



Australian Government

Department of Foreign Affairs and Trade

Mr Julian Hill MP
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Dear Mr Hill

***Inquiry into Commonwealth Financial Statements 2022-23
Invitation to make a submission***

Thank you for the letter from Kilian Perrem, Inquiry Secretary, of 13 February 2024, extending an invitation to make a submission to the inquiry.

The Department of Foreign Affairs and Trade (DFAT) provides this submission to the Joint Committee of Public Accounts and Audit (JCPAA) to support its consideration of the *Auditor-General Report No. 9 2023-24: Audits of the Financial Statements of Australian Governments Entities for the Period Ending 30 June 2023 (Report 9 2023-24)*.

This submission focuses on the immediate actions taken as part of DFAT's response to Report 9 2023-24.

Background

International development assistance administered by DFAT totalled \$3.7 billion in 2022-23, with administration of this funding decentralised across numerous geographies, covering various industry sectors. Operating across different geographic and legal jurisdictions increases the complexity of the program governance, as different programs and regions present unique challenges and risks.

To support administration of development assistance funding, DFAT has a centralised framework in place that underpins program administration. The core of this centralised framework is the International Development Programming Guide, which sets expectations on staff in designing, executing, and evaluating programs that they are responsible for. This is supplemented by additional processes and controls that are implemented at a post or program level, designed to specifically respond to the risks and circumstances affecting that particular region, industry sector or program.

As set out in Report 9 2023-24, DFAT received a moderate (B) category finding in relation to inconsistent application of departmental policies and varying degrees of validation conducted by staff with respect to payments for cost reimbursements related to Official Development Assistance (ODA).

Finding by the Australian National Audit Office (ANAO)

Report 9 2023-24 noted the status of findings by the ANAO for DFAT as follows:

| Category | Closing position (2021-22) | New findings (2022-23) | Findings resolved (2022-23) | Closing position (2022-23) |
|--------------|-------------------------------|---------------------------|-----------------------------------|-------------------------------|
| Moderate (B) | – | 1 | – | 1 |
| Total | – | 1 | – | 1 |

In relation to the Moderate (B) finding, the ANAO noted:

ANAO investigated 16 programs as part of the work at Jakarta and Port Moresby posts. ANAO’s testing at post identified that there were varying degrees of validation conducted by DFAT staff with respect to payments for cost reimbursements. The range of verification activity across the programs selected ranged from direct visibility of the delivery partners major procurement activities, through to requesting a supporting breakdown of transactional activity to substantiate the costs incurred. Some programs however, did not have a process in place to verify that cost reimbursement claims related to costs that had in fact been incurred.

Due to the nature of the ODA program, ANAO acknowledges that some variation in practice is to be expected across different programs (i.e. a larger scale, longer-term or higher risk program should have more extensive controls in place than low-risk, low-value, or short-term programs). However, there is a requirement under DFAT’s Aid Programming Guide for all programs, irrespective of size, nature or risk, to comply with the payment processes outlined above, and the results of ANAO’s audit testing indicate that these requirements have not been consistently met across all programs.

Response and action taken

DFAT took immediate actions to respond to and address the audit finding, including:

- In November 2023 DFAT notified posts and program areas of the moderate (B) finding to ensure there was organisation-wide visibility of the finding together with clear advice reiterating expectations on the requirement to ensure compliance with financial frameworks and policies. This advice was sent to all development posts, and DFAT’s senior leadership cohort, including Heads of Missions and Heads of Posts.
- DFAT provided a briefing in 2023 to currently contracted development suppliers, advising that changes would be made to bring consistency to the way payments for cost reimbursements were validated across all programs and posts in early 2024 and reminding them of expectations relating to document management.
- Enhancements were made to the International Development Programming Guide and the Department’s Payment Policy (section 2.4.2) to strengthen and provide greater focus on record keeping requirements in respect of payments.

- In February 2024, DFAT distributed interim guidance to posts and program areas outlining a consistent approach to assessing claims for payment of cost reimbursements. This is detailed through a Standing Operating Procedures (SOPs): *Agreement Manager Assurance Review Responsibilities – Reimbursable Invoice Sampling Processes for ODA Procurement Agreements*. The SOPs have been designed taking into consideration auditing standards and include a requirement to undertake sample testing of transactions as part of assessing ODA reimbursement claims. The interim guidance will be reviewed, with final guidance expected to be released from 1 July 2024 reflecting lessons learnt from implementation.
- In March 2024, DFAT held Supplier Relationship Management meetings with each of the top eight development suppliers, including discussion and reinforcement of the process and documentation required to accompany and supplement invoice requests. These meetings are held twice annually.
- DFAT also delivers regular contract and agreement management training, which now includes discussion of the audit finding and guidance on the validation requirements for cost reimbursement payments. Since the finding was issued, this training has been provided in Bangkok (Thailand), Port Moresby (Papua New Guinea), Dili (Timor-Leste), Jakarta (Indonesia), Suva (Fiji) and Tarawa (Kiribati) Posts. Additionally, this training is also delivered monthly in Canberra, including for staff that are deploying to overseas posts.

Each of the above elements of work has been underpinned by extensive consultation to ensure a sustainable solution which addresses the risks identified by the ANAO. DFAT has also provided a position paper to the ANAO as part of the Interim Audit, currently underway, to support their review of actions taken to date.

Following release of the interim SOP guidance, DFAT is now working on a monthly secondary level assurance program to test a sample of transactions across posts to support and ensure compliance with the International Development Programming Guide, the Department's Payment Policy and the SOP on assurance review responsibilities. This two-tier assurance work will inform progress in resolving the risks identified through the audit finding.

DFAT is committed to strengthening controls in order to address and resolve the finding as a priority.


Yours sincerely



Brad Medland

Chief Financial Officer

28 March 2024



Natalie Cohen

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28 March 2024