



September 2016

**EXECUTIVE MINUTE**  
on  
**JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT**  
**REPORT 452**

**JCPAA Report 452 – *National Disaster Recovery; Centrelink Telephone Services; and Safer Streets Program, Review of Auditor General Reports Nos 24-50 (2014-15).***

**General comments**

1. The Attorney-General's Department (the department) has made significant progress in implementing the recommendations made by the Australian National Audit Office (ANAO) in their performance audit of the *Administration of the Natural Disaster Relief and Recovery Arrangements* (the ANAO Report) - Report No.34 (2014-15).
2. The department has invested significant resources and established a program of work that will deliver the commitments made by the department in response to the audit findings. The program of work is governed by a Reform Program Board within Emergency Management Australia (EMA) which is chaired by the Director General AFSM, Emergency Management Australia. The department's Executive Board, chaired by the Secretary, has also received regular reports on progress, and endorsed actions regarding the implementation of the recommendations.
3. The department has given briefings to senior representatives of the ANAO on the program of work and provided copies of endorsed documentation for information. Within the department's August 2016 Financial Statements Audit 2015-16 Closing Letter, the ANAO has noted that the department has made significant progress in relation to addressing the recommendations.

**Response to the recommendation(s)**

**Recommendation No.1**

**The Committee recommends that the Attorney-General's Department report to the Committee, no later than six months after the tabling of this report, on its progress towards:**

- implementing the recommendations in ANAO Report No.34 (2015-15), with particular reference to utilisation of project level information from states and territories to enable more informed analysis of claim amounts, and implementation of a risk based approach to examining the eligibility and value for money of recovery and reconstruction projects

- implementing the four key activities outlined in its submission to the Committee:
  - the rewrite of the NDRRA determination
  - a national collaborative audit program
  - development of an appropriate system to manage NDRRA claims and financial data
  - an internal restructure to compliance monitoring and assessment
- comparing the department's approach in this area to best practice in the insurance industry.

### **The re-write of the NDRRA Determination**

4. On 29 October 2015, following extensive consultation with states and territories (the states), the Minister for Justice, the Hon. Michael Keenan MP, signed a restructured version of the 2012 Natural Disaster Relief and Recovery Arrangements Ministerial Determination (the "determination"). This was formally disseminated to his state counterparts on 6 November 2015, prior to the anticipated 2015-16 disaster season. The determination applies, retrospectively, to all existing claims with effect from 18 December 2012.
5. The restructured determination has enabled the department to embed additional compliance and assurance arrangements in the preparation of NDRRA claims, including the requirement of clause 7, where;

*7.1.1 "The department may at any time ask the state to provide information, including access to project level information, that the department considers necessary to ensure that acquittal of a claim is in accordance with the principles, conditions, and eligibility rules of this determination and its guidelines."*

6. In addition to outlining Commonwealth assurance requirements, the structure of the determination was refined to reduce ambiguity by eliminating extraneous and duplicative language and explanations, and structured in a way that is logical and easy to use. The department also rationalised the guidelines and advisories that accompanied the determination and incorporated elements into the new version of the determination in an effort to further reduce ambiguity. The department continues to review the guidelines annually to ensure they remain consistent and current with the determination and that they maintain a sound level of clarity.
7. The restructured *NDRRA Determination 2012 Version 2.0* and the timely dissemination prior to the 2015-16 disaster season address recommendation 1(a) and 1(b) of the ANAO report.

### **National collaborative audit program**

#### *Outstanding NDRRA claims*

8. The department outlined in its previous submission (September 2015), that an independent auditor has been engaged by the department to undertake a program of assurance in collaboration with all states. This program provides an added layer of confidence prior to any further payments on NDRRA audited financial claims yet to be acquitted by the Commonwealth.

9. Phase 1 of this program was completed on 30 June 2016. This phase involved the independent auditor documenting the NDRRA claim process for each jurisdiction in an effort to understand the state's governance and administrative processes for administering the NDRRA. The process mapping went as far as to include correspondence with local councils, including the location and provision of project level information, and other relevant state departments and agencies. The independent auditor identified and documented the risks and weaknesses in State processes and, where relevant, provided findings to the state suggesting process improvements to address the identified risks and weaknesses. The department has now written to each state and territory seeking formal consideration of the Phase 1 reports and these findings will inform the Commonwealth's ongoing additional risk-based assurance activities.
10. Phase 2 of the assurance program has commenced. This phase involves the independent auditor undertaking additional assurance activities (either performance or control based) of all states un-acquitted NDRRA financial claims. The independent auditor has provided each state with the list of projects to be sampled as part of their assurance activities for each NDRRA financial claim. This has proved challenging for all states, particularly as it relates to sourcing project level information (specifically documentation) within local governments. The department, through its independent auditor, is committed to completing the program of collaborative assurance on all un-acquitted claims by 30 June 2017.
11. The risk based approach adopted by the independent auditor for Phase 2 is consistent with current auditing standards and includes an assessment of key risk indicators as well as an assessment of the project level information that is maintained by the states. The department will therefore have a clearer picture of how the state's manage and retain this information following completion of the collaborative assurance program.
12. The completion of Phase 1 and Phase 2 of the national collaborative assurance program address recommendation 1(b) and 2(a) of the ANAO report. The department maintains its view that project level information ought to be made available, particularly that it may be assured, but that this level of information resides within the states.

*On-going additional collaborative audit program on NDRRA*

13. The department is committed to continuing the independent additional assurance activities to ensure the reliability of state NDRRA claiming processes and the eligibility of state spending under the NDRRA. This does not negate the states' obligation to have expenditure audited; instead it will be a complementary risk based assurance program. Clause 8 of the revised determination supports the department's intention to continue with ongoing assurance by stating that:

*8.1.1 The department may undertake assurance activities at any time if a state has notified the Commonwealth of an eligible disaster.*

*8.1.2 These assurance activities may include, but are not limited to;*

- audit,*
- site inspections,*
- obtaining relevant documentary evidence,*
- verification reviews on measures or projects.*

*8.1.3 The department may appoint an independent adviser to conduct these activities.*

14. In May 2016, the department's Executive Board approved a model for an ongoing collaborative assurance program for all NDRRA financial claims submitted by the states. This ongoing program has commenced with additional assurance activities for the 2014-15 NDRRA financial claims submitted to the department on 31 March 2016.
15. The ongoing program of assurance will be underpinned by the knowledge of risks in State processes identified in the Phase 1 assurance program. This will inform the department's decision to undertake a high level (control based) or an in-depth (performance based) assessment of a State NDRRA financial claim. Over time it is anticipated that the department's program of assurance will be more cost effective as we learn from the outcomes of the current program of assurance and in turn apply a more targeted approach to future programs.
16. Importantly, as is the expectation of the department with the current program of assurance on unacquitted NDRRA financial claims, under the on-going collaborative assurance model, no state claim will be paid until additional independent assurance activity is completed.
17. The national collaborative audit program meets the recommendations 2(a) and 2(b) of the ANAO report.

#### **Development of an appropriate system to manage NDRRA claims and financial data**

18. In May 2015, the department engaged an independent consultant to review the existing information management system used to manage state NDRRA financial claims and estimates data. The review looked for internal consistency and mathematical accuracy to determine whether the current system is sufficiently reliable to support the preparation of an estimate for the Commonwealth's liability under NDRRA. The consultant found that the existing system did not represent a long term solution for the department and made a number of recommendations for maintaining this system until such time as a longer term alternative could be achieved. The implementation of all recommendations was finalised in June 2016.
19. In May 2015, the department engaged a Business Analyst to document and report on existing processes and risks, and develop a conceptual model to manage information, mitigate risks and improve productivity in our management of NDRRA finances. The department has more recently engaged an independent consultant to develop an IT solution for the end to end management of NDRRA program. Activity completed to date includes the development of a set of business requirements for an appropriate software solution that will automate the financial aspects of NDRRA administration and provide controls for data accuracy and integrity.
20. The IT solution will reduce the risks associated with the current information management system, including the reliance on manual input and staff managing large amounts of data and complex formulas. Due to complexities of the NDRRA program, purchasing an off-the-shelf solution is not a feasible option. As a result, the department will make an approach to market to procure the required services to build the IT solution. It is anticipated that a trial of the new system will commence from 1 July 2017 to align with the new financial year.
21. The department has also implemented new quality assurance procedures to provide greater confidence of the expenditure included in state NDRRA claims. This includes strengthened sign-off arrangements, controls for validating state-based information, and a review of the project level information for estimates data and claims. This report is reviewed by the department's Chief Financial Officer and the Director-General of Emergency Management Australia. This is now a

permanent feature of the NDRRA financial estimates process and has been working effectively for one financial year, which includes four estimate quarters.

22. Within the department's August 2016 Financial Statements Audit 2015-16 Closing Letter, the ANAO has noted the improvements made by the department to address process documentation relating to how estimates of NDRRA expenditure are developed. They have also noted the enhanced certification signoff from the states and the requirement for more comprehensive variance analysis.

### **Internal restructure to compliance monitoring and assessment**

23. The department has implemented a number of additional improvements to support the implementation of the ANAO recommendations one of which is structuring our teams to better align with the end to end administration of the NDRRA. The National Disaster Recovery Programs Branch, now known as the Disaster Recovery Branch (the branch), has been restructured to merge the claims activation, eligibility and acquittal functions.
24. The department has developed a Governance Framework to provide a broader level of assurance that the requirements of the NDRRA determination are observed. The Governance Framework defines the department's approach to administering its disaster recovery responsibilities. The objectives of the Framework include: ensuring compliance with Commonwealth policy, legislative and regulatory requirements; and providing direction, guidance and control over the management of the branch and its disaster recovery funding programs.
25. The Governance Framework is supported by a separate Compliance and Assurance Framework that embeds a compliance culture across the branch. The framework details a compliance management system designed to support staff to understand their compliance and assurance obligations under legislation and the role they have in educating and supporting key stakeholders to achieve an appropriate level of compliance. Both frameworks were endorsed by the department's Executive Board in August 2016.
26. Earlier this year, the department engaged an independent consultant to undertake a risk assessment of the department's administration of the NDRRA. The final report recommended the implementation and on-going monitoring of a review schedule for each identified risk as well as regular detailed reviews of the effectiveness of controls, incorporating controls testing and validation into assurance activities. In response to these recommendations, the revised Governance Framework incorporates a weekly, monthly and quarterly reporting schedule with a focus on an assessment of risks across a range of branch activities. This approach ensures the risks are monitored and actioned in a timely way, and risk management activity does not rely solely on an annual assessment.
27. Importantly, the development of the two frameworks and the completion of a risk assessment of the NDRRA program address two key recommendations outlined in the ANAO report.

### **Best practice in the insurance industry**

28. The department continues to engage with representatives from the insurance industry in both the public and private sectors. In restructuring the 2012 NDRRA Determination, the department drew on advice from the Insurance Advisory Group and the structure on Insurance Product Policy

documents which clearly articulates the terms and conditions of an insurance contract. In doing so, the department gave specific consideration to the insurance industry documented claim processes and the requirements under respective policies, including the notification and evidentiary standards.

29. The department has confirmed through consultation that insurance practices are consistent with the application of the NDRRA determination so far as the onus is on the claimant to meet the necessary evidentiary standard. An insurer will enlist the services of an independent assessor to assure the validity of claims in much the same way that the independent auditor engaged by the department assesses project level information and other evidence as part of our collaborative assurance program.
30. As such, the department has implemented similar evidentiary requirements as that of the insurance industry. These requirements are reflected across the determination and in particular the aforementioned Clause 7.1.1.