

Audit Summaries

ANAO Audit Reports tabled from 23 October 2018 – 7 February 2019

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**The Design and Implementation of the Department of Human Services' Quality Framework
No.10 2018–19
Department of Human Services**

Background

1. The Department of Human Services (Human Services) is responsible for the delivery of social, health and other payments and services as well as the development of service delivery policy. Until July 2011, Human Services included the Child Support Agency and Commonwealth Rehabilitation Services (CRS) Australia. In July 2011, Human Services integrated the services of Centrelink and Medicare Australia, which created a much larger department. In 2017–18 Human Services administered approximately \$173.4 billion in payments.
2. Following the creation of the larger department, Human Services introduced an initiative to create a department-wide quality framework. In September 2013, Human Services developed the Quality Framework to provide a single set of expectations for ensuring the department's services are high quality and meet customer and government expectations. The strategic purpose of the Quality Framework is to mandate a consistent and integrated approach to delivering quality services and to support the department to be collaborative and proactive rather than reactive in addressing gaps, identifying systemic issues, best practice and continuous improvement opportunities.¹
3. A gap analysis conducted earlier that year had identified a lack of consistency or integration of quality measures across the department, including a lack of integrated quality reporting or a holistic view of quality. The Framework was not introduced in response to perceived significant weaknesses of the quality arrangements in place across the department.

Rationale for undertaking the audit

4. The Human Services' Quality Framework was selected for audit due to the large value of payments to which it applied and to determine whether the purpose of the Quality Framework had been met. Having been in place for five years, it was timely to undertake an audit focusing on the design, implementation and effectiveness of the Framework.

¹ The Framework has three desired core features: build an approach to managing quality that is integrated across programs and consistently applied in all parts of the merged operations; identify and resolve systemic issues affecting service delivery; and increased accountability within the department for quality outcomes.

Audit objective and criteria

5. The objective of the audit was to assess the effectiveness of the design and implementation of the Human Services' Quality Framework.

6. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- Did Human Services effectively design the Quality Framework and supporting governance arrangements?
- Has Human Services effectively implemented the Quality Framework?
- Has Human Services monitored and reported on the effectiveness of the Quality Framework and its capacity to inform continuous improvement of its services?

Conclusion

7. Human Services has been less than effective in designing and implementing a Quality Framework that achieves its strategic purpose of consistent and integrated approaches to delivering quality services. While the Framework has strengthened quality arrangements in service delivery operations where it has been comprehensively implemented, lower levels of implementation elsewhere in the department and a lack of integrated reporting on quality has limited its effectiveness in meeting core design features.

8. Human Services' design of the Framework was partly effective, with a sound evidence base underpinning the key elements of the Framework but limited implementation planning. The department also has partly effective governance arrangements for the Framework, and needs to clarify the roles of the two key governance committees, which have not discharged key responsibilities under the Framework.

9. The Framework has been effectively implemented in the service delivery areas of the department but less comprehensively implemented in the enabling and transformation areas. The inconsistent implementation of the Framework throughout Human Services has not necessarily compromised quality, as mature quality mechanisms are in place in business areas that have not embraced the Framework. The department has integrated the Framework into its business and risk planning governance arrangements.

10. Human Services' monitoring of the Framework is partly effective with sound processes for internal monitoring but little reporting of effectiveness up to the departmental executive. There is sufficient external reporting of quality and sound processes for managing quality-related issues and promoting continuous improvement of quality in the department. However, the extent to which activities under the Framework have contributed to these processes is unclear.

Supporting findings

Design and governance

11. Human Services' design of the Quality Framework was partly effective, in terms of both the processes adopted and the design ultimately reached. The design processes included considerable internal consultation and analysis of quality arrangements in place in the department and in other comparable organisations domestically and internationally, which provided a sound evidence base for the key design elements of the Framework. However,

there was limited implementation planning and trialling to guide the achievement of key objectives and management of implementation risks.

12. Human Services has partly effective governance arrangements for the Framework and needs to clarify these arrangements. The main governance body for the Framework, the Quality Advisory Group, was nominally in operation at the time of the audit in 2018 but had not met since May 2015 or discharged its responsibilities under the Framework. The Quality Council was introduced in 2016 and has performed some functions of the Quality Advisory Group but has a limited role in relation to the Framework. The Quality Management Section assisted business areas to implement the Framework by providing policies, guidelines, tools and other support material.

Implementation of the Quality Framework

13. Human Services has not implemented the Framework comprehensively and consistently throughout the department. Rather, there has been a dichotomy. The Framework was adopted comprehensively in service delivery areas, but less comprehensively in the enabling and transformation areas of the department that have relied on their pre-existing quality mechanisms. Whether explicitly implementing the Framework or relying on their own quality mechanisms, the nine business areas examined by the ANAO in detail had a high level of alignment with the six elements of the Framework — accountability, quality processes, issues management, capability, culture and reporting.

14. The Framework has been integrated into Human Services broader governance arrangements as a result of the department rolling quality planning into business and risk plans since 2016.

Monitoring and reporting

15. Internally, Human Services has monitored the implementation of its Framework through annual assessments, internal quality reviews of individual business areas and particular quality monitoring arrangements in place in business areas. These have been sound processes, although fewer internal reviews were conducted than intended (five of 12), there has been little reporting to the Human Services executive of the effectiveness of the Framework, and a department-wide Performance and Quality Scorecard has not been developed as proposed under the Framework.

16. External reporting of quality occurs through the department's annual reports, currently including three quality-related performance indicators in the Annual Performance Statements and indicators relating to a service commitment to providing quality information. There are clear links between the Framework and the indicators in these two corporate measurement processes, but unclear attribution to specific activities being undertaken as a result of the Framework.

17. The business areas reviewed by the ANAO had appropriate processes in place to identify and record issues arising from quality measures and processes. Human Services has not implemented a department-wide issues management register as envisaged by the Framework. In June 2018 the Quality Council proposed a localised approach whereby all business areas ensure that issues can be tracked, prioritised, analysed and escalated according to their individual needs.

18. Human Services incorporated a continuous improvement methodology into the Framework to guide staff when managing systemic issues and developing solutions. Although some business areas were able to identify examples of continuous improvement, there is a lack of clarity around whether the activities undertaken under the Framework have led to improvements in products and services. There has also only been one systemic issue escalated to the Quality Council since its inception.

Recommendations

**Recommendation
No. 1
Paragraph 4.39**

Human Services:

- (a) decides whether to retain the Quality Framework as a department-wide initiative in its current form that focuses on consistency and integration, or revises it to give greater recognition to flexible, fit-for-purpose quality approaches; and
- (b) implements processes to monitor ongoing compliance with the Framework and report on achievement of its purpose and desired key features.

Human Services' response: *Agreed*

Summary of entity response

19. The proposed report was provided to Human Services, which provided a summary response, set out below. The full response from Human Services is provided at Appendix 1.

Department of Human Services

The Department of Human Services welcomes the report, and acknowledges the ANAO's finding that "*Human Services has sound quality arrangements in place throughout the department*". The department recognises the scope to improve implementation and governance arrangements as identified in the report.

The department agrees to the recommendation, and has already commenced a comprehensive review of the Framework to assess its effectiveness.

Key learnings for all Australian Government entities

20. Below is a summary of key learnings identified in this audit that may be relevant to other Commonwealth entities.

Policy/program design

- Quality arrangements need to be fit-for-purpose for business areas within entities, and this may or may not be consistent across an entity.
- Trialling of approaches, project planning and clear monitoring of milestones and achievements are crucial elements in the design of quality frameworks and processes.
- When considering introducing a mandated enterprise-wide framework, a clear understanding of the need for the framework should be determined as a first step. The second step is to determine if a single approach, as outlined in an enterprise-wide framework, is appropriate for all business areas.

Policy/program implementation

- The implementation phase of a large-scale framework must have top-down leadership, business area ownership, frequent messaging and reporting as well as strong governance, to ensure escalation and monitoring of risks and ongoing assessment of whether changes are needed during the early phases of implementation to realise intended business impacts.

**Design and implementation of the VET Student Loans program
No. 11 2018–19]
Department of Education and Training**

Summary and recommendations

Background

1. The vocational education and training (VET) sector aims to deliver workplace specific skills and knowledge across a wide range of careers, industries and levels of personal development. VET service providers include technical and further education institutes, adult and community education providers, agricultural colleges, universities and schools, industry skill centres, commercial and enterprise training providers, as well as other private providers.
2. The VET Student Loans (VSL) program replaced the VET FEE-HELP (VFH) scheme. It was formally endorsed by the Australian Government in October 2016 for commencement from 1 January 2017 and is administered by the Department of Education and Training (the department). VET Student Loans are income contingent loans available to eligible students. The core objective of the VSL program is to remove upfront financial barriers to VET training in order to make it more accessible to students who may not otherwise have access.
3. In the Portfolio Additional Estimates Statements 2016–17, the Government committed \$45 million over four years to implement the VSL program and to deliver additional compliance measures. An additional \$36.2 million over four years was allocated in the 2018–19 Budget to fund the implementation of a new IT system to support VSL compliance and regulation. As at 30 June 2018:
 - 42,220 students had accessed a VSL loan in 2017 and 43,294 from 1 January to 30 June 2018;
 - \$343.9 million in VET student loans were approved from 1 January 2017 to 30 June 2018, which is eight per cent of the \$4.14 billion cap available for the two years commencing 1 January 2017 (that is, a \$2.07 billion each calendar year);
 - 387 approved courses are on the eligible course list; and
 - 180 registered training organisations had been approved to provide training under the VSL program.

Rationale for undertaking the audit

4. The VSL program was selected for audit because it is intended to address a number of significant deficiencies identified with the administration of the VFH scheme, as noted in:
 - Auditor-General Report No. 31 of 2016–17 *Administration of the VET FEE-HELP Scheme*;
 - *Redesigning VET FEE-HELP: Discussion Paper* (April 2016) and related public submissions (April to June 2016); and
 - The Senate Education and Employment References Committee report, *Getting our money's worth: the operation, regulation and funding of private vocational education and training (VET) providers in Australia* (October 2015).
5. An assessment of the extent to which the department has incorporated lessons learnt from the former scheme into the new program allows design deficiencies to be addressed in a timely manner.

The audit also provides assurance to Parliament about the robustness of the design and implementation of the VSL program.

Audit objective and criteria

6. The objective of the audit was to assess the effectiveness of the department's design and implementation of the VET Student Loans program. To form a conclusion against the audit objective, the ANAO adopted the following high level criteria:

- Was an appropriate design process established to support the achievement of the Government's policy objectives?
 - Were sound arrangements established to support the implementation and management of the program?
7. The audit focused on:
- activities pursued by the department in designing the VSL program;
 - the extent to which lessons learnt from the VFH scheme were incorporated in its design (including the learnings noted in Auditor-General Report No.31 of 2016–17 *Administration of the VET FEE-HELP Scheme*);
 - stakeholder consultation on the design and implementation of the new loans program;
 - the extent to which risks were considered during the design process and its implementation; and
 - the adequacy of the department's performance management approach.

Conclusion

8. The Department of Education and Training's design and implementation of the VET Student Loans program was largely effective.

9. The department executed an appropriate design process that considered the impacts of the new program on key stakeholders and was informed by lessons learnt from the former VFH scheme and consultation with stakeholders.

10. The department's arrangements to support the implementation and management of the program are largely sound as it has established appropriate oversight, performance management and risk management. The department's approach to compliance is risk-based but could be improved by detailing, in the compliance strategy, how the activities are prioritised and resourced on a risk basis.

Supporting findings

Design of the VET Student Loans program

11. The department executed an appropriate process for designing the VSL program.

12. The objectives outlined in key program documents are clearly expressed and broadly align with the Government's policy intent.

13. There is a strong alignment between the reform options considered as part of the reviews and lessons learnt of the former VFH scheme and the final design features of the VSL program.

14. During the design phase, the department considered the impact of the VSL program would have on key stakeholders, including students and providers. Within the context of tight timeframes, the department did not develop a clear risk-based approach to planning for implementation during the period leading to commencement of the program.

15. The department appropriately consulted with stakeholders during the design and implementation of the VSL program.

16. The advice the department provided to the Government on various aspects of program design and implementation was generally sound. However, the department has not provided detailed advice about the current outcomes of the program and whether it is achieving the Government's policy intent.

Implementation of the VET Student Loans program

17. The department established an effective performance management system, including: an evaluation plan that includes measurable key performance indicators; performance monitoring against the key performance indicators; and a range of internal and external reports.

18. The department has established appropriate arrangements to manage the program, including organisational structures and committees, which provide adequate oversight of program performance and risk management.

19. By July 2017, the department had provided useful guidance material and an appropriate range of training activities to staff involved with the VSL program.

20. The department developed largely effective communications and stakeholder engagement strategies for the VSL program, and monitored the impact of its early communication activities.

21. The department has established and maintains an appropriate risk management framework for the VSL program, which has matured over time. Relative to the VFH scheme, the department has adopted more robust compliance arrangements for the VSL program. The compliance strategy refers to risk management but does not detail how compliance activities are prioritised on a risk basis.

22. The department has put in place appropriate mechanisms aimed at supporting improvements to the coordination and effectiveness of VSL program regulatory activity.

23. The department has developed an evaluation strategy and has completed a number of reviews of aspects of the program. Early indications are that the program is progressing well against its objectives. The reviews note areas for further analysis and potential adjustments to the program's parameters.

Recommendation

Recommendation no. 1 Paragraph 2.19

The Department of Education and Training analyse maturing VET Student Loan program data to enable it to monitor progress of the program, analyse its impact on stakeholders and identify potential enhancements to the program and its administration.

Department of Education and Training's response: *Agreed.*

The department has increased its data analytics resources. Action is underway to enhance the current analytical tasks with a focus on stakeholders to anticipate potential issues, which will assist program development. Additional reporting dimension tables have been added to the existing data model to harness the use of the department's visual analytics and reporting tools, such as Microsoft Power BI, on the Program User's desktop. The combination of these resources will provide the department with enhanced analytical abilities to monitor and maintain the program integrity.

Recommendation no. 2 Paragraph 3.7

The Department of Education and Training develop key performance indicator(s) to measure the contribution of the VSL program to promoting confidence in the regulated VET market.

Department of Education and Training's response: *Agreed.*

Under the Post-Implementation Review (PIR), a Key Evaluation Question relating to quality and integrity was 'Does the program design contribute towards improving confidence in the VET market'. Consultation with stakeholders has already shown that the exit of 'non-genuine' providers has resulted in improved confidence in the VET sector.

Every four months, students submit a form to indicate progression through their courses. The submission includes a survey for students to rate whether they are satisfied with the quality of their training provider and whether they would recommend the provider to anyone. The department conducts regular analysis on these results. Almost 90 per cent of survey respondents indicated their provider was of high quality and would recommend the provider to others for study purposes.

Phase 2 of the PIR will further assess whether the VET Student Loans program promotes confidence in the VET market. Phase 2 will commence in early 2019, as the program will have been embedded for two years with sufficient data and information available to inform the review.

Summary of entity response

24. A summary of the department's response is below.

The department acknowledges the work conducted by the ANAO and thanks the review team for the collaborative way in which the audit was conducted.

On 5 October 2016, the Government announced the commencement of the VET Student Loans program, from 1 January 2017, to replace the VET FEE-HELP scheme. The VET Student

Loans program offers greater protection for students and focuses on courses that address industry needs, creating better opportunities for employment. VET Student Loans offers income-contingent loan support to eligible students studying certain diploma level and above vocational education and training qualifications.

The department's design and implementation of the VET Student Loans program was effective in addressing significant issues with the operation of the VET FEE-HELP scheme. The VET Student Loans program safeguards public money by ensuring payments to providers are made in arrears, and that students demonstrate engagement to continue to access the loan. The program has also strengthened the compliance powers available to the department in administering the program.

I welcome the report and recommendations and note the positive findings, including that the department's design and implementation of the VET Student Loans program was effective, and that sound arrangements to support the implementation and management of the program were in place.

Further information and updates about the VET Student Loans program, including fact sheets for students and providers participating in the program, are available on the department's website at www.education.gov.au/vet-student-loans.

Key learnings for all Australian Government entities

25. Below is a summary of key learnings, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

Policy / program design

- In designing a new program, it is important to learn from previous experience, drawing upon the knowledge and insights obtained from similar programs managed by the entity, other entities or other jurisdictions.
- Meaningful engagement (with relevant peak bodies, service providers, state and territory governments, regulators and other affected parties) can contribute significantly to the achievement of the overall objectives of a program. Sufficient time should be allowed in the design phase for this consultative process to occur to minimise any unintended consequences from tight timeframes during design and implementation.

Governance and risk management

- As part of its implementation risk process, an entity should undertake an up-front assessment of its readiness to implement a program. Ensuring an entity is ready to deliver on the Government's policy objectives can result in more effective management, implementation and overall results.

Performance and impact measurement

- When implementing a new program, it is important to develop and implement a detailed evaluation plan that provides a clear line of sight between the program's objectives, performance measures, data sources and evaluation methodology. Evaluations can help entities identify areas for improvement and assist in realising program objectives more efficiently. They also enable entities to demonstrate a program's success or progress and be held accountable for its outcomes. The information collected through an evaluation process also allows an entity to communicate a program's impact on key stakeholders.

Strategies for Addressing the Impacts of Declining Demand for Australian Circulating Coins

No.12 2018–19

Royal Australian Mint

Background

1. The Royal Australian Mint (the Mint), established in 1965, is Australia’s national mint and operates under the *Currency Act 1965* to produce coinage for the currency requirements of the nation. The Mint is a listed entity within the Treasury portfolio and a non-corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013*.

2. The Mint is the sole supplier of Australia’s circulating coins.¹ In addition to domestic circulating coins, the Mint produces circulating coins for other countries, and manufactures collector (numismatic) coins², investor products³, medals, medallions and tokens for domestic and international markets. The Mint is also the custodian of Australia’s National Coin Collection and provides educational and tourist services to local residents and overseas visitors.

3. The Mint is required to provide the seigniorage collected on circulating coins to the Australian Government. Seigniorage is the difference between the sale price of a circulating coin and the cost to produce and distribute it into circulation. The Mint’s core business of producing and supplying Australian circulating coins is facing decline with the emergence of alternative non-cash payment methods enabled by digital technologies. The decline in demand for Australian circulating coins results in reduced seigniorage to the Australian Government. Seigniorage fell from \$83.5 million in 2013–14 to \$52.0 million in 2017–18.

4. The Mint has identified a range of strategies and opportunities to enable it to achieve its strategic goal of ‘filling the gap’ in seigniorage and address the impacts of declining domestic coin demand. The strategies developed and implemented by the Mint include optimising the seigniorage from Australian circulating coins, utilising excess capacity of its coin manufacturing facilities, and growing its commercial business domestically and internationally. The commercial business of the Mint involves activities in producing and supplying collector coins, foreign circulating coins, investor products, and custom and corporate minting.

Rationale for undertaking the audit

5. The audit was selected to consider ways in which entities can develop strategies to deal with financial challenges associated with changing technologies and business conditions. The audit also aimed to emphasise the need for entities to manage risks associated with using public funds for non-core business, and to conform with relevant legislative requirements.

¹ Circulating coins are mass-produced coins used as legal tender for the purpose of trade within Australia.

² Collector (numismatic) coins are non-circulating coins intended for coin collectors and the souvenir and gift market rather than for the payment of goods and services. Collector coins are legal tender in Australia.

³ Investor products are premium-priced precious metal products consisting of gold, silver, platinum or palladium, generally limited by mintage.

Audit objective and criteria

6. The objective of the audit was to assess whether the Royal Australian Mint's strategies for addressing the impacts of declining demand for Australian circulating coins are appropriate and effective.

7. To form a conclusion against the audit objective, the Australian National Audit Office (ANAO) adopted the following high-level criteria:

- Did the Royal Australian Mint have effective arrangements for developing strategies to address the impacts of declining demand for Australian circulating coins?
- Has the Royal Australian Mint's implementation of the strategies supported it to effectively address the impacts of declining demand for Australian circulating coins?
- Has the Royal Australian Mint implemented the strategies in line with relevant legislative requirements?

Conclusion

8. The Mint has developed and implemented strategies for addressing the impacts of declining demand for Australian circulating coins that are mainly appropriate and effective. While having increased returns from its commercial business, the Mint has not yet achieved its strategic goal of 'filling the gap' caused by the reduction in seigniorage through offsetting growth in earnings from its commercial business. Further, the current financial arrangements do not facilitate the return of the Mint's commercial profits to the Australian Government to support the achievement of the Mint's strategic goal.

Supporting findings

Arrangements for developing strategies

9. The Mint had effective arrangements in place for developing strategies to address the impacts of declining demand for Australian circulating coins. The strategies were informed by a sound evidence base, rigorous analysis and a robust approval process, and were well-integrated into the Mint's corporate planning processes. Appropriate governance arrangements were in place whereby the Advisory Board, Senior Management Team, Product Approvals Executive and Audit Committee together provided oversight of the development and implementation of strategic projects, including their performance and management of risks. Notwithstanding the effective arrangements in place, there is no evidence that the Mint contemplated not developing strategies to 'fill the gap' to avoid taking on the additional commercial risk.

Effectiveness of implementing strategies

10. The Mint's implementation of strategies has expanded its commercial business activities and generated growth in commercial revenue and profit. Commercial revenue increased from \$52.9 million in 2015–16 to \$83.7 million in 2017–18, which represented 58 per cent growth over two years. Net profit for the Mint's commercial business also grew significantly over the period, from \$2.5 million to \$13.6 million (444 per cent). In 2017–18 revenue from commercial business activities comprised almost 50 per cent of total revenue from the Mint's operations.

11. The Mint is yet to achieve its strategic objective of filling the seigniorage gap through growing its commercial business, as seigniorage has declined more than earnings from its commercial business have increased in recent years. Further, the Mint has not yet returned its commercial profits to the Australian Government under current financial arrangements. The Mint has forecast much stronger growth in commercial revenues in coming years through its premium products minting operation. If the Mint continues to strongly grow its commercial activities and revenues, consideration needs to be given to the appropriateness of its current status as a non-corporate Commonwealth entity and existing financial arrangements, to facilitate the return of commercial profits to the Australian Government.

Compliance with legislative requirements

12. In implementing strategies to address the impacts of declining domestic coin demand, the Mint has produced and issued coins in line with relevant requirements in the *Currency Act 1965*. While not defined in the Act, the Mint should clarify its use of the terms ‘circulating’ and ‘collector’ coins and report these consistently in its various documents. The Mint has also implemented the strategies in line with the requirements of the *Public Governance, Performance and Accountability Act 2013*. The Mint has not complied with the reporting requirements of the Senate Order on Entity Contracts, and should consider whether to narrow the breadth of confidentiality provisions in corporate minting contracts.

Recommendations

Recommendation no.1 Paragraph 2.46

The Royal Australian Mint considers the appropriateness of its current governance structure and financial arrangements, and puts options to the Australian Government about these issues to facilitate the return of commercial earnings.

Royal Australian Mint response: *Agreed*

Recommendation no.2 Paragraph 2.59

The Royal Australian Mint clarifies its use of the terms ‘circulating’ and ‘collector’ coins, and reports these consistently in its various documents including commercial agreements.

Royal Australian Mint response: *Agreed*

Recommendation no.3 Paragraph 2.75

The Royal Australian Mint addresses issues with the content and reporting of confidentiality provisions in commercial contracts, where it is the provider of goods and/or services, to ensure compliance with the requirements of the Senate Order on Entity Contracts.

Royal Australian Mint response: *Agreed*

Entity response

13. The Mint’s response to the report is provided below.

The Royal Australian Mint

The Royal Australian Mint found the review process to be thorough and comprehensive and a good opportunity, two years into the four year Strategic Plan, to reflect on what it had set out to achieve, what was actually delivered and the degree to which, in that process of delivery, it was compliant. The professionalism of the ANAO team in conducting the review is to be complimented.

Key learnings for all Australian Government entities

14. Below is a summary of key learnings, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

Program design

- Entities can develop effective strategies to mitigate the financial impacts of changing business conditions. Innovative approaches to program design with appropriate risk taking, which are well-integrated into strategic planning process and supported by robust governance arrangements, can help to address the financial impacts of changes to entities' operating environment.

Disability Support Pension – follow-on Audit

No. 13 2018–19

Department of Human Services and Department of Social Services

Background

1. The Disability Support Pension (DSP) provides financial support to working age Australians who have a permanent physical, intellectual or psychiatric impairment that prevents or limits their capacity to engage in employment. In 2016–17, DSP expenditure was \$16.3 billion for about 760 000 DSP recipients.
2. The ANAO last audited the DSP in 2015–16. Auditor-General Report No.18 *Qualifying for the Disability Support Pension* made four recommendations, all of which were agreed by the Department of Social Services (Social Services) and the Department of Human Services (Human Services).
3. In May 2017, the Joint Committee of Public Accounts and Audit (JCPAA) released its inquiry on *Commonwealth Risk Management*, which was based on Auditor-General Report No.18. The JCPAA inquiry also examined the implementation of a number of measures that were not examined in Auditor-General Report No.18. The JCPAA made eight recommendations directed to Social Services and Human Services. The recommendations were noted by Social Services and Human Services, with the exception of recommendation four, which was agreed by Social Services. In addition, the JCPAA recommended that the Auditor-General consider the merits of a follow-up audit of the administration of the DSP. The Auditor-General agreed to this recommendation, and this audit implements it.

Rationale for undertaking the audit

4. The DSP is a significant expenditure and provides support to around three quarters of a million Australians. In recent years, the JCPAA and other parliamentary committees have expressed interest in the performance of Australian Government entities in relation to implementing audit recommendations. In *Commonwealth Risk Management* inquiry, the JCPAA asked the Auditor-General to consider the merits of a follow-up audit on the administration of the Disability Support Pension by Social Services and Human Services (JCPAA recommendation no.2). This audit adds to the sequence of follow-up audits on the implementation of audit recommendations, and provide assurance that Social Services and Human Services have both implemented the agreed recommendations and integrated the intent of the recommendations into their approach to program management.

Audit objective and criteria

5. The objective of this audit was to examine if Social Services and Human Services drive improvements in the Disability Support Pension program using data and information from multiple sources, including agreed Auditor-General and parliamentary committee recommendations. To form a conclusion against the audit objective, the ANAO adopted the following high-level audit criteria:

- Does Human Services provide and regularly update guidance and training for staff and contractors involved in DSP assessment and/or review processes?

- Do Social Services and Human Services effectively select existing DSP recipients for reviews of medical eligibility using evidence-based risk profiles that are assessed for efficacy?
- Do Social Services and Human Services effectively monitor, evaluate and report on program delivery?

Conclusion

6. Social Services and Human Services use data and information from multiple sources to drive performance improvements to the DSP program. The exception is that internal and external performance measures are not fully effective.

7. Human Services has developed and updated training and guidance for staff and contractors involved in DSP assessment and review processes. These updates were made in response to program changes, external scrutiny, and program learnings. Human Services does not comprehensively monitor if officers are communicating the reasons for access decisions to DSP applicants in a timely and accurate manner.

8. Human Services selects DSP recipients for review of medical eligibility under the 2016–17 Budget measure using evidence-based risk profiles. These risk profiles adopted learnings from initial implementation as well as from the 2014–15 Budget measure. Reviews undertaken as of June 2018 have established that the majority of recipients reviewed remain eligible for DSP.

9. Social Services and Human Services monitor, evaluate and report on delivery of the DSP program, but improvements should be made to the effectiveness of approaches across all three domains. The assessment of performance against outcomes is not complete as the departments do not have a comprehensive set of Key Performance Measures for interdepartmental and external reporting. The interdepartmental Timeliness Key Performance Measure is biased, as it excludes DSP claims with processing times over 84 days. Evaluations focussed primarily on effectiveness and should be broadened to also address efficiency and cost-effectiveness. The departments have not implemented the Auditor-Generals' recommendation 3(a) from Report No.18 2015–16 to develop a more complete set of internal and external performance measures.

Supporting findings

Guidance and Training

10. Guidance and training for Human Services' officers and contractors was reviewed following the initial ANAO DSP audit. The current guidance addresses documentation requirements to support key findings and recommendations and/or decisions at each stage of the DSP assessment process. Given these changes to the requirements to document eligibility decisions, ANAO considers that recommendation no.1 from Auditor-General Report No.18 2015–16 has been implemented.

11. Training and guidance for Subject Matter Experts could be enhanced by including advice on the level of detail required in documenting the outcomes of quality checks and the reasons for any changes to the customer's record. There would also be benefit in Human Services developing a standard format for reporting on quality reviews of DSP claims that allows tracking of performance against specific process standards over time.

12. The Deed of Standing Offer for the provision of Government-contracted Doctor services clearly specifies documentation requirements. Measures are in place to assess and facilitate compliance, including pre- and post-submission quality reviews of Disability Medical Assessment reports by the contractor and quality checks of submitted reports by Human Services.

13. Human Services updates guidance and training in response to significant findings from external review bodies. Human Services' Annual Reports include information on external scrutiny by bodies such as the ANAO, the Commonwealth Ombudsman and Parliamentary Committees. Since Auditor-General Report No.18 2015–16, there has been only one external report impacting DSP guidance and training — Commonwealth Ombudsman Report 05/2016 Department of Human Services *Accessibility of Disability Support Pension for remote Indigenous Australians*. Human Services has implemented changes to guidance and training in response to recommendations from that report.

14. Human Services does not monitor if officers are communicating the results of access decisions to DSP applicants in a timely manner. DSP decision letters contain only generic text on the reason for the decision. Human Services conducts quality reviews that, in part, check the accuracy of the decision letters, but the extent to which applicants are contacted to explain the reasons behind the decision is not monitored. Human Services is currently trialling revised procedures aimed at improving the provision of information to applicants about the reasons for decisions.

Processes for reviewing the medical eligibility of Disability Support Pension recipients

15. The risk profiles and rationales used to select DSP recipients for review of medical eligibility are clearly documented. Human Services reviewed and refined the risk profiles used for the 2016–17 Budget measure, including consulting with internal medical experts. As at September 2018, a third of the expected reviews have been finalised, and no new reviews have been commenced since July 2017. Despite this, the work undertaken by Human Services to improve the risk profiling to better identify DSP recipients is directly related to Auditor-General recommendation no.2, which the ANAO considers has been implemented.

16. In response to JCPAA recommendation no.4, Social Services has explored options for data sharing with other Government agencies to inform risk profiles and noted challenges associated with data matching in the short term. The ANAO considers that the department has implemented the recommendation, noting that future opportunities may arise once all relevant state and territory data is transferred into the National Disability Insurance Scheme in 2020.

Monitoring, reviewing and reporting on the Disability Support Pension

17. Human Services and Social Services have performance measures which are partly effective in assessing the delivery of the DSP. The timeliness indicator for processing DSP claims is biased as it excludes claims with processing times over 84 days. The Key Performance Measures are partly relevant and reliable, but not complete. Further, there are no Key Performance Measures for some deliverables in the Bilateral Management Arrangement. The performance measures reported in the Human Services' and Social Services' Annual Performance Statements are not clearly linked to the Purpose/Outcome in each departments' Corporate Plan and Portfolio Budget Statement.

18. The inter-departmental Key Performance Measures have not been reviewed and revised since they were first agreed in 2014, and as such, Auditor-General recommendation 3(a) to develop a more complete set of external and internal performance measures for the DSP has not been implemented.

19. Human Services and Social Services evaluate changes to the DSP, appeal data and quality control results to assess effectiveness. Auditor-General recommendation 4(a), to increase the analysis of DSP data, has been implemented by both departments.

20. Human Services' and Social Services' evaluations have limited consideration of efficiency.¹ The two departments consult extensively internally and with each other, but may benefit from greater engagement with external stakeholders when evaluating the impact of policy and process changes to the DSP.

21. Social Services undertook an internal review of the Impairment Tables, which implemented Auditor-General recommendation no.4(b). Social Services also commissioned an evaluation of the 2015 changes to the DSP claims process which altered medical evidence requirements and introduced an assessment by Government-contracted doctors. The latter evaluation drew upon data from only the first nine months of implementation. Given the availability of an additional two years of data, it would be timely for Social Services to further review the impact of these changes, focusing on both effectiveness (including cost-effectiveness) and efficiency.

22. Human Services has initiated reviews and pilots to try and improve the speed and accuracy of DSP claim processing with some success. Further analysis is underway to identify opportunities for improvement across the DSP claims process.

23. Human Services and Social Services have implemented a consistent approach to the collection and publication of DSP data, through the Protocol for the Release of Social Security and Related Information. As such, the ANAO considers that recommendation 3(b) has been implemented.

24. Social Services provides a large amount of demographic data regarding DSP recipients on www.data.gov.au every quarter, but there is limited information in the public domain about the time taken to process applications and the outcomes of appeals.

Recommendations

Recommendation No.1 When transitioning to the DSP online claims process, Human Services should:

Paragraph 2.60

- (a) Review the effectiveness of all current communications channels for unsuccessful Disability Support Pension applicants and revise where necessary; and
- (b) Ensure the capability to monitor the quality and timeliness of the method by which unsuccessful Disability Support Pension applicants are advised of the decision.

Department of Human Services response: *Agreed.*

¹ The Australian Standard on Assurance Engagements (ASAE) 3500 defines the following terms:
Effectiveness: the extent to which the intended objectives at a program or entity level are achieved.
Efficiency: the minimisation of inputs employed to deliver the intended outputs, in terms of quality, quantity and timing.

Recommendation No.2
Paragraph 4.48 That the Departments of Human Services and Social Services review and revise the external and inter-departmental Key Performance Measures for the Disability Support Pension to ensure they are relevant, reliable, nonbiased and complete and clearly linked to the:

- (a) Key deliverables documented in the Bilateral Management Arrangement; and
- (b) Purpose and Outcome documented in each Departments' Corporate Plan and Portfolio Budget Statements.

Department of Human Services response: *Agreed with qualifications.*

Department of Social Services response: *Agreed.*

Recommendation No.3
Paragraph 4.71 That Social Services conduct a further review in 2019 of the efficacy of 2015 changes to the DSP claims process to require raw medical records or evidence and a Disability Medical Assessment by a Government-contracted Doctor. The review should include:

- (a) an assessment of both effectiveness (including cost-effectiveness) and efficiency; and
- (b) consultation with both internal and external stakeholders.

Department of Social Services response: *Agreed.*

Recommendation No. 4
Paragraph 4.94 That Human Services and Social Services work together to increase transparency of Disability Support Pension data, by consulting with external stakeholders about how publically available data could be enhanced. For example, by including the time taken to process Disability Support Pension applications and appeal rates.

Department of Human Services response: *Agreed.*

Department of Social Services response: *Agreed.*

Summary of entity responses

25. The Departments' summary responses are reproduced below. The full response from both entities is provided at Appendix 1.

Department of Human Services

The Department of Human Services (the Department) welcomes the ANAO's conclusion that the Department of Social Services and the Department use data and information from multiple sources to drive performance improvements to the Disability Support Pension program.

The report also recognises the work the Department has already undertaken to review and improve the Disability Support Pension claim process, supported by earlier audits and Parliamentary reports, and acknowledges the further work underway relating to Disability Support Pension.

The Department notes the ANAO's recommendations relating to inter-departmental and external performance measures and data. The department is committed to providing transparent performance information to key stakeholders, including partner agencies, the Australian community, and the Parliament. The department is also focussed on ensuring that performance measures are closely linked to the department's role in service delivery.

In relation to the department's external performance indicators, the department notes that there is no single external performance measure for its delivery of the Disability Support Pension. The department's performance measures are strategic level measures intended to capture the department's performance across the full suite of programs and payments it administers, and agreed in consultation with a range of stakeholders including partner agencies. Consequently it would not be consistent with the broader program structure to report on individual payments or programmes.

The Disability Support Pension is complex to administer. The audit does recommend some areas for improvement with which the department agrees.

Department of Social Services

The Department of Social Services (the department) welcomes the findings of the *Disability Support Pension – Follow-On Audit* (follow-on audit), including that the department uses data and information from multiple sources, including audit and parliamentary committee recommendations, to drive performance improvements to the Disability Support Pension (DSP) program.

The department agrees to the three recommendations of the follow-on audit relevant to its activities. The findings of the follow-on audit will inform work already underway to improve performance measures.

Key learnings for all Australian Government entities

26. Below is a summary of key learnings, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

Performance and impact measurement

- Reviews of administrative effectiveness are more meaningful when they draw upon complete and detailed analysis of program data.
- In evaluating the impact of program changes, consideration should be given to measuring both effectiveness and efficiency.
- Key Performance Measures should be clearly linked to the stated program purpose and comprehensive enough to measure all aspects of that purpose.
- Key Performance Measures should be revised and updated following major process changes that may impact the achievement of the measures.

Policy/program implementation

- For complex programs entities should develop detailed training and guidance materials. These should be regularly reviewed to ensure they are up to date. The design of mandatory staff training programs should include mechanisms for monitoring that staff have successfully completed the necessary training.

Recommendations from the ANAO and Parliament

- In considering recommendations made by external scrutiny bodies such as the ANAO and Parliamentary Committees, entities should endeavour to agree and implement a recommendation, or disagree and provide reasons as to why. Noting a recommendation does not provide clarity regarding the entity's intent with respect to the recommendation.
- Entities should ensure that there are processes in place to assure that a recommendation has been fully implemented before it is listed as complete and closed.

Joint Strike Fighter – Introduction into Service and Sustainment Planning

No.14 2018–19

Department of Defence

Background

1. The Department of Defence (Defence) anticipates the arrival in Australia of the first two of 72 F-35A Joint Strike Fighter (JSF) aircraft in December 2018. The JSF aircraft will replace the Royal Australian Air Force's ageing F/A-18 A/B Classic Hornet aircraft. Defence expects to declare final operational capability of its new JSF aircraft in 2023.

2. Defence has established multiple programs and projects to acquire, further develop, and support Australia's new air combat capability. The principal program is AIR 6000 and the primary phase, Phase 2A/2B, represents the major purchase of the JSF aircraft and associated support systems, and is the focus of this ANAO performance audit. The total acquisition budget for AIR 6000 Phase 2A/2B is some \$15.5 billion with government approving a further \$4.6 billion in 2014 for operating and support costs until 2024–25.¹

Rationale for undertaking the audit

3. The Auditor-General chose to undertake this audit into Defence's preparations for the JSF aircraft's introduction into Australian service and sustainment planning due to: the imminent arrival of the first two JSF aircraft in Australia; the high cost of the program; the JSF's particular acquisition and sustainment arrangements; and the anticipated contribution of the JSF aircraft to Australia's future Defence capability.²

Audit objective and criteria

4. The objective of the audit is to assess the effectiveness of the Department of Defence's preparations for the introduction of the Joint Strike Fighter into Australian service and its subsequent sustainment.

5. The high-level audit criteria are:

- Defence has established effective strategic planning and project governance arrangements; and
- Defence has undertaken effective planning, is achieving progress against relevant plans and effective risk management is occurring for selected capabilities.

¹ Department of Defence, submission to the Senate Standing Committee on Foreign Affairs, Defence and Trade Inquiry into the Planned Acquisition of the F-35 Lightning II Joint Strike Fighter, 26 February 2016, p. 5, paragraphs 25 and 27.

² Previously, the Auditor-General has examined the acquisition of JSF aircraft in Report No. 6 2012–13, *Management of Australia's F-35A Joint Strike Fighter Acquisition*. The JSF has also featured in the annual Defence Major Projects Report since 2010–11.

Conclusion

6. The Department of Defence's preparations to date for the introduction and sustainment of the Joint Strike Fighter (JSF) aircraft into Australian service have been effective with the exception of arrangements for sustainment of JSF aircraft under the Global Support Solution. JSF sustainment cannot be fully costed until the Global Support Solution further matures.

7. Defence has established effective strategic and project governance arrangements to date for the introduction of the JSF into Australian service and its sustainment. These arrangements include:

- plans addressing the transition from the Classic Hornets to the JSF;
- sustainment arrangements;
- infrastructure requirements;
- workforce planning and training;
- project governance arrangements and procedures for regular engagement with the international JSF Program; and
- procedures for regular monitoring and reporting on risk, cost and schedule to governance bodies, senior Defence leaders and Defence Ministers.

Defence has not, however, provided all of the annual updates to Government that Government required in its approval of the project.

8. Defence has undertaken effective planning for its JSF related infrastructure, workforce and training system, and is achieving progress against relevant plans. Defence has identified and managed risks relating to these operational enablers. Necessary works have been undertaken at the JSF's main base (Royal Australian Air Force Base Williamtown), but works at other bases have been deferred or delayed to manage pressures on the infrastructure budget.

9. Defence has planned for and made progress in implementing the arrangements for the ongoing sustainment of the JSF. The effective implementation of Defence's ongoing sustainment arrangements depends largely on the United States Department of Defense delivering the Global Support Solution, which is still maturing. Defence is managing risks associated with the developmental nature of the JSF supporting systems as well as cost pressures related to establishing Australia as a regional maintenance and warehousing hub for JSF aircraft.

Supporting findings

Governance and planning frameworks

10. Defence has developed an appropriate framework of plans, agreements and other documents, which establishes the Chief of Air Force's requirements for the JSF aircraft and the strategy for the introduction of the JSF aircraft into service and its sustainment.

11. The governance arrangements established by Defence for the Australian JSF Program are appropriate and informed by Defence's engagement in the international JSF Program. Defence has made changes to its project governance in response to review findings and changing circumstances. However, the JSF Strategic Advisory Board has not met quarterly as anticipated by its terms of reference.

12. Defence has implemented monitoring and reporting arrangements to inform its governance bodies, senior Defence leaders (civilian and military) and Defence Ministers about risks and issues, progress against schedule and costs associated with the Australian JSF Program. Defence advised the government that it had not consistently provided annual updates to government on the Australian JSF Program as directed and that it had committed \$266.3 million for materiel associated with JSF

aircraft procurement without first informing the Prime Minister and Minister for Finance (as required by the government).

Australian operational enablers – infrastructure, workforce and training

13. Defence has identified and progressed the preparation of infrastructure to support and sustain the JSF aircraft in Australian service. Defence has prioritised work at the JSF aircraft’s main operating base at Royal Australian Air Force Base Williamtown, to complete the necessary infrastructure works before the first two JSF aircraft arrive in Australia in December 2018. The infrastructure budget is under pressure, resulting in the deferral of some works and delays to works at other bases.

14. Defence has identified and planned for its JSF workforce and training requirements and is largely on track to deliver the JSF workforce and training system. Defence has allocated responsibilities for workforce generation and training to Defence’s Capability Acquisition and Sustainment Group and the Royal Australian Air Force. Defence records indicate that Defence is generating pilot and maintainer workforces at a rate that will support the operation of the initial Australian aircraft.

Sustainment

15. Defence plans to sustain its JSF aircraft largely through the United States Department of Defense’s Global Support Solution and is managing risks associated with the still developing Global Support Solution. Defence has signed a bilateral support agreement with the F-35 Joint Program Office.

16. Defence is monitoring and managing risks to effective sustainment of the JSF arising from the Global Support Solution including — the availability of spare parts, the development of the Autonomic Logistics Information System, and access to maintenance facilities. Defence is constrained in its ability to effectively manage some risks, including access to JSF spare parts due to limited global supply. Not all of the costs associated with Australia becoming a regional hub for JSF aircraft maintenance and warehousing were known by Defence when the project was approved in 2014. This is adding cost pressures to the project.

17. Defence does not expect to have a reliable estimate for whole-of-life sustainment costs for its JSF aircraft until after 2020.

The Department of Defence’s response to the audit

18. Defence has not provided a summary of its response to the audit.

Key messages from this audit for all Australian Government entities

19. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Commonwealth entities.

Governance and risk management

- Embedding an Australian presence in long-term, highly complex international joint initiatives can provide Australian decision makers with additional insights, and improve policy and program advice.
- Establishing and maintaining a project team that integrates relevant areas within the entity, and includes personnel with necessary skills and experience, can help mitigate risks involved in the planning and delivery of complex projects.

Policy/program implementation

- Identifying a senior responsible official for complex projects enhances program accountability.
- Early planning, particularly for complex programs, supports decision makers to identify and implement the most effective ways to achieve outcomes.

Human Services' Compliance Strategies
No.15 2018–19
Department of Human Services

Summary and recommendations

Background

1. The Department of Human Services (Human Services or the department) delivers Centrelink and Medicare payments to the community on behalf of the Australian Government and in accordance with legislation, government and entity policies. The Minister for Human Services, through the department, administers the *Human Services (Centrelink) Act 1997* and the *Human Services (Medicare) Act 1973*, except to the extent the Medicare Act is administered by the Minister for Health.
2. In 2017–18, the department administered \$171.9 billion in social and health related payments. Human Services is responsible for managing fraud and compliance programs to protect the integrity of those government outlays. The department's annual compliance strategies include identifying potential risks to payment accuracy and educating people about their obligations.

Rationale for undertaking the audit

3. The Australian National Audit Office (ANAO) selected Human Services' compliance strategies for audit because Human Services allocates significant resources each year to its compliance programs and activities for the Centrelink and Medicare programs. In 2017–18, the cost to the department of undertaking some 1.1 million fraud and compliance activities for both programs was about \$267 million. This audit assessed whether Human Services had effective high-level strategies in place to support compliance activities for the Centrelink program and the Medicare program for the three years from 2015–16 to 2017–18.

Audit objective and criteria

4. The audit objective was to assess whether Human Services has an effective high-level compliance strategy for administered payments made under the Centrelink and Medicare programs.
5. To form a conclusion against this objective, the ANAO adopted two high-level criteria:
 - Does a high-level strategy guide a coordinated program of compliance activities?
 - Does a high-level strategy support the conduct of compliance activities?

Conclusion

6. Human Services had an effective high-level compliance strategy for administered payments made under the Centrelink program, from 2015–16 to 2017–18, and for the Medicare program in 2016–17 and 2017–18.
7. A high-level strategy provided clear guidance for the department to implement a coordinated program of compliance activities for the Centrelink program from 2015 to 2018. The design of the strategy was well-informed by evidence, risk based, and adequately referenced the entity level risk management and fraud control frameworks. The strategy contained sufficient details about planned resourcing and governance arrangements to support the annual programs of

compliance activities that were conducted. The department's monitoring and reporting on the strategy's progress each year was adequate at the operational level in the business areas.

8. The design and refinement of a high-level strategy for the Medicare program provided clear guidance for Human Services to undertake a coordinated program of fraud control activities in 2016–17 and 2017–18. Medicare customer compliance activities undertaken by Human Services in 2015–16 were not included in the strategy. After 2015–16, the conduct of the strategy was supported in the next two years by adequate risk management and fraud control frameworks. The strategy in those two years also adequately identified the resourcing required to undertake fraud control activities and regularly monitored and reported on the outcomes from those activities.

Supporting findings

Compliance strategy for Centrelink payments

9. Human Services' design of the strategy provided clear guidance for the Centrelink program from 2015–16 to 2017–18. The strategy documented a high-level goal, related objectives and risk based activities to support their achievement. The strategy consistently identified the planned business as usual activities and determined that future strategies would also include the planned volumes of activities to be completed for Budget measures.

10. Human Services' development of the strategy during 2015–16 to 2017–18 was well-informed. Annual reviews of the strategy were based on identifying risks, assessing the controls in place to mitigate the risks, and determining the necessary volumes of activities. The reviews took into account evidence relevant to each step. Human Services consulted with a wide range of internal and external stakeholders to develop the strategy. The consultations were used to inform the department about current and emerging issues, potential treatments, and strategies for conducting compliance activities.

11. The strategy, combined with its supporting documents, contained adequate but high-level references to the department's risk management and fraud control frameworks. Future strategies could be improved by:

- explicitly stating the connection between the strategy and the department's risk management and fraud control frameworks; and
- explaining how the planned work, for both compliance and fraud control activities, would contribute to mitigating the department's strategic risk for payment integrity.

12. Human Services' strategy for the Centrelink program supports the conduct of and identified the resources required to conduct compliance interventions and fraud control activities from 2015–16 to 2017–18. The delivery of the strategy was supported by other key documents, such as more detailed risk management plans, governance and monitoring frameworks, guidelines and policies.

13. The department's monitoring and reporting on the strategy's progress from 2015–16 to 2017–18 was adequate at an operational level. The original and revised compliance activity targets were not achieved in any year indicating that the department would benefit from reviewing its performance targets annually. Aside from fraud control activities, departmental governance committees at the entity level were not provided with dedicated compliance performance reports from 2015–16 to 2017–18. Future public reporting should be expanded for Centrelink compliance activities, which would increase the transparency and accountability of compliance activities and outcomes.

Compliance strategy for Medicare payments

14. The 2015–16 strategy was not updated to include activities for Medicare customer compliance after machinery of government changes were made in 2015.¹ In 2016–17 and 2017–18, the strategy was updated and provided clear guidance for the conduct of fraud control activities for Medicare customer compliance. From 2015–16 to 2017–18, no activities were undertaken by Human Services for any of the 17 health and aged care programs that interacted with third party providers, as departmental responsibility was not resolved between Human Services and the Department of Health.

15. Human Services' development of a strategy for the Medicare program for 2016–17 was well-informed by reviews of past compliance activity, risk assessments and consulting with key stakeholders about fraud control. The strategy included activities for Medicare customer compliance that were developed in 2015–16. The 2016–17 strategy was then continued for 2017–18.

16. The strategy, in 2016–17 and 2017–18, adequately identified Human Services' enterprise risk management and fraud control frameworks as being relevant to the strategy. Similar to the compliance strategy for the Centrelink program, the strategy for the Medicare program could also have included a more explicit statement connecting the department's strategic risk for payment integrity and the fraud control activities that were completed in the two-year period.

17. Human Services' strategy for the Medicare program adequately identified the resources required to conduct fraud control activities for the program in 2016–17 and 2017–18 for customer compliance cases. In 2015–16, activities were not included for customer compliance cases and third party providers were not included in any of the three years.

18. After 2015–16, and the strategy was updated to include customer compliance activities, Human Services adequately monitored and reported on outcomes from the strategy for the next two years. Although, the monitoring and reporting requirements described in the strategy were not fully implemented in practice. The governance arrangements included management and operational level committees that held meetings only some of the time from 2016–17 to 2017–18, and not consistently through both years. The implementation of the strategy was supported by sufficiently detailed monitoring reports that were circulated regularly to the operational areas. The department regularly reported on fraud control activities conducted for the Medicare program to its strategic management committees and in its annual reports.

Recommendations

Recommendation no.1 That Human Services increase its public reporting, starting from 2018–19, of the compliance activities completed each year for the Centrelink program of administered payments.

Paragraph 2.61

Department of Human Services' response: *Agreed.*

¹ Human Services' strategy for managing the risk of fraud by patients making claims for payment under the Medicare program (referred to as 'Medicare customer compliance' by the department) focused solely on external fraud control activities.

Recommendation no.2 That, in 2018–19, Human Services:

Paragraph 3.16

- (a) finalise its negotiations with the Department of Health about the responsibility for third party provider compliance under the Medicare program;
- (b) confirm the risk profile and adequacy of existing controls for each health and aged care program for which it has responsibility, as part of the planned joint review with the Department of Health; and
- (c) complete sufficient compliance activities to support Human Services' compliance strategy for Medicare payments for which it has responsibility.

Department of Human Services' response: *Agreed.*

Summary of entity responses

19. The proposed report was provided to Human Services, which provided a summary response that is set out below. An extract from the proposed report was provided to the Department of Health.

Department of Human Services

The Department of Human Services (the department) welcomes the report, and notes the ANAO's conclusion that an effective high-level compliance strategy for administered payments is already in place. The department considers that implementation of both recommendations will further enhance the department's overall compliance strategies.

The department agrees with the ANAO's recommendations, and is committed to providing its partner agencies, the Australian Parliament and the community with transparent information about the department's performance in delivering its compliance outcomes. The department will review its public reporting on compliance outcomes and based on the review, make any changes to its external reporting on compliance.

The department also acknowledges the ANAO's finding regarding third party compliance activities for Medicare programmes. The departments of Health and Human Services have convened a working group to review third party compliance arrangements, and has made progress in resolving this issue.

Key messages from this audit for all Australian Government entities

20. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Australian Government entities.

Policy/program design

- When developing a strategy to ensure compliance, previous experience and data on where the biggest impact can be made by appropriately resourcing compliance activities should be used to design and develop the strategy. The compliance strategy should be linked to the entity's risk management and fraud control frameworks, be used to support and guide the conduct and allocation of resources, and outcomes from the strategy should be adequately monitored and reported.

Policy/program implementation

- When the government changes the way it is organised, which is referred to as machinery of government (MoG) changes, this results in alterations to entity functions. After MoG changes

are made, entities need to clarify any changes to their roles and responsibilities as quickly as possible to lessen the potential for disruption and to ensure the continuity of functions across departments. This is important for compliance and assurance activities, as well as policy and program areas.

- Reporting on compliance activities and outcomes that protect government outlays, and affect people and organisations in the community, should be transparent and accountable within the entity and to the Parliament and community.

Implementation of the Australian Government's Workplace Bargaining Framework No.16 2018–19

Australian Public Service Commission, Australian Sports Anti-Doping Authority, Commonwealth Superannuation Corporation, Department of Agriculture and Water Resources, Department of Foreign Affairs and Trade, Department of Human Services, Indigenous Business Australia

Background

1. Enterprise bargaining is the process of negotiating an agreement between employers and employees regarding employment conditions and remuneration. The *Fair Work Act 2009* (Fair Work Act) sets out the rules and obligations on how the negotiation process should occur, including rules about bargaining, the content of enterprise agreements, and how an agreement is made and approved.
2. Workplace bargaining at the entity level in the Australian Public Service (APS) was first introduced in 1993 by the government through the *Industrial Relations Reform Act 1993*. This allowed each entity to have pay and conditions specific to the work performed. The APS returned to a centralised, whole of APS, agreement with the *Continuous Improvement in the Australian Public Service Enterprise Agreement: 1995–96: Agreement Between the Commonwealth Government and the Public Sector Unions*. The Government reintroduced entity based bargaining for the APS at the conclusion of that agreement in 1996 and has continued to negotiate remuneration and conditions at the entity level since.

The 2014 and 2015 Enterprise Bargaining Frameworks

3. In March 2014 the Government released the *Australian Government Public Sector Workplace Bargaining Policy* (2014 policy).¹ The 2014 policy outlined a number of conditions that entities were expected to comply with when negotiating their enterprise agreements, including:
 - remuneration increases to be offset by genuine productivity gains;
 - remuneration increases to be affordable and funded from existing and known entity budgets without the redirection of program funding, a reduction of services or outputs, or increases in fees for services;
 - remuneration increases to apply prospectively and not include any sign on bonuses;
 - core APS terms and conditions of employment not be enhanced without Ministerial approval;
 - agreements to include the model consultation clause established in the *Fair Work Regulations 2009*; and
 - entities were not to expand on the right of entry provisions set out in the *Fair Work Act 2009*.
4. The 2014 policy introduced the requirement for all entities to detail their proposed productivity improvements and for them to be approved by the Australian Public Service

¹ This policy superseded the previous 2011 bargaining policy.

Commissioner, and the Department of Finance where required, prior to any proposed remuneration increases being offered to employees.²

5. In October 2015, a revised *Workplace Bargaining Policy 2015* (2015 policy) was released. The 2015 policy retained most of the requirements of the 2014 policy, but introduced a remuneration cap of two per cent annually on average. The intent of the 2015 policy changed to enable all productivity requirements to be achieved through the removal of restrictive work practices. Entities were still encouraged to implement other productivity improvements to support more efficient operations, either within or outside of the workplace arrangement. Additionally, accountable authorities were required to provide only an estimate of the cost of the agreement including remuneration and allowance increases. Accountable authorities were no longer required to provide detailed information on the productivity offsets to the Australian Public Service Commissioner for approval, but were required to sign a declaration that the entity had sufficient productivity improvements to fund the proposed remuneration increase.³

6. Agencies and the Australian Public Service Commission (APSC) were to work together to develop agreements that were consistent with the policies. Both the 2014 and 2015 workplace bargaining policies outlined the responsibility of the accountable authority to ensure that their entity complied with the bargaining policy. The APSC has responsibility for the administration of workplace bargaining policies, including the 2014 and 2015 policies. In addition, the APSC also has responsibility for providing support and guidance to entities to develop enterprise agreements compliant with the bargaining policies. Under both the 2014 and 2015 policies, the APSC approved draft agreements prior to them being provided to employees to vote on. Under the 2014 policy, the APSC also approved proposed productivity improvements in consultation with the Department of Finance.

Rationale for undertaking the audit

7. Enterprise agreements apply to around 98 per cent of APS employees. To support the significant cost associated with remuneration increases negotiated as part of enterprise agreements (estimated at around \$1.6 billion over three years), the 2014 and 2015 Workplace Bargaining Frameworks were expected to deliver wage increases based on productivity improvements rather than increased costs to taxpayers or reduced service delivery. There has also been Parliamentary and stakeholder interest in the effectiveness of the frameworks in delivering consistent agreements and productivity improvements, as well as compliance with the bargaining policies. The audit also aimed to identify lessons learned that could be used to inform the implementation of future bargaining frameworks.

Selected entities

8. In conducting the audit, the ANAO examined the implementation of the 2014 and 2015 bargaining policies by seven entities: APSC, Australian Sports Anti-Doping Authority (ASADA),

² Under previous bargaining policies, only entities requesting an average wage increase above three per cent were required to provide additional evidence of their productivity improvements to support the increased remuneration.

³ In February 2018, the Government introduced the Workplace Bargaining Policy 2018. Any entity that had not reached an agreement with its employees under either the 2014 or 2015 policy were required to negotiate their agreement under the terms of the 2018 policy. This audit did not examine the 2018 policy.

ComSuper⁴, Department of Agriculture and Water Resources (DAWR), Department of Foreign Affairs and Trade (DFAT), Department of Human Services (Human Services), and Indigenous Business Australia (IBA). These entities were selected to provide a mix of entities according to size, function and the bargaining policy that they reached agreement under.

Audit objective and criteria

9. The objective of the audit was to assess the Australian Public Service Commission's and selected entities' implementation of the Australian Government's Workplace Bargaining Framework.

10. To form a conclusion against the audit objective, the ANAO adopted the following high level criteria:

- Does the APSC have effective arrangements in place to support the implementation of the workplace bargaining framework?
- Have selected entities implemented the workplace bargaining framework effectively?
- Have selected entities developed and monitored productivity improvements appropriately?

11. The audit did not assess the compliance of the approved enterprise agreements for the selected entities against all aspects of the relevant workplace bargaining policies.

Conclusion

12. The Australian Public Service Commission and selected entities largely implemented the required processes in the 2014 and 2015 bargaining policies, except some entities implemented arrangements that are inconsistent with the intent of the policies and there is limited transparency of productivity gains and compliance at a whole-of-service level.

13. The Australian Public Service Commission (APSC) designed effective arrangements to support the implementation of the 2014 and 2015 enterprise bargaining frameworks, except it could not demonstrate that it implemented effective quality assurance processes to ensure the consistent assessment of agreements. The government does not require the APSC to monitor entities implementation of the bargaining policies, limiting the visibility of compliance at a whole-of-service level. Two of the selected entities implemented arrangements outside their enterprise agreements that are inconsistent with the intent of the bargaining policies.

14. The development of governance and communication arrangements by selected entities were largely appropriate, although no entity established a complete set of governance and communication arrangements.

15. The documented evidence base regarding the source of funds to pay for remuneration increases reduced once the requirement to have productivity measures approved by the APSC was removed. There is currently no requirement for entities or the APSC to monitor and report on either the achievement of identified productivity measures, or sources of funding for remuneration increases, limiting the transparency of productivity gains (including from the removal of restrictive work practices).

⁴ ComSuper was merged into the Commonwealth Superannuation Corporation (CSC) as part of a statutory change on 1 July 2015. The enterprise agreement reviewed as part of this audit was completed by the now abolished ComSuper, however at the time of this audit, CSC continues to employ around 300 staff that are covered by the ComSuper enterprise agreement. Given the change, the analysis of ComSuper's implementation of the policy is based on documentary evidence provided by CSC.

Supporting findings

16. The APSC provided a range of guidance and support mechanisms to assist entities in developing their agreements.

17. The APSC developed a process to assess proposed agreements which included elements such as checklists, consultation with subject matter experts and peer reviews. However, the APSC could not demonstrate that these processes were regularly implemented to support a consistent assessment of agreements over time for each entity. In addition, the APSC did not demonstrate that it developed or implemented a process to support the consistency of assessments between entities.

18. The APSC has undertaken regular reporting to its minister on enterprise bargaining matters, such as the number of agreements reached and to highlight difficulties encountered by entities in reaching agreement with staff. The absence of a government requirement to monitor and report on the implementation of the framework, including whether entities implemented identified productivity savings, redirected program funds or lowered services, limits the visibility of and accountability for key aspects of the 2014 and 2015 bargaining policies. Additionally, two of the selected entities implemented arrangements outside their enterprise agreements that are inconsistent with the intent of the bargaining policies and limited advice on this was provided to the government by either the APSC or the entities involved.

19. The completeness of the governance arrangements established to support the implementation of the bargaining policies varied. All selected entities established a bargaining team, with four of the seven entities commencing bargaining prior to the expiration of their previous enterprise agreement. Three entities developed complete implementation plans. None of the selected entities completed all steps of developing, documenting, and actively updating risk management arrangements, although selected entities advised that risk management arrangements were often managed as part of business as usual arrangements.

20. All selected entities developed a communications strategy at some point during their bargaining process to inform staff of the impact of a yes or no outcome for their respective enterprise agreements.

21. Four of the seven selected entities did not fully quantify or document the productivity offsets used to fund remuneration increases, and the level of documentation reduced once the requirement to have detailed productivity measures approved by the APSC was removed. The ANAO was not provided with evidence to demonstrate that any entities provided explicit documented assurance to their accountable authorities that remuneration increases would be funded without the re-direction of program funding, a reduction of services or outputs, or increases in fees for services and products. Selected entities undertook limited monitoring of the extent to which specific productivity measures achieved the envisaged savings.

Recommendations

Recommendation no.1 That the APSC strengthen, fully implement and document their quality assurance processes to support the consistent assessment of agreements over time and between entities.
Paragraph 2.20

Australian Public Service Commission response: *Agreed.*

Recommendation no.2 That for future bargaining rounds, all selected entities establish key governance arrangements such as implementation plans, communication plans and risk management documentation prior to the commencement of bargaining activities and actively use these throughout the process.
Paragraph 3.15

Australian Public Service Commission response: *Agreed.*

Australian Sports Anti-Doping Authority response: *Agreed.*

Department of Agriculture and Water Resources response: *Agreed.*

Department of Foreign Affairs and Trade response: *Agreed.*

Department of Human Services response: *Agreed.*

Indigenous Business Australia response: *Agreed.*

Summary of entity responses

22. Summary responses from selected entities are provided below. CSC did not provide a response to the report or Recommendation No.2.

Australian Public Service Commission

The APSC notes the report's conclusion that the APSC, as the agency responsible for the administration of workplace bargaining policies, designed effective arrangements to support implementation of the 2014 and 2015 policies across the Commonwealth. It also notes in terms of its own bargaining, that governance and communication arrangements were largely appropriate, with management of risk being the main area for improvement.

The APSC accepts the findings of the ANAO report and has already made improvements to its existing quality assurance processes.

Australian Sports Anti-Doping Authority

ASADA was provided with a copy of the proposed audit report for comment. A summary of the Agency's response is below and the full response is at Appendix 1.

ASADA agrees with the ANAO's recommendation to agencies included in the audit, and specific areas of improvement for ASADA. The agency acknowledges that there are a number of areas that it needs to focus on in relation to future bargaining rounds.

Department of Agriculture and Water Resources

The department welcomes the audit's overall conclusions and findings. The department is pleased that the ANAO found that overall its implementation of the Government's Workplace Bargaining Framework was broadly effective and that appropriate governance arrangements were established.

The department agrees with the recommendation directed to the department to ensure that for future bargaining rounds, entities establish key governance arrangements such as

implementation plans, communication plans and risk management documentation prior to the commencement of bargaining activities and actively use these throughout the process.

Department of Foreign Affairs and Trade

The Department of Foreign Affairs and Trade acknowledged and agrees with the findings in the audit report. The audit process was a valuable exercise and the feedback provided by the ANAO will assist DFAT to strengthen governance arrangements during future Enterprise Agreement bargaining processes.

Department of Human Services

The Department of Human Services (the department) acknowledges the report and will continue to ensure it remains compliant with the relevant workplace bargaining policies during future bargaining rounds.

The department agrees with recommendation two (noting that recommendation one applies specifically to the APSC) and will ensure key governance arrangements are again established for future bargaining rounds.

The department notes the ANAO's position that accountable authorities may have benefited from more detailed documentation on proposed remuneration increases when developing new enterprise agreements. The department's view remains that, over the course of its extended bargaining process, the then Accountable Authority was provided with sufficient information to meet the requirements under the workplace bargaining framework.

With respect to the ANAO's commentary on the use of supplementary arrangements, the department notes that there was no requirement to obtain the APSC's approval for these arrangements. Notwithstanding this, the department voluntarily provided copies of draft protocols to the APSC for comment and made all requested changes prior to finalisation. On this basis, the department maintains that the protocols it put in place alongside the enterprise agreement are appropriate and consistent with the intent of the applicable bargaining policy.

Indigenous Business Australia

Indigenous Business Australia's (IBA's) involvement in this Audit has been a useful precursor for the planning of a new enterprise agreement.

IBA notes the ANAO's conclusion which is drawn from a sample of seven micro to extra-large entities with a wide range of resources, funding arrangements and purposes. IBA, a small Corporate Commonwealth entity, will utilise fit for purpose implementation, project and communications plans and risk management documentation in its planning for a new enterprise agreement and these will be actively used throughout the process.

Key messages for all Australian Government entities

23. Below is a summary of key messages, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

Performance and impact measurement

- When seeking accountable authority approval for remuneration increases, entities should ensure that this is supported by sufficient evidence to provide assurance that the costs of the enterprise agreement can be met within existing departmental resources without negatively reducing performance.

Records management

- Sound record keeping, including documented rationales for key decisions, can assist in providing transparency and accountability of decision making. This is of particular importance for re-occurring activities, such as the negotiation of enterprise agreements, to provide consistency in assessments, as well as providing future bargaining teams with a solid basis to undertake bargaining activities.

Governance

- When negotiating future enterprise agreements, entities may benefit from adopting more structured governance arrangements, such as those used for other projects, including development of dedicated implementation plans, communication strategies and risk management systems.

Implementation of the Annual Performance Statements Requirements 2017-18 No.17 2018–19

Department of Foreign Affairs and Trade
Department of Prime Minister and Cabinet
Department of Education and Training
Attorney–General’s Department

Summary and recommendations

Background

1. The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) provides the basis for the Commonwealth performance framework (the framework). The framework consists of the PGPA Act, the accompanying Public Governance, Performance and Accountability Rule 2015 (PGPA Rule) and guidance issued by the Department of Finance (Finance). It is principles-based and requires entities to publish planned performance information, to allow an assessment of entities’ progress against their purposes when reported at year-end.
2. The *Independent review into the operation of the Public Governance Performance and Accountability Act 2013 and Rule* (PGPA Review), commissioned by the Minister for Finance, notes:

Citizens have a right to know how their money is used and what difference that is making to their community and the nation - what outcomes are being achieved, how, and at what price.
3. By requiring Commonwealth entities to publish planned financial and non-financial performance information, the framework aims to provide more transparent and meaningful information to the Parliament and the public. There are three key accountability documents produced by entities under the framework:
 - Portfolio Budget Statements (PBS) — the primary financial planning document;
 - Corporate Plans — the primary non-financial planning document; and
 - Annual Reports, incorporating financial statements and Annual Performance Statements (performance statements), which publish the financial and non-financial results achieved by entities.
4. The PBS and corporate plan set out an entity’s planned financial, and non-financial, performance. This information is used by the Parliament and the public to form an expectation of the entity’s performance in current and future reporting periods. Performance statements then set out an entity’s assessment of the extent to which it has progressed in achieving the purposes set out in the PBS and corporate plan. This enables the Parliament and the public to assess an entity’s actual performance, against the expectation formed from the information set out in PBS and corporate plan.
5. Alignment between the information presented in all three documents is intended to improve the line of sight between the use of public resources and the results achieved by entities. The importance of establishing this ‘clear read’, to enhance the transparency and meaningfulness of information presented to the Parliament and the public, has been emphasised by Finance and the Joint Committee of Public Accounts and Audit (JCPAA).

6. The appropriateness of the performance criteria presented by entities in the PBSs¹, corporate plans and performance statements², is also critical to fulfilling the transparency and meaningfulness aims of the framework. Criteria that set a minimum standard for the quality of performance information are not defined in the PGPA Act or Rule, however Finance has provided guidance to entities on the characteristics of 'good' performance information — relevant, reliable and complete. The guidance also includes other issues entities may consider in developing 'good' performance information (refer to Appendix 4).³ The PGPA Review notes that 'We believe entities should have clear criteria to guide the development of performance information' and has recommended the PGPA Rule be amended to specify a minimum standard for entity performance reporting.⁴

7. In the absence of formal criteria in the PGPA Act or Rule, the ANAO drew on Finance's guidance, and other relevant reference points⁵, in the development of an audit criteria for assessment of the appropriateness of performance information. This criteria can be found at Appendix 5 and has been used in the ANAO's audits of entity performance statements to date.

Rationale for undertaking the audit

8. The PGPA Act commenced on 1 July 2014, and entities were required to present their first corporate plans and performance statements from 1 July 2015.⁶ July 2018 marked the commencement of the fourth year of Commonwealth entities' implementation of the framework, and October 2018 the conclusion of the third performance measurement and reporting cycle.

9. As noted by the JCPAA, the framework 'seeks to improve public sector performance information to strengthen accountability'.⁷ Observations from previous audits of entities' performance statements, and recommendations from the JCPAA, indicate the need for sustained attention in this area to meet this aim, particularly with regard to:

- the development of performance measures that are relevant, reliable and complete;
- the provision of meaningful information to the Parliament to demonstrate progress against an entity's purpose and meet the requirements, and the objects, of the PGPA Act;
- consideration of an entity's efficiency in meeting its purpose; and

¹ An entity's PBS is required to include a strategically focussed set of high-level performance criteria for existing programs, and all performance criteria for new or materially changed programs.

² All performance criteria set out in an entity's PBS and corporate plan must be reported in the performance statements.

³ Department of Finance, *Quick Reference Guide – RMG 131 Developing good performance information*, September 2016.

⁴ Finance and the ANAO have commenced discussions in response to this recommendation. Recommendation 3, E Alexander and D Thodey, *Public Governance, Performance and Accountability Act 2013 and Rule: Independent Review*, pp. 11–13. September 2018.

⁵ These reference points included: the *Framework for Assurance Engagements*, and the Australian Standards on Assurance Engagements 3000 and 3500, issued by the Australian Auditing and Assurance Standards Board; frameworks for conducting audits of performance information of national and international public sector audit organisations, including the Offices of the Auditor General for Western Australia and the Auditor-General of New Zealand; and the *Framework for the Preparation and Presentation of Financial Statements* issued by the Australian Accounting Standards Board.

⁶ The *Public Governance, Performance and Accountability (Consequential and Transitional Provisions) Act 2014*, delayed the implementation of those sections of the PGPA Act requiring the preparation of corporate plans and performance statements by entities to the reporting period commencing on or after 1 July 2015.

⁷ Joint Committee of Public Accounts and Audit, *Report 469: Commonwealth Performance Framework, Inquiry based on Auditor-General's Reports 31 (2015–16), and 6 and 58 (2016–17)*, p. 19.

- review by audit committees of their accountable authority's performance reporting.
10. This performance audit is the ANAO's third audit of entities' progress in the implementation of framework. Given the time elapsed, entities should have fully embedded the principles into their organisational processes, to support the presentation of meaningful performance information to the Parliament and the public.
11. The ANAO's continuing focus in this area is expected to assist in keeping the Parliament, the government, and the public informed on implementation of the framework and to provide insights to entities to encourage improved performance.
12. To date, the ANAO's audits of performance statements have considered entities who focus on program-delivery, and the use of quantitative measures was more prevalent. In contrast, the entities selected for this audit are more focused on policy development, coordination and leadership. These types of activities typically generate more qualitative, than quantitative, information.

Audit objective and criteria

13. The objective of the audit was to continue to examine the progress of the implementation of the performance statements requirements under the PGPA Act and the PGPA Rule by the:
- Attorney-General's Department (AGD);
 - Department of Education and Training (Education);
 - Department of Foreign Affairs and Trade (DFAT); and
 - Department of the Prime Minister and Cabinet (PM&C).
14. The audit was also designed to:
- provide insights to entities more broadly, to encourage improved performance; and
 - continue the development of the ANAO's methodology to support the possible future implementation of annual audits of performance statements.
15. To form a view against the audit objective, the following high level criteria were adopted:
- entities complied with the requirements of the PGPA Act and PGPA Rule;
 - the performance criteria presented in the selected entities' PBSs, corporate plans and performance statements were appropriate; and
 - entities had effective supporting frameworks to develop, gather, assess, monitor, assure and report performance information.

Conclusion

16. There has been improvement over time in the entities' performance statements, and all largely comply with the requirements of the PGPA Act and accompanying PGPA Rule to publish performance information. However, the information presented in the performance statements continues to fall short of fully meeting the object⁸ of the PGPA Act — to provide the Parliament and the public with meaningful information.
17. In this report, all of the entities met the requirement to prepare, and table in Parliament, performance statements under section 39 of the PGPA Act. The entities' performance statements also demonstrated the principles of 'plain English and clear design'. However, the clear acquittal of results

⁸ The objects of the *Public Governance, Performance and Accountability Act 2013*, include subsection 5(c)(ii) that requires entities 'to provide meaningful information to the Parliament and the public'.

against performance criteria presented in the PBS, and the presentation of more meaningful analysis, are areas requiring improvement by entities.

18. The selected entities' measurement and reporting of their performance through corporate plans and performance statements has generally improved. However, the reliability and completeness of performance criteria remain areas requiring improvement by all entities. While some improvements are already evident in the selected entities' 2018–19 Corporate Plans, further work is necessary to establish the basis required to provide meaningful information to the Parliament and the public about the entities' progress in achievement of their purposes.

19. Each of the entities' processes to collect, assess, assure and report performance information were largely effective. However, there are opportunities for these processes to further mature. AGD, Education and PM&C's performance statements accurately present their performance. However, the ANAO is unable to conclude whether, for Priority Functions 1 and 2, DFAT's performance statements accurately present its performance. Notwithstanding, all of the selected entities retained sufficient records to support the results presented in the performance statements.

Supporting findings

Compliance with the PGPA Act

20. All of the entities met the requirement to prepare and table performance statements under section 39 of the PGPA Act. Each entity's performance statements also contained the required elements (statements, results and analysis) set out in section 16F of the PGPA Rule. However, AGD and DFAT's performance statements did not clearly present results against all of the performance criteria presented in their 2017–18 PBSs. In addition, the analysis presented by all four entities requires improvement to meet the Rule, and provide meaningful information to support the Parliament and the public's assessment of the entities' performance.

21. Each entity's performance statements are structured to support a reader's understanding of the content, demonstrating the characteristics of 'plain English and clear design' under the annual reporting requirements.⁹ However, as noted earlier, the need for clearer alignment between the results presented by entities in the performance statements and the original measures, and improving the quality of analysis remain areas for improvement.¹⁰

Measurement and reporting of performance

22. AGD's corporate plan provides a clear basis to support its performance measurement and reporting by clearly expressing its purpose, and significant activities. DFAT, Education and PM&C could each improve their corporate plans by more clearly describing the activities to be undertaken to achieve their purpose/s. PM&C should relabel its mission as its purpose, and the stated purposes as objectives or priorities, to make clear to a user the impact intended to be measured. Establishing a 'clear read' between the PBS and corporate plan is also an area where AGD, DFAT and PM&C should improve, to support performance measurement and reporting in the performance statements.

23. Each of the entities' performance criteria require improvement to fully meet the characteristics of appropriateness — relevant, reliable and complete. The majority of performance criteria were relevant, or mostly relevant, however the majority did not meet, or only partly met, the

⁹ Section 17BD, Public Governance, Performance and Accountability Rule 2015.

¹⁰ 'An annual report should: be written in plain English and provide sufficient information and analysis for the Parliament to make a fully informed judgment on entity performance...', Department of Finance, *Resource Management Guide No. 136: Annual reporting for Commonwealth entities*, May 2018, p.6.

reliability criterion. The completeness of performance criteria also requires improvement by all entities through developing measures of efficiency, and demonstrating an entity's intended progress across the life of the corporate plan and beyond.

24. PM&C's 2018–19 Corporate Plan provides the Parliament and the public with limited insight into how the department intends to measure its performance compared to the 2017–18 Corporate Plan. The remaining entities have made changes to their 2018–19 corporate plans which provide an improved basis for performance measurement and reporting. However, Education would benefit from reintroducing activities to its 2018–19 Corporate Plan that describe what the department does, or intends to do.

Systems and processes to support measurement and reporting of performance

25. The entities' processes to inform the coordination and collation of the performance statements were effective. There are opportunities for these processes to further mature, focusing in particular on the quality and meaningfulness of regular internal reporting and monitoring of performance information to support decision making.

26. AGD, Education and PM&C's systems and methodologies to collect and report performance information were largely effective. DFAT's sole reliance on case studies and reviews selected ex-post as its performance criteria impacted the department's development and/or documentation of effective systems and methodologies to support its performance reporting for Priority Functions 1 and 2.

27. All four entities had processes to obtain assurance over their performance statements. The observations made in other sections of this report in regard to the entities' compliance with the PGPA Rule, and the appropriateness of measures, systems and methodologies indicate that there is still some way to go in the maturity of these processes.

28. AGD, Education and PM&C's 2017–18 Performance Statements accurately present their performance. The ANAO is unable to conclude whether, for Priority Functions 1 and 2, DFAT's performance statements meets this requirement, as the department's sole reliance on case studies does not provide a complete basis for this assessment. Notwithstanding, DFAT and the other selected entities retained sufficient records to support the results presented in the performance statements.

Recommendations

Recommendation no. 1
Paragraph 2.31 Entities improve the analysis presented in their performance statements to ensure a reader understands the connection between the results presented, the internal or external environmental influences that affected those results, and how these informed the entities' assessment of progress against their purpose.

Attorney-General's Department response: *Agreed.*

Department of Education and Training response: *Agreed.*

Department of Foreign Affairs and Trade response: *Agreed.*

Department of the Prime Minister and Cabinet response: *Agreed.*

Recommendation no.2
Paragraph 3.60 Entities improve the reliability of performance measures presented in their PBSs and corporate plans, by providing the Parliament and the public with information on the information sources and methodologies intended to be used to measure their performance. This information should be sufficient to enable a reader to make an assessment of the reliability of those methods, and develop an understanding of the intended result.

Attorney-General's Department response: *Agreed.*

Department of Education and Training response: *Agreed.*

Department of Foreign Affairs and Trade response: *Agreed.*

Department of the Prime Minister and Cabinet response: *Agreed.*

Recommendation no.3
Paragraph 3.88 Entities review their performance measurement and reporting frameworks to develop measures that also provide the Parliament and public with an understanding of their efficiency in delivering their purposes.

Attorney-General's Department response: *Agreed with qualification.*

Department of Education and Training response: *Agreed.*

Department of Foreign Affairs and Trade response: *Agreed with qualification.*

Department of the Prime Minister and Cabinet response: *Agreed with qualification.*

Summary of entity responses

29. Summary responses from the selected entities are provided below, while the full responses are provided at Appendix 1.

Attorney-General's Department

I welcome the report and acknowledge the recommendations made to support the presentation of meaningful performance information to the Parliament and the public. Involvement in the Audit provided AGD with invaluable insights to enhance our 2018–22 Corporate Plan and future annual performance statements.

We generally support the findings of the report, but note there are challenges in addressing recommendation 3.

I would like to express the thanks of the Attorney-General's Department to your staff for the professional and collegiate manner in which this audit was conducted. We are committed to ongoing improvement in this area.

Department of Education and Training

The Department of Education and Training welcomes the audit's findings in relation to strength of its systems and processes for performance reporting. The department notes and agrees with the areas for improvement articulated in the three recommendations and will continue to strengthen its measurement and reporting of performance in line with the broader findings of the audit. The findings highlighted in the ANAO audit will help contribute to strengthening the department's approach to its 2019–20 performance framework and 2018–19 annual performance statements.

Department of Foreign Affairs and Trade

The Department of Foreign Affairs and Trade (DFAT) welcomes the majority of ANAO's observations, which mirror our own self-assessments and represent areas we are working to strengthen.

DFAT continues to benefit from the principles-based approach of the PGPA Act and its emphasis on performance and utility over compliance. We have embarked on an ambitious reform program of performance planning and monitoring. We note that the ANAO acknowledged some of our early gains, including the enhanced 2018-2019 Corporate Plan, the new quarterly performance report process, and improvements to overall performance information. We will continue to work to align the portfolio budget statements and corporate plan.

DFAT notes the challenges the Australian Public Service – as well as state and international entities – face in designing measures and methodologies for policy performance. That said, the department is determined to make further progress and will work across government to identify improvements. We would welcome guidance and identification of good practice examples.

DFAT reiterates its support for the ANAO's live audit process. We will separately provide the ANAO with suggestions on how to further improve the process, with a particular focus on the provision of timely guidance and feedback.

Department of the Prime Minister and Cabinet

The Department of the Prime Minister and Cabinet (PM&C) welcomes the report's findings that the results presented by PM&C against each measure are supported by appropriate records, and accurately present PM&C's performance. I also appreciate the positive comments in relation to the structure of the performance statement meeting readers' needs, and the use of internal audit to improve performance statement processes.

As part of continuous improvement, PM&C has already put improved processes in place for the selection and monitoring of the 2018–19 performance measures, involving Deputy Secretary sign-off and regular performance reporting to the Executive Board.

Department of Finance

The Department of Finance (Finance) notes the audit findings and supports the three recommendations of the report.

Finance is committed to continuing to work closely with the ANAO and the Joint Committee of Public Accounts and Audit to help improve the quality of performance reporting. The audit's findings and recommendations are an important input to this process.

Key messages for all Australian Government entities

30. The key learnings summarised in Auditor-General's Reports No.58 2016–17 *Implementation of the Annual Performance Statements Requirements 2015–16* and No.33 2017–18 *Implementation of the Annual Performance Statements Requirements 2016–17* remain valid reference points for entities seeking to improve their performance measurement and reporting.

31. Below is a summary of key messages which have been identified in this audit and may be relevant for the operations of other Commonwealth entities.

Performance and impact measurement

- Case studies may be used in different ways to support an entity's performance measurement and reporting frameworks. The processes underpinning the identification and development of the case studies will influence how they may be used.
For example:
 - Case studies that are the result of a planned assessment of an agreed objective or outcome, have a defined scope, parameters and timeframes, and are underpinned by valid and contemporaneous methodological and quality assurance frameworks may be used to demonstrate performance against that objective or outcome.
 - Case studies selected ex-post should not be relied upon as the sole demonstration of a particular objective and/or outcome. This is due to the potential for bias introduced through the identification and/or selection process. Case studies of this nature may instead be used to provide context in support of other demonstrable performance outcomes.
- Meaningful analysis of an entity's performance in its performance statements should provide an assessment of the entity's overall progress against its purpose. This can be achieved by explaining for a reader the connection between the results presented, the internal or external environmental influences that affected those results, and how these informed the entity's assessment of progress against their purpose.
- Corporate plans and performance statements are designed to be external accountability documents. As such, the language used, and information presented in those documents, should be expressed in way that can be easily understood by the Parliament and the public. An entity's desire to 'operationalise' the corporate plan as an internal planning document should not override this aim.

**Administration of the Renewable Energy Target
No.18 2018-19
Clean Energy Regulator**

Background

1. The Renewable Energy Target was introduced in 2001, through the *Renewable Energy (Electricity) Act 2000* (the Act), to encourage additional generation of electricity from sustainable and renewable resources and reduce greenhouse gas emissions in the electricity sector (section 3 of the Act). The Act does this by creating a market for renewable energy certificates, to drive investment in renewable energy. On the supply side of the market, participants in the Renewable Energy Target scheme (the scheme) create certificates for each megawatt hour of renewable energy generated or displaced (no longer required from the electricity grid). On the demand side, electricity retailers source these certificates to meet their share of renewable energy in proportion to the total electricity sold to their customers.
2. In January 2011, the Renewable Energy Target was split into the Large-Scale Renewable Energy Target (LRET) — the establishment or expansion of renewable power stations — and the Small-scale Renewable Energy Scheme (SRES) — the installation of small generation units (primarily solar photovoltaic systems) and solar water heaters/air source heat pumps. In January 2018, the Minister for Energy announced that the legislated LRET target of 33,000 gigawatt hours of additional electricity from renewable energy sources by 2020 would be achieved.
3. In administering the scheme, the Clean Energy Regulator (the regulator) validates scheme participants' creation, and monitors electricity retailers' surrendering, of renewable energy certificates. The Clean Energy Council has a co-regulatory role under the scheme to maintain a list of approved components for solar photovoltaic systems and to accredit designers and installers of solar photovoltaic systems. The regulator engages with other state and territory regulatory agencies and industry peak bodies (including the Smart Energy Council and Master Electricians Australia).

Creation and validation of renewable energy certificates

4. Participants in LRET must first have their large-scale renewable energy power stations accredited under the scheme by the regulator before being able to create large-scale generation certificates. A total of 711 power stations were accredited over the period from 2001 to 2017, with a further 433 power stations projected to be accredited in 2018.
5. Between 2011 and 2017, the regulator validated an average of 16.2 million large-scale generation certificates created each year for electricity generated from accredited renewable energy power stations. The quantity of certificates validated in 2018 is projected to increase to 24 million.
6. SRES participants, or their assigned agents¹, can create small-scale technology certificates for up to 12 months after the date small-scale systems are installed. The regulator validates the small-scale technology certificates created within the Renewable Energy Certificate (REC) Registry — a secure system for creating, surrendering and trading renewable energy certificates.

¹ System owners often assign their right to create small-scale technology certificates to agents when entering into system purchase arrangements.

7. Since 2011, an average of about 286,500 small-scale systems have been installed each year involving the creation of over 210.5 million small-scale technology certificates in total over the period from 2011 to 2018.

Surrender of certificates by liable entities

8. Liable entities are wholesale purchasers of electricity, mainly electricity retailers that are the first to acquire electricity in a grid with an installed capacity of 100 megawatts or more. The legislation provides for liable entities to surrender a certain number of large-scale generation certificates and small-scale technology certificates in proportion to the amount of electricity (less exemptions) they acquire during the year.

9. The proportions applicable to all liable entities (the renewable power percentage under LRET and small-scale technology percentage under SRES) are determined annually by the Minister, a year in advance. Liable entities that do not surrender enough certificates are required to pay a shortfall charge of \$65 (non-tax deductible) for each certificate not surrendered.² Adherence with certificate surrender obligations has remained high under SRES, but less so under LRET. Since 2016, a small number of liable entities have decided to pay significant shortfall charges in preference to surrendering the required number of large-scale generation certificates.

Rationale for undertaking the audit

10. The Renewable Energy Target scheme is one of the Government's key measures to encourage investment in renewable energy sources and reduce Australia's greenhouse gas emissions. The scheme underpins a market for renewable energy certificates worth in excess of \$1.5 billion annually rising, involving a broad spectrum of participants from large energy retailers through to large and small businesses and householders. The audit aimed to provide assurance over the robustness of the scheme's operation and the achievement of its objectives.

Audit objective and criteria

11. The objective of the audit is to assess the effectiveness of the Clean Energy Regulator's administration of the Renewable Energy Target scheme. To form a conclusion against the audit objective, the ANAO applied the following high level audit criteria:

- Has the regulator established appropriate arrangements to register renewable energy systems and validate renewable energy certificates?
- Is the regulator effectively monitoring the surrender of renewable energy certificates by liable entities?
- Is the regulator effectively monitoring scheme compliance and responding to non-compliance?
- Has the regulator established appropriate governance arrangements to manage the risks, operation and performance of the Renewable Energy Target scheme?

² Liable entities acquire large-scale generation certificates and small-scale technology certificates on the open market (at forward-contract rates or spot prices) or through power purchase agreements (often long-term contracts) with renewable power station owners/operators. Liable entities are able to carry forward a large-scale generation certificate shortfall of 10 per cent or less from one year to the next without incurring the shortfall charge.

Conclusion

12. The Clean Energy Regulator has effectively administered the Renewable Energy Target scheme, except for the enforcement activities of its investigations unit.

13. The regulator has established effective arrangements to register renewable energy systems and validate renewable energy certificates. Scheme participants received appropriate assistance to register renewable power stations and create certificates. Large-scale power stations are accredited and registered after effective assessments, in line with scheme requirements. Certificates created by scheme participants are appropriately validated by the regulator.

14. The regulator is effectively monitoring the surrender of renewable energy certificates by liable entities. The regulator correctly calculated and imposed shortfall charges on those liable entities that did not meet their surrender liabilities.

15. The regulator has mostly effective compliance monitoring and enforcement arrangements for the scheme. Scheme intelligence and data analysis has helped in the targeting of compliance monitoring and enforcement activities. Scheme compliance risks are being addressed through compliance monitoring activities. While administrative actions have been appropriately handled by the SRES compliance team, governance of the regulator's investigations unit has been insufficient to ensure that its investigation procedures and processes are satisfactory, consistently applied and result in timely investigations.

16. The regulator has established appropriate governance arrangements to manage the risks and operation of the scheme. Effective oversight arrangements have been established for the scheme, with scheme implementation documented in multiple business and support plans. Annual certificate surrender targets have been calculated consistent with legislative requirements. The regulator's external reporting for the scheme is supported by an established performance management framework.

Supporting findings

Renewable energy system registrations and certificate validations

17. The regulator appropriately assisted scheme participants to register renewable energy systems and create renewable energy certificates.

18. Fit and proper person assessments have been undertaken effectively, consistent with legislative requirements. Large-scale renewable energy power stations have been accredited and registered by the regulator after undergoing assessments that met legislative requirements, although assessment procedures and documentation could be improved.

19. The regulator effectively validates the power stations' creation and calculation of large-scale generation certificates against electricity generation data throughout the year. The REC Registry has an effective on-line portal to register small-scale system installations and validate small-scale technology certificates. The maintenance of SRES integrity would be better demonstrated were the regulator to develop a strategy or plan outlining the validation tasks that should be undertaken, taking into account other external controls and activities. Where undertaken, the regulator appropriately finalised the assigned certificate validation tasks.

Surrender of certificates by liable entities

20. The regulator accurately determined the renewable energy certificate surrender liabilities of liable entities. Processes to identify new liable entities, and assess exemption certificates are effective. Assessments of 'relevant acquisitions' of electricity would be more robust were they to better address standard operating procedures.

21. The regulator has effective mechanisms in place to monitor over time the position of liable entities to meet their certificate surrender liabilities when they fall due.

22. Where liable entities do not meet their certificate surrender liabilities, the regulator accurately calculates and imposes a shortfall charge, and publishes their names on the regulator's website. The regulator is actively managing the recovery of overdue shortfall charge debts.

Compliance monitoring and enforcement

23. The regulator has sound arrangements to collect and disseminate externally sourced intelligence relevant to scheme participants to those responsible for scheme entry, operations and compliance and enforcement activities. The regulator undertakes analysis of intelligence data that has helped in the targeting of its compliance monitoring and enforcement activities. Improvements to compliance risk assessments and plans would better position the regulator to demonstrate that scheme risks are being appropriately managed.

24. Compliance risks with the potential to reduce the integrity of the scheme are being addressed by the regulator's compliance monitoring activities. The regulator should formally assess the extent of any residual electrical safety risks from small generation unit installations under the scheme and inform those stakeholders in the best position to effect further treatments.

25. Scheme non-compliance matters that are likely to result in administrative action have been determined consistently by the SRES compliance team. For serious scheme non-compliance cases, the governance of the regulator's investigations unit has been insufficient to ensure that all mandated investigation requirements are contained in standard operating procedures, the procedures are consistently applied and that investigations are undertaken in a timely manner.

Governance

26. Effective arrangements have been established to oversee the implementation of the Renewable Energy Target scheme.

27. Scheme implementation is currently documented in multiple business plans at the corporate, divisional, branch and section level and support plans. An overarching map for the scheme would better ensure that recent organisational structure and scheme operational changes integrate and contribute to the efficient and effective management of the scheme.

28. The regulator has an established risk management framework to guide the development, implementation and monitoring of the organisation's risk management plans. Improved alignment between scheme and strategic risks, and better maintenance of the risk register's currency, would aid the regulator's risk management.

29. The renewable power percentage and small-scale technology percentage that determine annual certificate surrender targets are set annually by the Minister consistent with legislative requirements, based on the recommendations of the regulator. The percentages are calculated using formula inputs from robust sources.

30. The regulator has an established performance management framework to monitor internally and report internally and externally on the Renewable Energy Target scheme's achievements. Overall, the performance indicators used by the regulator to report under the Commonwealth performance framework require further development to be relevant, reliable and complete. The regulator's other annual external performance reporting mechanisms at the scheme- and entity-based level aid the transparency of, and accountability for, the scheme's achievements.

Recommendations

Recommendation no.1

Paragraph 4.44

The Clean Energy Regulator assess the extent to which its Renewable Energy Target scheme data shows any residual systemic electrical safety risks for small generation units installed under the scheme and inform those stakeholders in the best position to effect further treatments.

Clean Energy Regulator response: *Agreed*

Recommendation no.2

Paragraph 4.76

The Clean Energy Regulator establish governance mechanisms to manage its investigations function that ensure mandated investigation requirements are contained in standard operating procedures, the procedures are consistently applied and that investigations are undertaken in a timely manner.

Clean Energy Regulator response: *Agreed*

Recommendation no.3

Paragraph 5.11

The Clean Energy Regulator develop an overarching map to document and link the various elements of the operation and governance of the Renewable Energy Target scheme.

Clean Energy Regulator response: *Agreed*

Recommendation no.4

Paragraph 5.39

The Clean Energy Regulator refine the design of its performance measurement and reporting framework to ensure it is addressing the requirements of the Commonwealth performance framework to demonstrate progress against its purpose using relevant, reliable and complete performance criteria.

Clean Energy Regulator response: *Agreed*

Summary of entity response

31. The proposed report was provided to the regulator, which provided a summary response that is set out below.

The Clean Energy Regulator welcomes the Australian National Audit Office's (ANAO's) proposed report and agrees to all four recommendations.

Activity in the Large-scale Renewable Energy Target and the Small-scale Renewable Energy Scheme (under the Renewable Energy Target) continue to grow beyond original expectations. The 2020 large-scale target will be exceeded and strong growth in rooftop solar photovoltaic is continuing. In response to the unprecedented growth in the Renewable Energy Target, the agency continues to refine and automate its controls to adapt and keep pace.

In this context, the agency appreciates the ANAO's generally favourable commentary on the administration of the Renewable Energy Target. Work has commenced to implement improvements consistent with the recommendations.

Key messages from this audit for all Australian Government entities

32. Below is a summary of key messages, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

Governance and risk management

- A central document to guide program administration ensures that all aspects of the program are considered and addressed cohesively.
- Entities should assess their exposure to material extra-jurisdictional risks and, where necessary, inform those stakeholders in the best position to effect further treatments.

Policy/program implementation

- An effective intelligence and data analytics capability can assist regulators to target compliance monitoring and enforcement activities.
- Sample-based application assessments are best undertaken using a risk-based targeting approach.
- Well-designed IT systems capture and retain data relevant to program operations and enable reporting of program performance.
- Establishing appropriate governance arrangements for a regulator's investigation and enforcement function is important to ensure its activities are effective and timely.

Performance and impact measurement

- Relevant, reliable and complete performance criteria should be designed to address the accountability needs of the Parliament and the public, focusing on the achievement of entity purpose.

Audit title: Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2018

Report No: 19 of 2018-2019

Entity name: Across entities

Executive summary

1. The primary purpose of financial statements is to provide relevant and reliable information to users about a reporting entity's financial position. In the public sector, the users of financial statements include ministers, the Parliament and the community. 'The objectives of a financial statements audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework. The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, or government policy requirements may result in additional objectives'.¹
2. The ANAO applies these objectives in undertaking financial statements audits and considers areas that may give rise to risks of non-compliance with reporting obligations or risks relating to effectiveness of internal control when planning and performing the audit.
3. The preparation of timely and accurate audited financial statements is also an important indicator of the effectiveness of an entity's financial management, which fosters confidence in an entity on the part of users.
4. This report provides a summary of the results of the final audits of the financial statements of Australian Government entities and the consolidated financial statements (CFS) as at 30 November 2018. These audit results have been reported to the responsible minister(s) and those charged with governance of each entity.

Consolidated financial statements

5. The CFS present the whole of government and the general government sector financial statements. The 2017–18 CFS were signed by the Minister for Finance and the Public Service on 15 November 2018 and an unmodified auditor's report was issued on 16 November 2018.

Financial audit results and other matters

Quality and timeliness of financial reporting

6. A quality financial statements preparation process will reduce the risk of untimely, inaccurate or unreliable reporting. Eighty-two per cent of entities delivered their financial statements in line with their financial statement preparation timetable. In addition the number of unadjusted audit differences reported to material entities decreased from 127 in 2016–17 to 57 in 2017–18.

¹ ISSAI 1315 Practice Note 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*: P4.

7. The Auditor-General and senior staff under delegation issued auditors' reports on 240 entities' 2017–18 financial statements up until 30 November 2018. All auditors' reports were unmodified. The financial statements were finalised and auditors' reports issued for 90 per cent of entities within three months of the financial year end. The average time taken for entities to table annual reports from the date the auditor's report was issued was 43 days.

8. Sixty-four per cent of entities tabled their annual reports before the date of their portfolio's Senate supplementary budget estimates hearing. This is in line with guidance issued by the Department of Finance which sets out that best practice is to table annual reports prior to the date of Senate supplementary budget estimates. There was an average of 28 days between the accountable authority approving the annual report and tabling of the annual report.

Key audit matter reporting

9. The ANAO has applied ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report for the 26 entities included in Auditor-General Report No. 47 Interim Report on Key Financial Controls of Major Entities and the Australian Government's CFS. In 2017–18 a total of 59 key audit matters (KAM) were reported across the 26 entities and five KAM were reported in the CFS auditor's report.

Financial sustainability

10. An analysis of the factors that influence an entity's financial sustainability can provide an indication of financial management issues or point to an increased risk that entities may require additional government funding. Our analysis concluded that the financial sustainability of the majority of entities was not at risk. Nevertheless, there would be benefit in the government developing performance targets or benchmarks.² This would enable entities to assess their own financial sustainability against agreed parameters over time, and against like entities.

Summary of audit findings

11. A total of 159 findings were reported to entities as a result of the 2017–18 financial statements audits. These comprised one significant, 18 moderate and 140 minor findings. One significant legislative breach was also reported during 2017–18.

12. Eighty-five per cent of significant and moderate findings were in the areas of: management of IT controls, particularly the management of privileged users; compliance and quality assurance frameworks supporting program payments; and the management of non-financial assets.

Executive remuneration reporting

13. In 2016–17 the then Minister for Finance and the Secretary of the Department of the Prime Minister and Cabinet (PM&C) respectively requested government business enterprises (GBEs) and government entities to provide additional information relating to senior management personnel remuneration on their websites.

14. All GBEs complied with the request. The request from the Secretary of PM&C was made to 159 government entities. Of these entities, 145 published the information and 54 published within the requested timeframe.

² The Joint Committee of Public Accounts and Audit Report 463: *Commonwealth Financial Statements – Inquiry based on Auditor-General's report 33 (2016–17)* paragraph 2.36 recommended that 'the Department of Finance, in consultation with the Australian National Audit Office, work to: develop appropriate and robust performance targets or benchmarks, which can be publicly reported, to enable Commonwealth entities to assess their own financial sustainability against agreed parameters over time and against like entities'.

Developments in financial reporting and auditing frameworks

Changes to the Australian public sector reporting framework

15. There are no significant accounting standards changes for the Commonwealth public sector for 2017–18. Major changes in accounting standards will be applicable in 2018–19 and 2019–20 with the implementation of revised standards for financial instruments, revenue and leases. Early engagement in planning for these standards will provide entities with: more options for transitioning; time to review and potentially renegotiate underlying contracts and agreements; and time to organise and implement necessary financial management information system changes.

16. The Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule has made a number of recommendations to the Minister for Finance and the Public Service including: bringing forward the date for the tabling of annual reports; removing duplication and improving linkages between accountability documents; and increasing disclosures around remuneration paid to executives and highly paid staff.

Cost of this report

17. The cost to the ANAO of producing this report is approximately \$470 000.

**2017–18 Major Projects Report
No.20 2018–19
Department of Defence**

About the Major Projects Report

1. Major Defence equipment acquisition projects (Major Projects) continue to be the subject of parliamentary and public interest. This is due to their high cost and contribution to national security, and the challenges involved in completing them within the specified budget and schedule, and to the required capability.
2. The Australian National Audit Office (ANAO) has reviewed 26 of Defence’s Major Projects in this eleventh annual report (2016–17: 27). The objective of the report is ‘to improve the accountability and transparency of Defence acquisitions for the benefit of Parliament and other stakeholders.’¹
3. The Capability Acquisition and Sustainment Group (CASG) within the Department of Defence (Defence), manages the process of bringing new capabilities into service.² In 2017–18 Defence was managing 198 active major and minor capital equipment projects worth \$103.5 billion, with an in-year budget of \$6.9 billion.³ Defence capitalised some \$7.5 billion from these projects in 2017–18.⁴
4. The February 2016 Defence White Paper established the Government’s priorities for future capability investment for the next 20 years and provided for additional spending of over \$29 billion across the next decade. The 2018–19 Defence Portfolio Budget Statements indicated that the Defence budget would grow approximately \$200 billion over the coming decade, for investing in Defence capability.⁵ The Government commenced its \$89 billion investment in Australia’s future shipbuilding industry in April 2017⁶, and on 29 June 2018 announced Second Pass Approval of the \$35 billion Future Frigate Program.⁷

¹ Joint Committee of Public Accounts and Audit, Parliament of the Commonwealth of Australia, *Report 473: Defence Major Projects Report (2016–17)*, (2018), Executive Summary, p. 1.

² Defence states that CASG ‘exists to meet the Australian Defence Force’s (ADF) military equipment and supply requirements as identified by Defence and approved by Government’. Department of Defence, *About CASG* [Internet], Defence, available from <http://www.defence.gov.au/casg/AboutCASG/> [accessed 8 October 2018].

³ Department of Defence, *Defence Annual Report 17–18*, Chapter 3, Annual Performance Statements, Defence, Canberra, 2018, p. 35.

⁴ *ibid.*, Chapter 11, Financial Statements, p. 175.

⁵ Department of Defence, *Defence Portfolio Budget Statements 2018–19*, Defence, Canberra, 2018, p. 5.

⁶ A performance audit assessing the effectiveness to date of Defence’s planning for the mobilisation of its continuous shipbuilding programs in Australia was tabled during this report period (Auditor-General Report No.39 2017–18 *Naval Construction Programs—Mobilisation*).

⁷ M Turnbull (Prime Minister), C Pyne (Minister for Defence Industry), M Payne (Minister for Defence), M Cormann (Minister for Finance), ‘The Hunter Class – defending Australia and securing our shipbuilding sovereignty’, media release, Parliament House, Canberra, 29 June 2018.

Report objective and scope

5. The objective of this report is to provide the Auditor-General's independent assurance over the status of the selected Major Projects. The status of the selected Major Projects is reported in the *Statement by the Secretary of Defence* and the Project Data Summary Sheets (PDSSs) prepared by Defence. Assurance from the ANAO's review is conveyed in the *Independent Assurance Report* by the Auditor-General.

6. The following forecast information is excluded from the scope of the ANAO's review:

- Section 1.2 Current Status—Materiel Capability Delivery Performance and Section 4.1 Measures of Materiel Capability Delivery Performance;
- Section 1.3 Project Context—Major Risks and Issues and Section 5 – Major Risks and Issues; and
- forecast dates where included in each PDSS.

7. Accordingly, the *Independent Assurance Report* by the Auditor-General does not provide any assurance in relation to this information. However, material inconsistencies identified in relation to this information are required to be considered in forming the conclusion.

8. The exclusions to the scope of the review noted above are due to a lack of Defence systems from which to provide complete and accurate evidence⁸ in a sufficiently timely manner to facilitate the review. This has been an area of focus of the JCPAA over a number of years⁹, and it is intended that all components of the PDSSs will eventually be included within the scope of the ANAO's review.

9. Separate to the formal review, the ANAO has undertaken an analysis of key elements of the PDSSs — including cost, schedule, progress towards delivery of required capability, project maturity, and risks and issues. Longitudinal analysis across these key elements of projects has also been undertaken.

10. Defence provides further insights and context in its commentary and analysis. This commentary and analysis is not included within the scope of the ANAO's review.

Statement by the Secretary of Defence

11. The *Statement by the Secretary of Defence* was signed on 11 December 2018. The Secretary's statement provides his opinion that the PDSSs for the 26 selected projects 'comply in all material respects with the Guidelines and reflect the status of the projects as at 30 June 2018'.

12. In addition, the *Statement by the Secretary of Defence* details significant events occurring post 30 June 2018, which materially impact the projects included in the report, and which should be read in conjunction with the individual PDSSs. These include: Joint Strike Fighter, AWD Ships, P-8A Poseidon, Growler, Overlander Medium/Heavy, LHD Ships, Hawkei, Repl Replenishment Ships, Battle Comm. Sys. (Land) 2B, ANZAC ASMD 2A and 2B, Pacific Patrol Boat Repl, HATS, Battle Comm. Sys. (Land) 2A, Maritime Comms, Collins RCS, Hw Torpedo and LHD Landing Craft.

13. The 2017–18 MPR Guidelines require Defence to report in the *Statement by the Secretary of Defence* on projects which have been removed from the MPR which still have outstanding caveats. The status of the caveats of the ARH Tiger Helicopter Project, which achieved FOC in 2016 with caveats, has been reported in the Statement in **Part 3** of this report.

⁸ For example, Defence project risk management records can be managed in spreadsheets, where the risk to the completeness and accuracy of records is too high to be included within the scope of the review.

⁹ Joint Committee of Public Accounts and Audit, Parliament of the Commonwealth of Australia, *Report 473: Defence Major Projects Report (2016-17)*, (2018), Recommendation 2, p. vii.

Conclusion by the Auditor-General

14. The Auditor-General has concluded in the *Independent Assurance Report* for 2017–18 that ‘nothing has come to my attention that causes me to believe that the information in the 26 Project Data Summary Sheets in Part 3 (PDSSs) and the *Statement by the Secretary of Defence*, excluding the forecast information, has not been prepared in all material respects in accordance with the *2017–18 Major Projects Report Guidelines* (the Guidelines), as endorsed by the Joint Committee of Public Accounts and Audit.’

15. Additionally, in 2017–18, a number of observations were made in the course of the ANAO’s review, as summarised below:

- non-compliance with corporate guidance resulting in inconsistent approaches taken to contingency allocation (Section 1 of the PDSS);
- a change to the basis of financial reporting (Section 2 of the PDSS);
- enhanced transparency by reporting cost variations since Second Pass Approval and personnel costs;
- a lack of oversight, non-compliance with corporate guidance and the use of spreadsheets in the management of risks and issues (Section 5 of the PDSS)¹⁰;
- outdated policy guidance for the project maturity framework (Section 6 of the PDSS)¹¹; and
- a decrease in the number of MPR projects which have achieved significant milestones with caveats.

¹⁰ Spreadsheets lack formalised change/version control and reporting, increasing the risk of error.

¹¹ The project maturity framework — outlined in the Department of Defence’s Defence Materiel Standard Procedure (Project Management), DMSP (PROJ) 11-0-007, ‘Project Maturity Scores at Life Cycle Gates’, 2010 — is a methodology used to quantify the maturity of projects as they progress through the acquisition life cycle.

Attachment A

JCPAA Report 473 *Defence Major Projects Report (2016-17)*



JCPAA report
473.pdf

Cape Class Patrol Boats – In Service Support Arrangements
Audit Report No.21, 2018–19
Department of Home Affairs

Summary and recommendations

Background

1. In the May 2010 Budget, the government provided \$573.6 million over 10 years for the acquisition and operating costs (including crew, maintenance and fuel) for a fleet of eight larger and more capable patrol boats to replace the ageing Bay Class vessels. The funding provided was to meet the estimated cost to design, construct and deliver the Cape Class patrol boats (CCPBs) together with a portion of the increased personnel and operating costs. As part of its approval, the government required that the then Australian Customs and Border Protection Service (ACBPS) maintain a level of effort of 2400 patrol days per annum across the fleet (300 patrol days per annum per CCPB).

2. The CCPBs perform strategic patrols, and provide tactical surveillance and enforcement capabilities to address maritime security threats within and beyond Australia's 200 nautical mile Exclusive Economic Zone including:

- irregular maritime arrivals;
- biosecurity;
- illegal exploitation of natural resources;
- illegal activity in protected areas;
- import or export of prohibited items;
- maritime terrorism;
- piracy, robbery or violence at sea; and
- marine pollution.

3. In August 2011, the ACBPS entered into a combined acquisition and support contract with Austal Ships Pty Ltd (Austal) to design, construct, and deliver eight CCPBs, the associated support system, and provide in-service support to the CCPB fleet until August 2019. On 31 August 2015, the final Cape Class patrol boat (*Cape York*) was delivered. Delivery and acceptance of the final CCPB and subsequently the CCPB fleet was to mark the conclusion of the acquisition phase and complete the transition to the in-service support phase of the CCPB project.

Rationale for undertaking the audit

4. In December 2014, the ANAO presented Auditor-General's Report No.13 2014–15, *Management of the Cape Class Patrol Boat Program*. This audit focused on the ACBPS' procurement of the Cape Class fleet, and concluded that there were sound arrangements to underpin the acquisition of the CCPBs, however risks remained relating to the ongoing support of vessel operations that would require active management. The in-service support arrangements for the CCPBs were therefore selected for a performance audit as the full fleet was delivered in August 2015 and the CCPBs were to have transferred from the acquisition phase to the in-service support phase once the full CCPB fleet had been unconditionally accepted into service.

5. As at June 2018, the Australian Border Force within the Department of Home Affairs (the department), which now has responsibility for the CCPB program, reported that the CCPBs have not yet achieved the performance and availability requirements for the fleet. The CCPBs have also been the subject of a number of publicly reported issues regarding the functions of the fresh water system, berthing arrangements, capability shortfalls, and contractual issues with the service provider. In 2016–17, the department reported that:

the department had a 2016–17 target of 3320¹ vessel patrol days but at 30 June 2017 the Australian Border Force vessels completed 2626² vessel patrol days. The shortfall was primarily the result of ongoing work to rectify defects with the Cape Class Patrol Boats.³

6. For 2017–18 the department has reported that it has achieved 2036 patrol days (61 per cent) of its target of 3320 patrol days.⁴

Audit objective and criteria

7. The objective of this audit was to examine the effectiveness of the department's administration of the support arrangements designed to ensure that the CCPBs are achieving contracted availability and performance requirements.

8. To form a conclusion against the audit objective, the ANAO adopted the following high level criteria.

- Has the department established effective governance arrangements for the in-service support project?
- Has the department established effective arrangements to manage the in-service support contract?
- Has the department implemented effective arrangements to support the operation of the Cape Class patrol boats?

Audit methodology

9. The audit team has:

- reviewed, examined and analysed documentation held by the department and the Australian Border Force;
 - interviewed staff and external stakeholders, including Austal;
 - examined maintenance records for CCPBs and training records for the Cape Class crew; and
 - extracted and analysed data from the Computerised Maintenance Management System (CMMS).
- Additionally, site visits have been conducted at the Austal Shipyards in Henderson Perth, the primary crew changeover point at East Arm Wharf in Darwin and the Austal Service Centre in Cairns.

¹ The Cape Class patrol boat fleet is to deliver 2400 of the 3320 patrol days required by government.

² Of the 2626 patrol days achieved in 2016-17 the Cape Class patrol boat fleet delivered 1987 (76 per cent).

³ Department of Immigration and Border Protection *Annual Report 2016–17*, p. 256.

⁴ Department of Home Affairs' *Annual Report 2017–18* p. 19.

Conclusion

10. The department's administration of the support arrangements designed to ensure that the Cape Class patrol boats are achieving contracted availability and performance requirements is not yet effective, and the Cape Class patrol boats have not yet fully met the contracted performance and availability requirements. However, the full Cape Class patrol boat fleet is operational and has been conducting strategic patrols, providing tactical surveillance, and undertaking enforcement activities to address maritime security threats since 2015.

11. The governance arrangements for the in-service support phase of the Cape Class patrol boat project have not provided effective oversight, have not aligned with Department of Home Affairs' policy and have not included the identification and reporting of in-service support risks. Consequently, there has not been an effective transition to the in-service support phase of the Cape Class patrol boat project, and risks to the achievement of the performance and availability targets have not been effectively managed. However, as at September 2018 the department has developed revised governance arrangements and is in the early stages of implementation.

12. The department has not established effective arrangements to manage the in-service support phase of the contract for the Cape Class patrol boats. Prior to 2018, the department had a high volume of final acceptance issues in the engineering, maintenance, and supply categories. However, in early 2018, the department established a remediation program to improve contract management arrangements, and has made progress in each of these categories. Notwithstanding this, the department has further work to do before contract management could be considered to be effective. Performance management processes have been designed to broadly align with those set out in the contract, however the performance management framework has not been implemented as set out in the contract. As at October 2018, the application and calculation methodology of the abatement regime is being reviewed as part of an ongoing dispute resolution process.

13. The department's arrangements to provide support to operations are partially effective. The department is developing but has not yet implemented appropriate workforce arrangements, contract management requires improvement, and the effectiveness of budget management has been constrained as the department is not yet well placed to accurately estimate, forecast, and control costs to operate and provide in-service support to the Cape Class patrol boats. Nevertheless, the Cape Class patrol boats are able to access appropriate infrastructure in the form of interim dedicated berthing facilities and the department has taken steps to procure permanent berthing facilities.

Supporting Findings

Governance arrangements

14. The department has not established effective governance arrangements for the in-service support phase of the Cape Class patrol boat project. The governance arrangements implemented in July 2015 were focused on commercial and contract management issues, were not effective in managing risks or resolving issues and did not reflect the risk profile of the Cape Class patrol boat project. However, as at October 2018, the department has taken steps to implement governance arrangements, which reflect the risk profile of the in-service support phase of the Cape Class patrol boat project and comply with departmental policies for high risk, high value projects.

15. The department has not integrated the identification and reporting of in-service support risks into appropriate governance arrangements for the in-service support phase of the Cape Class patrol boat project. As such, risk management processes, practices and reporting for the in-service support phase are not yet mature. However, as at September 2018, the department is in the early stages of developing and implementing appropriate risk management arrangements.

Contract and performance management

16. The department's management of all elements of the in-service support contract is not yet effective. However, the department has commenced a substantial remediation program to implement improved contract management and administration practices. Notwithstanding this, further work is required before the management of the in-service support contract could be considered to be effective.

17. The department has designed a performance management framework for the Cape Class patrol boats comprised of critical success factors and key performance indicators that are broadly aligned with the government's availability and performance requirements. The framework also includes an abatement regime where a significant portion of the in-service support payments can be withheld or a debt incurred if the contractor fails to achieve the critical success factors or key performance indicators. However, the department has not implemented the performance management framework as set out in the contract.

18. Performance arrangements are continually monitored via performance workbooks, performance exception reports, and the quarterly and annual performance reviews. The department has also engaged a contractor to review the performance arrangements. However, as at October 2018 findings from the review have not been implemented as the structure and application of the performance management framework is subject to an ongoing dispute resolution process.

Support to operations

19. The Department has partially established appropriate support and infrastructure for the Cape Class patrol boats. Logistics support arrangements are mature, however depend on largely manual processes. The management of the contracts that provide port services, fuel and provisions to the Cape Class patrol boats has been largely passive, and as a result is not effective. Nonetheless, the Cape Class patrol boats are able to access appropriate infrastructure in the form of interim dedicated berthing facilities in Darwin with full capability to conduct crew changeovers, and undertake maintenance, refuel and re-supply.

20. The workforce arrangements for the Cape Class patrol boats are not yet effective. In December 2014, Auditor-General's report No.13 2014–15, *Management of the Cape Class patrol boat program* recommended that the Australian Customs and Border Protection Service, now the department, develop and implement a workforce strategy. As at October 2018, a strategic workforce plan has not been implemented. Consequently, critical gaps in the workforce arrangements for the Cape Class patrol boats have emerged which the department is attempting to address.

21. The management of the budget required to operate and provide in-service support to the Cape Class patrol boats has been constrained as the department is not yet well placed to effectively estimate, forecast and control costs to operate and provide in-service support to the Cape Class patrol boats over their complete lifespan.

Recommendations

Recommendation no.1
Paragraph 2.10 The department should develop and implement a fleet management plan which outlines how the marine fleet, including the Cape Class patrol boats, will be operated, managed and supported throughout their lifecycle to meet performance and availability targets and achieve the policy objectives of government.

Department of Home Affairs response: *Agreed*

Recommendation no.2
Paragraph 2.23 The department should integrate the identification, monitoring, evaluation and reporting of risks including contract, workforce, logistics and budget risks into governance arrangements that align with the risk profile of the Cape Class patrol boat project to provide assurance that risks to the achievement of the performance and availability targets are being effectively managed.

Department of Home Affairs response: *Agreed*

Recommendation no.3
Paragraph 4.8 The department should ensure that contractually required performance reporting meets the needs of the department, are analysed, and the results used to support departmental planning and budgeting activities.

Department of Home Affairs: *Partially Agreed*

Recommendation no.4
Paragraph 4.21 As part of implementing recommendation no.2 from the previous ANAO audit, the department should prioritise the development and implementation of:

- (b) a strategic workforce plan and recruitment strategy;
- (c) a training needs analysis; and
- (d) a learning and development framework for the marine unit.

This framework should ensure that workforce arrangements for the marine unit are effective and that sufficient numbers of appropriately qualified and trained crew are available to meet regulatory requirements and to support the ability of the department to meet the performance and availability targets of Government over the longer-term.

Department of Home Affairs: *Agreed*

Summary of entity response

22. The proposed report was provided to the Department of Home Affairs, and extracts from the proposed report were provided to Austal Ships Pty Ltd (Austal). Formal responses were received from the Department of Home Affairs and Austal and the summary responses are provided below.

Department of Home Affairs

The Department of Home Affairs (the Department) and the Australian Border Force (ABF) thanks the Australian National Audit Office for the opportunity to respond to the matters raised in this performance audit report.

The Department and the ABF agree with recommendations one, two and four and partially agrees with recommendation three. In our view, recommendation three does not recognise the current consideration given to performance reporting through existing contract management processes.

As recognised in the report, the full Cape Class Patrol Boat fleet is operational and has been conducting strategic patrols, providing tactical surveillance and undertaking enforcement activities to address maritime security threats since 2015. The effective management of the Australian Border Force marine fleet is a high priority to the Department and the ABF. We are continuing to address concerns around the Cape Class Patrol Boat in service support arrangements as identified in this performance audit, including the improvement of governance and oversight arrangements going forward.

The Department and the ABF acknowledge that there is still work to do in relation to the Cape Class Patrol Boat In Service Support Arrangements and is committed to improving the management of the Australian Border Force marine fleet.

Austal Ships Pty Ltd

ANAO have requested that Austal review selected excerpts from a draft version of this report. In summary of Austal's formal response, the In-Service Support (ISS) component of the Contract has been in operation for some time, and since taking over delivery of the ISS from DMS Maritime, the working relationship between the Department and Austal has greatly improved. Austal is delivering the CCPB availability required under the Contract and is decreasing maintenance debt on the CCPBs. However, that outcome is coming at significant and unreasonable cost to Austal which it is not prepared to support in the future. The costs arise because the ISS Contract is under resourced in critical areas, in part because there are significant gaps in the ISS Scope of Work. These gaps arise from erroneous assumptions which were made by the parties regarding the effort required to maintain the CCPBs. In addition, the PMF regime under the Contract is deficient in a number of respects and it requires a common understanding as to the basis upon which it is to be applied to be workable in the long term. The primary reason for any failure of the Department to achieve the Government's required levels of availability is not, therefore, Austal's delivery of the ISS under the Contract. Rather, the Department is under resourced to utilise CCPB availability, provide Organisational Level Maintenance, and provide proper engineering governance. Finally, Austal notes that any additional maintenance on the CCPBs required to remediate stern tube issues is now being ceased because Austal has satisfactorily demonstrated that the stern tube issues have been resolved.

Key messages from this audit for all Australian Government entities

23. Below is a summary of key messages, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

Risk management

- Where risks have materialised that have a significant impact on the ability of the entity to deliver the expected benefits of a project, program or policy, entities should review risk controls, and adjust the associated mitigation strategies.

Contract and performance management

- Where entities acquire new capabilities to achieve strategic priorities and objectives of government, entities should take a proactive role in contract management to ensure that the expected benefits are realised throughout the life of the project.
- Where service delivery outcomes or capability requirements cannot be fully met, entities should consider the impact of the limitations on the ability to deliver the service and/or achieve the expected benefit. Where the limitations cannot be rectified, or resolved, entities should examine the contract and performance arrangements to ensure that they continue to be appropriate.

Performance monitoring and reporting

- Entities should ensure that performance monitoring and reporting arrangements meet the needs of stakeholders, results are used to inform planning and budgeting activities, support accurate assessments of risk, and provide assurance that service delivery is effective.

**Award of a \$443.3 million grant to the Great Barrier Reef Foundation
No.22 2018–19
Department of the Environment and Energy**

Summary and recommendations

Background

1. Following back-to-back coral bleaching events in 2016 and 2017 and Tropical Cyclone Debbie (in March/April 2017), the 2018–19 Budget included \$535.8 million over five years from 2017–18 to accelerate the delivery of activities set out in the Reef 2050 Plan.¹ The relevant budget measure included \$443.3 million for a partnership grant to the Great Barrier Reef Foundation (the foundation), and \$5.2 million to the Department of the Environment and Energy (DoEE or the department) to cover its costs of developing and overseeing the grant to the foundation.
2. Figure 1.1 on page 19 of the audit report illustrates key events that led to the Budget funding, as well as key steps in the process that led to a grant agreement being signed with the foundation and \$443.3 million being paid to the foundation on 28 June 2018.

Rationale for undertaking the audit

3. An audit of the partnership with the foundation was included in the Australian National Audit Office's (ANAO's) 2018–19 Annual Audit Work Program. The focus of the published topic was on the design of the partnership.
4. This audit is of the decision-making processes for the award of the grant to the foundation. It was undertaken in light of:
 - Parliamentary and public interest in the processes that led to the decision to offer a \$443.3 million grant to the foundation;
 - the size of the grant awarded through a non-competitive process with the full amount paid at the time the grant agreement was signed notwithstanding that the funded activity is to be delivered over six years (to 30 June 2024); and
 - requests received in August 2018 from the Senate Environment and Communications References Committee and the Secretary of the Department of the Environment and Energy that an audit of the partnership be undertaken as a matter of priority.

Audit objective, criteria and scope

5. The objective of the audit was to assess whether the award of a \$443.3 million grant to the foundation was informed by appropriate departmental advice and through processes that complied with the grants administration framework.

¹ The Reef 2050 Plan was developed by the Australian and Queensland Governments in consultation with scientists, industry, traditional owners and non-government organisations. It was originally released in March 2015, and then updated in July 2018. It provides an overarching framework for protecting and managing the Great Barrier Reef, including actions, targets, objectives and outcomes under seven broad themes.

6. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- Was appropriate departmental advice provided to ministers to inform the decision to establish a tied partnership fund with the foundation?
- Were comprehensive program guidelines developed that complied with the requirements of the Commonwealth Grants Rules and Guidelines (CGRGs)?
- Was the decision to award a grant to the foundation informed by written departmental advice that met the content requirements of the CGRGs?
- Was there appropriate scrutiny of the foundation's proposal to inform departmental advice on whether a grant should be awarded, and the subsequent development of a grant agreement?

7. The scope of the audit included:

- the decision-making processes that led to the decision to create a tied reef fund in 2017–18, with a partner outside the general government sector;
- the identification of the foundation as this partner;
- the development and application of program guidelines and a closed grant application process to give effect to the decision to offer the funding opportunity to the foundation; and
- departmental scrutiny of the funding proposal submitted by the foundation.

Conclusion

8. All decisions in the process through which a \$443.3 million grant was awarded and paid in 2017–18 to the foundation were informed by departmental advice. The department's advice and administrative processes to give effect to Government decisions clearly recognised that funds needed to be paid and accounted for in 2017–18. There were shortcomings in aspects of the department's advice, partly as a result of non-compliance with elements of the grants administration framework.

9. All decisions taken by ministers were informed by written advice prepared by the department. In the compressed timeframe needed to meet the objective of spending the funds in 2017–18, the department identified the foundation as the 'obvious' entity for the Australian Government to seek to enter into a \$443.3 million partnership with. Only one other potential partner (the Queensland Government) was explicitly canvassed by the department in its written advice. Advice to the ANAO from the department was that there had been informal discussions within the department about other potential partners, but there are no records evidencing this consideration. The department also did not explore opportunities to introduce some competition into the grant giving process (the grants framework seeks to encourage competitive, merits-based selection process), with the department advising the ANAO it considered that it did not have time to do this.

10. Program guidelines were developed and published. The CGRGs require that program guidelines include clear and specific objectives for the grant funding. They also set out the importance of assessment criteria being included in program guidelines. For non-competitive grants, assessment criteria provide a transparent means of assessing whether the particular proposal under consideration is of a satisfactory standard that approving a grant would represent value for money. When analysed by the ANAO against the CGRGs, there were two key shortcomings identified with the program guidelines:

- the level of detail provided in relation to the desired program outcomes. Applying the proportionality principle set out in the CGRGs, given the significant quantum of funding involved there would have been benefits in the guidelines setting out some clear targets for what was

expected to be achieved (such as how much funding the Australian Government expected to be leveraged from the private sector using the grant funding); and

- clear assessment criteria were not included. The approach taken in the guidelines for this \$443.3 million partnership grant did not enable an appropriate assessment of whether a partnership proposal represented value for money. The reasons later given by the department (in its advice to the Minister) for concluding that the proposal represented value for money differ in important respects from the matters the program guidelines required that the proposal address.

11. Detailed and clear written departmental advice that met the content requirements of the CGRGs was provided to the Minister for the Environment and Energy (the Minister). The Minister was advised that the foundation's proposal fully met the criteria in the program guidelines but those guidelines had not included clear assessment criteria. Instead, the department cited six reasons that supported its conclusion that the foundation's proposal represented value with money and a proper use of Commonwealth resources. Not all of the reasons cited by the department can be adequately traced back to the program guidelines.

12. The department assisted the foundation to develop its funding proposal, in parallel with the development of the program guidelines and the evaluation of that proposal. To address risks to the objectivity of the evaluation, a senior level review of the evaluation was undertaken by the department's internal Reef Project Board, the members of which had not been directly involved in the co-development of the foundation's proposal.

13. There was insufficient scrutiny of the foundation's proposal in three key areas examined by the ANAO, being the:

- capacity and capability of the foundation's delivery partners to scale-up their activities;
- foundation's past fundraising performance; and
- total administration costs of the partnership model (the department focused on the foundation's costs, with no evaluation attention given to the administration costs of the foundation's delivery partners).

Supporting findings

Decision to partner with the foundation

14. Advice provided to ministers in 2017–18 on additional funding for reef protection activities reflected comprehensive policy development work that had already been undertaken by the department, including in relation to the establishment of the Reef Trust. The result of this was the Government deciding that significant Reef funding should be provided in 2017–18 to a private sector partner.

15. The department provided advice to Government on a partner outside the general government sector in a timeframe consistent with the funds being paid in full in 2017–18. The records did not evidence that, in the time that was available (11 business days), there had been wide consideration of possible partners. Advice from the department to the ANAO was that there had been informal discussions between departmental executives on alternative delivery partners before deciding that the foundation was the best option.

16. Opportunities to introduce some competition into the grant giving process were not explored and reasons for not employing a competitive-merits based selection process to identify the partner were not documented.

17. Advice from the department addressed the benefits and risks involved in paying the \$443.3 million grant in full to the foundation in 2017–18 for the delivery of activities over the following six years. The financial cost to the Australian Government of paying the funds in advance of need was not estimated or brought to the Government’s attention.

Program guidelines

18. Program guidelines were developed by the department, approved by the Minister for the Environment and Energy (the Minister) and published on the department’s website.

19. The objectives and desired outcomes of the partnership were outlined in the guidelines. The desired outcomes were broad and did not include targets or other performance measures.

20. The guidelines outlined key program governance arrangements and clearly identified that the foundation had been selected as the only candidate to submit a funding proposal. They also identified the process by which the Minister would make a final decision on the award of grant funding to the foundation.

21. Relevant and appropriate eligibility requirements were established. The guidelines did not include clear assessment criteria to be applied in evaluating whether the award of a grant to the foundation would represent value for money and proper use of Commonwealth resources.

Decision to approve grant funding

22. The department provided the Minister with a clear funding recommendation. The department recommended that the Minister accept the risks and its risk management plan detailed within the advice, and approve expenditure of \$443.3 million as a one-off, ad hoc grant to the foundation. The Minister recorded his acceptance of the department’s advice.

23. The written grant funding approval briefing provided to the Minister stated that the foundation’s proposal fully met the criteria included in the program guidelines. An attachment to the briefing set out that the department had concluded that the foundation satisfied the published eligibility criteria. The briefing to the Minister identified six reasons why the department concluded the proposal from the foundation represented value for money and was a proper use of Commonwealth resources. The matters referenced by the department were not drawn directly from the program guidelines, as those guidelines had not included clear assessment criteria.

24. Departmental advice to the Minister clearly stated that the award of the grant to the foundation would provide value for money and was a proper use of Commonwealth resources. The department informed the Minister of six reasons why the department reached this conclusion.

Scrutiny of the foundation’s proposal

25. As it had done with previous ad hoc grants from the Reef Trust to various entities, the department assisted the foundation to develop the grant funding proposal. The risk that the department’s involvement in the development of the funding proposal presented to an objective evaluation of that proposal was identified in the department’s risk assessment and management plan for the grant. The key risk management strategy adopted involved having the department’s internal Reef Project Board review and endorse the evaluation work undertaken by the Reef Branch (staff from this branch had provided the assistance to the foundation). This strategy did not fully address the risk that the department’s involvement in the development of the funding proposal presented to an objective evaluation of that proposal, and conflict of interest risks were not adequately addressed.

26. The department applied adequate scrutiny to factors relevant to the foundation's ability to scale-up its governance structures and resourcing levels. Insufficient scrutiny was applied in the evaluation of the grant funding proposal as to whether the delivery partners (including subcontractors) on which the foundation relies will be able to scale up their capacity and capability. The department has advised the ANAO that the risks associated with subcontractors will be managed through the grant agreement and across the grant lifecycle by the foundation.

27. The department's assessment applied inadequate scrutiny to the foundation's past performance and future plans to attract private and philanthropic investment. Its written assessment repeated statements made by the foundation in its proposal. The department did not seek to analyse the statements in the proposal against the foundation's financial statements (the two most recent of which had been included with the funding proposal). Overall, insufficient information was obtained and analysed to assess past performance and future plans.

28. The grant agreement does not include specific co-investment targets. Instead, the agreement requires the development of a co-financing strategy which, in combination with annual work plans (the first of which is due by 30 June 2019), is expected to set out how the foundation will use the grant to raise contributions from other sectors. The foundation is required to consult on those plans, but the department does not have approval rights over the plans. The co-financing strategy provided to the department in September 2018 includes targets totalling \$300 million to \$400 million over the next six years. The targets may be adjusted as the foundation has not yet tested the feasibility of achieving them.

29. Total administration costs of the foundation and its delivery partners could be up to \$86.41 million.² The department applied insufficient scrutiny to the likely administration costs of the partnership. In particular, the assessment work and resulting advice to the Minister focused on the foundation's administration costs (capped in the grant agreement at \$44.33 million), notwithstanding that it was evident that the foundation would be relying heavily on subcontractors for program delivery. The grant agreement seeks to cap the administrative costs of subcontractors at a further \$42.08 million.

Recommendations

Recommendation no.1 The Department of the Environment and Energy develop overarching Reef Trust proposal guidelines to improve the transparency of, and accessibility to, Reef Trust funding.

Paragraph 2.33

Department of the Environment and Energy response: Noted

Recommendation no.2 The Department of the Environment and Energy include performance targets in program guidelines for Reef Trust grants to assist it to decide whether funding proposals represent value for money having regard to the quantum of funding that is being sought.

Paragraph 3.21

Department of the Environment and Energy response: Noted

² This is in addition to the \$5.2 million made available to the department to cover its costs of developing and overseeing the agreement with the foundation. It also does not include the costs of implementing the monitoring and evaluation plan the foundation is required to develop (the costs of developing the plan are included in the cap).

Recommendation no.3 The Department of the Environment and Energy include clear assessment criteria in program guidelines for any grant proposals that are being considered through non-competitive processes.

Paragraph 3.44

Department of the Environment and Energy response: Noted

Recommendation no.4 The Department of the Environment and Energy document a probity framework to manage the risks associated with it assisting potential grant recipients develop their funding proposals/applications.

Paragraph 5.12

Department of the Environment and Energy response: Agreed

Recommendation no.5 The Department of the Environment and Energy obtain assurance over the achievement of value for money in the foundation's use of delivery partners by requesting the foundation benchmark prices being offered against rates charged prior to the announcement of the \$443.3 million in grant funding. This benchmarking will be particularly important in circumstances where open competition has not been employed by the foundation when selecting delivery partners.

Paragraph 5.27

Department of the Environment and Energy response: Agreed

Recommendation no.6 The Department of the Environment and Energy develop strategies that allow it to be assured about the rigour of the foundation's subcontracting processes.

Paragraph 5.71

Department of the Environment and Energy response: Agreed

Summary of entity response

30. The proposed audit report was provided to the Department of the Environment and Energy, which provided a summary response that is set out below.

The Department welcomes the Auditor-General's findings that it provided detailed and clear advice to the Minister on the awarding of the \$443.3 million grant to the Great Barrier Reef Foundation, and that the Partnership was informed by comprehensive policy development work spanning several years.

The Department agrees with the report's findings that relate to process improvements, such as more detailed record-keeping, the preparation of a probity plan and formally documenting declarations of interest. The six recommendations of the report all relate to processes that are either already established in the Department or are now being implemented as lessons learned.

Findings in the report relating to the Department's scrutiny of the proposal and value-for-money assessment, the use of assessment criteria, and the level of detail on outcomes and performance targets are incorrect or based on an incomplete assessment of the evidence. Specifically:

- The Department's advice and processes demonstrated compliance with the Commonwealth's grants administration framework.^a Given the available timeframes, and consistent with Cabinet's decisions, the approach taken to establish the partnership was sensible and thorough. The Department's conclusion that the proposal represented value-for-money for public resources was reasonable, and based on a clear understanding of the objectives and desired outcomes the Government was seeking from the grant.
- The grant guidelines did include 'assessment criteria', but we accept that they were not clearly labelled.^b The absence of the heading 'assessment criteria' did not affect the rigor of the

Department's evaluation, which included an assessment of the Foundation's proposal against each of the criteria in the guidelines.^c The Department's advice to the Minister included the evaluation against the assessment criteria in full, as well as other matters the Department considered were relevant to the value-for-money assessment.

- Program outcomes and performance targets were appropriately specified in the grant guidelines, in line with the outcomes of the Reef 2050 Plan.^d The grant agreement requires the Foundation to develop more detailed performance measures and implementation plans within the first 12 months of the grant being established, and to implement a rolling design, reporting and evaluation process to ensure that performance targets are further detailed, refined and reported against over the six year life of the Partnership.

ANAO comments on DoEE's summary response

a: Paragraphs 4.14 to 4.14 sets out the ANAO's analysis of the department's advice on whether the proposal represented value for money. Paragraphs 3.33 to 3.42 sets out the ANAO's analysis of the evidence concerning whether the program guidelines included assessment criteria on which to base an assessment of the proposal's value for money.

b: Paragraphs 3.33 to 3.42 examines whether the program guidelines included clear assessment criteria. This analysis was informed by ANAO analysis of: all departmental records of the development of the guidelines; matters raised by the Department of Finance in relation to the content of the guidelines and DoEE's response to the Department of Finance; the content of the guidelines against the reasons the department recorded for concluding that the proposal from the foundation represented value for money; the department's template grant program guidelines; and the approach taken by the department for other non-competitive Reef Trust grants.

c: In terms of the rigour of the department's assessment: paragraphs 5.21 to 5.25 outlines that the department did not consider whether delivery partners, on which the foundation relies, could be expected to be able to scale up their capacity and capability; paragraphs 5.30 to 5.44 set out that inadequate scrutiny was applied by the department to the foundation's past performance and future plans to attract private and philanthropic investment; and paragraphs 5.65 to 5.69 identifies that the department's evaluation did not address subcontractor administrative costs (which may be as high as \$42.08 million).

d: Paragraphs 3.12 to 3.19 sets out the ANAO's analysis that the outcomes were broad and did not include targets or other performance measures. In particular, paragraph 3.19 identifies that fundraising was not specifically addressed in the guidelines as either an objective of the partnership or an output to be delivered notwithstanding the importance of the foundation's past and planned fundraising efforts to the decision to partner with that entity.

31. An extract of the proposed audit report was provided to the Great Barrier Reef Foundation.

Key messages from this audit for all Australian Government entities

32. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Commonwealth entities.

Governance and risk management

- Clearly identifying the avenue and process through which proponents can submit funding proposals for consideration can encourage and assist other sectors to seek to partner with the Australian Government. A transparent and fair approach also helps to manage probity risks.
- In appropriate circumstances, working with project proponents on the design and development of funding proposals can add value. It is important that the evaluation of the finalised proposal be conducted objectively. This is aided by having a separation between

those conducting the evaluation of the proposal and those that were involved with its design and development.

Policy/program design

- Drawing from prior policy development work and research can assist departments to be agile when responding to requests from ministers for an innovative approach.

Grants

- The Australian Government’s grants administration framework is principles based. Entities have flexibility to apply the principles in a fit for purpose way that is proportionate to the grant program’s scale, nature, complexity and risks. Where the grant arrangement is less developed, such as in a partnership-type arrangement and/or where further development of the detail in the proposal will occur after award of the grant, then more emphasis would be expected to be placed on the capability and experience of the grant beneficiary as a partner to deliver the agreed outcomes.

Records management

- When decisions are taken to depart from departmental policies and proven practices, it is important that the reasons for any departures be recorded, including in advice to decision-makers.

Northern Australia Quarantine Strategy Follow-on Audit
No.23 2018–19
Department of Agriculture and Water Resources

Summary and recommendations

Background

1. Biosecurity is the management of risks to the economy, the environment and the community, of pests and diseases entering, emerging, establishing and spreading in Australia. Biosecurity is critical for safeguarding Australia's \$62 billion agriculture industry from pests and diseases that can destroy livestock, crops and the environment, and for providing assurance to overseas markets that Australia's produce is free from those pests and diseases.¹
2. Northern Australia presents particular biosecurity challenges, due to the proximity of neighbouring countries and the ecological and climatic conditions that may be conducive to the introduction of exotic pests and diseases. In the Torres Strait, the biosecurity risk is intensified due to the proximity of Papua New Guinea (PNG) and the arrangements established under the Torres Strait Treaty. The Torres Strait Treaty establishes a Protected Zone, within which Torres Strait Islanders and the coastal people from 13 defined PNG villages are able to move freely (without passports or visas) for the purpose of conducting traditional activities.² While restrictions exist regarding what can be carried as part of traditional activities, the constant movement of Treaty villagers (with approximately 26,500 recorded visits from PNG in 2017–18) poses a risk to Australia's biosecurity.
3. The Northern Australia Quarantine Strategy (NAQS) was established in 1989 to provide an early warning system for exotic pest and disease detections across northern Australia and to address the biosecurity risks facing the region. NAQS is administered by the Department of Agriculture and Water Resources (the department) and had a budget of \$8.9 million in 2018–19. For NAQS, the department employs a network of 90 scientific and operational staff to survey targeted pests and diseases, manage biosecurity risk in southward movement of people, vessels, cargo and aircraft and conduct public awareness activities.
4. In 2015, the Australian Government released *The Agricultural Competitiveness White Paper* and the *Our North, Our Future: White Paper on Developing Northern Australia*. Six projects funded through the White Papers, with a total value of \$61 million over four years, directly impact on NAQS activities and aim to support the management of new and growing biosecurity risks in northern Australia.

¹ Australian Bureau of Agricultural and Resource Economics and Sciences, *Agricultural Commodities* [Internet], Australian Government, Canberra, 2016-17, available from <http://www.agriculture.gov.au/abares/Pages/Agricultural-Commodities.aspx> [accessed 12 December 2018].

² Traditional activities are defined in the Treaty as 'activities performed by the traditional inhabitants in accordance with local tradition', and include gardening, collection of food, hunting, traditional fishing, religious and secular ceremonies or gatherings for social purposes (for example, marriage celebrations and settlement of disputes), and barter and market trade.

Rationale for undertaking the audit

5. Auditor-General Report No. 46 of 2011–12 *Administration of the Northern Australia Quarantine Strategy* identified weaknesses in data collection for scientific surveillance and inspection activities and in the performance monitoring framework, which impacted on the department's ability to assess the effectiveness of NAQS. The report made three recommendations, which the department agreed to implement:

Recommendation No. 1: To improve the effectiveness of scientific surveillance activity, particularly in relation to the plant science disciplines, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry strengthen existing arrangements for recording, monitoring and reporting survey and diagnostic data.

Recommendation No. 2: To provide meaningful data to inform border management decisions and measure performance, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry:

- improve quality assurance processes to help ensure that border operations data are accurate and complete; and
- analyse border operations data to calculate inspection and seizure rates and establish baselines for each Torres Strait arrival pathway.

Recommendation No. 3: To inform management decisions and improve accountability, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry:

- articulate a clear objective for NAQS;
- build on current work to develop performance measures that assess the extent to which NAQS is achieving this objective; and
- collect and analyse relevant and accurate performance data.

6. In November 2012 the Joint Committee of Public Accounts and Audit (JCPAA) reviewed Auditor-General Report No. 46 of 2011–12 and highlighted the need for the department to employ better data management systems and to make better use of its existing data to inform its management decisions.³ The JCPAA report made two recommendations:

Recommendation No. 8: That, using information currently available, the Department of Agriculture, Fisheries and Forestry calculate and maintain inspection and seizure rates of quarantine material for areas covered by the Northern Australia Quarantine Strategy zone, and use this information to inform management decisions regarding border operations.

Recommendation No. 9: That the Department of Agriculture, Fisheries and Forestry ensure that support for Northern Australia Quarantine Strategy activities is a high priority during the continuing development of the BioSIRT database in order to address the deficiencies identified by the Australian National Audit Office and in the Joint Committee of Public Accounts and Audit's review.

7. This audit was undertaken to assess the extent to which the department has implemented the recommendations from Auditor-General Report No. 46 of 2011–12. It also examined the department's response to the JCPAA report, the management of new projects funded by the White Papers and

³ Joint Committee on Public Accounts and Audits, *Report 435: Review of Auditor-General's Reports Nos. 33 (2011–12) to 1 (2012–13)*, November 2012, available from https://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=jcpaa/auditgen8_12/report.htm [accessed 14 November 2018]. The JCPAA report presents the Committee's examination of five performance audits selected for detailed review from twenty four audit reports presented to Parliament by the Auditor-General between May and August 2012. The report made a total of ten recommendations, two of which were relevant to Auditor-General Report No. 46 of 2011–12.

whether the additional funding has contributed to improving NAQS' effectiveness in managing the biosecurity risk in northern Australia. The audit provides assurance to Parliament on the management of biosecurity risk in northern Australia.

Audit objective and criteria

8. The objective of this audit was to assess the extent to which the department has addressed the recommendations from Auditor-General Report No. 46 of 2011–12 *Administration of the Northern Australia Quarantine Strategy*. The following high level criteria, reflecting the three recommendations in the 2011–12 report, were adopted.

- Does the department have effective arrangements for recording, monitoring and reporting scientific surveillance activity?
- Does the department have reliable border operation data to inform border management decisions and measure performance?
- Does the department have a robust performance measurement and reporting framework to assess the effectiveness of NAQS?

9. The scope of this audit also included a review of the department's management of the six White Papers projects that had direct implications on NAQS activities.

Conclusion

10. The department is progressing but has not yet fully addressed the recommendations from the Auditor-General Report No. 46 of 2011–12 or the 2012 report of the JCPAA's review of Auditor-General Report No. 46.

11. Through the implementation of the White Papers projects, the department is improving the effectiveness of its arrangements to record, monitor and report scientific surveillance activity and, in doing so, is addressing Recommendation No. 1 of Auditor-General Report No. 46 of 2011–12 and Recommendation No. 9 of the 2012 JCPAA report. To fully address the recommendations, the department should increase its level of assurance that surveillance activities conducted align to the risk prioritised in its target lists and risk areas.

12. The department has begun to address Recommendation No. 2 of Auditor-General Report No. 46 of 2011–12 and Recommendation No. 8 of the JCPAA report. The reliability and management of border operation data has improved substantially, but the data is not systematically used to inform border management decisions and measure performance. The department does not have a risk-based approach to inspection rates and prioritising inspection activities in the Torres Strait.

13. The department has not addressed key aspects of Recommendation No. 3 of Auditor-General Report No. 46 of 2011–12. The department has clearly articulated NAQS' objectives, but does not have a robust performance measurement framework to assess NAQS' progress against its objectives and its effectiveness.

14. The department has established robust management structures to support the implementation of the biosecurity projects funded under the White Papers. As at October 2018, four of the six projects were tracking well against time and budget.

Supporting findings

Managing scientific surveillance activities

15. The department's review of biosecurity risk in northern Australia has been partially effective. Its usual processes to review biosecurity risk have not been conducted since 2015. While alternative

processes have been adopted in the interim, the department has a lower level of assurance that surveillance resources are targeting species and areas of highest risk.

16. The relationship between risk priorities and surveillance activities is clear. When planning surveillance activities, the department adopts a robust approach to balancing biosecurity risk priorities with operational and external considerations. However, the department does not ensure that: the surveillance activities conducted in any one year align with the risks identified in the risk area profiles and target lists; and that sufficient risk coverage has been achieved.

17. The department does not yet manage surveillance data effectively. The department is developing new electronic systems, which are not fully operational but have started to demonstrate significant improvements in the way the department records, tracks, diagnoses and reports on surveillance and laboratory samples.

Managing the border with Papua New Guinea

18. The department's risk-based approach to border management is not fully effective. The department has adopted a risk-based approach to regulating the goods moving to, from and within the Torres Strait. It has not documented a risk-based approach to inspection rates and prioritisation of inspection activities.

19. The department's management of border operation data is improving but is not yet fully effective. Until February 2018, the data collected and managed by the department on border operation activities did not exist or was unreliable. Since February 2018, the reliability of inspection activity data has substantially improved and a better understanding of vessel, aircraft and cargo movements in the Torres Strait is emerging.

20. The department's arrangements with the ABF aimed at supporting NAQS activities in the Torres Strait are mostly effective. The agreement between the departments to carry out duties on behalf of each other has not been updated following the commencement of the Biosecurity Act in June 2016. As a result, there is a risk that the biosecurity duties that ABF officers are allowed to perform are not clear.

Performance measurement framework

21. The department does not have a robust performance measurement framework to assess NAQS' effectiveness. The department has clearly articulated the NAQS' objectives and the new NAQS objectives, outputs and performance measures provide a clear line of sight between strategic corporate documents and business-level planning tools. However, the majority of the performance measures have significant weaknesses in terms of relevance, reliability and, collectively, completeness.

22. The performance reporting developed for management purposes does not demonstrate the effectiveness of NAQS' activities. The reporting provides a picture of NAQS' activity at a point in time but, due to a lack of targets, does not enable a reliable assessment of performance against intended objectives or outputs.

Management of White Papers projects

23. The department has established a robust management structure, combining internal and external governance structures, to support the implementation of the White Papers projects in northern Australia.

24. As at October 2018, four of the six White Papers projects contributing to NAQS activities were on track. One of the other projects, the Enterprise Surveillance System, has experienced issues that have adversely impacted on its budget and timeframes.

Recommendations

Recommendation no. 1
Paragraph 2.15 The department periodically undertake a robust reconciliation process to verify that surveillance activities conducted each year aligned with the risks prioritised in the risk area profiles and target lists.

Department of Agriculture and Water Resources response: *Agreed.*

Recommendation no. 2
Paragraph 3.10 The department document a risk-based approach to inspections in the Torres Strait that describes the rate of inspections and how inspection activities should be prioritised.

Department of Agriculture and Water Resources response: *Agreed.*

Recommendation no. 3
Paragraph 4.16 The department develop a relevant, reliable and complete framework of measures to assess its performance in managing biosecurity risk in northern Australia.

Department of Agriculture and Water Resources response: *Agreed.*

Summary of entity response

25. The proposed report was provided to the Department of Agriculture and Water Resources, and an extract was provided to the Department of Home Affairs. Formal responses were received from the departments and the summary responses are provided below. The full responses are provided at Appendix 1.

Department of Agriculture and Water Resources

The department acknowledges the ANAO's overall findings and recommendations. The department is pleased the ANAO recognises the department's progress since the previous audit in 2012, and that the recommendations target areas to progress continued improvement. The department agrees with the three recommendations.

The department is pleased that the report highlights the robust approach to balancing biosecurity risk priorities with operational and external considerations. This is particularly relevant in the highly complex physical, cultural and regulatory environment in which the Northern Australia Quarantine Strategy (NAQS) is delivered, including in unique Torres Strait biosecurity zones, which the report acknowledges.

NAQS is an iconic program that, in its 30-year history, has helped to safeguard Australia's agricultural industries and unique environment across northern Australia. NAQS continues to be a fundamentally important contributor to the national biosecurity system and demonstrates the interconnected nature of the work the department undertakes across jurisdictions and with a range of stakeholders.

The department remains committed to effectively managing biosecurity risk in northern Australia, under a sound governance framework, in line with expert scientific advice, and in close connection with the community.

Department of Home Affairs

The Department of Home Affairs and the Australian Border Force (ABF) would like to thank the ANAO for the opportunity to comment on the extract.

The ABF and Department of Agriculture and Water Resources (DAWR) has a long and productive working relationship in a unique operating environment that relies on cooperation to provide border security and deliver services to the Commonwealth, including the administration of immigration, customs and biosecurity regulations.

Under the existing Memorandum of Understanding, ABF officers are occasionally requested to assist DAWR to monitor for quarantine and biosecurity risks. ABF officers refer any identified biosecurity concerns to a DAWR officer rather than exercise powers under the *Biosecurity Act 2015*. ABF officers can seek to achieve certain outcomes without the consent or cooperation of the individuals involved but are instructed to make a note and report the details to DAWR staff on their return. Importantly, ABF officers have comparable powers to examine, search and question people about goods under the *Customs Act 1901*.

We agree that formalising a working agreement with DAWR to deal with the duties carried out on behalf of each other through a Letter of Exchange or Memorandum of Understanding would be beneficial. As a priority, the ABF and DAWR are working to formalise a Letter of Exchange that will articulate roles, responsibilities and work instructions.

While this is occurring the ABF will continue to work under the existing arrangements with DAWR to assist in the monitoring of biosecurity and quarantine risks.

Key messages for all Australian Government entities

26. Below is a summary of key messages, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Australian Government entities.

Governance and risk management

- The anticipated benefits from projects aimed at improving the operation of existing programs should not compromise the effectiveness of the business-as-usual delivery of these programs.

Performance and impact measurement

- Measuring the impact of some programs may be challenging, for instance when effectiveness information is incomplete, does not exist or is too costly to collect. This should not deter entities from developing performance measures, using input, activity and output measures as proxies for effectiveness. When doing so, it should be clear why effectiveness cannot be measured, and how proxy measures provide confidence that the program is achieving its objectives.
- When designing a performance measurement framework, performance indicators and targets should be suitable for the program or function, relevant, reliable and complete, and have an appropriate balance between quality and quantity.

**The Australian Criminal Intelligence Commission's administration of the Biometric Identification Services project
No.24 2018–19
The Australian Criminal Intelligence Commission**

Background

1. On 1 July 2016, the Australian Criminal Intelligence Commission (ACIC) was created through the merger of the CrimTrac agency (CrimTrac), the Australian Crime Commission (ACC) and the Australian Institute of Criminology (AIC).¹ Prior to the merger, CrimTrac had commenced planning and initial administration of the Biometric Identification Services project (the BIS project or BIS).
2. BIS was a \$52 million project with two key goals:
 - replacement of the existing National Automated Fingerprint Identification System (NAFIS)²; and
 - addition of a facial recognition capability to enhance law enforcement's biometric capabilities.
3. A *Biometric Identification Solution Contract* was signed on 20 April 2016 between NEC Australia (NEC) and CrimTrac, just prior to ACIC's creation.
4. The BIS project encountered difficulties at an early stage. Despite intervention by the executive of ACIC and ultimately unsuccessful negotiations between ACIC and NEC, the ACIC CEO announced on 15 June 2018 that the project had been terminated.
5. When it became apparent that BIS would not be completed prior to the expiry in May 2017 of ACIC's contract with Morpho, the company that operated NAFIS, ACIC extended its contract with Morpho (for a substantially higher price). The NAFIS contract is now due to expire in May 2020. ACIC has yet to decide the future of NAFIS.

Rationale for undertaking the audit

- The audit was requested by ACIC's Acting Chief Operating Officer on behalf of ACIC on 14 February 2018; and
- the BIS (and the system it was to replace, NAFIS) are critical enabling systems for Commonwealth and state law enforcement. A threat to the availability of this capability would be of significant concern to the Australian Government.

Audit objective and criteria

6. The objective of this audit is to assess the effectiveness of ACIC's administration of the BIS project.

¹ This report refers to both CrimTrac and ACIC, depending on which agency was in existence at the time.

² NAFIS was (and remains) a finger and palm print database and matching system operated by CrimTrac since 2001 on behalf of Australian police forces to help solve crime and identify individuals and by border enforcement agencies (formerly the Department of Immigration and Border Protection and now the Department of Home Affairs) to support Australia's migration program.

7. The audit criteria are:

- Was the procurement process for the BIS project conducted in accordance with the Commonwealth Procurement Rules?; and
- Has ACIC effectively managed the BIS project to achieve agreed outcomes?

Conclusion

8. While CrimTrac's management of the BIS procurement process was largely effective, the subsequent administration of the BIS project by CrimTrac and ACIC was deficient in almost every significant respect. The total expenditure on the project was \$34 million. None of the project's milestones or deliverables were met.

9. The procurement was designed and planned consistent with the Commonwealth Procurement Rules and ICT Investment Approval requirements and the tender assessment process supported value for money. However, two critical requirements were overlooked in the requirements gathering phase and the approach to negotiating and entering the contract did not effectively support achievement of outcomes. This was a result of the contract not explaining the milestones and performance requirements in a manner that was readily understood and applied.

10. ACIC did not effectively manage the BIS project with its approach characterised by: poor risk management; not following at any point the mandated process in the contract for assessing progress against milestones and linking their achievement to payments; reporting arrangements not driving action; non adherence to a detailed implementation plan; and inadequate financial management, including being unable to definitively advise how much they had spent on the project.

Supporting findings

The tender process

11. The BIS procurement was largely effective. CrimTrac designed and planned the procurement consistent with the Commonwealth Procurement Rules and ICT Investment Approval requirements. Requirements were developed in conjunction with state and territory police, although two critical requirements were overlooked.

12. CrimTrac's approach to market supported a value for money outcome. The approach to market had sufficient reach and two valid tenders were received.

13. The tender assessment process supported value for money. It was transparent and consistent with planning documents and the Commonwealth Procurement Rules in that:

- there was appropriate weighting of selection criteria;
- internal and external probity advisers oversaw all phases of evaluation; and
- the Tender Evaluation Committee report to the delegate was comprehensive.

14. The approach to negotiating and entering the contract did not effectively support achievement of outcomes because the contract did not explain the milestones and performance requirements in a manner that was readily understood and applied.

Management of the project

15. The governance framework for BIS was not effective.

- Risk registers established for the project were not used effectively.
- External reviews in June and November 2017 identified the absence of a robust governance structure.

- ACIC's Audit Committee was not informed of the status of the project.
16. Contract management was not effective.
- The stipulated contract process by which progress against milestones and deliverables was to be assessed was not followed at any stage and ACIC thus had no way of assuring itself that it got what it paid for.
 - ACIC agreed to more than \$12 million in additional work. Documentation showed that some of this work may have been unnecessary and other work may have already been covered under the contract.
 - ACIC 'inherited' the former CrimTrac and ACC Electronic Document and Records Management Systems (EDRMS), leading to duplication and ineffective record keeping. Further, many staff did not use any EDRMS, instead keeping records on their own computers, in uncurated network drives or in email inboxes.
 - While a Benefits Management Framework was developed and evidence showed that a benefits realisation and documentation process was intended, it was not implemented.
 - An internal audit report had found that ACIC did not have an effective contractor management framework.
17. ACIC established appropriate arrangements for reporting to stakeholders. However these were not fully effective because they did not result in sufficient action being taken and the external stakeholders felt that reporting dropped off over time.
18. The contract provided an implementation plan including Solution Delivery and Solution Design, with more detail for Solution Delivery.
- The agreed schedule was not adhered to and was repeatedly extended before BIS was terminated in June 2018.
 - In order to maintain the uninterrupted availability of a national fingerprint capability for law enforcement, ACIC was obliged to renegotiate the existing NAFIS contract at a significantly increased cost.
19. Financial management of the BIS project was poor. ACIC's corporate finance area had no responsibility for management of the financial aspects of the BIS project; neither did the project team have a dedicated financial or contract manager. ACIC was unable to advise definitively how much they had spent on the project.
20. ACIC made a 'goodwill' payment of \$2.9 million to NEC which was not linked to the achievement of any contract milestone. ACIC was not able to provide details of how the quantum of this payment was calculated.

Summary of entity response

21. The proposed report was provided to ACIC. A summary of its response is provided below.

The Australian Criminal Intelligence Commission (ACIC) found the Australian National Audit Office's audit of its Biometric Identification Services Project to be thorough and comprehensive. It has revealed significant failures in the management and delivery of the project, and has identified opportunities for the ACIC to refine its practices in order to improve its delivery of information and intelligence services to law enforcement and national security agencies in Australia.

Key learnings for all Australian Government entities

22. The findings from this audit provide a range of learnings for other government departments managing technical bespoke procurement, which contains inherent risks due to its complexity or untested suitability.

Governance and risk management

- When managing a project of this nature, it is important that sound governance arrangements are in place, that have full oversight of progress, risks and mitigation plans, contingency planning and design and delivery challenges.
- An important element of governance is assurance mechanisms at each major decision making milestone – such as agreeing final business requirements for tender, or the technical deliverables in the contract – where the officer signing off tender scope or the contract has sufficient assurance that it contains all necessary business requirements, particularly those that are critical to the effective operation of the system or product. This assurance can come through adequately broad and deep consultation, assurance committees or technical advice.
- Where the project is significant relative to the size of the organisation’s budget or capability, then the project risks should form part of the broader organisational risk management structures and governance arrangements given the impact on the organisation if risks were realised.

Contract management

- Contracts must be clear in terms of deliverables, milestones, performance measures and accountabilities, and the entity should have strong contract management capability in place with clear reporting lines.
- Further, the entity should ensure that it obtains the right technical expertise such that risks, design challenges and contract deliverables are well understood and the negotiation position of the entity is evenly balanced with the successful tenderer.

Records management

- Given that personnel can change and machinery of government changes can occur, records are a critical part of informing future decision making and transparency and accountability for past decision making.
- Sound record management procedures should be in place not just for major projects but for all entity business transactions and decision making.