

Auditor-General of Queensland

Executive Summary

Report to Parliament No. 1 for 2008 Enhancing Accountability through Annual Reporting

A Performance Management Systems Audit



1. Executive Summary

1.1 Audit overview

Taxpayers expect governments to spend their tax dollars efficiently and effectively. They want governments to be accountable and have systems in place that provide the required performance information. Mr R Sendt, the then Auditor-General of New South Wales noted in his report to the New South Wales Parliament on annual reporting that:

Good performance reporting allows readers to judge achievements and value for money. When performance reporting is poor, accountability, transparency and openness are diminished. By reading an agency's annual report, ordinary citizens should gain some appreciation of whether their tax dollars are being spent efficiently and effectively¹.

The role of annual reports is to provide Parliament with the information needed to examine the actions of the government and its agencies. This allows Members of Parliament to debate how resources have been used and what outcomes have been achieved, and assists informed decision making on funding for policies and services to meet identified needs or the introduction or amendments to legislation. Timely and accurate accountability information is vital to carrying out these duties. This audit assessed compliance, guidance and assurance in relation to annual reporting.

- **Compliance** – with legislative and prescribed requirements
- **Guidance** – standards, examples and direction
- **Assurance** – to the Parliament that the legislative and prescribed requirements have been met.

Section 3 of this report provides specific details on the issue of compliance, whilst Section 4 goes beyond compliance and assesses agencies against a more rigorous framework of disclosure and transparency in reporting performance information.

¹ NSW Auditor-General's Report Performance Audit *Judging Performance from Annual Reports Review of Eight Agencies' Annual Reports*, October 2003.

1.2 Audit opinion

Considering the results of my previous audits on performance reporting, I was disappointed to find in this audit a continued critical lack of accountability to Parliament. In particular:

- the information provided to the Parliament through departmental annual reports does not fully comply with legislation, is incomplete and ambiguous in the portrayal of agency accountability and performance
- guidance provided by the Department of the Premier and Cabinet and the Treasury Department is not sufficient to support accountability and promote a culture of performance management
- according to better practice standards, the performance information in the audited annual reports does not meet the disclosure and transparency needs of readers
- planning documents such as Ministerial Portfolio Statements and agencies' strategic plans do not set clear expectations of results and lack relevant and appropriate performance measures
- other forms of performance reporting presented to Parliament are not part of the current legislative accountability framework and do not meet the better practice criteria for disclosure and transparency.

These factors hinder Ministers, Members of Parliament and other readers of annual reports making informed judgements of the economy, efficiency and effectiveness of government and agency operations. Overall, annual reports fail to answer questions such as “Has the agency achieved what it was intended to do?”, “Is this better than last year?”, “Is this good enough?”, “Were these activities needed in the first place?”, “Could they have done this for less money?”. Poor reporting on the performance requirements means that the Parliament does not have the necessary information to engage in a meaningful debate on the merit of the government's stated achievements and policies.

Under the current accountability framework established by the *Financial Administration and Audit Act 1977*, accountable officers are responsible for ensuring that all information in annual reports complies with the legislative and prescribed requirements. However, in

my view a separate mechanism is needed which will provide Parliament with independent assurance that compliance has been met. As outlined in Section 3.3 this independent assurance role can be undertaken in a number of ways. In some jurisdictions it is part of the mandate for the Auditor-General.

An existing review function in Queensland is the Service Delivery and Performance Commission (SDPC). I note the Premier's recent announcement of the intention to merge the SDPC with the Office of the Public Service Commissioner. One of the objectives of the *Service Delivery and Performance Commission Act 2005* is to "Improve the accountability of agencies for their delivery of services"². In my opinion, the role of the new body could be extended to provide independent assurance over performance reporting.

I am also concerned at how poorly agencies reported effectiveness, efficiency and economy. It raises questions of how well placed agencies and the government will be to take advantage of the Council of Australian Governments changes to the provision of Special Purpose Payments. As the payments will be conditional in future on achieving interim benchmarks and target outcomes, failure or an inability to comply with the reporting requirements could result in lost funding for the state.

I also consider that compliance with legislative requirements is just the starting point and that to improve transparency and accountability, agencies need to move towards achieving better practice in reporting performance information. Given that accountable officers have been required to report on their performance for the past eleven years, I would have expected greater progress towards better practice. To assist agencies develop competencies in this area, further guidance is needed from the Department of the Premier and Cabinet and Treasury Department as lead agencies in relation to reporting requirements.

1.3 Summary of recommendations

Based on the overall audit findings I encourage all public sector entities to review the matters raised and the related recommendations, and seek further guidance to ensure improvements within their own agency's annual

2 *Service Delivery and Performance Commission Act 2005.*

report. The recommendations fall under the themes of compliance, guidance and assurance.

RECOMMENDATION - COMPLIANCE

It is recommended that:

1. **Accountable officers develop robust systems and together with the Minister ensure they meet the prescribed requirements of the *Financial Administration and Audit Act 1977* and *Financial Management Standard 1997*, particularly with regard to tabling, and the reporting on governance, performance and other specific information and the statutory obligations they administer.**

RECOMMENDATIONS - GUIDANCE

It is recommended that:

2. **The Department of the Premier and Cabinet with the Treasury Department take a stronger role in providing guidance to agencies on:**
 - **how they can better present performance information that complies with prescribed requirements and better practice principles**
 - **how they can clearly demonstrate their contribution to government outcomes.**
3. **The Department of the Premier and Cabinet with the Treasury Department revise the *Annual Report Guidelines for Queensland Government Agencies for 2007-08* to provide more comprehensive advice to agencies on meeting better practice in presenting performance information. This should include examples, standards, templates and references to other sources of better guidance available in the public domain.**

RECOMMENDATION - ASSURANCE

It is recommended that:

4. **The Department of the Premier and Cabinet develop an appropriate framework which will provide Parliament with an assurance that all information in annual reports complies with the *Financial Administration and Audit Act 1977* and other legislative requirements.**

1.4 Departmental response

A joint response from the Department of the Premier and Cabinet and Treasury Department

In addressing each recommendation, the Under Treasurer and Acting Director-General of the Department of the Premier and Cabinet stated in their response of 4 April 2008:

RECOMMENDATION 1

“Your view that accountable officers, together with the relevant portfolio Minister, are responsible for ensuring departmental annual reports comply with the prescribed requirements is supported. To remind them of this responsibility, Treasury will write to accountable officers to draw their attention to the requirements of both the Financial Administration and Audit Act 1977 and the Financial Management Standard 1997 regarding the contents and tabling of annual reports.”

RECOMMENDATION 2

“The Department of the Premier and Cabinet (DPC) and Treasury have been liaising on the annual reporting requirements as part of the comprehensive review of the Financial Administration and Audit Act 1977 and the Financial Management Standard 1997. It is intended to update requirements to reflect the current environment, including Government’s direction to streamline whole-of-Government reporting while maintaining accountability to Parliament and the Queensland public. This will include consideration of developing additional, user-friendly guidance to agencies on how to better present performance information and demonstrate their contribution to Government outcomes.”

RECOMMENDATION 3

“You have requested more comprehensive advice to be provided in the Annual Report Guidelines for Queensland Government Agencies for 2007-08 (the guidelines).

DPC issues these guidelines each year in April to allow preparers sufficient time to plan the coordination of information from all sections and regional centres of their department. Due to the limited lead time to the issue date for the guidelines, it will not be possible to include further detailed

guidance on best practice performance reporting for the current year. Treasury with DPC have commenced a major review of performance reporting as prescribed in the Financial Administration and Audit Act 1977 and the Financial Management Standard 1997 including the annual report guidelines. Recommendations from this review are expected to be implemented for the 2008-09 annual report.

However, as an interim measure, it is proposed that the letter to accountable officers referred to above will highlight the need for agencies to adequately report on their performance as specified in the legislation.”

RECOMMENDATION 4

“We note your recommendation that an additional assurance framework be developed to monitor compliance with prescribed legislation. As previously stated it is agreed that accountable officers are responsible for ensuring annual reports comply with the prescribed requirements. It is proposed that DPC and Treasury will develop a certification for this purpose to be signed by accountable officers. This certification will provide assurance that all legislative requirements have been addressed.”

Supplementary comment received from the Treasury Department

The Under Treasurer, in a further response of 7 April 2008, stated:

“... It is also apparent that the requirements of the Financial Management Standard in respect to annual reports do require review and modernisation. This will be incorporated in the review of the Financial Administration and Audit Act currently under way...”

Auditor-General's additional comment

I acknowledge the comments received from Department of the Premier and Cabinet and Treasury Department and I am encouraged by the proposed actions. I accept that the proposed action in relation to Recommendation 4 will assist in improving accountability. However, I consider that the development of a certification will not, in itself, provide the independent assurance needed for Parliament and which would aid in the continuous improvement of departmental performance reporting.

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