

ANAO Audit Reports tabled from 17 February to 11 May 2018

No.	Name	Entities	Date tabled
28	Defence's Procurement of Fuels, Petroleum, Oils, Lubricants, and Card Services	Department of Defence	19 February 2018
29	Unscheduled Taxation System Outages	Australian Taxation Office	20 February 2018
30	Design and Governance of the National Water Infrastructure Development Fund	Department of Agriculture and Water Resources; Department of Infrastructure, Regional Development and Cities; Department of the Prime Minister and Cabinet	28 February 2018
31	Managing Mental Health in the Australian Federal Police	Australian Federal Police (AFP)	7 March 2018
32	Funding Models for Threatened Species Management	Department of the Environment and Energy	19 March 2018
33	Implementation of the Annual Performance Statements Requirements 2016–17	Across Entities	28 March 2018
34	Defence's Implementation of the First Principles Review	Department of Defence	17 April 2018
35	Management of Special Appropriations	Department of Finance; Department of Social Services; Department of Industry, Innovation and Science; Department of Human Services	17 April 2018
36	Corporate Planning in the Australian Public Sector 2017–18	Department of the Treasury; Australian Transaction Reports and Analysis Centre; The Commonwealth Scientific and Industrial Research Organisation; Office of the Commonwealth Ombudsman	23 April 2018
37	Australian Broadcasting Corporation—Complaints Management	Australian Broadcasting Corporation	3 May 2018
38	Mitigating Insider Threats through Personnel Security	Across Entities	11 May 2018

Summary and recommendations

Background

1. The Australian Defence Force (Defence) procures, stores and distributes a combination of ten commercial and military grade fuels and lubricants to geographically dispersed locations to maintain the mobility of the Australian Defence Force (ADF). Military specification fuels include additives that Defence considers essential for the operation of its ships, aircraft and vehicles, often in demanding environments.
2. Fuel is Defence's largest single commodity expenditure, amounting to an annual spend of approximately \$423 million in 2016-17. In 2015, Defence undertook an open tender exercise to secure supplies of bulk fuels, petroleum, oils and lubricants, and fuel cards for the five year period from February 2016 until February 2021.
3. Defence's fuel supply chain has been the subject of numerous reviews over the past 15 years, both internal and external. These reviews have consistently identified weaknesses in Defence's fuel supply chain management.
4. The scope of this audit focuses on the 2015 procurement of bulk fuel, petrol, oil and lubricants and fuel card services. The audit also examines Defence's contract management arrangements and the controls framework for Defence's fuel inventory.

Audit objective and criteria

5. The objective of the audit was to assess whether Defence achieves value for money in the procurement of fuel. To form a conclusion against the objective, the ANAO adopted the following high-level audit criteria:
 - procurement processes complied with the Commonwealth procurement framework and relevant Defence requirements; and
 - Defence's contracting and purchasing arrangements achieve value for money for the Commonwealth.

Conclusion

6. Defence designed and implemented an effective competitive tender process but did not develop a negotiation strategy to maximise value for money and there remains scope to improve the effectiveness of contract management, purchasing and assurance arrangements to demonstrate that value for money is being achieved.
7. Defence's open tender and evaluation processes were fit for purpose. The processes were largely compliant with Commonwealth and Defence requirements. While the fuel pricing formula applied was industry standard, Defence was unable to demonstrate that value for money was maximised as Defence did not seek to negotiate lower prices for some components of the pricing formula before supply contracts were signed.

8. Defence's contract management would benefit from improved integration of key information systems and reduced manual intervention, including in the calculation of fuel prices.

9. Defence's ability to provide assurance over the management of its fuel supply chain is limited by infrastructure and information technology deficiencies and insufficient central data analysis. Defence is currently implementing some short-term initiatives to improve central oversight, however significant systems level improvement regarding assurance controls is not scheduled to commence until 2022.

Supporting findings

The Commonwealth procurement framework and Defence's internal requirements

10. Defence's procurement process for bulk fuel was largely compliant with the Commonwealth Procurement Rules and Defence's internal requirements. Weaknesses in administration related to:

- conflict of interest management—while Defence developed clear probity and conflict of interest plans, Defence did not appropriately manage a declared potential conflict of interest in relation to a key person on the Tender Evaluation Team;
- risk management procedures—a risk register for the procurement was developed early in the tender process, however it was not updated at key milestones during the process or when new risks emerged; and
- records management—Defence produced and retained all official evaluation reports but was unable to locate various working files and meeting records for the purposes of this audit.

The tender evaluation process

11. The complexity of the procurement was significant, with detailed requirements for over 100 geographically dispersed sites, multiple fuel types and several service requirements.

12. Defence's design of the tender evaluation process was fit for the purpose of dealing with this complexity. The Tender Evaluation Plan provided for multiple assessment stages, specialist working groups and comprehensive criteria.

13. Defence implemented the evaluation process and stages as outlined in its Tender Evaluation Plan. It produced the documents required for each stage of the evaluation and weighted criteria in line with the advice provided to tenderers. However, the clarity and transparency of Defence's decision making was reduced by a lack of adequate records underpinning the outcomes as determined by the tender evaluation working groups.

Value for money assessment

14. The 2015 fuels tender and evaluation process was designed to produce a value for money outcome. Defence undertook an open tender process, conducted detailed evaluation of tenders, considered price and non-price value, and applied an industry standard fuel pricing methodology.

15. Defence's failure to negotiate to attempt to achieve lower prices for some components of the fuel pricing formula before supply contracts were signed compromised its ability to demonstrate that value for money was maximised for the Commonwealth.

Managing the bulk fuel contracts

16. Defence's processes and controls over the calculation of fuel prices do not provide adequate assurance, with manual processes supplementing inadequate information technology systems. Defence's fuel management inventory system is still not fully integrated with Defence's financial management system.

17. Defence relies on a range of documents to guide contract management and oversight of each supplier's performance. Development of an internal procedural guidance document would assist staff and provide a source of corporate knowledge.

18. While Defence recognised that it required skills in the fuels services area not immediately available to it on the establishment of the Fuel Services Branch, it continues to rely heavily on contracted services at high cost.

Inventory management and assurance

19. Although Defence has some inventory management controls in place—such as physical security at large fuel installations—key elements of Defence's controls and assurance processes to detect volume discrepancies remain ineffective. Central data analysis is insufficient, and infrastructure and information technology systems require modernisation. These deficiencies have been known about for several years.

20. Defence is undertaking corrective action to enhance assurance controls and to better manage bulk fuel stocks pending more permanent reforms, which are planned as part of the Defence Fuels Transformation Program.

21. The development of a more contemporary and integrated system for collecting and storing fuel inventory data would strengthen risk management, the control and assurance framework and support more informed fuel purchasing decisions. Improvements to relevant infrastructure, IT and controls under the Defence Fuels Transformation Program are not scheduled to commence until 2022.

Recommendations

- Recommendation no. 1**
Paragraph 2.39
- That, for future procurements within the Fuels Services Branch, Defence:
- explicitly considers the potential conflicts of interest that may arise when employing individuals and contractors with recent industry experience; and institutes controls to ensure that all such matters are fully managed and documented;
 - reviews and updates procurement risk registers at a minimum at all key decision points and milestones, when risk events materialise and as new risks arise throughout a procurement; and
 - strengthen risk and records management by ensuring that all personnel involved are aware that tenders and related documents cannot be removed from Defence's classified systems without express authority by senior management.
- Recommendation no. 2**
Paragraph 2.89
- That for future procurements within the Fuels Services Branch, Defence conducts an independent evaluation of the 2015 fuel procurement process, strategy and arrangements to inform the next procurement process and to maximise a value for money outcome.
- Recommendation no. 3**
Paragraph 3.43
- To improve the management of its bulk fuel inventory, Defence should implement arrangements to provide assurance that control arrangements are working as intended.

Summary responses

22. A summary response from the Department of Defence is set out below. Kiah Consulting was provided with extracts of the draft report and its summary comments are also set out below.

Department of Defence

23. Defence welcomes the ANAO Audit Report into the Procurement of Fuels, Oils, Lubricants and Card Services and agrees with the recommendations.

24. Defence is satisfied with the value for money outcome achieved from the procurement process. In addition to price, Defence sought fuel suppliers which could provide Defence with assured cost-effective supply solutions that featured flexibility in meeting routine and surge requirements as well as support through alternate supply options or storage. The fundamental objective of the procurement process was the need for Defence fuel supply contracts to be able to supply volumes of fuel products as required by Defence to various physical locations across Australia within specific timelines.

25. Defence notes the recommendations provided build upon the progress currently being made by Defence across the Defence fuel supply chain. Many of these outcomes have stemmed from the Defence Fuel Network Review which was completed in June 2017. This review delivered an Implementation Strategy for the Future Defence Fuel Supply Chain; which led to the establishment of the Defence Fuel Transformation program to execute the Implementation Strategy. The Defence Fuel Transformation program is fully funded and Defence will be seeking Government endorsement later this year to progress this activity.

Kiah consulting

26. We appreciate the opportunity to make comment on the observations regarding probity and use of consultants that reflect on Kiah.

27. We seek to be clear that any probity process failure was outside of our influence and that we took care to ensure that any perceived conflict of interest was declared. While there may be some concern as to the process, we do observe that a purchaser turned supplier may present a conflict, but a 'poacher turned gamekeeper' simply makes for a knowledgeable consultant, however discomforted the suppliers may feel.

28. The view that consultants should be replaced by public servants is without foundation. We provide a managed services work program using consultants drawn from industry senior executives. Kiah consultants are working alongside Defence to re-establish a self-reliant Defence capability, operating safely to contemporary standards. This is not a role that can be achieved from within the public sector without assistance. The lack of expertise is what gave rise to the issues being addressed and the public sector simply cannot internally generate the expertise it needs.

29. When Defence urgently sought to establish the Fuels Services Branch (FSB), they leveraged two existing contracts. Since FSB has been established we have been competed three times, in addition to the competitive establishment of the panels. We have been awarded two contracts and a portion of a third, with Kiah providing about 50% of the overall consulting effort. We have repeatedly demonstrated our comparative value through competition.

30. The value of our contribution is also demonstrable and measureable. At a cost of around \$4m a year, effort and skills varying according to need, we have delivered contemporary industry practices at a fraction of what it cost industry when developed for them. We have been instrumental in delivering \$15m pa savings in operating costs and at least \$200m of avoided infrastructure spend. None of it would have been achievable by Defence without the introduction of diversity of thought and industry experience that we provide – otherwise the benefits would have been reaped already.

31. Defence has acted engaged wisely, sought competition and established a model that integrates Defence and the consultants for sustainable outcomes and knowledge transfer. We are disappointed that this is not recognised in the report.

Key learnings for all Australian Government entities

32. Below is a summary of key learnings identified in this audit report that may be considered by entities when managing procurements and large inventories.

Procurement

- Maximising value for money—relies on entities not only undertaking sound tender processes and assessments but also pursuing value for money through effective negotiation strategies.

Records management

- Retaining tender assessment working documents—the importance of entities officially filing both tender evaluation reports and detailed individual assessments or modelling to ensure their decisions are transparent and have an accessible audit trail.

Governance and risk management

- The dynamic and ongoing nature of risk assessment—while the development of risk assessments and plans is crucial, they must also be living documents updated at major decision points, when risk events materialise and when new risks arise.
- Implementing probity plans in full—processes and controls which ensure full implementation of probity plans assist entities to lower risk during procurements.
- The value of centralised assurance and data analysis—ensuring there are robust mechanisms in place to centrally collect and analyse data in order to investigate possible discrepancies, can help manage risk and provide confidence in the operation of complex systems or programs.

**Unscheduled Taxation System Outages
No.29 2017–18
Australian Taxation Office**

Background

1. The Australian Taxation Office (ATO) relies on information, communications and technology (ICT) systems to conduct its business, and online services have become the primary means of transacting with the ATO. It is important that the ATO's ICT systems are accessible, as there are few or no practical alternatives to doing business when these systems and services are unavailable.
2. Over the past year, the ATO has experienced a number of failures in system components that have led to system failures and unscheduled outages in its online services. The most significant system failures occurred in December 2016 and February 2017, and were caused by problems with the data storage area network.¹ In June 2017, the ATO released a report into these two system failures. Based on post incident reviews, the *ATO systems report* outlined the causes of the system failures and impacts on stakeholders, analysed the ATO responses and provided recommendations for more resilient and accessible systems and services in the future.

Audit approach

3. The objective of the audit was to assess whether the Australian Taxation Office has effectively responded to recent system failures and unscheduled outages.
4. The high-level criteria were that the ATO:
 - effectively responded to the particular system failures and outages;
 - revised its information, communications and technology (ICT) governance, systems and processes in line with the agreed recommendations in the post incident reviews of the system failures; and
 - has established and met service commitments and outage tolerances for ICT system availability.

Conclusion

5. The ATO's responses to the system failures and unscheduled outages were largely effective, despite inadequacies in business continuity management planning relating to critical infrastructure. The post-incident reviews commissioned and conducted by the ATO have informed the ongoing management of its ICT environment, including through strategies and actions to improve ICT governance, strengthen business continuity processes and address availability and resilience gaps in systems infrastructure.
6. The ATO has structured its response to the system failures of December 2016 and February 2017 around the 14 recommendations included in the *ATO systems report*. The ANAO considers that, at November 2017, the ATO had implemented four recommendations and partly implemented the remaining 10 recommendations. The implemented recommendations mainly relate to technical

¹ A storage area network is a dedicated high-speed network that interconnects shared pools of storage devices to multiple servers.

solutions to the particular system failures, while the broader initiatives to strengthen ICT governance and processes are underway. Considerable work is required to implement the recommendations before many of the intended and agreed outcomes are achieved.

7. The ATO does not have service commitments specifically relating to the availability of ICT systems but does specify system outage tolerances in its major contracts with ICT service providers. To monitor the impact of ICT service outages on satisfaction with its services, the ATO should develop service standards that are aligned with system outage tolerances in its contracts with ICT service providers.

Supporting findings

Responding to system failures

8. In response to the incidents in December 2016 and February 2017, the ATO invoked its business continuity management plan, but the plan included limited actions to correct ICT system failures associated with critical infrastructure including data centres. The business continuity processes also did not recognise weaknesses in ICT design—particularly that the system recovery tools used to restore ICT services were on the affected storage area networks—which resulted in services not being fully restored for ten days for the December 2016 incident and five days for the February 2017 incident. Despite limited planning for critical infrastructure failure, the ATO's responses to the incidents were largely effective, as it worked closely with the contracted ICT service providers to identify the system fault and restore services in line with activation guidelines, but could have better communicated with stakeholders throughout the incidents.

9. The ATO undertook extensive investigation into the system failures to understand their cause and inform the ongoing management of its broader ICT environment. The ATO commissioned key reviews into the system failures that resulted in eight reports on the cause and response to the failures, ICT governance, and the extent of availability and resilience gaps in the ICT environment. A major outcome of the reviews was the identification of 14 key areas for improvement that fall into five general themes: principles informing the ATO's ICT design; correcting the identified system faults; enhancing ATO capability to support infrastructure design and ICT governance; incident responses for the ATO and the wider tax system; and managing communications and business resumptions with stakeholders.

Initiatives to reduce system failures

10. The ATO has examined its ICT infrastructure to identify availability and resilience gaps, and has reviewed and updated its IT Program of Work and associated projects to focus on improving availability and resilience, particularly for the more important applications. The reviews have identified that further work is required to improve system design and deliver corporate objectives. At the time of audit fieldwork, there were no target dates or milestones for completing this work or implementing the two recommendations in this theme.

11. A new storage strategy was approved, and the failed storage area networks were replaced and independently certified for use in readiness for Tax Time 2017. Control systems used to manage data, monitor systems and restore services are now hosted on separate infrastructure. The implementation of the new IT Systems Improvement Program has improved resilience to system failures for most services, although further planned initiatives remain a work in progress. This recommendation is being implemented, and the other three recommendations in this theme have been implemented.

12. The ATO has implemented several initiatives to enhance systems capability and resilience, including accelerating the use of cloud computing services and in-house oversight on infrastructure architecture. Activities are underway to implement active monitoring systems and centralised logging of

transactional events across the infrastructure—this recommendation is being implemented, as are the other two recommendations from this theme.

13. The ATO has reviewed its business continuity framework and identified areas for improvement, with updates to key BCM artefacts including the BCM Team Plan and a *Practical guide to Business Continuity in the ATO*. Further activities are underway to mature the ICT incident management, communication and escalation workflow to better reflect effective planning and response to ICT-related incidents. Forums have been held with superannuation and tax agents to assist them in improving their own business continuity strategies to help improve the resilience of the entire tax and superannuation system. All three recommendations in this theme are being implemented.

14. The ATO has updated its communication strategy with a greater focus on providing relevant and useful information to internal and external stakeholders, using multiple channels, during system failures and unscheduled outages. The ATO has examined options to clearly communicate information about the application of general waivers and discretions in particular circumstances but has not resolved an approach—this recommendation is being implemented, and the other recommendation from this theme has been implemented.

Service commitments and outage tolerances

15. The ATO does not have clear service commitments relating to the availability of ICT systems. There are no explicit measures for ICT service availability and existing service commitments have only broad application—through survey questions about ease of accessing services and information, and doing business with the ATO, and measures of timeliness in processing lodgements. Accordingly, the ATO has not broadly monitored the impact of ICT service outages on satisfaction with its services.

16. Outage tolerances are included as service measures in service level agreements for the major ICT service contracts, and equate to high availability of services and systems. Tolerances have been internally reported as largely met in recent years, although the recent system failures have been excluded, which means performance has been overstated for 2016–17. With the major ICT service contracts scheduled to be renegotiated in 2018, the ATO has an opportunity to align service measures across its ICT contracts and also align service standards with the outage tolerances in its ICT service contracts.

Recommendations

Recommendation no.1
Paragraph 2.10 The ATO updates its Business Continuity Management, IT Service Continuity Management and Risk Management frameworks to improve and better integrate the identification and treatment of risks to critical infrastructure that may lead to system failures.

Australian Taxation Office response: *Agreed.*

Recommendation no.2
Paragraph 4.12 The ATO determines the level of availability of services associated with ICT systems to include in service standard(s) and subsequently reports performance against those standard(s).

Australian Taxation Office response: *Agreed.*

Recommendation no.3
Paragraph 4.29 The ATO includes tolerances in its ICT service contracts that align with service standards associated with ICT systems, where possible.

Australian Taxation Office response: *Agreed.*

Summary of Australian Taxation Office response

17. The Australian Taxation Office's response to the proposed report is provided below.

The ATO welcomes this review and considers the report supportive of our overall approach to managing our IT environment since the outages occurred in December 2016 and February 2017. The review complements the ATO and other independent reviews undertaken to date, and acknowledges the ATO's commitment and progress to improving the availability and resilience of our IT systems. As indicated in the ATO Systems Report published in June 2017, the system outages that we experienced in late 2016 and early 2017 were unexpected and to our knowledge unprecedented.

As acknowledged by the review, the ATO's responses to the outages have been largely effective and we have been committed to understanding the cause of the failures and applying these insights to enhance the services we provide to the community.

We have learnt from our experiences and have made many improvements to strengthen our systems. We have also improved our governance and business continuity management processes, as well as implemented improved monitoring. We will continue to work with our vendors and digital service providers to develop joint continuity plans.

This report identifies that, as at November 2017, the ATO had implemented 4 of the 14 recommendations identified in the ATO Systems Report, with the remaining 10 recommendations still in the process of being implemented. We can now report that 9 of the 14 recommendations have been fully implemented. The remaining five recommendations will be completed throughout this year.

The report also notes that the ATO engaged PwC to more broadly investigate the resilience of the ATO's ICT infrastructure in April 2017. This review was part of our long-term resilience program, and was aimed at identifying future investment priorities for the ATO to best ensure minimal disruption to services should the ATO ever experience further outages of the nature experienced in December 2016 and February 2017. The resilience risks identified by PwC as part of that review and discussed in this report do not relate to the likelihood of another infrastructure failure occurring, but rather what the likely impact would be on ATO services if such an event was to occur. An IT Systems Improvement Program is currently underway, and will continue over the next few years, to address the priority investment areas identified in this review.

In relation to service commitments that we will identify for the availability of services associated with ICT systems, as contemplated by recommendation 2 in the report, our intention is that we will manage the consequences associated with our performance against these commitments in the same way we do for our current service commitments. A range of existing mechanisms (such as Parliamentary scrutiny) already exist to hold the ATO accountable for performance against our service commitments, and we consider these mechanisms would be equally applicable in this case.

The ATO agrees with the three recommendations contained in the report.

Key learnings for improvement for all Australian Government entities

18. Below is a summary of key learnings and areas of good practice identified in this audit report that may be considered by other Commonwealth entities when managing enterprise ICT systems.

Governance and risk management

Governance arrangements

- With the increasing reliance on contracted ICT service providers to deliver services, entities should review their ICT governance arrangements to:
 - monitor the performance of systems, ideally with active monitoring systems;
 - assess the delivery of contracted services using reliable data;
 - establish ICT procurement guidelines to accommodate a changing digital environment, including the transition towards new technology and service providers; and
 - ensure that the entity, as the service integrator, provides effective oversight and control of the outsourced environment.

Business continuity processes

- Conduct a comprehensive business impact analysis to identify business processes that are critical to continued service operation; design risk treatments to identify and mitigate the risks of system failures; and periodically test the risk treatments.
- Store system recovery tools used to restore ICT services across multiple systems.
- In response to major system failures, conduct extensive reviews and establish a clear and timely program of work to improve the management of the ICT environment.

Service commitments

- Define service commitments for online services, including the availability of ICT systems, and specify equivalent maximum acceptable system outage tolerances in ICT service contracts.

Design and Governance of the National Water Infrastructure Development Fund

No.30 2017–18

Department of Agriculture and Water Resources

Department of Infrastructure, Regional Development and Cities

Department of the Prime Minister and Cabinet

Background

1. In advance of the 2013 Federal Election, the Coalition released its *2030 Vision for Developing Northern Australia* policy paper that committed to ‘investigating the establishment of a Water Project Development Fund to support the advancement of meritorious proposals for water infrastructure across northern Australia, including dams and groundwater projects’.

2. In June 2015, the Government announced the establishment of the National Water Infrastructure Development Fund (the Fund). The objective of the \$500 million Fund is to:

start the detailed planning and to build or augment existing water infrastructure, including dams, pipelines or managed aquifer recharge. This will help secure the nation’s water supplies and deliver regional economic development benefits for Australia, whilst also protecting the environment.

3. The Fund has two components:

- a feasibility component of \$59.5 million over four years from 2015–16—including approximately \$30 million for projects in northern Australia—to fund, or contribute to the funding of, early scoping and feasibility assessments of infrastructure proposals; and
- a capital component of \$440 million over eight years from 2017–18—including up to \$170 million for projects in northern Australia—to contribute towards the construction costs of infrastructure projects (with a maximum contribution of 50 per cent of such costs).¹

4. The design of the Fund was informed by a number of separate precursor and concurrent processes over the period from November 2013 to July 2015 including:

- the *Agricultural Competitiveness* and *Developing Northern Australia* White Paper processes—each assisted by a taskforce established within the Department of the Prime Minister and Cabinet (PM&C) involving officers seconded from multiple Australian Government entities;
- an examination by the Joint Select Committee on northern Australia—comprising Members of Parliament and Senators;

¹ Funding transfers subsequent to the Fund’s establishment resulted in a net reduction of \$0.5 million to the Fund.

- the *Water Infrastructure Options Paper* process (March 2014 to August 2014)—prepared by the Minister for Agriculture and Water Resources (the Minister) with support from a Ministerial Working Group on Water Infrastructure.² The Department of Agriculture and Water Resources (Agriculture) assisted the Ministerial Working Group, with support from an interdepartmental working group;
 - advice to Government on the establishment of the National Water Infrastructure Development Fund—prepared by Agriculture, with assistance from an interdepartmental working group; and
 - PM&C in its capacity as advisor to the Prime Minister throughout the processes listed above.
5. As at December 2017, the Australian Government had committed the following contributions to water infrastructure projects under the Fund:
- \$25 million to four feasibility projects announced in the *Developing Northern Australia* White Paper in June 2015 when the Fund was established;
 - \$32.3 million to 34 feasibility projects and \$45.6 million to one capital project proposed by the state and territory governments that were approved by the Minister and/or Government after a merit assessment undertaken by Agriculture³;
 - \$249.8 million to water infrastructure election commitments announced in the lead-up to the 2016 election that were subsequently incorporated into the Fund.⁴
6. While all feasibility component funding has been committed to projects, \$146.9 million of the capital component remains available to fund further projects.

Audit approach

7. The objective of the audit is to examine the effectiveness of the design and governance of the National Water Infrastructure Development Fund (the Fund).
8. To form a conclusion against the audit objective, the ANAO adopted the following high level audit criteria:
- Was an appropriate design process established to support the achievement of the Government’s objectives for the Fund?
 - Was a sound governance framework established for the Fund, including robust performance monitoring, reporting and evaluation arrangements?
9. The audit did not examine the merits-based assessment and selection of projects under the feasibility and capital components of the Fund, or the subsequent management of projects.

² The Ministerial Working Group on Water Infrastructure comprised: the Minister (chair); Deputy Prime Minister (and Minister for Infrastructure and Regional Development); Minister for the Environment; Assistant Minister for Infrastructure and Regional Development; and the Parliamentary Secretary to the Minister for the Environment.

³ With assistance from a Technical Expert Panel, the Water Infrastructure Investment Governance Board (for capital proposals) and Infrastructure Australia (for capital proposals greater than \$100 million).

⁴ The Australian Government’s contributions to water infrastructure projects committed under the Fund are listed individually in Appendix 2 of the report.

10. Agriculture administered the Fund until January 2018. In January 2018, after the completion of audit fieldwork, Machinery of Government changes resulted in the transfer of administrative responsibility for dam infrastructure programs, including the Fund, from Agriculture to the Department of Infrastructure, Regional Development and Cities. Recommendations related to Fund governance have been directed to the Department of Infrastructure, Regional Development and Cities.

Conclusion

11. The design of the National Water Infrastructure Development Fund (the Fund) was effective. There is scope to improve governance arrangements to better support the implementation of the Fund.

12. Informed by extensive stakeholder consultation, the advice prepared by Agriculture on the design of the Fund was sound in relation to the rationale for the Fund's feasibility component and the expected outcomes of the Fund, as well as its funding composition and duration, and design arrangements. The advice could have more clearly: outlined the evidence-base for including a capital component to the Fund; justified the capital funding envelope; and set out implementation arrangements at the time of the Fund's approval. The advice provided to Government by Agriculture and PM&C informing the selection of the four Fund projects for announcement in the *Developing Northern Australia* White Paper was not underpinned by consistent assessment processes demonstrating that the most meritorious projects were recommended.

13. Appropriate oversight and project assessment arrangements have been established by Agriculture to support the implementation of the Fund. There were, nonetheless, weaknesses in program planning, risk management, and processes to demonstrate the proper use of relevant money, which put at risk effective implementation of the Fund going forward. In addition, the Fund's performance monitoring, measurement and reporting framework requires further development to enable Agriculture to report against the Fund's objectives.

Supporting findings

Program design

14. The Fund was established following a 2013 election commitment from the then Coalition Opposition. An evidence-based rationale for the Australian Government's intervention in accelerating investment in water infrastructure through support for feasibility studies and water resource assessments, particularly in northern Australia, was developed by Agriculture. The rationale for the Fund's capital component relied more on assertions about project readiness than evidence, particularly taking into account the lack of 'shovel ready' projects and long lead times to progress projects through development phases. The advice to Government on the selection of the first Fund feasibility studies and water resource assessments announced in the *Developing Northern Australia* White Paper was not underpinned by documentation demonstrating: that all projects were assessed consistently and categorised on merit; and the rationale for project funding recommendations from the broader field of projects under consideration.

15. Agriculture and PM&C took adequate steps to identify lessons learned from previous programs and reviews that informed the design of the Fund.

16. Input was obtained and considered from relevant stakeholders external to the Australian Government through multiple structured forums. This input was used to inform advice to Government on the design of the Fund. The interdepartmental working group that developed the Options Paper and advice to Government on the design of the Fund sought the advice of officials with relevant skills, expertise and experience from its member organisations.

17. Overall, the advice Agriculture provided to Government on the design of the Fund in June 2015 was sound. Both the justification for, and expected outcomes from, the Fund were clear, although the choice of a grants-based funding model in preference to alternative funding and delivery options could have been better substantiated. While the composition and duration of funding was justified clearly, the size of the capital funding envelope was not. The Fund's design supports the likelihood of the Fund achieving its objectives with value for money, but implementation details were lacking in advice to decision-makers at the time of the Fund's approval. After the 2016 election, Agriculture also provided appropriate advice to Government regarding the incorporation of the water infrastructure election commitments into the Fund.

Program governance

18. Appropriate arrangements have been established to oversee the implementation of the Fund. Oversight is provided by departmental senior executives, with assistance from the division's Water Project Board. The Minister also received briefs on Fund progress. Further, the entities responsible for the implementation of the White Paper initiatives also receive regular updates of Fund status, although its effectiveness as an oversight mechanism would be improved if actual Fund progress was compared to expectations documented in the Fund implementation and project plans.

19. A fit-for-purpose Implementation Plan was established to initially guide Fund implementation, which was later supplemented by a Project Plan for the Fund's capital component. Implementation of the Fund's feasibility component, however, continues to be governed by the Implementation Plan that has not been updated to reflect program design and scheduling changes that occurred since 2015.

20. Agriculture has undertaken risk management planning for the Fund inconsistently and in a manner that makes it difficult for the department to monitor the implementation of risk treatments. Evidence has not been retained demonstrating that Fund risks, including the implementation and effectiveness of risk treatments, identified in risk management plans have been formally monitored at the program level since the Fund commenced in 2015. Additional risks arising from incorporating 2016 election commitment water infrastructure projects into the Fund have not been assessed in risk registers. Consolidated Fund risks are monitored and reported quarterly to Agriculture's executive management committee.

21. A sound framework for assessing and selecting merit-based proposals has been established which included appropriate plans and guidance for assessors, including in relation to conducting consistent assessments, and managing probity and conflict of interest. Agriculture's merit assessment processes support the Minister's decisions that the selected projects represented a proper use of relevant money. However, Agriculture's recommendations to the Minister to approve three White paper project announcements

and two 2016 election commitments under the Fund did not sufficiently justify that expenditure on these projects would represent a proper use of relevant money.

22. The performance monitoring, measurement and reporting framework for the Fund requires further development for Agriculture to report on achievements against the Fund's objective. A suitable range of relevant, reliable and complete performance criteria for the Fund has yet to be developed. The ability of the established project monitoring arrangements to capture and aggregate the information necessary to report on the achievement of Fund objectives is uncertain. Public reporting of Fund performance has thus far been limited to activity-based indicators or status information.

Recommendations

Recommendation no.1
Paragraph 2.39 The Department of Agriculture and Water Resources and the Department of the Prime Minister and Cabinet ensure that the basis on which key program design elements and features are determined are appropriately documented and retained.

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

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

Recommendation no.2
Paragraph 3.11 The Department of Infrastructure, Regional Development and Cities review and update the key governance plans for the National Water Infrastructure Development Fund to reflect current program design, parameters and scheduling.

Department of Infrastructure, Regional Development and Cities' response: *Agreed.*

Recommendation no.3
Paragraph 3.27 The Department of Infrastructure, Regional Development and Cities update the risk management plan for the National Water Infrastructure Development Fund to reflect departmental risk management guidance and regularly monitor the implementation of risk treatments, changes in risk ratings and emerging risks.

Department of Infrastructure, Regional Development and Cities' response: *Agreed.*

Recommendation no.4
Paragraph 3.38 The Department of Infrastructure, Regional Development and Cities ensure that legislative requirements for committing public money under the National Water Infrastructure Development Fund are met and appropriately documented.

Department of Infrastructure, Regional Development and Cities' response: *Agreed.*

**Recommendation
no.5**

Paragraph 3.51

The Department of Infrastructure, Regional Development and Cities further develop and implement the monitoring and evaluation plan for the National Water Infrastructure Development Fund to support the ongoing monitoring and reporting of progress towards achieving the Fund's objective.

Department of Infrastructure, Regional Development and Cities' response: *Agreed.*

Summary of entity responses

23. The summary response to the report from each entity is provided below.

Department of Agriculture and Water Resources

The department welcomes the audit's overall conclusions and findings. The department is pleased that the report acknowledges that the design of the National Water Infrastructure Development Fund (the fund) was effective, that overall the advice provided on the design of the fund was sound, and that appropriate arrangements were established by the department to oversee the implementation of the fund.

The department is also pleased the report recognises that the department developed an evidence-based rationale for accelerating investment in water infrastructure feasibility studies and that adequate steps were taken to identify lessons learned from previous programs and reviews to inform the design of the fund.

The department agrees with the recommendation directed to the department that *the basis on which key program design elements and features are determined are appropriately documented and retained.*

The department acknowledges the importance of appropriate records management in enabling the department to meet its business, legislative and accountability requirements. The department is committed to ensuring staff are aware of and fully comply with their record management responsibilities and seeks to foster a culture that promotes good record management practices. This commitment is supported by an ongoing training and user education program for all staff to ensure the greatest possible compliance with records management requirements within the agency.

Department of Infrastructure, Regional Development and Cities

The Department of Infrastructure, Regional Development and Cities (the department) welcomes the audit's overall conclusions and findings. The department is pleased the report acknowledges that the design of the National Water Infrastructure Development Fund (the Fund) was effective, that overall the advice provided on the design of the Fund was sound, and that appropriate arrangements were established by the department to oversee the implementation of the Fund.

The audit report recognises that an evidence-based rationale was developed for accelerating investment in water infrastructure feasibility studies and that adequate steps were taken to identify lessons learned from previous programs and reviews to inform the design of the Fund.

The department agrees with the recommendations of the report and is taking action to implement these recommendations as part of the transfer of administrative responsibility for the Fund. The department is currently updating key governance and risk management

documentation and strengthening monitoring and evaluation planning. The department is committed to ensuring legislative requirements for the commitment of public money are met and appropriately documented.

Department of the Prime Minister and Cabinet

The Department welcomes the audit's overall finding that the design of the National Water Infrastructure Development Fund was effective. We also note the audit found the design of the Fund was informed by extensive consultation with relevant stakeholders, incorporated lessons learned from previous processes and was based on sound advice.

We acknowledge there were elements of the process which could be improved upon, particularly that agencies could have better documented the basis on which key program design elements and features were determined. The Department is strengthening its internal record keeping practices in response to this finding.

Key learnings for all Australian Government entities

24. Below is a summary of key learnings and areas for improvement identified in this audit report that may be considered by other Commonwealth entities when designing and governing programs.

Policy/Program design

- For continuous improvement, transparency and accountability purposes, entities should ensure that appropriate documents are retained to record the basis on which advice was developed for government consideration, particularly in relation to the need for the program and size of the funding envelope.

Policy/Program implementation

- When seeking ministerial approval of proposed expenditure under the *Public Governance, Performance and Accountability Act 2013*, entities should assist their Ministers to demonstrate that they have met their requirements to make reasonable inquiries that the proposed expenditure represents a proper use of relevant money.

Governance and risk management

- Entities should ensure that key program planning documentation is updated as necessary to reflect current program design, parameters and scheduling.
- Entities should regularly monitor and document the implementation of risk treatments, changes in risk ratings and emerging risks.

Performance and impact measurement

- As part of the design process for new programs, entities should ensure that program performance indicators are, and performance information will be, complete, reliable and relevant.

Summary and recommendations

Background

1. Managing employee mental health effectively is a challenge faced by policing and first responder organisations around the world. This includes the Australian Federal Police (AFP) as the Australian Government's primary policing agency responsible for the enforcement of Commonwealth laws and the protection of Australian interests from criminal activity, both domestically and overseas. To fulfil this role the AFP is responsible for a diverse range of functions, the delivery of which place a range of unique demands and stressors on AFP employees.
2. Safe Work Australia's Work-Related Mental Disorders Profile 2015 concluded that first responders—police, emergency and health services—were the combined occupational group most likely to make a workplace compensation claim based on mental health injury, with incidence rates and costs substantially exceeding other occupational groups.

Audit objective and criteria

3. The objective of this audit was to examine the effectiveness of the Australian Federal Police in managing employee mental health.
4. To form a conclusion against the audit objective, the ANAO adopted the following high level criteria:
 - Has the AFP implemented sound governance and risk management practices to manage employee mental health?
 - Is the AFP effectively managing employee mental health throughout their career lifecycle?
 - Are sound monitoring, reporting and evaluation arrangements in place to assess the effectiveness of the AFP's management of mental health?

Conclusion

5. The AFP lacks a comprehensive and consolidated organisational health and wellbeing framework to enable effective management and support of employee mental health. While the AFP offers a variety of mental health support services, there is no evidence that these services are effective and they are not supported by sound governance, risk management, evaluation or articulated business rationale. Any reform of the portfolio of services available should be made in the context of available data on employee access, areas of high stress and risk, gap analysis, organisational culture and employee preferences.
6. The AFP has identified gaps in its management of employee mental health across the organisation and has commenced processes, within existing organisational constraints, to improve the management of employee mental health, which is a complex and sensitive challenge for the AFP and other first responder organisations. Since the end of 2016, eight initiatives have commenced to improve mental health management across the AFP, including a review of AFP's mental health support services, the establishment of a Mental Health Strategy Board, the launch of an expanded Welfare Officer Network and a wellbeing app—Equipt.

7. While currently developing a mental health framework, the AFP has not established a clear governance structure for decision-making, information sharing and oversight in relation to employee mental health arrangements. Reporting into the governance structure is not comprehensive or risk-based, making it difficult to identify emerging mental health related risks and to utilise this reporting to inform decision making in resource prioritisation to address increasing mental health risks.
8. The AFP formally included mental health as a strategic risk to the organisation in October 2016, however this risk identification has not led to substantive engagement and coordinated identification of mental health risks faced by all of the AFP's functional areas.
9. The AFP does not currently have in place mechanisms or sufficient data to appropriately align resources with key mental health risks.
10. Screening processes are in place to assess the suitability of employees' psychological readiness for sworn roles. These are undertaken consistently as part of the recruitment process into the AFP. Required screening processes are not always taking place prior to an existing employee commencing in a high risk / specialist role with the AFP. Therefore the AFP is not provided with the assurance that all employees in these roles have been assessed as suitable for high risk roles.
11. Individual training courses have been developed by the Psychological Services team in response to operational requests in specific areas, however the AFP does not have a specific mental health training framework that identifies the competencies and resilience levels required by employees at different stages in their AFP career to inform delivery and prioritisation of training.
12. Current mechanisms used for identifying employees at risk of psychological injury are limited in effectiveness and do not occur routinely.
13. There are weaknesses with the AFP's rehabilitation and return to work arrangements for employees suffering from a psychological injury sustained during their employment with the AFP. These relate to the lack of mental-health specific rehabilitation policies, procedures and training.
14. The AFP has a range of mental health support services available for employees to access. Recent employee feedback has indicated that the availability and effectiveness of these services is varied, and that there are no systemic arrangements to evaluate support service effectiveness on an ongoing basis. Feedback also indicated that cultural barriers to accessing support and assistance reduces the potential impact of these services.
15. Information on employee mental health is held across a range of disconnected information systems and multiple hardcopy records which make it difficult for the AFP to monitor and respond to emerging issues.
16. The AFP undertakes a range of internal reporting on mental health metrics and performance for internal oversight committees.
17. The external review currently being conducted of the AFP mental health support services, commenced in 2017, provides the AFP with the opportunity to inform the selection and resourcing of the most effective mix of support services to support the mental health needs of AFP employees.

Supporting findings

Governance and risk management

18. The AFP does not have in place an organisational health and wellbeing strategy which incorporates policies, programs and practices to address mental health risks. The AFP is developing a draft Mental Health Framework and Mental Health Strategic Action Plan, and finalisation of these is dependent upon the outcome of a review of AFP mental health services that was not yet finalised at the time of drafting this report.

19. The AFP has defined the roles and responsibilities of individual employees and managers at different organisational levels for supporting employee mental health. However, the AFP has not established a clear governance structure for decision-making, information sharing and oversight in relation to employee mental health arrangements. This includes both organisational and committee arrangements.

20. The AFP formally recognised mental health as a strategic risk to the organisation and began developing treatment actions in October 2016. This strategic risk identification has not led to substantive engagement by all functional areas. Employee mental health has not been consistently identified as a risk in the AFP's functional risk assessments and it is not evident that the AFP is co-ordinating the management of mental health as a shared risk (that is, between Organisational Health and functional areas).

21. The AFP does not have arrangements to ensure resources and funding are aligned to key mental health risks.

22. AFP allocates centralised funding to the Organisational Health function to resource mental health support activities. Each functional / geographical area may choose to allocate a portion of its annual operating budget to employee mental health but there is no information or assurance that funding is being spent in line with risk.

Prevention, identification and return to work of psychological injury

23. The AFP has established employment screening processes for mental health but these are not fully effective. The AFP has in place structures for undertaking assessments to ensure that employees possess the physical and psychological competencies required for AFP work. ANAO analysis indicates that required psychological assessments are being undertaken consistently at the pre-employment stage, however are not being undertaken in all instances prior to internal staff movements into specialist roles with higher mental health risk profiles.

24. The AFP has arrangements in place for preventing psychological injury but these are not fully effective as the AFP does not have a specific mental health training framework as a pre-emptive measure to improve employee resilience.

25. The AFP relies on three key mechanisms for identifying employees at risk of psychological injury: employee self-reporting; supervisor observation; and mental health assessments and psychological debriefs following deployment. There are limitations that reduce the effectiveness of these mechanisms, specifically:

- cultural barriers that reduce the likelihood of AFP employees self-reporting psychological injury;
- limited training and support for supervisors in identifying and supporting employees at risk of psychological injury; and
- inconsistent delivery and tracking of mandatory mental health assessments and psychological debriefs.

26. There are weaknesses with the AFP's rehabilitation and return to work arrangements for employees suffering from a psychological injury sustained during their employment with the AFP. In particular, the draft 2017 AFP Mental Health review identified the lack of mental health-specific rehabilitation policies and the absence of mental health training for rehabilitation case managers to allow them to inform, assess or guide appropriate return to work for staff with psychological injury. Improving return to work arrangements to support better outcomes for injured employees remains a challenge for all organisations.

Mental health support services

27. The services offered by the AFP are not fully effective in supporting employee mental health. The AFP has seven support services available to employees that have mental health support elements, in addition to a range of related initiatives. Feedback from the draft 2017 AFP Mental Health Review and audit interviews with AFP personnel indicates that the availability and effectiveness of these services is varied. There are no systemic arrangements to evaluate the effectiveness of support services on a regular basis.

28. The AFP does not have a framework in place to evaluate the effectiveness of mental health support services and management arrangements. In 2017 the AFP commenced an external review of mental health support services for employees. The review is examining the AFP support services. In 2017, AFP also undertook an internal review of the Confidant Network.

29. In developing the strategy for managing AFP employee's health and wellbeing, the AFP should incorporate regular reviews of the effectiveness of the mental health support services, as well as evaluating the appropriateness of overall mix of services in terms of coverage, use by employees and value for money.

30. The AFP's information on employee mental health is held across a range of disconnected information systems and multiple hardcopy records which make it difficult for the AFP to monitor and respond to emerging issues in employee mental health.

31. The AFP holds data in areas such as workplace health and safety incident reporting, Comcare claims, unscheduled leave, exposure to critical incidents and explicit material and information on deceased personnel which, if linked and analysed appropriately, could assist in identifying known psychological injury risk factors. There is an opportunity for the AFP to conduct such analysis and inform more targeted monitoring and support services.

Recommendations

Recommendation no.1
Paragraph 2.21 The ANAO recommends that the AFP develop a comprehensive organisational health and wellbeing strategy and governance arrangements based on an integrated approach to staff mental health and wellbeing which incorporates policies, programs and practices that address the AFP's specific risk profile.

Australian Federal Police response: *Agreed.*

Recommendation no.2
Paragraph 2.32 The ANAO recommends the AFP analyse, define and report on mental health risks across the organisation in a consistent manner and develop arrangements to align employee mental health and wellbeing resources to areas assessed as highest risk. During this process the AFP should also assess the effectiveness of the existing controls and treatments used to mitigate mental health risks.

Australian Federal Police response: *Agreed.*

Recommendation no.3
Paragraph 3.19 The ANAO recommends that the AFP implement a mandatory mental health training framework for all AFP employees, tailored to the various capability requirements throughout their career lifecycle that provides information on identifying signs and symptoms of mental health injury (in self and others) as well as guidance on how to conduct meaningful conversations with staff and colleagues about their mental health.

Australian Federal Police response: *Agreed.*

Recommendation no.4 The ANAO recommends that the AFP develop formal processes to monitor and provide assurance that:

Paragraph 3.41

- (a) employees in specialist roles have their psychological clearance in place before commencing in the role; and
- (b) mandatory mental health assessments and psychological debriefs are undertaken for all those who require them, in a timely manner.

Australian Federal Police response: *Agreed.*

Recommendation no.5 The ANAO recommends that the AFP, in reviewing available support service options, uses a risk based approach to determine the optimal mix of services to target identified organisational mental health risks, including:

Paragraph 4.40

- (c) linking the outcomes of that review with the development of an organisational health and wellbeing strategy;
- (a) ensuring the health and wellbeing strategy also addresses the cultural change required to support and encourage employees to access mental health services when required, particularly after involvement in critical incidents or prolonged exposure to high stress roles; and
- (b) establishing performance measures for the selected support services, and implementing monitoring and evaluation arrangements to ensure those services are systematically assessed.

Australian Federal Police response: *Agreed.*

Recommendation no.6 The ANAO recommends that the AFP:

Paragraph 4.62

- (a) consolidate disparate systems and hard copy records in order to establish an electronic health records management system that allows a single point of access to high level health information for each AFP employee; and
- (b) establish a strategy for analysing employee health information against data in areas such as workplace incident reporting, Comcare claims, unscheduled leave, exposure to explicit material and information on deceased personnel in order to assist in identifying and addressing known psychological injury risk factors.

Australian Federal Police response: *Agreed.*

Summary of entity response

32. The proposed audit report was provided to the AFP. An extract of the proposed report was provided to Davidson Trahaire Corpsych.

33. Formal responses to the proposed audit report were received from the AFP and Davidson Trahaire Corpsych. If the entity provided a summary response, these are below.

Australian Federal Police

34. Thank you for the opportunity to consider and provide comment to the proposed report to Parliament on Managing Mental Health in the Australian Federal Police. The high risk nature of the operational work undertaken by AFP employees carries an inherent risk of psychological harm and/or injury. To that end, I [the AFP Commissioner] welcome your report to assist myself and the AFP to

continue to improve the support and services we provide to our staff to provide the highest level of safety and wellbeing for them. The AFP has provided a full response to the Australian National Audit Office addressing each recommendation, in addition to this summary response.

35. As your report highlights, there are unique considerations in the delivery of health and wellbeing services for high-risk organisations such as the AFP. The dynamic and evolving nature of crime means our support areas must be as agile, responsive and adaptable as possible. The AFP recognised the need for enhanced mental health support and in 2016 engaged Phoenix Australia to undertake a review of mental health in the AFP.

36. We acknowledge that the AFP needs to change in order to meet the growing demand and complexity of the environment in which the AFP operates. Even within current staffing levels, the AFP is working under immense pressure and ongoing activity at current operational tempo will increase health risks for its staff.

37. We have invested significant resourcing over many years in employee health however know we have some way to go in this journey. I thank the Australian National Audit Office for prioritising the mental health of AFP employees in producing this report. The senior leadership group and I are committed to prioritising and protecting the mental health of all our employees.

Key learnings for all Australian Government entities

38. Below is a summary of key learnings and areas for improvement identified in this audit report that may be considered by other Commonwealth entities in managing the mental health of employees.

Governance and risk management

- Enterprise level risks can be managed centrally, or under a distributed model. When management of whole-of-organisation risks is distributed to business areas, systems should be put in place to ensure that the decisions of line areas support the priorities of the Executive
- Entities should have in place systems to provide the Executive with assurance that risks are being actively managed in accordance with organisational risk appetite, risk management policies and guidelines, including the implementation of risk treatments.

Contract management

- In cases where contract managers are not end-users of a contracted service, there is an increased risk that shortcomings in service provision will not be identified promptly. Assurance mechanisms should be put in place to regularly review contract performance and seek feedback from users.

Records management

- Record systems that consist of multiple independent databases and physical files inhibit attempts to analyse and identify trends and emerging or changing business risks. Entities should ensure that information can be aggregated in a form which provides sufficient insight into performance and risk, particularly of organisational priorities

Funding Models for Threatened Species Management

No.32 2017–18

Department of the Environment and Energy

Summary and recommendations

Background

1. Australia has globally distinct ecosystems comprising diverse flora and fauna derived from the continent's isolation and unique environmental conditions. The richness of this biodiversity makes it recognised as one of the world's 'megadiverse' countries. Approximately 85 per cent of its flowering plants, 84 per cent of its mammals, 45 per cent of its birds and 89 per cent of its reptiles occur only in Australia. Since European settlement, however, more than 130 of Australia's known species have become extinct. Three documented cases of extinction have occurred since 2009.

2. The Australian Government gives effect to its responsibilities for threatened species through the *Environment Protection and Biodiversity Conservation Act 1999* (the EPBC Act). The EPBC Act provides for the listing, classification and recovery planning of threatened species. The Government is also responsible for coordinating and prioritising threatened species recovery across states and territories. The Department of the Environment and Energy (the department) is responsible for administration of the EPBC Act and for implementing the Government's approach to threatened species management. At January 2018 there were 1811 threatened species listed under the EPBC Act.

3. In July 2014, the Australian Government initiated a new national focus for threatened species management, with the appointment of a non-statutory Threatened Species Commissioner (the Commissioner). Over the following 12 months the Commissioner led the development of Australia's first national Threatened Species Strategy (the Strategy). The Strategy established the long-term goal to halt the decline of Australia's threatened species and support their recovery through four key action areas:

- tackling feral cats;
- safe havens for species most at risk;
- improving habitat; and
- emergency intervention to avoid extinctions.

4. In February 2017 the Australian Government launched the Threatened Species Prospectus (the Prospectus). The Prospectus is an innovative model for attracting private and philanthropic investment to support the recovery of threatened species in partnership with government and conservation and community groups.

Audit objective and criteria

5. The objective of the audit was to assess the effectiveness of the Department of the Environment and Energy's design of the Threatened Species Prospectus as an innovative approach to attract investment from private and philanthropic sources. To form a conclusion against the audit objective, the ANAO adopted the following high level audit criteria:

- Was an appropriate design process established to support the achievement of the Government's objectives?
- Was a sound performance and reporting framework established, including fit-for-purpose performance monitoring, reporting and evaluation arrangements?

Conclusion

6. The Department of the Environment and Energy's design of the innovative Threatened Species Prospectus was effective, other than the lack of a fit-for-purpose performance framework.

7. Within the broader framework established by the Threatened Species Strategy, the design of the Prospectus was an innovative approach in supporting the Government's intent of promoting projects likely to be attractive to private and philanthropic investors. A total of 51 projects were selected for inclusion in the Prospectus through a largely informal process following stakeholder engagement.

8. The department is not well placed to monitor and report on the effectiveness of the Prospectus in attracting additional funding for threatened species recovery from private and philanthropic investors. Limited performance data is collected against the targets of the Threatened Species Strategy. The department has commenced an evaluation of the Prospectus as part of a broader evaluation of the Threatened Species Commissioner model.

Supporting findings

9. Consistent with the Australian Government's strategy of pursuing external opportunities for funding threatened species programs, the department developed two designs for the Prospectus through an iterative process. The first iteration promoted a mix of Australian Government projects co-funded with states and territories and unfunded projects for which private and philanthropic investment was sought. The final design solely targeted private and philanthropic sectors with investment opportunities. The department's rationale for the final design was undocumented.

10. The department's selection of species and projects for inclusion in the Prospectus was largely informal. The use of a plan and criteria to guide the selection of projects would assist the department to ensure that the Prospectus contains projects that would be most effective in attracting private and philanthropic investment to contribute to the broader objective to halt the decline and support recovery of threatened species.

11. The department invited relevant stakeholders to contribute to the design of the Strategy and propose projects which were considered in the development of the Prospectus. Stakeholders were engaged through established networks, a Threatened Species Summit and social media. The provision of further information by the department on the rationale for selecting projects and the outcome of stakeholder contributions would assist in maintaining effective external engagement.

12. The governance arrangements for the Prospectus are a sub-set of those established for the Strategy, which includes appropriate oversight by departmental committees. In practice, the Commissioner has not fully engaged with these forums in relation to the Prospectus. There is scope for the department to further develop its management of probity risks with respect to the role of informal advisers and the selection of projects.

13. The department is yet to establish a fit-for-purpose performance measurement framework for the Prospectus and its success in attracting external investment. While performance reporting is undertaken against the objective and targets of the Strategy, it does not provide a clear line of sight to private and philanthropic investment attracted through the Prospectus.

14. The data collected by the department to inform monitoring and reporting on the Prospectus could be strengthened through the implementation of relevant, reliable and complete performance measures. This would better position the department and stakeholders to assess the effectiveness of the Prospectus as an innovative means to attract external investment and the impact of projects on threatened species.

15. The department has commenced an evaluation that will focus on the initiatives championed by the Commissioner. As part of this evaluation the department has undertaken to assess whether

the Prospectus has been a useful mechanism for harnessing and attracting resources and building interest in public-private partnerships.

Recommendations

Recommendation No. 1 The Department of the Environment and Energy develop fit-for-purpose performance measures to better inform itself and stakeholders on the extent to which the Prospectus is achieving its objective.

Department of the Environment and Energy response: Agreed.

Summary of entity responses

16. The Department of the Environment and Energy's summary response to the proposed report is provided below.

The Department agrees with the recommendation in the report.

The Department acknowledges the pragmatic approach of the Australian National Audit Office in recognising the innovative nature of the Threatened Species Prospectus, and appreciates efforts to examine this approach early on in its delivery, in order to help inform future government endeavours to build innovative funding models.

Reporting on project funding is being included in yearly reporting on implementation of the Threatened Species Strategy to the Minister for the Environment and Energy. The Department will continue to work with partners to track government investment in Prospectus projects, through reporting mechanisms such as the Monitoring, Evaluation and Reporting Information Tool.

Where the Department fulfils only a brokering role for Prospectus projects, we will rely on our relationships with Prospectus partners to seek information for tracking outcomes arising from their investment in those projects.

Developing innovative funding and partnership models for a range of environmental outcomes is an area of focus for the Department. The Department has a dedicated team focused on facilitating cross-sector partnerships for environmental outcomes. The findings of this audit will contribute to the development of a whole-of-department approach to innovative financing and partnerships.

The Department has a high level of oversight of the Threatened Species Strategy through a formal board structure, and will ensure that the board continues to monitor Prospectus implementation. The Department is also increasing the use of social media channels, such as the Threatened Species Commissioner's social media accounts, to communicate outcomes delivered through Prospectus projects.

Key learnings and opportunities for improvement for Australian Government entities

17. Below is a summary of key learnings identified in this audit report that may be considered by other Commonwealth entities.

Program design

- When implementing an innovative approach to achieving outcomes, entities should establish a performance framework to identify early lessons and facilitate ongoing program development.
- A documented plan for implementing an innovative approach will assist in assuring entities that the intended outcome has been achieved.

Implementation of the Annual Performance Statements Requirements 2016–17

No.33 2017–18

Australian Sports Commission

Australian Trade and Investment Commission

Department of the Environment and Energy

Department of Jobs and Small Business

Background

1. The current performance measurement and reporting requirements for Commonwealth entities (corporate and non-corporate) are established under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the accompanying *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule). The introduction of the PGPA Act was intended to establish a strong performance reporting system to demonstrate to the Parliament and the public that resources are being used effectively and efficiently.¹
2. The PGPA Act and PGPA Rule, and any formal guidance issued by the Department of Finance, are collectively referred to as the Commonwealth performance framework (the framework).² The framework is principles based, and focuses on entities designing their performance measurement and reporting to provide sufficient performance information to users, including operating context, to allow an assessment of progress against intended purposes. The aim is to provide users with a greater understanding of how entities have utilised resources, not just in producing outputs, but also the entity's impact and efficiency in delivering outcomes.
3. The Auditor-General has flagged to the Joint Committee of Public Accounts and Audit (JCPAA) and the Parliament, the intention to position the ANAO to conduct annual audits of performance statements. This would provide a similar level of assurance to the Parliament and the public as provided by mandatory annual audits of financial statements.³ The JCPAA provided their support for this approach, and in *Report 469: Commonwealth Performance Framework*, released on 7 December 2017, recommended amending the PGPA Act in this context. The Committee also referred this matter to the attention of the Independent Review of the PGPA Act.
4. This performance audit follows ANAO Report No.58 2016–17 *Implementation of the Annual Performance Statements Requirements 2015–16*, which was the ANAO's first examination of entities' implementation of the annual performance statements (performance statements) requirements. Report No.58 identified a number of key learnings for entities in regard to the appropriateness of performance criteria; processes supporting the development, collection and assurance of performance information; and recordkeeping to support the results reported in the performance statements. The timing of this audit is intended to inform entities' development of 2018–19 Corporate Plans and the publication of 2017–18 Performance Statements.

¹ *Public Governance, Performance and Accountability Bill 2013 Explanatory memorandum*, paragraph 85.

² Department of Finance, *Functions of Audit Committees: Reviewing the Appropriateness of Performance Reporting, including for 2016–17 Annual Performance Statements*, p. 2.

³ Commonwealth, JCPAA Official Committee Hansard, Commonwealth performance framework—Auditor-General's reports No. 6 (2016–17), 31 (2015–16) and 58 (2016–17), 6 September 2017, Mr Grant Hehir, Auditor-General.

5. The Department of the Environment and Energy (Environment), the former Department of Employment (Employment)⁴, the Australian Trade and Investment Commission (Austrade) and the Australian Sports Commission (the Sports Commission) were selected to participate in this audit on the basis of a review of their respective 2016–17 Corporate Plans. The mixture of entities, reflected by two departments of state, a non-corporate Commonwealth entity, and a corporate Commonwealth entity, was considered to provide the opportunity to make observations that would be relevant to a range of Commonwealth entities. By sharing key learnings this audit aims to continue to facilitate improved understanding and implementation of the performance reporting framework.

Audit objective, rationale and criteria

6. The objective of the audit was to continue to examine the progress of the implementation of the annual performance statements requirements under the PGPA Act and the PGPA Rule by the selected entities. 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.

7. To form a view against the audit objective, the following high level criteria were adopted:

- the selected entities complied with the requirements of the PGPA Act and PGPA Rule;
- the performance criteria presented in the selected entities' PBS, corporate plans, and performance statements were appropriate⁵;
- the selected entities had effective supporting frameworks to develop, gather, assess, monitor, assure and report performance information; and
- sufficient records were retained to support the results reported by the selected entities against the performance criteria in the performance statements.

Conclusion

8. All of the entities met the requirement to publish performance statements under section 39 of the PGPA Act. Each of the entities' performance statements also contained the basic elements (statements, results and analysis) set out in section 16F of the PGPA Rule. However, improvements to the quality of those elements, including the development of purposes that better define impact, and more appropriate performance measures, are still required by entities to support the presentation of meaningful performance information to the Parliament and the public under the PGPA Act.

9. Each of the entities had processes to support the coordination and collation of the performance statements. The ANAO observed the scale and complexity of processes varied depending on the entity, and the implementation of those processes required improvement in some instances. The effectiveness of the systems, methodologies, and assurance processes established for the collection and reporting of performance information also varied across the selected entities. In particular, this impacted the accuracy of information presented in Environment's and the Sports Commission's performance statements.

⁴ The Department of Employment was renamed the Department of Jobs and Small Business following the Administrative Arrangements Order amendment, issued 20 December 2017.

⁵ The criteria for assessing the appropriateness of an entity's performance measures can be found at **Error! Reference source not found.**

10. Observations made in this report indicate that there is still some way to go in the maturity of entities' implementation of the annual performance statements requirements.

Supporting findings

Measurement and reporting of performance

11. All of the entities met the requirement to publish performance statements under section 39 of the PGPA Act. Each of the entities' performance statements also contained the basic elements (statements, results and analysis) set out in section 16F of the PGPA Rule. However, improvements to the quality of those elements presented by Employment, Environment and the Sports Commission are required for the performance statements to provide more meaningful information to the Parliament and the public.

12. Each of the entities' corporate plans had areas that may be improved to support the quality of performance measurement and reporting presented in the performance statements. This included clearly describing the impact intended to be achieved in an entity's purpose, and focusing on outlining significant, rather than minor or supporting, activities to provide a meaningful basis for measuring performance.

13. Each of the entities' performance criteria require improvement to support the reporting of progress against their purpose/s. The majority of the selected entities' performance criteria were assessed as either demonstrating all, or most of, the characteristics of relevance. However, less performance criteria were able to fully demonstrate the characteristics of reliability, with the majority only mostly or partly meeting this criterion. The completeness of performance criteria is a particular area requiring consideration, including increasing the use of effectiveness and efficiency measures, or where appropriate, making clear the intention to use input, activity and/or output measures as proxies. Entities are also not realising the full potential arising from the minimum four year horizon of corporate plans, by developing performance criteria that assess a mixture of short, medium and long-term objectives.

14. The selected entities had all either made minor improvements to their 2017–18 Corporate Plan, or were establishing arrangements to consider and/or implement improvements to their 2018–19 performance measurement and reporting cycle. The observations within this report should be considered as part of any ongoing efforts by each of the selected entities to improve performance measurement and reporting in future reporting periods.

Systems and processes to support measurement and reporting of performance

15. Each of the entities had processes to support the coordination and collation of the performance statements. The ANAO observed the scale and complexity of processes varied depending on the entity, and the implementation of those processes required improvement in some instances. This included where a central unit charged with developing and improving an entity's performance reporting lacked sufficient influence to effect changes necessary to improve an entity's performance measurement and reporting.

16. The effectiveness of systems and methodologies established for the collection and reporting of performance information varied across the selected entities. An absence of clearly documented methodologies, or where the chosen methodology led to a result that did not reflect the measure as described, were areas requiring improvement by each of the entities.

17. Processes were established by all four entities to provide assurance that the results reported in the performance statements were an accurate representation of performance. Observations made in other sections of this report regarding the appropriateness of the selected entities'

measures, systems, methodologies, and the accuracy of results supported by suitable records, indicate that there is still some way to go in the maturity of entities' consideration of, and audit committees' assurance and advice on, entity performance reporting.

18. The results and analysis presented in Austrade's and Employment's performance statements accurately presented their performance. Environment's and the Sports Commission's performance statements each presented results and analysis that contained inaccuracies and/or were not supported by suitable records.

Recommendations

Recommendation no.1 Entities review their performance measurement and reporting frameworks to develop measures that provide the Parliament and public with an understanding of their efficiency in delivering their purpose/s.

Paragraph 2.81

Department of Jobs and Small Business response: *Agreed.*

Department of the Environment and Energy response: *Agreed.*

Australian Trade and Investment Commission response: *Agreed.*

Australian Sports Commission response: *Agreed.*

Recommendation no.2 Environment review the design of its performance measurement and reporting framework to ensure it is addressing the requirements of the *Public Governance, Performance and Accountability Act 2013*, to demonstrate progress against its purpose/s and provide meaningful information to the Parliament and the public.

Paragraph 2.105

Department of the Environment and Energy response: *Agreed.*

Recommendation no.3 The Sports Commission review the design of its performance measurement and reporting framework and in particular its purpose, to address the requirements of the *Public Governance, Performance and Accountability Act 2013*.

Paragraph 2.110

Australian Sports Commission response: *Agreed.*

Recommendation no.4 Environment, Austrade and the Sports Commission review their audit committee charters to ensure they reflect the requirements of section 17 of the *Public Governance, Performance and Accountability Rule 2014*.

Paragraph 3.69

Department of the Environment and Energy response: *Agreed.*

Australian Trade and Investment Commission response: *Agreed.*

Australian Sports Commission response: *Agreed.*

Summary of entity responses

19. Summary responses from the selected entities are provided below.

Department of Jobs and Small Business

The Department of Jobs and Small Business is continuing to make improvements to its performance framework. The work of the ANAO in the performance audit of the *Implementation of the Annual Performance Statements Requirements 2016–17* has provided valuable analysis to inform the work already underway to improve the Department's performance information. As the ANAO intended, the timing of this audit will support the Department in its development of the 2018–19 Corporate Plan and the publication of its 2017–18 Annual Performance Statements.

Department of the Environment and Energy

The Department agrees to recommendations 1, 2 and 4.

The Department welcomes the report and acknowledges that it contains valuable information to guide improvements to the implementation of performance reporting of the audited entities, and more broadly across the Australian Public Service. The Department also recognises the report will support clarification of our audit committee's role in improving the effectiveness of non-financial performance reporting.

The Department is committed to addressing the issues raised in the report. As with other major reform agendas, we note mature implementation of the enhanced Commonwealth performance framework will take several years. We have already commenced a targeted review and revision of our performance measurement and reporting framework. This provides a sound basis from which continuous improvement of our performance reporting systems and processes can build.

The scheduled review of the Portfolio Audit Committee Charter in 2017 was put on hold until the release of this report, specifically to reflect its key learnings, and finalisation of the Department of Finance's guidance for audit committees.

The Department will now progress with the scheduled review of the Portfolio Audit Committee charter.

Australian Trade and Investment Commission

Austrade agrees with the ANAO's findings, which will assist Austrade in ongoing performance measurement reform across the entire cycle of planning, monitoring, analysis and reporting. Austrade will continue active engagement with the Department of Finance, including participation in the Community of Practice.

Australian Sports Commission

The Australian Sports Commission welcomes the ANAO's findings and acknowledges the support provided by the ANAO through the review process. In early 2017, under the direction of a new Chief Executive Officer, the ASC commenced the development of a new strategic plan and has commenced a process of enhancing its performance framework. The ASC will use the findings in this report to continue to improve the plan and performance framework.

Department of Finance

The Department of Finance supports the findings of the report.

Key learnings for all Australian Government entities

20. The key learnings summarised in ANAO Report No.58 2016–17 *Implementation of the Annual Performance Statements Requirements 2015–16*, remain a valid reference point for entities seeking to improve their performance measurement and reporting. Below is a summary of further key learnings identified during this audit that may be considered in meeting the performance statements requirements set out by the PGPA Act and PGPA Rule.

Corporate planning and performance frameworks

- Design a framework that encompasses the complete cycle of performance measurement and reporting.
- Establish expertise to provide advice and guidance on performance measurement and reporting, accompanied by sufficient executive support.

Presentation of results and analysis

- Performance statements should not rely on additional information presented elsewhere in an annual report to provide a complete picture of performance.
- Focus on the quality of analysis presented in the performance statements, including the overall progress against the purpose.
- Establish a connection to how the risk and capability elements outlined in the corporate plan have influenced performance.

Relevance, reliability and completeness of performance criteria

- Performance criteria should be designed to address the accountability needs of the Parliament and the public, focusing on the impact and efficiency that is being achieved.
- The use of input, activity and output measures as proxies for effectiveness, collectively or individually, should be explicitly stated in the corporate plan and performance statements.
- Avoid using technical terms or language that requires a higher level of assumed knowledge by the Parliament and the public.
- Describe the method of measurement or assessment for each performance criteria in the corporate plan.
- Consider performance criteria that assess a mixture of short, medium and long-term objectives including, where appropriate, beyond the four year horizon of the corporate plan.

Systems, processes and methodologies

- Identify data sources and assess collection methods as part of the development of performance measures to determine whether suitable information will be available at the end of the reporting period.
- Clearly document the methodologies used to determine performance results to promote consistent and accurate reporting.

Assurance processes

- Develop a clear understanding by management representatives of the performance framework to increase the level of assurance provided by management certifications.
- An audit committee may still provide reasonable assurance while concluding that an entity's performance reporting requires improvement to be appropriate, provided this is drawn to an accountable authority's attention.

Accurate presentation of entity performance

- Evaluate whether current arrangements supporting the accurate presentation of information in the performance statements are sufficient to meet the requirements of the PGPA Act.

Defence's Implementation of the First Principles Review

No.34 2017–18

Department of Defence

Background

1. The Minister for Defence commissioned the First Principles Review of Defence (the Review) in August 2014. The Review was 'designed to ensure Defence is fit for purpose and able to promptly respond to future challenges'. In April 2015, following government consideration, the Minister for Defence released the report of the Review, entitled *First Principles Review: Creating One Defence*.
2. The Review made 76 recommendations, of which six were key recommendations. The Government agreed or agreed in-principle to 75 recommendations. The Review set out a high level implementation plan in its last chapter, which envisaged that 'the vast majority of the change should be delivered within two years'. That two-year period ran from 1 July 2015 to 30 June 2017.

Audit objective and criteria

3. The objective of the audit was to assess the effectiveness of Defence's implementation of the First Principles Review.
4. The ANAO adopted the following high-level audit criteria:
 - Defence has established sound governance arrangements for the implementation of the First Principles Review.
 - Defence has implemented the recommendations agreed by government in the report of the First Principles Review, *Creating One Defence*.
 - Defence can demonstrate that the intended outcomes of the First Principles Review are being achieved.

Conclusion

5. Defence has implemented a substantial number of the most important recommendations of the Review—relating to building a strong strategic centre within Defence and reforming the capability development process. The implementation of other important recommendations—including the reform and consolidation of Defence's Systems Program Offices and enabling services—remains a work in progress. Achieving full implementation and the intended results of this agenda will require continued focus across Defence for several more years. Defence is not yet in a position to demonstrate that it has achieved all the intended outcomes of the Review.
6. Defence established sound governance arrangements for the implementation of the First Principles Review, which were commensurate with the importance and scope of the activity. The Secretary and Chief of the Defence Force (CDF) invested substantial time and effort, and were seen by Defence as leading the implementation. Responsibility for implementation tasks was clearly allocated to the most senior leaders in the Defence Groups. The implementation schedule was closely monitored and reporting to senior management was regular and thorough. Progress reports were provided to the Government as scheduled. Progress reports have also been provided to the Parliament. Nonetheless, the Joint Standing Committee on Foreign Affairs, Defence and Trade has requested that Defence develop a transparent reporting mechanism by 31 March 2018. Although

Defence indicated to the Government that efficiency improvements would be possible, no quantifiable savings have been identified.

7. Defence has implemented the Review recommendation to establish a strong strategic centre to strengthen accountability and top level decision-making. Generally, the recommendations leading to changes in organisation structure and changes in responsibility have been introduced promptly, including some important legislative changes. Introduction of the contestability function to test Defence investment proposals has been successful to date and is operating well. There has also been improved engagement with central agencies, but opportunities remain to improve the policy function, especially in regard to ministerial engagement.

8. Defence has established a single end-to-end capability function by implementing major organisational changes, such as the delisting of the Defence Materiel Organisation, creating the Capability Acquisition and Sustainment Group, and developing a new Capability Life Cycle.

9. Reform of the Systems Program Offices is expected to run until 2023. Completion of this significant project will be required to realise many of the expected improvements in the efficient, effective and professional delivery of military capability.

10. Defence has undertaken action to close all but one of the enabling services recommendations, the outstanding recommendation being among estate enabling services. Defence's ability to improve enabling functions is limited by the lack of a coordinated, enterprise-wide plan to address the inefficiencies identified by the Review in the Service Delivery work stream. Defence has implemented the recommendations in the Workforce stream, but implementing the Strategic Workforce Plan, including Defence White Paper People initiatives will take until 2021. Defence has implemented the recommendations relating to behaviours. Defence is not yet able to demonstrate that the intended outcomes of the recommendations relating to enabling services, workforce and behaviour have been achieved.

11. Defence is now evaluating whether its implementation of Review recommendations has achieved the intended outcomes. Initial evaluation plans included only selected elements of the Review; however, Defence has now decided to adopt a more comprehensive evaluation framework encompassing all elements of the Review.

Supporting findings

Implementing governance arrangements

12. Defence identified clear responsibility for implementation at the outset, with the Secretary taking a leading role in chairing the Implementation Committee and maintaining momentum throughout the initial two-year implementation period. In addition, Defence gave Australian Public Service Senior Executive Service Band 3 or Australian Defence Force 3-star officers responsibility for each of the work streams comprising the implementation.

13. Defence has actively managed the implementation schedule, which has been a focus of the work of the Implementation Committee throughout the initial two-year implementation period. This reflects the priority placed by the Review on moving to the *One Defence* model as quickly as possible. Monitoring by an Oversight Board, and its reporting to the Minister for Defence, has provided further scrutiny and an additional incentive for Defence to focus on the implementation schedule. The Secretary and Chief of the Defence Force have also sought progress reports and written to senior Defence leaders to maintain schedule pressure.

14. Defence has actively monitored and reported progress to its Implementation Committee weekly throughout the implementation period. The Implementation Committee has provided regular detailed updates to the Defence senior leadership group (APS senior executive service and ADF star-ranked officers) and to all staff in monthly email updates.

15. Defence officials have reported to the Oversight Board's regular meetings throughout implementation. The Board has reported to the Minister in the form of monthly letters from the Board chair and the chair has briefed the Minister personally. Two scheduled progress reports by Defence to the Government (in 2016 and 2017) were delivered, and a third is expected in mid-2018.

16. Reporting to the Parliament has occurred through a statement made by the Minister on the progress of implementation, in June 2017. Defence has also provided updates to the Senate Foreign Affairs, Defence and Trade Legislation Committee from October 2016. Written updates to this Committee have focused on recommendations that Defence considers complete; however, the Joint Standing Committee on Foreign Affairs, Defence and Trade has requested that Defence develop a transparent reporting mechanism by 31 March 2018 that demonstrates changes in effectiveness or efficiency resulting from the First Principles Review.

17. Defence managed implementation costs as 'business-as-usual' and did not seek to identify those costs separately.

18. The advice seeking the Government's agreement to the Review stated that there were areas where efficiencies were possible. No quantifiable savings have been identified by Defence, either at that point or since.

19. Defence has relied on contractors and consultants to implement key reforms, particularly in the Capability Acquisition and Sustainment Group. While there are areas where Defence claims to have successfully transferred knowledge to Australian Public Service staff, Defence also acknowledges that there remain areas where knowledge transfer needs to be undertaken.

Implementing the recommendations on the creation of a strong strategic centre

20. Defence has clarified top-level accountabilities and reduced the number of voices at the top—including a reduction in membership of the Defence Committee from 17 to 6. The number of senior committees has been reduced from 72 to 26.

21. Defence has implemented greater control of strategy-setting by strengthening the decision rights given to the Vice Chief of the Defence Force and by removing the statutory powers of the Service Chiefs. Organisational changes have been made to support improved policy advice, though opportunities remain to improve the policy function, especially in regard to ministerial engagement. A new contestability function has been introduced, which has been operating well.

22. Planning and performance monitoring reforms remain a 'work-in-progress' and work towards improved efficiency measures has not yielded a demonstrable result. The results of an opportunity for improved efficiency—through a more integrated Defence headquarters—are not yet apparent.

23. Defence has taken steps to engage more effectively with government. It has arranged meetings between the Minister for Defence and the Defence Committee to consider strategy, funding and capability. Central agencies now participate in Defence's new Integrated Investment Committee. The Government's agreement to a new, risk-based approach to considering capability acquisition proposals has addressed the Review's concern about approval thresholds.

24. The Defence Science and Technology Group undertook analysis to set out the value it brings to Defence. The Group's senior management has been trimmed and it remains a separate Group within Defence. The benefits from possible outsourcing of elements of Defence Science and Technology Group's work have not yet been assessed.

25. Defence has consolidated its geospatial functions. However, further action will be required to assess progress and ensure the restoration of the capability, as recommended by the Review.

Establishing an end-to-end capability development function

26. Defence has implemented the recommended top-level structural changes to support an end-to-end capability function, including the creation of a new Capability Acquisition and Sustainment Group and disbanding the Capability Development Group. It subsequently closed the recommendation that Capability Managers specify Fundamental Inputs to Capability, though later evidence suggests that this has not been adequately achieved. Defence has advised the ANAO that it has put a new process in place to address this risk. A new management structure has also been adopted in Capability Acquisition and Sustainment Group to address the Review finding that Defence's acquisition organisation had become top-heavy, complex and unnecessarily deep.

27. One of the most substantial changes to flow from the Review, the review and reform of Systems Program Offices, is continuing and the process is expected to continue until 2023.

28. Defence has established both a new Capability Life Cycle (based on a joint, integrated perspective) and a revised, risk-based investment process. A stakeholder survey after a year of operation of the new Capability Life Cycle was positive but indicates: an ongoing need for cultural and behavioural change at middle management levels and below; and that sustainment still tends to be overlooked in comparison with acquisition.

29. Defence introduced its new Integrated Investment Program in early 2016, to replace the Defence Capability Plan. Although Defence began work on a total cost of ownership model for major new capabilities in 2016, it is not yet clear whether this model is in active use.

Implementing the recommendations on enabling services, workforce and behaviour

30. Defence has implemented the recommendations on estate and information management by developing plans and schedules that enable progress to be resourced, monitored and reported through appropriate channels within Defence.

31. Defence's implementation of the recommendations relating to service delivery has had an initial focus on improving the customer experience. Defence has implemented the organisational changes required to meet the recommendations, but has no comprehensive plan to address the inefficiencies identified in the Review and through Defence's benchmarking. This limits Defence's ability to maximise the effectiveness and efficiency of enabling services and meet recommendation 3.0.

32. Defence has taken action to implement workforce recommendations, but much work remains to address the workforce-related issues identified in the Review. A strategic plan has been developed for which Defence expects most activities to be complete by 2019. The use of Australian Defence Force personnel in non-Service roles has been reviewed but it is not clear whether all transactional work in Defence is being conducted in the most efficient way. There has been a small increase in spans of control at some levels, but Defence has reported no significant change in the number of organisational layers.

33. Defence has implemented the recommendations on behaviour through a range of initiatives to create a more professional culture and improve performance. Defence is not yet able to demonstrate that it has achieved the intended outcomes although evaluation of these initiatives is under way. Defence advised in March 2018 that Recommendation 4.6 was closed in February 2018.

Achieving the intended outcomes of the First Principles Review

34. Defence identified the intended outcomes for each Review work stream, based on the problems articulated in the Review, and documented those outcomes as measures of success in work stream charters at the commencement of implementation in 2015. The concept of measuring the intended outcomes of the Review was not considered again until 2017.

35. Defence has not yet evaluated its achievement of the intended outcomes of the Review. Originally, it commenced a limited evaluation of progress in selected areas of the Review using baseline data from September 2017, two years after the implementation period. In December 2017, Defence decided to extend the scope of its evaluation to all work streams. As a separate exercise, Defence has developed a plan for ongoing reform—the One Defence Project Plan.

36. Table S.1 summarises Defence’s progress in implementing the six key recommendations of the Review.

Table S.1: Summary of First Principles Review progress

Key Recommendation	Status (March 2018)	Reference in this report*
1.0 Establish a strong strategic centre to strengthen accountability and top level decision-making	<p>Substantially completed</p> <p>Major changes have been implemented but further work is required in these areas:</p> <ul style="list-style-type: none"> • planning and performance monitoring and the introduction of improved efficiency measures; • implementation of changes to ADF Headquarters; and • restoration of a fully functional geospatial capacity. 	Chapter 3
2.0 Establish a single end-to-end capability development function within the Department to maximise the efficient, effective and professional delivery of military capability	<p>Substantially completed</p> <p>Major changes have been implemented, but further work is still progressing with the consolidation and reform of Systems Program Offices. This is expected to take until 2023.</p>	Chapter 4
3.0 Fully implement an enterprise approach to the delivery of corporate and military enabling services to maximise their effectiveness and efficiency	<p>Moderate progress</p> <ul style="list-style-type: none"> • Following the development of a new estate strategy, work on aligning estate holdings to Defence requirements is progressing but will take some years to complete. • Following the development of an Enterprise Information Strategy and other key planning documents, implementation is underway but will take substantial resources and time to complete. • Although a survey has revealed some improvement in internal customer satisfaction with service delivery, there are no benchmarks as yet against which performance improvement can be measured. 	Chapter 5
4.0 Ensure committed people with the right skills are in appropriate jobs to create the <i>ONE DEFENCE</i> workforce	<p>Limited progress</p> <ul style="list-style-type: none"> • Defence has developed a strategic workforce plan for which most activities are expected to be complete by 2019. • Defence has commenced evaluating work directed at improving the corporate culture ('behaviours'). 	Chapter 5
5.0 Manage staff resources to deliver optimal use of funds and maximise efficiencies	<p>Limited progress</p> <p>As discussed above (under 1.0), further work is required as there is no evidence of substantial progress in measuring efficiency within Defence.</p>	Chapter 3

Key Recommendation	Status (March 2018)	Reference in this report*
6.0 Commence implementation immediately with the changes required to deliver one defence in place within two years	Substantially completed Defence set about the required reforms immediately and with vigour. Even though the structures and plans were put in place promptly, actual delivery of many reforms of substance will take several more years and require ongoing senior management attention.	Chapter 2

Source: ANAO analysis

*Note: Not all the detailed recommendations for any given work stream were managed under that work stream during First Principles Review implementation. For example, a number of recommendations from across the Review were managed under the Strategic Centre work stream and, in this report, are considered in the context of Chapter 3.

Recommendations

Recommendation No.1
Paragraph 6.22 That Defence ensures that its evaluation encompasses all of the recommendations of the First Principles Review and seeks to assess whether the intended outcomes of the Review have been achieved.

Defence response: Agreed

Note: The ANAO recommended in ANAO Report No. 2 2017–18 *Defence's Management of Materiel Sustainment* that Defence develop and implement an evaluation plan to assess the implementation of the recommendations of the First Principles Review. The Department agreed to the recommendation. The Joint Committee of Public Accounts and Audit has also recently made a recommendation seeking from Defence a report on its progress with implementing First Principles Review reforms and their effects.¹

Summary of entity response

Defence welcomes the ANAO Audit Report into its implementation of the First Principles Review, and agrees with the report's recommendation:

That Defence ensures that its evaluation encompasses all of the recommendations of the First Principles Review and seeks to assess whether the intended outcomes of the Review have been achieved.

Defence has made good progress with First Principles Review implementation, successfully completing 71 of the Review's 75 recommendations by the end of the audit.

In completing these recommendations, Defence has made significant changes to the way it operates. While the full benefits of these changes have yet to be realised, there is already evidence of improved performance. For example, Defence has reduced the size of its submissions to Government; obtained Government agreement to tailor project approval pathways based on risk rather than financial value; made it easier for industry to work with Government by streamlining commercial policies and practices; and improved the quality of advice and decision-making by reducing the number of senior committees.

Defence is also using an evaluation framework to monitor the embedding of First Principles Review reforms and to measure and report on the resulting benefits. This framework includes evaluation criteria, metrics and targets to assess whether the intent of the Review has been achieved. While it

¹ JCPAA, Report 470: Defence Sustainment Expenditure, Recommendation 4.

initially focussed on only some work streams, the framework is now being expanded to cover all First Principles Review work streams and recommendations.

Defence notes that it takes time to fully implement and embed transformational change, and expects implementation of the First Principles Review will not be complete until 2020. This is consistent with the Review's recommendations: while the Review stated that the majority of changes should be delivered within the first two years, it also recommended (Recommendation 1.1) that the Review be adopted as the roadmap for Defence reform for the next five years.

In terms of efficiency and effectiveness improvements, Defence has already realised broad efficiencies, and has undertaken to report back to Government on quantifiable benefits arising from the First Principles Review.

37. An extract of this audit report was also provided to the Department of Finance. The Department did not consider it necessary to provide a written response for incorporation in the report.

Key learnings for all Australian Government entities

38. Below is a summary of key learnings and areas of good practice identified in this audit report that may be considered by other Commonwealth entities when designing reform implementation programs.

Governance and Risk Management

- Clear and observable leadership from the top level of an organisation is important for achieving reform outcomes.
- Setting clear personal accountabilities at a senior level facilitates oversight and helps to ensure that resources are deployed to reform activities.
- Development of detailed schedules clarifies the tasks that are required to meet reform outcomes and timeframes for completion.

Performance and Impact Measurement

- Planning for the evaluation of reform outcomes—including clearly defining performance measures—should commence at the outset of a program and be maintained throughout implementation in order to assess the degree to which the intent of reform activities is achieved.
- Developing and maintaining focus on the intended outcomes of reform assists with ensuring tangible improvements are made and facilitates evaluation of the degree to which reform intent is achieved.

Management of Special Appropriations

No.35 2017–18

Department of Finance

Department of Human Services

Department of Industry, Innovation and Science

Department of Social Services

Background

1. Section 81 of the Constitution creates the Consolidated Revenue Fund (CRF) and requires all Commonwealth receipts to be paid into it. Section 83 of the Constitution requires all payments out of the CRF to be supported by a legal appropriation. Appropriations 'segregate' or 'earmark' money from within the CRF for the government to use, and allow the Parliament to exercise a level of control over government by attaching conditions according to which funds must be used.
2. Special appropriations provide funding allocations outside of annual appropriation Acts. Generally they are found in a provision or provisions of an individual Act, rather than in the Appropriation Acts presented to the Parliament each year.
3. Special appropriations are the dominant appropriation mechanism in Australia. In 2016–17, 78 per cent of spending was appropriated through a special appropriation. In comparison, in 1910 special appropriations accounted for 10 per cent of all Commonwealth payments, and in 1949–50 accounted for 49 per cent.
4. Commonwealth entities are responsible for the special appropriations listed in either the Acts that the entity is named in, or the Acts they have responsibility for under the relevant Administrative Arrangements Order. The Department of Finance (Finance) has ultimate responsibility for financial accountability, efficiency, governance and financial management frameworks within the Commonwealth Government.

Rationale for undertaking the audit

5. Special Appropriations were selected for audit on the basis of the volume of government payments made through this mechanism. In 2016–17, \$353.5 billion of Commonwealth expenses were supported via special appropriation.¹ This appropriation type is generally used for government payments which cannot be capped as they are entitlement based (such as social security payments), or meet other criteria as set by government. Unlike annual appropriations, the value of which is considered and agreed by Parliament annually as part of the budget process, special appropriations are only considered once by Parliament and are not brought back for consideration unless legislative policy changes are considered.

¹ Australian Government, *Agency Resourcing, Budget Paper No. 4 2017-18*, 2017, p. 100.

6. A performance audit was last conducted into special appropriations in 2004.²

Audit objective and criteria

7. The objective of the audit was to examine entity compliance with the regulatory requirements for the establishment and ongoing management of special appropriations.

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

- Have appropriate processes and guidance been established, in line with regulatory requirements, for agencies in giving advice to government when a special appropriation is being recommended?
- Do entities have effective arrangements in place for the ongoing management and monitoring of special appropriations in line with regulatory requirements?

Conclusion

9. Entities were found to be compliant with the regulatory requirements for the establishment and ongoing management of special appropriations.

10. Central agencies have published a range of guidance on creating special appropriations. Entities successfully took a risk-based approach to the development of new special appropriations, characterised by greater consideration of appropriation type in higher risk cases.

11. Entities were effective in linking payments to the correct appropriation and in managing other entities' use of appropriations for which they were responsible.

12. Since 2012, a substantial number of unused or exhausted appropriations have been repealed.

13. There was a lack of consistency and compliance in entity approaches to reporting requirements regarding any special appropriations which had not been drawn on in a particular reporting period ('unused appropriations').

14. The required approach for entities to report unused special appropriations in the Special Appropriations Table in Budget Paper No. 4 is not sufficiently clear.

15. Entities made reasonable attempts to implement Finance-issued guidance on compliance with section 83 and have been appropriately reporting potential section 83 breaches.

Supporting findings

The development and design of new special appropriations

16. Whole-of-government guidance for special appropriations has been published. This is contained in documents owned by Finance and the Department of the Prime Minister and Cabinet (PMC). To enhance the guidance, Finance could elaborate on what 'other

² ANAO Audit Report No. 15 2004–05 *Financial Management of Special Appropriations*, 2004.

circumstances' will make an annual appropriation unsuitable (and hence, justify when a special appropriation should be used). Finance could also, in a central location, reference the various guidance documents to achieve greater consistency and accessibility across the guidance as a whole.

17. As part of new policy proposals, entities must stipulate a likely appropriation mechanism (special appropriation, annual appropriation or special account). Entities have taken a risk-based approach to this, spending greater resources on determining the appropriation type when the policy parameters were more complex. Entities have implemented this effectively.

Management and reporting of special appropriations

18. Entities demonstrated that they tracked cash against a specific appropriation at payment.

19. Finance's agreements with entities that use special appropriations and the delegation from Social Services to the Department of Human Services (Human Services) in the Bilateral Management Arrangement were kept up to date and properly constructed in relation to their reporting responsibilities.

20. Current legislation includes a number of Acts with exhausted/unused special appropriations. The risk to the Commonwealth associated with this is reduced due to the presence of controls in the Finance Central Budget Management System (CBMS), which prevent unauthorised drawdowns. Additionally, a number of Acts have been repealed following a stocktake conducted in 2012.

21. Between 2012-13 and 2015-16, each entity's audited financial statements included a specific table for special appropriations applied.

22. There was a lack of consistency and compliance in entity approaches to financial statement reporting requirements regarding unused special appropriations (excluding Human Services, which did not have unused special appropriations in the scope period).

23. The basis for determining which unused special appropriations are reported in the Special Appropriations Table in Budget Paper No. 4 is unclear; there are inconsistencies in the extent to which unused special appropriations are being reported. The ANAO has suggested that Finance clarify which unused special appropriations are to be reported in the Table.

Section 83 of the Constitution and special appropriations

24. Entities have appropriately identified and reported potential breaches of section 83 of the Constitution. Finance has issued risk-based guidance to entities regarding compliance with this requirement.

25. For special appropriations with specific or objective criteria that rely on information from recipients, it is possible that entities may make overpayments that breach section 83 of the Constitution. It is important that entities have systems in place to identify any overpayments of special appropriations to ensure that these breaches have a low financial risk and impact.

26. Social Services uses Finance's guidance to conduct risk assessments in relation to its special appropriations and associated legislation, but has not shown evidence that it has attempted the treatments suggested by Finance beyond concluding that further work would

provide no additional benefit. The other two entities were found to have made reasonable attempts to implement Finance's guidance.

Recommendation

Recommendation no.1

Paragraph 3.24

In order to promote greater consistency across entities in financial reporting and compliance with the Financial Reporting Rule, the ANAO recommends that the Department of Finance clarify reporting requirements when a special appropriation is unused in both the reporting and comparative years.

Department of Finance's response: *Agreed.*

Summary of entity responses

27. The proposed audit report was provided to the Department of Finance. Extracts were provided to the Department of Human Services, the Department of Industry, Innovation and Science, and the Department of Social Services. All entities formally responded. The summary responses are below.

Department of Finance

Finance supports the findings and key learnings in the audit report. The report confirms that entities have been managing, monitoring and reporting their special appropriations consistent with regulatory requirements.

Department of Human Services

The Department of Human Services (Human Services) welcomes the audit's overall conclusions and findings. Human Services notes that the report has concluded that its management and reporting of special appropriations, including those delegated from the Department of Social Services, has been effective and in line with regulatory requirements.

Department of Industry, Innovation and Science

The department notes the findings in the report and acknowledges that it is managing its special appropriations effectively. The department is also pleased to note the ANAO's positive acknowledgement of the approach it has followed in its development of the special appropriation for the Northern Australia Infrastructure Facility Bill 2016.

Department of Social Services

The Department of Social Services (the Department) notes the audit's overall conclusion that the Department was compliant with the regulatory requirements for the establishment and ongoing management of special appropriations.

The Department also notes that the audit found that the current controls around the payments administered by the Department of Human Services are appropriate.

Key learnings for all Australian Government entities

28. Below is a summary of key learnings and areas of good practice identified in this audit report that may be considered by other Commonwealth entities:

Governance and Risk Management

Entities responsible for issuing whole-of-government guidance should ensure that it is clear, consistent and straightforward to apply. Entities should avoid all-encompassing criteria in guidance, such as generic 'other circumstances' classes, as this reduces the effectiveness of specific criteria that reflect underlying principles or intentions.

Guidance should be reviewed regularly to ensure it addresses contemporary issues, remains relevant, considers lessons learned from implementation, and reflects feedback from entities using the guidance.

Policy / Program Design

When entities are developing new policies and programs, selecting the most appropriate appropriation type, taking into account Finance guidelines, may require detailed discussions with Finance, and the position may change over time if the policy is adapted. Entities should seek Finance advice as early as practicable during the policy or program design phase and seek to reconfirm the advice as the policy is amended over time.

Corporate Planning in the Australian Public Sector 2017–18
No.36 2017–18
Australian Transaction Reports and Analysis Centre
Commonwealth Scientific and Industrial Research Organisation
Department of the Treasury
Office of the Commonwealth Ombudsman

Background

1. Performance reporting arrangements in the public sector have moved, over time, from a narrow focus on financial inputs, towards models designed to provide a clearer picture of the outcomes being achieved by government.¹ Appropriate and timely performance information strengthens accountability by informing the Parliament and government about the impact of policy measures. It also assists entities to manage programs and activities for which they are responsible and provides a basis for advice to government.
2. The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) which took full effect from 1 July 2014, underpins the implementation of the Australian Government's enhanced Commonwealth performance framework (performance framework). The PGPA Act is supported by the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule).² The performance framework requires Accountable Authorities³ to publish on their entity's website a corporate plan for the entity at least once each reporting period and to give that corporate plan to the responsible Minister and the Finance Minister. Corporate plans are intended to be the primary planning documents of Commonwealth entities and companies⁴ and represent the beginning of a performance cycle. The publication of a performance statement in the entity's annual report represents the end of the performance cycle.
3. Accountable Authorities are responsible for the implementation of the performance framework, including the corporate planning requirement. The Department of Finance (Finance) is

¹ ANAO, Audit Report No. 28 2012–13, *The Australian Government Performance Measurement and Reporting Framework: Pilot Project to Audit Key Performance Indicators*, p. 14, [Internet], available from <<https://www.anao.gov.au/work/performance-audit/agencies-implementation-performance-audit-recommendations>> [accessed February 2018].

² Sections 16E and 27A of the PGPA Rule sets out the requirements for corporates plans for Commonwealth entities and are reproduced at Appendix 2.

³ An Accountable Authority for a Commonwealth entity is generally the person or group of persons that has responsibility for, and control over, the entity's operations. Subsection 12(2) of the PGPA Act sets out the person(s) or body that is the Accountable Authority of a Commonwealth entity, available from <<https://www.legislation.gov.au/Details/C2017C00269>> [accessed February 2018].

⁴ Explanatory Memorandum, Public Governance, Performance and Accountability Bill 2013, p. 31, [Internet], available from <http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r5058_ems_5771fa39-4fac-45d7-9699-75920976ba70/upload_pdf/380781-2.pdf;fileType=application%2Fpdf> [accessed February 2018]; Department of Finance, *Resource Management Guide No. 132: Corporate plans for Commonwealth entities*, January 2017, p. 7, [Internet], available from <http://www.finance.gov.au/sites/default/files/RMG_132_Corporate_plans_for_Commonwealth_entities_Mar17.pdf> [accessed February 2018]; and Department of Finance, *Resource Management Guide No. 133: Corporate plans for Commonwealth companies*, January 2017, p. 5, [Internet], available from <http://www.finance.gov.au/sites/default/files/RMG_133_Corporate_plans_for_companies_Mar17.pdf> [accessed February 2018].

responsible for whole-of-government administration of the resource management framework and related legislation. As part of its administration of this framework, Finance provides guidance and advice to entities on their obligations, as well as tools and training to assist their awareness and compliance.

Rationale for undertaking the audit

4. This audit was conducted as part of a multi-year audit program on implementation of the resource management framework introduced by the PGPA Act. It is intended to assist in keeping the Parliament, government and the community informed about the extent to which the resource management framework established by the PGPA Act is achieving its objectives.

5. This is the third in a series of performance audits which examine entities' implementation of the corporate planning requirement. The ANAO's audit program has also examined implementation of the annual performance statements requirements and the risk management framework.

Audit objective and criteria

6. The objective of the audit was to assess the selected entities' progress in implementing the corporate planning requirements under the *Public Governance, Performance and Accountability Act 2013* and related Public Governance, Performance and Accountability Rule 2014 (PGPA Rule).

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

- the selected entities' corporate plans were established as their primary planning document and outline how entities intended to achieve their purposes over the period of the plans;
- the selected entities' corporate plans met the minimum content and publication requirements of PGPA Rule; and
- entities' supporting systems and processes for developing their corporate plans and monitoring achievements against their plans were mature.

Audit methodology

8. The audit involved reviewing the corporate plans and supporting systems and processes, reviewing records and interviewing staff of the following four entities:

- Australian Transaction Reports and Analysis Centre (AUSTRAC);
- Commonwealth Scientific and Industrial Research Organisation (CSIRO);
- Department of the Treasury (Treasury); and
- Office of the Commonwealth Ombudsman (the Ombudsman).

9. To assist in its review the ANAO developed an assessment matrix which is provided in Appendix 3. The scope of the audit did not include a detailed assessment of: the appropriateness of the performance measures included in entity plans; or entities' management of risk.

Conclusion

10. The four entities involved in the audit were at different levels of progress in their implementation of the corporate plan requirements introduced in 2015. Given this is the third year that entities have been required to produce corporate plans under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and Public Governance, Performance and Accountability Rule 2014 (PGPA Rule) greater progress in implementation than what this audit indicates could have been expected.

11. In line with the policy intent of the performance framework, AUSTRAC and the Ombudsman had positioned their corporate plan as the primary planning document. Treasury had not fully done so and CSIRO had not done so.

12. Each of the selected entities has developed processes to support the development of the corporate plan and to monitor achievement against the plan. AUSTRAC and the Ombudsman have more mature systems and processes in place. The corporate plan has been integrated in their broader planning frameworks and they are using the corporate plan to support their decision making and manage the business.

13. Only CSIRO met all of the minimum requirements of the PGPA Rule. AUSTRAC, the Ombudsman and Treasury, to varying degrees, did not address each of the four reporting periods covered by the plan in each of the environment, performance, capability and risk oversight and management systems section of their corporate plan.

14. The ANAO's assessment of the maturity of key mandatory sections of the selected entities' corporate plans—relating to entity purposes, environment, performance, capability and risk oversight and management systems—indicates that there remains scope for improvement in a range of areas. In particular, the inclusion of purely descriptive information in respect to entities' risk oversight and management systems is not consistent with one of the objects of the PGPA Act, which is to require Commonwealth entities to provide meaningful information to the Parliament and the public. There is also scope for the selected entities to review the reliability and completeness of the performance indicators included in their corporate plans, as a basis for providing a meaningful performance story in their performance statements.

15. This is the third year that entities have been required to produce corporate plans under the PGPA Act and PGPA Rule. It can reasonably be expected that entities have learned from previous experiences. This includes their own experience in the previous two years, the feedback and lessons learned processes undertaken by the Department of Finance, and the two ANAO performance audits of corporate planning which identified key learnings and opportunities for improvement. Entities should have moved beyond simple compliance with the minimum requirements set out in the PGPA Rule and established mature systems and processes to support the development and monitoring of the corporate plan—to ensure it provides a firm basis for reporting on entity performance in the annual performance statement to Parliament. They should also have embedded the corporate plan as the entity's primary planning document, and progressed the development of meaningful risk management summaries and performance indicators.

Supporting findings

Corporate plans in Commonwealth entities

16. AUSTRAC and the Ombudsman had established the corporate plan as the primary planning document and were using it to manage their business. Treasury had not fully done so and CSIRO had not done so.

17. The quality and implementation of relevant entity systems and processes to support the development of the corporate plan was variable.

18. In CSIRO and Treasury only some key elements in the development process were evident. Most key elements were evident in the Ombudsman's development process. All key elements were evident in AUSTRAC's development process and were operating as intended.

19. There remains scope for CSIRO and Treasury in particular, to strengthen the systems and processes used for developing their corporate plans. A more structured approach would involve:

- fully integrating the corporate plan into the entities' broader planning framework in a way that clearly positions it as the primary planning document and in a way that it is actively used to drive business decision making;
- clearly defining roles, responsibilities and accountabilities and ensuring they operate as intended;
- developing strategies for more systematic engagement of internal and external stakeholders; and
- earlier and more systematic involvement of Executive management in the corporate planning process to direct the development process.

20. Each of the selected entities met the minimum requirements for the publication of its corporate plan prepared for the 2017–18 planning cycle. Entity plans were provided to the responsible Minister and the Finance Minister as required and placed on each entity's website by 31 August 2017.

21. Each of the selected entities met the minimum requirements regarding the inclusion of an introduction and matters relating to the entity's purposes, environment, performance, capability, and risk oversight and management systems in their corporate plan as required by the PGPA Rule. However, the provision of purely descriptive information in respect to risk oversight and management systems is not consistent with the objects of the PGPA Act, which are to require Commonwealth entities 'to provide meaningful information to the Parliament and the public'.⁵

22. With the exception of CSIRO none of the selected entities fully met the requirement to address each of the four reporting periods covered by the plan in each of the environment, performance, capability, and risk oversight and management systems sections of their corporate plan.

23. The ANAO's assessment of the maturity of key mandatory sections of the selected entities' corporate plans—relating to purposes, environment, performance, capability, and risk oversight and management systems — indicates that there is scope for improvement in respect to:

- Purposes—by making the purposes more readily identifiable (Treasury), and providing a clearer statement of the intended outcome and the intended beneficiaries of these outcomes when the purposes are fulfilled (CSIRO and Treasury).
- Environment—by better outlining the main factors that are both in control and beyond the control of the entity that are expected to impact the achievement of its purposes and linking this with the capability and risk sections of the corporate plan to provide details of the entity's operating context (CSIRO, the Ombudsman and Treasury).
- Performance—by improving the relevance, and particularly the reliability and completeness of performance indicators (all selected entities).
- Capability—by clearly addressing how capability impacts the achievement of purpose, how capability requirements might change over time and integrating this into its broader discussion of operating context (CSIRO, the Ombudsman and Treasury).
- Risk oversight and management systems—by identifying the key risks facing each entity and clearly outlining how each entity's approach to managing risk will support the achievement of its purpose, and linking with the environment and capability sections of the plan to provide an integrated discussion of operating context (the Ombudsman and Treasury).

⁵ Subsection 5(c) (ii) of the PGPA Act, [Internet], available from <<https://www.legislation.gov.au/Details/C2017C00269>> [accessed February 2018].

24. AUSTRAC and the Ombudsman had developed mature systems and processes to monitor achievements against the plan (particularly in relation to performance) and report regularly to their senior management and Accountable Authority. These were fully operating in a manner that supported decision making and the corporate plan was being used in managing the business.

25. In CSIRO and Treasury some systems and processes for regular monitoring of achievements against the plan were in place. In CSIRO and to a lesser extent Treasury there was a need to embed systems and processes for monitoring and reporting which fully position the corporate plan as the primary planning document in such a way that is it used to support decision making and managing the business.

Recommendations

Recommendation No.1
Paragraph 2.11 That CSIRO and Treasury fully establish the corporate plan as their primary planning document to provide a firmer basis for reporting to Parliament in the annual performance statement.

Commonwealth Scientific and Industrial Research Organisation response: *Agree.*

Department of the Treasury response: *Disagree.*

Recommendation No.2
Paragraph 2.28 That AUSTRAC, the Ombudsman and Treasury comply with the mandatory requirements of the Public Governance, Performance and Accountability Rule 2014 by ensuring that each of the four mandatory sections of the plan specifically address the four reporting periods covered by the plan.

Australian Transaction Reports and Analysis Centre response: *Agree.*

Department of the Treasury response: *Disagree.*

Office of the Commonwealth Ombudsman response: *Agree.*

Recommendation No.3
Paragraph 2.39 That all entities include a meaningful summary of risk management and oversight systems in their corporate plan, consistent with the objects of the *Public Governance, Performance and Accountability Act 2013*, which are to require Commonwealth entities to provide meaningful information to the Parliament and the public.

Australian Transaction Reports and Analysis Centre response: *Disagree.*

Commonwealth Scientific and Industrial Research Organisation response: *Agree.*

Department of the Treasury response: *Disagree.*

Office of the Commonwealth Ombudsman response: *Agree with qualifications.*

**Recommendation
No.4
Paragraph
2.95**

That:

- the Ombudsman and Treasury identify in their corporate plan key risks and how their approach to managing risk will support the achievement of their purposes; and
- the selected entities review the reliability and completeness of performance indicators as a basis for providing a meaningful performance story in their performance statements.

Australian Transaction Reports and Analysis Centre response: *Agree.*

Commonwealth Scientific and Industrial Research Organisation response: *Agree.*

Department of the Treasury response: *Agree.*

Office of the Commonwealth Ombudsman response: *Agree.*

Summary of entity responses

26. Summary responses from the selected entities are provided below.

Australian Transaction Reports and Analysis Centre

AUSTRAC acknowledges the Australian National Audit Office's (ANAO) report on Corporate Planning in the Australian Public Service 2017-18. The insights provided by this report will inform AUSTRAC's commitment to strengthening the preparation of the 2018-19 Corporate Plan and future corporate plans. AUSTRAC agrees with most of the findings, however, notes the inconsistent interpretation and guidance relating to the requirement to provide a meaningful summary of its risk management and oversight systems. It is AUSTRAC's view that the requirements of the Public Governance, Performance and Accountability Rule in relation to this section of the 2017-18 Corporate Plan were met in accordance with the guidance available at that time. AUSTRAC requests that further guidance be developed to clarify the manner in which non-corporate Commonwealth entities should describe their systems of risk management and oversight. This necessity is further emphasised given conflicting feedback received from the Department of Finance in relation to AUSTRAC's 2017-18 Corporate Plan, particularly with regard to four year outlooks and related summaries.

Commonwealth Scientific and Industrial Research Organisation

CSIRO accepts the Recommendations as outlined in the Proposed Report. CSIRO has given consideration to the implementation of the recommendations and it is anticipated that implementing the recommendations will commence with the development of the 2018-19 CSIRO Corporate Plan. Given current timing, it should be anticipated that implementation of the recommendations in full would manifest with the 2019-20 CSIRO Corporate Plan.

Department of the Treasury

The Treasury will continue efforts already underway to improve its corporate planning framework. The audit sets a benchmark beyond the minimum requirements of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule). This level of maturity is likely to take several years and dedication of specialised expertise to achieve.

It is a matter for the Accountable Authority to determine how corporate planning will be embedded into an agency's planning and resourcing frameworks. It must be done in a way that is fit for purpose and does not compromise the agency's capacity to deliver core functions, while responding to emerging priorities.

All that said, for a Department like the Treasury, the notion that any corporate plan should provide an 'operational manual' is problematic. The agenda for the Treasury remains highly unpredictable and requires great flexibility in resource utilisation and in setting priorities.

There is an obvious opportunity for clarification of the intent of the PGPA Rule and supporting guidance in respect of requirements to set relevant sections of a corporate plan out by each of the four reporting years, and provide a summary of systems of risk oversight and management.

Office of the Commonwealth Ombudsman

The ANAO's assessment that the Office's 2017-18 Corporate Plan is positioned as our primary planning document affirms that the intentions of the Office are being carried out in practice. The Office acknowledges the learnings identified during this review and will integrate these learnings as part of our journey of continuous improvement in corporate planning.

The Office agrees with the majority of findings presented, however, we note that section 16E(2) of the PGPA Rule requires a corporate plan to include a summary of risk oversight and management systems. It is the view of the Office that this requirement was met in the Office's 2017-18 Corporate Plan and is in compliance with minimum PGPA requirements.

We thank the ANAO team for their professional conduct and collaborative approach during the review, which has resulted in a report that is a valuable resource for the development of the Office's future corporate plans and more broadly, those of all Commonwealth agencies.

Department of Finance

The Department of Finance supports the findings of the report.

Key learnings for Commonwealth entities

27. Below is a summary of key learnings identified in this audit report that may be considered by other Commonwealth entities when implementing the corporate planning requirements.

Establishing the corporate plan as the primary planning document

In order to fully establish the corporate plan as the primary planning document, Accountable Authorities should ensure that the corporate plan is integrated into the entity's broader planning framework and is used to support decision making and managing the business.

Developing the corporate plan

Entities which have effective systems and processes to support the development of the corporate plan:

- have a structured and documented approach to supporting the development of their corporate plans and have integrated this into their broader planning framework;
- ensure roles, responsibilities and accountabilities are clearly defined and operating as intended;
- consult relevant internal and external stakeholders; and
- ensure Board/entity management are fully engaged in the development process.

Content of the corporate plan

High quality content within the corporate plan will assist entities in reconciling their performance at the end of the performance cycle to explain how the entity has used its resources to achieve the relevant priorities of government and demonstrate that the entity has achieved its purposes.

Accountable Authorities should ensure:

- the corporate plan meets all of the mandatory requirements of the PGPA Rule;
- the purposes section expresses the strategic objectives of the entity; and the purposes are readily identifiable; and expressed in a manner that provides a clear statement of the intended outcome and the beneficiaries;
- the discussion of the environment is clearly linked to the entity's purposes; and clearly outlines the main factors that are both in control and beyond the control of the entity that affect or influence its performance and how they are expected to impact the achievement of the entity's purposes;
- the plan outlines a mature approach to how the entity intends to measure and assess its performance in achieving its purposes over the life of the plan. The performance information in terms of relevance, reliability and completeness is at a mature level to enable the entity to provide a meaningful performance story in their performance statements;
- the discussion of capability is consistent with the entity's resource planning framework and clearly outlines the strategies to be followed in achieving the entity's purposes and provides a clear indication of the extent to which and/or how these strategies will impact on the achievement of purposes; and
- the discussion of risk is meaningful and outlines the key risks that impact the achievement of purpose and is clearly linked to the achievement of the entity's purposes.

Monitoring achievement against the corporate plan

Entities which have effective systems and processes to support monitoring achievement against the corporate plan have:

- systems and processes for regular monitoring of achievements against the plan in place that operate in a manner that supports decision making and managing the business;
- roles, responsibilities and accountabilities that are clearly defined and operate as intended; and
- Board/entity management that are fully engaged in the monitoring process.

ABC Complaints Management
[No.37 2017–18]
Australian Broadcasting Corporation

Background

1. The Australian Broadcasting Corporation (the ABC), established in 1932, is one of Australia's two national public broadcasters. It produces a variety of media content including television, radio and online. The ABC receives a large amount of audience feedback each year, including complaints that range from minor issues of personal preference to allegations of breaches of the ABC's Editorial Policies. In 2016–17 the ABC received 58 477 written audience contacts of which 30 881 (53 per cent) were complaints.

Audit objective and criteria

2. The objective of the audit was to assess the effectiveness of the ABC's management of complaints. To form a conclusion against the audit objective, the ANAO adopted the following high level criteria:

- Is the ABC's complaints process clear, accessible and responsive to the public?
- Does the ABC have sound processes and practices to effectively manage complaints?
- Does the ABC regularly analyse and report complaint outcomes and review the effectiveness of its complaints management process?

Rationale for undertaking the audit

3. Effective complaints management assists the ABC to be transparent, accountable and continuously improve its content and services. The ABC's management of complaints was selected for audit to provide assurance that the ABC has effective processes and procedures in place to manage complaints, and regularly analyses and reports on complaints outcomes to inform improvements to its broadcasted content and other services.

Audit methodology

4. In undertaking the audit the ANAO:
- referenced the Commonwealth Ombudsman's *Better Practice Guide to Complaint Handling* and the Australia/New Zealand Standard *Guidelines for complaint management in organizations (AS/NZS 10002:2014)*, in order to benchmark the ABC against better practice (see Appendix 1 for more information);
 - reviewed and analysed policy documents, guidelines, procedures, and relevant files;
 - examined the management of a randomly selected sample of 270 complaints (36 editorial and 234 non-editorial) received by the ABC in 2016–17; and
 - interviewed or received written input from staff in the relevant sections of the ABC.

Conclusion

5. The ABC effectively manages complaints handled by its central complaints management area. The ABC's limited visibility over content areas' handling of complaints reduces the overall effectiveness of its complaints management.

6. The ABC's complaints process is accessible to the public, easy to navigate and responsive to complainants. The ABC has effective processes and practices in place for complaints managed by its central complaints management unit, Audience and Consumer Affairs (A&CA). The ABC monitors complaints managed centrally but it has limited visibility over the progress and outcomes of the less significant but higher volume complaints managed directly by content areas.

7. The ABC analyses and reports complaints to internal and external stakeholders. The external information that the ABC publishes on complaints assists in maintaining its transparency and accountability as a public broadcaster. The ABC provides analysis of complaints data to relevant decision-makers to inform continuous improvement of its programs and services.

Supporting findings

8. Clear information and guidance on the ABC's complaints management process and procedures is accessible to the public from the ABC website. The complaint lodgement methods offered by the ABC are clearly identified in the available guidance and are easy to use.

9. The ABC acknowledges complaints, provides investigation progress updates on request and informs complainants of the outcomes following an investigation into their complaint.

10. A&CA has processes in place to record, allocate, monitor, investigate and respond to complaints. The ABC content areas that were reviewed had processes in place to manage complaints referred to them for direct response. The ABC does not, however, have central visibility over content areas' responses. The ABC's key complaints handling guidance is consistent with better practice complaints management principles, but could be improved to make it clearer and more user-friendly.

11. The ABC has suitable complaints management software in place to support the central complaints management function administered by A&CA. Content areas do not use the system, but employ other tools to manage complaints, such as email or spreadsheets.

12. A&CA manages written complaints in accordance with the ABC's policies and procedures. In the absence of consistent or complete record-keeping by content areas, it was not possible to review the level of content area compliance with policies and procedures.

13. The ABC records the timeliness of its responses to complaints managed by A&CA; complete records are not kept on the timeliness of the content areas' responses. In 2016–17, A&CA responded to 98 per cent of complaints within 60 days and approximately 60 per cent of complaints were finalised within the ABC's 30-day target.

14. A&CA effectively monitors the allocation and progress of the complaints it investigates. As the ABC does not have central oversight of the less significant but higher volume complaints managed by ABC content areas, it is not in a position to monitor these complaints.

15. The ABC maintains the confidentiality of complainant data. It has a suitable approach in place for collecting, storing, and sharing complaint information and only those staff requiring access to complaints can view complainants' details. Complainant details are not included in public or internal reports on complaints.

16. A&CA's responses to written complaints are clear and address the issues raised by complainants. A&CA monitors the implementation of remedial action required to address a complaint. As there is limited visibility of complaints managed by content areas, it is unclear whether content areas' responses effectively address the complaints.

17. The ABC regularly produces a range of internal reports on complaints which are tailored to target groups such as the ABC Board or ABC staff. The ABC also publishes complaints information on its website.

18. The ABC analyses the complaints held in its central complaints database, and publishes this analysis through various internal and external complaints reports. The analysis is distributed to the appropriate areas and decision-makers within the ABC for consideration in the context of improving content and services.

19. The ABC's last major review of its complaints management process was in 2009.

Recommendation

Recommendation no.1 The ABC ensures that it has visibility over content areas' management of and response to complaints, in order to have assurance that their processes are effective. To support this the ABC should implement record-keeping requirements, including a baseline level of information that content areas are required to document regarding complaints and outcomes.

Paragraph 3.48

The ABC should implement record-keeping requirements, including a baseline level of information that content areas are required to document regarding complaints and outcomes.

ABC response: *Partially agreed.*

Summary of the Australian Broadcasting Corporation's response

20. The ABC is Australia's leading national broadcaster—each week, 12.3 million Australians watch ABC TV, 4.8 million listen to ABC Radio and millions more engage with us online through various digital channels. Each of these audience members forms an impression of the ABC and its content; some make contact with us to share these impressions.

21. Audience feedback, including complaints, is valuable to the ABC and we appreciate the time people take to pass on their views.

22. The vast bulk of complaints received by the ABC reflect individual audience members' Likes and dislikes based on their personal tastes and preferences ('non-editorial complaints'). Examples routinely include critiques of presenters' speech and appearances; the fact that the ABC broadcasts program repeats; and views that particular subjects should have received more or less coverage on a given day.

23. A smaller number of complaints received by the ABC assert that we have failed to meet our published editorial standards ('editorial complaints'). Editorial complaints, can raise serious matters going to the ABC's integrity and the trust Australians have in us. Editorial complaints are largely managed centrally by ABC Audience and Consumer Affairs.

24. The ABC's proportionate approach to complaint handling deliberately applies greater controls and resources to editorial complaints, while allowing non-editorial complaints to be dealt with in more flexible ways, usually handled directly by content teams.

25. We are gratified that the ANAO has found that Audience and Consumer Affairs manages complaints effectively, with processes in place to record, allocate, monitor, investigate and respond to these complaints. The ANAO found that Audience and Consumer Affairs provides clear and relevant responses to complaints, and monitors implementation of remedial action. The ANAO review also recognises that the ABC uses complaints data collected to identify trends or issues, informing continuous improvement of content and service delivery.

26. We acknowledge that the ANAO found fewer controls in place for minor complaints managed directly by content areas, and that the audit was not always able to sight documentary evidence demonstrating how a particular complaint had been handled. The ABC is generally satisfied that this is consistent with the proportional approach outlined above, as well as the ABC's ongoing focus on reducing administrative costs in order to maximise funding of content initiatives. In our view, implementation of the ANAO's recommendation would impose an unwelcome and ongoing cost on content teams that would be disproportionate to the benefits of achieving full visibility over

every complaint received and handled by the ABC. The ABC intends taking targeted action to obtain assurance, confident that this will address the issue.

27. The ABC periodically reviews and improves its Complaints Handling Procedures and associated guidance for staff. The most recent update, made in 2017, is acknowledged in the ANAO report. The ABC will continue to evaluate our practices, including by reference to leading practice externally.

28. ABC Group Audit will monitor the action arising from the ANAO review and will continue to periodically evaluate complaints management as part of its cyclical coverage of key ABC process.

Key learnings for all Australian Government entities

29. Below is a summary of key learnings identified in this audit report that may be considered by other Commonwealth entities managing existing programs.

Policy/Program Implementation

- Organisations should regularly monitor and analyse the complaints they receive in order to understand any trends or systemic issues that may be occurring and continuously improve products, services and program delivery.

Records Management

- The effective management of complaint records enables analysis to be undertaken to identify trends over time and any necessary improvements to business practices. Proper records also provide assurance that complaints are being managed and addressed where appropriate.

Mitigating Insider Threats through Personnel Security
No.38 2017–18
Across Entities

Background

1. The Protective Security Policy Framework (PSPF) outlines a suite of requirements and recommendations to assist Australian Government entities to protect their people, information and assets. Personnel security, a component of the PSPF, aims to provide a level of assurance as to the eligibility and suitability of individuals accessing government resources, through measures such as conducting employment screening and security vetting, managing the ongoing suitability of personnel and taking appropriate actions when personnel leave. In 2014, the Attorney-General announced reforms to the PSPF to mitigate insider threats by requiring more active management of personnel risks and greater information sharing between entities. At the time of the audit, further PSPF reforms were being considered by the Government.

2. The Australian Government Security Vetting Agency (AGSVA) was established within the Department of Defence (Defence) from October 2010 to centrally administer security vetting on behalf of most government entities (with the exception of five exempt intelligence and law enforcement entities). Centralised vetting was expected to result in: a single security clearance for each employee or contractor, recognised across government entities; a more efficient and cost-effective vetting service; and cost savings of \$5.3 million per year. ANAO Audit Report No.45 of 2014–15 *Central Administration of Security Vetting* concluded that the performance of centralised vetting had been mixed and expectations of improved efficiency and cost-effectiveness had not been realised.

Rationale for undertaking the audit

3. The ANAO chose to undertake this audit because effective personnel security arrangements underpin the protection of the Australian Government's people, information and assets, and the previous audit had identified deficiencies in AGSVA's performance. In addition, the 2014 personnel security reforms occurred after fieldwork for the previous audit had been completed, so there was an opportunity to review the implementation of these reforms by AGSVA and other government entities.

Audit objective and criteria

4. The objective of the audit was to assess the effectiveness of the Australian Government's personnel security arrangements for mitigating insider threats. To form a conclusion on the audit objective, the ANAO adopted the following high-level criteria:

- Does AGSVA provide effective security vetting services?
- Are selected entities complying with personnel security requirements?

5. The entities assessed for criterion two were the Attorney-General's Department (AGD), Australian Radiation Protection and Nuclear Safety Authority (ARPANSA), Australian Securities and Investments Commission (ASIC), Department of Home Affairs (Home Affairs) and Digital Transformation Agency (DTA).

Conclusion

6. The effectiveness of the Australian Government's personnel security arrangements for mitigating insider threats is reduced by: AGSVA not implementing the Government's policy direction to share information with client entities on identified personnel security risks; and all audited entities, including AGSVA, not complying with certain mandatory PSPF controls.

7. AGSVA's security vetting services do not effectively mitigate the Government's exposure to insider threats. AGSVA collects and analyses information regarding personnel security risks, but does not communicate risk information to entities outside the Department of Defence or use clearance maintenance requirements to minimise risk. Since the previous ANAO audit, AGSVA's average timeframe for completing Positive Vetting (PV) clearances has increased significantly. AGSVA has a program in place to remediate its PV timeframes, and it has established a comprehensive internal quality framework. AGSVA plans to realise many process improvements through procuring a new information and communications technology (ICT) system, which is expected to be fully operational in 2023.

8. Selected entities' compliance with PSPF personnel security requirements was mixed. While most entities had policies and procedures in place for personnel security, some entities were only partially compliant with the PSPF requirements to ensure personnel have appropriate clearances. None of the entities had fully implemented the PSPF requirements introduced in 2014 relating to managing ongoing suitability. In addition, entities did not always notify AGSVA when clearance holders leave the entity.

Supporting findings

Effectiveness of AGSVA's security vetting services

9. AGSVA's clearances do not provide sufficient assurance to entities about personnel security risks. A significant proportion of vetting assessments in 2015–16 and 2016–17 resulted in potential security concerns being identified, but the majority (99.88 per cent) of vetting decisions were to grant a clearance without additional risk mitigation. On rare occasions AGSVA minimised risk by denying the requested clearance level and granting a lower level, or avoided risk by denying a clearance. In some cases identified concerns, which were accepted by AGSVA on behalf of sponsoring entities, should have been communicated to entities or managed through clearance maintenance requirements.

10. AGSVA does not provide information about identified security concerns to sponsoring entities outside Defence due to a concern that disclosure would breach the *Privacy Act 1988*. The PSPF was revised in 2014 to require AGSVA to update its informed consent form to allow such disclosure to occur. Defence and AGD gave a commitment to Government in October 2016 that AGSVA would start sharing risk information in 2017–18. AGSVA updated its consent form in February 2017, but its revised form does not explicitly obtain informed consent to share information with entities. Consequently, AGSVA has not met the intent of the Government's 2014 policy reform.

11. AGSVA's information systems do not meet its business needs, which has resulted in inefficient processes and data quality and integrity issues. Defence is in the scoping and approval stages of a project to develop a replacement ICT system, which is expected to be fully operational in 2023. The audit included additional work on information security, which is the subject of a report prepared under section 37(5) of the *Auditor-General Act 1997*.

12. AGSVA has recently commenced an organisational renewal project to address identified inefficiencies in its business processes, although it plans to realise many business process improvements through its new ICT system. Since the previous ANAO audit, timeframes for PV clearances have deteriorated significantly; for other levels, the percentage of cases completed within benchmark timeframes has improved.

13. AGSVA has implemented a comprehensive quality audit program for its contractors through its quality management system. It has also introduced periodic internal peer reviews for vetting decisions. It has not instituted a program of independent quality assurance of vetting delegates' decisions.

Entity compliance with personnel security requirements

14. AGD, ARPANSA, ASIC and Home Affairs had plans, policies and procedures in place for personnel security. In some cases, these documents had not been updated to reflect 2014 revisions to PSPF personnel security requirements. DTA had not finalised any of these documents. There was limited evidence of entities undertaking personnel security risk assessments to inform their plans, policies and procedures.

15. AGD, ASIC, Home Affairs and DTA did not have adequate controls and quality assurance mechanisms for ensuring their personnel have appropriate clearances. For each of these entities, a small number of current personnel were identified who did not hold required clearances. Employment screening processes varied across the selected entities. AGD, ASIC and Home Affairs had higher denial rates than AGSVA and made greater use of aftercare.

16. All entities used the temporary access or eligibility waiver provisions of the PSPF to mitigate business impacts resulting from the timeframes to obtain, and eligibility requirements for, security clearances. AGD and Home Affairs used temporary access provisions appropriately to mitigate delays in onboarding personnel. AGD, ARPANSA, ASIC and DTA had not fully complied with PSPF controls for eligibility waivers.

17. AGD, ARPANSA, ASIC and Home Affairs had accessible policies and procedures for managing ongoing suitability, including change of circumstances and contact reporting, and mandatory security awareness training that covered personnel security requirements. DTA had not established these arrangements, as required under the PSPF. None of the entities had implemented the PSPF requirement to conduct an annual health check for clearance holders and their managers.

18. All entities were partially compliant with the PSPF requirement to inform AGSVA when security cleared personnel leave the entity. AGD, ARPANSA and DTA had not updated their employment screening forms to obtain informed consent from personnel to share sensitive information with AGSVA.

19. All entities had reported their compliance with the PSPF personnel security requirements for 2016–17 to relevant parties. The ANAO's assessment of compliance differed from each entity's self-reported compliance level.

Recommendations

Recommendation No.1 Defence, in consultation with AGD, establish operational guidelines for, and make appropriate risk-based use of, clearance maintenance requirements.

Paragraph 2.24

AGD's response: *Agreed.*

Defence's response: *Agreed.*

Recommendation No.2 Defence implement the PSPF requirement to obtain explicit informed consent from clearance subjects to share sensitive personal information with sponsoring entities.

Paragraph 2.37

Defence's response: *Agreed.*

Recommendation No.3
Paragraph 2.47 AGD and Defence establish a framework to facilitate AGSVA providing sponsoring entities with specific information on security concerns and mitigating factors identified through the vetting process.

AGD's response: *Agreed.*

Defence's response: *Agreed.*

Recommendation No.4
Paragraph 3.6 AGD and DTA conduct a personnel security risk assessment that considers whether changes are needed to their protective security practices.

AGD's response: *Agreed.*

DTA's response: *Agreed.*

Recommendation No.5
Paragraph 3.9 DTA take immediate action to comply with the PSPF governance requirements.

DTA's response: *Agreed.*

Recommendation No.6
Paragraph 3.37 AGD, ASIC, Home Affairs and DTA implement quality assurance mechanisms to reconcile their personnel records with AGSVA's clearance holder records, and commence clearance processes for any personnel who do not hold a required clearance.

AGD's response: *Agreed.*

ASIC's response: *Agreed.*

Home Affairs' response: *Agreed.*

DTA's response: *Agreed.*

Recommendation No.7
Paragraph 3.47 AGD, ARPANSA, ASIC and DTA review their policies and procedures for eligibility waivers to ensure they are compliant with PSPF mandatory controls.

AGD's response: *Agreed.*

ARPANSA's response: *Agreed.*

ASIC's response: *Agreed.*

DTA's response: *Agreed.*

Recommendation No.8
Paragraph 3.55 AGD, ARPANSA, ASIC, Home Affairs and DTA implement the PSPF requirement to undertake an annual health check for clearance holders and their managers.

AGD's response: *Agreed.*

ARPANSA's response: *Agreed.*

ASIC's response: *Agreed.*

Home Affairs' response: *Agreed.*

DTA's response: *Agreed.*

Summary of entity responses

20. Summary responses from five entities are provided below.

Attorney-General's Department

Thank you for the opportunity to comment on the proposed audit report on *Mitigating Insider Threats through Personnel Security*. I welcome the report and I am grateful for the recommendations made to better manage personnel security risks both across Australian Government, and within the Attorney-General's Department.

The timing of this report is helpful noting given the department is currently reforming the Protective Security Policy Framework (PSPF) for application from 1 July 2018. A revised PSPF will provide a clearer and more accessible framework, specify requirements that are proportional to risks, integrate more coherently with other frameworks, and improve the Commonwealth's approach to managing security risk. This report will continue to inform these reforms.

Australian Radiation Protection and Nuclear Safety Authority

ARPANSA welcomed the ANAO audit on our personnel security program and supporting systems. The audit provided a great opportunity for our agency to measure the effectiveness of one element of our protective security program, that being the personnel security component. Importantly, the audit highlighted that, for the most part, ARPANSA has an effective and robust program ensuring the appropriate level of protection for our people, information and assets. The audit identified areas where further efforts can be directed to ensure the agency is proactive in the way we manage eligibility and ongoing suitability of employees and contractors.

Australian Securities and Investments Commission

ASIC welcomes the ANAO's audit into personnel security arrangements. ASIC understands that personnel security is an important function, delivering a level of assurance about the credentials and integrity of our workforce and identifying our vulnerability to a range of insider threats. Throughout the conduct of the audit, ASIC continued to improve its processes and has since implemented procedures to rectify issues identified by the ANAO. ASIC welcomes the findings in the report and considers they provide useful recommendations for improvement in our current practices and reducing the threat from a malicious insider, through enhancements to our personnel security programs.

ASIC concurs with the three recommendations and has updated its Organisational Suitability Assessment to complement the Vetting assessment conducted by the AGSVA. Reforms to our personnel security management aim to achieve compliance with the Protective Security Policy Framework (PSPF). Our key reforms include better identification of security requirements, record keeping and quality assurance, as well as aftercare programs and annual health checks. ASIC confirms that it will implement the recommendations.

ASIC is enhancing its security policies to ensure that they better comply with the PSPF and address the current security threat environment.

Defence

Defence notes the Audit Report on *Mitigating Insider Threats through Personnel Security* (the Report) and the reform efforts already underway to mitigate the malicious insider threat. The Report draws attention to the various aspects of personnel security reform efforts already in development, led by the Attorney General's Department, in close consultation with Defence. Additionally, Defence notes that the Report highlights the internal reform efforts the Australian Government Security Vetting Agency (AGSVA) have undertaken and the improvement in AGSVA's performance over the last two years. AGSVA is still undertaking a significant reform program with many of the issues flagged in the Report planned for implementation in the next year.

The Report highlights mechanisms for information sharing that will guide agencies to develop clearance maintenance requirements, which are being actively considered and developed by the

Attorney General's Department (AGD), as the Commonwealth protective security policy lead. The AGD have overall responsibility for setting the policy parameters, and AGSVA as the main service delivery agency for security vetting.

AGSVA is implementing a program to strengthen security controls within the existing eVetting System, ahead of the delivery of the new system being implemented. AGSVA is working with cross-government and industry partners to ensure that the eVetting System and the systems with which it interfaces meet contemporary security standards.

Department of Home Affairs

Thank you for the opportunity to provide comments on the ANAO's audit report on Mitigating Insider Threats through Personnel Security.

The Department of Home Affairs responds on the basis that the redactions noted in the report are not relevant to the Department. The report's recommendations appear to be an accurate reflection regarding areas for improvement in Home Affairs.

Digital Transformation Agency

The Digital Transformation Agency (DTA) agrees with the ANAO's findings and recommendations and will take immediate steps to ensure that all are implemented by 31 July 2018.

Key learnings for all Australian Government entities

21. Below is a summary of key learnings identified in this audit report that may be considered by other Australian Government entities.

Procurement

- When procuring a major ICT system that will contain sensitive information, undertaking a thorough risk assessment prior to putting the system into production provides greater assurance that information will be appropriately protected.

Governance and risk management

- Separating policy and operational functions can lead to implementation challenges. If these functions need to be separate, effective oversight arrangements should be established to avoid silos emerging.
- Sometimes the risks of not sharing information are greater than the risks of sharing it. Entities should comply with privacy and information security requirements, but should not use these provisions as an excuse not to share pertinent information.

Policy/program implementation

- Policy owners should provide clear, user-friendly guidance and templates that make it easy to comply with policy requirements.