guide to good practice, jointly published by the AUASB, the Australian Institute of Company Directors and the Institute of Internal Auditors – Australia in 2017, is instructive on the issues of “independence” and provides suitable guidance to Boards.

The key consideration outlined in the Guide is the selection of suitably qualified and experienced members who operate with a mindset that is independent of the entity’s management.

“Independence is arguably a state of mind, and cannot necessarily be assessed by a person’s relationship with the entity. It is commonplace to examine an audit committee member’s past and current relationships with the entity as indicators of independence, or otherwise.”²

While employment with the Commonwealth may be a consideration as to the ability to operate with an independent mindset, it should not be a mandatory requirement.

We respectfully submit that the proposed definition of “independence” would not be practical and should be referenced as a consideration of better practice.

Performance reporting – Recommendations 2 and 8

Recommendation 2

The OAASB believes the overarching framework for performance reporting and financial reporting should be the same and considers the qualitative characteristics of useful financial information that are set out in the AASB Conceptual Framework are appropriate. In particular, the Conceptual Framework emphasises the fundamental qualitative characteristics of relevance and faithful representation (which corresponds with “reliable” in recommendation 2), and includes

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- 1 Public Governance, Performance and Accountability Act (PGPA Act) and Rule Independent Review, Recommendation 15, page 3.
 - 2 *Audit Committees: A guide to good practice*, AUASB, AICD and IIAA, 3rd edition, 2017, page 53.

completeness as a characteristic of faithful representation rather than separately (in contrast to recommendation 2). The Conceptual Framework also identifies comparability, verifiability, timeliness and understandability as qualitative characteristics that enhance the usefulness of information that is relevant and representationally faithful (reliable).

We would welcome the opportunity to work with the Reviewers to ensure that the overarching framework for performance reporting and financial reporting are consistent.

Recommendation 8

The OAASB and OAUASB strongly support the recommendation (rec. 8) to raise the minimum standard for performance reporting by including characteristics and measures which ensure the quality of performance information.

As identified in the Report, the AASB released an exposure draft on performance information in August 2015³. The feedback on the exposure draft indicated that while there was support for the proposed standard, there was more work to do regarding the engagement with the not-for-profit private and public sectors.

Service Performance Reporting and other Extended External Reporting projects have been included in the technical work programs of the AASB and the AUASB and are now progressing.

With respect to Service Performance Reporting, the OAASB has commenced a literature review to identify the current reporting practices of entities in the not-for-profit (NFP) sectors (both public and private), the information needs of report users, the costs and benefits of reporting performance information, the impact of regulation on reporting in the NFP sectors and measuring the effectiveness of performance of entities in the NFP sectors.

The OAASB's literature review will inform further consultation with both NFP sectors and assist in establishing a benchmark of existing frameworks and government reporting requirements.

The aim of the OAASB project will be to identify existing models of good practice and provide a simple overarching framework for service performance reporting that meets the needs of users and is consistent across both the NFP sectors.

The AUASB already includes within its assurance framework a number of standards which can be applied to engagements to audit and assure service performance information. Indeed, a number of Australian State and Territory jurisdictions already have service performance reporting requirements in place, with Auditors-General or their delegates using current AUASB standards to audit this information, especially ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

3 Australian Accounting Standards Board (AASB) Exposure Draft ED 270 [Reporting Service Performance Information](#) (August 2015).

Whilst there is currently no formal project in place for the OAUASB to develop an assurance standard specifically addressing the audit of service performance information, the OAUASB has been working with its counterpart in New Zealand (the New Zealand Auditing and Assurance Standards Board) on its exposure draft to address the audit of service performance information, NZAuASB ED 2017-2.

Should an Australian-specific framework for Service Performance Reporting be established, then the OAUASB would be well placed to commence a formal project to create a local assurance standard specifically addressing the audit of the service performance as recommended in the Report.

We will continue to work with key public sector stakeholders to progress the performance reporting project.

Reporting of executive remuneration

The OAASB/OAUASB agree that trust and transparency with respect to Commonwealth agencies' use of public monies can be improved by the timely and adequate disclosure of executive remuneration.

The general issue of executive remuneration has evolved, as a result of changes over time, with a matrix of remuneration reporting requirements for executives and key management personnel established by several regulatory bodies.

This includes:

- the Australian Stock Exchange (ASX),
- the Australian Securities and Investments Commission (ASIC), and
- the AASB.

Accordingly, listed companies are currently required to:

- include a remuneration report with respect to key management personnel pursuant to section 300A of the *Corporations Act 2001*,
- comply with ASX Listing Rules, the ASX's Corporate Governance Principles and Recommendations, and
- comply with Australian Accounting Standards, including AASB 2 *Share-based Payment* and AASB 124 *Related Party Disclosures*.

In respect of public sector entities, Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 applies and requires Commonwealth entities to report in accordance with the Australian Accounting Standards (subject to some exemptions), including the requirements of AASB 124 *Related Party Disclosures* in respect of total key management personnel remuneration.

We note that feedback from our stakeholders has indicated concerns regarding the quality and conciseness of remuneration reporting by listed companies, as well as the lack of requirements and guidance in the not-for-profit sectors. Accordingly, the AASB considers that current remuneration reporting requirements, in respect of all sectors, including the NFP private and public sectors, need to be reviewed. We are concerned that using the current listed company requirements, whilst a short term solution, may not achieve the desired outcomes in the longer term.

In the context of recommendation 34 in the draft Report, in our view it is important that executive remuneration reporting in the public sector be considered more holistically, taking into consideration a consistent approach across the Commonwealth, State and Local Government public sectors.

We also consider it important to establish a clear objective for such reporting, with clear principles and guidance. We consider the AASB is well placed to provide the necessary mandatory requirements. The resulting remuneration information can be subject to audit.

Therefore the OAASB respectfully submits that any changes to the executive remuneration reporting for the Commonwealth public sector be determined in conjunction with the OAASB's remuneration reporting project to provide a robust framework that meets user needs and avoids unintended consequences. The AASB's projects typically involve considering both for-profit sector issues and NFP sector issues when developing financial reporting requirements.

Annual reporting and parliamentary scrutiny – Recommendation 31

The AASB has published Research Report No 6 *Financial Reporting Requirements Applicable to Public Sector Entities* (May 2018) and Discussion Paper *Improving Financial Reporting for Australian Public Sector* (June 2018) that support better reporting and more targeted reporting.

We would welcome the opportunity to talk with the Reviewers about the findings in these publications and the possibilities for improving public sector financial reporting. For example, the Discussion Paper presents five illustrative public sector financial reporting framework options for discussion, including service performance reporting. Remuneration reporting can also be addressed in developing those reporting framework options further.

The AASB is keen to help improve public sector financial reporting and its usefulness. The Chair of the AASB has presented recently to a conference of the Australasian Council of Public Accounts Committees, to raise awareness of the AASB work and to encourage working together to improve financial reporting for both public accounts committees and other users of public sector financial statements.

Section 2 – OAASB/OAUASB comments from the perspective of a non-corporate government entity on specific recommendations in the Report

	Recommendation	Comment
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 OAASB/OAUASB agree that leadership is a key requirement for transformation and reform.
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	Agree
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.	Agree

4.	<p>Accountable authorities should ensure their audit committees have the skills, capability and resources to provide advice on the appropriateness of their performance reporting, in particular that audit committee members:</p> <p>(a) are clear on the level of advice on performance reporting sought by the accountability authority, which is at least that required by the PGPA Rule; and</p> <p>(b) have sufficient knowledge of the business of the entity and access to information and advice about the performance of the entity.</p>	Agree
5.	<p>Finance should use learning programs for audit committee chairs [see <i>Recommendation 21</i>] to share information about the performance reporting requirements of the PGPA Act and Rule and the role of audit committees to review the appropriateness of performance reporting. This will build their capability to review performance reporting.</p>	Agree
6.	<p>Finance should continue to develop guidance on performance reporting to assist entities to meet the requirements of the PGPA Act and Rule and develop high- quality performance reports. This will also assist audit committees to review performance reporting.</p>	<p>Agree.</p> <p>The guidance provided by Finance is valuable in supporting the OAASB and OAUASB to meet the requirements of the PGPA Act.</p> <p>As a small (micro) agency, timely advice and guidance allows us to meet the requirements of the PGPA and implement changes as and when required.</p>

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.	Agree. The assurance audits completed to date by the ANAO have been valuable in better understanding the requirements and expectations.
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.	Agree
9.	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.	Agree. As small agencies the Finance Lessons Learned papers are an important source of information and guidance.
Managing and engaging with risk		
10.	Accountable authorities should identify ways to embed effective risk management and engagement into policy development and program management, and incentivise officials at all levels to manage and engage better with risk.	Agree. Entities could be required to identify in their corporate plan any material exposure to environmental and social risks and how it manages or intends to manage those risks. Environmental risks would include climate-related risks.
11.	Accountable authorities should engage with key stakeholders to identify their risk appetite and explain how risks will be identified, accepted and managed. In doing this, adequate attention should be given to upside, as well as downside, risk. The Parliament could also acknowledge the complex environment in which government operates.	Agree. Material environmental and social risks should be identified through and/or disclosed in this engagement process.

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.	In principle this is a good idea however as a small agency, it would not be practical. Some definition around micro, small and large entities would be helpful particularly if we can include the recognition of "scalability".
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.	Agree. The risk committee (or the audit and risk committee) should be required to review the entity's risk management framework at least annually to ensure that the framework continues to be sound and that the entity is operating with due regard to the risk appetite approved by the accountable authority.
14.	For entities where a separate risk committee is not established, audit committees should be called 'audit and risk committees' to reinforce the important role of these committees in supporting accountable authorities to manage and engage with risk.	Agree. The Offices of the AASB/AUASB has the committee positioned as an Audit and Risk Committee.
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.	Disagree The OAASB and OAUASB has already combined our audit and risk committee, which is working effectively. Our committee is comprised of an independent chair, who is remunerated commensurate with the importance of the role, and two senior executives from other Commonwealth agencies, from outside of our portfolio.

		<p>This is consistent with many other public sector entities in Australia and reflects a need to balance independence and organisational understanding.</p> <p>In addition for small or micro agencies it is the most cost effective option.</p> <p>The OAASB/OAUASB are micro agencies and need a fully functioning audit and risk committee with some knowledge and understanding of the Commonwealth and how it operates.</p> <p>The definition of “independent” as proposed would effectively exclude the majority of our audit and risk committee members and place a burden on small agencies that is not proportional to the stated benefits of the proposed changes.</p> <p>The OAASB and OAUASB are of the view that the current Audit and Risk committee membership provides a strong balance of independence, knowledge and expertise.</p>
16.	<p>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.</p>	<p>Agree.</p>

17.	<p>Accountable authorities should ensure:</p> <ul style="list-style-type: none"> (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. 	Agree.
18.	<p>Accountable authorities should establish an audit committee membership rotation policy, with maximum appointment terms, to ensure regular rotation of committee membership.</p>	Agree.
19.	<p>Accountable authorities should ensure that independent members are inducted into the business of the entity and briefed on its operations and performance on an ongoing basis.</p>	Agree.
20.	<p>Smaller Commonwealth entities with limited resources and similar purposes should consider sharing an audit committee.</p>	<p>Agree.</p> <p>The Offices of the AASB and AUASB recognise and agree with recommendation 20, as small agencies would benefit from the sharing of audit and risk committee resources.</p> <p>The OAASB and OAUASB has already combined our audit and risk committee, which is working effectively.</p>

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.	Agree.
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.	Agree.
Clarifying reporting requirements and reducing the reporting burden		
23.	Finance should work with smaller entities to consider further options to address the reporting burden on smaller entities, taking into account arrangements in state and territory governments and international jurisdictions.	Agree. The general usage of the term small agencies appears to be defined as between 50 – 100 staff. There exist a number of micro agencies – 5 – 50 and further consideration needs to be given to address the reporting burden.
24.	The annual performance statement should be the primary vehicle for reporting the performance of Commonwealth entities. Duplicative performance reporting requirements – for example, those under the Regulator Performance Framework – should be reviewed and integrated to reduce the reporting burden and improve clarity.	Agree
25.	Finance should simplify the reporting burden for smaller Commonwealth entities by developing standardised corporate plan and other templates to help reduce the amount of work required.	Agree

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.	<p>Agree.</p> <p>The performance criteria outlined in the corporate plan already shows projected targets over a rolling four-year period. The corporate plan covers a 12 month period with a view to the four year horizon. This is of value in setting direction and encouraging an engaged culture focused on the future.</p>
27.	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.	<p>Agree</p> <p>Further consideration needs to be given to the incorporation of the corporate plan and PBS in an effort to reduce a layer of reporting.</p> <p>This year the Offices of the AASB and AUASB have aligned the Performance Budget Statements, corporate plans and annual reports.</p>
28.	Finance should explore opportunities to better link performance and financial information presented in entities' corporate plans and annual reports.	<p>Agree.</p> <p>It would be helpful if Finance work to develop a consistent, standard format.</p>
Annual report timing and parliamentary scrutiny		
29.	[Subject to implementation of Recommendation 30, below] 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.	<p>Agree.</p> <p>This proposal would be reliant on the ANAO completing their audit of the financial statements earlier. This will require considerable forward planning from both OAASB/OAUASB and the ANAO to allow sufficient time to audit financial statements and associated processes.</p> <p>Earlier timeframes for delivery of the annual report would be highly dependent on early availability of financial information to inform performance reporting requirements, mutually agreed timeframe requirements of the Ministers Office and delivery of the Digital Annual Report project.</p>

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.	Agree
31.	The Senate should consider amending its Standing Orders to provide that entity annual reports, including annual performance statements, are referred to Senate standing committees for examination at Senate Supplementary Budget Estimates hearings. This would provide for greater scrutiny of annual reports at Senate Estimates hearings.	Agree
Cross-government co-operation		
32.	The Government should consider using section 34 of the PGPA Act to set priorities and objectives in key areas of activity, which will facilitate trials of alternative planning, resourcing, governance and reporting arrangements for these priorities.	<p>Agree</p> <p>The whole of government approach is not a successful model for micro agencies who are already running lean on resources and capacity. Often the cost is prohibitive and consideration should be given for small/micro agencies to opt out where the business case is unable to demonstrate efficiency gains.</p> <p>The Chairs of the AASB and AUASB have entered into an MOU to develop a shared services and co-operation model. In addition we have developed a co-operative agencies model in relation to our tenancy and IT support services.</p>
33.	<i>[Subject to the implementation of Recommendation 32, above]</i> 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.	

Reporting of executive remuneration		
34	<p>Accountable authorities should disclose executive remuneration in annual reports on the following basis, as shown in Appendix C to this report:</p> <p>(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</p> <p>(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.</p>	Disagree. We don't believe that these requirements will necessarily achieve the desired outcome for the reasons outlined in Section 1.
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	Disagree. We don't believe that these requirements will necessarily achieve the desired outcome for the reasons outlined in Section 1.
Reporting 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.	Agree.
37.	<p>Non-corporate Commonwealth entities should provide the following information on expenditure on contracts and consultancies in their annual reports:</p> <p>(a) total aggregate expenditure on contracts and consultancies and the number of new and ongoing</p>	<p>Disagree</p> <p>Extending the current reporting requirements for consultancies to contracts may be problematic where the majority of the workforce is employed through fixed term contracting.</p>

	<p>contracts in the reporting period (extending the current reporting requirements for consultancies to contracts in general); and</p> <p>(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).</p>	<p>The Offices of the AASB/AUASB utilizes outer limit employment contracts for the majority of staff which would, if reported, create further confusion when looking at the use of contractors, consultants, secondments and employees.</p> <p>If further disclosure was mandated, there would need to be a clear distinction between these different types of arrangements and what is required needs to be amended. Expenditure on contracts etc should only be required if it is material to the entity, rather than a mandatory disclosure regardless. Accordingly disclosing anyone with more than 5% of contract costs should also only be if total contract costs are material.</p>
Finance support		
38.	<p>Finance should enhance its role in providing advice and support to Commonwealth entities and companies to reflect maturing practices by:</p> <p>(a) continuing communities of practice and one-on-one interactions with entities;</p> <p>(b) 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;</p> <p>(c) periodically reviewing guidance material to ensure it remains appropriate; and</p> <p>(d) developing Finance's internet presence and its use of web-based materials.</p>	<p>Agree.</p> <p>As small/micro agencies, the assistance provided by Finance is greatly appreciated</p>