



Australian Government

Department of Finance

**Jane Halton AO PSM
Secretary**

Our Ref: SEC0013080

The Hon Ian Macfarlane MP
Chair
Joint Committee of Public Accounts and Audit
Parliament House
Canberra ACT 2600

Dear Mr Macfarlane

I am writing to you in regard to correspondence dated 18 February 2016 sent on your behalf by the Secretary of the Joint Committee of Public Accounts and Audit (the Committee), Mr David Brunoro, requesting a Supplementary Submission from my Department to the Committee's current Inquiry into the Commonwealth Performance Framework.

The Committee Secretary requested that we provide a supplementary response to a number of issues he identified in his correspondence. I have sought to address these issues below.

As our 16 February 2016 submission to *Report 453 Inquiry into the Commonwealth Performance Framework* states, our current response is a preliminary one, and we intend to respond formally to all of the Report's recommendations once they have been considered by the Government. With respect to Recommendations 3 and 6 of the Report, I can confirm that options are currently being scoped, but we are not in a position to give further information at this stage.

Your Committee Secretary also sought an update on the implementation of broader elements of the Public Management Reform Agenda (PMRA), including differential regulation concepts, joined-up government and partnering, and improving risk management practices. Scoping work on a number of these issues is under way. These issues are addressed in Attachment A.

The correspondence from the Secretary of your Committee sought further clarity on our 'preferred' and our 'drop dead' dates for a Committee report on the Annual Report Rule (the Rule) that needs to be issued under the PGPA Act. Our preferred date for the Committee to approve the Rule is 12 May 2016. Our 'drop dead' date for approval of the Rule would be 26 May 2016.

We need the Rule and supporting guidance released in time for entities to be able to start work on their 2015-16 annual reports in June. Under section 46(2) of the PGPA Act annual reports must be given to the responsible Minister(s) by 15 October for the overwhelming majority of entities. I know that the Committee is interested in bringing this date forward and I am exploring options for doing this with the Auditor-General.

Yours sincerely



Jane Halton

Secretary

24 February 2016

Update on the Public Management Reform Agenda

Finance is currently exploring a differential approach to regulation (previously referred to as earned autonomy) as part of the reform agenda. One of the common complaints about the previous resource management framework (under the *Financial Management and Accountability Act 1997* and *Commonwealth Authorities and Companies Act 1997*) was the one-size-fits-all approach to regulating Commonwealth entities, imposing requirements and prescribed processes across all entities, regardless of size or risk. This approach created barriers to productivity and innovation and came with significant compliance costs. We aim to have a discussion paper developed for release in May this year.

The PMRA reform agenda includes the intention to improve how the Commonwealth interacts with external parties from all sectors of the economy to deliver its policy outcomes – through commercial partnerships, grants and joint projects. To see improvements in this area, it is necessary to have in place operating practices which support government working as a whole with better transparency and accountability, and a risk-based approach to governance, incorporating differential regulation concepts. This is a topic that has seen a lot of discussion over many years. There have been working groups, pilot programs, incremental improvements and false starts in this area across the broad spread of government and Finance is keen to ensure that anything that we do in this area contributes solutions, rather than just adding to the history of activity.

Finance is also working to improve public sector risk management practices. Results from the 2015 Commonwealth Risk Management Benchmarking Survey indicate that participating entities achieved an average maturity level of 'Integrated'. An 'Integrated' maturity level is characterised as one which has a comprehensive risk management framework in place that is embedded in the operations of the entity and forms part of its overarching governance and management practices. These results indicate that a significant number of entities have risk management practices that are aligned with the principles outlined in the Commonwealth Risk Management Policy.

This progress is being facilitated by the actions of audit committees, which are now helping entities actively manage their risks, following the introduction of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). Audit committees must now review the appropriateness of an accountable authority's system of risk oversight and management.