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Auditor-General reports

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Management of the National Collections – Follow-on

Type: Performance audit

Report number: 29 of 2020-21

Portfolios: Infrastructure, Transport, Regional Development and Communications

Entities: Department of Infrastructure, Transport, Regional Development and Communications; National Film and Sound Archive; National Library of Australia

Date tabled: 22 February 2021

Background

1. Australia's National Collecting Institutions (NCIs) play a key role in collecting, preserving and sharing items which are integral to Australia's national identity, culture and achievements. The NCIs manage approximately 59 million heritage and cultural assets, with a combined estimated value of over \$10.9 billion as at 30 June 2020. The National Library of Australia's (Library) collection consists of approximately 10.25 million objects with an estimated value of \$1.3 billion and its digital collection includes over 2.4 petabytes of material. The National Film and Sound Archive of Australia (NFSA) has a collection consisting of approximately 3.3 million objects with an estimated value of \$301 million and its digital collection is over 5.2 petabytes.

Rationale for undertaking the audit

2. Audits of cultural institutions undertaken both in Australia and overseas, including ANAO performance audits in 1998, 2005 and 2018, have identified shortcomings in the acquisition, conservation and security of collections.
3. This audit, as a follow-on to the Auditor-General Report No.46 2017–18 *Management of the National Collections*, assessed the collection management practices of two additional corporate Commonwealth NCIs with high value collections, the Library and the NFSA. Together, these two collections are worth approximately \$1.6 billion.

Audit objective and criteria

4. The objective of this audit was to assess whether the Library and the NFSA have implemented effective collection management practices.
5. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:
 - have the Library and the NFSA established effective strategic frameworks to support the management of their collections; and
 - have the Library and the NFSA implemented effective systems and processes for managing their collections?

Conclusion

6. The Library and the NFSA have implemented largely effective collection management practices.
7. The Library and the NFSA have established largely effective strategic frameworks to support the management of their collections. Both entities could improve their performance measures to include efficiency and longer term measures, and enhance qualitative measures. The NFSA's risk management framework and business continuity plans were effective. The Library has recently updated its risk management framework and should review its business continuity planning documentation.
8. Largely effective systems and processes are in place to support collection management in accordance with the entities' mandates and collection policies. The NFSA could improve accessioning prioritisation and loan management, and both entities should develop deselection plans and review backlogs.

Supporting findings

Strategic frameworks

9. The Library and the NFSA have established effective oversight arrangements through their respective Council and Board to oversee strategic responsibilities. The Library's Council and the NFSA's Board have operated in accordance with their legislative requirements regarding membership and frequency of meetings. The NFSA's Board succession planning could be improved, as the Chair and Deputy Chair are both in their final terms of appointment, and during 2020–21 there were four Board members acting. The timing of appointments should be improved to avoid the loss of institutional memory and to support continuity. Both entities remain financially sustainable and Collection Development Acquisition Budget funding has been used appropriately.

10. Both entities have largely effective performance frameworks in place, except for the absence of efficiency and longer term measures and the NFSA should also consider including qualitative measures. The Library should also consider incorporating its service charter measures into its performance measures.

11. Both entities have developed effective risk management frameworks that are largely aligned with the Commonwealth Risk Management Policy. Both entities used their business continuity planning and documentation during the 2019–20 bushfires, 2020 hailstorm and COVID-19 pandemic, although the Library's Business Continuity Plan and supporting documents should be updated and incorporate lessons learned from the recent applications.

12. The Library and the NFSA have developed largely effective collection management frameworks centrally accessible on their intranets and websites, although the Library could improve arrangements to regularly review policies and plans and ensure draft policies are approved on a timely basis.

Collection management practices

13. The entities effectively develop their collections in accordance with their legislative requirements and acquisitions align with their collection policies. The NFSA should ensure a systematic prioritisation of items to be accessioned and ensure backlog items are prioritised. The Library should develop a disposal policy and a backlog processing plan.

14. The Library has established an effective process to allocate its preservation resources to areas of most need, as determined by collection areas; however, the recording of preservation work is not integrated with the Library's collection management system, and since 2009 the Library has had two draft preservation policies, neither of which has been finalised and approved.

15. The NFSA has effective preservation procedures, supported by its Collection Digitisation Strategy 2018–25, Collection Digitisation Plan 2020–25, and a fit-for-purpose mechanism that retains records of preservation work undertaken.

16. The Library and the NFSA both effectively store their collections. The Library needs to have a long-term storage solution by 2025 when current leasing arrangements end, and to accommodate ongoing annual growth in its physical collection. The NFSA has combined its long term storage planning with the need for enhanced digital capability and a building that is fit-for-purpose as a headquarters and storage facility.

17. The Library has a Conservation Management Plan and Heritage Strategy for its main building, in accordance with the *Environment Protection and Biodiversity Conservation Act* (EPBC Act), and identifies priority heritage works. It has a Life Cycle Maintenance Plan and Capital Works Forward Plan and the Capital Investment Committee provides oversight. The NFSA has not updated its conservation management plan for its heritage building every five years as required under the EPBC Act. The NFSA has drafted a strategic asset management plan to assist with forward planning and budgeting.

18. The Library has established largely effective, and the NFSA effective, security frameworks that are largely aligned with the Protective Security Policy Framework. Both entities have controls over items at higher risk due to their cultural or monetary value, and have sound processes to reduce the risk of unauthorised building and IT systems access.

19. The Library's current library management system has limited functionality which has necessitated work-arounds and manual processes. The Library's inter-library loan processes are largely effective. The NFSA has a collection management system and data analytics processes to support collection management activities. There is no systematic follow up of overdue loans resulting in some items being overdue for many years with no documented follow-up. Both entities have supplementary systems for legacy collections.

Recommendations

Recommendation no.1

Paragraph 2.53

The National Library of Australia update and approve its Business Continuity Plan and supporting documents incorporating lessons learned from recent experiences.

National Library of Australia response: *Agreed.*

Recommendation no.2

Paragraph 3.22

The National Library of Australia develop a deselection/disposal policy to outline the focus areas and priorities for deselection, formalise procedures, and centrally report disposals. The Library should ensure this policy is approved and incorporated into the collections management documentation program of review.

National Library of Australia response: *Agreed.*

Recommendation no.3

Paragraph 3.44

The National Film and Sound Archive of Australia develop a deselection plan to outline the focus and priorities for deselection.

National Film and Sound Archive of Australia response: *Agreed.*

**Recommendation
no.4**

Paragraph 3.113

The National Film and Sound Archive of Australia establish a process for managing loans to ensure there is systematic follow up of overdue loans and to take action on items that have been overdue for many years.

National Film and Sound Archive of Australia response: *Agreed.*

Summary of entity responses

20. The National Library of Australia's summary response to the report is provided below, and its full response is at Appendix 1.

The Library welcomed the ANAO performance audit - Management of the National Collections follow-on - and the opportunity it provided to review and improve Library strategic frameworks and collection management practices.

The Library notes the overall finding that the Library has established effective strategic frameworks to support the management of its collection, and that the Library has implemented effective supporting systems and processes.

The Library acknowledge the conclusions and findings of the report, including that the Library:

- has effective oversight arrangements through its Council
- has developed an effective risk management framework
- effectively develops its collection in accordance with legislative requirements
- has an effective process to allocate preservation resources to areas of most need, and
- effectively stores its collection.

The Library accepts the two recommendations made by the audit, noting the areas of improvement identified are currently being addressed. The Library will work to continue to improve its performance measurement, business continuity and security frameworks.

The Library welcomes the audit observation that the Library remains financially sustainable and uses Collection Development Acquisition Budget funding appropriately.

However, we also note that, until we have a path forward for funding storage for current collections and anticipated growth, there are significant future risks in relation to management of the Library's collections.

21. The National Film and Sound Archive of Australia's summary response to the report is provided below, and its full response is at Appendix 1.

The NFSA thanks the Australian National Audit Office (ANAO) for its work in conducting the audit into the management of the National Collections, in particular its flexibility while all participants faced the restrictions and pressures that have resulted from the COVID-19 pandemic.

The NFSA acknowledges the ANAO's finding that our collection management framework is largely effective and accepts the audit recommendations relating to planning and prioritising deselection work and managing loans. We are committed to implementing appropriate measures in response to the audit and its recommendations.

Key messages from this audit for all Australian Government entities

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

Governance and risk management

- Entities which occupy and manage heritage listed facilities should ensure effective asset management plans are in place to provide a sound basis for planning and funding future conservation work, and ensuring future access to the facilities.
- To ensure that collection and other asset management frameworks are complete, up-to-date and accessible to staff, entities should: identify relevant policies, plans and procedures; assess and fill in any gaps in these framework documents, ensuring that they meet applicable standards; and maintain them using appropriate version control. Entities should ensure draft policies are approved on a timely basis. Regular review is necessary to ensure that they are current and relevant, as is maintaining them in a central and accessible location.

Procurement

- When acquiring assets entities should consider whole-of-life costs, including effective storage and preservation, where appropriate.

Administration of the National Housing Finance and Investment Corporation

Type: Performance audit

Report number: 28 of 2020-21

Portfolios: Treasury

Entities: National Housing Finance and Investment Corporation

Date tabled: 22 January 2021

Background

1. In June 2018 the National Housing Finance and Investment Corporation (NHFIC) was established under the *National Housing Finance and Investment Corporation Act 2018* (NHFIC Act) to 'improve housing outcomes for Australians, particularly vulnerable Australians who need social and affordable housing'. NHFIC is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013*. NHFIC is part of the Treasury portfolio and reports to the Assistant Treasurer and Minister for Housing (minister). NHFIC is subject to the minister's directions outlined in the *National Housing Finance and Investment Corporation Investment Mandate Direction 2018* (Investment Mandate).
2. NHFIC was established to help reduce pressure on housing affordability. It does this through the provision of loans, investments, grants and loan guarantees to encourage investment in housing, with a particular focus on affordable housing.
3. NHFIC's services are delivered through five programs which are: the Affordable Housing Bond Aggregator (AHBA), the National Housing Infrastructure Facility (NHIF), capacity building, the First Home Loan Deposit Scheme (FHLDS) and research. A high level description of each of the programs is summarised in Table S.1 below.

Table S.1. Summary of NHFIC's programs

Program	Description
1. Affordable Housing Bond Aggregator	To make loans to registered community housing providers, using money borrowed from the Commonwealth and by raising finance by the issue of bonds on the commercial market.
2. National Housing Infrastructure Facility	To provide finance for eligible infrastructure projects that would not otherwise have proceeded, or would only have proceeded at a much later date or with a lessor impact on new affordable housing.
3. Capacity Building	To provide support for capacity building to assist registered community housing providers to further develop their financial and management capabilities. This support is provided by NHFIC entering into contracts with persons or entities to provide services to registered community housing providers.
4. First Home Loan Deposit Scheme	To facilitate first home buyers entering into the housing market sooner. To issue up to 10,000 guarantees each financial year for loans to first home buyers with a deposit of between 5 and 20 per cent of the property's value.
5. Research	To support the monitoring of housing demand, supply and affordability in Australia. Highlighting current and potential future gaps between housing supply and demand, while also complementing existing housing-related research.

Source: Investment Mandate.

Rationale for undertaking the audit

4. The primary function of NHFIC is to improve housing outcomes for Australians through increasing the supply of affordable housing. The availability of affordable housing has been of interest to the Parliament. In the 2019–20 financial year, NHFIC expenses were in excess of \$101 million of which concessional loan provisions were \$74.5 million. During this period NHFIC issued bonds to the value of \$877 million. The audit will provide assurance to the Parliament on the effectiveness of NHFIC's administration following its first two years of operation.

Audit objective and criteria

5. The audit objective was to assess the effectiveness of the administration of NHFIC. To form a conclusion against this objective, the following high-level criteria were applied:

- Have the design expectations for NHFIC been effectively incorporated into its service delivery arrangements?
- Has NHFIC implemented frameworks to deliver on the Investment Mandate?
- Has NHFIC established appropriate arrangements to measure and report on its impact?

Conclusion

6. The administration of NHFIC is partly effective. While NHFIC has established administrative arrangements for five programs which align to the NHFIC Act and the Investment Mandate, its implementation and reporting does not clearly demonstrate that it is achieving its purpose to 'improve housing outcomes'. NHFIC's administration should be improved in relation to: management of its Services Agreement (SA) with Export Finance Australia (EFA); risk management and compliance management; and measuring and presenting its achievements in delivering 'improved housing outcomes'.

7. The establishment of NHFIC was largely consistent with relevant legislative and policy requirements. There were shortcomings primarily related to its arrangements to monitor and report on performance under its SA with EFA and its implementation of risk management.

8. NHFIC's management of delivery against the Investment Mandate is partly effective. NHFIC has established mechanisms to monitor its performance and compliance against the Investment Mandate. However, greater assurance is required to meet the obligations set out in NHFIC's governance charters. The measuring and presenting of NHFIC's delivery against its legislative object to 'improve housing outcomes' was not transparent in corporate plans and was ambiguous in information provided to the NHFIC Board for decision-making.

9. NHFIC's arrangements for measuring and reporting on its impact are partly appropriate. NHFIC has prepared three corporate plans which identified the overall organisational purpose, aims to achieve its purpose and strategic objectives. NHFIC's performance framework did not provide an adequate level of insight into the effectiveness and efficiency of NHFIC's delivery of its legislative object. The performance measures established by NHFIC were not sufficiently reliable and complete.

Supporting findings

Establishment and design expectations

10. NHFIC's strategies and operating model are consistent with the NHFIC Act and Investment Mandate. Two programs (NHIF and capacity building) fell short of the expectations set out in NHFIC's business plans and internal budgets.

11. NHFIC was largely effective in establishing the operations of the organisation. The NHFIC Board was established and has an approved charter to govern its operations. In accordance with the charter, the board has established committees to advise or assist in the performance of the board's functions. Each of these committees has a charter that has been approved by the board. The NHFIC Board and the Audit and Risk Committee did not implement governance arrangements in a way that was intended to fulfil their legislative and charter obligations.

12. NHFIC's establishment of support functions was largely appropriate. NHFIC has made arrangements for the delivery of establishment services and operational services through a SA with EFA. The performance monitoring that has been undertaken was not documented and focused on inputs. NHFIC acquittal of EFA invoices under the SA is the primary mechanism for monitoring the costs of service delivery. This process should be more rigorous.

13. NHFIC has a range of policy documents that include a requirement to apply risk management techniques at the transaction level. All of these documents have been approved by the Audit and Risk Committee, and are applied in the operation of relevant programs. However, the structure and implementation of organisational risk management in NHFIC is missing elements and is inconsistently applied across the organisation.

Delivery against the Investment Mandate

14. NHFIC has established mechanisms to monitor its performance and compliance against the Investment Mandate. However, NHFIC requires additional measures to give greater assurance that the NHFIC Board is meeting its compliance obligations under the Investment Mandate and its governance charters.

15. NHFIC's investment decisions are partly effective in demonstrating additionality in outcomes. NHFIC's corporate plan should provide further information to allow NHFIC to demonstrate whether its performance resulted in 'improved housing outcomes'. NHFIC's loan, investment and grant assessment guidelines require specific consideration and assessment of the additionality for projects at the transaction level. However, the level of additionality is not consistently measured or presented in submissions for NHFIC Board approval.

Measuring and reporting on impact

16. NHFIC has established a partly appropriate performance measurement framework. NHFIC has identified a range of performance measures aligned to its strategic and legislative objectives. NHFIC's performance measures should provide greater insight to the Parliament and public into how NHFIC is achieving its legislative object and an understanding of the efficiency and effectiveness of its operations.

Recommendations

Recommendation no.1

Paragraph 2.76

The National Housing Finance and Investment Corporation implement rigorous monitoring and reporting of performance under the Services Agreement between Export Finance Australia and NHFIC.

National Housing Finance and Investment Corporation response: *Agreed.*

**Recommendation
no.2****Paragraph 2.98**

The National Housing Finance and Investment Corporation review and update the risk framework and risk assessments to better support the NHFIC Board in the identification and treatment of risks.

National Housing Finance and Investment Corporation response: *Agreed.*

**Recommendation
no.3****Paragraph 3.18**

The National Housing Finance and Investment Corporation implement additional measures to give greater assurance over the quality of, and compliance with, legislation, policies and procedures.

National Housing Finance and Investment Corporation response: *Agreed.*

**Recommendation
no.4****Paragraph 3.34**

The National Housing Finance and Investment Corporation present more consistent and transparent information to the NHFIC Board on how it contributes to 'improved housing outcomes'.

National Housing Finance and Investment Corporation response: *Agreed.*

**Recommendation
no.5****Paragraph 4.33**

The National Housing Finance and Investment Corporation strengthen its performance measures to address its legislative object 'to improve housing outcomes' and to provide a greater understanding of its efficiency and effectiveness in delivering outcomes.

National Housing Finance and Investment Corporation response: *Agreed.*

Summary of National Housing Finance and Investment Corporation response

17. A summary response from NHFIC is provided below. The full response can be found at Appendix 1.

The National Housing Finance and Investment Corporation (NHFIC) acknowledges the ANAO's findings and recommendations and welcomes the opportunity to comment on the Audit Report on the effectiveness of the administration of NHFIC.

We agree with the five recommendations noted in the Report and have already made significant progress in responding to the findings. The implementation of the recommendations by the ANAO will be overseen by NHFIC's Audit and Risk Committee.

NHFIC is only two and a half years old and we welcome the Report highlighting that \$1.2 billion of social bonds had been issued between March 2019 and June 2020, that 9,983 First Home Loan Deposit Scheme (FHLDS) guarantees were issued in the first six months of the Scheme's operation, and that \$1.3 billion in loans were made to 26 community housing providers by June 2020.

As a relatively new entity that is still maturing, the timing of the report has been very helpful in highlighting findings that will enhance the existing governance arrangements. NHFIC was established to be operational by 1 July 2018 with two key functions (the Affordable Housing Bond Aggregator (AHBA) and the National Housing Infrastructure Facility (NHIF)). NHFIC was given two additional functions (FHLDS and Research) following the May 2019 Federal election and a further function (the New Home Guarantee (NHG)) following the October 2020 Federal budget. NHFIC is focussed on administering these functions efficiently and effectively.

The Report places appropriate importance on the need for effective monitoring and reporting of governance arrangements. This includes the review of service level agreements and robust risk management policies and compliance practices. We have already enhanced our governance arrangements with the recruitment of specialist staff as part of our commitment to a continuous improvement approach to our policies and practices.

We also welcome the Report's focus on NHFIC's primary function of improving housing outcomes for Australians. We are reviewing our internal and external reporting measures to ensure they are consistent and transparent for the Board and to demonstrate to the public and the Parliament how NHFIC is achieving its purpose.

Key messages from this audit for all Australian Government entities

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

Governance and risk management

- An effective compliance framework:
 - lists relevant policies against which compliance is being measured;
 - includes a description of relevant roles and responsibilities for undertaking compliance activities and reporting;
 - identifies specific roles with accountability for compliance under relevant policies;
 - identifies the compliance activities to be undertaken and at what intervals; and
 - describes who has responsibility for any subsequent action (or acceptance) for instances of non-compliance.
- Risk management is most effective when risks that are not within the documented risk appetite/tolerance levels are identified and effectively treated.

Performance and impact measurement

- Audit committee responsibilities for assurance over performance reporting can be supported by a structured assessment of both the individual performance measures and of the performance narrative as a whole.
- Where a component of an entity's purpose is additionality, performance measures should be developed and reported on that capture the achievement of those measures. This reporting should demonstrate that the specific outputs or outcomes were delivered over and above what would have been delivered without the entity's contribution.
- It is not sufficient for entities to demonstrate that they have undertaken the programs and activities set out in legislation, without also demonstrating achievement of outcomes from those programs and activities.

Management of the Search and Rescue Aircraft Contract

Type: Performance audit

Report number: 27 of 2020-21

Portfolios: Infrastructure, Transport, Regional Development and Communications

Entities: Australian Maritime Safety Authority

Date tabled: 18 January 2021

Background

1. Australia's search and rescue region covers the Australian continent and large areas of the Indian, Pacific and Southern Oceans as well as the Australian Antarctic territories. The region is nearly 53 million square kilometres (one tenth of the earth's surface) and borders the search and rescue regions of 10 other countries. AMSA is Australia's national maritime regulator and is also responsible for maintaining national search and rescue (SAR) services for the maritime and aviation sectors.
2. AMSA engaged a single service provider to provide a dedicated airborne SAR capability and has a range of contracts in place with other providers on an opportunity basis to ensure that there are aircraft available for SAR 24 hours a day, seven days per week. This capability allows AMSA to task aviation assets to SAR incidents in a timely manner within the Australian SAR region. The Commonwealth Procurement Rules (CPRs) apply to AMSA's procurement activities.
3. In preparation for the end of the previous contract, commencing in November 2011, AMSA undertook market testing. Ten companies provided input which assisted in the development of the request for tender (RFT), which also incorporated lessons learned by AMSA from the extant contract. Further industry consultation occurred in early-2013, with a RFT released in August 2013. The successful tenderer would be required to bring together the hardware, software, and the trained crew. Five companies responded and provided proposals.
4. Cobham SAR Services (Cobham) was awarded the \$640 million contract on 20 October 2014, to commence operation in late 2016, for the provision of the dedicated airborne SAR capability. Cobham is responsible for acquiring, modifying, operating and maintaining four Bombardier Challenger CL-604 special mission jet aircraft for the life of the contract (12 years with an option to extend for an additional three years). Expenditure under the contract to date is \$153.3 million.

Rationale for undertaking the audit

5. The Cobham contract is AMSA's largest contract. This audit was undertaken four years into the 12 year contract to provide transparency over the services that have been provided under the contract to date, and also provide independent assurance to the Parliament as to whether AMSA is managing the operation of search and rescue contracted services effectively, as any failures to deliver the contracted services would have public safety impacts.

6. This audit was undertaken in a similar timeframe to a separate audit of the Management of Civil Maritime Surveillance Services Contract audit in the Home Affairs portfolio, which provided an opportunity to compare and contrast two aircraft service contracts (and its management) with contractors that are subsidiaries of the same parent company, Cobham Ltd. The audit in the Home Affairs portfolio is expected to table in the first quarter of 2021–22.

Audit objective and criteria

7. The audit objective was to assess whether AMSA is effectively managing the Search and Rescue Aircraft contract.

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

- Has the contract delivered against the planned cost, scope and delivery timeframe?
- Have the specified search and rescue assets been provided?
- Have the search and rescue services been provided?

Conclusion

9. AMSA's management of the search and rescue aircraft contract has been fully effective.

10. The contract is being delivered in accordance with the planned cost, scope and delivery timeframe. While there was a delay with the commencement of services being provided in full, the contract end date has not been extended. Standing charge payments for each base and air operating charges for missions that have been flown are tracking 24 per cent below the amount AMSA had budgeted to have paid by 30 June 2020. Under the well-designed contractual framework, costs tracking below budget initially reflected delays in each base commencing full operations. For the last three financial years, the major factors resulting in costs being lower than budgeted have been inflation being less than budgeted (charges and rates are indexed in the contract) and fewer flying hours being required than was budgeted.

11. Following initial delays, search and rescue assets have been provided and accepted into service. AMSA managed those initial delays through the contractual framework, including by not paying the standing charge for the bases and aircraft until they had been accepted into service and, once it started paying the charge, paying at a reduced rate until the remaining deficiencies had been addressed.

12. The contracted search and rescue services are being provided. The contractual framework established clear performance requirements and linked a substantial proportion of contract payments to those requirements. AMSA has effectively monitored and managed contractor performance against the contracted performance requirements. Performance reporting under the contract shows that base availability has increased over time and that bases have been responsive to calls for missions to be flown.

Supporting findings

Contract delivery against planned cost, scope and timeframe

13. At an expected cost of \$640 million, AMSA contracted Cobham in October 2016 for the delivery of search and rescue services out to December 2028, with an option to extend for a further three years. The services are contracted to be delivered at three bases with crews to be available 24 hours a day, seven days a week.

14. There have been ten variations to the contract. The most common reason for variations, related to delays in the commencement of services being provided when transitioning to the new provider. Those delays did not result in an extension of the contract end date and, accordingly, the expected cost of the contract to AMSA has been reduced by an estimated \$11.1 million.

15. AMSA's contract managers are experienced and have received appropriate training.

Search and Rescue assets

16. As required by the contract, search and rescue units have been established at three bases in Cairns, Perth and Essendon.

17. There was an initial delay in the provision of the contracted search and rescue units including the acceptance into service of the aircraft. AMSA managed those delays through the contractual framework. Of note was that AMSA did not pay the standing charge for the bases and aircraft until they had been accepted into service and, once it started paying the charge, paid at a reduced rate until the remaining deficiencies had been addressed. Overall, there was a net reduction of \$15.2 million in cost to AMSA as a result of these delays.

Contracted search and rescue services

18. The contracted search and rescue services are being provided with an average of 20 missions per month being flown in the three financial years to 30 June 2020.

19. Once initial issues with crewing were resolved, the contracted crewing requirements have been consistently met.

20. Performance reporting under the contract shows that availability of the three bases has improved over time such that it has become increasingly common for the contracted base availability key performance indicator to be met. Similarly, there has been a positive trend in the frequency with which each base has been meeting the contracted timeframes for responding to calls for missions to be flown.

21. AMSA has managed performance against the key performance indicators by applying the contracted framework to adjust the amounts it has paid. The contract also includes service credits and liquidated damages provisions and these have been employed on a number of occasions.

Australian Maritime Safety Authority summary response

22. AMSA's summary response to the report is provided below and its full response is at Appendix 1.

Providing a search and rescue function to the community is one of the most challenging and rewarding functions undertaken by the Australian Maritime Safety Authority. The aircraft contract provides dedicated response assets to deliver that vital public safety role. We are pleased to note that management of the contract was considered fully effective, and there were no recommendations for our attention.

Key messages from this audit for all Australian Government entities

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

Procurement

- Starting procurement processes for a replacement contract early aids the achievement of value for money including by: enabling an open approach to the market to be conducted; addressing the lessons learned from the existing contract; and enabling an effective transition to the new contract.
- Understanding the market, the options available and its ability to satisfy the procurement need, is necessary to ensure that value for taxpayers' money is obtained. Understanding the market includes identifying circumstances where value for money can be maximised by having one major contract along with other smaller contracts (for example, to address specific needs or provide surge capacity).
- A well-constructed contract, that reflects the results of a competitive tender process, provides a strong foundation for good contract management.

Contract management

- There are benefits from linking contract payments to the achievement of key performance indicators. Employing those contractual provisions from the commencement of the contract along with effective channels of communication with the contractor establishes clear performance expectations; as does maintaining a firm posture as delivery of the contract proceeds.
- An appropriate information technology system that links data on operational activities with contractual performance requirements and the related payments assists with efficient and effective contract management. Continuity in contract management staff, who are appropriately experienced and trained, along with clear lines of responsibility within an organisation, contributes to effective contract management. Understanding of the contract objectives and its terms may be further aided by having some of those involved in the procurement process also involved in the management of the contract.

Investments by the Clean Energy Finance Corporation

Type: Performance audit

Report number: 26 of 2020-21

Portfolios: Industry, Science, Energy and Resources

Entities: Clean Energy Finance Corporation

Date tabled: 17 December 2020

Background

1. The Clean Energy Finance Corporation (CEFC) was established under the *Clean Energy Finance Corporation Act 2012* (CEFC Act) 'to facilitate increased flows of finance into the clean energy sector' (section 3). It has been provided with access to \$10 billion in capital through a special account, which is drawn down over time.
2. Section 58 of the CEFC Act states that the function of the CEFC is to invest, directly and indirectly, in clean energy technologies, which are defined in section 60 as:
 - energy efficiency technologies;
 - low emission technologies; and
 - renewable energy technologies (under subsection 58(3), from 1 July 2018 at least half of the funds invested are to be in renewable energy technologies).
3. As at 30 June 2020, the CEFC had investment commitments (deployed and contractually committed capital) of \$5.95 billion.

4. Section 64 of the CEFC Act provides for responsible Ministers to give the Board directions about the performance of the CEFC's investment functions and the policies to be pursued. These directions together constitute the 'Investment Mandate'. The current Investment Mandate (May 2020) requires the CEFC, among other things, to:

- target an average return (before operating expenses) of the five-year bond rate plus three to four per cent per annum over the medium to long term as the benchmark return of the Corporation's core portfolio (section 7);
- in targeting this return and operating with a commercial approach, seek to develop a portfolio across the spectrum of clean energy technologies that in aggregate has an acceptable but not excessive level of risk (section 8);
- consider the potential effect on other market participants and the efficient operation of the Australian financial and energy markets and not act in a way that is likely to cause damage to the Australian Government's reputation (section 12);
- include in its investment activities a focus on technologies and financial products as part of the development of a market for firming intermittent sources of renewable energy generation, as well as supporting emerging and innovative clean energy technologies (section 13); and
- make available funds for investment in clean energy projects and businesses through five nominated Funds and Programs (section 14).

Rationale for undertaking the audit

5. The audit provides assurance to Parliament on the effectiveness of the CEFC's selection of investments, including determination of an appropriate risk level and investment return. The audit also provides assurance over the ongoing management of the portfolio of funded projects, and the extent to which the CEFC is meeting its function of funding clean energy technologies through energy efficiency, low emission and renewable technologies.

Audit objective and criteria

6. The audit's objective was to assess the effectiveness of the selection, contracting and ongoing management of investments by the CEFC and the extent to which the CEFC is meeting its legislated objective.

7. The following high level audit criteria were adopted:

- Does the CEFC have effective arrangements in place to assess potential investments and manage and report on the performance of its investments?
- Has the CEFC effectively met its objective under the *Clean Energy Finance Corporation Act 2012* consistent with legislative requirements and directions?

Conclusion

8. The CEFC has largely met its legislated objective of facilitating increased flows of finance into the clean energy sector, consistent with legislative requirements and directions.

9. The CEFC's arrangements to manage and report on investments are largely suitable. There is a need for the CEFC's policy statement to include more detail on its environmental, social and governance policies. There is an opportunity for the screening documents for new investments to specifically address all Investment Mandate requirements and for the CEFC to benchmark its performance in terms of clean energy outcomes and leverage against one or more other green banks.
10. The CEFC has not yet met the target benchmark rates of return set by the Investment Mandate and does not have a strategy in place to meet them. The CEFC also does not have a suitable measure of aggregate portfolio risk and the Board does not regularly record its assessment of the mandated requirement that the investment portfolio in aggregate has an acceptable but not excessive level of risk.
11. While the CEFC has facilitated increased flows of finance into the clean energy sector, the extent to which it has leveraged additional funds is unclear.
12. There is a lack of clarity in the Investment Mandate on whether CEFC investments in sustainable cities is restricted to the \$1 billion limit for the Sustainable Cities Investment Program set by the Mandate.

Supporting findings

CEFC's arrangements to monitor and report on its investments

13. The CEFC has suitable arrangements in place to assess and approve investment opportunities. Its policy statement is broad and the section on environmental, social and governance policies does not adequately meet the requirements of section 16 of the Investment Mandate. There would be merit in the CEFC ensuring that all Investment Mandate obligations have been adequately considered in documentation for the assessment of new investment proposals.
14. The CEFC has implemented effective arrangements for sound contractual partnerships for new investment projects and for their ongoing management. Since inception the CEFC has not been involved in any legal cases.
15. The CEFC has appropriate arrangements in place to manage its investments. All investments are overseen by either the Asset Management Committee or the Joint Investment Committee. These committees receive regular reports on the progress of the investments and take action to respond to market changes or to ensure compliance with the CEFC Act. Reports are also provided to the Board for information and, where needed, decision. Reviews of relevant projects are undertaken annually to ensure that they remain compliant with the CEFC Act.
16. The CEFC has met its reporting requirements under the *Public Governance, Performance and Accountability Act 2013* and the CEFC Act. There is scope to include other information to more fully inform users about the performance of the Corporation.

CEFC performance in meeting its legislative obligations

17. The CEFC has met the requirement in section 58 of the CEFC Act for at least 50 per cent of funds invested at one time to be in renewable energy technologies. It has also met its investment obligations under the Clean Energy Innovation Fund and the Reef Funding Program. However, CEFC investments in sustainable cities was \$3.4 billion as at 30 June 2020, \$2.4 billion more than the limit of \$1 billion set in the Investment Mandate of funds to be made available for the Sustainable Cities Investment Program. There is a lack of clarity on the CEFC's ability to invest more than \$1 billion in sustainable cities as part of its core investments. There is also a need for the CEFC, when reporting on investments included in each fund or program, to include amounts that have been included in other funds or programs.
18. Since 2014–15 the CEFC has not yet met either of the two portfolio target benchmark return rates set by the Investment Mandate. The CEFC does not have a strategy in place to enable the mandated rates of return to be achieved over the medium to long term (10 years).
19. The CEFC should document its operating procedure for calculating the actual rates of return and ensure that the calculation spreadsheets include references to all source data.
20. The CEFC has partially effective risk management processes in place. It has yet to develop a satisfactory measure of portfolio value-at-risk and the Board also does not regularly record its assessments against the mandated requirement to develop a portfolio that in aggregate has an acceptable but not excessive level of risk.
21. The concessionality charge each financial year has been well below the limit of \$300 million set in section 9 of the Investment Mandate and the CEFC has not exceeded the limits on guarantees specified in section 10 of the Investment Mandate.
22. There is evidence that the CEFC has facilitated increased levels of funds into the clean energy sector from the private sector and other sources, but the extent of these increased funds is unclear because the calculations of leverage both overstates some leveraged funds and does not include funds that may have been indirectly leveraged.

Recommendations

Recommendation no.1

Paragraph 2.16

The Clean Energy Finance Corporation develop a more comprehensive statement of its investment policies in regard to environmental, social and governance issues in order to meet the requirement of section 16 of the Investment Mandate.

Clean Energy Finance Corporation response: *Agreed.*

**Recommendation
no.2****Paragraph 2.50**

The Clean Energy Finance Corporation include in its annual performance statements a carbon abatement capital efficiency metric as an additional performance measure.

Clean Energy Finance Corporation response: *Agreed.*

**Recommendation
no.3****Paragraph 2.70**

To help decision-makers take account of all mandated requirements when assessing investment proposals, the Clean Energy Finance Corporation include in its screening documentation for all projects information on:

- a. specific consideration of the potential effect on other market participants and the efficient operation of the Australian financial and energy markets; and
- b. a comparison of the rate of return with the relevant benchmark average rate of return in the Investment Mandate.

Clean Energy Finance Corporation response: **(a)** *Agreed*; **(b)** *Not Agreed*.

**Recommendation
no.4****Paragraph 2.116**

The Clean Energy Finance Corporation benchmark its performance in terms of clean energy outcomes and leverage against one or more other green banks.

Clean Energy Finance Corporation response: *Agreed.*

**Recommendation
no.5****Paragraph 3.32**

The Clean Energy Finance Corporation:

- a. ask responsible Ministers to clarify in the Investment Mandate the intention of the requirement in subsection 14(2) that the Clean Energy Finance Corporation make available up to \$1 billion of investment finance over 10 years for the Sustainable Cities Investment Program; and
- b. in reporting on investments included in each fund or program, include amounts that have been included in other funds or programs.

Clean Energy Finance Corporation response: *Agreed.*

**Recommendation
no.6****Paragraph 3.51**

The Clean Energy Finance Corporation document procedures for calculation of benchmarks and actual rates of return against the benchmarks, and ensure that the calculation spreadsheets include references to all source data.

Clean Energy Finance Corporation response: *Agreed.*

**Recommendation
no.7**

Paragraph 3.64

The Clean Energy Finance Corporation keep responsible Ministers informed of action it is taking to meet the target rates of return and any concerns it has about its ability to achieve the target rates.

Clean Energy Finance Corporation response: *Agreed.*

**Recommendation
no.8**

Paragraph 3.103

The Clean Energy Finance Corporation:

- a. develop a metric that provides an aggregate estimate of risk capital at the portfolio level; and
- b. include in the quarterly Enterprise Risk Report a specific statement as to the Clean Energy Finance Corporation's assessment of risk against the mandated requirement to develop a portfolio that in aggregate has an acceptable but not excessive level of risk.

Clean Energy Finance Corporation response: *Agreed.*

Clean Energy Finance Corporation summary response

The CEFC welcomes the ANAO's performance audit report on *Investments by the Clean Energy Finance Corporation* (Report). The Report notes, amongst other things, that the CEFC has facilitated increased funding into the clean energy sector, and that the CEFC has suitable arrangements in place to assess and approve investments and for their ongoing management. This is consistent with the conclusion reached also by Deloitte in conducting the 2018 Independent Statutory Review of the CEFC.

We accept all but one of the recommendations contained in the Report and their implementation will be overseen by the CEFC Board's Audit and Risk Committee. The CEFC has already started to address a number of the items identified by the ANAO and we have benefited from discussions with the audit team throughout this process.

Regarding the one recommendation in the Report not accepted by the CEFC, the difference in opinion would appear to stem largely from differing approaches in the way we analyse investment returns on an individual versus portfolio basis. The portfolio benchmark return is defined in the Investment Mandate and then managed consistently on a *portfolio* basis, and it is our view that this is not an integral part of each *individual investment* decision. *Individual investment* decisions more appropriately reference the relevant market-equivalent rate of return and the maximum rate that can be achieved while still ensuring the appropriate public policy outcome.

Notwithstanding this one area in which we respectfully disagree, we are absolutely committed to implementing the ANAO's recommendations, and to continuously improving the efficiency and effectiveness of our operations and governance arrangements.

Key messages from this audit for all Australian Government entities

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

Policy/program implementation

- Where responsible Ministers provide entities with directions, the entities should implement arrangements to provide assurance that the mandated directions are being effectively addressed at both strategic and operational levels.
- To assist decision-makers entities should document compliance with all mandated requirements in proposals.
- Entities should document and obtain endorsement for methodologies for key performance and other metrics.
- Entities should regularly review and update performance information to ensure they provide meaningful information to the Parliament and the public.

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2020

Type: Financial statement audit

Report number: 25 of 2020-21

Portfolios: Across Entities

Entities: Across Entities

Date tabled: 17 December 2020

1. The ANAO publishes an annual audit work program (AAWP) which reflects the audit strategy and deliverables for the forward year. The purpose of the AAWP is to inform the Parliament, the public and government sector entities of the planned audit coverage for the Australian Government sector by way of financial statements audits, performance audits and other assurance activities. As set out in the AAWP, the ANAO prepares two reports annually that, drawing on information collected during audits, provide insights at a point in time to the financial statements risks, governance arrangements and internal control frameworks of Commonwealth entities. These reports provide Parliament with an independent examination of the financial accounting and reporting of public sector entities.
2. These reports explain how entities' internal control frameworks are critical to executing an efficient and effective audit and underpin an entity's capacity to transparently discharge its duties and obligations under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). Deficiencies identified during audits, that pose either a significant or moderate risk to an entity's ability to prepare financial statements free from material misstatement, are reported.
3. This report presents the final results of the 2019–20 audits of the Consolidated Financial Statements (CFS) and 245 Australian Government entities. Auditor-General Report No.38 2019–20 *Interim Report on Key Financial Controls of Major Entities* (Auditor-General Report No.38), focused on the interim results of the audits of 24 of these entities.

Consolidated financial statements

4. The CFS presents the whole of government and the general government sector financial statements. The 2019–20 CFS were signed by the Minister for Finance on 24 November 2020 and an unmodified auditor's report was issued on 24 November 2020.

Financial audit results and other matters

Quality and timeliness of financial statements preparation

5. The ANAO issued 232 unmodified auditors' reports, including the CFS, and one modified auditors' report, as at 24 November 2020. A quality financial statements preparation process will reduce the risk of untimely, inaccurate or unreliable reporting.

6. The ANAO noted a decrease in findings relating to processes supporting financial statements preparation; reduced delivery of draft financial statements in line with entity financial statement project plans; and an increase in the total value of audit adjustments reported to entities in 2019–20 compared to 2018–19. These observations, in regards to timeliness of financial statements and the total value of audit differences, indicate there is still an opportunity to improve quality assurance frameworks over financial statements process, noting that the reduced number of findings indicates some improvement has been made.

Timeliness of financial reporting

7. The financial statements were finalised and auditor's reports issued for 77 per cent of entities within three months of the financial year end. On average it took entities an additional 40 days to table their annual reports in Parliament. Sixty-two per cent of entities that are required to table an annual report in Parliament, tabled prior to the date of the portfolio's Senate budget estimates hearing. Of the remaining entities, eight per cent had not tabled an annual report as at 24 November 2020.

Key audit matter reporting

8. The ANAO has applied ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* for the 24 entities included in Auditor-General Report No. 38 and the Australian Government's CFS. In 2019–20 a total of 56 key audit matters (KAM) were included across the

24 entities and seven KAM were included in the CFS auditor's report.

IT Controls and Cyber Security Risks

9. The 2020 Australian Cyber Security Strategy highlights the importance of protecting Australians online, especially during the COVID-19 pandemic. As part of the response to the COVID-19 pandemic 186 entities implemented some form of remote working. The majority of entities assessed their existing IT general controls as being appropriate to support remote working arrangements, with only 15 of the 186 entities needing changes to IT general controls.

Financial sustainability

8. An assessment of an entity's financial sustainability can provide an indication of financial management issues or signal a risk that the entity will require additional government funding. Our analysis concluded that the financial sustainability of the majority of entities was not at risk. The assessment identified that eight entities were significantly impacted by the COVID-19 pandemic and required either additional funding, letters of support or a restructuring of operations.

Summary of audit findings

10. A total of 142 findings were reported to entities as a result of the 2019–20 financial statements audits. These comprised two significant, 22 moderate and 118 minor findings. One significant legislative breach was also reported during 2019–20.

11. The highest number of findings continue to be in the categories of:

- compliance and quality assurance frameworks supporting program payments and financial reporting; and
- management of IT security and user access, in particular the management of privileged users.

Implementation of AASB 16 *Leases*

12. The revised leasing standard, AASB 16 *Leases* (AASB 16), was effective for financial years commencing on or after 1 January 2019; impacting government entities in the 2019–20 financial year. AASB 16 significantly increases the recognition and disclosure of leases by lessees with the majority of leases previously treated as operating leases now recognised on the balance sheet. The quality of the implementation of AASB 16 was assessed by considering the number of audit differences identified in relation to AASB 16. The low number and dollar value of audit differences indicates entities were effective in the implementation of AASB 16.

Management of Staff Leave

13. During 2019–20, as a result of the increase in findings relating to human resource management and administration across Australian Government entities during the period from 2015–16 to 2018–19, the ANAO undertook targeted assurance activities over the management of staff leave in three entities. The analysis performed identified weaknesses in processes relating to staff leave and associated monitoring controls.

Reporting and auditing frameworks

Changes to the Australian public sector reporting framework

14. The ANAO's experience with 2019–20 financial statements audits identified particular challenges for entities when dealing with the impact of the COVID-19 pandemic. ANAO staff were restricted in their ability to physically access entities' premises leading to the increased use of remote access to entity financial management and relevant operational systems. The Government's increasing utilisation of online services in supporting the response to major events such as the COVID-19 pandemic necessitates the need for entities to protect critical information from malicious actors.

15. Assuring performance information is an emerging area of practice in the Australian and international audit profession. The PGPA Act provides the basis for the Commonwealth performance framework. In response to a request from the Finance Minister in August 2019, the Auditor-General agreed to conduct pilot assurance audits of the 2019–20 performance statements of three entities. The ANAO completed the audits of two of those entities.

16. During 2019–20, the ANAO continued to progress the goals of its Data Analytics Strategy 2018–20 by extending data analytics solutions to an increased number of audits. In 2019–20, 80 per cent of the audits of major entities conducted in-house involved the use of data analytics as part of the financial statements audit program.

Cost of this report

17. The cost to the ANAO of producing this report is approximately \$474,000.

The Australian Taxation Office's Management of Risks Related to the Rapid Implementation of COVID-19 Economic Response Measures

Type: Performance audit

Report number: 24 of 2020-21

Portfolios: Treasury

Entities: Australian Taxation Office

Date tabled: 14 December 2020

Background

1. Since its emergence in late 2019, coronavirus disease 2019 (COVID-19) has become a global pandemic that is impacting on human health and national economies. From February 2020, the Australian Government commenced the introduction of a range of policies and measures in response to the emergence of COVID-19 that included:

- travel restrictions and international border control and quarantine arrangements;
- delivery of substantial economic stimulus, including financial support for affected individuals, businesses and communities; and
- support for essential services and procurement of critical medical supplies.

2. The Australian Taxation Office (ATO) is responsible for implementing and administering six measures as part of the Australian Government's economic response to the COVID-19 pandemic (Box 1).

Box 1: COVID-19 economic response measures implemented and administered by the ATO

Box 1: COVID-19 economic response measures implemented and administered by the ATO

1. **Enhancing the Instant Asset Write-Off** – from 12 March to 31 December 2020^a, businesses with aggregated turnover of less than \$500 million can access an immediate tax deduction through their 2019–20 or 2020–21 tax returns for certain depreciating assets purchased for less than \$150,000.
2. **Backing Business Investment** – businesses with aggregated turnover of less than \$500 million can access an accelerated rate of depreciation for certain new assets, provided the asset is first held and used or ready for use between 12 March 2020 and 30 June 2021.
3. **Boosting Cash Flow for Employers** – small and medium-sized businesses and not-for-profit organisations with aggregated turnover under \$50 million who employ staff are eligible to receive credits totalling between \$20,000 and \$100,000 when they lodge their activity statements for tax periods from March 2020 through to and including the September 2020 period.
4. **Early Release of Superannuation** – eligible individuals affected by COVID-19 could access up to \$10,000 of their superannuation in 2019–20 and a further \$10,000 in 2020–21. Eligible temporary visa holders were eligible to access up to \$10,000 of their superannuation in 2019–20.
5. **Temporary Reduction of Superannuation Minimum Drawdown Rates** – for 2019–20 and 2020–21, the superannuation minimum drawdown requirements for account-based pensions and similar products have been reduced by 50 per cent.
6. **JobKeeper scheme** – the JobKeeper Payment is a wage subsidy (paid in arrears) designed to help businesses affected by COVID-19 to cover the costs of their employees' wages, so that more employees can retain their job and continue to earn an income.

Note a: The government announced an extension to this measure on 6 October 2020 (see Box 3).

Source: ANAO, based on public records and the ATO's records.

3. The six measures were announced and implemented over the period from 12 March to 1 July 2020.

Rationale for undertaking the audit

4. The COVID-19 pandemic and the pace and scale of the Australian Government's response impacts on the risk environment faced by the Australian public sector. This audit is one of five performance audits conducted under phase one of the ANAO's multi-year strategy that will focus on the effective, efficient, economical and ethical delivery of the Australian Government's response to the COVID-19 pandemic.
5. The ATO is playing a significant role in supporting the Australian Government's economic response to the COVID-19 pandemic. An early stage audit examining the ATO's risk management arrangements will inform ongoing administration of the measures, including strategies to support the integrity of the measures.

Audit objective and criteria

6. The objective of the audit was to assess whether the ATO has effectively managed risks related to the rapid implementation of COVID-19 economic response measures.
7. The three high-level criteria were:
 - Was appropriate planning undertaken for rapid implementation?
 - Were changes in the ATO's risk environment appropriately assessed, documented and communicated?
 - Have identified risks been effectively managed, monitored and reviewed?

Conclusion

8. The ATO has been effective in managing risks related to the rapid implementation of COVID-19 economic response measures.
9. The ATO undertook appropriate planning to support the rapid implementation of the six economic response measures – predominantly using its existing systems and processes to support governance, resourcing, and consultation.
10. In implementing the six economic response measures, the ATO assessed, documented and communicated changes in its risk environment in an appropriate manner. The ATO's risk documentation evidences its priority of implementing the measures in a timely manner, while also managing fraud and other integrity risks on a progressive basis.
11. The ATO has established effective arrangements to monitor identified risks and associated risk mitigation strategies through the project management and governance structures established for the six economic response measures. The ATO has commenced planning for the further adjustment of existing operations in line with changed circumstances and risks.

Supporting findings

Planning for rapid implementation

12. The ATO implemented fit-for-purpose governance and oversight arrangements for the six economic response measures, drawing on existing bodies and frameworks where it could, and introducing specific and additional structures where needed.
13. The ATO followed a sound process to identify and obtain required resources and capabilities to support the rapid implementation of the six economic response measures, and to understand the impacts on its business-as-usual activities. The ATO identified constraints and developed responses to address staffing and ICT capability requirements to deliver the measures.
14. The ATO consulted with government entities and external stakeholders during the implementation of the six economic response measures – generally leveraging its existing relationships and arrangements. The ATO's strategies for managing identified shared risks were not documented consistently.

Identifying risks and impacts

15. The ATO identified new and changing risks, including to existing operations. The ATO adopted an iterative approach to identifying risks at a project and program level that was fit-for-purpose.

16. The ATO identified risk tolerances, controls and treatment strategies. Risks associated with the implementation of the six economic response measures were assessed to be within tolerance, to be managed by identified controls, with the exception of integrity risks where the need for additional treatment strategies was identified. Aspects of the ATO's approach to determining risk tolerances could have been better documented to support risk-informed decision-making.

17. The ATO informed government decision-makers of risks, mitigation strategies and broader impacts through a variety of operationally focused briefs, submissions and reports.

Monitoring identified risks

18. The ATO has progressively developed and commenced the implementation of treatment strategies for fraud and compliance risks associated with the economic response measures.

19. The ATO has appropriately monitored identified risks and strategies. At August 2020, the ATO had revised Risk Assessment and Treatment Plans for four measures. A range of monitoring activities have been undertaken at a project level for all six measures.

20. The ATO has reviewed business arrangements in line with changed circumstances and risks. Future state strategic planning has commenced, including for the adjustment of pre-existing arrangements for debt and lodgment.

Australian Taxation Office summary response

21. The ATO's summary response to the audit is provided below, while its full response is reproduced at Appendix 1.

The ATO welcomes this review and considers the report supportive of our approach to managing risks related to the rapid implementation of COVID-19 economic response measures. This rapid implementation, particularly in an operational environment impacted by COVID-19, prompted a significant review of the minimum viable products that support new measures. This enabled the economic response measures to be implemented within weeks, where the typical timeline for these types of activities would be at least 6–12 months.

In finding the ATO effective in managing risks related to the rapid implementation of the economic response measures, we do support the suggestions made within the key messages and will be reviewing these opportunities for improvement within our future risk management processes. In particular, the ATO had already recognised shared risk and risk tolerance to be two areas that could be further enhanced to better support our overall risk management practices within the organisation.

Key messages from this audit for all Australian Government entities

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

Governance and risk management

- Leveraging existing governance mechanisms can provide an effective means to support the rapid implementation of measures, where these mechanisms provide for fit-for-purpose accountability, oversight and reporting arrangements. Existing resources, such as internal audit, can be used to provide timely assurance that frameworks are being followed and that decision-making processes are appropriately documented.
- Clear assessment and decision-making about business priorities can support appropriate reallocation of existing staff. Where feasible and necessary, reallocating existing staff to meet staffing needs leverages existing access to equipment, information and premises, and may reduce some training requirements, particularly for staff with relevant previous experience.
- The identification of risks that extend beyond a single entity, and which require shared oversight and management, is a key aspect of effective risk management at an entity and whole-of-government level. The effective management of shared risks can involve:
 - formalising roles and responsibilities for managing different aspects of the identified risks;
 - establishing arrangements to monitor the effectiveness of agreed risk management controls and treatments; and
 - ensuring appropriate oversight of shared risks by relevant entity and interdepartmental governance bodies.
- The concept of risk tolerance assists entities to make informed decisions about whether mitigation strategies in addition to existing controls are required and, if so, the level of resourcing required to achieve desired outcomes. Articulating risk tolerance early in the implementation phase of new measures provides a sound basis on which to support effective risk management, including the best use of entity resources. The rationale for setting the risk tolerance for particular risks or categories of risk should be clearly documented, both to evidence entity decision-making and to support subsequent assurance activities.
- In the context of rapid implementation of new initiatives, entity governance should maintain a focus on risks and impacts to existing operations, especially functions or activities that are assessed as 'critical' to achieving the entity's strategic objective and purpose. Existing governance structures, such as enterprise risk committees, can be used to examine emerging, medium and longer-term risks. External expertise can also be drawn on as appropriate. Proposed changes to business-as-usual operations to better fit the changing risk environment should be subject to risk-informed decision-making processes, including alignment with the entity's objectives.

Services Australia COVID-19 Measures and Enterprise Risk Management

Type: Performance audit

Report number: 23 of 2020-21

Portfolios: Social Services

Entities: Services Australia

Date tabled: 10 December 2020

Background

1. Since its emergence in late 2019, coronavirus disease 2019 (COVID-19) has become a global pandemic that is impacting on human health and national economies. From February 2020 the Australian Government commenced the introduction of a range of policies and measures in response to the emergence of COVID-19 that included:

- travel restrictions and international border control and quarantine arrangements;
- delivery of substantial economic stimulus, including financial support for affected individuals, businesses and communities; and
- support for essential services and procurement of critical medical supplies.

2. Services Australia is responsible for administering the following COVID-19 measures:

- Temporary coronavirus supplement – a fortnightly payment of \$550 made to eligible income support payment recipients and concession card holders from 27 April 2020 (costed at \$14.1 billion additional income support to individuals);
- Economic support payment – two payments of \$750 made to eligible existing income support payment recipients and concession card holders (payments made from 31 March and 13 July 2020) (costed at \$8.8 billion in payments to support households); and
- Reducing Social Security Deeming Rates – a reduction in both the upper and lower social security deeming rates (costed at \$876 million additional income support to individuals).

Rationale for undertaking the audit

3. The COVID-19 pandemic and the pace and scale of the Australian Government's response impacts on the risk environment faced by the Australian public sector. This audit is one of five performance audits conducted under phase one of the ANAO's multi-year strategy that will focus on the effective, efficient, economical and ethical delivery of the Australian Government's response to the COVID-19 pandemic. Two of the phase one audits focus on risk management in two frontline entities – the Australian Taxation Office and Services Australia – and provide assurance that the new and increased risks to sound public administration, and the proper use of public resources posed by the rapid implementation of COVID-19 measures, have been effectively considered and managed. In addition, this audit will assist all Commonwealth entities to consider the effectiveness of their own arrangements in identifying and responding to the risks associated with the rapid implementation of government initiatives.

Audit objective and criteria

4. The objective of the audit was to assess whether Services Australia had effectively managed risks related to the rapid preparation for and delivery of COVID-19 economic response measures. To form a conclusion against the audit objective, the ANAO adopted the following high level criteria:

- Was effective preparation for delivery of the COVID-19 response measures undertaken when the global pandemic was declared to be a human biosecurity emergency and economic measures were announced?
- Were risks related to the rapid implementation of the new measures identified, addressed and communicated?
- Have implementation risks been reviewed and monitored?

Conclusion

5. Services Australia was largely effective in managing the risks related to the rapid preparation for and delivery of COVID-19 economic response measures.

6. Services Australia's preparation for the delivery of the COVID-19 economic response measures was effective. The agency developed fit-for-purpose governance arrangements and scaled-up resourcing to meet increased demand.

7. In implementing the COVID-19 economic response measures, Services Australia adequately identified, addressed and communicated its risks except for risks related to welfare payment system access changes.

8. Services Australia monitored risks related to its implementation of the COVID-19 economic response measures and impacts on business-as-usual service delivery. The agency is reviewing internal control effectiveness with a report due to the Executive in November 2020. Planning has commenced for the transition to the post COVID-19 response environment.

Supporting findings

Preparation and planning

9. Services Australia built on its existing emergency response frameworks to plan for its implementation of the COVID-19 pandemic response. The agency incorporated elements of its pre-existing emergency, business continuity and pandemic management approaches and updated its consideration of business impacts and pandemic risks. The agency's Emergency Response and Recovery Committee commenced meeting in March 2020, business continuity plans were developed for each of the agency's divisions with critical functions and pandemic planning documents were created. The agency drafted, but did not finalise a pandemic risk management plan.

10. Collectively Services Australia's pandemic planning documents could more fully consider the level of action required from the agency to manage a global-scale pandemic. The agency's planned pandemic post-implementation review should consider actions taken by the agency to address outstanding internal audit recommendations and consultancy advice.

11. Services Australia developed fit-for-purpose governance arrangements to oversee its response to the COVID-19 pandemic and implementation for the government's stimulus measures. Governance arrangements identified key decision making bodies and executive reporting mechanisms. The Chief Executive Officer was the agency's decision-maker and the Executive Committee was the key group for reporting issues, risks, opportunities, progress and achievements. Additional committees and teams were established to oversee operational level delivery of the measures.

12. Services Australia identified the need to adjust its workforce, ICT and physical resourcing to deliver on government commitments. The agency on-boarded or re-deployed staff and increased its ICT capability to meet the increased volume of transactions. Additional ICT resources (to support home-based work arrangements) were provided and cleaning procedures (to adhere to workplace safety guidelines) were documented as having been introduced. Overall, over 12,000 staff commenced with Services Australia between March and September 2020.

13. Services Australia monitored staff mobilisation and modelled the impact of increased staffing numbers on payment processing completions.

Risk management

14. New risks, and changes to the likelihood and consequences of existing risks, arising from the agency's implementation of the government's economic stimulus measures were identified, assessed and documented in risk management plans. Changes to risks related to IT system access controls were not adequately considered or documented. While compensating system controls continued to remain in place, weaknesses in risk management processes increases the risk of fraudulent, unauthorised or erroneous transactions being processed, and an increased risk of such transactions not being detected in a timely manner.

15. The agency's risk management approach requires risks to be evaluated to determine if they are to be treated, and measures to modify those risks that require treatment to be identified and documented. The five COVID-19 risk management plans documented measures to modify risks and noted whether these measures had been implemented, de-scoped or implementation was being planned.

16. Risks were communicated to the responsible Minister, the agency's Executive, committees, staff and other entities. There is evidence that risks were considered and actions arising were documented.

Review and monitoring

17. Implementation risks were monitored at meetings with the executive and minister, and in operational meetings. Actions and decisions in relation to risks were documented at a strategic level by the executive, and operationally in risk registers and in operational meetings.

18. Services Australia has commenced planning for the transition to a post COVID-19 response environment. The agency has taken steps to reintroduce mutual obligations, planned for remediation activities in relation to the debt pause and changes to identity verification procedures, and commenced data-matching activities using ATO data. The agency commenced COVID-19 response stimulus project closure meetings with the Department of Social Services in May 2020 to discuss anticipated future policies regarding COVID-19 measures in order to allow Services Australia to plan for service delivery.

Summary of entity response

19. Services Australia's summary response to the report is below and its full response is at Appendix 1.

Services Australia welcomes the ANAO performance audit report on Services Australia COVID-19 Measures and Enterprise Risk Management and notes that the report does not include any recommendations for the Agency.

I am pleased the report finds that Services Australia was largely effective in managing the risks related to the rapid preparation for and delivery of COVID-19 economic response measures; and that the preparation for the delivery of the COVID-19 economic response measures was effective, including governance arrangements and scaling-up of resourcing.

I note the report has highlighted a number of key messages for government agencies relating to governance and risk management; as well as policy and program implementation, which we will keep in mind as we continue to manage the response to COVID-19.

Key messages from this audit for all Australian Government entities

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

Governance and risk management

- When implementing new initiatives, the identification and assessment of risks should consider both new risks as well as changes to existing risk profiles. In the context of rapid implementation, the frequency of risk review should keep pace with the changing circumstances.

Policy/program implementation

- In the context of rapid implementation of new initiatives planning documentation does not need to be elaborate. It is more important to apply a structured process to review decision-making frameworks to assess whether they are fit for purpose and have arrangements in place to allow for adaptation. All key decisions should be recorded.
- As Services Australia demonstrated through the COVID-19 response entities should adapt resourcing inputs in response to emerging need. Workforce resourcing may need to transition between activities to provide continuity over critical functions and subsequent remediation efforts, as required.

Planning and Governance of COVID-19 Procurements to Increase the National Medical Stockpile

Type: Performance audit

Report number: 22 of 2020-21

Portfolios: Health; Industry, Science, Energy and Resources

Entities: Department of Health; Department of Industry, Science, Energy and Resources

Date tabled: 10 December 2020

Background

1. Since its emergence in late 2019, coronavirus disease 2019 (COVID-19) has become a global pandemic that is impacting on human health and national economies. From February 2020 the Australian Government commenced the introduction of a range of policies and measures in response to the emergence of COVID-19 that included:

- travel restrictions and international border control and quarantine arrangements;
- delivery of substantial economic stimulus, including financial support for affected individuals, businesses and communities; and
- support for essential services and procurement of critical medical supplies.

2. The National Medical Stockpile (NMS) is a reserve of pharmaceuticals, vaccines, antidotes and personal protective equipment (PPE) for use during the national response to a public health emergency that could arise from natural causes or terrorist activities. It is meant to supplement state and territory supplies in a health emergency. Between 3 March and 1 May 2020 \$3.23 billion in funding was provided to the Australian Government Department of Health (Health) to procure medical supplies, namely PPE and medical equipment, for the NMS. Procurement activity peaked in April 2020, with the last contract for NMS supplies prior to 31 August 2020 entered into on 14 August 2020.

3. The Department of Industry, Science, Energy and Resources (DISER) began assisting Health with the COVID-19 NMS procurements on 2 March 2020. On 18 March 2020 the Acting Secretary of Health decided, under paragraph 2.6 of the *Commonwealth Procurement Rules* (CPRs), that the CPRs would not apply to the COVID-19 NMS procurements. Paragraph 2.6 allows the accountable authority to decide this in a range of circumstances, including to protect human health.

Rationale for undertaking the audit

4. The COVID-19 pandemic and the pace and scale of the Australian Government's response impacts on the risk environment faced by the Australian public sector. This audit is one of five performance audits conducted under phase one of the ANAO's multi-year strategy that will focus on the effective, efficient, economical and ethical delivery of the Australian Government's response to the COVID-19 pandemic.

5. A challenging procurement environment, as well as the decision to not apply the CPRs, created additional risks to the proper use of public resources and achievement of procurement outcomes for the COVID-19 NMS procurements. The Australian Parliament and public require assurance that the procurement requirement has been met through the planning and governance arrangements that Health and DISER established in conducting the procurements.

Audit objective and criteria

6. The audit examined whether the COVID-19 NMS procurement requirement was met through effective planning and governance arrangements.

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

- Was pre-pandemic procurement planning for the NMS effective?
- As part of the Australian Government's COVID-19 response, was the planning and governance of the NMS procurements effective?
- Was the COVID-19 NMS procurement requirement for PPE and medical equipment met?

Conclusion

8. The COVID-19 NMS procurement requirement for PPE and medical equipment was met or exceeded. Elements of Health's procurement planning for the NMS could be improved.

9. Health's pre-pandemic procurement planning for the NMS was partially effective. Procurement planning was partially risk-based. Agreement with states and territories about stockpiling responsibilities was not documented and stockpile information was not adequately shared. There were no protocols for emergency procurements.

10. Health's and DISER's NMS procurement planning and governance arrangements in response to the COVID-19 pandemic were effective. Both entities had elements of a plan for meeting the requirement, established fit for purpose governance arrangements and considered risks.

11. The COVID-19 NMS procurement requirement was not clearly specified for PPE, swabs and COVID-19 tests. Procured quantities for the NMS were approximately aligned with overall national health system demand estimates for all items where demand modelling was undertaken, suggesting the procurement requirement was met or exceeded.

Supporting findings

Pre-pandemic procurement planning for the National Medical Stockpile

12. Health's procurement planning for the NMS was partially risk-based. A strategic plan for the NMS did not consider procurement in detail, but did establish an overarching framework for key risks to be considered in management decisions, including procurement decisions. A Replenishment Plan set out procurement priorities that were focused on chemical, biological, radiological or nuclear (CBRN) threats and an influenza pandemic and did not address other potential health threats. Procurement planning documents did not provide a risk-based rationale for the quantity of PPE to be procured and held within the NMS and Health did not consider potential risks to PPE supply chain security during an emergency.

13. NMS procurement planning was not adequately coordinated with the states and territories in light of the objective to 'supplement' and work 'in concert' with state and territory stockpiles. Health does not have a documented agreement with the states and territories about stockpiling and there was a lack of regular and systematic information sharing about stockpiles with the states and territories.

14. Strategic planning for the NMS did not adequately prepare for emergency procurements. High level plans for responding to a disease occurrence do not provide specific guidance on conducting emergency NMS procurements and, despite the NMS's core function as an emergency mechanism, Health had not developed specific protocols for conducting these procurements or for coordinating the multi-jurisdictional procurement response.

Planning and governance of COVID-19 National Medical Stockpile procurements

15. Health's planning for the COVID-19 NMS procurements was fit for purpose. It did not develop a strategic or operational procurement plan but elements of a plan – such as definition of objectives, timeframes and procurement method – were incorporated in documentation. DISER's operational planning for the procurement activities was also fit for purpose. It did not develop an overarching operational plan for its involvement but taskforces developed, used and shared process maps, templates and checklists to guide procurement activities.

16. Health's and DISER's internal and cross-departmental governance arrangements for the COVID-19 NMS procurements were fit for purpose. Respective roles between Health and DISER were not documented but were broadly understood. Both departments used a flexible taskforce approach to manage the procurements, involved procurement advisory services and actively engaged executive management in decision-making. There was a process for managing conflicts of interest in both departments, however, a requirement for specific conflict of interest declarations for the NMS procurements was introduced late and incompletely adhered to.

17. Health and DISER assessed and treated risks to the proper use and management of public resources in the COVID-19 NMS procurements and to procurement outcomes. Health did not conduct an overarching assessment of risk in relation to COVID-19 NMS procurement activity and risk treatments for individual procurements were not well documented. Both departments considered procurement risks in a number of their implementation activities.

18. When conducting the COVID-19 NMS procurements, Health applied the CPRs appropriately. Health officials informed the delegate of the use of paragraph 10.3(b) of the CPRs when seeking approval to commit funds through limited tender and sought the approval of the Acting Secretary of Health to invoke paragraph 2.6 to not apply the CPRs to the procurements. No alternative procurement framework for the COVID-19 NMS procurements was specified by the Acting Secretary. The Acting Secretary revoked the application of paragraph 2.6 when it was no longer necessary.

Meeting the COVID-19 National Medical Stockpile procurement requirement

19. In formulating the NMS procurement requirement, demand estimates and supply chain issues were considered by Health and DISER. However, due to the dynamic situation and late and partial information about existing national stocks of PPE, only the ventilator procurement requirement was specified clearly. In the absence of a specified procurement requirement, Health and DISER officials understood the requirement was to procure as much PPE as possible, as quickly as possible.

20. The NMS procurement requirement for invasive ventilators was exceeded. In the absence of a specific procurement target for PPE and swabs, the ANAO compared procurements of PPE and swabs to national health system demand estimates and found that the NMS procurement requirement for PPE and swabs was met, or exceeded once procurements by other actors including the states and territories are taken into account. The ANAO was unable to determine if the procurement requirement for COVID-19 tests was met due to no specified requirement or comparable demand estimates.

Summary of entity responses

21. Health's and DISER's summary responses to the report are provided below and their full responses are at Appendix 1. State and territory health departments' responses to a report extract are also shown at Appendix 1.

Department of Health

The Department of Health (the department) notes the findings in the report and agrees with the recommendations relating to COVID-19 procurement for the National Medical Stockpile (NMS).

As for many people across Australia and the world, 2020 has been an extraordinary year which has seen a 1-in-100 year pandemic ravage Australia's economy and put incredible pressure on Australia's health system, especially its health professionals. The department has been at the forefront of the Australian Government's response to the COVID-19 pandemic, including being focused on procuring the necessary personal protective equipment (PPE) and medical equipment and supplies to support Australia's national and collaborative response to the COVID-19 pandemic.

Since the start of the pandemic to 30 October 2020, the department dispatched from the NMS:

- Over 78 million masks (both surgical and P2/N95 respirators), including:
 - Over 43 million to states and territories; and
 - Nearly 19 million to aged care.
- Over 12 million gloves;
- Over 5 million gowns; and
- Over 4.6 million goggles/face shields.

As part of this national health response, the traditional role of the NMS pivoted to provide additional assistance to ensure critical supplies could be procured and utilised in support of the frontline response. Unlike what we are sadly seeing internationally, our national response has seen a significant reduction in the impact of the novel coronavirus, notwithstanding the tragic passing of 907 people in Australia (as at 23 November 2020).

It was pleasing to note the ANAO found that the procurement requirement for PPE and medical equipment was met or exceeded, and procurement of PPE for the NMS was approximately aligned with overall national health system demand. Australia has not, during this pandemic, been in a position where clinically recommended PPE has not been able to be supplied to a health worker. This is not the case for many other countries in the world.

I am very proud of the Department of Health's contribution to this pandemic response and the extension of the NMS to support the health response has been a key part of this.

The department notes the ANAO has identified areas where improvements can be made, including pre-pandemic planning, collaboration and establishing emergency procurement protocols for the NMS.

The department will work through each of the areas identified by the ANAO and notes the NMS Review, which is already underway, will also take these findings into account along with other Government initiatives. Once the review is complete, the department will seek a decision from Government on the role of the NMS into the future.

For the first time in its history, the National Incident Room has been continuously operating for 12 months and the department continues to support the COVID-19 pandemic response. The department recognises that part of the response is taking into account the lessons that can be learnt on how things can be done better for the next day and the future. Even the smallest improvements to communication and procedures can make a huge difference during the reality of a national crisis.

Department of Industry, Science, Energy and Resources

The department notes the audit's recommendations relating to the Department of Health, and the key messages for all Australian Government entities in respect of governance and risk management.

The department acknowledges the report findings which confirm – inter alia – that the procurement requirement for personal protective equipment (PPE) and medical equipment was met or exceeded, and that both the department's and the Department of Health's procurement planning and governance arrangements were effective.

The COVID-19 pandemic posed many challenges. The department was pleased to support the Department of Health in procuring vital medical supplies to keep Australians safe.

I thank the Australian National Audit Office for its report and for the important work it is doing to provide assurance to the Parliament and Australian people about the proper use of public resources.

Recommendations

Recommendation no.1

Paragraph 2.23

Health's business as usual procurement planning for the NMS be based on an analysis of strategic risks and threats, including a range of potential health emergencies, and the risk to the surety of supply chains for stockpiled items, including personal protective equipment.

Department of Health response: *Agreed.*

Recommendation no.2

Paragraph 2.34

Health seek jurisdictional agreement about, and document, the respective objectives of the Commonwealth and state and territory stockpiles and the roles and responsibilities of each jurisdiction, including for stockpiling specific items.

Department of Health response: *Agreed.*

Recommendation no.3

Paragraph 2.40

Health establish a mechanism for regular sharing of information between jurisdictions about stockpile inventories that will function in both business as usual and emergency conditions.

Department of Health response: *Agreed.*

Recommendation no.4

Paragraph 2.46

Health put in place a strategic procurement, management and distribution plan for the NMS that includes protocols for emergency procurements.

Department of Health response: *Agreed.*

Key messages from this audit for all Australian Government entities

Below is a summary of key messages that have been identified in this audit and may be relevant for the operations of all Australian Government entities.

Governance and risk management

- Fit for purpose governance arrangements need to be established early in the rapid implementation process to optimise their value. Having protocols and a plan for emergency scenarios will help ensure that governance arrangements are put in place in a timely manner.
- Scalable procurement, resource allocation and IT systems supported by emergency response planning can assist an entity to rapidly adapt service delivery to the requirements of an emergency while also minimising the impact on staff.
- When deciding that the CPRs do not apply to a procurement under paragraph 2.6 of the CPRs, the accountable authority can assist officers conducting the procurements to meet the Public Governance, Performance and Accountability Act 2013 requirement to use and manage public resources properly by: determining the extent of departure from specific requirements of the CPRs; and specifying an alternative framework for conducting procurements. The accountable authority should revoke the measures in place under paragraph 2.6 when they are no longer necessary.

Delivery of Security Vetting Services Follow-up

Type: Performance audit

Report number: 21 of 2020-21

Portfolios: Defence

Entities: Department of Defence

Date tabled: 7 December 2020

Background

1. The Australian Government's Protective Security Policy Framework (PSPF) assists Australian Government entities to protect its people, information and assets. In accordance with the PSPF requirements, the majority of entities must use the Australian Government Security Vetting Agency (AGSVA) to conduct security vetting. AGSVA, a branch within the Department of Defence (Defence), was established in 2010 to centrally administer personnel security vetting on behalf of the majority of Australian Government entities.
2. In 2017–18, the ANAO assessed the effectiveness of the Australian Government's personnel security arrangements for mitigating insider threats. In Auditor-General Report No. 38 2017–18 *Mitigating Insider Threats through Personnel Security* the ANAO made three recommendations to Defence. In accordance with paragraph 37(1)(a) of the *Auditor-General Act 1997* (Cth) (the Act), the Auditor-General determined to omit particular information, including an additional recommendation to Defence, from the public report. A report including this omitted information and the additional recommendation was prepared and a copy was provided to the Prime Minister, Attorney-General, Minister for Defence, Minister for Finance and Minister for Home Affairs, under paragraph 37(5)(b) of the Act. Defence agreed to implement all four recommendations.
3. In 2018–19, the Parliament's Joint Committee of Public Accounts and Audit (JCPAA) conducted an inquiry into Australian Government security arrangements based, in part, on Auditor-General Report No. 38 2017–18 *Mitigating Insider Threats through Personnel Security*. In the report from that inquiry, the JCPAA made three recommendations to Defence. The department agreed with qualification to implement the first recommendation, agreed to implement the second recommendation and did not agree to implement the third recommendation.

Rationale for undertaking the audit

4. Reports of parliamentary committees and the Auditor-General identify risks to the successful delivery of outcomes and areas where administrative or other improvements can be made. The appropriate and timely implementation of agreed recommendations is an important part of realising the full benefit of an audit or parliamentary inquiry, and for demonstrating accountability to the Parliament.

5. Auditor-General reports released in June 2015 (Auditor-General Report No. 45 2014–15 *Central Administration of Security Vetting*) and May 2018 (Auditor-General Report No. 38 2017–18 *Mitigating Insider Threats through Personnel Security*) identified ongoing deficiencies in AGSVA's performance and made recommendations to improve the effectiveness of the Australian Government's personnel security arrangements. Similarly, in April 2019 the JCPAA made recommendations to Defence to improve AGSVA's effectiveness. This audit will provide assurance that recommendations made by the Auditor-General in 2018 and by the JCPAA in 2019 have been implemented in a timely manner.
6. This audit was identified as a JCPAA priority for 2020–21.

Audit objective and criteria

7. The audit objective was to examine the Department of Defence's implementation of agreed recommendations made in Auditor-General Report No. 38 2017–18 *Mitigating Insider Threats through Personnel Security* and the related report provided to ministers under subsection 37(5) of the *Auditor-General Act 1997*, and by the Parliament's Joint Committee of Public Accounts and Audit in Report 479: *Australian Government Security Arrangements*.
8. To form a conclusion against the audit objective, the following high level audit criteria were adopted:
- Has Defence implemented the ANAO and JCPAA recommendations to improve information technology and information security?
 - Has Defence implemented the ANAO recommendations to establish and make use of conditional clearances, and to share sensitive personal information with sponsoring entities?
9. The ANAO reviewed Defence's implementation of two JCPAA recommendations and four ANAO recommendations.

Conclusion

10. Of the six recommendations made to Defence by the JCPAA and ANAO, Defence has implemented four recommendations and partly implemented two recommendations.
11. In respect to the two JCPAA recommendations and one ANAO recommendation contained in the non-public Auditor-General report that were made to improve Defence's security vetting information technology and information security, Defence has: implemented one JCPAA recommendation, partly implemented the second JCPAA recommendation, and partly implemented the ANAO recommendation.
12. Defence has implemented the three ANAO recommendations relating to improved processes for conditional clearances and information sharing.

Supporting findings

13. Defence implemented the two non-substantive elements of JCPAA recommendation 3 that it agreed to. Defence agreed to implement the recommendation with qualification, meaning that it did not agree to implement the first, substantive, component of the recommendation, namely to expedite the Vetting Transformation project (ICT2270). Defence agreed to implement the two process components of the recommendation, involving a progress report and updated timeline on the project, which it provided in its response to the JCPAA on 23 August 2019. Defence did not have an established enterprise governance process to monitor its implementation of JCPAA recommendations.
14. Defence has partly implemented JCPAA recommendation 4, relating to the avoidance of sensitive data loss. Defence reported to the JCPAA in August 2019 that it had put in place five measures over the previous 12 months to strengthen the security of vetting information. Implementation of two of these measures has not concluded. Defence did not assess the effectiveness of existing safeguards and quality control measures prior to reporting to the JCPAA. The risk of sensitive data loss was realised in April 2020 when a paper-based personnel security file was lost during transit. Additionally, sensitive information was mishandled when a package containing two paper-based personnel security files was not received by the intended recipient in December 2019. The package had to be opened by the courier firm to identify the intended recipient.
15. Defence has partly implemented the recommendation contained in the non-public Auditor-General report provided to the Prime Minister and Ministers. In June 2018, the AGSVA Governance Board was advised that the recommendation had been completed. Defence continued to undertake remediation activities but no further reporting on the progress of remediation activities was provided to the Board. A range of remediation measures were agreed following Defence's assessment that the eVetting system's residual risk rating was 'high' in November 2018. In addition, a life of type extension (LOTE) was agreed and this is subject to continual review of the system. As of September 2020, risk mitigation activities set out in the LOTE had not been completed and reporting on the management of risk to senior whole of government committees, as specified in the LOTE, had not been undertaken. There has been system monitoring and reporting activity internal to Defence.
16. Defence has implemented ANAO recommendation 1, relating to risk-based clearance requirements. In consultation with the Attorney-General's Department, Defence developed operational guidelines to guide the issuing of conditional clearances. The Vetting Risk Model (VRM) guides vetting officers through the risk factor areas requiring consideration under the Australian Government's Protective Security Policy Framework. Defence's closure of the recommendation in April 2020 was premature as not all contracted vetting officers had completed the necessary training at this time and therefore were not using the VRM. Defence's advice to the AGSVA Governance Board and the Defence Audit and Risk Committee to close the recommendation did not clearly state the expected completion date of training.
17. Defence has implemented ANAO recommendation 2, relating to obtaining explicit informed consent from clearance subjects for information sharing. A revised Security Clearance Informed Consent form was introduced from July 2018, as planned. A signed form is a requirement for a security clearance application to be processed.

18. Defence has implemented ANAO recommendation 3, relating to the provision of information to sponsoring entities. A framework to facilitate Defence providing sponsoring entities with specific information on security concerns and mitigating factors identified through the vetting process was established in October 2019. Implementation of the framework is occurring through a phased approach. Full implementation is expected after the Vetting Transformation project (ICT2270) achieves initial operating capability, which is scheduled for Q4 2022 but remains subject to government consideration.

Recommendations

Recommendation no.1

Paragraph 2.40

That the Department of Defence supports the Australian Government Security Vetting Agency Governance Board fulfil its terms of reference by reporting to the Board on the management of risk in the eVetting system.

Department of Defence response: *Agreed.*

Department of Defence summary response

19. Defence's summary response is provided below. The department's full response can be found at Appendix 1.

Defence welcomes the ANAO Performance Audit Report into the Delivery of Security Vetting Services Follow-up and notes the finding that Defence has implemented four and partly implemented two of the ANAO and JCPAA recommendations examined by the audit.

Defence safely handles more than 40,000 personnel file movements annually as a part of delivering responsive and assured vetting services for Government and Industry. The report documents a range of measures Defence has implemented since 2018 to safeguard information and ensure quality control, including an active accreditation and assurance program for external security vetting providers to meet Defence and Government security requirements.

Defence continues to prepare for modernisation under the Vetting Transformation Project, which is still subject to Government consideration. Defence is committed to continuous improvement and is closely examining the report findings related to these measures. Defence takes seriously the oversight of these complex activities and is taking steps to further strengthen the governance of risk and implement the Auditor General's recommendation.

Key messages from this audit for all Australian Government entities

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

Governance and risk management

- The provision of accurate and timely information on risk management supports the effective oversight of complex activities by governance committees.
- The audit committee can provide valuable assurance to the accountable authority on the implementation of external recommendations, if enabled by the committee charter.
- Agreeing to implement a recommendation means that the entity acknowledges things can be improved. Entities should not agree to recommendations 'with qualification' or 'in principle' when the effect of such a response is to disagree or not implement the substance of a recommendation. Implementing a recommendation in its entirety will assist the entity to realise the full intent of the recommendation.

Management of the Australian Public Service's Workforce Response to COVID-19

Type: Performance audit

Report number: 20 of 2020-21

Portfolios: Prime Minister and Cabinet

Entities: Australian Public Service Commission; Department of the Prime Minister and Cabinet

Date tabled: 1 December 2020

Background

1. Since its emergence in late 2019, coronavirus disease 2019 (COVID-19) has become a global pandemic that is impacting on human health and national economies. From February 2020 the Australian Government commenced the introduction of a range of policies and measures in response to the emergence of COVID-19 that included:

- travel restrictions and international border control and quarantine arrangements;
- delivery of substantial economic stimulus, including financial support for affected individuals, businesses and communities; and
- support for essential services and procurement of critical medical supplies.

2. From the onset of the COVID-19 pandemic in Australia, the Australian Public Service (APS) workforce had to adapt within a short timeframe to a new operating environment and position itself to handle a surge in demand for government services. Governance of the APS workforce response to COVID-19 has been the responsibility of the Secretaries Board, Chief Operating Officers (COO) Committee, APS Commissioner and agency heads. The Australian Public Service Commission (APSC) and Department of the Prime Minister and Cabinet (PM&C) have also played central roles in managing the APS's workforce response over the pandemic period.

Rationale for undertaking the audit

3. The COVID-19 pandemic and the pace and scale of the Australian Government's response impacts on the risk environment faced by the Australian public sector. This audit is one of five performance audits conducted under phase one of the ANAO's multi-year strategy that will focus on the effective, efficient, economical and ethical delivery of the Australian Government's response to the COVID-19 pandemic.

4. To support the Australian Government's COVID-19 priorities, the APS needed to quickly adapt its workplace practices and deploy resources to priority areas, while continuing to deliver business-as-usual activities. The ANAO undertook this audit of the management of the APS workforce response to provide assurance to Parliament that arrangements are sound and support the government's COVID-19 response. The audit also contributes to the identification of lessons and good practices that could be applied in future crisis responses.

Audit objective and criteria

5. The audit objective was to assess the effectiveness of the management of the APS workforce in implementing the Australian Government's COVID-19 priorities. To form a conclusion against the objective, the ANAO adopted the following high-level audit criteria:

- Were appropriate arrangements established to oversee and monitor the APS's workforce response to COVID-19?
- Were efforts to position the APS workforce to respond to COVID-19 managed effectively?

Conclusion

6. Management of the APS workforce in implementing the Australian Government's COVID-19 priorities was effective.

7. Arrangements established to oversee and monitor the APS's workforce response to COVID-19 were appropriate. As a whole-of-government framework for managing the APS workforce in a crisis was not in place prior to COVID-19, planning was conducted in flight and risks were managed reactively. APSC established largely appropriate arrangements to oversee, monitor and report on the work of its cross-agency taskforces. Further, the COO Committee provided appropriate oversight for the response, including appropriate monitoring of actions it initiated.

8. Management of efforts to position the APS workforce to respond to COVID-19 was effective. APSC's Workforce Management Taskforce deployed 2,240 staff to other agencies, mostly to Services Australia, to meet critical needs. Guidance on COVID-19 workforce measures was largely effective, and various initiatives are underway to capture lessons learned from the response to inform planning for future operations.

Supporting findings

Oversight and monitoring arrangements

9. Governance arrangements established for the APS workforce response to COVID-19 were fit for purpose. Arrangements established by APSC to oversee the work of its cross-agency COVID-19 taskforces were largely appropriate. After being established by the Secretaries Board in February 2020, the COO Committee actively oversaw the APS response, providing a forum for agencies to agree on coordinated approaches and establish working groups to progress key matters.

10. A whole-of-government risk assessment for managing the APS workforce in a crisis had not been conducted prior to the COVID-19 pandemic. Consequently, key workforce risks from COVID-19 were largely managed reactively. The COO Committee identified the need for an APS-wide risk assessment in early April 2020, but this work has not been conducted. APSC did not consider operational risks in establishing its two cross-agency taskforces. APSC updated its enterprise risk register to include consideration of shared risks to the APS in November 2020.

11. Appropriate arrangements were established for monitoring the APS workforce response to COVID-19 and advising the Government on implementation issues. APSC's reporting to the COO Committee and Government on its cross-agency taskforces was appropriate and included discussion of emerging issues. The COO Committee's monitoring of the response was largely effective, given the environment in which it was operating, and it provided regular reporting to the Secretaries Board.

Positioning the workforce to respond

12. APSC's Workforce Management Taskforce effectively facilitated the deployment of 2,165 staff to Services Australia to meet a critical Government priority, as well as 75 staff to three other agencies. The deployment process was impacted by the absence of an existing framework for large-scale APS deployments and the challenges of identifying critical functions and available staff in the middle of a crisis.

13. Guidance provided by the APSC COVID-19 Taskforce to agencies on COVID-19 workforce measures was largely effective. Feedback from agencies suggests it was not always timely and there were issues with version control and consistency.

14. APSC and the COO Committee have commenced a number of initiatives to capture lessons from the APS workforce response to COVID-19. Planning for future operations has commenced and there are indications that planning is being informed by lessons learned.

Summary of entity responses

15. APSC's and PM&C's summary responses to the report are provided below and their full responses are at Appendix 1.

Australian Public Service Commission

The Australian Public Service Commission welcomes the draft report and its findings. The Australian Public Service has made a significant contribution to the COVID-19 pandemic response and it is pleasing to receive confirmation that the management of the workforce during this challenging period was effective.

The Commission also welcomes and supports the report's key messages for all Australian Government entities relating to governance, risk management and policy implementation. These key messages will help to position the Australian Public Service to continue to respond effectively to future crises.

Department of the Prime Minister and Cabinet

The Department of the Prime Minister and Cabinet (PM&C) welcomes the performance audit *Management of the Australian Public Service's Workforce Response to COVID-19* (the audit).

PM&C agrees with the conclusions and supporting findings made in the Audit. In particular, PM&C notes that the: management of the Australian Public Service (APS) workforce in implementing the Australian Government's COVID-19 priorities was effective; the arrangements established to oversee and monitor the APS's workforce response to COVID-19 were appropriate; and the management of the APS workforce in implementing the Australian Government's COVID-19 priorities was effective.

While not mentioned in detail in the audit, PM&C observes that the Secretary of the Department of the Prime Minister and Cabinet, Mr Philip Gaetjens, and the Australian Public Service Commissioner, Mr Peter Woolcott AO, paid considerable attention to maintaining engagement with the APS workforce, including through four open letters to APS staff and four virtual APS200 events, with a fifth scheduled later in November 2020. PM&C considers this focus on continued engagement also contributed to the overall success of the workforce response.

Key messages from this audit for all Australian Government entities

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

Governance

- In a crisis, such as the COVID-19 pandemic, entities involved in the response should have clarity about roles and responsibilities and follow processes consistent with statutory requirements. Accordingly, there would be value in whole-of-government crisis management frameworks, plans and arrangements including consideration of APS-wide operational management matters, such as roles and responsibilities for identifying critical functions, mobilising the APS workforce and issuing APS-wide directions.
- The COVID-19 pandemic has highlighted the need to consider workforce risks at an APS-wide level. Governance bodies such as the Secretaries Board and COO Committee provide a mechanism for entities to work together more effectively on managing shared risks.
- When establishing working groups, governance committees should provide clear direction about the scope of proposed work, including specifying outputs and delivery timeframes. It is also good practice for working groups to establish terms of reference (or equivalent) outlining their scope, operating processes and reporting arrangements. Governance committees should monitor the operation of working groups and stand down groups when they are no longer needed.
- To effectively monitor actions initiated by governance bodies, secretariats should adopt a disciplined approach to: clearly and comprehensively recording decisions and actions, including deliverables and timeframes; assigning responsibility for actions; following up with responsible parties; and recording reasons for the closure of actions, including when not completed.
- As APSC demonstrated through the COVID-19 response, entities should maintain an appropriate level of engagement with responsible ministers during a crisis. Frequent briefing that outlines activities, progress and emerging issues enables the Government to take an informed and responsive approach to crisis management. Briefings can be provided in various forms, such as written submissions and meetings, and should be supported by appropriate data.

Policy/program implementation

- Planning in a crisis is difficult due to the imperative to commence implementation as soon as possible. In such circumstances, planning documentation does not need to be elaborate. It is more important to apply a structured process to planning key aspects of the project (such as governance, risk and stakeholder engagement).
- In situations where urgent information is required at a whole-of-government level, invest time up front to develop clear guidance and templates, including defining key concepts and providing criteria for applying them. In setting deadlines, consider the trade-off between haste and data quality. Data gathered in short timeframes offers limited value if it is inconsistent and of poor quality.
- Where entities are producing public materials, it is important to develop clear protocols for review, clearance and updates to help maintain consistency, accuracy and quality. If staff have moved into different roles in response to a crisis, delineating roles and responsibilities and establishing effective lines of internal communications can reduce the risk of inconsistencies or duplication.
- Where timely communication and access to information is critical, having a clear strategy for dissemination, including identifying and addressing potential barriers for access, can help ensure that information is reaching the intended audience in a timely manner. In a crisis, maintaining proactive communication with entities as central guidance is developed can help manage uncertainty and ensure entities are aware of key developments.

2019–20 Major Projects Report

Type: Major projects report

Report number: 19 of 2020-21

Portfolios: Defence

Entities: Department of Defence

Date tabled: 30 November 2020

Due to the complexity of material and the multiple sources of information for the 2019–20 Major Projects Report, we are unable to represent the entire document in HTML. You can download the full report in PDF or view selected sections in HTML below. PDF files for individual Project Data Summary Sheets (PDSS) are also available for download.

Defence's Procurement of Combat Reconnaissance Vehicles (LAND 400 Phase 2)

Type: Performance audit

Report number: 18 of 2020-21

Portfolios: Defence

Entities: Department of Defence

Date tabled: 26 November 2020

Background

1. Comprising four discrete projects, and with an estimated combined program cost of between \$14 billion and \$20 billion for acquisition alone, Defence has described Land 400 as 'the biggest and most expensive acquisition in Army's history'. Through Land 400 Phase 2, Defence aims to provide 'armoured survivability, mobility and lethality' to the Australian Army's (Army) mounted combat reconnaissance capability, by replacing and enhancing 'those mounted combat reconnaissance and counter-reconnaissance capabilities currently enabled by the ASLAV [Army's Australian Light Armoured Vehicle]'.
2. On 9 August 2018, Defence established a contract, valued at \$4.28 billion (including GST), with Rheinmetall Defence Australia (Rheinmetall) for the acquisition of 211 Boxer Combat Reconnaissance Vehicles (CRVs), 12 mission modules and associated support systems. The vehicles are to be delivered in two blocks (tranches):
 - Block I – comprising 25 vehicles intended to provide an early deployable capability for the Australian Defence Force (ADF) by December 2020; and
 - Block II – comprising 186 vehicles to be delivered between February 2022 and January 2027.

Rationale for undertaking the audit

3. This audit has been undertaken to provide the Parliament with independent assurance of the effectiveness of Defence's acquisition to date of combat reconnaissance vehicles (CRVs) under Land 400 Phase 2.
4. Defence has described the Land 400 program as the biggest and most expensive acquisition in the Australian Army's history. Land 400 Phase 2 was intended to enhance Army's ability to conduct its core business – sustained close combat – and address the risk of a capability gap emerging by 2020, with Army publicly stating that a life-of-type extension of the ASLAVs was not possible due to obsolescence factors.
5. During the course of the tender process for Land 400 Phase 2, the Australian Government's industry policy changed to focus on building Australian industrial capability to better support Defence. Previous policy focused on reducing risks through the consideration of military off the shelf (MOTS) equipment, following reviews such as *Going to the Next Level, The report of the Defence Procurement and Sustainment Review*, 2008 (the 'Mortimer Review').

Audit objective and criteria

6. The objective of the audit was to assess the effectiveness and value for money to date of Defence's acquisition of combat reconnaissance vehicles under project Land 400 Phase 2.
7. To form a conclusion against the audit objective, the following high-level criteria were adopted:
 - Did Defence conduct an effective tender process that contributed to the achievement of value for money?
 - Did Defence conduct an effective evaluation process that contributed to the achievement of value for money?
 - Did Defence establish effective project governance and contracting arrangements that contribute to the achievement of value for money?
8. This audit focuses on the procurement of the 211 CRVs under Land 400 Phase 2. The audit scope did not include assessments of:
 - the sustainment arrangements for the vehicles or the retirement of the existing ASLAV capability from service;
 - the development of the Military Vehicle Centre of Excellence (MILVEHCOE), the purpose built vehicle production facility in Queensland; or
 - Land 400 phases 3 and 4.

Conclusion

9. Defence's acquisition to date of combat reconnaissance vehicles under project Land 400 Phase 2 is largely effective, and Defence has the potential to ultimately achieve value for money outcomes if the identified risks and issues are managed appropriately and the contracted quality and quantity of goods and services are delivered according to the agreed schedule and cost. While Defence's tender process was competitive and resulted in a procurement of the desired capability, the outcome was the result of a higher risk procurement approach (MOTS Plus) than had been approved at first pass (MOTS-based).
10. Defence's request for tender process was partly effective. Effectiveness was reduced because Defence did not operate within the bounds of the first pass government approval and did not advise the Minister that it would issue a request for tender for both MOTS and 'MOTS Plus' options rather than the government-approved 'MOTS-based' approach. Defence did not define the meaning of 'MOTS-based' in its advice to the Minister, to inform the government's decision-making at first pass – one of a number of shortcomings in Defence advice to ministers. Further, three Defence reviews identified that its approach to market, including the cost of tendering and schedule constraints, might have caused some potential bidders to not participate in the tender – potentially reducing competition and limiting the options available to the Australian Government.

11. Defence conducted a largely effective tender evaluation. The process was conducted effectively with the preferred tenderer, Rheinmetall, selected on the basis that its offer provided a higher level of assurance that it could meet Army's capability and protection requirements in the scheduled timeframe, albeit at a higher cost than the alternative BAE Systems offer. Defence assessed value for money at each stage of the tender evaluation process and documented its assessments. The overall effectiveness of the process was undermined by deficiencies in Defence's implementation of its risk mitigation activity and shortcomings in its management of conflicts of interest and probity requirements.

12. While Defence has established largely effective project governance and contracting arrangements, required project governance documentation has not been maintained. Defence has been establishing governance structures to help integrate activity within Defence and build its relationship with the prime contractor, but has been less effective in settling project-level governance arrangements and maintaining project documentation, including an up to date project risk register. There is evidence of high level and active management of known risks by the parties, including risks to schedule.

Supporting findings

The tender process

13. Defence was effective in defining its requirements. Through its reviews and industry engagement, Defence identified that there were MOTS options available that would meet its requirements for replacing its ASLAV fleet through Land 400 Phase 2. Defence also identified that there would be a need for developmental work to integrate government furnished equipment. A Defence Gate Review in June 2013 reported that the requirements for the project had been adequately defined but the schedule was high risk and that the project was unaffordable.

14. Defence did not always provide accurate advice regarding Land 400 Phase 2. Defence's October 2014 Gate Review identified that advice provided in the proposed first pass submission to government was not accurate in its representation of the capability being acquired as MOTS. While available evidence indicates that Defence provided additional context and presented the acquisition as 'MOTS-based', it did not define the meaning of 'MOTS-based' in its advice to the Minister to inform ministerial and governmental decision-making.

15. Defence's request for tender process was partly effective. Despite first pass government approval being for a 'MOTS-based' solution, Defence incorporated both a MOTS and a 'MOTS Plus' option into the tender process and did not bring this change to the Minister's attention. Eight tenders (four MOTS and four MOTS Plus) were submitted as part of a competitive tender process, but two subsequent Defence reviews and an internal audit identified that Defence's approach to the market, and the cost of tendering and schedule constraints, might have caused some potential bidders to not participate in the tender — potentially reducing competition and limiting the options available to the Australian Government.

Tender evaluation

16. Defence developed a tender evaluation plan and established a fit for purpose tender evaluation organisation.

17. Defence conducted a largely effective initial tender evaluation process. Tenders were assessed against the ten evaluation criteria documented in the approved Tender Evaluation Plan and value for money was considered in assessing which tenders proceeded to the planned risk mitigation activity. While the probity advisor undertook a probity review of the initial tender evaluation process, the assessment had a limited sampling approach and no record of the final probity report was retained. The findings from the review noted that a separate probity register was not maintained for the project and there were inconsistencies in the treatment of risk in the tender evaluation working group reports. Defence was unable to demonstrate that the recommendations from the 2016 review of stage one of the tender process had been implemented.

18. Defence's risk mitigation activity was partly effective. While Defence's decision to conduct a risk mitigation activity as part of the tender process was commensurate with the risk and significance of the procurement, there were issues in the activity's implementation. These issues included: the vehicles tested did not match the tendered vehicle; minimal evidence was obtained regarding the performance of mandated Australian Government furnished equipment in the vehicles; and claims made by tenderers that were not adequately tested during the risk mitigation activity. Two Defence reviews on its implementation reported mixed findings.

19. Defence conducted an effective final selection process to identify a preferred tenderer (Rheinmetall) for the supply of mounted combat reconnaissance vehicles for Land 400 Phase 2. Application of the process set out in the Tender Evaluation Plan did not result in an outcome and further steps – involving parallel negotiations and additional criteria – were undertaken to identify a successful tender. Vehicle occupant protection was the primary technical and capability discriminator and heavily informed Defence's value for money assessment. Defence sought advice from the Australian Government Solicitor on conducting parallel negotiations, and developed internal protocols for conducting these additional steps in the selection process.

20. The advice provided to government to inform its March 2018 second pass approval reflected the outcome of the evaluation process and appropriately informed government of judgements made to select the recommended tenderer. The advice to government regarding technical, schedule and cost risks was not, on its face, fully aligned with the documentation of risk in Defence's January 2018 Post Negotiation Evaluation Report. Defence advised the ANAO that the advice to government on these risks took into account decisions made by Defence to mitigate risks identified in the Post Negotiation Evaluation Report.

21. Defence's management of probity during the tender process was partially effective. While Defence had a plan, policies and procedures in place to manage probity, and sought advice from a probity adviser throughout the tender and evaluation process, there were gaps in relevant documentation and shortcomings in the project's management of conflict of interest and probity against requirements.

Project governance and contracting arrangements

22. Defence has been partially effective in maintaining the required project governance documentation. In particular, there is a misalignment between the initial operational capability (IOC) date documented in Defence's 2019 Material Acquisition Agreement and the IOC date agreed by government at second pass. These dates are currently out of alignment by four and a half years. Defence advised the ANAO that it considers the achievement of Interim IOC by December 2022 is consistent with Government approval at second pass for IOC by 2021–22.

23. While Defence has established a fit for purpose governance framework to support its monitoring, management and reporting on contractor and project performance, implementation of the governance framework has been inconsistent. There have been delays in establishing project-level governance arrangements and the project risk register has not been kept up to date. Defence's management in these respects has not been fully effective for a project that is developmental in nature and is to replace a capability that is expected to reach its life of type in 2020. Further, key executive reporting mechanisms for the project do not accurately reflect the project status including the significant technical and schedule challenges identified through the project's monitoring mechanisms, which impacts the timely identification of emerging risks by Defence senior stakeholders. There is, however, evidence of high level and active management of the relationship between Defence and the prime contractor, Rheinmetall.

Recommendations

<p>Recommendation no.1</p> <p>Paragraph 2.30</p>	<p>Defence review the process in place to provide assurance to its senior leadership that agreed independent assurance review recommendations have been implemented appropriately and in a timely manner.</p> <p>Department of Defence response: <i>Agreed.</i></p>
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Summary of Department of Defence's response

24. Defence's summary response is provided below. The department's full response can be found at Appendix 1.

Defence welcomes the ANAO Audit Report into Defence's procurement of combat reconnaissance vehicles (Land 400 Phase 2) and agrees with the recommendation.

The Rheinmetall Boxer vehicles being acquired to replace Army's aging Australian Light Armoured Vehicle (ASLA V) fleet will, from the middle of 2022, provide Government with the option to deploy Australian soldiers to military operations in low, medium and high threat environments with the highest levels of protection currently available for an 8x8 vehicle.

Defence acknowledges the findings in relation to the tender process, and that schedule constraints, coupled with the costs of participating in the 12-month risk mitigation activity, resulted in at least two companies declining to bid. These are important lessons that have already been applied to other major acquisition programs, including Land 400 Phase 3.

Defence would like to note that the tender process resulted in consideration of 12 of the 14 Combat Reconnaissance Vehicle (CRV) contender vehicle platforms known to exist during the solicitation activity. This level of consideration and competition supports a value for money outcome. Further, an independent review of the tender process undertaken in 2018 found that CASG [Capability Acquisition and Sustainment Group] had completed the market solicitation, source selection and contract negotiation process to achieve a shortened schedule, and delivered a value for money outcome for Army.

Through the Land 400 Phase 2 procurement process, Defence has ensured that a sovereign Australian capability is established to maintain a lethal, relevant and effective land combat vehicle capability into the future. Over the 30 years that the CRV is expected to be in service, this approach will direct more than \$10 billion toward local defence industry, employ significant numbers of Australian workers and support potential export opportunities.

Key messages from this audit for all Australian Government entities

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

Procurement

- When planning a tender process, it is good practice to undertake a thorough process to survey market options.
- Particularly for large or complex procurements, it is important to ensure that senior management, ministers and the market understand what is to be acquired. If terms of art – such as ‘MOTS-based’ and ‘MOTS plus’ – are to be used, it is important to clearly define these terms to ensure that decision-makers, including ministers, are fully informed.
- Agencies should only implement procurement strategies for which they have clear authority from government.
- If draft documentation is to be released to the market before the commencement of a tender process, the inclusion of clear caveats regarding possible changes assists industry to better assess the level of effort and investment to apply in responding to the documentation.
- Development of a sound tender evaluation and implementation plan provides a solid foundation for the conduct of a procurement process.
- The retention of relevant tender documentation such as the outcomes of probity reviews supports transparency and accountability in procurement.

Governance and risk management

- Accurate and timely advice should be provided to ministers and senior management on large procurements. This enables early identification and action around emerging risks.
- For complex projects, periodic third-party review of the project’s progress and status can identify emerging risks and provide assurance to decision-makers and senior leadership.

Probity management

- During procurements, agencies should ensure all personnel adhere to requirements regarding the acceptance of gifts or hospitality from any party that has an interest, potential interest, or association with the project. These parties include tenderers and potential tenderers.

Managing Health Provider Compliance

Type: Performance audit

Report number: 17 of 2020-21

Portfolios: Health

Entities: Department of Health

Date tabled: 23 November 2020

Background

1. In 2018–19, the Australian Government spent \$36.6 billion on three key public health funding schemes and a health incentive program. 98 per cent of this expenditure (\$35.9 billion) was for the Medicare Benefits Scheme (MBS) and the Pharmaceutical Benefits Scheme (PBS). The Department of Health (Health) has been responsible for compliance by health providers with the requirements of three key public health funding schemes and a health incentive program since 2015.

Rationale for undertaking the audit

2. The Health Benefit Compliance program aims to support the integrity of Australia's publicly subsidised health funding schemes by identifying and treating incorrect claiming, inappropriate practice and fraud by health providers. Where applicable, this can include the recovery of funds which have been incorrectly claimed. Given the large volume and value of health care providers' claims, it is important to assess whether Health has an effective approach to the prevention, identification and treatment of incorrect claiming, inappropriate practice and fraud by health care providers and suppliers.

Audit objective and criteria

3. The audit objective was to assess the effectiveness of the Department of Health's approach to health provider compliance.

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

- approaches to identify, prioritise and treat non-compliance are appropriate; and
- oversight arrangements for monitoring health provider compliance outcomes are appropriate and inform future compliance approaches.

5. The audit did not examine Health's passive compliance activities, such as education, or debt recovery processes.

Conclusion

6. The Department of Health's approach to health provider compliance was partially effective.

7. In the period examined, Health's approaches to identifying, prioritising and treating non-compliance were partially appropriate. The absence of a risk-based approach in identifying and prioritising which compliance projects were selected for operational activity limited the effectiveness of the approach. Health advised that it is in the process of implementing a revised compliance model that includes risk-based processes and structures.

8. Health's oversight arrangements for monitoring health provider compliance outcomes were partially appropriate. While Health undertook internal monitoring and reporting of the health provider compliance case outcomes by treatment type, external program performance measurement and reporting was not based on a robust methodology. There was limited evidence that compliance project outcomes were systematically monitored and assessed.

Supporting findings

9. Health appropriately applied a number of methods to identify non-compliance and used a number of analytical tools in support of this work. A risk-based approach was not applied in identifying and prioritising which compliance projects were referred on for operational activity. This limited the effectiveness of the approach taken. At the time of the audit, Health had identified the need for a risk-based approach and advised that it was in the process of implementing a revised compliance model that included risk-based processes.

10. From the population of projects that were approved in 2018–19 for compliance action, the proportion of compliance activity treatment types applied was largely consistent with Health's hierarchy of compliance responses. The proportion of cases found to be non-compliant was around half for the totality of compliance activity treatment types. Health did not cost compliance projects to inform the required resources and expected returns of the activity.

11. Health undertakes external and internal reporting of the health provider compliance program performance outcomes. The compliance program performance measure had changed over three periods and the method used to calculate the performance outcome was not based on a robust methodology for measuring and assessing performance.

12. Health undertakes internal monitoring and reporting of the health provider compliance case outcomes by treatment type. There was limited evidence that compliance project outcomes were systematically monitored, assessed, and captured to inform future compliance activity.

Recommendations

Recommendation no.1

Paragraph 2.42

The Department of Health cost health provider compliance activities to:

- a. inform if the allocation of resources are targeted to the areas requiring the most attention; and
- b. enable calculation of the net return on investment in compliance activities.

Department of Health response: *Agreed.*

**Recommendation
no.2****Paragraph 3.23**

The Department of Health review the methodology for selecting and calculating the health provider compliance program performance measure to ensure it accurately reflects the planned performance outcome and the result achieved.

Department of Health response: *Agreed.*

Summary of entity response

The Department of Health (department) welcomes the findings in the report and accepts the recommendations directed to the department. The department is committed to effective implementation of Australian National Audit Office (ANAO) recommendations and has already taken steps to address the issues identified in this audit.

It was pleasing to note that the Department's introduction of a revised compliance operating model and the subsequent implementation of a risk-based approach has been acknowledged. Improvements to the Department's compliance approach are coming to fruition following the implementation of this new model, including a strengthened governance approach and framework.

The audit found some shortcomings in the Department's approach to costing health provider compliance and highlighted shortfalls with the current methodology used to select and calculate the health provider compliance program performance measure. To address these findings the Department is exploring alternative costing models, in the context of the Department's legal obligations to respond to particular risks of non-compliance that will allow costing activities to be enhanced to better inform the allocation of resources and calculate the net return on investment in compliance activities. The Department further acknowledges the benefits of implementing a more robust model to measure and assess the health provider compliance program performance measure and will seek to identify and improve an appropriate performance target that will help to ensure that future reporting of non-compliance rates is provided with a more indicative indication, for practitioners and stakeholders, that the Department's compliance program is being appropriately targeted.

Key messages from this audit for all Australian Government entities

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

Risk management

- Focusing compliance and enforcement activity on areas of higher risk ensures that resources are targeted to the areas requiring the most attention and that resources are appropriately allocated commensurate with identified risk areas.

Performance and impact measurement

- Performance measures should enable an entity to clearly demonstrate its performance from key activities over time in terms which are readily understandable.
- Entities should clearly describe the method of measurement or assessment of performance measures.
- Budget funding measures represent a commitment to Government and the Parliament. Approval of the funding is granted based on the expenditure and outcomes set out in the Budget papers. Entities must be able to measure and demonstrate the extent to which they have met these commitments.

Program design

- Entities responsible for ensuring compliance using a variety of treatments should record the costs and results of those treatments to enable an assessment of their effectiveness, and as a useful basis to inform continuous improvement activities.

Planning for the 2021 Census

Type: Performance audit

Report number: 16 of 2020-21

Portfolios: Treasury

Entities: Australian Bureau of Statistics

Date tabled: 19 November 2020

Background

1. The *Census of Population and Housing* (the Census), undertaken by the Australian Bureau of Statistics (ABS), is Australia's largest statistical collection. The purpose of the Census is to accurately measure the number and key characteristics of all people in Australia, Norfolk Island, and the Territories of Cocos (Keeling) Islands and Christmas Island on Census night every five years.
2. The 2016 Census was the first Census to be 'digital first', whereby the ABS sought to obtain 65 per cent of responses through an online eCensus form. On Census night on 9 August 2016, there was a failure of multiple information technology (IT) controls, particularly for the online eCensus form, which resulted in the closure of the Census webpage for two days.
3. The Senate, the Department of Prime Minister and Cabinet, and the ABS initiated reviews into the events on Census night, ABS governance and the broader implications for cyber security across the Australian Public Service. In total, the reviews made 36 recommendations, 29 of which were directed at the ABS and agreed.

Rationale for undertaking the audit

4. The failure of multiple IT controls during the 2016 Census reinforced the need for the ABS to implement robust planning arrangements for the 2021 Census including for cyber security, procurement, and review recommendations. An audit of the ABS' preparedness for the 2021 Census would provide assurance on whether the ABS is on track to delivering its objectives for the Census.

Audit objective and criteria

5. The objective of the audit was to assess whether the ABS is effectively preparing for the 2021 Census.
6. In assessing this objective, the following three high-level criteria were adopted:
 - Has the ABS established appropriate oversight frameworks for the Census?
 - Is the ABS taking appropriate steps in developing IT systems for the Census?
 - Is the ABS addressing key Census risks and implementing Census recommendations?

Conclusion

7. The ABS' planning for the 2021 Census is partly effective.

8. The ABS has established largely appropriate planning and governance arrangements for the Census. The risk framework is compromised by weaknesses in the assurance arrangements.
9. The ABS is partly effective in its development of IT systems for the 2021 Census. Generally appropriate frameworks have been established covering the Census IT systems and data handling, and the procurement of IT suppliers. The ABS has not put in place arrangements to ensure that improvements to its architecture framework, change management processes and cyber security measures will be implemented ahead of the 2021 Census.
10. The ABS has been partly effective in addressing key Census risks, implementing past Census recommendations and ensuring timely delivery of the 2021 Census. Further management attention is required on the implementation and assessment of risk controls.

Supporting findings

Oversight arrangements

11. The planning and governance arrangements for the Census are appropriate, except that the ABS does not have an overarching plan to coordinate activity plans and enable a clear view of progress against planned activities.
12. The ABS largely complies with the Commonwealth Risk Management Policy and has established a risk management plan for the 2021 Census. While the ABS has engaged an external program assurer to report to its Census Executive Board, their assurance activities are not well aligned with the identified Census risks. The Audit Committee has not been well positioned to provide consistent risk oversight or assurance on the Census.
13. The ABS has been implementing largely appropriate project management practices from December 2019. It has established monitoring processes and in July 2020 finalised arrangements to assess and approve changes to the Census project.
14. The ABS has an efficiency measure for the Census. The ANAO was unable to provide assurance on the validity and reliability of the measure, however, it is consistent with a proxy measure developed by the ANAO from published ABS information. A report by the United Nations Economic Commission for Europe ranks Australia's cost per capita as just under the average of a group of countries with similar Census methods.

Developing IT systems for the 2021 Census

15. The IT framework that the ABS has established for the 2021 Census is largely appropriate. However, the ABS' implementation of its IT framework is not complete. The ABS has not established a systematic process for managing risks associated with non-compliance. Census systems do not fully align with the ABS enterprise IT framework giving rise to risks in relation to system integration and compliance with legislation and ABS policy. The ABS has not established a process to mitigate the risk of unauthorised changes being implemented across systems supporting the Census.

16. The ABS is establishing partly appropriate data handling practices for the 2021 Census. The ABS has designed controls and arrangements to manage risks relating to data quality and protection of privacy. The ABS has not fully implemented controls for managing the quality and protection of 2021 Census data and does not have in place appropriate arrangements to monitor control implementation.

17. The ABS has established partly appropriate cyber security measures for the 2021 Census. The high-level measures and controls in the ABS' cyber security strategy for the 2021 Census are sound. However, the strategy has not been fully implemented.

18. The ABS has established IT supplier contracts that support value for money outcomes. The ABS has largely met key legal requirements for its Census IT procurements of \$1 million or more.

Managing risk, recommendations and timeliness

19. The ABS has been partly effective in addressing key Census risks. The ABS has identified, reviewed and reported risk in accordance with its Risk and Issues Management Plan and the broader ABS framework, and has mostly embedded risk management in its key business processes. The ABS has not consistently implemented key risk controls and has not fully assessed control effectiveness as required in its Risk and Issues Management Plan.

20. ANAO analysis indicates that the ABS' post-review activities align with 27 out of the 29 agreed recommendations. In the absence of effective governance oversight arrangements to monitor and report on the implementation of recommendations, the ABS does not have sufficient assurance that it has appropriately addressed the identified issues.

21. Since January 2020, the ABS has been largely effective at monitoring the progress of activities for the 2021 Census. ABS Census projections in 2018 and 2019 were generally 'on track'. Throughout 2020 the Census has been 'at risk'. ANAO testing of 17 key tasks indicated that four were reported complete at least three months prior to actual completion. The ABS has accurately reported key activities, decisions and issues to the Minister in a timely manner. Public reporting on progress with the Census is accurate but could cover a wider range of topics.

Recommendations

Recommendation no.1

The Australian Bureau of Statistics strengthen its planning and governance arrangements for the 2021 Census by:

Paragraph 2.19

- a. establishing a high-level plan of the Census integrating the objectives, activities, and their dependencies; and
- b. ensuring that the required reporting is provided to the Census Executive Board.

Australian Bureau of Statistics response: *Agreed.*

**Recommendation
no.2****Paragraph 2.76**

To assist the Australian Bureau of Statistics in complying with section 16 EA of the Public Governance, Performance and Accountability Rule 2014, the Australian Bureau of Statistics:

- a. include an efficiency measure in its performance framework; and
- b. develop procedures to support the validity and reliability of the existing Census efficiency measure.

Australian Bureau of Statistics response: *Agreed.*

**Recommendation
no.3****Paragraph 3.19**

The Australian Bureau of Statistics strengthen its IT framework for the Census by:

- a. assessing the impact of non-compliance with Australian Bureau of Statistics standard architectures, including the impact on meeting legislative and policy requirements; and
- b. establishing appropriate controls for mitigating unauthorised and inappropriate system changes, specifically focussing on developers that have access to migrate their own changes to Census-related systems.

Australian Bureau of Statistics response: *Agreed.*

**Recommendation
no.4****Paragraph 3.35**

The Australian Bureau of Statistics obtain an appropriate level of assurance that the systems supporting the 2021 Census are meeting legal and Australian Bureau of Statistics policy requirements on data quality and privacy.

Australian Bureau of Statistics response: *Agreed.*

**Recommendation
no.5****Paragraph 3.56**

The Australian Bureau of Statistics:

- a. define timeframes and responsibilities for implementing the 2021 Census Security Strategy and the Essential Eight Uplift Program, especially for areas that are required prior to the 2021 Census; and
- b. ensure contracted services meet Australian Bureau of Statistics specific design and cyber security requirements, and performance of security controls are regularly assessed.

Australian Bureau of Statistics response: *Agreed.*

Recommendation no.6	The Australian Bureau of Statistics implement its risk controls and regularly and consistently monitor the effectiveness of those controls.
Paragraph 4.19	Australian Bureau of Statistics response: <i>Agreed.</i>

Recommendation no.7	The Australian Bureau of Statistics:
Paragraph 4.34	<ol style="list-style-type: none">a. establish oversight arrangements to monitor the progress of the implementation of agreed recommendations from external reviews; andb. assure itself that it has fully implemented all agreed recommendations.
	Australian Bureau of Statistics response: <i>Agreed.</i>

Summary of entity response

The Australian Bureau of Statistics (ABS) accepts all seven recommendations of the ANAO Audit Report and is in the process of implementing them in full before the August 2021 Census.

The timing of the report enables the ABS to further enhance our detailed preparations for the Census.

The ABS is pleased with the positive findings noted in the report, particularly that the planning and governance arrangements for the 2021 Census are largely effective. The ANAO has noted the significant progress the ABS has made since 2016 in our approaches and preparedness. This has been achieved in part through the implementation – now close to complete – of the recommendations from the three reviews following the 2016 Census. It has also been achieved by the development of a sound cyber-security strategy.

While the ANAO audit has been in progress, the ABS has in parallel made significant progress responding to the issues identified in the report. This progress has included active steps to strengthen program governance and engagement with the ABS Audit Committee.

The ABS is committed to ensuring data quality, privacy and security. The ABS is in the process of implementing the recommendations from two independent Privacy Impact Assessments on the 2021 Census, which were completed and published on our website in July 2020.

The ABS is continuing to implement the technology and security components necessary for a high quality 2021 Census. This includes rigorous independent testing and assurance of Census systems in line with the recommendations made in the report to ensure the maintenance of data quality, privacy and security.

Key messages from this audit for all Australian Government entities

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

Governance and risk management

- Where a firm is commissioned to provide audit or advisory services, the Australian Government entity should align the work to its risks and manage all conflicts of interest.
- Regular reporting on the implementation and effectiveness of controls supports effective oversight of risks.
- Effective governance arrangements for implementing external recommendations include clear responsibilities, reporting arrangements and systems that provide the accountable authority with a clear line of sight of implementation and assurance that underlying risks and issues that have been identified are addressed.

Policy/program implementation

- For major projects, the development of an overarching plan can assist entities to coordinate activities and allow senior management to obtain a clear view of progress against project milestones.
- A key element in delivering a time-critical project is to monitor delivery against the project plan. Prompt action is required if delivery is not meeting the plan or if the plan is no longer relevant.
- Effectively managing a large number of systems requires robust IT architectures, such as principles and standards, to guide system development.

Advances to the Finance Minister for the Period 26 September 2020 to 30 October 2020

Type: Assurance review

Report number: 15 of 2020-21

Portfolios: Finance

Entities: Department of Finance

Date tabled: 16 November 2020

INDEPENDENT ASSURANCE REPORT

ADVANCES TO THE FINANCE MINISTER 26 SEPTEMBER 2020 TO 30 OCTOBER 2020

Conclusion

Based on the procedures I have performed and the evidence I have obtained, nothing has come to my attention that causes me to believe that, in all material respects:

- a. the Advances to the Finance Minister (AFM) 2020–21 Determinations No. 3 and No. 4 (as registered on legislation.gov.au) and the Finance Minister’s AFM media release are not presented completely and accurately for the period 26 September 2020 to 30 October 2020 based on the criteria outlined in this report; and
- b. the internal controls related to the Department of Finance’s administration of AFM were not suitably designed, implemented and operating effectively to achieve appropriate approval, recording and reporting of the AFM during the period.

My limited assurance conclusion has been formed on the basis of the matters outlined in this report.

I have undertaken a limited assurance review of the Department of Finance's reporting and administration of the AFM, in order to express a conclusion on the Determinations made from 26 September 2020 to 30 October 2020, based on the following criteria:

- Have accounts and records been appropriately obtained and maintained to support the complete and accurate reporting of AFM, taking into consideration whether:
 - the Department of Finance has a central register of all applications and approvals;
 - all decisions for the AFM have been documented appropriately, including identifying the appropriation act under which the advance is made;
 - all accounts and records for the application for the AFM has been adequately maintained;
 - the Department of Finance has effective processes in place to obtain assurance from entities over the completeness and accuracy of the information provided to the Department of Finance;
 - the underlying financial information in relation to the AFM supports the description of the purpose for the amount advanced under the AFM as described in each Determination (as registered on legislation.gov.au) and the Finance Minister's AFM media release; and
 - the Finance Minister's AFM media release presents complete and accurate information about the Determinations made in the relevant week.
- Are the controls related to the Department of Finance's administration of AFM suitably designed, implemented and operating effectively to achieve appropriate approval, recording and reporting of AFM during the period, taking into consideration whether:
 - the Department of Finance has guidance or a framework that communicates clearly to entities as to the requirements to apply for the AFM, and whether this was complete, accurate, and compliant with the criteria set out in the Annual Appropriation Acts;
 - the Department of Finance has an appropriate risk framework for the AFM;
 - existing controls are capable of addressing the identified risks effectively;
 - the Department of Finance has implemented and operated effective controls over the approval process to ensure applications for the AFM are only approved when applying entities provide sufficient information to support compliance with the criteria set out in the Annual Appropriation Acts; and
 - the AFM approval process complied with the criteria set out in the Annual Appropriation Acts.

Basis for conclusion

I have conducted the review in accordance with the ANAO Auditing Standards, which include the relevant Standards on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ASAE 3000) and ASAE 3150 *Assurance Engagements on Controls* (ASAE 3150).

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Secretary of the Department of Finance

The Secretary of the Department of Finance is responsible for the administration of the AFM, the preparation of the above-mentioned Determinations and maintenance of supporting accounts and records relevant to the reporting of the AFM in accordance with Supply Acts Nos. 1 and 2 2020–2021. The Secretary is also responsible for such internal control procedures as the Secretary determines necessary to enable the administration of the AFM and preparation of the above-mentioned Determinations that are free from material misstatement, whether due to fraud or error.

Independence and quality control

I have complied with the independence and other relevant ethical requirements relating to assurance engagements, and applied Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* in undertaking this assurance review.

Responsibilities of the Auditor-General

My responsibility is to express a limited assurance conclusion on whether the Finance Minister's and the Department of Finance's reporting of the AFM is complete and accurate, in all material respects, and internal controls related to the AFM were designed, implemented and operating effectively for the period from 26 September 2020 to 30 October 2020, as evaluated against the criteria. The ANAO Auditing Standards require that I plan and perform my procedures to obtain limited assurance about whether anything has come to my attention that the Department of Finance's reporting of the AFM is not complete and accurate, in all material respects, and internal controls related to the AFM were not designed, implemented and operating effectively for the period from 26 September 2020 to 30 October 2020.

An assurance engagement to report on the design and operating effectiveness of controls involves performing procedures to obtain evidence about the suitability of the design of controls to achieve the control objectives and the operating effectiveness of controls throughout the period.

The procedures performed in a limited assurance review vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance review is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, I do not express a reasonable assurance opinion on the reporting of the AFM or on the internal controls.

I have conducted my limited assurance review by making such enquiries and performing such procedures I considered reasonable in the circumstances, including:

- making enquiries of management and others within the entity, as appropriate;
- examining the internal control design specifications and documentation;
- examining supporting documentation for the determinations; and
- evaluating the evidence obtained.

The procedures selected depend on my judgement, including the assessment of the risks that the reporting of the AFM is not complete and accurate or the controls are not suitably designed, implemented or operating effectively.

Inherent limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that, even if the controls are suitably designed and operating effectively, the control objectives may not be achieved so that fraud, error, or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the controls that I have assured are designed to operate, has not been assured and no opinion is expressed as to its design or operating effectiveness.

A limited assurance engagement throughout the specified period on operating effectiveness of controls is not designed to detect all instances of controls operating ineffectively as it is not performed continuously throughout the period and the tests performed are on a sample basis. A limited assurance engagement throughout the specified period does not provide assurance on whether complete and accurate reporting of the AFM or the outcome of the evaluation of controls will continue in the future.

Australian National Audit Office



Grant Hehir
Auditor-General
Canberra
9 November 2020

Decision-making Controls for NDIS Participant Plans

Type: Performance audit

Report number: 14 of 2020-21

Portfolios: Social Services

Entities: National Disability Insurance Agency

Date tabled: 29 October 2020

Background

1. The National Disability Insurance Scheme (NDIS or the Scheme) replaced existing Commonwealth, state and territory disability support systems with a nationally consistent scheme aimed at providing Australians under the age of 65, who have a permanent and significant disability, with the reasonable and necessary supports they need to live an ordinary life. The NDIS is a nationally based scheme with funding and governance shared amongst all governments. The National Disability Insurance Agency (NDIA or the Agency) holds and manages Scheme funds, administers access to the Scheme and approves payments of support packages based on individual participants' needs.
2. The NDIS provides funding to eligible participants so they can access disability supports and services. The Scheme commenced in July 2013 with a three year trial phase before being progressively rolled out to each state and territory over a four year transition phase from 1 July 2016. 2020–21 is the Scheme's first year of full operation, with the NDIA transitioning to full scheme on 1 July 2020. When fully implemented, the Scheme is expected to benefit around 500,000 Australians.
3. The NDIS care model seeks to invest in appropriate supports over the life of each participant. Eligible participants will develop a plan with the NDIA, which identifies their individual goals and aspirations and the 'reasonable and necessary' supports required to help them achieve these. Plans generally cover a minimum 12 month period. Plans are reviewed with a participant prior to expiry and a new plan is developed. Participants with an approved plan may purchase supports from service providers of their choice.
4. Participants receive funding for supports – assistance or products that help a person in their daily life and help them to participate in the community and reach their goals – from the NDIA through the provision of a participant plan. The requirements for plans are outlined in section 33 of the *National Disability Insurance Scheme Act 2013* (NDIS Act). A key component of a plan, the statement of participant supports, which is prepared with the participant and approved by the NDIA Chief Executive Officer (CEO) specifies, among other things, any reasonable and necessary supports that will be funded under the NDIS. In making a decision over the funding for reasonable and necessary supports, the CEO must be satisfied of six criteria outlined in subsection 34(1) of the NDIS Act.

Rationale for undertaking the audit

5. The NDIS represents a significant financial commitment by all Australian governments. The NDIS is expected to grow over the next three years to provide support to approximately 500,000 Australians with permanent and significant disability. In 2019–20, \$16.1 billion of supports was funded through participant plans.

6. Decisions on the reasonable and necessary supports to be provided to participants under the Scheme are critical to both participant outcomes and Scheme financial sustainability. Financial sustainability is a key objective of the NDIS, and the scope and volume of supports funded through participants' plans is a major cost driver. To manage this cost driver, the supports included in participant plans must be 'reasonable and necessary' as defined in the NDIS Act. Decisions about what are reasonable and necessary supports require the exercise of judgement on behalf of delegated decision-makers. Failure to implement effective decision-making controls could result in:

- inconsistency in the application of the law;
- significantly increased Scheme costs;
- inadequate provision of support to Scheme participants; and/or
- cost-shifting between government programs or to participants.

7. The NDIA's control framework has been subject to two previous ANAO performance audits. Of particular relevance is the ANAO's 2017–18 audit that examined the decision-making controls for NDIS access. This audit builds on the work undertaken in the earlier audit to provide assurance of the financial sustainability control framework for the NDIS, by examining decision-making controls for participant plans.

Audit objective and criteria

8. The audit objective was to assess whether the NDIA has appropriate controls to ensure supports in participant plans are 'reasonable and necessary'.

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

- Has the NDIA established and implemented appropriate policies and processes to ensure supports in participant plans are 'reasonable and necessary'?
- Is there appropriate oversight to ensure supports in participant plans are 'reasonable and necessary'?

Conclusion

10. The NDIA does not yet have appropriate controls to ensure supports in participant plans are 'reasonable and necessary'. While an appropriate control framework had been established, the effective implementation of the controls will provide the NDIA with greater assurance that the supports approved in participant plans are reasonable and necessary. Effective implementation of controls will further assist the NDIA to manage risks relating to Scheme sustainability, while ensuring participants are receiving adequate supports.

11. While the NDIA had established largely appropriate policies and processes for participant planning, the implementation of the policies and processes did not provide the NDIA with appropriate assurance that supports in participant plans are reasonable and necessary.

12. The NDIA does not yet have appropriate oversight mechanisms in place to ensure the supports in participant plans are reasonable and necessary. The NDIA has established some frameworks for oversight and control of decision-making for participant plans; however, to date, this is not systematically leading to enterprise wide actions for improvement and compliance in decision-making.

Supporting findings

13. The NDIA has established largely appropriate policies and processes for participant planning. The NDIA's internal guidance and training materials are consistent with the legislation, although oversight of training completion could be improved. Additional support mechanisms are in place to assist delegates in reasonable and necessary decision-making. The NDIA instrument of delegation had not been updated to reflect organisational changes made to plan delegation level four arrangements over a two year period.
14. Implementation of participant planning has not complied with established policies and processes. The NDIA's quality assurance audits have shown low levels of compliance with internal policy. The NDIA's Customer Relationship Management system does not fully support recording of participant planning considerations and approvals, or require all mandatory planning requirements to be completed.
15. The NDIA had implemented a largely appropriate quality assurance process for participant plans. There was not enough evidence that quality assurance activities lead to action taken to resolve the issues identified and systemic improvement. As the NDIA had recently commenced continuous improvement processes, it was not evident what impact these processes have had to date.
16. While the NDIA had some mechanisms for review processes to inform continuous improvement in decision-making for reasonable and necessary supports, these are not considered at an enterprise level and their impact is unclear.
17. Since June 2019, the NDIA has been measuring performance of planners in relation to reasonable and necessary decision-making through an internal KPI and a separate quality metric. The underlying input to both performance measures is the same, yet the measures have different targets. The NDIA does not report externally specifically in relation to reasonable and necessary supports in participant plans; however, information more broadly around reasonable and necessary supports is included in external reports.

Recommendations

Recommendation no.1

Paragraph 2.67

The National Disability Insurance Agency review and update the ICT system controls relating to recording participant planning considerations and approvals, to align the system processes with internal policy requirements and to better support planning processes for reasonable and necessary decision-making.

National Disability Insurance Agency response: *Agreed.*

**Recommendation
no.2**

Paragraph 3.84

The National Disability Insurance Agency establishes mechanisms to track and analyse (at the enterprise level) issues arising from review mechanisms to inform continuous improvement in reasonable and necessary decision-making, including:

- a. using outcomes data from internal reviews and AAT reviews, including early resolution outcomes, to inform continuous improvement in reasonable and necessary decision-making; and
- b. implementing metrics for measuring the success of continuous improvement initiatives to enable the Agency to determine whether the initiatives are having the intended impact.

National Disability Insurance Agency response: *Agreed.*

**Recommendation
no.3**

Paragraph 3.101

The National Disability Insurance Agency align service delivery KPI and quality metric targets for reasonable and necessary decision-making; and review the target on a regular basis with a view to increasing the target to drive greater quality standards in reasonable and necessary decision-making.

National Disability Insurance Agency response: *Agreed and Completed.*

Summary of entity response

The National Disability Insurance Agency (NDIA) welcomes the ANAO's review on Decision-Making Controls for NDIS participant plans.

The NDIA acknowledges the audit findings and agrees with the ANAO's three recommendations. The NDIA is committed to strengthening its controls for reasonable and necessary decision-making on funded supports, and to managing the financial sustainability pressure that inappropriate controls may have on the National Disability Insurance Scheme (NDIS).

The NDIA notes that during the process of the audit, on 28 August 2020, the Australian Government released its official response to the Review of the National Disability Insurance Scheme NDIS Act 2013 (NDIS Act) by Mr David Tune AO PSM (the Tune Review). This response supported the recommendation to improve clarity of the definition of 'reasonable and necessary'. The NDIA's actions to improve its controls will be consistent with the supported recommendations.

The NDIA is improving the consistency of information captured to inform plan budgets and reasonable and necessary decision-making. This will be achieved through the establishment of independent assessments (funded by the NDIS). These will be used with other information individual to each participant, to provide equity and consistency in decision-making and to align funded supports with individual capacity and need.

The NDIA has also commenced the design phase for a new ICT system to better support the planning process and interaction with participants. As part of that work, we are identifying opportunities to design in control points that can act as preventative operational risk and quality controls, by way of straight through processing, data pre population and system edits. We will also integrate major off-system processes with the new ICT system. This design phase will incorporate the findings raised by the ANAO.

The NDIA has commenced a review of its quality assurance program to improve its assessment of whether reasonable and necessary supports are funded and to provide more comprehensive measurement of performance. The NDIA has also expanded the role of the Performance Management and Quality branch, which is leading this review, to include all monitoring and improvement activities, Agency and Partner performance, productivity, and quality. This includes responsibility for capturing key themes and issues affecting reasonable and necessary decision-making, conduct root cause analysis of poor planning and review decision making, and ensuring changes to improve planning processes delivered by all frontline service teams are effectively implemented to close issues and improve compliance.

Additionally, the NDIA is developing improved training and coaching to frontline staff to improve their capabilities for reasonable and necessary decision-making. This training will be mandatory and completed by all staff involved in the decision-making process. The NDIA will strengthen records to provide assurance that all staff completed the revised training.

18. The NDIA's full response to the audit is at Appendix 1.

Key messages from this audit for all Australian Government entities

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

Governance and risk management

- As a matter of good administrative practice, review and update instruments of delegation when organisational changes are made to ensure that staff making decisions are exercising authority that has been clearly assigned to them.
- Implement ICT system controls in accordance with mandatory operational and legislative requirements to assist with mitigating risks associated with decision-making considerations and outcomes.
- Design and implement a quality assurance framework as early as possible, including a clear process for findings to be recorded from quality (and other) reviews, to ensure actions are tracked as part of continuous improvement activities.

Policy/program implementation

- Where training programs have been developed with the expectation of mandatory completion by staff, developing a method for monitoring and reporting on the training completion rates allows an entity to obtain appropriate assurance that relevant staff have completed the required training.
- Regular review of guidance materials ensures resources are consistent with legislation and policy, and are internally consistent, particularly where the guidance assists officers to implement legislative requirements and informs decisions over the amount of government funding to be provided.

Performance and impact measurement

- Set consistent targets for performance measurement and review on a regular basis. Where targets are initially set at an achievable level, review targets with a view to increasing where practical, particularly where performance is linked to legislative compliance and the expectation for performance against requirements is high.

Advances to the Finance Minister for the Period 29 August 2020 to 25 September 2020

Type: Assurance review

Report number: 13 of 2020-21

Portfolios: Finance

Entities: Department of Finance

Date tabled: 15 October 2020

INDEPENDENT ASSURANCE REPORT

ADVANCES TO THE FINANCE MINISTER 29 AUGUST 2020 TO 25 September 2020

Conclusion

Based on the procedures I have performed and the evidence I have obtained, nothing has come to my attention that causes me to believe that, in all material respects:

- a. there were any Advance to the Finance Minister (AFM) Determinations made for the period 29 August 2020 to 25 September 2020; and
- b. the internal controls related to the Department of Finance's administration of AFM were not suitably designed, implemented and operating effectively to achieve appropriate approval, recording and reporting of the AFM during the period.

My limited assurance conclusion has been formed on the basis of the matters outlined in this report.

I have undertaken a limited assurance review of the Department of Finance's reporting and administration of AFM, in order to express a conclusion on Determinations made, if any, and the internal controls related to the administration of AFM from 29 August 2020 to 25 September 2020, based on the following criteria:

- Have accounts and records been appropriately obtained and maintained to support the complete and accurate reporting of AFM, taking into consideration whether:
 - the Department of Finance has a central register of all applications and approvals;
 - all decisions for the AFM have been documented appropriately, including identifying the appropriation act under which the advance is made;
 - all accounts and records for the application for the AFM has been adequately maintained; and
 - the Department of Finance has effective processes in place to obtain assurance from entities over the completeness and accuracy of the information provided to the Department of Finance.
- Are the controls related to the Department of Finance's administration of AFM suitably designed, implemented and operating effectively to achieve appropriate approval, recording and reporting of AFM during the period taking into consideration whether:
 - the Department of Finance has guidance or a framework that communicates clearly to entities as to the requirements to apply for AFM, and whether this was complete, accurate, and compliant with the criteria set out in the Annual Appropriation Acts;
 - the Department of Finance has an appropriate risk framework for the AFM; and
 - existing controls are capable of addressing the identified risks effectively.

Basis for conclusion

I have conducted the review in accordance with the ANAO Auditing Standards, which include the relevant Standards on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ASAE 3000) and ASAE 3150 *Assurance Engagements on Controls* (ASAE 3150).

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Secretary of the Department of Finance

The Secretary of the Department of Finance is responsible for the administration of the AFM, and the maintenance of supporting accounts and records relevant to the reporting of the AFM in accordance with Supply Acts Nos. 1 and 2 2020–2021.

The Secretary is also responsible for such internal control procedures as the Secretary determines necessary to enable the administration of the AFM that is free from material misstatement, whether due to fraud or error.

Independence and quality control

I have complied with the independence and other relevant ethical requirements relating to assurance engagements, and applied Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* in undertaking this assurance review.

Responsibilities of the Auditor-General

My responsibility is to express a limited assurance conclusion on whether the Finance Minister's and the Department of Finance's reporting of the AFM is complete and accurate, in all material respects, and internal controls related to the AFM were designed, implemented and operating effectively for the period from 29 August 2020 to 25 September 2020, as evaluated against the criteria. The ANAO Auditing Standards require that I plan and perform my procedures to obtain limited assurance about whether anything has come to my attention that the Department of Finance's reporting of the AFM is not complete and accurate, in all material respects, and internal controls related to the AFM were not designed, implemented and operating effectively for the period from 29 August 2020 to 25 September 2020.

An assurance engagement to report on the design and operating effectiveness of controls involves performing procedures to obtain evidence about the suitability of the design of controls to achieve the control objectives and the operating effectiveness of controls throughout the period.

The procedures performed in a limited assurance review vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance review is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, I do not express a reasonable assurance opinion on the reporting of the AFM or on the internal controls.

I have conducted my limited assurance review by making such enquiries and performing such procedures I considered reasonable in the circumstances, including:

- making enquiries of management and others within the entity, as appropriate;
- examining the internal control design specifications and documentation;
- examining documentation that indicate if there was any AFM; and
- evaluating the evidence obtained.

The procedures selected depend on my judgement, including the assessment of the risks that the reporting of the AFM is not complete and accurate or the controls are not suitably designed, implemented or operating effectively.

Inherent limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that, even if the controls are suitably designed and operating effectively, the control objectives may not be achieved so that fraud, error, or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the controls that I have assured are designed to operate, has not been assured and no opinion is expressed as to its design or operating effectiveness.

A limited assurance engagement throughout the specified period on operating effectiveness of controls is not designed to detect all instances of controls operating ineffectively as it is not performed continuously throughout the period and the tests performed are on a sample basis. A limited assurance engagement throughout the specified period does not provide assurance on whether complete and accurate reporting of the AFM or the outcome of the evaluation of controls will continue in the future.

Australian National Audit Office

A handwritten signature in black ink that reads "Grant Hehir". The signature is written in a cursive, flowing style.

Grant Hehir
Auditor-General
Canberra
7 October 2020

Defence's Procurement of Offshore Patrol Vessels – SEA 1180 Phase 1

Type: Performance audit

Report number: 12 of 2020-21

Portfolios: Defence

Entities: Department of Defence

Date tabled: 12 October 2020

Background

1. The SEA 1180 Phase 1 Offshore Patrol Vessel (OPV) program, at an approved cost of \$3.58 billion, is acquiring 12 new patrol vessels and associated support systems to replace and improve upon the capability delivered by the Royal Australian Navy's (Navy) existing fleet of 13 Armidale class patrol boats.
2. The acquisition of 12 OPVs was included in the Australian Government's *2016 Defence White Paper* as a contributor to the Australian Defence Force's (ADF) maritime capability. The primary role of the OPVs will be to undertake patrol and response duties, security operations and border protection activities. The construction of the OPVs is also a key element of the Government's continuous naval shipbuilding program under the *Naval Shipbuilding Plan* (May 2017).
3. The Government selected German shipbuilder, Fr. Lürssen Werft GmbH & Co. KG (Lürssen), through a competitive evaluation process to be the designer and prime contractor for the OPVs. The first two OPVs will be built at the Osborne South shipyard (Osborne) in South Australia by ASC OPV Shipbuilder Pty Ltd. The remaining 10 OPVs will be built at the Henderson maritime precinct (Henderson) in Western Australia by Cvmec Construction & Engineering Pty Ltd (Cvmec). As of July 2020, construction of the first three OPVs was underway – two at Osborne and one at Henderson.
4. The OPVs will be named the Arafura class. The first-of-class vessel, HMAS *Arafura*, is planned to enter Navy service in 2022. The last OPV is expected to enter service in 2030.

Rationale for undertaking the audit

5. The OPV program is intended to enhance ADF maritime capability and is one of three interrelated components of the Australian Government's continuous naval shipbuilding program under the *Naval Shipbuilding Plan*. The Government has identified the OPV program as having an important role in mitigating identified risks to workforce continuity at the Osborne shipyard between the end of the Hobart class air warfare destroyer build and the commencement of the Hunter class frigate build. The Government's requirements to split OPV construction between two shipyards under an accelerated build schedule pose a challenge to Defence in managing program risks. The audit will provide assurance to the Parliament on the effectiveness of Defence's procurement and management of the OPV program, its ability to deliver the required capability on schedule and within budget, the workforce outcomes achieved, and the program's contribution to delivery of the *Naval Shipbuilding Plan* in establishing a sovereign naval shipbuilding enterprise.

6. The OPV program was last examined by the ANAO in the context of Auditor-General Report No.39 2017–18 *Naval Construction Programs—Mobilisation*. The audit concluded that at the time of tabling (May 2018) Defence was meeting scheduled milestones to deliver the OPV program, although the program was still at an early stage. A key finding of the audit was that the design and build milestones for the OPV program were brought forward to help maintain the shipbuilding workforce from the end of the Hobart class destroyer build to commencement of the Future Frigate build. As a consequence of the compressed schedule, Defence carried several risks into the OPV acquisition. In particular, reliable sustainment cost estimates were not provided to the Government at second pass approval, and commercial arrangements between the selected shipbuilder and Australian shipbuilding firms had not been settled when the tender outcome was announced.

Audit objective and criteria

7. The audit objective was to assess the effectiveness to date of Defence's procurement and contract management of the OPV program.

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

- Did Defence conduct an effective competitive evaluation process for the procurement of the OPVs that supported the achievement of value for money?
- Has Defence established fit-for-purpose contracting and program governance arrangements?
- Is the OPV program meeting program milestones and supporting the delivery of the *Naval Shipbuilding Plan*?

Conclusion

9. To date, Defence's procurement and contract management of the Offshore Patrol Vessel (OPV) program have been largely effective and have supported the achievement of a value for money outcome.

10. Defence conducted a largely effective platform selection process which supported the achievement of a value for money outcome. Defence surveyed the market for an appropriate OPV design and implemented a well-documented process to select three designs for detailed evaluation. The competitive evaluation process was supported by appropriate governance, assurance and probity arrangements and a Tender Evaluation Plan that was applied consistently across the three invited tenders, to provide a basis for assessing value for money. The tender evaluation process addressed the essential criteria and requirements that the Government had set for the program. The effectiveness of Defence's processes was impacted by the poor timing of and information access restrictions placed on a key assurance review activity, shortcomings in Defence record-keeping for the introduction of an additional condition late in the platform selection process, and Defence's approach to advising its ministers.

11. Defence has largely established fit-for-purpose contracting and program governance arrangements for the OPV program. Contractual arrangements reflect the key preferred Commonwealth negotiation outcomes and the program governance and oversight structure includes an issues escalation process. To establish the contract and commence construction in the expected timeframes, a number of issues were not finalised at contract signature in January 2018 and remained incomplete in July 2020. Processes for monitoring progress against the contract schedule and activities to verify the accuracy of Australian Industry Capability (AIC) reported by the prime contractor are yet to be fully established. As of July 2020 the program was constructing the first three vessels without an Earned Value Management System or approved shipbuilder specific Contract Master Schedules to measure progress against an agreed baseline, as required under the contract.

12. Defence's OPV program has been largely effective to date in making progress against its milestones and has contributed to delivery of the wider *Naval Shipbuilding Plan*. As at July 2020 all but three program milestones were met on time, with Defence withholding payments for these three missed review milestones. Through its reviews, Defence has identified early signs of design and integration risks emerging, particularly with regards to Government Furnished Equipment. Delivery of the required capability will depend on Defence actively managing the identified risks, a number of which are related to the accelerated build schedule. As the foundation program for the Government's continuous naval shipbuilding program, there is evidence that the OPV program is contributing to the delivery of the wider naval shipbuilding enterprise, including through the transfer of shipbuilding expertise to Australia.

Supporting findings

Platform selection

13. While Defence established appropriate governance, assurance and probity arrangements for the platform selection process, the implementation of one aspect of the assurance arrangements was not fully effective. Defence established fit-for-purpose arrangements to conduct and oversight the competitive evaluation process, which included a series of steering groups and internal reviews to provide assurance to senior leaders. The reviews usefully identified issues requiring attention but in one case, the poor sequencing of the activity and the restrictions on the reviewers' access to information compromised the effectiveness of the assurance review activity. Defence made appropriate arrangements for obtaining third-party legal and probity advice during the competitive evaluation process.

14. Defence conducted an effective process to select three ship designers – Lürssen, Fassmer and Damen – to participate in the competitive evaluation process. Advice to the Government on the viability of available ship designs was informed by a market study and screening process which helped Defence survey the market for an appropriate OPV design, followed by a formal assessment against three risks – capability, cost and risk to commencing construction in 2018.

15. Defence conducted an effective tender evaluation process that supported the achievement of value for money outcomes. The tender process was preceded by a design risk reduction process which required the three invited tenderers to refine their offers and establish the baseline ship design to be proposed in their responses to the request for tender. The tender evaluation process documented in the Tender Evaluation Plan was applied consistently across the three tenders and reporting to the delegate in the Source Evaluation Report aligned with the findings in the Tender Evaluation Criteria Reports and outlined the results of the value for money assessment. The tender evaluation process addressed the essential criteria and requirements that the Government had set for the program.

16. Defence's approach to advising its ministers, to inform their submission to government for second pass approval, was not appropriate as it did not include a clear recommendation on the preferred design and did not offer its ministers an opinion on its assessment of value for money – a core departmental function in procurement. There were shortcomings in Defence's documentation of the basis of its advice to its ministers to also include Austal as a potential shipbuilder for the Lürssen design.

Contracting and program governance

17. Defence's contract with Luerksen for the acquisition of 12 new OPVs and associated support system components is fit-for-purpose, reflecting preferred Commonwealth negotiation outcomes. Defence's contract negotiation approach was informed by a Contract Negotiation Directive and an Acquisition Contract Negotiation Plan which provided guidance on core negotiation issues. While all key identified negotiation issues were addressed during the contract negotiation process, some matters had not been finalised when the contract was signed in January 2018 and remained incomplete in July 2020. These were the establishment of the performance management framework and implementation of the Naval Shipbuilding Principals' Council.

18. Defence has largely established a fit-for-purpose governance and oversight structure for the OPV program. However, assurance arrangements are yet to be fully established, including processes for monitoring progress against the contract schedule and activities to verify the accuracy of the value of AIC reported by the prime contractor. As of July 2020 the program was constructing the first three vessels without an Earned Value Management System or approved shipbuilder specific Contract Master Schedules to measure progress against an agreed baseline, as required under the contract.

Progress against milestones

19. The OPV program milestones have been developed to achieve the Government's requirements for an accelerated build schedule to manage shipbuilding workforce risks. As at July 2020, the program had achieved 29 contractual review and construction milestones on time or ahead of schedule. Three reviews were delayed, with payments withheld by Defence for these three missed milestones. Defence has identified system integration risks and emerging design risks, particularly relating to Government Furnished Equipment, that could impact program schedule and cost at later stages of program delivery. There has been some rework in the course of construction that was driven by design work occurring in parallel with OPV construction, with design changes subject to a monitoring and approval process. Program cost is within the allocated budget and the program has not accessed contingency funding. Delivery of the required capability on time and within budget will be dependent on the active management of identified design and integration risks.

20. To date, the OPV program remains largely aligned with the Government's wider continuous naval shipbuilding plan and enterprise. The OPV program is supporting the delivery of the key *Naval Shipbuilding Plan* outcomes of naval capability enhancement, shipbuilding infrastructure improvement, Australian industry involvement and the transfer to Australia of shipbuilding expertise, and job creation. Two Defence reviews have identified uncertainties as to whether the OPV program has 'de-risked' production of the Hunter class frigate as intended, by trained OPV workers transitioning to the frigate program.

Recommendations

Recommendation no.1

Paragraph 2.21

That Defence plan the sequencing of Independent Assurance Reviews undertaken during a platform selection process, to avoid conflicts with other processes and ensure access to all relevant information.

Department of Defence response: *Agreed.*

Recommendation no.2

Paragraph 2.97

That Defence, consistent with requirements to maintain Commonwealth records, document and retain all evidence and advice regarding its decision-making in procurement.

Department of Defence response: *Agreed.*

Summary of entity response

21. The proposed audit report was provided to the Department of Defence. Defence's summary response is provided below and its full response is at Appendix 1.

Defence welcomes the ANAO's conclusion that the procurement and contract management of the Offshore Patrol Vessels (OPV) has been assessed as largely effective and achieving a value for money outcome.

To address the recommendations made by the audit, Defence will improve planning and timing of Independent Assurance Reviews during selection processes to ensure that these reviews are conducted effectively, and that reviewers can access the required information. Defence will also ensure that procurement records are maintained in line with requirements.

The OPV project has been developed and executed ahead of the Naval Shipbuilding Plan and was accelerated by the Government in 2015 to ensure commencement of the build in late 2018. The strategy to achieve construction in 2018 was 'minimum change' to an established design. To date, all major construction milestones have been achieved despite the growing impact of the COVID 19 pandemic. Defence has also chosen a highly experienced designer and shipbuilding prime contractor in Luerksen to affect a knowledge transfer to Defence and Industry, and establish an efficient shipbuilding industry.

The production of Arafura Class Offshore Patrol Vessels is currently occurring in both South Australia and Western Australia. The Arafura Class Offshore Patrol Vessel will provide Navy with a highly capable vessel when it comes into service in 2022. Defence is also actively planning the Sustainment arrangements for the Offshore Patrol Vessels with an emphasis on implementing region based maintenance arrangements.

Key messages from this audit for all Australian Government entities

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

Procurement

- When planning a procurement process that involves the solicitation of tenders from a shortlist of potential suppliers, it is sound practice to undertake, as Defence did, a market study and risk-based analysis to identify suitable participants for the solicitation process.
- The establishment of an evaluation plan that sets out the framework and criteria for tender evaluation provides a strong foundation for the conduct of a competitive procurement process to support the achievement of a value for money outcome.
- The development and implementation of probity arrangements in a procurement helps ensure that decisions are made with integrity, fairness and accountability.
- Evidence and advice should be retained and documented at all stages of a procurement and related advisory processes. This is particularly important when stepping outside a planned and approved procurement process or considering the introduction of additional conditions following tender evaluation.

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