

Chapter 2

Review of selected annual reports

2.1 The committee has selected the annual reports of the following bodies for closer examination:

- Parliamentary Budget Office
- Torres Strait Regional Authority
- Indigenous Land Corporation
- Commonwealth Superannuation Corporation
- Aboriginal Hostels Limited
- ASC Pty Ltd

Parliamentary Budget Office

2.2 The 2012–13 annual report is the Parliamentary Budget Office's (PBO) first after commencing operations on 23 July 2012. The PBO is established under the *Parliamentary Services Act 1999* to inform the Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals.¹ The Parliamentary Budget Officer's review of the year is succinct and provides an overview of the establishment of the office and work program for the first year of operation.²

Performance information

2.3 The Portfolio Budget Statements (PBS) 2012–13 for the PBO advised that performance information, including objectives, deliverables and key performance indicators (KPIs), to support the office's outcome were yet to be developed. This information was expected to be included the PBO's first work plan.³ The 2012–13 work plan was released on 12 October 2012 included the following advice:

The PBO's performance will be judged by the quality, timeliness and relevance of its outputs as assessed by feedback from key Parliamentary stakeholders. The ongoing demand for the PBO's services will also be an important indicator of the PBO's ability to add value to the work of Senators and Members and the policy development process.⁴

2.4 The committee hopes to see, where possible, the development of quantitative KPIs that enable measurement when assessing the achievement of

1 *Parliamentary Budget Office Annual Report 2012–13*, p. 6.

2 *Parliamentary Budget Office Annual Report 2012–13*, pp 3-4.

3 *Parliamentary Budget Office, Portfolio Budget Statements 2012–13*, p. 9.

4 *Parliamentary Budget Office Work Plan 2012-13*, p. 7.

programs, and the inclusion of targets where appropriate.⁵ The committee notes the ANAO advice on the importance of using quantitative KPIs, including the use of targets as a basis for assessing entity performance:

Targets express quantifiable performance levels or changes of level to be attained at a future date and, as such, allow entity managers and external stakeholders including the Parliament to determine the progress being made in meeting pre-determined program objectives.⁶

2.5 This section of the report did include useful statistics on response times for costing requests from parliamentarians and responses from Commonwealth bodies to requests from the PBO.⁷

2.6 It was reported that feedback from parliamentary stakeholders indicated satisfaction with the quality and relevance of outputs, particularly costings of proposals and support for policy development. However, it was also noted that key stakeholders expressed concern about some of the delays the PBO experienced in obtaining information from government bodies.⁸

Compliance with the PM&C Requirements

2.7 The report generally complies with the PM&C Requirements and includes the mandatory compliance index. It was noted that a number of items in the index were referenced as 'not applicable' which were clearly the case, for example 'spatial reporting'. However, others could not so readily be seen as 'not applicable' to the PBO, for example, items relating to 'policy and practices on the establishment and maintenance of appropriate ethical standards' and 'training and development undertaken and its impact' are both listed as 'not applicable'.⁹ Agencies are reminded to make the distinction between a reference on the index of 'not applicable' and a 'nil' return for various items where appropriate.

Torres Strait Regional Authority

2.8 The Chairperson's and Chief Executive Officer's messages provided a useful overview of activities and achievements of the Torres Strait Regional Authority (TSRA) during 2012–13. Of particular note was the move to independent elections of the 20 member board in 2012, the first time since the organisation's establishment in 1994. This was possible following amendments

5 The committee notes the subsequent PBSs for the PBO for the financial years 2013-14 and 2014-15 do not include KPIs with targets.

6 Australian National Audit Office, *Development and implementation of key performance indicators to support the outcomes and programs framework*, Performance Audit Report No. 5 2011-12, p. 21.

7 *Parliamentary Budget Office Annual Report 2012–13*, pp 20-23.

8 *Parliamentary Budget Office Annual Report 2012–13*, p. 24.

9 *Parliamentary Budget Office Annual Report 2012–13*, p. 74.

to the *Aboriginal and Torres Strait Islander Act 2005* (ASTI Act) where 20 electoral wards were established for the region.¹⁰

2.9 Also highlighted was the expansion of the scope of activities under the ranger program. It was reported that the program has grown from 33 to 38 land and sea rangers and that funding has been secured for the next five years.¹¹

Performance information

2.10 The performance information provided in the annual report is comprehensive and generally corresponds to the information presented in the PBS for 2012–13. It was noted that two additional KPIs which were not listed in the PBS, were reported on in the annual report.¹²

2.11 While the KPIs listed in the PBS were quantitative in nature there are no targets included in the PBS. The annual report does, however, include a target in the presentation of the performance result for some KPIs. For example, the KPI of 'Number of CDEP participants who have moved into non-CDEP employment' does not have a target in the PBS. However, the annual report included a target of 50 people per annum for this KPI, with a result of 45 people for 2012–13.¹³ While the committee commends the TSRA for presenting some results against a target in the annual report, the inclusion of a target measure in the PBS (as well as the result in the subsequent annual report) is a more robust and preferred approach. This would limit the opportunity for an agency to amend a target at the time of presenting the performance results in the annual report.

2.12 The performance section of the report also included comprehensive performance reporting against the objectives set out in the Torres Strait Development Plan 2009–2013¹⁴ interspersed with the PBS KPI results, in addition to seven case studies for each of the TSRA's seven programs. This approach did not easily facilitate a 'clear read' between the KPIs in the PBS and the results in the annual report and the committee endorses the ANAO view in its recent performance audit of the TSRA service delivery, that:

Improvements could be made in the presentation of information in the TSRA's annual report so the PBS KPIs are grouped together

10 *Torres Strait Regional Authority Annual Report 2012–13*, pp 2 and 6.

11 *Torres Strait Regional Authority Annual Report 2012–13*, p. 6.

12 *Torres Strait Regional Authority Annual Report 2012–13*, p. 84.

13 *Torres Strait Regional Authority Annual Report 2012–13*, p. 29.

14 The Plan was developed under section 142D of the ATSI Act and outlines seven TSRA programs, listing desired outcomes and benefits to be delivered, see *Torres Strait Regional Authority Annual Report 2012–13*, p. 12.

within the report and in the same order as they are presented in the PBS.¹⁵

Compliance with Commonwealth Authorities (Annual Reporting) Orders 2011

2.13 The report closely adheres to the requirements of the *Commonwealth Authorities (Annual Reporting) Orders 2011* (Authorities Reporting Orders). It included a comprehensive index of the agency's compliance with various legislative reporting requirements, including its enabling legislation, the ATSI Act, the CAC Act, the *Environment Protection and Biodiversity Conservation Act 1999*, the *Work Health and Safety Act 2011* and the *Freedom of Information Act 1982*.¹⁶ Additionally, the report includes an index to sections in the report where information on the reporting requirements of a Native Title Representative Body¹⁷ can be found.¹⁸

2.14 Clause 9 of the Authorities Reporting Orders requires annual reports to be presented in plain English and with a clear design. The committee notes the small font for some of the notes to the financial statements¹⁹ where the reader may have difficulty reading the document, and hopes this will be addressed in future reports.

2.15 Clause 15 of the Authorities Reporting Orders requires disclosure of decision making processes under the agency's board in relation to director-related entity transactions. The report includes, at notes to the financial statements 12A and 12B, a comprehensive list of both loans to directors and director-related entities, and grants made to director-related entities.²⁰ The TSRA is commended for its transparency with regard to related entity disclosures.²¹ The committee notes the extensive number of disclosures for both loans and grants compared to other Commonwealth authorities whose reports were also examined.

15 Australian National Audit Office, *Torres Strait Regional Authority – Service Delivery, Performance Audit Report No. 10 2013-14*, p. 70.

16 *Torres Strait Regional Authority Annual Report 2012–13*, pp 200-207

17 Native Title Representative Bodies (NTRB) are organisations appointed under the *Native Title Act 1993* to assist Indigenous people with all aspects of their native title claims. NTRBs are appointed by the Department of the Prime Minister and Cabinet to cover a region in Australia.

18 *Torres Strait Regional Authority Annual Report 2012–13*, pp 208-210

19 See for examples, *Torres Strait Regional Authority Annual Report 2012–13*, pp 150-157, 162-163 and 172.

20 *Torres Strait Regional Authority Annual Report 2012–13*, pp 172-173.

21 See section 142F of the ATSI Act which provides the TSRA with powers to make grants and loans.

Indigenous Land Corporation

Letter of transmittal

2.16 The committee notes an error in the letter of transmittal to the Minister relating to the presentation of the annual report of the Indigenous Land Corporation (ILC) to the Parliament. The letter states:

Section 9(3) of the *Commonwealth Authorities and Companies Act 1997* requires that you table the report in each House of the Parliament as soon as practicable.²²

2.17 Section 9(3) of the CAC Act was repealed in 2008. Sections 9(1) and 9(2) of the CAC Act deal with the preparation of the annual report and its provision to the Minister. Section 9(1) notes that 'section 34C (other than subsection 34C(2)) of the *Acts Interpretation Act 1901* applies to annual reports prepared under this section.' This requires the Minister to present the report to the Parliament within 15 sittings days of that House after the day on which the report is received (as outlined in chapter 1 of this report).

Chairperson's report

2.18 The Chairperson's report notes a number of achievements throughout the year. These included a national consultation process on the National Indigenous Land Strategy, the development of an ILC Native Title Policy, the acquisition of Gowan Brae wilderness area in Tasmania, and the Fish River Fire Project in the Northern Territory.²³

2.19 Also noted in the Chairperson's report was the write down of \$62.25m in the value of Ayers Rock Resort (ARR) as at 30 June 2013. The ARR was purchased in 2010 and is owned and managed by Voyages Indigenous Tourism Australia Pty Ltd, a wholly owned subsidiary of the ILC. The Chairperson noted in the annual report:

The 2012-13 financial year also presented significant challenges for the ILC's portfolio of tourism businesses. The tourism sector continued to face difficulties posed by the ongoing reduction in overseas visitor numbers because of the Global Financial Crisis, the high Australian dollar and reductions in the frequency of commercial flights to key destinations such as Ayers Rock Resort.

This combination of global and domestic factors led to the Voyages Directors determining that the fair value of ARR assets at 30 June 2013 are \$250m, resulting in a writedown of \$62.25m in the resort's value (See further note on page 26). In response, during 2012–13 the

22 *Indigenous Land Corporation Annual Report 2012–13*, p. i.

23 *Indigenous Land Corporation Annual Report 2012–13*, pp 4-8.

ILC Board instigated a comprehensive review of the ARR acquisition and potential strategies going forward.²⁴

2.20 The purchase of the ARR has been examined at recent estimates hearings of this committee. Evidence received on this issue indicates that there were concerns about the governance processes around the decision to purchase the asset.²⁵

2.21 The annual report does note that a comprehensive review of the ARR acquisition was to be undertaken. The McGrathNicol report was an independent end-to-end review of the ARR purchase and was publicly released in December 2013. While the timing of its release precluded the McGrathNicol report from being available to inform the ILC's 2012–13 annual report, the committee commends the ILC for including information on this challenge and would expect to see a more detailed explanation and discussion around this issue in next year's report. The committee reminds agencies that annual reports should not only highlight achievements for the year, but also provide a balanced account of any challenges facing an organisation and the strategies being implemented to address these.

Performance reporting

2.22 Performance results against KPIs and deliverables are presented in tabular form and include the 2012–13 target to assist in assessing performance. The report notes the removal of a KPI as set out in the 2012–13 PBS and cites a change in a priority outcome as the reason.²⁶

2.23 This section of the report dealing with performance against deliverables includes 39 case studies, some of which run to multiple pages.²⁷ While the inclusion of these items can be informative and provide practical examples of activities that are undertaken by agencies, they may detract from the clear presentation of performance information and should be used in moderation to keep reports concise and focussed on the agency's performance and achievement of outcomes. The committee has previously cautioned agencies against excessive use of extraneous information in annual reports, such as case studies, reminding agencies that the primary purpose of such reports is accountability to the Parliament.²⁸

24 *Indigenous Land Corporation Annual Report 2012–13*, p. 6. See also references to this issue at pp 26, 109 and 168-169.

25 See for example, Senate Finance and Public Administration Legislation Committee, Examination of Additional Estimates 2013-14, tabled document: correspondence from the ILC Chair to the Prime Minister, dated 14 November 2013.

26 *Indigenous Land Corporation Annual Report 2012–13*, p. 32.

27 *Indigenous Land Corporation Annual Report 2012–13*, pp 48-115.

28 See Finance and Public Administration Legislation Committee, *Report on Annual Reports: Report 1 of 2013*, p. 9.

Compliance with Authorities Reporting Orders

2.24 The report complies with the Authorities Reporting Orders and provides a comprehensive listing of page references against requirements of the Orders as required under Clause 21. Some items in the orders with multiple parts are separately page referenced in the index, providing a helpful level of detail to easily access the required information. Conversely, the Item dealing with 'related entity transactions' is quite specific in the information required, however, the page reference in the compliance index to this item was the broad page range of 138 to 231.²⁹

2.25 The committee notes that the report also includes a compliance index to the PM&C Requirements. Although not an FMA Act agency, the ILC is commended for providing this additional level of accountability in annual reporting.³⁰

Commonwealth Superannuation Corporation

2.26 Both the Chairman and Chief Executive Officer in their reports noted the strong investment returns the Commonwealth Superannuation Corporation (CSC) achieved for the 2012–13 financial year. It was noted that:

Each default investment fund for the CSS, PSS, MilitarySuper and PSSap, involving more than 90% of our members, posted double digit returns in 2012–13. These far exceeded our annual return objective of the CPI plus 3.5%.³¹

2.27 The report included a summary of the work program focus for 2012–13. This included planning for the introduction of the MySuper investment product which was launched on 1 July 2013; and the development and the implementation of the pension product, the CSCri, which provides CSS, PSS and PSSap members who want to invest their lump sum to receive regular payments with a retirement income account.³²

Performance reporting

2.28 In discussion on accountability, the report summarises the organisation's KPIs in meeting its key program objective of maximising members' superannuation account balances as:

- a long-term nominal investment performance target of a real return of 3.5% over a prospective three year horizon, achieved within Board approved risk parameters;
- compliance with relevant law;

29 *Indigenous Land Corporation Annual Report 2012–13*, p. 257.

30 *Indigenous Land Corporation Annual Report 2012–13*, pp 253-256.

31 *Commonwealth Superannuation Corporation Annual Report 2012–13*, p. 14.

32 *Commonwealth Superannuation Corporation Annual Report 2012–13*, pp 14 and 17.

- meet obligations as an RSE (Registrable Superannuation Entity) licence and AFSL (Australian Financial Services licence) holder; and
- administration quality as reflected in the satisfaction level of members, beneficiaries and employers with the service provided through ComSuper, as CSC's delegate, to standards set by CSC.³³

2.29 It is noted that the KPIs above are the set as contained in the PBS for 2013–14 for the CSC, however, they are not an exact reflection of the KPIs as listed in the PBS for 2012–13. While the last three are similar, the first KPI differs to that listed in the 2012–13 PBS, which is:

CSC has a long term nominal investment performance target of at least CPI + 4.5% per annum average after tax and fees, and positive fund returns 24 years out of 30 years.

2.30 Where performance measures have changed, it is expected that a clear explanation and the reason for the change is noted with the new KPI.

2.31 The committee notes the useful table included in the previous year's annual report which clearly stated KPI results against targets for the 2011–12 financial year and was a useful reference which clearly summarised the organisation's performance,³⁴ but was omitted from this year's report.

Compliance with Authorities Reporting Orders

2.32 The report includes a compliance index and generally complies with the Authorities Reporting Orders. Some items required in the Orders are not listed in the index and it could be assumed are not applicable to the agency. However, as noted earlier, it is useful if agencies include all items required in the Orders in the index with a 'nil' or 'not applicable' reference where appropriate.

2.33 The report is well designed with information organised and accessible, generally meeting the requirements of Clause 9 of the Reporting Authorities Orders which require plain English and clear design. Extensive use of tables and charts is used to present information which greatly assists with presentation of information, particularly in regard to the details on the super schemes and fund investment. Particularly useful was the inclusion in this year's report of a section on '2012–13 highlights' at the front of the report which provided snapshot graphical representations for funds under management, default investment performance and scheme membership.³⁵

33 *Commonwealth Superannuation Corporation Annual Report 2012–13*, p. 30

34 *Commonwealth Superannuation Corporation Annual Report 2011–12*, p. 23.

35 *Commonwealth Superannuation Corporation Annual Report 2012–13*, pp 12–13.

Aboriginal Hostels Limited

2.34 Aboriginal Hostels Limited (AHL) is a wholly-owned Commonwealth company and prepares a report in accordance with the requirements of the *Commonwealth Companies (Annual Reporting) Orders 2011* (Companies Reporting Orders).

2.35 The report closely adheres to the requirements of the Companies Reporting Orders. The mandatory compliance index is included and contains a column for 'comments' which provides a brief explanation for some items when required as a quick reference rather than being directed to elsewhere in the report. The index is detailed and itemises clauses with multiple parts separately providing a page reference or comment for each.³⁶

2.36 The Chairperson's and Chief Executive Officer's overview notes that the opening of the Tonky Logan Hostel in Townsville and the inaugural intake of students to the remote secondary education hostel in Wadeye as notable achievements during 2012–13. Also noted was a review of the condition of the company's property portfolio which led to a new budget measure of \$6.2 million over two years for the upgrade of facilities with the highest needs. It is expected the funding will allow for the renovation of nine hostels across Northern Australia.³⁷

Performance information

2.37 The AHL report is well presented and makes use of graphs and tables to aid in the presentation of various performance data. Performance information is aligned with the deliverables and KPIs as presented in the PBS for 2012–13. The committee noted the high satisfaction rating of 92 per cent in response to its client survey during 2012–13 for AHL-operated hostels. This compared to an 88 per cent satisfaction rating for hostels funded under the Community and Corporate Partnerships Program.³⁸

2.38 The inclusion of trend information over four years for some performance categories, such as number of hostels, guest capacity and bed occupancy, was useful for comparative purposes.³⁹

ASC Pty Ltd

2.39 The annual report notes that ASC Pty Ltd (ASC) is a proprietary company limited by shares registered under the *Corporations Act 2001* (Corporations Act) and is subject to the CAC Act. All the shares issued in the

36 *Aboriginal Hostels Limited Annual Report 2012–13*, pp 138-141.

37 *Aboriginal Hostels Limited Annual Report 2012–13*, p. 2.

38 *Aboriginal Hostels Limited Annual Report 2012–13*, p. 22.

39 *Aboriginal Hostels Limited Annual Report 2012–13*, p. 20.

capital of the ASC are owned by the Minister for Finance. ASC was proclaimed a Government Business Enterprise under the CAC Act on 11 June 2004.⁴⁰

2.40 The Chairman's letter of transmittal advises that the report was prepared in accordance with section 9 of the CAC Act.⁴¹ As a Commonwealth company, the annual report of ASC should be prepared in accordance with section 36 of the CAC Act under Part 4 dealing with reporting and other obligations for Commonwealth companies. Section 9 of the CAC Act deals with reporting obligations of Commonwealth authorities.

Compliance with the Companies Reporting Orders

2.41 As a wholly-owned Commonwealth company, it is expected that ASC provide in its annual report the information required under the Companies Reporting Orders, in addition to that required by the Corporations Act. The report did not include an index to the reporting requirements, required under clause 18 of the orders. While the annual report generally included information required under the Companies Reporting Orders, specific reference to some items did not appear to be included, for example, a reference to an exemption to the directors from any requirement of the orders (clause 6). The inclusion of a compliance index assists the reader when a 'nil' return is recorded, clearly indicating that the item's absence from the report is not an omission.

Overview and performance

2.42 The Chairman's report advised that the company achieved annual revenue of \$920.6 million and profit after tax of \$9.9 million; this compares to the 2012 results of \$802.2 million and \$14.7 million respectively.⁴²

2.43 The ASC also presents to the Parliament a statement of Corporate Intent which represents the understanding between ASC and the Minister for Finance on its expected level of performance for the following three years. This should be read in conjunction with the annual report.

2.44 The Managing Director's report notes that the new In Service Support Contract for the maintenance and support for the Collins Class Submarines is having a positive impact on the management of the maintenance program. Also noted was the significant progress on the Air Warfare Destroyer project with the consolidation of Ship 01 progressing rapidly.⁴³

Senator Cory Bernardi **Chair**

40 *ASC Pty Ltd Annual Report 2013*, p. 23.

41 *ASC Pty Ltd Annual Report 2013*, p. 3.

42 *ASC Pty Ltd Annual Report 2013*, p. 6.

43 *ASC Pty Ltd Annual Report 2013*, pp 8-9.