

Senate Supplementary Estimates - 23 October 2017

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Administration of Youth Allowance (Student) and ABSTUDY
[No.51 2016–17]
Department of Social Services
Department of Human Services

Background

1. The objective of the Youth Allowance (Student) and ABSTUDY payment programs is:
to achieve growth in skills, qualifications and productivity through: providing income support to students ... to assist them to undertake further education and training; increasing access and participation by Indigenous Australian students in school education, vocational education and training and higher education and accelerating their educational outcomes.¹
2. The *ABSTUDY Policy Manual*, approved by the Minister for Social Services, also sets out the following additional objectives of the ABSTUDY program, to:
 - encourage Aboriginal and Torres Strait Islander people to take full advantage of the educational opportunities available;
 - promote equity of educational opportunity; and
 - improve educational outcomes.
3. In combination, Youth Allowance (Student) and ABSTUDY provide around \$2.7 billion in financial assistance to around 240 000 students and apprentices annually. ABSTUDY recipients comprise around 15 per cent of this population and around 10 per cent of the combined administered outlays. The Department of Human Services (Human Services) administers these payments on behalf of the Department of Social Services (DSS).
4. Many of the administrative processes supporting Human Services' delivery of these payments are similar. Some administrative differences arise from Youth Allowance (Student) being a legislatively-based payment while ABSTUDY is policy-based. Other differences arise because of differences in the payment population group (for example, ABSTUDY payees include students, parents and boarding school providers).
5. The objective of the audits² was to assess the efficiency and effectiveness of the Department of Social Services' and the Department of Human Services' administration of the Youth Allowance (Student) and ABSTUDY programs. To form a conclusion against the audits' objective, the ANAO adopted the following high level criteria:
 - the Department of Human Services has established suitable administrative systems and processes for the transparent, accurate and timely assessment of claims;

1 Department of Social Services, *Annual Report 2015-16*, DSS, Canberra, 2016, p. 59. See https://www.dss.gov.au/sites/default/files/documents/10_2016/part_2_annual_performance_statement.pdf [accessed 4 November 2016].

2 The ANAO conducted separate performance audits of both the Youth Allowance (Student) and ABSTUDY programs. This report contains the findings from both audits.

- the Department of Human Services has established suitable controls to mitigate the risk of incorrect payments being made to applicants; and
- the Department of Social Services and the Department of Human Services have established sound monitoring, reporting and evaluation arrangements to assess the effective delivery of the Youth Allowance (Student) and ABSTUDY programs.

Conclusion

6. The Department of Human Services' (Human Services) payment administration arrangements were effective in relation to communication to recipients, guidance and staff training, and risk management. A range of useful management and operational information is captured and used by the Department of Social Services (DSS) and Human Services to inform program and service delivery; although, this information does not adequately measure performance against the relevant policy objectives. Over the past three years, Human Services has not consistently met its Key Performance Measure for the timeliness of application processing during peak workload periods. Over the past ten years, Human Services has met the department's internal benchmarks for Youth Allowance (Student) and ABSTUDY payment correctness however it has not met its benchmarks for payment accuracy as agreed in the Bilateral Management Arrangement with DSS.

7. Human Services has established suitable arrangements for communicating eligibility requirements to prospective and current Youth Allowance (Student) and ABSTUDY recipients, as well as providing guidance and training to departmental staff.

8. Human Services' system for processing Youth Allowance (Student) claims has recently undergone significant change with the implementation of a new system. The implementation of the new system led to longer delays between the receipt of claims and their finalisation during the 2015–16 peak workload period. From early 2013–14 to early 2016–17, the department has not met its Key Performance Measure for processing both Youth Allowance (Student) and ABSTUDY claims during peak workload periods. However, in March 2017, Human Services' preliminary data indicated a reduction in the average processing time for individual Youth Allowance (Student) claims for the period January to March 2017, which the department expects to flow through to a reduction in overall processing times.

9. Human Services has a range of department-wide mechanisms in place intended to manage risks to the payment integrity of Youth Allowance (Student) and ABSTUDY—including system controls and departmental frameworks for quality assurance, compliance and debt recoveries, as well as selected targeted approaches for these specific payments. The key focus of Human Services' compliance activities is risks associated with earned income; whereas the primary source of continuing payment inaccuracy stems from changes to recipients' study load. A new project implemented from July 2016 seeks to address this risk.

10. From 2013–14 to 2015–16, Human Services identified potential overpayments in a timely way for Youth Allowance (Student). During this period, 83 per cent of ABSTUDY debts were raised within 180 days of identification and this metric has declined—from 95 per cent in 2013–14 to 77 per cent in 2015–16.

11. DSS and Human Services regularly monitor and report (internally) on a range of operational and payment performance metrics. Since 2015–16, DSS has commenced public reporting against a number of new performance measures for Youth Allowance (Student) and ABSTUDY to identify the extent to which recipients have improved their self-reliance or circumstances after exiting the payment. However, there is no public reporting on the extent to which Youth Allowance (Student) and ABSTUDY are achieving their policy objectives.

Supporting findings

Administration and processing

12. Human Services' primary mechanism for communicating with prospective and current recipients of Youth Allowance (Student) and ABSTUDY is through its website and selected social media. ANAO's analysis showed this communication was clear and provided a range of information to prospective and current applicants, including information on how to claim, eligibility criteria and ongoing recipient responsibilities. These generic channels are supplemented by an ABSTUDY face-to-face Service Offer that is intended to support the department's Indigenous Servicing Strategy goals.

13. Human Services has recently introduced a number of other communication tools, including a Claim Tracker, to assist Youth Allowance (Student) applicants to better track the status of their claim (this tool is presently not available to ABSTUDY applicants). There would also be benefit in the department advising applicants that claims submitted during peak workload periods may not be finalised prior to the commencement of the academic year.

14. Human Services has established a suite of useful guidance material as well as other advice and support mechanisms to assist its staff to assess and process Youth Allowance (Student) and ABSTUDY claims. The ANAO's limited scope review of key guidance materials did not identify any issues to indicate that these materials were inaccurate.

15. Human Services has established effective training arrangements for its staff to process claims; other than the training requirements and information for the introduction of the new student processing module that were under-estimated. The ANAO's limited scope review of key training materials did not identify any issues to indicate that training materials were inaccurate.

16. Human Services' systems for processing Youth Allowance (Student) and ABSTUDY claims do not support the consistent achievement of the department's Key Performance Measure against timeliness during peak workload periods. A decline in Youth Allowance (Student) processing timeliness was exacerbated by the introduction of a new processing system in 2015-16. The ANAO's analysis indicates that the efficiencies expected from this new system, including in the department's costs for processing applications, were not realised over the 2015-16 peak workload period. Data provided by Human Services for the period January to March 2017 indicates improvements in the average staff processing times for individual Youth Allowance (Student) claims. Performance by Human Services' telephony services has also declined since 2013-14, particularly for ABSTUDY recipients who use this service as a primary mechanism for lodging claims.

17. The ANAO's analysis, based on available data, indicates that key barriers to achieving service and claim assessment improvements include: failure of applicants to supply the required supporting documentation and the policy complexity associated with assessing individual ABSTUDY awards and claims. There would be benefit in DSS and Human Services examining cost-effective options to improve this area of performance.

Managing and monitoring risks

18. Human Services has a number of risk management mechanisms in place intended to address the principal risks relating to student payment inaccuracy. Current strategies cover students advising the department of their study load and ABSTUDY travel.

19. Human Services has effective system controls in place to minimise risks to Youth Allowance (Student) and ABSTUDY payment correctness and identify risks to payment accuracy. However, from 2006 to 2015-16, the payment accuracy benchmark remained consistently unmet, with the major contributor to this inaccuracy rate being recipient errors associated with study load requirements. A project funded under a 2015-16 Budget measure, implemented from July 2016, aims to address this risk.

20. The department's process for managing administrative errors to payment integrity, through its quality assurance process, has scope for improvement. Human Services' Quality On Line sampling of ABSTUDY new claim and non-new claim decisions should be aligned with the respective risks to payment accuracy associated with each of these key administrative decision points. Additionally, a formal risk assessment was not prepared to manage Youth Allowance (Student) risks related to reduced Quality On Line activities during the 2015–16 peak workload period.

21. Human Services adopts a range of suitable compliance activities to monitor the ongoing eligibility of applicants receiving Youth Allowance (Student) and ABSTUDY. The focus of these activities is directed towards study-related and earned income risks. There would be benefit in the department considering if the effort expended on earned income reviews for Youth Allowance (Student) and ABSTUDY recipients is commensurate with the risks to program outlays. A project funded under a 2015–16 Budget measure aims to increase the focus on recipients' compliance with study load requirements, as the source of the highest risk of non-compliance for student payments.

22. A majority of Youth Allowance (Student) and ABSTUDY overpayments (66 per cent and 86 per cent, respectively) are identified through Human Services being notified (by recipients or other sources) of changes in an individual's circumstances. Once identified, around one-third of all debts (that is, those debts under \$50) are waived.

23. From 2013–14 to 2015–16, overall Human Services raised:

- more than 90 per cent of Youth Allowance (Student) debts within 180 days of identification, with the proportion of debts raised within 180 days improving over this time period;
- 83 per cent of ABSTUDY debts within 180 days of identification, which is less than the department's aggregate 90 per cent benchmark for the payments it administers. Over this time period the proportion of ABSTUDY debts raised within 180 days has declined—from 95 per cent in 2013–14 to 77 per cent in 2015–16.

24. Human Services effectively uses operational data and management information to inform program development. DSS and Human Services collect and analyse a range of program and operational data to measure aspects of program performance. In 2015–16, DSS commenced annual reporting against new performance measures for Youth Allowance (Student) and ABSTUDY to identify the extent to which recipients have improved their self-reliance or circumstances after exiting the relevant student payment. However, there is no internal or public reporting to inform an assessment as to whether Youth Allowance (Student) or ABSTUDY programs are achieving their overarching policy objectives.

Recommendations

Recommendation No. 1
Paragraph 2.64 Human Services implements a strategy to ensure that the rollout of the new processing system to other payments and programs administered by the department is well planned and managed, including by sharing the lessons learned from the implementation of this processing system for Youth Allowance (Student).

Department of Human Services response: *Agreed.*

Recommendation No. 2
Paragraph 3.16 Human Services to review its Quality On Line sampling of ABSTUDY decisions to align with the risks associated with the accuracy rates of new claims compared to non-new claims.

Department of Human Services response: *Agreed.*

Recommendation No. 3
Paragraph 3.84 DSS and Human Services to review the payment accuracy Key Performance Measure in the Bilateral Management Arrangement to more clearly distinguish between expected levels of performance for payment correctness and payment accuracy.

Department of Social Services response: *Agreed with qualification.*

Department of Human Services response: *Agreed.*

Summary of entity responses

25. The summary responses to the report from DSS and Human Services are provided below.

Department of Social Services

The Department of Social Services (DSS) agrees, with the following qualification, to Recommendation 3.

As the ANAO has noted in the report, DSS and the Department of Human Services are jointly reviewing the Bilateral Management Arrangement. This review covers governance, performance measures and reporting arrangements, and will include consideration of measures of payment correctness and payment accuracy.

Payment correctness and payment accuracy, which measure different elements, are interconnected and DSS does not support completely separating them. As part of the review of the Bilateral Management Arrangement, DSS will consider further identifying the source of payment inaccuracy, whether it be administrative error, recipient error or change of recipient circumstances, within the Key Performance Measure.

Department of Human Services

The Department of Human Services (the department) welcomes the ANAO's conclusions that payment administration arrangements for the Youth Allowance (Student) and ABSTUDY programmes are effective, including communication of eligibility requirements to prospective recipients as well as guidance and training to departmental staff.

The department agrees with each of the ANAO's three recommendations and has already progressed work to address them.

Managing Underperformance in the Australian Public Service

No.52 2016–17

Attorney-General's Department; Australian Public Service Commission; Australian Taxation Office; Department of Agriculture and Water Resources; Department of Industry, Innovation and Science; Department of Social Services; Department of Veterans' Affairs; IP Australia; and National Film and Sound Archive of Australia

Background

1. Performance management of employees is critical to supporting a high-performing Australian Public Service (APS). While the management of underperformance is only one aspect of an effective performance management framework, it is important because underperforming employees negatively impact efficiency, productivity and morale.

2. In conducting the audit, the ANAO examined the management of underperformance in eight agencies: Attorney-General's Department; Australian Taxation Office; Department of Agriculture and Water Resources; Department of Industry, Innovation and Science; Department of Social Services; Department of Veterans' Affairs; IP Australia; and the National Film and Sound Archive.

3. In relation to managing underperformance, APS agencies face a similar environment to many other organisations in Australia, public and private. Like many organisations, APS agencies are covered by the unfair dismissal provisions in the *Fair Work Act 2009* and a range of other relevant legislation including state and federal work, health and safety laws and the *Australian Human Rights Commission Act 1986*. A key difference, however, is that APS agencies are covered by the *Public Service Act 1999* that provides for specific requirements and confers additional rights of review for APS employees.

4. The objective of the audit was to assess the effectiveness of the management of underperformance in the Australian Public Service and identify opportunities for improvement. To form a conclusion on the audit objective the following high-level criteria were adopted:

- How effectively are audited agencies managing underperformance?
- Do the agencies' documented underperformance procedures contribute to the effective management of underperformance?
- Do the agencies' management practices contribute to the effective management of underperformance?

Conclusion

5. There is significant room for improvement in the management of underperformance in each of the eight audited agencies, although some agencies have managed underperforming employees better than others.

6. Underperformance is generally not effectively dealt with in performance management processes, including during the probation period in most agencies, and structured underperformance processes have been infrequently used. Managers have often avoided addressing underperformance due to a lack of incentives, support and capability. Some agencies have used redundancies or incentives to retire as alternatives to underperformance procedures and while these may be cost-effective approaches in situations of excess staffing or in particularly complex

cases, they should not be used to replace or undermine ongoing, robust underperformance management procedures.

7. Most agencies could streamline their underperformance procedures to remove repetition and prescription while still ensuring procedural fairness, although provisions in three agencies' enterprise agreements restrict flexibility in this regard. In addition, some agency procedures contain requirements that are in excess of those required by legislation or regulation for Senior Executive Service or non-ongoing employees. Not all agencies have transparent procedures for their Senior Executive Service employees, and probation procedures could be improved in all eight agencies.

8. Agency practices have contributed to the less than effective management of underperformance. In respect of performance management practices, there is scope for all agencies to improve managers' commitment to dealing with underperformance, clear communication of performance expectations and provision of feedback to employees. To strengthen practices to manage underperformance, there is scope for most agencies to improve the support to and capability of managers, including through the provision of training in managing performance (including underperformance) and the early involvement of appropriately skilled human resource professionals in underperformance cases. There is considerable room for improvement in all agencies' practices to hold managers accountable for their responsibilities to manage underperformance.

Supporting findings

The effectiveness of agencies' management of underperformance

9. Employee perception data from the eight agencies indicates that only a minority of employees agreed that their agency deals with underperformance effectively, with agreement rates ranging from 14 to 30 per cent in 2016. For the Australian Public Service as a whole, less than a quarter of employees agreed that their agency effectively deals with underperformance. Compared to other census items assessing attitudes and opinions, this issue had the lowest employee perceptions. Perceptions were more positive in relation to employees agreeing that their supervisor appears to manage underperformance well with over half of employees in IP Australia, the Department of Social Services, the National Film and Sound Archive and the Department of Industry, Innovation and Science agreeing in 2016. Comparisons with available Australian and international benchmarks on employee perceptions suggest that the Australian Public Service agencies achieve relatively low results.

10. Human resources data from the eight agencies indicates that there is significant room for improvement in the management of underperformance in each of the eight audited agencies, although some agencies have dealt with it better than others. In most agencies underperformance is not being accurately identified and the proportion of employees undergoing structured underperformance processes is very low¹ in all agencies. Probation processes are not generally used robustly to test the suitability of newly appointed employees² (except in the Australian Taxation Office and the National Film and Sound Archive). The use of redundancies and incentives to retire

¹ The proportion of employees whose performance is rated as less than effective is less than would be reasonably expected, although proportions vary among agencies (from 0.1 to 3.1 per cent of all employees rated from 2012–13 to 2015–16). The proportion of employees who are formally managed for underperformance is even smaller for each of the eight agencies.

² While not all of the eight agencies could provide data, the proportion of employees with performance issues that left during their probationary period was low except in the ATO and NFSA. In combination with information on agencies' procedures, it appears that most agencies did not use probation to robustly assess performance to test job fit and the appropriateness of recruitment decisions.

may be cost-effective in situations of excess staffing or in particularly complex cases, however, they should not be used to replace or undermine ongoing, robust underperformance management procedures as they can be uneconomical, create perverse incentives and generate resentment in other employees. The outcomes of structured underperformance processes have been varied—a high percentage of cases have resulted in performance improvement, other employees have left their agency through retirement or termination processes, with a range of other outcomes including employees transferring within the Australian Public Service. Notwithstanding the range of outcomes, agencies have generally managed underperformance processes in line with procedural fairness requirements.³

11. The main barriers to more effectively managing underperformance relate to agencies' general management culture (that has tended to focus on compliance with end of cycle discussions rather than the quality and frequency of feedback), and the lack of incentives facing, support for and capabilities of, many senior and middle level managers. These barriers have limited the effectiveness of agencies' management of underperformance in performance management processes, as well as in structured underperformance processes.

Underperformance management procedures

12. Agencies' documented performance management procedures adequately support managers to manage underperformance of non-Senior Executive Level staff. All eight agencies' procedures encourage ongoing, regular feedback outside of formal review points and early identification of, and prompt action to address, potential underperformance. Most agencies could more effectively support managers by providing: clearer and/or more concise guidance on the outcomes and behaviours that distinguish fully effective and unsatisfactory performance (Australian Taxation Office, Department of Agriculture and Water Resources, Department of Veterans' Affairs, IP Australia and National Film and Sound Archive); and links to relevant information (all agencies other than the Australian Taxation Office).

13. Agencies' underperformance procedures could better support managers to manage underperforming ongoing non-Senior Executive Level employees. None of the eight agencies' procedures provide clear guidance on the support and assistance available to managers from human resources professionals. Most agencies could streamline their procedures to remove time consuming repetition and prescription while still ensuring procedural fairness. Three agencies are restricted, however, because of provisions in their enterprise agreements. The Department of Industry, Innovation and Science could streamline provisions for non-ongoing employees.

14. All agencies have documented performance and underperformance management procedures that cover Senior Executive Service (SES) employees except the National Film and Sound Archive (which only has two SES positions). The SES procedures of the Department of Agriculture and Water Resources, Department of Industry, Innovation and Science and IP Australia are not transparent. The Department of Veterans' Affairs has scope to streamline its procedures for managing underperformance of SES employees as these employees do not have access to unfair dismissal provisions.

15. There is scope for all eight agencies to improve their probation procedures. Two agencies (Attorney-General's Department and Department of Agriculture and Water Resources) only provide limited guidance to managers via the pro forma report that managers complete for probationary

³ As indicated by the low rate of successful Comcare claims, unfair dismissal claims and reviews of actions (five per cent or less of employees with known performance issues in all agencies from 2012–13 to 2015–16).

employees, and the Department of Social Services only has procedures for its entry level programs. Only the Department of Veterans' Affairs clearly informs managers that probationary employees do not have access to unfair dismissal provisions.

Underperformance management practices

16. The effectiveness of the management of underperformance through performance management processes varies with the importance placed on it by senior managers and the capability of individual employees. However, the relatively low level of employees who agree that underperformance is managed effectively in their agency, the low level of employees rated as 'less than effective' in most agencies and the barriers to managing underperformance indicate that performance management practices do not effectively underpin the management of underperformance. In particular, there is scope for all agencies to improve: the extent to which managers openly demonstrate commitment to performance management; how managers provide employees with clear and consistent performance expectations; and the quality and quantity of feedback being received by employees. Recent evaluations of, and changes to, agency performance management systems are likely to have contributed to improvements in employee perceptions of seven of the eight agencies over the four year period 2012–13 to 2015–16.

17. Agencies' practices that support managers to manage underperformance are a key component of addressing barriers to the effective management of underperformance, particularly those relating to manager capability and commitment. While all agencies offer some support to managers through training and with assistance through the structured processes for managing underperformance, some agencies (particularly IP Australia) offer more active support and higher levels of training than others. Generally, those agencies that offer higher levels of support and training have more positive employee perceptions about the management of underperformance. The early involvement of appropriately skilled human resource professionals in underperformance processes delivers a range of benefits including acting as a quality assurance mechanism, ensuring managers and employees are adequately supported, and keeping processes within timeframes.

18. There is considerable room for improvement in all agencies' practices to hold managers accountable for their performance management responsibilities. Only two agencies (Department of Social Services and National Film and Sound Archive) reported that they have recently used multi-source feedback or other means of gathering evidence on which to accurately assess individual manager's performance management skills. While most agencies (excluding the Attorney-General's Department and the National Film and Sound Archive) include some metrics on performance management in their human resources reporting to senior management, none of the eight agencies include general metrics relating to probation management and, with the exception of the Australian Taxation Office and the Department of Social Services, do not include training participation rates. Only the Australian Taxation Office collects survey data on the quality and quantity of feedback (in addition to relevant questions in the Australian Public Service Commission's annual employee census) but this data is not included in its management reports.

Key learnings

19. The key learnings are organised around the four categories of barriers to underperformance management identified in Chapter 2 of the Report: management culture; support to managers; management capability; and other barriers.

Procedures

20. Based on the audit findings, the ANAO has identified a range of key learnings relating to agencies' documented performance, underperformance and probation procedures that can apply to the eight and other APS agencies.

Box 1: Key learnings to address barriers relating to 'Management culture'

To demonstrate senior management commitment to agency performance management arrangements, including underperformance management:

- it is good practice for agencies to have transparent and clearly documented procedures relating to underperformance for all employees, including SES employees; and
- underperformance management processes for SES employees can be more streamlined than non-SES processes as SES employees do not have access to unfair dismissal provisions—but should still satisfy key procedural fairness requirements.

Box 2: Key learnings to address barriers relating to 'Support to managers'

To effectively support managers, agency procedures should:

- be streamlined and not unnecessarily repeat processes;
- not contain requirements that are in excess of those required by good practice, legislation or regulation, for example, for SES and short-term non-ongoing employees;
- communicate clear expectations of the duration of key processes;
- provide guidance and examples that distinguish health and misconduct issues from underperformance;
- provide clear guidance on the support and assistance available to managers from human resources professionals; and
- provide better guidance on managing the performance of probationary employees.

Box 3: Key learnings to address barriers relating to 'Manager capability'

To assist managers to implement underperformance procedures, it would be beneficial to have links to tools such as checklists, flowcharts and tips and tricks; and links to other guidance on fitness for duty, misconduct, and probation on agency intranet sites.

Box 4: Key learnings to address 'other' barriers

Performance gaps can be difficult to identify in a specific and objective way for some types of APS work. To assist managers to measure performance gaps, agency procedures would benefit from:

- examples on measuring performance gaps that contextualise the work requirements for the agency; and
- emphasising the importance of managers' documenting performance gaps by having examples of work that do not meet the required standard to provide feedback to the employee and to document underperformance for record keeping and review purposes.

Practices

21. The ANAO has identified a range of key learnings relating to agencies' practices for managing underperformance that can apply to the eight and other APS agencies.

Box 5: Key learnings to address barriers relating to 'Management culture'

- Pursue initiatives to establish the practice of more frequent and constructive feedback including by: increasing investment in related training; monitoring the quality and quantity of feedback; and implementing multi-source feedback mechanisms.
- Set targets for the quality and quantity of feedback and require action plans to be developed in areas where monitoring indicates the quality and quantity of feedback is below target levels.
- Pursue initiatives to increase the commitment of senior managers to performance management including by:
 - increasing investment in relevant training of SES staff;
 - using mechanisms to gather evidence on senior managers' people management skills, for example, 360 degree surveys and employee pulse surveys; and
 - establishing targets for the quality and quantity of feedback received by employees and including targets in managers' performance agreements.
- Place more weight on accurately assessing applicants for manager positions on their people management skills in recruitment and selection processes.

Box 6: Key learnings to address barriers relating to 'Support to managers'

- Ensure human resource capability to actively support managers at all stages of underperformance management.
- Require human resource staff to have visibility of underperformance processes once structured processes commence to ensure active support to managers, provide quality assurance over processes, promote adherence to timeframes, and avoid processes having to be repeated to ensure procedural fairness requirements.
- Tangible recognition of the additional workload and stress on managers during underperformance processes is required.

Box 7: Key learnings to address barriers relating to 'Manager capability'

- Invest in relevant and regular training in managing performance (including underperformance) for both existing and potential managers including at the SES level.
- Provide coaching and a range of other active supports to managers during underperformance processes.

Box 8: Key learnings to address 'other' barriers

- Use human resource professionals to provide assistance to managers with measuring and documenting performance gaps (that is the gap between fully effective and less than effective).
- Use human resource professionals to actively assist the manager during underperformance processes to manage sick and personal leave taken by the underperforming employee, including by engaging with health professionals and assisting in making any reasonable adjustments required as quickly as possible.
- The presence of appropriately skilled human resource professionals in review meetings between the manager and the underperforming employee can assist in preventing claims of bullying and harassment.

Summary of entity responses

22. A summary of entity's responses are below.

Attorney-General's Department

The Attorney-General's Department welcomes the findings of the ANAO audit into underperformance across the APS (the audit). The department is currently reviewing its performance framework and related systems, policies, procedures and supporting guidance following the commencement of the *Attorney-General's Department Enterprise Agreement 2016*.

Following this review process, and informed by the key learnings from this audit, the department will seek to implement initial changes to its performance framework for the 2017-18 performance cycle. The department is keenly committed to promoting a high performance culture built on ongoing performance and development feedback and conversations, and to ensure clarity and support in addressing poor performance as quickly as possible.

Australian Public Service Commission

The APSC welcomes the ANAO audit report on Managing Underperformance in the APS and the opportunity to comment on the content and findings of the report. The collaborative approach adopted by the ANAO and its receptiveness to APSC input were much appreciated.

The APSC agrees that there is room for improvement in the management of underperformance in the APS, and supports the audit findings. We emphasise that the management of underperformance takes place within a broader context of organisational culture and leadership. This will impact the effectiveness of any measures to improve the management of underperformance, as will the support offered to managers of people more generally.

We are concerned that the selective use of data from the APS Employee Census in Figures 2.1 and 2.2 of the report may lead to people to misinterpret employee views on how underperformance is managed. The decision not to include the large proportion of respondents who neither agree nor disagree with these items could present a more negative perception by employees than is the case. This has been discussed with the ANAO.

Performance management is an area of particular focus for the APS. Agencies are trialling and implementing a number of initiatives to provide managers with the skills and tools they need to become more effective people managers.

Australian Taxation Office

The ATO welcomes this review and considers the report supportive of our overall approach to managing underperformance within the ATO. Particularly pleasing to see is the strong performance of the ATO in managing employees through probation and the alignment of more recent ATO developments to the best practice processes highlighted in the report. As the ATO continues to look for improvement opportunities, the ATO also recognises the important responsibility which employees have to meet, or seek support to meet, their performance requirements.

The review considers the procedures and practices agencies use to identify and deal with underperformance for employees. The review also notes the frameworks and challenges which agencies face when managing underperformance. The ATO agrees with the key learnings contained in the report, including the advice to streamline processes where possible, improve transparency of processes, provide information and ongoing support to managers who supervise underperforming staff and to effectively use probation for new employees who do not meet the requisite standards. The ATO has been and will continue to strengthen its management of underperformance in light of the findings of this report.

Department of Agriculture and Water Resources

The information provided in the proposed audit report on Managing Underperformance in the Australian Public Service highlights the importance of making changes to the way performance is managed across the department to ensure the department is positioned towards creating and maintaining a high performing culture.

The department notes in conclusions drawn from the audit that there is significant room for improvement in the management of underperformance, across a number of key areas, such as the management of underperformance during probation periods and structured underperformance processes.

The department acknowledges the need for change in the management of SES performance management processes, to streamline and provide greater transparency, as well as providing a greater level of support to managers and building manager capability in all areas of employee performance. These areas, along with other recommendations in the proposed audit report, will be incorporated into the current review into the department's Performance Management Framework and associated processes.

Department of Industry, Innovation and Science

The Department of Industry, Innovation and Science acknowledges the findings and key learnings of the Australian National Audit Office's (ANAO) report on *Managing Underperformance in the Australian Public Service*.

Department of Social Services

The Department of Social Services is pleased to have been one of the eight agencies audited in the managing underperformance in the Australian Public Service Audit in 2016.

I encourage all employees and managers to take ownership of the audit findings and to work towards building a culture that celebrates high performance, supports managers to hold difficult conversations, and encourages employees to remain open to feedback and accept responsibility for their performance and improvements when needed.

Department of Veterans' Affairs

The Department of Veterans' Affairs notes the finding of the report and considers that, with inclusion of editorial comments, it provides a fair representation of departmental processes.

The key learnings from this audit will be used to bring about improvements in underperformance management in the department.

IP Australia

IP Australia welcomes the key learnings of this review and acknowledges the importance of effective underperformance management in the APS. We acknowledge that there is need for improvement in managing underperformance across the APS and we appreciate the report's recognition of the substantive and significant improvements IP Australia has recently made to our overall performance management framework.

We see value in the report's compilation of information on the varied approaches to underperformance management across the eight APS agencies and will reference this when considering further refinements and improvements to IP Australia's processes.

National Film and Sound Archive of Australia

The NFSA agrees with the conclusions of the report and supports the key learnings identified which it will take into consideration when next it reviews the NFSA Performance Management and Development Policy and Procedures, which include the management of underperformance.

The NFSA regards the key learnings of the audit report to be essential feedback required for the agency to become a higher performing organisation.

Background

1. The Australian Government provided \$15.2 billion in funding to the aged care sector in 2014–15 and \$16.2 billion in 2015–16. Aged Care services were delivered to 35 083 Aboriginal and Torres Strait Islander people in 2014–15 at an estimated cost of \$216 million¹ (approximately 1.4 per cent of the total aged care budget).²

2. Health conditions associated with ageing often affect Aboriginal and Torres Strait Islander people earlier than other Australians.³ This is reflected in the Australian Government policy to provide Aboriginal and Torres Strait Islander people access to aged care services from 50 years old, in comparison to 65 years old for the broader population. Aboriginal and Torres Strait Islander people are also designated as a special needs group under the *Aged Care Act 1997* and all aged care service providers must have regard to the particular physical, physiological, social, spiritual, environmental and other health related care needs of individual recipients.⁴

3. The Australian Government funds aged care services to assist frail older people, and the carers of frail older people, to remain living at home as well as residential aged care services. The programs funded include:

- the Commonwealth Home Support Program, which provides entry-level home support for older people who need assistance to keep living independently;
- the Home Care Packages Program, which provides services tailored to meet individuals' specific care needs including care services, support services, clinical services and other services to support older people to remain living at home and connected to their communities; and
- residential aged care, which provides supported accommodation services for older people who are unable to continue living independently in their own homes.

4. Aboriginal and Torres Strait Islander people also have access to aged care services funded through the National Aboriginal and Torres Strait Islander Flexible Aged Care Program (Flexible Program). In 2015–16 funding for the Flexible Program was approximately \$37 million, based on agreed funded places rather than occupancy. The Flexible Program aims to provide aged care services that meet the specific needs of Aboriginal and Torres Strait Islander people in a culturally appropriate setting, close to home and community. The majority of Flexible Program services are delivered in regional, remote and very remote locations.⁵

¹ Consists of claim payments to aged care recipients that have self-identified as Aboriginal and Torres Strait Islander.

² At the time of the audit, data was not available for the Commonwealth Home Support Program.

³ Australian Institute of Health and Welfare 2011. *The health and welfare of Australia's Aboriginal and Torres Strait Islander people, an overview 2011*. Cat. no. IHW 42. Canberra: AIHW.

⁴ For programs not covered under the *Aged Care Act 1997*, including the Commonwealth Home Support Program, program manuals are aligned with these requirements.

⁵ In most cases during this audit, the Australian Bureau of Statistic's Australian Statistical Geography Standard has been used to define major city, inner regional, outer regional, remote and very remote service providers.

5. The Department of Health is responsible for leading the development of evidence based policy, determining the allocation of funding, and regulation of the Commonwealth aged care system to improve the wellbeing of older Australians as well as the implementation of the aged care reforms. The Australian Aged Care Quality Agency is responsible for assessing the quality of care of Australian Government funded aged care service providers. This is done through:

- the accreditation of residential aged care service providers;
- quality reviews of aged care provided to people living in their own homes or in the community; and
- education and training on quality aged care to the aged care sector.

Audit objective and criteria

6. The objective of the audit was to assess the effectiveness of Australian Government-funded aged care services delivered to Aboriginal and Torres Strait Islander people. To form a conclusion against the audit objective, the ANAO adopted the following high level criteria:

- Is there an effective framework in place to support access by Aboriginal and Torres Strait Islander people to quality aged care services?
- Do the Department of Health and the Australian Aged Care Quality Agency have effective frameworks to oversee the delivery of aged care services to Aboriginal and Torres Strait Islander people?
- Does the Department of Health have appropriate arrangements in place for monitoring and reporting on the achievement of program objectives and supporting the cost effectiveness and service continuity of aged care delivery to Aboriginal and Torres Strait Islander people?

Conclusion

7. Australian Government-funded aged care services are largely delivered effectively to Aboriginal and Torres Strait Islander people.

8. The ageing of Australia's population and growing diversity among older people, in terms of their care needs, preferences and socioeconomic status, are placing pressure on the depth and agility of Australia's aged care system. There are additional challenges in ensuring access to culturally appropriate care and service continuity for Aboriginal and Torres Strait Islander people, particularly for those living in remote and very remote communities. Some Aboriginal and Torres Strait Islander people may also have language or cultural preferences that influence their specific requirements.

9. The National Aboriginal and Torres Strait Islander Flexible Aged Care Program has been effective in increasing the access to culturally appropriate aged care services for elderly Indigenous Australians. The direct selection and recurrent funding approach of the National Aboriginal and Torres Strait Islander Flexible Aged Care Program provides few opportunities for new service providers to enter the market. There would be benefit in the Department of Health extending the application process to new service providers and better aligning the funded places with service capacity.

10. The Department of Health has developed sufficient guidance materials and provides supplementary funding to support Indigenous-focused services that operate under the

Commonwealth Home Support, Home Care Packages and residential programs. However, not all Indigenous-focused services are aware of the Department of Health's sector support programs.⁶

11. The Department of Health and the Australian Aged Care Quality Agency have been largely effective in their administration of Australian Government-funded aged care services delivered to Aboriginal and Torres Strait Islander people. Each entity has developed sound administrative arrangements to manage the delivery of aged care services and to review the quality of care delivered through aged care programs. The Department of Health can strengthen its administration by implementing a coordinated approach that ensures the timely sharing of relevant information to facilitate risk assessments across the Ageing and Aged Care Group.

12. Consistent with its policy intent, the National Aboriginal and Torres Strait Islander Flexible Aged Care Program is a more cost effective and viable model for specialised aged care delivery to Indigenous Australians when services are located in remote and very remote communities. A 25.8 per cent share of National Aboriginal and Torres Strait Islander Flexible Aged Care Program funding is allocated to services located in major cities and inner regional areas. To optimise recurrent funding decisions, it is important the Department of Health ensures that the existing service providers, their location and number of places, remain the most appropriate.

13. Given that the majority of Aboriginal and Torres Strait Islander people access aged care through Commonwealth Home Support Program, Home Care Packages Program and residential aged care programs, further work is required by the Department of Health to maintain the service continuity of Indigenous-focused service providers in areas where there are no culturally secure alternatives. The Department of Health has an opportunity to leverage its datasets to improve the targeting of sector support initiatives to Indigenous-focused services and to monitor the ongoing impacts of aged care policies and programs on Aboriginal and Torres Strait Islander people.

Supporting findings

Access and use of aged care services by Aboriginal and Torres Strait Islander people

14. Aboriginal and Torres Strait Islander people were most likely to access aged care services through the Commonwealth Home Support Program or the Home Care Packages Program, at rates consistent with their share of the aged care population. Fewer than one per cent of residential aged care places were taken up by Aboriginal and Torres Strait Islander people.

15. The Department of Health has created clear and consistent pathways for individuals to access and progress through the aged care system. The My Aged Care Contact Centre and website are the main entry points to the aged care system. Aboriginal and Torres Strait Islander people are encouraged to connect with the My Aged Care Contact Centre, and can call directly or use a trusted representative to speak on their behalf. Following an initial screening undertaken by Contact Centre staff, the Regional Assessment Service assesses older people's needs for lower intensity services available under the Commonwealth Home Support Program. Aged Care Assessment Teams assess the more complex needs of people requiring access to higher intensity care available under Home Care Packages, Transition Care, and within residential aged care.

16. A key challenge in targeting aged care services is assessing the eligibility of individuals seeking to access them as well as the scope of services. This can be particularly challenging in the

⁶ The Department of Health's sector support programs include the Service Development Assistance Panel, Rural Regional and Other Needs Building Fund, and viability and workforce supplements.

context of facilitating access for individuals in remote or very remote areas, including Aboriginal and Torres Strait Islander people.

17. The Department of Health advised the ANAO that it is working with the aged care sector to identify opportunities to improve client pathways for diverse groups, including Aboriginal and Torres Strait Islander people, to address the specific difficulties they may experience.

18. The Department of Health manages the planning and allocation of aged care residential places and Home Care packages for service providers based on the national planning benchmark, population projections and the current level of service provision. The Commonwealth Home Support Program and the National Aboriginal and Torres Strait Islander Flexible Aged Care Program are funded through a grants process.

19. Between 2012–13 and 2015–16 the number of Home Care Level 1–2 packages allocated to Indigenous-focused service providers has not grown at the same rate as those allocated to mainstream service providers. However, the growth in Home Care Level 3–4 package and residential place allocations to Indigenous-focused service providers have both been higher than for mainstream counterparts.

20. The distribution of the National Aboriginal and Torres Strait Islander Flexible Aged Care Program funding has remained largely unchanged since its inception. This is largely due to the continuation of grant agreements to existing services that have been in place over the life of the program. These arrangements limit the potential for new providers to access the program.

21. The Department of Health has developed operational manuals and/or guidelines to support providers in the delivery and management of aged care services for the programs reviewed as part of the audit. The Department of Health also funds two peak bodies to develop additional resources to assist with managing the change introduced by aged care reforms (including resources targeted towards remote and very remote Indigenous-focused service providers).

22. The Department of Health funds a Remote and Aboriginal and Torres Strait Islander Aged Care Service Development Assistance Panel (SDAP) to support aged care providers. ANAO consultations with Indigenous-focused service providers indicated that awareness of SDAP funding varied across states and territories. There would be benefit in the Department of Health raising the awareness of this assistance in a consistent manner across jurisdictions, and measuring the financial management and governance capacity that has been built and maintained among service providers as a result of having received the funding.

Administration and regulation of aged care services

23. The Department of Health has internal governance committees, templates and guidance to coordinate program administration. Health's state and territory offices have also adopted various local strategies for engaging with Indigenous-focused service providers. The department has commenced work to strengthen relationships between its National Office and its state and territory offices, to improve links between policy development and program implementation, while still allowing for specific approaches within each jurisdiction.

24. The Department of Health has developed an Enterprise Risk Management Plan that is updated annually as part of the department's business planning processes. Each of the programs reviewed as part of the audit included risk management (identification, analysis and evaluation) in its business processes. Risk is considered against the type of activity being funded and may result in different risk ratings being given to the same organisation across each activity or program being funded. For service providers that are funded under multiple programs, there is an opportunity for Health to implement a more coordinated approach that facilitates the timely sharing of relevant information across program areas.

25. The Australian Aged Care Quality Agency has developed policies, procedures and guidance materials to support the accreditation of residential aged care service providers, and specific policies for the quality review of Home Care Packages, Commonwealth Home Support Program and National Aboriginal and Torres Strait Islander Flexible Aged Care Program service providers. Documents reviewed by the ANAO demonstrate that the relevant accreditation and quality review procedures were followed internally.

26. The Australian Aged Care Quality Agency has collected information on assessments of all residential service providers against the accreditation standards. This information shows that between 2000-01 and 2015-16, 95 per cent of residential Indigenous-focused service providers had at least one episode of non-compliance, in comparison with 53 per cent of non-Indigenous-focused Residential service providers. Reported instances of non-compliance mostly related to governance, including regulatory compliance, risk management and human resources as opposed to issues relating to quality of care.

27. In 2014–15 the Australian Aged Care Quality Agency delivered 716 courses, seminars and compliance assistance training events to 10 638 participants from residential and Home Care service providers. Flexible service providers receive compliance assistance training as determined through a case management process. There would be benefit in the Australian Aged Care Quality Agency expanding the proposed cost recovery model to include the indirect and direct costs recovered from courses and workshops to be consistent with the Australian Government's stated policy intention, as well as the Australian Government Cost Recovery Guidelines.

Performance monitoring and reporting

28. The Department of Health does not monitor the access and use of Indigenous-focussed aged care services outside of the National Aboriginal and Torres Strait Islander Flexible Aged Care Program. This reduces the Department of Health's capacity to accurately monitor and report on the degree to which its programs and internal activities are meeting the expenditure objectives for Aboriginal and Torres Strait Islander ageing and aged care.

29. The Department of Health administers a viability supplement aimed at ensuring the continuity of small, specialised and rural aged care services. The provision of the viability supplement to eligible Indigenous-focused approved providers under the Home Care and residential programs has been well targeted and effective in supporting service continuity. The targeting of viability supplements to residential and mixed services under the Flexible program could be improved by refocusing funding away from major city and inner regional services.

30. The Department of Health does not conduct regular analysis of whether the Flexible Program is meeting its objectives. There would be value in the department aggregating reporting data more effectively to inform the ongoing policy direction of the Flexible Program.

31. ANAO analysis indicates that consistent with its intent and design, the Flexible Program has improved access to culturally secure aged care for Aboriginal Torres Strait Islander people (as noted in Chapter 2). For residential aged care, the Flexible Program is also a more cost effective and viable model for service delivery in remote and very remote locations. However, the majority of Flexible Program recurrent funding for residential aged care is allocated to services located in major cities and inner regional areas.

Recommendations

- Recommendation No.1**
Paragraph 2.43
- The Department of Health:
- (b) provide an opportunity for eligible existing Indigenous-focused aged care service providers, which are not currently funded under the National Aboriginal and Torres Strait Islander Flexible Aged Care Program, to access the available funding under this scheme; and
 - (c) apply a consistent assessment process to ensure that places allocated through the National Aboriginal and Torres Strait Islander Flexible Aged Care Program align with service provider capacity and are targeted to those service providers who will generate the greatest community benefit.

Department of Health response: *Agreed with qualification.*

- Recommendation No.2**
Paragraph 3.12
- The Department of Health implement a coordinated approach to risk management for providers who receive multiple sources of program funding, which combines the assessments and ratings from different program areas and is centrally located.

Department of Health response: *Agreed.*

- Recommendation No.3**
Paragraph 4.13
- The Department of Health monitor the number of:
- (d) Aboriginal and Torres Strait Islander people accessing Commonwealth funded aged care services; and
 - (e) Service providers that deliver aged care services to a significant number of Aboriginal and Torres Strait Islander people.

Department of Health response: *Agreed.*

- Recommendation No. 4**
Paragraph 4.50
- To ensure that the funding provided through the National Aboriginal and Torres Strait Islander Flexible Aged Care Program is appropriately targeted to services that will benefit most from the program's design and intent, the Department of Health:
- (f) regularly review the ongoing needs of the communities serviced by culturally secure service providers;
 - (g) develop performance indicators capable of measuring the achievement of cost effectiveness and viability objectives; and
 - (h) identify and communicate available sector support and pathways for service providers to enter and exit the program.

Department of Health response: *Agreed.*

Summary of entity responses

32. The Department of Health's summary response to the report is provided below.

I am pleased that the ANAO found the Australian Government-funded aged care services are largely delivered effectively to Aboriginal and Torres Strait Islander people, and the National Aboriginal and Torres Strait Islander Flexible Aged Care Program (Flexible Program) has been effective in increasing access to culturally appropriate aged care services for elderly Indigenous Australians. The report has identified areas for potential improvement, particularly with regard to re-establishing appropriate allocation and targeting of Flexible Program funding, risk management approaches and monitoring access to aged care services for Aboriginal and Torres Strait Islander people.

Corporate Planning in the Australian Public Sector 2016–17
[No.54 2016–17]

Comcare; the Department of Education and Training; the Department of the Prime Minister and Cabinet; the National Library of Australia and the Department of Finance.

Background

1. Performance reporting arrangements in the public sector have moved, over time, from a narrow focus on financial inputs, towards models designed to provide a clearer picture of the outcomes being achieved by government.¹ Appropriate and timely performance information strengthens accountability by informing the Parliament and government about the impact of policy measures. It also assists entities to manage programs and activities for which they are responsible and provides a basis for advice to government.

2. The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) which took full effect from 1 July 2014, underpins the implementation of the Australian Government's Enhanced Commonwealth Performance Framework (performance framework). The performance framework requires Accountable Authorities² to publish on their entity's website a corporate plan for the entity at least once each reporting period and to give that corporate plan to the responsible Minister and the Finance Minister. Corporate plans are intended to be the primary planning documents of Commonwealth entities and companies³ and represent the beginning of a performance cycle. The publication of a performance statement in the entity's annual report represents the end of the performance cycle.

3. Accountable Authorities are responsible for the implementation of the performance framework, including the corporate planning requirement. The Department of Finance (Finance) is responsible for whole-of-government administration of the resource management framework and related legislation. As part of its administration of this framework, Finance provides guidance and advice to entities on their obligations, as well as tools and training to assist their awareness and compliance.

Audit objective and criteria

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

¹ ANAO Audit Report No. 28 2012–13 *The Australian Government Performance Measurement and Reporting Framework: Pilot Project to Audit Key Performance Indicators*, p. 14.

² An Accountable Authority for a Commonwealth entity is generally the person or group of persons that has responsibility for, and control over, the entity's operations. Subsection 12(2) of the PGPA Act sets out the person(s) or body that is the Accountable Authority of a Commonwealth entity.

³ The policy intention, as expressed in the Explanatory Memorandum for the PGPA Act, was that "the corporate plan is the primary planning document of an entity, setting out the objectives and strategies the organisation is to pursue and the outcomes it hopes to achieve in the coming year. The plan should also explain how the resources of the entity will be used to achieve the relevant priorities of government". Source: Explanatory Memorandum, *Public Governance, Performance and Accountability Bill 2013*, p. 31. See also Department of Finance, *Resource Management Guide No. 132: Corporate plans for Commonwealth entities, July 2016*, pp. 4 and 8; and Department of Finance, *Resource Management Guide No. 133: Corporate plans for Commonwealth companies, April 2015*, p. 3.

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

- the selected entities' corporate plans were established as their primary planning document and outline how entities intended to achieve their purposes over the period of the plans;
- the selected entities' corporate plans met the minimum content and publication requirements of the PGPA Rule 2014⁴(PGPA Rule); and
- entities' supporting systems and processes for developing their corporate plans and monitoring achievements against their plans are mature.

6. The audit also reviewed actions taken by Finance in response to the ANAO's previous audit of corporate planning⁵ which identified a number of opportunities for improvement.

7. The audit involved:

- reviewing the corporate plans and supporting systems and processes of the following four entities: Comcare; the Department of Education and Training (Education); the Department of the Prime Minister and Cabinet (PM&C); and the National Library of Australia (NLA);
- interviewing staff and reviewing records in the four selected entities; and
- reviewing Finance documentation and interviewing Finance staff.

8. To assist in its review the ANAO developed an assessment matrix which is provided in Appendix 3 of the report. The scope of the audit did not include a detailed assessment of: the appropriateness of the performance measures included in entity plans; or entities' approach to managing specific risks.

9. This is the second in a series of performance audits which examine entities' implementation of the corporate planning requirement.

Conclusion

10. The four entities involved in the audit were at different levels of maturity in their implementation of the corporate plan requirements, with further work required in all entities to fully embed the requirements into future plans.

11. Only one entity had positioned its corporate plan as the primary planning document as intended by the framework. Another entity was working to do so. Two entities did not fully meet the policy intent.

12. The four entities are continuing to develop their processes for developing the corporate plan and two entities had developed arrangements for monitoring the implementation of their corporate plans. Two entities had less mature systems and processes for monitoring implementation.

13. Entities have completed two corporate plans under the PGPA Act arrangements. While these findings could be expected in view of the relatively early stage of implementation of the corporate plan requirement, it is disappointing that some entities are not moving more quickly to learn from

⁴ Sections 16E and 27A of PGPA Rule 2014 are reproduced at Appendix 2 of the report.

⁵ ANAO Audit Report No. 6 2016-17 *Corporate Planning in the Australian Public Sector* [Internet], available at <https://www.anao.gov.au/work/performance-audit/corporate-planning-australian-public-sector-2015-16> [accessed May 2017] was the first in the current series of audits which examines entities' implementation of the new corporate planning requirement. The previous audit reviewed: the supporting systems and processes for corporate plans in nine entities; and the Department of Finance's whole-of-government administration of the corporate planning requirement.

the lessons of the first cycle of corporate planning. More active attention from senior management is required to further embed the requirements in the third cycle of corporate planning.

Supporting findings

Corporate plans in Commonwealth entities

14. Comcare had established its corporate plan as its primary planning document and was using it to manage its business. The NLA was working to fully establish its corporate plan as its primary planning document. In Education and PM&C the corporate plan had not been fully established as the entity's primary planning document.

15. The quality and implementation of relevant entity systems and processes was variable. There remains scope for the selected entities to strengthen the systems and processes used for developing their corporate plans. A more structured approach would involve:

- implementation of a documented process and schedule for development of the corporate plan (all entities);
- better integration within the entity's broader planning framework (all entities);
- clearer definition of roles, responsibilities and accountabilities and the operation, as intended, of defined roles, responsibilities and accountabilities (all entities);
- development of strategies for more systematic engagement of stakeholders (all entities); and
- earlier and more systematic involvement of the entity's executive management in the corporate planning process (Education and PM&C).

16. Each of the selected entities met the minimum requirements for the publication of their corporate plans prepared for the 2016–17 planning cycle. Entity plans were provided to responsible Ministers and the Finance Minister as required, and placed on entity websites by 31 August 2016.

17. The selected entities included the six specific matters required by the PGPA Rule. These are an introduction and matters relating to the entity's purposes, environment, performance, capability, and risk oversight and management. There is scope for entities (Comcare, Education and PM&C) to add additional value to the corporate planning process by providing a summary of the risk oversight and management systems of the entity which also addresses the interaction of key system elements.

18. The content, interpretation and application of one mandatory process requirement—that four of the six of the minimum content requirements are required to cover the four reporting periods of the corporate plan—remains an issue for entities, notwithstanding the release of revised guidance from Finance in July 2016. The clarity of current requirements should be considered as part of the review of the operations of the PGPA Act and PGPA Rule to be conducted after 1 July 2017.⁶

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

- Purposes—by making purposes more readily identifiable (Education), and by providing a clearer statement of the intended outcome (NLA and PM&C).

⁶ This issue was also raised in the ANAO's previous audit of corporate planning (Audit Report No.6 2016-17, p. 13 and paragraphs 3.17 to 3.22). In that audit the ANAO further proposed, at paragraphs 3.10 to 3.16, that the review should examine the clarity of requirements relating to the inclusion of resourcing information and key entity risks.

- Environment—by better outlining the main factors that are both in control and beyond the control of the entity that are expected to impact the achievement of an entity’s purposes (all entities except NLA).
- Performance—by more clearly outlining how the entity intends to measure and assess its performance in achieving its purposes over the life of the plan (all entities except Comcare).
- Capability—by more clearly outlining the strategies to be followed in achieving the entity’s purposes over the life of the plan (all entities).
- Risk management and oversight—by outlining the key risks that impact the achievement of an entity’s purposes and explaining how its approach to managing risk will support the achievement of entity purposes (all entities).

20. The systems and processes established by entities for monitoring and reporting on achievements against corporate plans were at different levels of maturity. Comcare and the NLA had developed systems and processes to monitor the plan and report periodically to their senior management and Accountable Authority. In Education and PM&C, work has commenced to enhance the systems and processes used to monitor implementation of the plan and report on progress to the executive.

21. Roles, responsibilities and accountabilities for monitoring and reporting on the corporate plan were not clearly defined by the selected entities.

22. There is scope for improvement in respect to:

- the frequency of monitoring and reporting against the corporate plan, to establish it as the primary planning document and more effectively support senior management (Education and PM&C); and
- clarity of roles, responsibilities and accountabilities for monitoring and reporting (all entities).

Summary of entities’ responses

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

Comcare

Comcare supports the value of performance audits and the opportunity to participate in the Performance Audit, titled 'Corporate Planning in the APS 2016-17'. Comcare agrees with the majority of the findings, however, notes that difference in advice and feedback between the Australian National Audit Office and the Department of Finance's views in relation to the different years in the capability, risk and environment sections and Comcare's view is that they meet the minimum requirements of the PGPA rule.

This assessment has confirmed Comcare's approach of the four separate purposes to provide a unique method to clearly and concisely identify the internal structures that support our outcome statement. This has been a valuable exercise that has demonstrated the flexibility and adaptability of the corporate plan requirements, allowing for our corporate plan to provide an accurate and comparable insight into Comcare.

The insights provided by this report have identified a number of areas that Comcare can focus on in future planning. Comcare is committed to continuous improvement and looks forward to strengthening our 2017-18 Corporate Plan.

Department of Education and Training

The Department of Education and Training acknowledges the Australian National Audit Office’s (ANAO) report on Corporate Planning in the Australian Public Service 2016–17.

The findings highlighted in the ANAO audit will help contribute to strengthening the department's preparation of our 2017–18 Corporate Plan and our approach to corporate planning in the future. In particular, the department is already engaging with the senior leadership team and stakeholders to better define our purpose statement and to fully establish the corporate plan as our primary planning document in 2017–18.

Department of the Prime Minister and Cabinet

The Department of the Prime Minister and Cabinet (PM&C) supports the findings of the audit, including the ANAO's assessment that PM&C met the corporate plan requirement under the *Public Governance, Performance and Accountability Act 2013* for publication of the 2016-20 Corporate Plan.

PM&C will more formally establish the Corporate Plan as the primary planning document.

National Library of Australia

The National Library of Australia (NLA) acknowledges the supported findings and recommendations outlined in the report and believes they represent an accurate assessment of the NLA's maturity in implementing corporate planning requirements in 2016–17.

The NLA is making good progress to fully establish its corporate plan as the primary planning document. The Library is committed to continuous improvement in its corporate planning processes and the outcomes of this review have informed preparation of the 2017–21 corporate plan and will inform future plans, specifically to:

- strengthen the systems and processes for developing the corporate plan;
- improve the content of mandatory sections of the plan, including inclusion of performance measures in future plans; and
- strengthen processes for monitoring and reporting on the implementation of the plan.

Department of Finance

The Department of Finance supports the findings of the report.

Effectiveness of the Governance of the Northern Land Council
ANAO Report No.55 2016–17
Northern Land Council
Department of the Prime Minister and Cabinet

Background

1. The Northern Land Council (NLC) was established in 1974, to represent the views of Aboriginal people to the Federal Government’s Aboriginal Land Rights Commission inquiry into the recognition of Aboriginal land rights in the Northern Territory. Some two years later, recommendations in the second report of the Commission were enacted through passage of the *Aboriginal Land Rights (Northern Territory) Act 1976* (the Aboriginal Land Rights Act) that, among other things: delivered statutory powers and responsibilities to the NLC to assist Aboriginal people to acquire and manage their traditional land and seas; established the Aboriginals Benefit Account¹; and provided for the creation of Land Trusts.² The NLC is also a native title representative body, pursuant to the *Native Title Act 1993* (Native Title Act).

2. In March 2013, the report of an external review of the NLC’s governance framework identified a ‘fundamental breakdown in the governance framework at the NLC’, resulting in serious failings in almost all aspects of the council’s administration. On 27 February 2015, the NLC’s Chief Executive Officer and senior officials appeared before the Senate Finance and Public Administration Committee, following the Australian National Audit Office’s (ANAO’s) financial statements audits that found weaknesses in the NLC’s financial management and reporting. The committee was highly critical of the NLC’s progress in improving internal management systems.

Audit objective, criteria and scope

3. The objective of the audit was to assess the effectiveness of the governance of the Northern Land Council in fulfilling its responsibilities and obligations under the *Aboriginal Land Rights (Northern Territory) Act 1976*, *Native Title Act 1993* and *Public Governance, Performance and Accountability Act 2013*. To form a conclusion against this objective, the ANAO adopted high level criteria that the Northern Land Council’s:

- operations, through the Full Council, Regional Councils and Executive Council are effective in representing the interests of Aboriginal people in the region;
- administrative arrangements and systems—including documents management, human resources management and information and communications technology systems—support the council’s functions and delivery of services; and
- corporate planning and performance reporting are effective and meet legislative requirements.³

¹ The Aboriginals Benefit Account receives the equivalent of mining royalty moneys derived from mining operations on Aboriginal land in the Northern Territory, to be paid to Land Councils and Aboriginal people in the Northern Territory.

² In the Northern Territory an Aboriginal Land Trust is a statutory body under the Aboriginal Land Rights Act. Land Trusts hold title to the land for the benefit of Aboriginal people. Land Trusts act under direction of the Land Councils, which must have regard to the interests of, and shall consult with and obtain the consent of, Traditional Owners.

³ While focussing on the NLC, findings in this audit report may be relevant to other Land Councils.

Conclusion

4. The Northern Land Council is some two years into a wide-ranging reform agenda covering almost all aspects of the governance and administration of the council. While tangible improvements have been made to date to raise the standard of administration from a very low base, considerable work remains for the council to be administratively effective. Throughout the conduct of this audit, there was a notable energy and commitment from staff and managers to achieve the aims of the reforms over the longer term.

5. The NLC is improving its processes for representing the interests of Aboriginal people in the region, but more remains to be done to demonstrate that these processes are effective. The NLC has yet to implement measures to assess the performance of the Full Council, Regional Councils and Executive Council and of council members, in engaging with NLC constituents and representing their rights and interests. A review and restructure of the Secretariat branch aims to streamline and improve its support for the operation of the council, with a branch plan and performance indicators recently developed.

6. Subsequent to substantial criticisms about failed administrative processes, practices and controls, the NLC has commenced a range of initiatives to better support its functions and the delivery of services. These initiatives have included enhanced financial reporting capability and records management, and the establishment of a competent Audit Committee to oversee reforms across key corporate functions and policies. Some progress has been made in modernising the NLC's dysfunctional information and communications technology systems, with further improvements subject to available funding. Improvements in service delivery are supported by management and budget information that was not previously available to managers. The NLC could more effectively manage its reform agenda given the extent of the changes underway.

7. The NLC is improving its planning in line with requirements under the *Public Governance, Performance and Accountability Act 2013*, but it is still some way from developing a robust set of qualitative and quantitative performance indicators. The NLC's planning and performance reporting cycle could be better supported by an update of the funding process administered by the Department of the Prime Minister and Cabinet, to align it with the Commonwealth Performance Framework. In engaging with the department and government, the lack of a shared understanding of the extent of the use of powers, and the roles and responsibilities of the NLC, the department and the responsible Minister has not supported a strong and productive relationship between the various parties.

Supporting findings

Operation of the Council

8. The NLC is improving its representation processes but has collected insufficient information to demonstrate how effective representation has been in practice. In this regard, the council has commenced initiatives to monitor and assess councillors' performance, manage complaints and conduct stakeholder surveys that will potentially provide useful information on the effectiveness of its performance in representing the interests of the Aboriginal people in the region. However, the NLC has yet to implement an internal audit function to provide assurance that administrative processes and procedures are being followed. The council has been assessed by the Department of the Prime Minister and Cabinet as satisfactorily performing its functions as a native title representative body. The NLC has complied with some requirements under the *Aboriginal Land Rights (Northern Territory) Act 1976* for nominating councillors and conducting council meetings and is working towards full compliance.

9. The NLC has reviewed and restructured the Secretariat branch to streamline services to councillors and the Chief Executive Officer. Most recently, the outcome of a workshop held in late

March 2017 renamed the branch (to the Executive branch), better defined the responsibilities of each function within the branch, identified branch priorities, and developed a business plan and performance measures to assess the effectiveness of the branch in supporting the operations of the council. There was no business plan and few procedural documents from previous years upon which to base the work of the branch, going forward.

Administration and service delivery

10. The NLC's administrative arrangements do not yet effectively support the work of the council. Prior to 2015, the management and maintenance of core enabling functions, including information and communications technology systems, human resource management and records management was poor, with serious weaknesses in financial management, fraud control and the management of risk. Commencing in 2015, the council is implementing an extensive reform agenda across all administrative functions, with progress having been achieved in corporate planning and reporting, financial reporting and in internal governance through the operations of an Audit Committee. Other reforms, including in human resource and records management, are well underway with an overhaul of the council's information and communications technology systems in the early stages.

11. Commencing in 2015, the NLC is also implementing numerous reforms aimed at improving the delivery of services. Some reforms are weighted towards improving the efficiency and standard of services provided to stakeholders, particularly improvements in the administration of royalty payments, while others reflect specific goals set out in the NLC's *Strategic Plan 2016–20*. The NLC's leadership group is developing key result areas and associated performance measures for the services, to be incorporated in the 2017–18 planning and reporting cycle. Prior to the reforms now being implemented there was little by way of planning or coordination of service delivery, and no evidence of measures against which services could be assessed.

12. The NLC is achieving progress in implementing its reform agenda, but the pace and extent of the changes could be better supported by improved monitoring and coordination of the reform activities, and communication with staff.

Planning, performance and engagement

13. The NLC is working towards effective planning and reporting of performance. The NLC's planning framework consists of a strategic plan, corporate plan and branch business plans. While not fully refined, including to incorporate business plans and performance indicators at branch level, the NLC aims to complete the planning and reporting cycle at all levels of the organisation in 2017–18. The NLC has mostly met planning and reporting requirements in the *Public Governance, Performance and Accountability Act 2013* and enhanced Commonwealth Reporting Framework (2015), not meeting timeliness requirements to publish the plan. The NLC's planning, development and reporting of performance could be better supported by an update of the funding process for operational and capital expenditure, so that it aligns with the *Public Governance, Performance and Accountability Act 2013* and Commonwealth Performance Framework.

14. Some 40 years on from the Royal Commission, the NLC remains wary of government intent and of the bureaucracy, with respect to its independence in representing the views of its constituents. The relationship between the department, the responsible Minister and the NLC Executive is complex (given the statutory independence and the advocacy role of Northern Territory Land Councils) but it has not been defined, irrespective of recommendations that it should be. The establishment of biannual strategic forums in 2016, involving representatives from the Australian Government, Northern Territory Government and the Land Councils presents an opportunity to establish a more productive and collaborative relationship with the NLC.

Recommendations

Recommendation No. 1 To support the administrative and strategic reforms underway, the Northern Land Council:

Paragraph 3.68

- a) develops and maintains an action plan to monitor the progress of reform initiatives and projects; and
- b) develops a communication strategy to inform staff of the changes.

Northern Land Council's response: *Agreed.*

Recommendation No. 2 The Department of the Prime Minister and Cabinet, in consultation with the Northern Land Council, reviews the process for the provision of operational and capital expenditure under s.64(1) of the *Aboriginal Land Rights (Northern Territory) Act 1976*, to develop a funding framework that:

Paragraph 4.28

- a) supports the council in achieving outcomes linked to its strategic and corporate plans, and is aligned with the *Public Governance, Performance and Accountability Act, 2013*;
- b) provides for appropriate guidance on what is required in the council's funding submissions, transparency as to how bids are assessed, and an explanation as to funding decisions; and
- c) allows for certainty, where results are achieved, for funding certain activities beyond the current year.

Northern Land Council's response: *Agreed.*

Prime Minister and Cabinet's response: *Agreed.*

Entity responses

15. The summary response of the Northern Land Council is provided below.

Northern Land Council

The Northern Land Council (NLC) welcomes the Australian National Audit Office's report on the 'Effectiveness of the governance of the NLC'. Further, we accept the report's two formal recommendations.

The NLC has willingly co-operated with the audit, and the audit team has dealt with the NLC fairly throughout.

The council is pleased that the ANAO report acknowledges the extensive reforms that are being implemented across the whole organisation. The process of reform began with the arrival of Mr Joe Morrison as Chief Executive Officer in February 2014, and was on foot at the time of the Senate Finance and Public Administration Committee hearing in February 2015, which the audit report refers to at paragraphs 1.18 and 1.19.

The development and implementation of the reforms are still a work in progress, but the NLC feels proud that it is already a much more efficient and accountable organisation, and much better placed to serve its Aboriginal membership and constituents.

The ANAO's performance audit has been a worthwhile exercise; it has, in fact, proved to have been an aid to the NLC's reform process. We will continue to monitor the progress of the reform initiatives and the benefits which will flow from them.

**Pesticide and Veterinary Medicine Regulatory Reform
No.56 2016–17
Australian Pesticides and Veterinary Medicines Authority**

Background

1. Across Australia, over \$3 billion of agricultural chemicals, such as insecticides, herbicides and other pesticides, and veterinary medicines (together, agvet chemicals) are sold each year. The sale and use of these chemicals is regulated through a National Registration Scheme, which is established under Commonwealth, state and territory legislation. Under the scheme, the Australian Pesticides and Veterinary Medicines Authority (APVMA or the Authority) is responsible for regulating the supply of agvet chemicals up to the point of retail sale. The key regulatory activities that are undertaken by the APVMA include: assessing and registering agvet products; approving active chemical constituents; issuing permits and licences; monitoring compliance with registration, permit and licence conditions; and investigating suspected non-compliance.
2. In July 2014, a range of legislative reforms came into effect with the aim of improving the efficiency and effectiveness of the APVMA's regulatory activities. The legislative reforms were wide-ranging and required the Authority to introduce a range of new guidance and assessment procedures, administrative requirements, and timeframes.

Audit objective, scope and criteria

3. The objective of this audit was to assess the effectiveness of APVMA's implementation of reforms to agvet regulation and the extent to which the authority has achieved operational efficiencies and reduced the cost burden on regulated entities.
4. To form a conclusion against this objective, the ANAO adopted the following high-level criteria:
 - Have the regulatory reforms been effectively implemented?
 - Are regulatory activities being delivered with greater efficiency and reduced regulatory burden on industry?
 - Were sound governance arrangements established to support legislative and business process reform?

Conclusion

5. The Australian Pesticides and Veterinary Medicines Authority's implementation of agvet chemical legislative reform has been mixed. While key legislative reforms were implemented by the legislated timeframe of July 2014, the full scope of the reform program is yet to be implemented more than four years since the legislative amendments were developed. Further, the Authority is not well placed to determine the extent to which reform objectives have been met in the absence of a robust set of performance measures. There is considerable scope for the APVMA to improve its management of major reform projects, particularly in the context of the Government's decision to relocate the Authority over the next two years.
6. Projects to support the delivery of key reforms with legislated deadlines—the provision of enhanced guidance to industry, the establishment of pre-application assistance, and the introduction of an online application lodgement system—were prioritised by the APVMA and delivered on time. However, project outcomes required ongoing remediation. Reforms that did not have legislated deadlines for implementation, such as the risk-based regulatory framework and

upgrades to internal IT systems to support the achievement of legislative objectives, are yet to be completed. The ongoing assessment of agvet product and chemical applications in the post-reform period has not been supported with fit-for-purpose workflow management systems and a robust quality control framework.

7. The APVMA has not established a robust performance measurement framework to measure the effectiveness of the reform program in achieving greater efficiency of its activities and in reducing the regulatory burden on industry. While performance measures that have been established by the Authority provide insights into the delivery of regulatory activities—for example the timeliness of decision-making—they do not clearly indicate the extent to which reform objectives are being achieved. The limited performance information retained by the APVMA indicates that it has not achieved greater efficiencies in the delivery of its regulatory activities and, overall, the regulatory burden on industry has not been reduced since the reforms were implemented.

8. The APVMA's governance of the delivery of the reform program was not effective, with significant weaknesses in oversight, planning and risk management arrangements. In particular, the absence of an up to date implementation plan meant that committees established to oversee the implementation of the reform program were not well placed to effectively monitor the progress of projects and hold project managers to account. Further, while implementation risks were considered at an individual project level, they were not aggregated and integrated into an overarching risk management framework. Additionally, engagement with industry in relation to the reform program was undertaken when operational changes were yet to be finalised, which ultimately limited its effectiveness.

Supporting findings

Implementation of the reform program

9. The APVMA implemented key regulatory reforms in accordance with legislated delivery timeframes. The Authority reviewed, reprioritised and re-scoped its reform projects on a number of occasions over the course of implementation to target its efforts towards the minimum legislative requirements of the reform program. Weaknesses in project monitoring, however, meant that the APVMA lacked a clear picture of the extent to which all reform related work had been completed.

10. Key reforms, such as the provision of guidance to industry, pre-application assistance and online application lodgement, did not meet industry or internal business requirements when first implemented. The APVMA has recognised weaknesses in its arrangements for the delivery of these reforms and has undertaken remedial work to improve their effectiveness. The Authority has also revised its governance arrangements for the management of major projects.

11. The APVMA has made progress towards the establishment of a risk-based approach to the delivery of its regulatory activities including the introduction of notifiable variations for administrative registration changes and the establishment of a risk-based prioritisation process for chemical reviews. However the Authority has further work to do as it is yet to implement a risk-based assessment decision framework to target its regulatory activities.

12. While assessment decisions are, in the main, appropriately documented and based on sound evidence, they are not timely—forty per cent of the assessments examined by the ANAO were completed outside the statutory timeframes for decision-making. The establishment of a robust assurance framework for decision-making would better place the Authority to determine whether assessments are being conducted in a consistent manner and in accordance with legislated requirements.

Reform outcomes

13. The APVMA has established a corporate planning framework based on performance strategies, key result areas and performance measures. These measures established by the APVMA cover a broad range of activities but in aggregate do not enable a robust and well-rounded assessment of overall performance over time. The Authority has established appropriate monitoring arrangements in relation to the timeliness of assessments, with improved reported performance in the period 2014–2016, followed by a decline in the six months to March 2017. These fluctuations in the timeliness of assessments have taken place while a backlog of overdue assessments has grown during 2016.

14. The APVMA has not demonstrated greater efficiencies in the delivery of regulatory activities following its implementation of the regulatory reform program. While the Authority has not established a robust means to assess the extent to which efficiencies have been achieved, the ANAO's analysis of available performance data and industry feedback indicates a decline in efficiency since 2014.

15. Overall, feedback provided by industry stakeholders indicates that the regulatory burden on industry has not reduced following the implementation of regulatory reform, while noting some improvements in relation to individual measures such as pre-application assistance and online lodgement. The absence of specific performance measures to assess regulatory burden makes it more difficult for the APVMA to ascertain changes in regulatory burden arising from the roll-out of reform initiatives.

Governance arrangements

16. The oversight arrangements to monitor the implementation of the reform program were not effective. The APVMA's governance forums lacked continuity and did not facilitate assurance on the progress of work, ultimately contributing to poor or incomplete implementation outcomes for some projects.

17. The APVMA did not establish an effective planning framework to guide the implementation of the reform program. In the absence of such a framework, the numerous governance committees that were established over the course of reform program implementation lacked an appropriate basis on which to oversee progress and hold project managers to account.

18. The risks to the effective implementation of the reform program were poorly managed by the APVMA. While an appropriate risk management framework is in place, high level business risk reviews were not conducted regularly and risks to the implementation of the reform program were not adequately managed. Further, risk management at the individual project level was inconsistent and treatments for risks in relation to the retention of staff capability have not been effective.

19. Industry stakeholders were engaged during the implementation of the reform program via a range of information and training sessions, but delays in the finalisation of reform projects limited the extent to which specific changes at the operational level were communicated. The feedback provided by industry stakeholders to the ANAO on the APVMA's engagement approach was mixed.

Recommendations

Recommendation No. 1
Paragraph 2.47 The Australian Pesticides and Veterinary Medicines Authority should implement an internal quality framework to provide an appropriate level of assurance that its assessments are undertaken in a consistent manner and made in accordance with agvet chemical legislation.

Australian Pesticides and Veterinary Medicines Authority's response: *Agreed.*

Recommendation No. 2
Paragraph 3.28 The Australian Pesticides and Veterinary Medicines Authority should establish and monitor an appropriate set of measures and targets to assess the extent to which it is improving the effectiveness and efficiency of its regulatory activities through its ongoing reform agenda.

Australian Pesticides and Veterinary Medicines Authority's response: *Agreed.*

Recommendation No. 3
Paragraph 4.14 The Australian Pesticides and Veterinary Medicines Authority should improve its governance of the implementation of major reforms, including the maintenance of an oversight body with clearly defined responsibilities and robust project monitoring arrangements.

Australian Pesticides and Veterinary Medicines Authority's response: *Agreed.*

Recommendation No. 4
Paragraph 4.38 The Australian Pesticides and Veterinary Medicines Authority should implement a structured and systematic approach to identifying and responding to emerging business risks.

Australian Pesticides and Veterinary Medicines Authority's response: *Agreed.*

Summary of entity response

20. The APVMA's summary response to the report is provided below.

The agency welcomes the audit by the ANAO of the effectiveness of implementation of reforms to agricultural and veterinary (agvet) chemical regulation which came into effect in July 2014. The agency acknowledges the findings and areas for improvement identified in the ANAO Report. The agency notes, however, that for the scale of reform undertaken the implementation timeframes were challenging and resourcing required to fully deliver within these timeframes was limited.

The agency notes the transition from pre-July 2014 to post-July 2014 reform arrangements was achieved without significant disruption to service delivery and involved an ongoing program of business improvement. Having moved through the transition period, the reforms were moving into a more mature phase of implementation in mid-to-late 2016, with 78 per cent of product applications processed within timeframe in the June quarter 2016 and 83 per cent in the September quarter 2016.

The agency accepts all four recommendations with action already taken or underway to implement improvements consistent with the recommendations. This includes improvements in quality assurance processes for application assessment; better documentation of business processes to support consistency; and strengthening risk management, governance and performance monitoring frameworks. The agency is also implementing a major program of business process reform to improve the efficiency of its service delivery.

Department of Health's Coordination of Communicable Disease Emergencies
ANAO Report No. 57 2016–17
Department of Health

Background

1. Outbreaks and epidemics of communicable disease can cause enormous social and economic disruption. In 2003, severe acute respiratory syndrome spread across four continents and cost the global economy between US\$13 billion and US\$50 billion.¹ The 2009 H1N1 influenza epidemic killed between 151 700 and 575 000 people worldwide, with 37 000 Australian cases resulting in over 5 000 hospitalisations and nearly 200 deaths.

2. In Australia, state and territory governments are primarily responsible for managing communicable disease emergencies within their respective jurisdictions. The Commonwealth Department of Health (Health) may become involved when a national response is required, and its primary role is one of coordination.

Audit objective and criteria

3. The objective of the audit was to assess the effectiveness of Health's strategies for managing a communicable disease emergency.

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

- Health has a robust framework in place to prepare for a potential communicable disease emergency; and
- Health has effective arrangements in place to respond to a communicable disease emergency.

Conclusion

5. Health responded effectively to the three communicable disease incidents examined. The department has developed strategies to manage its coordination role for communicable disease emergencies and collects sufficient information to identify communicable disease incidents. The systems and processes that support the strategies could be improved.

6. Health's communicable disease plans do not clearly define in what circumstances and to what extent the department will become involved in a communicable disease emergency and Health's administrative process and public communications could be improved. The department has made progress towards addressing approximately half of the lessons learnt through previous communicable disease emergency reviews and responses, but does not record or assess its progress towards implementation.

¹ C Castillo-Chavez, R Curtiss, P Daszak, S A Levin, O Patterson-Lomba, C Perrings, G Poste, S Towers, *Beyond Ebola: lessons to mitigate future pandemics*, The Lancet, Volume 3, July 2015.

Supporting findings

7. Health has developed communicable disease plans, a risk plan and has identified potential improvements to communicable disease preparedness that are outlined in the National Framework for Communicable Disease Control. The risk plan does not identify the areas that require improvement.
8. Health has systems and processes in place, and collects information from a range of sources, to identify communicable disease incidents.
9. Health's guidance material is not current and comprehensive and its communicable disease incident management systems do not provide Health with assurance that incidents are managed effectively.
10. Health conducts tests and exercises to determine its level of preparedness but does not have a structured process to ensure that lessons from tests, exercises, responses and reviews are implemented.
11. The Emergency Response Plan for Communicable Disease Incidents of National Significance is the key governance document specific to communicable disease emergencies, but it does not clearly articulate the circumstances in which Health will respond to a communicable disease incident. The terminology used to describe communicable disease emergencies and the events that trigger a national response vary across different governance documents.
12. Health has effectively coordinated a response for three recent incidents. However, Health's processes are not always timely or well documented when transitioning through the response stages.
13. Health's primary means of communicating with the public about communicable disease is through its website. The website contains out-of-date information, and does not always provide relevant information about communicable disease in a timely manner.
14. Health has addressed or partially addressed approximately half of the relevant recommendations and lessons learnt from five recent reviews relevant to communicable disease emergencies. Health has not developed a plan to monitor their implementation.

Recommendations

Recommendation No.1 Paragraph 2.33	Mandate the use of an effective incident management system to manage communicable disease incidents and notifications. Department of Health's response: <i>Agreed</i>
Recommendation No.2 Paragraph 3.30	Ensure Health's public communication regarding communicable disease incidents is consistent, accurate and timely. Department of Health's response: <i>Agreed</i>
Recommendation No.3 Paragraph 3.34	Develop a process to record, prioritise and implement lessons and agreed recommendations from tests, exercises, communicable disease emergency responses and relevant reviews. Department of Health's response: <i>Agreed.</i>

Summary of entity response

15. The Department of Health's summary response to the report is provided below.

I am pleased that the ANAO found that Health has developed strategies to manage its coordination role for communicable disease emergencies and that it responded effectively to the three communicable disease incidents examined. The report also concluded that Health is able to detect communicable disease incidents, a critical first step to managing a response.

The report has highlighted important areas for improvement in order to strengthen the systems and processes that support response strategies, particularly with regard to ensuring that the documentation of processes is comprehensive and timely, and that a process for implementing lessons learnt from tests, exercises, responses and reviews is in place. The report identified that the Communicable Disease Plan could better describe the circumstances in which Health will get involved in an emergency and Health acknowledges that this new emergency response plan is still being trialled and refined, and that roles and responsibilities and language could be further developed.

Health acknowledges public communications is a critical component of emergency response.

The timeliness of this information is given a high priority during a response; however, Health agrees that improvements could be made when a response is stood down.

The Department of Health's implementation of the ANAO's recommendations will further ensure that the Australian Government is able to provide effective coordination of the prevention, preparedness, detection and response activities of communicable disease emergencies.

**Implementation of the Annual Performance Statements Requirements 2015–16
No.58 2016–17**

Australian Federal Police, the Department of Agriculture and Water Resources and the Department of Finance

Background

1. Performance reporting frameworks have been in place in the Australian public sector for several decades, to enable the measurement and assessment of the impact of government programs. The current performance measurement and reporting requirements for Commonwealth entities are established under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the accompanying *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule). These are supported by the enhanced Commonwealth performance framework, which took effect on 1 July 2015.
2. The framework aims to provide financial and non-financial information to the public, and improve the line of sight between the use of public resources and the results achieved by government entities. It differs from previous frameworks in that it broadens the performance information collected and reported by entities, and introduced the requirement for entities to publish corporate plans at the beginning of each reporting period. The framework also introduced the requirement for entities to publish annual performance statements in their annual report. Annual performance statements provide an assessment of entities' progress in achieving their purpose/s, as set out in their corporate plans and aligned to the Portfolio Budget Statements.
3. Portfolio Budget Statements, which are updated throughout the year¹, are required to describe at a strategic level, the outcomes intended to be achieved with the funding appropriated by the Parliament. The performance criteria presented in the Portfolio Budget Statements are required to be a strategically focused subset of the performance information reported in an entity's corporate plan.² This positions corporate plans as the primary document for setting out an entity's planned non-financial performance and provides the reader with an understanding of how this will be measured and assessed.
4. The Department of Finance (Finance) is responsible for the whole-of-government administration of the enhanced Commonwealth performance framework, and related legislation. Accountable authorities³ are responsible for the implementation of the framework within their entities. To assist entities in implementing the enhanced Commonwealth performance framework, Finance has provided various forms of guidance and support.
5. The ANAO plays a role in advising the Parliament, and the Joint Committee of Public Accounts and Audit (JCPAA), on the implementation of the reforms to the enhanced Commonwealth performance framework. One aspect of this role includes undertaking audits to provide feedback on, and influence the development, implementation and operation of, an effective performance framework.

¹ A Portfolio Budget Statement is produced for every appropriation bill where a Commonwealth entity within a portfolio is appropriated an amount by the Parliament. Department of Finance, *Resource Management Guide No. 134: Annual Performance Statements*, July 2016, p. 3.

² The Finance Secretary Direction, issued on 24 February 2016, sets out that entities' 2016–17 Portfolio Budget Statements must include at least one high level performance criterion for existing programs, and all performance criteria for new, or materially changed existing programs.

³ An accountable authority for a Commonwealth entity is generally the person or group of persons that has responsibility for, and control over, the entity's operations. Sub-section 12(2) of the PGPA Act sets out the person(s) or body that is the Accountably Authority of a Commonwealth entity.

6. The Auditor-General's responsibilities, as set out in the *Auditor-General Act 1997*, include auditing the annual performance statements of Commonwealth entities in accordance with the PGPA Act. The PGPA Act does not require the Auditor-General to conduct annual audits of performance statements unless requested by either the Minister for Finance or the responsible minister. This means that the Parliament does not receive assurance, as a matter of course, on performance statements included in annual reports, as it does over financial statements, where an independent audit is mandatory.

7. The ongoing implementation of the Commonwealth's resource management framework, including the enhanced performance framework, will continue to be a focus in future ANAO audit work programs.

Audit objective and criteria

8. The objective of the audit was to examine the implementation of the annual performance statements requirements under the PGPA Act and the enhanced Commonwealth performance framework.

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

- the selected entities met their obligations to publish annual performance statements;
- the performance criteria were appropriate and were reported against in the selected entities' performance statements for 2015–16;
- the selected entities had effective supporting frameworks and processes to gather, assess, assure and report information included in their annual performance frameworks; and
- sufficient records were retained to support the results reported by the entities against their non-financial performance measurement frameworks.

10. The ANAO reviewed one purpose in the 2015–16 performance statements of the Australian Federal Police and the Department of Agriculture and Water Resources (the selected entities), including the supporting systems and processes.

11. This performance audit is one of three audits in the ANAO's current work program that address key aspects of the implementation of the PGPA Act. These audits have been identified by the JCPAA as priorities of the Parliament. This will assist in keeping the Parliament, government and the community informed on implementation of the resource, risk and performance management frameworks introduced by the PGPA Act.

Conclusion

12. The Australian Federal Police (AFP) and the Department of Agriculture and Water Resources (Agriculture) met the minimum requirements for the preparation and publication of the first annual performance statements under the PGPA Act and the PGPA Rule. For both entities, the performance statements included reporting against the entities' purposes, activities, and performance criteria reviewed as part of the audit.

13. The performance criteria were mostly relevant to the activities undertaken by the selected entities. Alignment of entity activities to performance criteria and measurement of the attribution of specific activities to the achievement of the entities' purposes could be enhanced.

14. Both entities' performance criteria mostly provided a reliable method of assessing the entities' progress in fulfilling their purposes. Addressing any potential bias in the reported results should also be considered. In addition, describing the methodology for measurement and basis for assessment, including through a target or baseline, needs to be addressed to improve the reliability of the entities' performance criteria.

15. As a whole, the performance criteria for both entities were substantially complete, collectively providing a balanced basis for assessing the entities' progress in fulfilling their purpose/s. The selection of performance criteria will require ongoing effort by both entities to identify opportunities to clarify or increase the overall alignment of performance criteria to the purpose. The entities' balance of performance criteria—for example qualitative, quantitative efficiency-focused and short, medium and long term timeframes—should be reviewed.

16. Both entities established or adapted existing systems and processes to meet the requirements of the PGPA Act and the PGPA Rule. These remained in development during the audit, with further work being undertaken in 2016–17, to support the quality of information reported in future performance statements.

17. The selected entities established assurance processes to certify that the reported performance information accurately reflected entity performance. Planning and assurance processes for the entities should mature over time. As part of this process entities should give further consideration to the role and function of their respective audit committees, to ensure that the intent and requirements of the framework are met, as neither audit committee could fully demonstrate compliance with the PGPA Rule.

18. The majority of results presented in the selected entities' annual performance statements were supported by complete and accurate records as required by the PGPA Act and PGPA Rule. Both entities could improve record-keeping to better demonstrate the calculations and analysis applied to raw data to produce results, and to support the analysis in the annual performance statements.

Supporting findings

Measurement and reporting of performance

19. Both of the 2015–16 performance statements reviewed as part of the audit complied with the PGPA Act and the accompanying Rule, in relation to their publication. The performance statements were published as part of the entities' 2015–16 Annual Reports. They included the required statements, results and analysis against the performance criteria outlined in the corporate plan and Portfolio Budget Statements reviewed as part of the audit.

20. The analysis section of both entities' annual performance statements included some consideration of the entities' operating environment and were supported in some cases by case studies and trend information. However the quality of the analysis could be improved, in particular, by providing further discussion of how the entities' activities, through the results of the performance criteria, had contributed towards the achievement of their purpose/s and the external factors which impacted performance.

21. Both entities built on their existing external performance measurement and reporting framework, to meet the requirements of the enhanced Commonwealth performance framework under the PGPA Act. The information published by the entities in their corporate plan and Portfolio Budget Statements provides a foundation for reporting in the annual performance statements, although there was scope for both entities to improve how material was presented to achieve a clearer 'line of sight'.

22. The performance criteria reviewed as part of the audit enabled the reporting of, and accountability for, the progress of each entity towards fulfilling their purposes.

23. The performance criteria for both entities were mostly relevant, providing a basis to make decisions on the entities' progress in fulfilling their purposes. One of the AFP's performance criteria required improvements to assist the reader to identify the benefit or beneficiary measured by the performance criterion and its link to the AFP's activities. Agriculture's performance criteria were mostly relevant, however the benefit or beneficiary was often not clear, or the focus of the measure was not clearly attributable to the entity.

24. The performance criteria for both entities were mostly reliable, providing a basis for reasonably consistent assessment of the entities' progress in fulfilling their purposes. Improvements to two of the AFP's performance criteria are required to limit the level of potential bias in the reported results. The majority of Agriculture's performance criteria did not describe the method or basis for measurement, or provide a target or baseline, impacting the reliability of the performance criteria.

25. As a whole, the performance criteria for both entities were substantially complete, collectively providing a balanced basis for assessing the entities' progress in fulfilling their purpose/s. To improve the completeness of the performance criteria, the selection of performance criteria will require ongoing effort by both entities to identify opportunities to clarify or increase the overall alignment of performance criteria to the purpose, and present a greater balance of performance criteria across the different forms of performance information and their timeframes.

Systems and processes to support performance measurement and reporting

26. Each entity adapted pre-existing processes for the preparation of the Annual Report, to facilitate the coordination and collation of information for the annual performance statements. In addition, both entities developed a project plan outlining the roles and responsibilities, risks and mitigating controls, milestones for delivery, and assurance mechanisms to guide the preparation of the performance statements. Neither entity completed a comprehensive pre-assessment of the processes of producing performance statements as part of their planning. The incremental development of performance reporting by both entities was focused on identifying lessons learnt.

27. Both entities had established, or leveraged from existing systems and methodologies to collect and report performance information for the purposes of the annual performance statements. The AFP would benefit from considering the frequency and extent of reviews of the methodology supporting one performance criterion, and strengthening processes for the validation of information sourced outside of management systems. Further consideration of data availability is required by Agriculture to establish a system to support the consistent collection, analysis and reporting of non-financial performance information.

28. Processes were established by both entities to provide assurance that the results reported in the annual performance statements were an accurate representation of performance. Further refinement of these arrangements is required by the entities. This would include documenting: guidance on the assurance process; and the review and endorsement of the annual performance statements to ensure that evidence of management and audit committee assurance is recorded and retained.

29. Each entity relied on management certifications over the selected performance criteria and the completeness and accuracy of underlying records. The entities' audit committees also received regular briefings on the preparation of the annual performance statements, including details on the management certification processes. Additionally, Agriculture's audit committee commissioned an internal audit on the Key Performance Indicators (performance criteria) and Performance Reporting, to inform the committee's review responsibilities. The audit committee also monitored the implementation of key recommendations. However, the audit committee's sign off to Agriculture's accountable authority was limited, and did not meet the requirements of the department's audit committee charter or the PGPA Rule and its intent. The AFP was unable to locate the final certification by its audit committee to the accountable authority over the performance statements, limiting an assessment against the audit committee charter, or the PGPA Rule and its intent.

30. There would be benefit in both entities further considering the role of the audit committee as a source of independent assurance to the accountable authority and how their audit committee charters and processes establish a basis to provide this assurance. The PGPA Rule provides that an audit committee's functions must include reviewing the appropriateness of an accountable authority's performance reporting. This function would necessarily involve the committee forming a view on how the entity should measure its performance. As a result, an audit committee's charter, and any

certification by the audit committee to an accountable authority discharging their performance reporting function, should reflect this requirement.

31. Records were largely available and supported the results and analysis sections reported in the annual performance statements for both entities. The AFP maintained complete and accurate records for all but one measure. Agriculture was unable to provide complete records for one performance criterion, and relied on an absence of advice as confirmation of compliance for another. Both entities could further improve record-keeping to demonstrate the calculations and analysis applied to raw data to produce results, and to support analysis in the annual performance statements.

Opportunities for improvement and key learnings

32. The ANAO recognises that this is the first year of published performance statements under the PGPA Act and has taken this into account in the conduct of this audit. It is expected that entity processes will take some time to mature. On this basis the ANAO has not made any recommendations in this audit, but has highlighted a range of matters which warrant further attention by the Australian Federal Police and the Department of Agriculture and Water Resources.

33. In addition, guidance from Finance is being incrementally updated as lessons are learnt, through its role as policy owner in the Commonwealth. The need for further clarity in guidance, in particular for audit committees, has been acknowledged by the Department of Finance in recent discussions with audit committee chairs.⁴ Finance has previously advised the JCPAA that section 112 of the PGPA Act provides for an independent review of the framework in 2017.⁵ This review of the framework would include the PGPA Act and the rules, and presents an opportunity for Finance to further consider the accompanying guidance.

34. Below is a summary of key learnings identified in this audit report that may be considered by other Commonwealth entities in preparing their annual performance statements.

⁴ Department of Finance presentation and discussion, Audit Committee Chairs Forum, 7 June 2017.

⁵ Joint Committee of Public Accounts and Audit, *Report 457 Development of the Commonwealth Performance Framework— Second Report*, p.4.

Box 1: Key learnings for all entities

Presentation of results and analysis

- Presenting results alongside established targets, and providing comparisons to results from previous years or references to related indicators and results, can assist the reader in assessing performance.
- The analysis section of the performance statements provides entities the opportunity to supplement the reported results with contextual information. This can enhance the reader's understanding of the environment within which the entity operates and the contributions that it makes.

Purposes and activities

- Clearly identifying and grouping activities can assist the reader to assess the alignment of the performance criteria with the entity's purpose. This provides the basis for a clear read between the corporate plan and the performance statements.

Relevance, reliability and completeness of performance criteria

- Relevant performance criteria should clearly align to an entity's purpose and activities, indicate who will benefit from the related activity and how, and be understandable to readers.
- Reliable performance criteria should be measurable, disclose the method or basis for assessment such as a target or benchmark, and not lead to biased results.
- Complete performance criteria should collectively address the entity's purpose, and provide a balanced examination of the entity's effectiveness and efficiency across the different forms of performance information and their timeframes.

Systems, processes and methodologies

- The enhanced Commonwealth performance framework provides entities the opportunity to apply a fit for purpose approach to their performance measurement. This principle should be kept in mind by entities in designing or reviewing their own processes to inform the preparation of the annual performance statements.
- Entity processes should support the complete cycle of performance measurement and reporting. This would reflect the preparation and publication of the Portfolio Budget Statements, corporate plans, performance statements and annual reports, evaluating lessons learnt and incorporating these into the following cycle to contribute to continuous improvement.
- Where appropriate, entities should consider how existing IT systems and controls can be leveraged from to support performance reporting. This would include clearly documenting any calculations or analysis applied to data drawn from systems to enable recalculation.

Assurance processes

- A check list is a useful tool to assist entity management representatives to understand the detailed considerations expected, including the level of evidence required, to support a certification of performance criteria and accompanying results.
- An audit committee's charter, and any certification by the audit committee to an

Box 1: Key learnings for all entities

accountable authority discharging their performance reporting function, should clearly reflect the PGPA Rule and its intent.

Record-keeping

- To ensure appropriate access to supporting records for future years, entities may consider establishing a centralised repository.
- Clearly document and retain records detailing the methods used for calculations and analysis to reach the result reported in the annual performance statements to enable recalculation.

Summary of entities' responses

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

Department of Finance

The Department of Finance supports the findings of the report.

Australian Federal Police

The AFP welcomes the ANAO's findings and acknowledges the assessment provided on the performance statement and on processes and systems related to performance measurement and reporting. The consolidated list of key learnings in the report will be useful for continued improvement.

This audit has assisted the AFP to focus efforts in ongoing performance measurement reform across the entire cycle of planning, monitoring, analysis and reporting.

The AFP will continue active participation in the Department of Finance performance community of practice and also maintain a localised law enforcement performance group to promote best practice.

Department of Agriculture and Water Resources

The Department of Agriculture and Water Resources 2015–16 annual performance statements were the first prepared under the enhanced Commonwealth Performance Framework. The department's work under the framework is an evolving process and, as acknowledged in this report, the department has already made a range of changes to its performance framework. This audit has been an opportunity to identify further improvements.

The department agrees with most of the ANAO's findings indicating areas in which its performance measurement and reporting can be improved. These findings will inform its continued efforts.

The department does not accept the finding that its Audit Committee did not meet the requirements of its charter, or the requirements and intent of the PGPA Rule, in providing assurance of the certification process.¹ The committee undertook a range of work to meet its charter, and the department considers the assurance provided was consistent with advice from the Department of Finance on the role of audit committees in the certification process.² The department is committed to establishing processes to ensure the Audit Committee meets the requirements of the PGPA Rule.

ANAO comments on the Department of Agriculture and Water Resources' summary response

1. The Audit Committee's Charter required the committee to review and provide independent advice and assurance about the appropriateness of the department's performance reporting. The ANAO concluded that the advice provided to the Accountable Authority by the Audit Committee did not provide assurance about the appropriateness of the department's performance reporting.

2. The Department of Finance has acknowledged the need for further clarity in guidance to audit committees.

myGov Digital Services
No.59 2016–17
Department of Human Services
Digital Transformation Agency
Australian Taxation Office

Background

1. The myGov digital service (myGov) is an entry portal for individuals to access the services of participating government entities. It was launched in May 2013 to provide individuals with secure online access to a range of Australian Government services in one place. It was expected to provide a whole-of-government digital service delivery capability and to improve the experience for individuals who choose to self-manage their interactions with government services. The four year myGov project (2012-13 to 2015-16) was to provide:

- a single username to access member services¹;
- search ability to identify available government services;
- the ability to notify multiple services about changes of personal contact details;
- the ability to submit data online to validate facts, including for proof of identity; and
- lower costs and more timely communications from services via a digital mailbox.

2. The Digital Transformation Agency is responsible for myGov service strategy, policy and user experience.² The Department of Human Services (Human Services) is responsible for administering and hosting myGov, including processes and procedures for system development and testing, security and operational performance.

3. By November 2016, myGov supported nearly 11 million active accounts and 10 member services.³

Audit objective and criteria

4. The objective of the audit was to assess the effectiveness of the Department of Human Services' implementation of myGov as at November 2016. To form a conclusion against this objective, the ANAO adopted the following high level audit criteria:

- suitable governance arrangements were in place;
- myGov delivered a whole-of-government online service delivery capability;
- myGov improved service delivery for individuals;
- myGov provided an adequate level of performance, security and privacy; and
- myGov delivered value for money.

¹ 'Member services' are government programs that offer online services through myGov.

² In October 2016, the Hon. Angus Taylor MP, Assistant Minister for Cities and Digital Transformation, announced the establishment of the Digital Transformation Agency. The Agency would absorb the Digital Transformation Office that was set up in July 2015.

³ The member services available to individuals as at November 2016 were: Human Services' Centrelink, Medicare, and Child Support; Australian Taxation Office (ATO); Australian Digital Health Agency's My Health Record; Department of Veterans' Affairs (DVA) My Account; National Disability Insurance Scheme; Department of Employment's Australian JobSearch; Department of Health's My Aged Care; and the Victorian Government's Housing Register Application.

Conclusion

5. The Department of Human Services' implementation of myGov as a platform to deliver whole-of-government online services has been largely effective.

6. Fit-for-purpose strategic and operational governance arrangements operated for the first three years of the myGov project, followed by a one year gap in strategic governance when interim arrangements had a largely operational focus. This gap was addressed in July 2016 with the re-establishment of a strategic governance board.

7. There were 9.5 million user accounts registered in myGov by the end of the four year project—nearly double the business case forecast of 5.1 million. myGov has contributed to improved delivery of government services for individuals by providing three key functionalities—single digital credential, Update Your Details and Inbox—to reduce the time spent transacting with government. Several requirements to improve usability have only recently been implemented and a small number of requirements are yet to be delivered. As at November 2016, there were ten government services available through myGov. While it is not mandatory for member services to participate in myGov, the effectiveness of myGov as a whole-of-government capability has been hampered by government services not joining myGov and not fully adopting the myGov functionalities.

8. Since late 2015, the myGov platform has been hosted on high-availability infrastructure, which has improved performance, especially during peak demand periods, with performance targets consistently met. Suitable security and privacy measures were in place to control access and protect sensitive data stored in myGov.

9. In 2012, the Government approved a budget for the myGov project of \$29.7 million for 2012-13 to 2015-16 based on the functionalities set out in the business case. The myGov project was not delivered within this original agreed funding, with actual expenditure to June 2016 totalling \$86.7 million. Over the four years of the project an additional \$37.8 million in funding was approved by Government, and Human Services funded the remaining \$19.2 million from a pre-approved ICT contingency fund. Departmental records indicate that the increase in operating expenses over the four years of the project—from \$8.5 million in 2012-13 to \$37.3 million in 2015-16—was primarily driven by the costs associated with supporting the large number of user accounts (nearly double the forecast) and the improved high-availability infrastructure.

10. Performance metrics to enable the quantification of actual savings in six areas identified in the business case were not developed. In the absence of such metrics, it is not possible to determine whether the expected savings have been realised in all six areas.

Supporting findings

Governance

11. Fit-for-purpose governance arrangements and sound planning processes were in place between 2012 and June 2015 to support the implementation of myGov. The governance framework had both a strategic and operational focus and featured: clearly defined roles and responsibilities; policies and processes that enabled consistent reporting on project implementation status, risks and issues, and performance; and arrangements to engage with government stakeholders.

12. In June 2015, these governance arrangements ceased and interim arrangements were established. The interim governance arrangements had a largely operational focus resulting in limited strategic oversight for myGov as a whole-of-government capability until July 2016. Revised governance arrangements were introduced in July 2016 which featured a new board to provide strategic direction and the retention of key operational committees.

Delivering expected outcomes

13. By June 2016, myGov had exceeded the expected uptake with over 9.5 million user accounts registered compared to the business case forecast of 5.1 million. myGov had almost 11 million accounts by November 2016.

14. Of the five functionalities expected to be delivered in myGov:

- Human Services delivered three key functionalities in myGov that enable individuals to: access government services online using a single digital credential; notify changes of personal contact details; and receive digital correspondence securely. A small number of requirements within these functionalities, which were considered mandatory for go-live, have not yet been implemented.
- The expected search functionality was partly delivered through an interim solution which enables individuals to perform structured searches of government services; however the expected free text searches envisaged by this functionality are not able to be performed in myGov.
- The data validation functionality was designed, but not delivered in myGov. Human Services advised the ANAO that this functionality was available via the Centrelink member service and that the use of this existing functionality was considered more efficient. As a consequence, a myGov user must link their account to Centrelink and access that service to use the data validation capability.

15. myGov was built using open standards, is scalable and is an authentication platform which can be integrated with member services. Centrelink, Medicare and the ATO member services are using all the available myGov functionalities, the adoption of which was expected to streamline business processes and improve the user experience. Three government services identified in the business case elected not to participate in myGov. Of the ten member services that decided to participate in myGov, six use some but not all of the available functionalities.

16. The myGov platform has provided a basis for improved service delivery, including a reduction in the time spent by individuals interacting with government. This benefit accrues where individuals use the myGov functionalities to receive correspondence or update their details, and in particular, where individuals link their account to at least two member services. Where individuals already had multiple online credentials, they incur a one-off time cost to join myGov. Individuals who do not have their account linked to multiple services do not receive the potential time saving benefits to the same extent.

Project implementation

17. In December 2015, Human Services introduced high-availability infrastructure to support the increased demand for myGov during peak periods. Since this time, Human Services has reported that myGov's performance has met or exceeded the monthly availability target of 99.5 per cent.

18. Suitable security and privacy measures were adopted for myGov, leveraging existing Human Services arrangements to control access and protect data. In addition, myGov stored only limited sensitive personal data and did not facilitate data sharing between member services.

19. Human Services and participating entities captured feedback through surveys and usability testing to inform myGov's roll-out. The feedback was used to correct faults and enhance myGov functionalities, but some resolutions were not delivered in a timely manner. From July 2016, the Digital Transformation Agency has had responsibility for the myGov user experience and, with Human Services, has developed and progressed a program of work based on a prioritised backlog list of fixes and enhancements.

20. A Closure Report has been prepared identifying lessons learned from the project, and two post-implementation reviews were conducted on specific aspects of the project as they were delivered. A post-implementation review for the project as a whole has not been completed.

Value for money

21. The total cost of the four year myGov project was \$86.7 million. The Government:

- initially approved a budget of \$29.7 million and authorised Human Services to fund any shortfall on the project from a pre-approved ICT contingency fund; and
- approved an additional \$37.8 million in funding during the project.

22. Departmental records indicate that the increase in project expenditure was primarily the result of higher expenses associated with supporting the large number of user accounts—nearly double the forecast—and the improved high-availability infrastructure.

23. Six areas of savings for government, accruing to the member services, were identified in the business case. It is not possible to determine whether all the expected savings were realised as Human Services and the Australian Taxation Office did not define performance metrics to enable the quantification of actual savings. Human Services has calculated actual savings for one measure—avoided postage costs. The department estimated that the myGov Inbox saved government \$109.2 million, a figure that may be overstated as there were existing email capabilities provided by member services although not with the same level of security as myGov's Inbox.

Recommendations

Recommendation The ANAO recommends that the:

No.1

Paragraph 3.17

- (a) Digital Transformation Agency implement a strategy to target 'service delivery' Australian Government entities to provide services through myGov; and
- (b) Department of Human Services review existing transition support and guidance materials for entities to ensure that they effectively support targeted government entities to interface their systems with myGov functionalities.

Digital Transformation Agency's response: *Agreed.*

Department of Human Services' response: *Agreed.*

Recommendation

No.2

Paragraph 3.27

The ANAO recommends that the Digital Transformation Agency, in consultation with the member services, establish a performance framework, including key performance indicators focussing on outcomes, to enable an assessment of the extent to which myGov is delivering expected outcomes for users and member services.

Digital Transformation Agency's response: *Agreed.*

Summary of entities' responses

24. The Department of Human Services', the Digital Transformation Agency's and the Australian Taxation Office's summary responses to the report are provided below.

Department of Human Services

The Department of Human Services (the department) welcomes this report, and considers that implementation of its recommendations as they relate to the department will enhance the department's management and implementation of myGov.

We are pleased to note that the ANAO found that the department's implementation of myGov as a platform to deliver whole-of-government services has been largely effective and has contributed to improved service delivery of government services for individuals. Currently, myGov has over 10 million active accounts and supports 10 member services compared to the original forecast of 5.1 million users and six member services.

Digital Transformation Agency

The DTA agrees with the ANAO's proposed recommendations and will continue to work closely with the Department of Human Services and member services to expand myGov's take-up among Australian Government services, and develop a performance framework for the service.

Australian Taxation Office

The ATO welcomes this review into the effectiveness of the Department of Human Services' implementation of myGov. Of the ten member services, the ATO has the highest number of clients using myGov. By the end of April 2017, six million ATO clients had linked their myGov account to their ATO client record. As a key stakeholder throughout the design and implementation of myGov, and as one of the primary users of the service, the ATO appreciates the opportunity to have provided input into the review.

The report recognises that the implementation of the myGov platform was largely effective, with higher than projected take-up of the service by the community but lower than projected take-up of the service by government agencies.

The ATO supports the finding that some features of the service are yet to be delivered and also supports the view that undelivered requirements should be considered as part of ongoing prioritisation and monitoring processes.

The report acknowledges the ATO's successful implementation of each of the services introduced within the myGov platform. The ATO has successfully leveraged myGov services including the digital mailbox, the update your details service and the myGov profile. Additionally, the myGov credential is now used as an alternative to AUSkey for access to online government services for business through Manage ABN Connections; a joint initiative led by the ATO in collaboration with the Department of Human Services and the Department of Industry, Innovation and Science. There are currently over 138,000 myGov accounts linked to one or more ABNs. Between June 2016 and May 2017, there have been more than 500,000 authentications to online government services for business with an ABN-connected myGov account.

The ATO supports the two recommendations outlined in the report and looks forward to working with the Digital Transformation Agency to develop a myGov performance framework as outlined in Recommendation Two.

**Interim Report on Key Financial Controls of Major Entities
No.60 2016–17
Financial Statement Audit**

Executive summary

1. The primary purpose of financial statements is to provide relevant, reliable information to users about a reporting entity's financial position. In the public sector, the users of financial statements include Parliament, Ministers and the community. The preparation of timely and accurate audited financial statements is also an important indicator of the effectiveness of an entity's financial management, which fosters confidence in an entity on the part of users.
2. The Australian National Audit Office (ANAO) publishes two reports annually addressing the outcomes of the financial statement audits of Australian government entities¹ and the Consolidated Financial Statements (CFS) of the Australian Government to provide Parliament an independent examination of the financial accounting and reporting of public sector entities.
3. This report focuses on the results of the interim audit phase, including an assessment of entities' key internal controls, of the 2016–17 financial statements audits of 25 entities, including all departments of state and a number of major Australian government entities. The entities included in the 2016–17 report are selected on the basis of their contribution to the revenues, expenses, assets and liabilities of the 2015–16 CFS. Significant and moderate audit findings are reported to the responsible Minister(s), and all findings are reported to those charged with governance of each entity.
4. The second report provides the results of the 2016–17 final audits of the financial statements of all Australian Government controlled entities and the CFS.

Summary of audit findings and related issues

Entity internal controls

5. A central element of the ANAO's financial statements audit methodology and the focus of the planning phase of ANAO audits is a sound understanding of an entity's environment and internal controls. This understanding informs our audit approach, including the reliance placed on entity systems to produce financial statements that are free from material misstatement. To do this, the ANAO uses the framework contained in the Australian Auditing Standard 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment* (ASA 315).
6. At the completion of the interim audits, the ANAO reported that:
 - Eighteen entities had key elements of internal control that were operating effectively to provide reasonable assurance that the entities will be able to prepare financial statements that are free from material misstatement.

¹ The term 'entity' applies to all organisations subject to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

- Four entities, that except for particular finding/s outlined in chapter 3, had key elements of internal control that were operating effectively to provide reasonable assurance that the entities will be able to prepare financial statements that are free from material misstatement.
 - The findings outlined in chapter 3 for three entities reduced the level of confidence that can be placed on key elements of internal control that support the preparation of financial statements that are free from material misstatement for these entities.
7. The key elements of internal controls for the full financial year will be assessed in conjunction with additional audit testing during the 2016–17 final audit.

Summary of audit findings

8. A total of 110 findings were reported to the entities included in this report as a result of interim audits. These comprised one significant, 20 moderate and 89 minor findings. The number of significant findings is consistent with the 2015–16 results. The level of moderate and minor audit findings increased when compared with the interim results of 2015–16 where 17 moderate and 71 minor findings were reported.

9. Sixty seven per cent of significant and moderate findings continue to be in the areas of: compliance and quality assurance frameworks supporting program payments, revenue collection and financial reporting; and management of IT controls, particularly the management of privileged users. These areas warrant further attention by entity management.

10. Entities have an ongoing responsibility to monitor the effectiveness of their systems and related controls to be confident of the integrity of the financial information reported to management and in the annual financial statements.

Audit Committees

11. An independent audit committee is a fundamental principle of good governance. The audit committee plays a key role in assisting the accountable authority to fulfil its governance, risk management and oversight responsibilities through the provision of independent assurance and advice.

12. The entities considered in this report have met the minimum requirements set out in the *Public Governance Performance and Accountability Rule 2014* (the PGPA Rule) for the establishment of audit committees in relation to financial reporting. The ANAO's observations indicate there is an opportunity for entities to build on the core requirements of the PGPA Rule and to consider how the effectiveness of audit committees could be further enhanced.

Reporting relating to compliance with finance law

13. From 2015–16, the Department of Finance changed the compliance reporting process to require entities to report significant non-compliance with finance law² to both the Minister for Finance and the responsible Minister.

14. The ANAO's review noted that entities had continued to undertake the processes for monitoring and reporting all instances of non-compliance that were applied under the previous certificate of compliance requirements. Entities reported a summary of all instances of non-

² Resource Management Guide 214 *Notification of significant non-compliance with finance law* paragraph 5 defines finance law to include the PGPA Act, the PGPA rule, instruments made under the PGPA Act (including accountable authority instructions) and Appropriation Acts.

compliance identified during the 2015–16 reporting period to the accountable authority and audit committee along with a recommendation as to whether any non-compliance was considered to be significant.

Reporting and auditing frameworks

Disclosure of Related Party Transactions

15. From 1 July 2016 all Australian Government controlled entities are required to disclose material transactions with related parties in the notes to their financial statements in accordance with AASB 124 *Related Party Disclosures* (AASB 124). Related parties may include CEOs, board members and Ministers, as well as close family members and controlled entities of these parties.

Enhancing performance reporting

16. The PGPA Act requires each Commonwealth entity to produce a four-year corporate plan at least once each financial year and provide it to the responsible Minister and the Minister for Finance. Each entity is also required to include annual performance statements in its annual report. The ANAO has continued audit work in this area in 2016–17.

Reduced Disclosure Requirements

17. Australian Accounting Standards include a Reduced Disclosure Regime (RDR) option that allows for some specified disclosures to be omitted from the general purpose financial statements of certain entities. The Minister for Finance has determined that, with some exceptions, Australian Government entities may apply the RDR from 2016–17.

Auditor's report on the financial statements

18. In December 2015, the Australian Auditing and Assurance Standards Board issued a suite of new and revised standards dealing with auditor reporting. A number of revisions were made in the standards with the aim of increasing the transparency and value of auditor reporting.

19. These changes are now effective for the ANAO and users will see significant changes to the auditor's reports issued by the ANAO for financial years ended 30 June 2017. Auditor's reports on financial statements will be longer than before with key information given appropriate prominence. For entities included in this report, the ANAO will also include key audit matters in the 2016–17 auditor's reports.

Other developments

20. The Minister for Finance and the Secretary of the Department of the Prime Minister and Cabinet have requested respectively government business enterprises and government entities to provide additional information relating to senior management personnel remuneration on their websites.

Cost of this report

21. The cost to the ANAO of producing this report is approximately \$435 000.

Procurement of the National Cancer Screening Register

No.61 2016–17

Entity Department of Health

Background

Screening is used to assist in the early detection and treatment of diseases such as bowel, cervical and breast cancer. The Department of Health (Health) funds screening programs including activities delivered by the Department of Human Services and state and territory departments of Health to facilitate early detection of cancer and the reduction of cancer mortality rates.¹ Changes to bowel cancer screening frequency and cervical cancer screening methodology have been agreed to by Government and Health has responsibility for facilitating their implementation.

To achieve improvements in the design and operation of cancer screening registers, in August 2015 Health issued a Request for Tender for a National Cancer Screening Register (NCSR), with the objective of:

- establishing a single register to support existing cervical and bowel screening programs;
- migrating data from a number of existing registers;
- developing and implementing data interfaces with a range of stakeholders, including Medicare, medical practitioners and individuals; and
- facilitating ongoing compliance with data quality and privacy requirements.

Health received six tenders and, after evaluating the tenders, negotiated with two tenderers in order to determine which presented the best value for money outcome. On 4 May 2016, Health entered into a contract with Telstra Corporation Limited (Telstra) valued at \$220 million over five years to deliver and support the NCSR.

Audit objective and criteria

On 13 October 2016, the legislation for the National Cancer Screening Register passed in the Senate, with an accompanying resolution requesting that the Auditor-General conduct an audit of the procurement process.²

¹ Department of Health, *Outcome 1: A reduction in the incidence of preventable mortality and morbidity, including through national public health initiatives, promotion of healthy lifestyles, and approaches covering disease prevention, health screening and immunisation*, Annual Report 2015–16, p.44.

² The National Cancer Screening Register Bill 2016 and the National Screening Register (Consequential and Transitional Provisions) Bill 2016 included a resolution that the Auditor-General conduct a performance audit under the *Auditor-General Act 1997* to assess:

- (a) whether the Department of Health appropriately managed the procurement of services relating to the register; and
- (b) whether the processes adopted for the procurement of services met the requirements of the CPRs including consideration and achievement of value for money.

The audit objective was to assess whether the Department of Health effectively procured services to operate a National Cancer Screening Register. To form a conclusion against the audit objective the ANAO adopted the following high-level audit criteria:

- did Health appropriately manage the procurement of services for the NCSR?
- did Health effectively consider value for money, consistent with the Commonwealth Procurement Rules (CPRs) in the procurement process?

Conclusion

In conducting the procurement of the National Cancer Screening Register, the Department of Health complied with the Commonwealth Procurement Rules, effectively managing an open tender process and considering value for money.

The effectiveness of the procurement has been reduced due to inadequate consideration of risk during planning and poor management of probity and conflicts of interest. The objectives sought by the government have not been achieved in the agreed timeframe and additional costs have been incurred as a result

Supporting findings

Health complied with the ICT Investment Approval Process when procuring the National Cancer Screening Register. However, the full extent of the project's complexity, risk and the potential consequences of project failure or delay were not communicated to the government at the point in time the funds were allocated. Health complied with the Commonwealth Procurement Rules, establishing a comprehensive procurement process and documentation that complied with the requirements. It consulted with key stakeholders but did not undertake a request for information stage prior to opening the procurement tender. The integrity of the procurement was weakened by Health staff acting inconsistently with the probity arrangements. To date the procurement has complied with Health's internal procurement guidance, noting that Health's guidance requires the contract be managed to achieve value for money.

Health identified risks during the procurement and the Tender Evaluation Plan established an approach for managing risks. Health did not fully implement the approach set out in the plan, as untreated risks of the tenders was compared during the evaluation rather than treated risks, potentially compromising value for money outcomes. All risks that were identified for the preferred tender were considered by Health during the contract negotiation phase and treatment strategies were proposed prior to executing the contract.

Health developed governance, probity and conflict of interest arrangements that were appropriate and commensurate to the scale of the procurement and retained appropriate documentation. Health established a framework to managed conflicts of interest and probity issues. While a number of key decision-makers complied with the approach by completing the form, not all decision-makers declared existing conflicts. In addition, probity issues were not adequately documented. This weakened the effectiveness of the otherwise well designed governance framework.

Health's approach to contracting Telstra included due diligence activities, which satisfied the department that the preferred tenderer's proposal represented value for money and would achieve the intended outcome. While the contract included timeframes for a number of key

deliverables, Health and Telstra have not yet agreed on a project schedule, as well as the timing and content of some other key deliverables. Due to delayed implementation of the project, the initial 'Go-live' date will not be met. As a result, value for money outcomes have been compromised and the Commonwealth will incur additional costs.

Recommendation

Recommendation No. Health should ensure that:

Paragraph 2.59

- (a) actual, potential and perceived conflicts of interest records are maintained, up-to-date and appropriately addressed; and
- Senior Executive Service employees declare in writing, at least annually, their own and their immediate family's financial and other interests.

Department of Health response: *Agreed.*

Department of Health's response

I am pleased that the ANAO has found that, in undertaking the procurement for the National Cancer Screening Register, the Department of Health has complied with Commonwealth Procurement Rules through the effective management of the open tender process to ensure value for money in the selection of a service provider. I am confident that the National Cancer Screening Register will deliver benefits for the national cervical and bowel screening programs, including to help increase participation rates and improve the effectiveness of these programs.

The report has confirmed the need for the Department of Health to continue to build on recent work to improve the systems and processes for the management, recording and maintenance of conflicts of interest for staff at all levels.

**Accounting and Reporting of Australia's Greenhouse Gas Emissions Estimates and Projections
No.1 2017–18
Department of the Environment and Energy**

Background

1. As a party to the United Nations Framework Convention on Climate Change (UNFCCC) and subsidiary agreements, Australia has agreed to meet targets to reduce human-induced greenhouse gas (GHG) emissions. Measuring and tracking greenhouse gas emissions and removals and projecting future emission levels assists the Australian Government to:

- meet its international reporting obligations;
- monitor progress towards achieving its emission reduction commitments; and
- develop and implement policies and programs to meet emissions reduction commitments.

2. The Department of the Environment and Energy (the department) is responsible for accounting and reporting Australia's past, and projecting future, GHG emissions. Emissions estimates¹ and projections are calculated using published and unpublished data sourced from government and non-government entities or from modelling by external providers.

3. Australia is required to submit annual estimates of its past GHG emissions—termed national or GHG inventory estimates—to the UNFCCC across five sectors: Energy; Industrial Processes and Product Use; Agriculture; Land Use, Land Use Change and Forestry (LULUCF); and Waste. The latest *National Inventory Report 2014 (revised)* was submitted to the UNFCCC in August 2016. Australia also submits projections of future greenhouse gas emissions to the UNFCCC as part of National Communications (every four years) and Biennial Reports (every two years), with the most recent Biennial Report submitted to the UNFCCC in December 2015.² In addition, the department recalculates or updates Australia's emissions projections annually, with the latest report on GHG emissions projections to 2030 published in December 2016.

4. Each country's National Inventory Reports (and supporting data), National Communications and Biennial Reports are subject to a UNFCCC technical review. These reports and the UNFCCC technical review results are published on the UNFCCC's website (unfccc.int).³

Audit approach

5. The objective of the audit was to assess the effectiveness of the Department of the Environment and Energy's arrangements for the preparation and reporting of Australia's greenhouse gas emissions estimates and projections. To form a conclusion against this objective, the ANAO adopted the following high-level criteria:

¹ GHG emissions are estimated using calculations based on methods and models developed by the department to achieve consistency with emission estimation guidance from the Intergovernmental Panel on Climate Change (IPCC) and adopted by the UNFCCC. GHG emissions can also be measured directly, but this is not a widely used approach.

² The next National Communications and Biennial Report are due for submission by 1 January 2018.

³ Australia's National Inventory Reports, National Communications and Biennial Reports are also published on the department's website (www.environment.gov.au).

- Were robust processes established to prepare and report emissions estimates and projections?
 - Were sound arrangements in place to support the preparation and reporting of emissions estimates and projections?
6. Providing opinions on the accuracy of the reported GHG emissions estimates and projections contained in the *National Inventory Report 2014 (revised)* and December 2016 projections report, respectively, was not within the scope of the audit.

Conclusion

7. The arrangements established by the department for the preparation and reporting of Australia's greenhouse gas emissions estimates and projections were largely effective.

8. Appropriate processes have been established to prepare, calculate and publish Australia's greenhouse gas emissions estimates to June 2014 and emissions projections to 2030. The emissions estimates contained in the *National Inventory Report 2014 (revised)* and the December 2016 projections report have been calculated using relevant contemporary data. Appropriate quality assurance and control procedures are in place for the preparation of most of the emissions estimates and projections, but could be: better applied in relation to data entry to improve inventory accuracy and completeness; and expanded to better encompass the estimates projections for all sectors and abatement measures. The publication of additional key input data, assumptions, formulas and methods would increase the projections' transparency and utility to stakeholders and users. On the whole, the quality of Australia's inventory compares well to the inventories of other Annex I (developed) countries.

9. Governance arrangements for the preparation and reporting of inventory estimates and emissions projections are generally effective, with the exception of risk management which requires strengthening. Monitoring arrangements have facilitated the timely preparation and reporting of inventory estimates and emissions projections that met UNFCCC submission deadlines. The department has engaged stakeholders throughout the preparation and reporting process and significantly improved the efficiency of inventory estimates preparation and reporting over recent years.

Supporting findings

Estimates of Australia's past greenhouse gas emissions

10. The reporting of inventory estimates to June 2014 by the department was based on relevant data, with no material errors identified in the testing undertaken by the ANAO. The UNFCCC has also assessed Australia's *National Inventory Report 2014 (revised)* and supporting information as consistent, timely and mostly complete and not requiring adjustment. While the IT systems that support the preparation of Australia's annual GHG inventory are generally effective, controls could be improved to reduce risks to data accuracy and security.

11. Over three-quarters of the recommendations from the UNFCCC's 2015 technical review of Australia's GHG inventories had been resolved by the time the following year's technical review was undertaken. All recommendations outstanding from earlier technical reviews had been satisfactorily resolved by the department.

12. The department has developed generally appropriate quality assurance and control procedures over the preparation of inventory estimates. Limited documentation, however, makes it more difficult for the department to demonstrate its implementation of procedures related to data entry into the Australian Greenhouse Emissions Information System (AGEIS). In addition to better

documenting its implementation of these quality control procedures, there is scope to enhance inventory transparency by improving referencing to source data.

13. The quality of Australia's inventory estimates has generally improved over time. Inventory improvement projects, most of which are planned in response to UNFCCC technical reviews of the GHG inventory, are being implemented—albeit in a less timely manner than originally envisaged. The quality of Australia's inventory compares well to other countries' inventories on most parameters examined by the ANAO, with improvement also in the quality of Australia's inventory over time in respect of some of the parameters.

Projections of Australia's future greenhouse gas emissions

14. The most recent emissions projections (December 2016) are based on relevant data from contemporary sources. Projection calculations contained in spreadsheets examined by the ANAO are operating as intended with the exception of a small number of data and formula errors that had an immaterial impact on emissions projections results.

15. The relevant Biennial Report review recommendation from the UNFCCC technical review related to emissions projections has been addressed by the department in advance of the next Biennial Report, primarily by the inclusion of emissions projections to 2030 in the December 2016 projections report.

16. The department has instituted generally appropriate quality assurance and control procedures over the preparation of emissions projections for all sectors apart from the Land Use, Land Use Change and Forestry (LULUCF) sector where there is scope for improvement. Better documentation of the rationale behind the application of judgment and the quality assurance testing undertaken would enhance the transparency of the LULUCF sector projections. In addition, expanding quality assurance procedures for abatement measure projections, where calculated separately to sector projections, would provide greater assurance regarding their accuracy and robustness.

17. The December 2016 emissions projections have improved in quality on past emissions projections in some areas, but not others. The inclusion of sensitivity analyses has increased the robustness of the projections by forecasting quantitative emission ranges from changes to some key projection assumptions. Nevertheless, the latest projections include less quantitative information than earlier projections about the impact that Australian Government abatement measures are projected to have on future emissions. The utility of the emissions projections would be further improved by the department publicly releasing key data inputs, assumptions, formulas and methods sufficient to allow users to recalculate emissions projections (within a reasonable degree of precision) and adapt them for their own purposes.

Governance of greenhouse gas emissions estimates and projections

18. Appropriate planning documentation has been established by the department to guide aspects of the preparation and reporting of inventory estimates and emissions projections. Nevertheless, refinements to overarching project plans for inventory estimates and emissions projections would strengthen governance arrangements and provide a basis for mitigating the risk to future inventory quality and timeliness from the loss of corporate knowledge due to staff turnover.

19. The department has not retained documentation to demonstrate that risks to preparing and reporting GHG emissions estimates and projections are being actively managed and the implementation of risk treatments monitored. The department's risk management planning documentation for the preparation and reporting of inventory estimates and emissions projections is insufficient and, in the case of inventory estimates, is incomplete.

20. Effective arrangements are in place to monitor the timeliness of the preparation and reporting of inventory estimates and emissions projections. Inventory estimates and emissions projections have been completed and published within UNFCCC submission deadlines.

21. Data providers and external reviewers of draft inventory estimates and emissions projections have been effectively engaged throughout the data collection, preparation and reporting processes. These stakeholders expressed to the ANAO their general satisfaction with the content and quality of the estimates and projections and made suggestions to enhance the timeliness, consistency and transparency of emissions projections. Obtaining feedback from a broader range of end users would further enhance stakeholder engagement.

22. The overall efficiency of the preparation and reporting of inventory estimates has increased significantly over recent years, while the efficiency of the emissions projections' preparation and reporting has remained relatively stable.

Recommendations

Recommendation No.1
Paragraph 2.20 The Department of the Environment and Energy should introduce consistent quality control and assurance procedures to improve the accuracy of inventory data and referencing to source data.

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

Recommendation No.2
Paragraph 3.31 The Department of the Environment and Energy should:

- (a) to the maximum extent practicable, publish projected abatement from Australian Government greenhouse gas emission reduction measures, along with related key assumptions, in future projections documents; and
- (b) expand its release of emissions projections information to include key data inputs, assumptions, formulas and methods sufficient to enable users to recalculate emissions projections within a reasonable degree of precision.

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

Recommendation No.3
Paragraph 4.12 The Department of the Environment and Energy should undertake fit-for-purpose risk assessments for the preparation and reporting of inventory estimates and emissions projections in accordance with the department's risk management policy and guidelines, and actively monitor its implementation of risk treatments.

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

Summary of entity responses

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

The Department agrees with the recommendations in the report. The Department is grateful for the assistance and cooperation of the Australian National Audit Office in assessing the performance of its greenhouse gas emissions estimation and projections, accounting and reporting systems.

The Department has in place comprehensive and advanced inventory and projections systems that are developed in accordance with Intergovernmental Panel on Climate Change (IPCC) guidelines and rules established under the United Nations Framework Convention on Climate Change (UNFCCC). UNFCCC expert review teams test the inventory and projections, and their related systems, for

compliance with these international rules. These expert review team reports are available on the UNFCCC website.

The Department is committed to the continuous improvement of its systems and welcomes the recommendations and suggestions for improvement in this report. The Department takes this opportunity to apologise for its inadvertent breach of the *Auditor-General Act 1997* resulting from the inclusion of some findings from the ANAO audit report, prior to its tabling in the Parliament, in the National Inventory Report 2015, State and Territory Greenhouse Gas Inventories 2015, and National Inventory by Economic Sector 2015. Once alerted to this serious breach, the Department undertook the following actions:

- The inventory publications were withdrawn from the Department's website.
- A revised National Inventory Report was submitted to the UNFCCC and substituted for the original version on the UNFCCC website.
- Revised versions of the inventory publications were posted on the Department's website and sent to State and Territory Government and key inventory user contacts, who were asked to delete or destroy any copies of the original versions.

The Department is also taking steps to ensure that such a breach is not repeated in the future, including through discussion at departmental SES forums and revisions to standard operating procedures. The Audit Office was kept informed of each of the steps outlined here.

Auditor-General comment

24. While the Auditor-General is disappointed that the Department of the Environment and Energy breached its confidentiality obligations under the *Auditor-General Act 1997*, the Auditor-General is satisfied with the department's actions outlined above in response in this instance and to minimise the risk of future similar breaches.

Background

1. Defence materiel sustainment is about the maintenance and support of Defence's fleets of specialist military equipment: the provision of in-service support for naval, military and air platforms, fleets and systems operated by Defence. Effective sustainment of naval, military and air assets is essential to the preparedness of the Australian Defence Force (ADF) and to enable Defence to conduct operations. Defence spends similar amounts each year on sustainment and the acquisition of new equipment. In 2015–16, Defence spent \$6.3 billion—21 per cent of its total departmental expenditure—on the sustainment of specialist military equipment.
2. Parliamentary committees have frequently stated an interest in Defence's reporting of its sustainment performance and, in particular, obtaining greater insight into that performance. During the course of this audit the Joint Committee of Public Accounts and Audit (JCPAA) announced that it had commenced an inquiry into Defence sustainment expenditure.
3. Part of the context for this audit is to inform the Parliament regarding Defence's approach to managing sustainment expenditure, including in the context of the current JCPAA inquiry, and to inform the ANAO's future program in this area.

Audit objective and criteria

4. The objective of the audit was to assess whether Defence has a fit for purpose framework for the management of materiel sustainment. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:
 - Defence has established an appropriate governance and operational framework for the management of materiel sustainment;
 - Defence has established and implemented a high quality performance framework to support the management and external scrutiny of materiel sustainment; and
 - Defence has achieved key outcomes expected from the Smart Sustainment reforms and has progressed its implementation of the reforms to sustainment flowing from the First Principles Review.

Conclusion

5. The fundamentals of Defence's governance and organisational framework for the management of materiel sustainment are fit for purpose. However, Defence continues to address specific operational shortcomings and there remains scope for Defence to improve its performance monitoring, reporting and evaluation activities to better support the management and external scrutiny of materiel sustainment.
6. Defence has clear and long-standing governance and organisational arrangements for managing the sustainment of specialist military equipment.
7. Research and reviews conducted for Defence have revealed a range of specific operational problems that are detracting from the efficient and effective sustainment of Defence capability, including the functioning of Systems Program Offices. Defence has initiated a reform project as part of its First Principles Review implementation.

8. The development of an effective sustainment monitoring system remains a work in progress, and the effectiveness of Defence's internal reporting system for sustainment could be improved in several areas. Opportunities also remain to increase the completeness and transparency of publicly reported information regarding materiel sustainment.

9. The 2015 First Principles Review was preceded by earlier major reform initiatives, notably the Strategic Reform Program (SRP) begun in 2009. Defence records show that the department made substantial efforts to keep track of the large number of diverse initiatives identified across the department under the 'smart sustainment' reforms associated with the SRP, including internal reporting to management. However, Defence did not adequately assess the outcomes from the 'smart sustainment' reforms.

10. Reforms to the management of sustainment flowing from the First Principles Review remain at an early stage, and this stream of activity is likely to take much longer than the expected two years. For example, the Systems Program Office reviews are not yet complete and Defence has provided no evidence that decisions have been taken on changes to their structure and functioning.

11. Defence has engaged industry expertise to guide and help it with the First Principles reforms relating to acquisition and sustainment, including \$107 million with a single company where the contract for services is not performance-based. Reform is expected to lead to greater outsourcing of functions currently performed in-house by Defence's Systems Program Offices.

Supporting findings

Defence's governance and operational framework for the management of materiel sustainment

12. Defence has clear and long-standing arrangements for managing the sustainment of specialist military equipment. Key elements of the governance and organisational framework include: a specialist organisational unit—currently the Capability Acquisition and Sustainment Group—staffed by a mix of civilian and military personnel; contract-like arrangements for sustainment between that unit and the Chiefs of Navy, Army and Air Force (Defence's Capability Managers); and day-to-day responsibility for most sustainment activities falling to Systems Program Offices, which carry out that work using a mix of in-sourced and out-sourced service provision. Military units also undertake some operational-level sustainment activities.

13. Nevertheless, an internal review conducted by Defence and research conducted for Defence following the 2015 First Principles Review have identified a range of operational problems that detract from the efficient and effective sustainment of Defence capability, including: adherence to procurement principles; staff capabilities; duplication of effort and transparency of internal costs. A project to reform and consolidate Systems Program Offices is currently underway, with 24 out of 64 Systems Program Offices (37.5 per cent) reviewed as at February 2017.

Defence's performance framework for materiel sustainment

14. With the introduction of its Sustainment Performance Management System (SPMS), Defence continues to develop a basis for an effective monitoring system for sustainment. Once fully implemented this system should be capable of systematically reporting against a suite of performance indicators settled in agreement with Capability Managers.

15. There remains potential to improve some core key performance indicators used within the system—for example to more usefully determine the total cost of the capability to Defence. The SPMS system was not fully implemented during audit fieldwork but is expected to be fully operational by the end of June 2017. In the longer term the system is to be expanded to cover acquisition.

16. The effectiveness of Defence's internal reporting system for sustainment could be improved in several areas. The Quarterly Performance Report is the primary way by which Defence provides information to government and senior Defence personnel about the status of major acquisition and sustainment activities. However, based on the ANAO's review of a Quarterly Performance Report produced during the audit, its contents are neither complete nor reliable, it takes two months to produce and its contents are sometimes difficult to understand. The ANAO's analysis found that the report may not include additional information available to Defence that is critical to the reader's ability to understand the status of significant military platforms. It provides only a partial account of materiel sustainment within Defence and is potentially at odds with the 'One Defence' model promoted by the First Principles Review. The ANAO has recommended that Defence institute a risk-based quality assurance process for information included in the Quarterly Performance Report.

17. Defence conducts reviews of sustainment performance through sustainment gate reviews that help Defence to obtain insight into a project or product's progress and status. The effectiveness of these reviews could be increased if the lessons obtained from gate reviews were routinely incorporated into management reporting on sustainment and if gate reviews were extended to contribute to the proposed quality assurance mechanism for Quarterly Performance Reports.

18. Defence has not implemented measures of efficiency and productivity for all sustainment products. Reviews have consistently emphasised the need for Defence to improve the efficiency of its operations, including in sustainment. Most recently, the First Principles Review recommended immediate implementation of measures of productivity, a related concept. The ANAO found that, 18 months after implementation commenced, there had been limited progress.

19. Defence has recently improved its whole-of-life costing of proposals to acquire major capital equipment but remains unable to measure or report reliably the total cost of ownership. It is now planning to implement a new model, which seeks to capture the full cost of ownership throughout the life of an asset, with implementation planned for completion in July 2018. The First Principles Review has pointed out that Defence has treated Systems Program Office staff costs at the project level as a free good, reducing the transparency of the cost of sustainment work and providing inaccurate price signals and a distorted incentive structure to Capability Managers.

20. Opportunities remain to improve the quality and transparency of Defence's publicly reported information regarding materiel sustainment, while being sensitive to national security concerns. Areas for improvement include:

- achieving a clearer line of sight between planning and reporting documents—for both expenditure and descriptive information at the corporate and project levels; and
- the use of consistent time series data and analysis of sustainment expenditure.

21. Defence's second corporate plan prepared under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) identifies sustainment more clearly than in the first corporate plan. Under the PGPA Act, Defence will need to report meaningfully against this plan in its annual performance statement.

22. Defence's 2015–16 public reporting of sustainment activity included expenditure information and other descriptive material. However, it was not: complete; consolidated in one easy to locate area; prepared in a manner which permitted the comparison of actual expenditure against estimates; or consistent in its presentation of clear reasons for full year variances. Further, performance summaries were highly variable and inconsistent between public planning documents—Defence's Portfolio Budget Statements and Portfolio Additional Estimates Statements—and the Annual Report.

23. Defence has not published program level expenditure data on a consistent basis over time, or time series analysis, to assist with external scrutiny of its sustainment expenditure.

Smart Sustainment reforms

24. There is no record of whether the intended savings to sustainment costs were achieved from the Defence Materiel Organisation's (DMO) 2008 initiative to identify efficiencies. A target expenditure cut of five per cent of sustainment costs over a financial year was set by the Chief Executive Officer of the DMO in February 2008. Defence expected savings from reducing spares; making more use of performance-based contracting; discouraging unnecessary end-of-year spending; travel efficiencies and improved maintenance philosophies.

25. Defence has not kept a systematic record of the outcomes of the Smart Sustainment initiative associated with the 2009 Strategic Reform Program. In 2011, a 'health check' by external consultants found some early successes with cost reductions and changes in practice. Nevertheless, the consultants considered the program was failing because of shortcomings in governance, program management, and Defence's approach to reform described by a major vendor as 'minor reform, driven by piecemeal, top down budget pressure'.

26. Smart Sustainment had a ten-year savings target of \$5.5 billion. In its 2014–15 Annual Report, Defence claimed to have achieved \$2 billion of savings from the initiative in its first five years. Defence has not been able to provide the ANAO with adequate evidence to support this claim, nor an account of how \$360 million allocated as 'seed funding' for Smart Sustainment initiatives was used.

Materiel sustainment reform—First Principles Review

27. Defence has drawn heavily on contracted industry expertise to support its implementation of the program of organisational change relating to acquisition and sustainment that has followed the First Principles Review. This represents a major investment of at least \$120 million, including contracts for services from the principal provider (Bechtel) valued at some \$107 million. Contracts with the principal provider are not performance-based.

28. Systems Program Office consolidation and reform is one of the largest reforms to Capability Acquisition and Sustainment Group deriving from the 2015 First Principles Review. This stream of activity is likely to take much longer than the two years expected for implementation. In June 2017, Defence advised the ANAO that implementation plans for significant reforms to Systems Program Offices would be developed in the second half of 2017.

29. Other reforms flowing from the First Principles Review remain underway:

- Introducing performance-based contracting into Defence sustainment has been underway for over a decade. Defence does not yet have a completed register of its acquisition and sustainment contracts though, since January 2016, it has had a facility in place and had begun populating it.
- Initial establishment of 'centres of expertise' in Capability Acquisition and Sustainment Group is underway. Defence expects full implementation to take a further two years. Similarly, the new Capability Acquisition and Sustainment Group Business Framework is expected to take 'many years' to fully implement.
- Defence has developed its own meaning for the term 'smart buyer', which does not clearly articulate the intent of the First Principles Review recommendation. This introduces risks related to ensuring that Systems Program Office staff working on outsourcing have the necessary skills and competencies.

30. Defence has also been developing its approach to asset management over many years, having obtained substantial advice from internal and external sources to adopt a Defence-wide asset management strategy to underpin a sustainment business mode for specialist military equipment. It is now not clear whether Defence will continue with this work.

31. Defence has not put in place plans to evaluate either the reforms themselves or its implementation of them. There is a risk that insights into a very substantial reform process could be lost. This was the case with the earlier Smart Sustainment reforms. The ANAO has recommended that Defence develop and implement an evaluation plan.

Parliamentary interest

32. In light of the Parliamentary interest in Defence sustainment (see paragraph 1.4 forward) the ANAO has considered, on the basis of the current audit's findings, the issue of enhanced scrutiny of sustainment through a process similar to the existing Major Projects Report (MPR).¹ The MPR has been prepared annually over the last decade to provide independent assurance of the status of selected Defence major acquisition projects. The MPR has added value through the review process and the transparency of information providing increased assurance to the Parliament and the Government. This has been achieved while managing risks to national security.²

33. A key step in the MPR process is the preparation of a Project Data Summary Sheet for each project being reviewed. It is apparent from this audit that Defence has developed information systems that could support the preparation of similar information for its sustainment work. Defence has undertaken work on performance measures for sustainment and has developed the infrastructure to collect and report on its sustainment work (see Chapter 3).

34. Three principal issues remain for the conduct of a process for sustainment parallel to the MPR for acquisition:

- First, the effective management of risks to national security which can arise with the exposure of details of the readiness and availability of Defence capability. This issue could be managed provided the scope of any sustainment review is appropriately selected. For example, a small number of products could be selected, with rotation or other variation from year-to-year, limiting the risks that may flow from time-series analysis and the release of other material whose aggregation could add risk.³
- Second, the material to be produced for scrutiny of sustainment performance would need to reflect a 'One Defence' (that is, whole of portfolio) view. As noted in this audit report, the focus of some current arrangements requires clarification as it may reflect only the performance of Capability Acquisition and Sustainment Group.
- A final consideration is that of resourcing. In setting the scope and methodology of any review of sustainment performance, the costs and benefits of the proposed program of work and its relationship to existing scrutiny arrangements would need to be considered, both for Defence and for the ANAO.

35. The ANAO has also observed in Chapter 3 of this audit report that there is scope to improve the quality and transparency of public reporting on sustainment in existing Defence reports—the Portfolio Budget Statements, Portfolio Additional Estimates Statements and Defence Annual Report.

¹ See, for example, ANAO Report No.40 2016–17, *2015–16 Major Projects Report*.

² The MPR Guidelines, which are endorsed by the JCPAA, provide that data of a classified nature is to be prepared in such a way as to allow for unclassified publication (see ANAO Report No.40 2016–17, *2015–16 Major Projects Report*, paragraph 1.16, p. 463).

³ In February 2017, Defence advised the Joint Committee of Public Accounts and Audit in a submission to the Committee's Inquiry into Defence Sustainment Expenditure that 'A recent review by [the] Defence Intelligence Organisation determined that the current public reporting regime is "safe". In this context any proposal for new reporting requirements will need to consider if the new information might be aggregated to disclose classified information on capability readiness and availability.'

Recommendations

Recommendation No.1
Paragraph 3.27 The ANAO recommends that Defence institutes a risk-based quality assurance process for the information included in the Defence Quarterly Performance Report.

Defence response: *Agreed*

Recommendation No.2
Paragraph 5.66 The ANAO recommends that Defence develop and implement an evaluation plan to assess the implementation of the recommendations of the First Principles Review.

Defence response: *Agreed*

Entity response

The Department of Defence welcomes the Australian National Audit Office (ANAO) performance audit on Defence's management of materiel sustainment. Defence's comments, and suggested editorial amendments, have been provided to the ANAO.

Defence notes the findings of the ANAO, and agrees to both recommendations.

Defence concurs with the ANAO's conclusion that the fundamentals of the governance and organisational framework for the management of sustainment are clear, and fit for purpose.

Defence notes that the audit was conducted at a strategic level, and acknowledges the opportunities for improvement identified by the ANAO. Defence continues to strive towards efficiencies in the delivery of sustainment outcomes for Defence capability and to report on outcomes, noting the need to balance transparency and accountability to the Australian public and Parliament, with the national security interests of the Commonwealth.

Defence's implementation of the recommendations of the First Principles Review has also introduced a single end-to-end capability development function, the Capability Life Cycle, which will reduce previous delineations between the management of acquisition and sustainment activity.

Supporting Good Governance in Indigenous Corporations

No.3 2017–18

Department of the Prime Minister and Cabinet, Office of the Registrar of Indigenous Corporations

Background

1. Indigenous groups seeking to gain the benefits of incorporation can generally choose between incorporating under mainstream Commonwealth or state and territory legislation or under the *Corporations (Aboriginal and Torres Strait Islanders) Act 2006* (CATSI Act), which is regulated by the Office of the Registrar of Indigenous Corporations (ORIC). As at May 2017, there were 2910 Indigenous corporations registered under the CATSI Act, which is estimated to represent over a third of incorporated Indigenous organisations in Australia.

2. ORIC's primary responsibilities are:

- maintaining public registers to support the transparency and accountability of Indigenous corporations;
- monitoring and enforcing Indigenous corporations' compliance with the accountability and governance requirements of the CATSI Act; and
- supporting good governance in Indigenous corporations through providing information, advice and education.

Audit objective and criteria

3. The objective of the audit was to assess whether ORIC supports good governance in Indigenous corporations consistent with the CATSI Act.

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

- Does ORIC maintain registers in accordance with relevant requirements?
- Does ORIC effectively monitor and enforce compliance with the CATSI Act?
- Does ORIC provide effective information, advice and education?

Conclusion

5. ORIC supports good governance in Indigenous corporations by maintaining public registers, monitoring and enforcing compliance, and providing information, advice and education, consistent with the CATSI Act.

6. In accordance with the CATSI Act, ORIC maintains registers on its website that provide information to stakeholders on the status and operation of Indigenous corporations and officers who are disqualified from managing an Indigenous corporation. The ANAO found: minor data quality issues with the Register of Indigenous Corporations; and procedural issues with the registration of new corporations and the Register of Disqualified Officers. ORIC recently instituted a quality assurance framework that is intended to address data quality issues with its corporations register database. ORIC currently exchanges data with the Australian Charities and Not-for-profit Commission. There is scope for ORIC to explore data exchange arrangements with other corporate regulators.

7. ORIC's ongoing focus on Indigenous corporations' compliance with annual reporting requirements has led to a significant improvement in reporting response rates for Indigenous corporations over the past decade. It has also undertaken successful civil and criminal proceedings against officers of Indigenous corporations. ORIC's other regulatory interventions include conducting examinations and special administrations.¹ While internal data suggest these interventions are relatively successful, ORIC could employ a more structured approach to risk profiling corporations so as to better target its examinations. ORIC publishes data on its regulatory activities in an annual yearbook, but in recent years it has not committed to, or reported against, regulatory performance targets.

8. ORIC produces a range of useful guidance materials and templates, provides well-received training courses and has established other free services to support good governance in Indigenous corporations. While ORIC's provision of information and advice to stakeholders meets internal timeliness benchmarks, it could improve its performance measures and commit to external performance targets. ORIC has introduced a quality assurance program and has some internal processes to ensure the consistency and accuracy of its information and advice. It no longer seeks structured feedback from stakeholders on its support services to promote continuous improvement.

Supporting findings

Maintaining public registers

9. In accordance with the CATSI Act, ORIC maintains a database of information and documents relating to the Register of Indigenous Corporations. It makes relevant material from this database available publicly on its website, which provides transparent information to stakeholders about the status and operation of Indigenous corporations. The ANAO found minor data quality issues in the register database. ORIC has recently established a quality assurance process for the register database, which is intended to improve data quality over time.

10. ORIC has an established process and procedural guidance for staff assessing applications for registration as an Indigenous corporation. There is scope to improve guidance to better support staff in the exercise of their decision-making responsibilities.

11. In accordance with the CATSI Act, ORIC maintains a Register of Disqualified Officers, which is publicly accessible on its website. However, ORIC does not have adequate procedures to ensure persons disqualified by a court or the Registrar are promptly listed on the register following disqualification and required documents are stored on its register database.

12. ORIC has an established data exchange arrangement with the Australian Charities and Not-for-profits Commission, which minimises reporting burden on Indigenous corporations. There is scope for ORIC to explore options for establishing data exchange arrangements with Australian Securities and Investments Commission, the Australian Financial Security Authority and/or the Australian Taxation Office.

Monitoring and enforcing compliance

13. ORIC's ongoing emphasis on monitoring and enforcing Indigenous corporations' compliance with annual reporting requirements has achieved a significant improvement in reporting response rates over the past decade. It also conducts an annual rolling program of routine examinations to

¹ Under the CATSI Act, ORIC can appoint a special administrator to take control of the corporation with the objective of returning the corporation to its members rather than protecting the interests of creditors.

monitor large, essential or publicly funded corporations, which frequently identifies compliance issues that trigger further regulatory action.

14. ORIC can generate risk ratings for corporations in its corporations register database, but due to limitations with the methodology these ratings provide limited value to ORIC's regulatory program. While ORIC considers various matters in targeting its examinations, it does not systematically analyse the outcomes of interventions to improve its regulatory strategy.

15. ORIC's program of special administrations has returned a majority (around 90 per cent) of Indigenous corporations to members' control, and the majority of these corporations (more than 90 per cent) have not subsequently been deregistered. These outcomes suggest the program is well targeted and leads to more sustainable Indigenous corporations.

16. ORIC has initiated enforcement action, including civil proceedings and criminal prosecutions for breaches of the CATSI Act. The majority (around 95 per cent) of criminal prosecutions initiated by ORIC have been for breaches of annual reporting requirements by Indigenous corporations; an approach that has contributed to ORIC's high rates of reporting response rates. ORIC's other criminal prosecutions and civil proceedings relate to the behaviour of officers of Indigenous corporations, and have resulted in disqualification, fines and, in some cases, imprisonment.

17. ORIC has internal regulatory performance targets, against which it monitors progress. It also publishes performance information in its annual yearbook. However, in recent years ORIC has not committed to external performance targets. In response to a recent review and the preliminary findings of this audit, ORIC developed a revised suite of corporate documents.

18. ORIC is covered by the Department of the Prime Minister and Cabinet's policy and procedures on conflicts of interest, which requires ORIC to maintain a register of any real or perceived conflicts of interest identified by its staff.

Providing information, advice and education

19. ORIC provides a range of useful guidance materials and templates to support registered Indigenous corporations and groups considering incorporating under the CATSI Act. Its education and training program provides free training in corporate governance to a large number of individuals and corporations and achieves high satisfaction levels. It has also established free services to assist corporations with recruitment and legal advice.

20. ORIC receives around 6000 requests for information and advice per year, most of which are straightforward inquiries to which it responds promptly. The majority of its more complex requests, including handling of complaints and disputes relating to Indigenous corporations, are completed within benchmark timeframes. ORIC does not commit to performance targets in its client service charter.

21. ORIC's recently established quality assurance program includes an assessment of records relating to information and advice provided to stakeholders. It has developed processes to promote consistency and accuracy in its responses.

22. ORIC previously conducted a client survey, which provided structured feedback on its support services. ORIC does not currently seek structured feedback from its stakeholders on the guidance and templates on its website or the information and advice provided by its staff.

Recommendations

Recommendation no.1 ORIC should review and update its guidance and procedures for assessing applications for registration as an Indigenous corporation.

Paragraph 2.18

Department of the Prime Minister and Cabinet and Office of the Registrar of Indigenous Corporations response: *Agreed.*

Recommendation no.2 ORIC should establish procedures to ensure that persons disqualified by a court or the Registrar are promptly listed on the Register of Disqualified Officers, relevant documents are stored on the register, and such disqualified persons do not continue to hold the positions of director or secretary in Indigenous corporations.

Paragraph 2.28

Department of the Prime Minister and Cabinet and Office of the Registrar of Indigenous Corporations response: *Agreed.*

Recommendation no.3 ORIC should refine its risk rating system in ERICCA to better support its regulatory program.

Paragraph 3.25

Department of the Prime Minister and Cabinet and Office of the Registrar of Indigenous Corporations response: *Agreed.*

Summary of entity responses

23. A summary of the Department of the Prime Minister and Cabinet and Office of the Registrar of Indigenous Corporations' response is below:

The Department of the Prime Minister and Cabinet (the department) and the Office of the Registrar of Indigenous Corporations (ORIC) welcome the audit report and the ANAO's overall conclusion that ORIC supports good governance in Aboriginal and Torres Strait Islander corporations consistent with the intent of the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* (CATSI Act). The department and ORIC agree to the three recommendations made by the ANAO.

ORIC has already taken action to implement the recommendations.

jobactive: design and monitoring
No.4 2017–18
Department of Employment

Background

1. The current federal employment services program, jobactive, became operational on 1 July 2015, and replaced the previous employment services model, Job Services Australia. The objectives of jobactive are: helping job-seekers find and keep a job; helping job-seekers move from welfare to work; helping job-seekers meet their mutual obligations; and jobactive organisations delivering quality services.

2. The Department of Employment (Employment, or the department) administers jobactive and there are approximately 750 000 job-seekers at any given time in the program. Employment is forecast to spend approximately \$7.3 billion over the contracted five year period of jobactive. The delivery of employment services is contracted to 65 providers who deliver one or more of the five services of the program: jobactive employment services; New Enterprise Incentive Scheme; Work for the Dole Coordinators; Harvest Labour Services; and the National Labour Harvest Information Service.¹

3. Employment oversees the delivery of the contracted services, and has established compliance and performance monitoring arrangements to provide assurance that the services are delivered as expected.

Audit objective and criteria

4. The audit objective was to assess whether Employment effectively designed and monitors the progress of the jobactive program. To form a conclusion against the audit objective, the Australian National Audit Office (ANAO) adopted the following high-level criteria:

- the jobactive program was designed to support the achievement of the Government's policy objectives; and
- the department effectively monitors the progress of the jobactive program against the Government's policy objectives.

Conclusion

5. Employment effectively managed the design of jobactive and its monitoring approach has resulted in a reasonable level of assurance being obtained that the program is being delivered as required.

6. There was a sound reason for redesigning the employment services model, the governance arrangements established by the department were comprehensive, stakeholders were adequately consulted and the Minister was briefed on a range of design and implementation topics. Since the implementation of jobactive on 1 July 2015, the department has reviewed and amended elements of the program's design.

¹ A complete list of the 65 providers for jobactive is provided at Appendix 2 of the report.

7. Employment has established a suitable committee structure to oversee the jobactive program and the department has identified and managed risks at the program and provider level. The prioritisation of activities to deliver the program could be improved to ensure that required activities are completed. The principles-based guidelines do not always clearly articulate Employment's expectations of providers.

8. Employment has obtained a reasonable level of assurance that the jobactive program is being administered as designed and expected. The Assurance Strategy for the jobactive 2015–2020 contract includes new program assurance elements that have strengthened the department's monitoring of employment service provider's compliance with contractual obligations. While the department is currently reviewing the operation of the Assurance Strategy, the review does not address some of the key elements of the program, including whether the strategy reflects the department's preferred level of compliance.

9. The performance frameworks for the five jobactive services measure the performance of providers. The Key Performance Indicators developed by the department, which align with program objectives, have been developed for three of the five services, but performance targets have only been established for one of the services. Employment has an evaluation strategy for jobactive, but it does not address some aspects of the program, including contract management and the Star Ratings.

Supporting findings

Program design

10. Employment identified significant weaknesses in the former Job Services Australia model, which was the key reason for developing the new employment services program, jobactive. These weaknesses were appropriately considered when designing the jobactive program. The governance arrangements established by the department for the design and implementation of the jobactive program were comprehensive, with strong senior executive engagement and support from the 16 working groups that had responsibility for developing the policy of specific subject areas.

11. During the design of jobactive, stakeholders were consulted and Employment considered their views when designing the program. Employment provided sound advice to the Minister for Employment and the Assistant Minister for Employment on a range of design considerations and associated risks.

12. In consultation with providers and peak bodies, Employment has made several changes to the design of the jobactive program. The department established working groups or external reviews to guide improvements to the program.

Governance arrangements for ongoing management

13. Employment has established an appropriate governance structure to provide oversight and make decisions about the ongoing management of jobactive. Improved prioritisation of the activities necessary for effective delivery of the jobactive program is needed to ensure that objectives are being achieved.

14. Employment has established an appropriate framework to manage risks to the jobactive program. While the management of high-level program risks has been generally sound, there is scope for the department to improve the timeliness of monitoring and mitigation actions for identified provider risks. Further, the department should make greater use of compliance and performance data to identify and manage provider risks.

15. Employment has established a principles-based approach for the jobactive guidelines to allow providers to deliver flexible solutions tailored to an individual job-seeker's circumstances. On occasion, this has led to some inconsistency in the interpretation and application of the guidelines.

Program assurance of providers

16. Employment has established a comprehensive framework to manage provider compliance that incorporates approaches to prevent, deter, detect and correct non-compliance. Employment has a framework to monitor employment service providers' compliance with contractual obligations. The framework enables the department to obtain a reasonable level of assurance about employment service providers' compliance. There is scope to improve the analysis of complaints data, the provision of Rolling Random Sample results to providers in a timely manner, and the effective prioritisation of targeted assurance activities.

17. Employment manages non-compliance through the Remedial Action Framework. As at November 2016, six incidents of non-compliance had been investigated under the framework. The department has not analysed the reasons for the low number of recorded non-compliance cases.

18. Employment has not assessed the effectiveness of the Assurance Strategy, but has commenced a review to identify best practice and focus resources on areas of highest priority.

Performance measurement, reporting and evaluation

19. Employment has performance frameworks in place for the five services which measure the performance of the providers. Key Performance Indicators for employment service providers, New Enterprise Incentive Scheme providers and Work for the Dole Coordinators align to the objectives of the jobactive program, but performance targets have only been set for Coordinators.

20. The Star Ratings were designed to be used by job-seekers and employers to inform their choice of employment service provider, and by Employment for business reallocation. The department does not have a strategy in place to assess whether the Star Ratings are used by job-seekers or employers to influence their choice of employment service provider. The department has used the Star Ratings for the first round of business reallocations.

21. Employment monitors progress against the targets in the Portfolio Budget Statement and Corporate Plan through performance reporting to the relevant governance committee. The department publicly reported on progress against the targets in its 2015–16 Annual Report.

22. Employment has developed an evaluation strategy for two of the five services of the jobactive program, including jobactive employment services, which adopts a staged approach to evaluation. The strategy does not cover three of the services or other key elements of the jobactive program, such as contract management and the Star Ratings.

Recommendations

Recommendation No.1
Paragraph 3.10 The Department of Employment should implement a risk-based approach to prioritising the activities required to effectively manage and monitor the delivery of the jobactive program.

Department of Employment's response: *Agreed.*

Recommendation No.2
Paragraph 4.44 The Department of Employment should assess whether the current compliance regime is structured to effectively and efficiently detect and manage non-compliance, and adjust as appropriate.

Department of Employment's response: *Agreed.*

Summary of entity responses

23. The summary response from Employment is provided below.

The department welcomes the audit's conclusions and the overall positive findings. The department is particularly encouraged by the ANAO's recognition that the jobactive program design was effectively managed, with appropriate stakeholder consultation. I appreciate the audit's acknowledgment of the department's sound reasoning for the redesign of employment services, and the establishment of comprehensive governance arrangements. In addition, I welcome the ANAO's conclusion the department has obtained a reasonable level of assurance that the jobactive program is being administered as designed and expected.

In terms of areas of potential improvement, particularly with regard to our approach to the prioritisation of program management activities and the current compliance regime, the department is taking steps to consider and address these issues. This includes our current Assurance Review and through ongoing monitoring of the Delivery and Engagement Group calendar and protocol.

**Protecting Australia's Missions and Staff Overseas: Follow-on
No.05 2017–18
Department of Foreign Affairs and Trade**

Background

1. The Department of Foreign Affairs and Trade (DFAT) is responsible for Australia's external affairs and ensuring a collaborative whole-of-government approach to the conduct of Australia's international relations. This responsibility is supported by DFAT's network of 104 overseas diplomatic posts, which are staffed by approximately 897 Australian, and 2419 locally engaged, DFAT staff as at 30 June 2017. Around 20 other Australian Government agencies have official interests that require a presence at DFAT posts.
2. Australia's diplomatic posts and staff overseas are exposed to a range of security threats, from politically motivated violence, general crime, civil disorder to espionage. The level and types of threats vary for each post depending on a range of factors.
3. DFAT has allocated overseas security responsibilities between DFAT Canberra and post management, with primary responsibility at posts held by the Head of Mission/Post (HOM/HOP). DFAT's Security Branches division in Canberra undertakes a wide range of activities to support security at overseas posts, spending \$114.5 million in 2015–16.
4. Since 2012, DFAT has commissioned several reviews of its arrangements for protecting staff and posts overseas and is currently implementing recommendations from the 2015 internal review.

Audit objective and criteria

5. The objective of this audit was to examine the effectiveness of measures taken to strengthen the protection of Australia's posts and staff overseas.
6. To form a conclusion against the audit objective, the ANAO assessed whether:
 - a robust security framework that articulates an appropriate risk management and security standards regime to assess and reflect risks at overseas posts was in place;
 - appropriate security guidance, training and resourcing arrangements enabled the protection of Australia's overseas posts and staff;
 - security measures are effectively deployed, maintained and procedures are kept up-to-date, and lessons learned are captured to improve security at overseas posts; and
 - arrangements to monitor and consult on the effectiveness of the security arrangements at overseas posts are effective.

Conclusion

7. The ANAO's review of Australia's overseas missions identified that DFAT has arrangements in place to provide security to overseas missions and staff. Aspects of the delivery of the overseas security, in particular the strategic planning, management of security measures and elements of the framework supporting staff training, have not been fully effective.
8. DFAT has a comprehensive Security Manual setting out policy, procedures and processes. DFAT undertakes threat and risk assessments of locations where DFAT has overseas posts. Implementation of the recommendations arising from DFAT's security reviews would be more

effective if a comprehensive plan was in place that encompasses the internal review recommendations, as well as a forward looking plan that articulates the desired end state for DFAT overseas security. A comprehensive plan would drive more consistent monitoring of reform activities underway. DFAT would also benefit from enhancing the recording of overseas post security measures to better inform the monitoring of post security risks.

9. DFAT's arrangements to provide overseas security training have been generally effective. DFAT has established an overseas security training framework to support the delivery of training to overseas staff, and staff with dedicated security advisory roles. There are opportunities to further enhance security training and guidance for deployed and specialist security staff, as well as DFAT's ability to monitor and analyse staff training across posts.

10. DFAT has arrangements in place to specify overseas physical security measures and select and deploy the measures to posts. The manner in which these measures have been deployed and managed has not been effective in all cases. Improving the specifications and guidance for all physical and operational security measures at posts would help mitigate security risks. DFAT has in place overseas security inspection arrangements to provide assurance on the effectiveness of security measures in place at posts. The effectiveness of these inspections could be enhanced through a centrally coordinated process for planning and recording security inspections.

11. DFAT has in place monitoring and reporting on security at overseas posts, however the effectiveness of the monitoring and reporting is limited as it is not consistently implemented or verified. This reduces the assurance provided by these arrangements that security at overseas posts is effectively mitigating risks.

12. The ANAO notes the department's view that it has made progress in strengthening its security arrangements during the time of the audit.

Supporting findings

Overseas security framework

13. Following a number of internal reviews, DFAT has commenced reforms to address security capability gaps. These include the establishment of a Departmental Security Committee, improvements to security training and the decision to develop a Security Framework. The development of a forward looking strategy and an implementation plan would assist DFAT in managing the security reforms.

14. The DFAT Security Manual is the central policy document underpinning the delivery of security overseas. The Security Manual provides comprehensive security instructions for overseas posts and personnel security, however at the time of audit fieldwork the manual was not available to all staff due to its security classification. DFAT commenced a project to review security policies and the Security Manual, which included reassessing the security classification of the Security Manual. DFAT has now enabled all staff to access the Security Manual. The Security Manual would however benefit from a consistent delineation of the security roles and responsibilities between the Heads of Mission/Post and DFAT Canberra.

15. DFAT has established a group of analysts to undertake a program of ongoing threat assessment for overseas posts. However, the current framework for undertaking security risk assessments does not promote quality and consistency in assessments across the posts. In addition, the lack of consolidated information on existing security measures in place across the posts imposed limitations on DFAT's ability to identify and report security issues and measures to senior management.

16. The ANAO identified instances where DFAT had not appropriately managed sensitive and classified information. Further guidance and support to posts would better position them to manage classified material.

Guidance, training and skills

17. DFAT has an overseas security training framework in place to support Australian staff deployed to overseas posts, locally engaged staff, and staff with dedicated security advisory roles. Security training provided to Australian and locally engaged staff is generally effective in supporting their needs at overseas posts, although there are opportunities to enhance the Security Leaders Training for Post Security Officers through practical guidance on the day-to-day security activities undertaken in that role.

18. DFAT deploys its Regional Security Advisers to higher threat posts on a risk basis. While DFAT has improved management and support of Regional Security Advisers, these roles would benefit from a formalised training package.

19. DFAT has commenced activities to enhance the policies and procedures to train Canberra-based security staff. Further improvements could be made to the training and guidance of specialist security staff undertaking security inspections of posts.

20. The information systems used to record the department's security training information do not provide management with informative reporting and assurance that staff deployed overseas have the appropriate security training. Improvements in DFAT's ability to monitor and analyse security training would assist DFAT in managing risk and provide more meaningful governance and oversight.

Overseas arrangements for security measures

21. DFAT's arrangements overseas are based on the 'security-in-depth' security management principle. DFAT has largely established minimum specifications for physical security measures deployed to posts. There is limited guidance to overseas posts on operational security measures, such as guarding standards for different threat environments. There would be benefit in DFAT providing further guidance on these issues.

22. DFAT identifies the security measures to be deployed to overseas posts based on an operational threat assessment and a security risk assessment. There is no documented end-to-end process or procedure connecting the activities that inform the deployment of security measures, which are undertaken by different sections in the Security Branches division. This reduces DFAT's effectiveness in determining the appropriate security measures to be deployed to posts.

23. DFAT undertakes overseas security inspections to ensure posts are appropriately protected. However, these inspections are not centrally coordinated or recorded. Inspection reports have varied in quality, yet recent reports have shown evidence of improved format and content consistency.

24. Based on the evidence from the four posts visited during the audit, each of which presents very different threat and risk environments, DFAT's security measures at overseas posts are not being effectively managed and maintained in all cases.

25. The overseas posts visited during the audit had Crisis Action Plans in place, which include both business continuity planning and consular crisis planning. Testing of Crisis Action Plans at the posts visited was oriented towards consular crisis events external to the post rather than a security incident against the post or post staff. Crisis Action Plans would benefit from a greater focus on managing security incidents at posts.

Monitoring, reporting and consultation

26. DFAT monitors security arrangements at overseas posts through a combination of overseas security inspections and self-assessments. DFAT does not have a consistent process in place to ensure all self-assessments are accurate, reported and that identified security issues are actioned.

27. DFAT reports annually against the performance obligations for delivering security overseas as outlined in the Portfolio Budget Statements for the Foreign Affairs and Trade Portfolio. However, these performance indicators do not allow for a meaningful assessment of the extent to which DFAT is achieving its objectives.

28. DFAT has processes in place for reporting security incidents and breaches. The security breaches database has data integrity and system limitations that reduce DFAT's ability to accurately record and consistently respond to security breaches. ANAO fieldwork at overseas posts identified instances of security incidents and breaches not being reported.

29. DFAT's Internal Audit Branch is responsible for providing assurance on DFAT's activities, controls, compliance with requirements and identifying opportunities for improvement to the DFAT Audit and Risk Committee. Post the 2015 Review, Internal Audit has included an audit in the Security Branches division of 'Security Clearances: Processes and Outcomes' in its 2016–17 work program as part of standard risk based internal audit planning.

Recommendations

Recommendation no.1

Paragraph 2.20

The Department of Foreign Affairs and Trade develop:

- (a) a strategic plan that addresses its future security needs and aligns with key activities of the department, including encompassing all the reforms and activities underway; and
- (b) a detailed implementation plan for addressing the 2015 internal review recommendations, as one of the reforms captured in the strategic plan.

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

Recommendation no.2

Paragraph 2.41

To better inform governance and oversight by the Departmental Security Committee, the Department of Foreign Affairs and Trade:

- (c) develop and maintain a comprehensive database of physical and operational security measures at overseas posts; and
- (d) develop a more consistent framework for assessing security risks for overseas posts.

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

Recommendation no.3

Paragraph 3.26

The Department of Foreign Affairs and Trade develop mechanisms to provide assurance that staff receive the required security training for their posting, and to inform future planning and improvements to the security training program.

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

Recommendation no.4

Paragraph 4.11

That the Department of Foreign Affairs and Trade enhance the coordination of the deployment of security measures to achieve greater consistency when determining security measures to be deployed to overseas posts.

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

Recommendation no.5
Paragraph 4.21 The Department of Foreign Affairs and Trade refine a framework for risk-based selection of posts for security inspection, improve the deployment of inspection staff resources, and develop consistent standards and accountability mechanisms to enable the timely identification and resolution of security vulnerabilities at posts.

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

Recommendation no.6
Paragraph 4.26 The Department of Foreign Affairs and Trade strengthen arrangements for managing and maintaining security measures at overseas posts to ensure the measures appropriately mitigate identified risks.

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

Recommendation no.7
Paragraph 5.17 The Department of Foreign Affairs and Trade develop an information system to respond to security breaches, and identify trends and mitigation strategies, based on reliable and useful breach data.

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

Summary of entity response

30. The Department of Foreign Affairs and Trades' summary response to the report is provided below.

Department of Foreign Affairs and Trade

The Department of Foreign Affairs and Trade (DFAT) welcomes the audit report *Protecting Australia's Missions and Staff Overseas: Follow-on* (the Report).

DFAT takes very seriously its responsibilities for the security of staff, property and information at its overseas missions. DFAT accepts the Report's recommendations, which are broadly in line with the ongoing implementation of reviews commissioned by DFAT in 2015.

DFAT would have welcomed more recognition in the Report of the measures taken and progress made to strengthen DFAT's security culture, procedures and systems following the internal reviews. DFAT also does not agree fully with all of the Report's supporting findings.

However, DFAT will be guided by the Report and will implement its recommendations to build on and further enhance DFAT's commitment and ongoing program of work to strengthen DFAT's security culture and to fulfil its security responsibilities in Australia and overseas.

Summary

Background

1. The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) places a duty on Accountable Authorities¹ of Commonwealth entities to establish and maintain appropriate systems of risk oversight and management for the entity.² To promote a coherent approach to discharging these duties and to assist Commonwealth entities to understand the requirements for managing risk, the Australian Government released the Commonwealth Risk Management Policy (Commonwealth Policy) on 1 July 2014 as an element of the Public Management Reform Agenda (PMRA).

2. One of the guiding principles of the PMRA reforms is that ‘engaging with risk is a necessary first step in improving performance’, and one of the lasting benefits that the reforms are seeking to deliver is ‘a more mature approach to risk across the Commonwealth.’³ The effective management of risks assists Commonwealth entities and companies to:

- set and achieve strategic objectives;
- comply with legal and policy obligations;
- improve decision making; and
- allocate and utilise resources.

3. The Joint Committee of Public Accounts and Audit (JCPAA) highlighted, in its recent report on Commonwealth Risk Management, that risk management should be an integral part of the way the Australian public sector conducts business.⁴

Commonwealth Risk Management Policy

4. The Commonwealth Policy defines risk as ‘the effect of uncertainty on objectives’ and risk management as the ‘coordinated activities to direct and control an organisation with regard to risk’.⁵ The goal of the Commonwealth Policy is to embed risk management as part of the culture of Commonwealth entities where the shared understanding of risk leads to well informed decision making.⁶

¹ An Accountable Authority for a Commonwealth entity is generally the person or group of persons that has responsibility for, and control over, the entity’s operations. Sub-section 12(2) of the PGPA Act sets out the person(s) or body that is the Accountably Authority of a Commonwealth entity.

² *The Public Governance, Performance and Accountability Act 2013*, section 16.

³ Explanatory Memorandum to the *Public Governance, Performance and Accountability Bill 2013*, paragraphs 16 and 18.

⁴ JCPAA, *Report 461 Commonwealth Risk Management, Inquiry based on Auditor-General’s report 18 (2015-16)*, May 2017, paragraph 1.2.

⁵ Department of Finance, *Commonwealth Risk Management Policy*, Finance, 2014, paragraph 2.

⁶ *ibid.*, paragraph 7.

5. The Commonwealth Policy advises that risk culture is the set of shared attitudes, values and behaviours that characterise how an entity considers risk in its day-to-day activities. A positive risk culture: promotes an open and proactive approach to managing risk that considers both threat and opportunity; and is one where risk is appropriately identified, assessed, communicated and managed across all levels of the entity.⁷

6. Non-corporate Commonwealth entities, which include departments of state and most regulatory bodies, must comply with the Commonwealth Policy. Corporate Commonwealth entities are not required to comply with the policy, but are expected to review and align their risk management frameworks and systems with the policy as a matter of good practice.

7. The Commonwealth Policy mandates 22 specific requirements organised in nine policy elements. The policy elements are summarised in Box 1 and reproduced in Appendix 2.

Box 1: Policy Elements—Commonwealth Risk Management Policy

Element 1: Establishing a risk management policy – *four requirements*

Element 2: Establishing a risk management framework – *nine requirements*

Element 3: Defining responsibility for managing risk – *three requirements*

Element 4: Embedding systematic risk management into business processes

Element 5: Developing a positive risk culture

Element 6: Communicating and consulting about risk

Element 7: Understanding and managing shared risk

Element 8: Maintaining risk management capability

Element 9: Reviewing and continuously improving the management of risk

Audit objective and criteria

8. The objective of the audit was to assess how effectively selected public sector entities manage risk. To form a conclusion against the audit objective, the ANAO adopted the following high-level audit criteria:

- the selected entities' risk management policies and frameworks meet the requirements of the Commonwealth resource management framework, including the Commonwealth Risk Management Policy;
- the selected entities' business operations and key business processes are informed by considerations of risk; and
- the selected entities have established a supporting risk culture.

9. This performance audit is one of three audits in the ANAO's work program that address key aspects of the implementation of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). These audits have been identified by the Joint Committee of Public Accounts and Audit (JCPAA) as priorities of the Parliament and will assist in keeping the Parliament, government and the community informed on implementation of the resource, risk and performance management frameworks introduced by the PGPA Act.

⁷ *ibid.*, paragraphs 17-18.

10. Four non-corporate Commonwealth entities were selected for inclusion in the audit: the Department of Employment (Employment), the Department of Health (Health), the Australian Communications and Media Authority (ACMA), and the Australian Fisheries Management Authority (AFMA).

Conclusion

11. The four entities involved in the audit have met or mostly met the majority of the 22 specific requirements of the Commonwealth Risk Management Policy, with further work required by three entities (Health, ACMA and AFMA) to fully realise the Policy's goal of embedding risk management as part of the entity's culture, where the shared understanding of risk leads to well informed decision making.

- Employment has a mature and integrated approach to the identification and management of risk and has implemented a range of measures to build its risk capability, including an enterprise-wide risk management system. There is entity-level oversight of the operation of the risk management policy and framework through an internal governance committee which has reported regularly to the department's Executive Committee on the adequacy of the risk framework and associated processes.
- Health has an ongoing program to strengthen and fully operationalise its risk management framework and capability, following reviews in 2014 and 2016 which identified scope for improvement. Key risks are regularly considered by Health's Executive Committee in its consideration of specific departmental strategies and plans. There remains scope for a more structured approach to reporting on and reviewing enterprise-level risks and the status of risk controls and treatments.
- ACMA's key risks are reviewed quarterly by the senior executive as part of a regular cycle, and the Authority is in the process of reviewing its risk management policy. ACMA included a risk tolerance statement in its 2015 risk management guide but has not yet developed a risk appetite statement. ACMA's risk management guidance provides a high-level description of risk management, but limited practical guidance on how staff should manage risk.
- Sustainability risks were regularly considered by the AFMA Commission in its consideration of specific fisheries management strategies and plans. As with Health, there remains scope for a more structured approach to reporting on and reviewing enterprise-level risks, controls and treatments. Risk management guidance available on the Authority's intranet was minimal and not up to date, and AFMA does not have formal learning and development programs in risk management for staff. The Authority should address these impediments to the development of a positive risk management culture.

12. Each of the selected entities has continued to develop its risk management policies, framework and capability since the release of the Commonwealth Policy in July 2014. As a result of these efforts Employment has met, and Health and ACMA have mostly met, the requirement of policy element five and the overarching goal of the Commonwealth Policy—relating to the development of a positive and embedded risk culture. AFMA has partly met the requirement of policy element five and the overarching policy goal.

13. A number of areas for improvement have been identified for the selected entities, and more general matters which may also warrant attention by other Commonwealth entities. The two categories of learnings address: for the selected entities, measures which would improve compliance with the policy requirements; and, for all public sector entities, key learnings focusing on strengthening risk management capability, culture and performance.

Supporting findings

Implementation

14. The four selected entities have met or mostly met the majority of the 22 mandated requirements of the Commonwealth Risk Management Policy (Commonwealth Policy):⁸

- the Department of Employment (Employment) met 19 and mostly met two of the requirements (total 21/22 or 95 per cent);
- the Department of Health (Health) met 10 and mostly met 10 of the requirements (total 20/22 or 90 per cent);
- the Australian Communications and Media Authority (ACMA) met six and mostly met 10 of the requirements (total 16/22 or 72 per cent); and
- the Australian Fisheries Management Authority (AFMA) met 13 and mostly met two of the requirements (total 15/22 or 68 per cent).

Risk policy and framework

15. Each of the selected entities released an updated risk policy and framework within 12 months of the release of the Commonwealth Risk Management Policy. The selected entities have also continued to update elements of their policy and framework (Employment and AFMA) or have plans to do so (Health and ACMA).

Stakeholder consultation

16. The selected entities' risk management frameworks were developed with extensive internal consultation, including with audit committees. There remains scope for entities to include, in their risk framework documentation, their arrangements for communicating, consulting and reporting on risk to both their internal and external stakeholders.

Responsibilities

17. For three entities, responsibilities for managing and reporting on risk are clearly identified (Employment, Health and AFMA). ACMA has documented some, but not all, responsibilities.

Defining risk appetite and tolerance

18. Three of the selected entities developed new or revised risk appetite and tolerance statements following the release of the Commonwealth Policy (Employment, Health and AFMA). One entity included a risk tolerance statement in its 2015 risk management guide, but has not developed a risk appetite statement (ACMA).

Considering risk in business decisions and operations

19. The risk framework and key risks were regularly considered at senior levels within the selected entities. There is scope for a more structured approach to reporting on and reviewing enterprise-level risks and the status of risk controls and treatments (Health and AFMA). At present there is limited management reporting to the Executive Committee (Health) or Commission (AFMA) on enterprise-level risks, and no reporting on operational risks to the Audit and Risk Committee (Health and AFMA).

⁸ The Commonwealth Policy mandates the implementation of 22 specific requirements organised in nine elements.

20. The ANAO's review of a selection of business activities in each entity indicates that risk management also informs normal business operations. Risk was considered when key business decisions were made or advice was provided to senior management or government in the areas selected for review.

Managing shared risk

21. The identification and management of shared risks is one of the least mature elements of entities' implementation of the Commonwealth Policy. Shared risks are not routinely identified and managed as such in the context of entities' risk management policies and frameworks (Health, ACMA and AFMA).

Risk management capability

22. The selected entities have implemented a range of measures to build their risk management capability. Key measures include:

- regular internal reporting on the entity's risk profile and risk framework (Employment and ACMA);
- risk management guidance, templates and dedicated risk hot lines or email addresses (Employment, Health and ACMA);
- staff resources dedicated to risk management (Employment, Health);
- custom-built risk management systems (Employment); and
- learning and development programs which address risk management, including eLearning modules (Employment, Health and ACMA).

Review activity

23. The selected entities' risk management policies include a commitment to regularly review the risk framework, and each of the entities has continued to review its risk management policies and framework since the Commonwealth Policy was released in July 2014.

Corporate plans

24. The selected entities were at different levels of maturity in their implementation of the corporate plan requirement relating to risk, with further work required in all entities to fully embed the requirement.

Areas for improvement and key learnings

25. Based on the audit findings, the Australian National Audit Office has identified areas for improvement on a range of matters which warrant further attention by the selected entities, and key learnings that could be applied by other public sector entities. The two categories of learnings presented in Box 2 and Box 3 address the Commonwealth Policy's goal of embedding risk management as part of an entity's culture, where the shared understanding of risk leads to well informed decision making.

Box 2: Areas for improvement for the selected entities

- Defining the entity's risk appetite in the risk management policy (ACMA).
- Enhancing risk management capability (Health, ACMA and AFMA).
- Improving the identification and management of shared risks (all entities).
- Developing arrangements for communicating, consulting and reporting on risk with internal and external stakeholders (all entities).
- Improving arrangements to regularly review risks, risk management frameworks and the application of risk management practices (Health, ACMA and AFMA).
- Seeking formal assurance from managers in preparing entity responses to the Comcover survey of risk maturity (all entities).
- Fully embedding the corporate plan requirement relating to risk (all entities).
- Assigning responsibility for risk management to individuals or positions, rather than work areas (Health, ACMA and AFMA).

Box 3: Key learnings that could be applied by other public sector entities

- Regular management reporting on risk—including enterprise-level risks and the status of risk controls and treatments—helps provide assurance on risk management.
- Regular and structured review of risk—including enterprise-level risks and the status of risk controls and treatments by governance committees, the executive board and the audit committee—contributes to embedding systematic risk management into business processes.
- Updating guidance and templates to reflect the entity's risk appetite and tolerance supports the development of a positive risk culture.
- Providing practical guidance on how staff should manage risk contributes to building internal risk management capability.
- Establishing strategies to improve participation in risk related learning and development programs, including the completion of eLearning modules, helps maintain risk management capability.
- In considering shared risks, focus on shared outcome risks rather than low level transactional risks.
- Recording and analysing risk incidents and lessons learned can provide valuable insights to management and the audit committee on risk management performance and the effectiveness of the risk management framework.
- Consider mechanisms to measure risk management performance.

Summary of entity responses

26. The Department of Employment, the Department of Health, the Australian Communications and Media Authority, the Australian Fisheries Management Authority, and the Department of Finance were provided with a copy of the proposed audit report, and the Australian Public Service Commission was provided with an extract of the proposed report for comment. A summary of the responses received from entities is provided below.

Department of Employment

27. The Department of Employment (the Department) welcomes the overall findings of the Australian National Audit Office's (the ANAO) Performance Audit of the Management of Risk by Public Sector Entities (the audit).

28. The Department recognises risk management is a cornerstone of good corporate governance and organisational success. Managing risk well enables us to achieve our outcomes and promotes the efficient, effective and ethical use of Australian Government resources. The audit concludes the Department has a mature and integrated approach to the identification and management of risk and has implemented a range of measures to build its risk capability. The Department has consciously invested in its risk management framework and I am pleased the ANAO has identified the positive returns from this investment.

29. The process of mature risk management is ongoing and we will take action in relation to areas for improvement identified in the audit that relate to the Department.

Department of Health

30. I am pleased that the ANAO found that the Department of Health (Health) has met a substantial number of the requirements of the Commonwealth Risk Management Policy. The report demonstrates the progress Health has made to improve its risk management approach and shift to a more risk aware culture. Shifting an organisation's risk culture requires significant commitment from all levels within the organisation and takes time.

31. In April 2017, Health's Accountability Authority endorsed and released a revised Risk Management Policy. This Policy articulates our approach to building a culture of effective risk engagement, where each of us has the skills and confidence to identify and manage risks appropriately.

32. The report has highlighted several areas for improvement in order to strengthen the systems and culture that are required to embed a risk aware culture. Health agrees with these findings and will implement actions to facilitate improvement in these areas.

Australian Communications and Media Authority

33. The findings are timely as the ACMA Risk Management Framework is currently under review and we will keep the ANAO's findings front of mind while making refinements to this framework.

34. As part of our review, we have already taken steps to address some of the areas for improvement identified by the ANAO. Our Executive Group is releasing a revised Risk Appetite Statement and we are working to ensure our agency has the capability to engage effectively with risk.

35. The Executive Group has started the discussion to establish an enduring policy position on the identification and management of shared risk.

36. We have appointed a Chief Risk Officer to drive improvements to the Risk Management Framework and provide additional support to staff.

37. There is a strong culture of risk management within the ACMA. The insights provided by the ANAO will help us to refine our Risk Management Framework in a way that best supports and builds on that culture.

Australian Fisheries Management Authority

38. The Australian Fisheries Management Authority (AFMA) acknowledges the supported findings and areas of improvement outlined in this report. AFMA has recently reviewed our Risk Management Policy and Risk Management Guidelines and the report will greatly assist in their full implementation.

Department of Finance

39. The Department of Finance supports the findings of this report.

Efficiency of the Australia Council's Administration of Grants

No.7 2017–18

Australia Council

Summary and recommendations

Background

1. The Australia Council is the Australian Government's arts funding and advisory body.¹ The Australia Council's overarching outcome is to support 'Australian artists and arts organisations to create and present excellent art that is accessed by audiences across Australia and abroad'.²

2. The Australia Council delivers arts funding principally through a range of grants programs. In 2015–16, grants programs delivered by the Australia Council included: the Major Performing Arts Program and government initiatives (\$123.2m); and the Australia Council Grants Program (\$50.6 million).³ Total expenditure on grants programs (\$173.8 million) represented 88 per cent of the Australia Council's total expenses (\$197.6 million) in 2015–16.

3. In administering its Grants Program, the Australia Council is required to use public funds efficiently. This responsibility is explicitly stated in the:

- *Public Governance, Performance and Accountability Act 2013* (PGPA Act) which requires the accountable authority—in this case, the Board of the Australia Council—to manage and use public resources efficiently⁴; and
- *Australia Council Act 2013* which requires the Australia Council's Board to ensure the proper and efficient performance of the Australia Council's functions, and the delivery of these through a range of policies and programs, including the provision of grant funding.⁵

Audit objective and criteria

4. The objective of this audit was to determine whether the Grants Program is being administered efficiently by the Australia Council in relation to suitable comparators. To form a conclusion against the audit objective, the following high level criteria were adopted:

- How do the costs and other input and output indicators of administering the Grants Program compare against suitable comparable organisations as well as to the Australia Council's previous approach?

¹ Australia Council, *Annual Report 2015–16*, p.13.

² Australia Council, *Portfolio Budget Statements*, 2016–17, p.5.

³ As outlined in paragraph 1.4, the Grants Program includes five separate grants programs: Arts Projects (Individuals and Groups); Arts Projects (Organisations); Career Development Grants for Individuals; Fellowships; and Four Year Funding for Organisations.

⁴ PGPA Act, paragraph 15(1)(a) and section 8.

⁵ *Australia Council Act 2013*, sub-section 15(1) and paragraph 10(2)(g).

- Does the design, implementation and administration of the Grants Program promote the efficient use of resources?

Conclusion

5. Benchmarking against comparator entities indicates that the Australia Council could be more efficient in administering the Grants Program.

6. The Australia Council has not established grant administration metrics to support the measurement and benchmarking of its efficiency in administering grant funding—one of the key mechanisms for delivery of its statutory functions—against suitable organisations or its own performance over time. Benchmarking conducted by the ANAO indicates that the efficiency of the Australia Council’s administration of the Grants Program, and its component grants programs, varies across the measures calculated.

7. Consistent with its legislative obligations, the Australia Council has sought to be efficient in its grants administration although, in the absence of an efficiency baseline, measures and trend analysis, it is not clear if the steps taken have improved efficiency. While some elements of the Australia Council’s approach to grants administration reflected a risk-based approach to improving efficiency, the approach adopted was not supported by a more formal risk assessment. Conducting a risk assessment would assist the Australia Council to better align resources to risk and identify opportunities for greater efficiency.

Supporting findings

Measuring and comparing efficiency in grants administration

8. The Australia Council has not established metrics to inform itself, the Parliament and the public about how efficient the Australia Council is at distributing arts grants funding.

9. The Australia Council captures data about inputs and outputs but it does not currently use this data to calculate measures of efficiency. The ANAO calculated that—for the period from December 2015 to November 2016—the average cost for the Australia Council to: administer the Grants Program was \$0.04 for each \$1 of grant funding; and to administer each application received was \$1 359.

10. It is unclear if the Australia Council has become more efficient over time. The Australia Council has not measured changes in its efficiency over time, or set a target(s) to work towards. Although it has sought to improve its grants administration efficiency through the redesign of the Grants Program, it is unclear if the Australia Council’s grant administration is more efficient as a result of the changes it has made.

11. The Australia Council does not benchmark the efficiency of its grants administration processes against other organisations. Benchmarking conducted by the ANAO indicates that the Australia Council’s average cost to administer the Grants Program is \$0.01 (33 per cent) above the average cost of the group of comparator entities selected by the ANAO. Results for three of the five programs included in the Grants Program against the efficiency measure (cost to provide \$1 grant funding) were lower than the average cost for the eight non-Australia Council grants programs analysed. For the same measure, the average cost across the five Australia Council programs was 46 per cent higher than the average cost for the eight non-Australia Council grants programs.

Promoting efficient grants administration

12. The Australia Council has taken steps to promote efficient grants administration. However, the impacts of these changes are unclear as the Australia Council does not assess and measure its efficiency.

13. The Australia Council has not undertaken a risk assessment of its Grants Program to inform its approach to grants administration. There would be benefit in the Australia Council assessing risks more formally and using that assessment to identify opportunities to better target resources.

Recommendations

Recommendation no.1 The Australia Council give greater focus to the efficiency of its grants administration by:

Paragraph 2.35

- (a) establishing suitable measures of efficiency;
- (b) routinely benchmarking its efficiency; and
- (c) evaluating the results from efficiency benchmarking to identify opportunities to improve efficiency.

Australia Council response: *Agreed.*

Recommendation no.2 The Australia Council assess risks at a range of levels across its granting activities and apply a risk-based approach to the assessment of grant applications and management of funding agreements.

Paragraph 3.28

Australia Council response: *Agreed.*

Summary of entity responses

14. A summary of entity responses are below, with full responses provided at Appendix 1.

Australia Council

The Australia Council and its Board take their statutory obligations very seriously and are committed to the delivery of accessible, efficient and effective arts funding, including through the Australia Council grants program. The Australia Council welcomes the ANAO audit report on the efficiency of its grants program and agrees in principle to its recommendations.

The Australia Council is pleased that the ANAO audit report acknowledges the significant structural reforms that have been implemented across the Council and its grants program. Throughout the design and implementation of the grants program, the Australia Council and its Board have worked assiduously to achieve high standards of efficiency and effectiveness in the delivery of arts funding. Efficiencies have already been realised through a significant reduction in the number of grants categories, development of streamlined funding criteria and eligibility requirements, and a decrease in staffing levels for the grants program, despite increases in the quantum of grants funds under administration.

The Australia Council notes its view that the ANAO's findings in respect of benchmarking Council's grants administration efficiency against other organisations did not sufficiently acknowledge the lack of data available from relevant comparator organisations to benchmark against. Given that data from relevant comparator organisations was not available for the ANAO's audit, the Australia Council does not consider that the benchmarking exercise undertaken by the ANAO was an appropriate measure of comparative performance.

The Australia Council is committed to the continuous improvement of its grants administration processes and will continue to consider the ANAO's recommendations as part of Council's ongoing work to improve the delivery of its grants program. The Australia Council notes the Government's recent decision to transfer an additional \$80.2 million over four years to the Australia Council from 2017-18 will enable it to increase the level of investment in the grants program and deliver significant efficiency gains, which are estimated to be approximately 20 per cent for those programs to which additional funds will be applied.

Department of Finance

The Department of Finance supports the finding of this report regarding Australia Council considering the option of sourcing grants administration support and services via the Community and/or Business Grants Hubs.

Department of Social Services

DSS welcomes the finding from the ANAO performance audit report relating to the Department and notes the potential cost savings for the Australia Council if the Community Grants Hub was used to deliver grant funding. DSS would welcome working with the Australia Council in considering accessing grants administration support and services via the Community Grants Hub as part of the Australia Council's planned IT business needs analysis.

National Health and Medical Research Council

NHMRC strongly supports the peer review of grant applications and commends the Australia Council on its commitment to efficient and effective peer review. NHMRC extends its support for the Australia Council as it continues to strengthen and streamline its administration and is more than willing to share our experience with Australia Council.

Background

1. The *Freedom of Information Act 1982* (FOI Act) and the *Australian Information Commissioner Act 2010* (AIC Act) together constitute the legislative framework to provide the public with a right of access to government documents. Ministers and government entities may claim certain specific grounds (exemptions) as a basis to refuse access to documents. Those decisions are subject to appeal. Since the FOI Act's inception, there have been more than one million applications made for access to documents. Individual entities are responsible for receiving and deciding on FOI applications. The Australian Information Commissioner, supported by his office (OAIC) has responsibility for oversight of the operation of the FOI Act.

Audit objective and criteria

2. The objective of the audit was to assess the effectiveness and efficiency of entities' implementation of the *Freedom of Information Act 1982*.
3. To form a conclusion against the audit objective, the ANAO adopted the following high level criteria:
 - the Office of the Australian Information Commissioner effectively and efficiently provides guidance and assistance to entities and monitors compliance with the FOI Act;
 - selected entities effectively and efficiently process FOI document access applications; and
 - selected entities release relevant information under the Information Publication Scheme.

Conclusion

4. The administration of freedom of information applications in the three selected entities examined was generally effective. While the proportion of applications where access is refused has remained relatively stable at around 10 per cent, the number of exemptions from release being claimed by all entities across the Commonwealth has increased by 68.4 per cent over the last five years¹, with the use of two particular exemptions having increased by more than 300 per cent and almost 250 per cent respectively.
5. OAIC, the FOI regulator, does not have an articulated statement of its regulatory approach and has undertaken limited regulatory activity since 2012.
6. OAIC publishes a wide range of useful guidance for entities and FOI applicants.
7. In 2015-16, OAIC reported that it had met its performance target for merit review of entity decisions for the first time. The ANAO noted that the time required to conduct a merit review varies substantially, with the elapsed time for decisions reported by OAIC in 2015-16 ranging from 81 to 1228 days (average of 372 days).

¹ Noting that an individual FOI claim can be subject to multiple categories of exemption and that over the same period the number of applications increased by 53.4 percent.

8. There is very limited quality assurance or verification of the reliability of FOI data reported to OAIC by entities.
9. Based on the targeted testing of FOI applications made to AGD, DSS and DVA, those agencies generally appear to be providing appropriate assistance to applicants. The selected entities' ability to search for documents could be improved if they had the capability to electronically search the content of all electronic documents.
10. The number of exemptions claimed by entities has increased by 68.4 per cent over the last five years. The use of two exemptions in particular has increased substantially.
11. Across all entities:
 - 88 per cent of applications were processed within the required 30 day period;
 - the proportion of applications refused has remained fairly constant at about 10 per cent over the last five years;
 - the number of exemptions being claimed is increasing, especially in relation to two of the 'top ten' exemptions; and
 - the number of applications for internal review is trending upwards.
12. None of the three selected entities fully complied with the FOI Act requirement to publish specific required information as part of the IPS.
13. None of the three selected entities, nor OAIC, met the FOI Act requirement to review the operation of the IPS in their entity by May 1 2016.
14. The three selected entities updated their disclosure logs as required, noting that four of 15 required updates were late.

Supporting findings

OAIC's role in freedom of information

15. The OAIC website (www.oaic.gov.au) contains a large amount of guidance and information material for applicants and entities and effectively meets the obligation under s 93A of the FOI Act to 'issue guidelines for the purposes of the Act'.
16. OAIC receives about half of all applications for review of entity decisions, with the remainder subject to entity internal review. In 2015-16, OAIC exercised a discretion not to review 31.9 per cent of the applications that were finalised that year.
17. The proportion of reviewed entity decisions set aside or varied by OAIC has increased from about 30 per cent in 2011-12 to about 50 per cent in 2015-16.
18. In 2015-16, OAIC reported that it exceeded its target for the proportion of applications for merit review finalised within 12 months. Despite this, the ANAO noted that the time required to conduct a merit review varies substantially, with the elapsed time for decisions reported by OAIC in 2015-16 ranging from 81 to 1228 days (average of 372 days).
19. Around 300 entities report a range of FOI statistics quarterly and annually to OAIC. Although OAIC advised that it risk manages the collection of statistics, it undertakes very limited quality assurance of their accuracy. OAIC's annual reports contain useful analysis and commentary on FOI statistics.
20. Since 2012, OAIC has undertaken limited FOI regulatory activity. OAIC also does not have a statement of its regulatory approach in relation to FOI.

Entity processing of FOI applications

21. The targeted testing of FOI applications to AGD, DSS and DVA examined by the ANAO suggested that the selected entities generally met the requirement to assist applicants to lodge applications.

22. The ANAO's targeted testing of FOI applications to AGD, DSS and DVA showed that the selected entities generally conducted reasonable searches to attempt to locate documents. Entities' ability to search for relevant documents could be improved were the entities able to electronically search the contents of all documents (rather than just by title).

23. The FOI Act requires that entities determine (make a decision about) applications within 30 days. Between 2011-12 and 2015-16, 88.4 per cent of FOI applications were reported as having been determined within 30 days.

24. Based on its targeted testing in selected entities, the ANAO concluded that those entities appropriately applied refusals and exemptions and conducted internal reviews. About 10 per cent of all FOI applications are refused (that is, that access to documents is not given). The number of exemptions (that is, grounds to deny access) claimed over the last five years has increased by 68.4 per cent, noting that an individual FOI claim can be subject to multiple categories of exemption. Over the same period the number of applications increased by 53.4 percent. The use of the 'certain operations' and 'national security' exemptions has increased by 318 per cent and 247 per cent respectively.

25. The number of applications for internal review of FOI decisions increased by 35 per cent from 2014-15 to 2015-16. The proportion of internal review decisions where the original decision was affirmed is about half.

26. Of the selected entities, AGD has a manual which provides guidance for FOI decision-makers and administrators. There would be benefit in DSS and DVA considering whether to develop a manual or other consolidated guidance material.

Information Publication Scheme

27. None of the three selected entities met all of the statutory requirements for information they are obliged to publish as part of the Information Publication Scheme.

28. None of the three selected entities, nor OAIC, met the statutory requirement to review the operation of the Information Publication scheme by 1 May 2016.

29. Based on the limited number of FOI applications to the selected entities examined by the ANAO, AGD, DSS and DVA had updated their disclosure logs as required except that four of 15 required updates were late.

Recommendations

Recommendation No.1 The Office of the Australian Information Commissioner should develop and publish a statement of its regulatory approach based on an assessment of risks and impacts associated with entity non-compliance with the requirements of the FOI Act.

Paragraph 2.36

Entity response:

Agreed. I am pleased to report that the OAIC's 2017-18 Corporate Plan contains a commitment to develop an FOI regulatory action policy. This policy will outline our regulatory approach with respect to our full range of FOI functions. The 2017-18 Corporate Plan is available on the OAIC's website at www.oaic.gov.au.

Summary of entity responses

30. A summary of entity responses is below.

Office of the Australian Information Commissioner

The OAIC welcomes external scrutiny of its operations and will seek to use the useful engagement we have had with the ANAO during the course of this audit, and the contents of the report, to assist us in our continuous endeavours to improve our operations in accordance with our statutory responsibilities to the benefit of the Australian community.

The OAIC also welcomes the acknowledgement in the report the OAIC has been through a sustained period of uncertainty between the 2014 and 2016 budgets, when responsibility for undertaking a large slice of the OAIC's FOI functions and associated resourcing was withdrawn from the OAIC and distributed to other agencies. Now that that period is behind us the OAIC is pursuing all of its statutory FOI regulatory activity, taking into account our resourcing and balancing our priorities across all of our statutory functions.

The OAIC agrees with the ANAO's recommendation to create an FOI regulatory action policy. The OAIC's 2017-18 Corporate Plan contains a commitment to develop an FOI regulatory action policy. Although aspects of such a document are already contained in the FOI Guidelines the OAIC acknowledges that pulling this information together and expanding on it in a single policy document will assist agencies and the public better understand the OAIC's approach to its FOI regulatory activity.

Attorney-General's Department

The Attorney-General's Department welcomes the findings of the ANAO audit on the administration of the *Freedom of Information Act 1982* (the audit). The department is particularly pleased with the findings regarding the timeliness of processing requests and the static nature of the proportion of requests being refused.

The department is continually looking for ways to improve its processes and will consider options for streamlining the disclosure log process to ensure the statutory timeframe of 10 business days is routinely met.

Department of Social Services

I welcome the findings of the report, and I am pleased to note that the ANAO considers that DSS is administering the FOI Act effectively. DSS takes seriously its obligations under the FOI Act to treat

Government-held information as a national resource and to provide the Australian community with access to documents in accordance with the legislative framework.

I also note the specific areas the ANAO has identified where DSS could improve its FOI administration, particularly with regard to:

- developing a manual or other consolidated guidance material for FOI decision-makers and administrators; and
- reviewing and updating its Entity Plan to maintain full compliance with the Information Publication Scheme requirements under section 8 of the FOI Act.

Department of Veterans' Affairs

The Department of Veterans' Affairs notes the result of the audit and thanks the Australian National Audit Office for the opportunity to respond to the issues raised.

Management of the Pre-construction Phase of the Inland Rail Programme
ANAO Report No.9 2017–18
Australian Rail Track Corporation
Department of Infrastructure and Regional Development
Department of Finance

Background

1. The Inland Rail programme is to construct an inland rail line from Melbourne to Brisbane, covering a total distance of approximately 1700 kilometres. In 2014, the Australian Government provided \$300 million for pre-construction work on the proposed rail line, and in 2017 committed \$8.4 billion to build it. The Australian Rail Track Corporation (a wholly government owned business enterprise) is undertaking the pre-construction work, and has been selected by government to deliver the full programme of works over the next seven years, 2017–18 to 2024–25.
2. The Australian Government's commitment to build the Inland Rail in its entirety, and confirmation that the Australian Rail Track Corporation was best placed to deliver it, were announced during the course of the pre-construction activities. The timing of these decisions created challenges for the Australian Rail Track Corporation in managing the pre-construction programme.

Audit objective and criteria

3. The audit objective was to assess whether value for money was being delivered by the Australian Rail Track Corporation's management of the pre-construction phase of the Inland Rail programme. To form a conclusion against the audit objective the Australian National Audit Office examined whether:
 - governance arrangements were appropriate, and administration of grant funding was effective; and
 - the Australian Rail Track Corporation's procurement activities provided value for money and were supported by Information Communication and Technology systems and appropriate policies and procedures.

Conclusion

4. In managing the pre-construction phase of the Inland Rail programme, the Australian Rail Track Corporation (ARTC) could have had a greater focus on achieving value for money in procurement activities. The ARTC identified the need to improve existing business functions and procurement practices throughout the pre-construction phase, and commenced initiatives to strengthen administration. These initiatives need to be fully implemented to support the ARTC in effectively managing the full Inland Rail programme in coming years and delivering value for money.
5. Governance arrangements for the pre-construction phase of the Inland Rail programme were appropriate, although there was not timely implementation of the Minister's decision that a funding agreement be developed between the Department of Infrastructure and Regional Development and the Australian Rail Track Corporation. The Australian Government's longer term intent with regard to the delivery and full construction of the Inland Rail was appropriately considered, including through the administration of grant funding. There could have been more emphasis on achieving value for money in procurement and contracting activities, including for the ARTC's contracting of staff for the programme, and improved planning for the leasing of property.

6. Testing of a sample of 54 procurements for the Inland Rail programme found a lack of consideration given to competition in the early phase of the programme, where a considerable proportion of procurements (17 per cent of the sample) were sole sourced. Procurement activities improved during the sampling period, as new systems, processes and practices were implemented. The ARTC's established Information and Communications Technology (ICT) systems and procurement and document management processes and practices were well short of the needs of the Inland Rail programme. The ARTC is further reviewing its procurement policies and procedures and supporting business functions for the full construction of Inland Rail.

Supporting findings

Governance and funding arrangements

7. Governance arrangements oversighting the pre-construction phase of the Inland Rail programme were appropriate, in so far as they adapted to the different stages of the implementation of the programme, and considered the Australian Government's interests with regard to longer term decisions about the delivery of the complete Inland Rail. There was no evidence however, that due consideration had been given to matters raised about the skills and status of committee members, specifically in relation to departmental representation. There could also have been more emphasis on achieving value for money in procurement and contracting activities. The ARTC's internal governance arrangements were appropriate, with a high level of engagement by the company's Board throughout the pre-construction phase. The ARTC is strengthening its processes to manage risk, and needs to implement a suitable system to support the management of risk in the Inland Rail programme.

8. Grant funding was appropriately managed for each of the four funding packages provided for the pre-construction phase of the Inland Rail programme. There was extensive engagement between the ARTC and the Department of Infrastructure and Regional Development (Infrastructure) in preparing the funding submissions, and Infrastructure appropriately assessed the submissions and approved milestone delivery payments. Protecting the Commonwealth's interests centred on how best to use the funds, given the status of the project over the longer term and the ARTC's role in delivering it. However, high-level deliverables, outcomes and reporting arrangements were not developed through the Minister's required funding agreement for the pre-construction phase, which could have supported greater emphasis on obtaining value for money in procurement activities associated with the milestone deliverables identified in the grant funding submissions.

9. The ARTC has maintained separate costs for the pre-construction phase of the Inland Rail programme, from commencement of the programme in 2014. These costs were more effectively administered some two years into the programme, with the implementation in August 2016 of upgrades to the company's financial management system that allowed more detailed allocation and monitoring of costs. The ARTC has secured additional office accommodation for staff in the Inland Rail programme, but in the absence of a property plan for the programme or for the ARTC's property needs more broadly, it cannot be assured that it is achieving value for money in leasing costs. Similarly, staffing requirements for the programme have been met through contracting arrangements for specialist staff, but with no forward plan as to the requirements of the programme. However, these arrangements have provided flexibility in recruitment, and will likely be a source of workforce skills in the longer term. The ARTC needs appropriate procurement processes in place to ensure transparency and value for money in securing contracted staff, as in all other contract arrangements.

Procurement

10. The ARTC did not have appropriate ICT systems to support procurement for the pre-construction phase of the Inland Rail programme. There was a heavy reliance on manual processes, paper-based approvals and non-standardised records management procedures. As at July 2017,

specifically for the Inland Rail programme, the ARTC has upgraded the Contracts module and implemented a Tenders management module in the corporate Financials & Supply Chain system, and is at an early stage in deploying a system for records management. These improvements, if fully bedded down, with intended functionality being utilised and supported by updated procedural documentation, would strengthen the Inland Rail programme's procurement processes and records management, and could have application more broadly across the ARTC.

11. The ARTC did not have appropriate policies and procedures to support procurement for the pre-construction phase of the Inland Rail programme. Established procurement policies and procedures were not sufficiently robust for the administration of the Inland Rail programme. The Inland Rail team is subsequently developing a suite of procurement policies and procedures specifically for the programme, although many were still in draft form as at July 2017. If finalised and fully implemented, these documents should support a level of rigour in the programme's procurement practices not previously evidenced, and could also be applied more broadly across the company.

12. Testing of a sample of procurements undertaken between 29 April 2014 and October 2016 for the pre-construction phase of the Inland Rail programme found shortcomings in providing value for money. There could have been greater consideration of competition in the selection processes, although the use of non-competitive procurement methods was concentrated in those procurements undertaken prior to July 2015. In the sampled procurements conducted after that date, there were improvements in the levels of competitive procurements and documentation. Evidence of the importance of probity in procurement is shown through ARTC's contracting procedure, but testing identified insufficient documentation of the reasons for or against using a probity advisor. The testing also showed many variations to contract values that were not sufficiently explained, and work commencing prior to contract execution. These issues had been identified in ARTC internal audits. A review of the documentation for four later procurements showed improvement in the procurement process, consistent with the upgrade in the systems and newly developed policies and procedures supporting procurement for the Inland Rail programme.

Recommendations and key learnings

Set out below are the ANAO's recommendations and the ARTC's response.

Recommendation no.1
Paragraph 2.32 To improve the management of risk, the Australian Rail Track Corporation accelerates the implementation of a fit-for-purpose risk management system for the Inland Rail programme.

Australian Rail Track Corporation response: *Agreed in principle.*

Recommendation no.2
Paragraph 3.14 To improve records management, the Australian Rail Track Corporation:

- (a) revisits the scope and timeline of the Electronic Content Management review to incorporate the Inland Rail programme; and
- (b) reviews and updates its records management policies and procedures.

Australian Rail Track Corporation response: *Agreed in principle and underway.*

Recommendation no.3

Paragraph 3.32

To support transparency and value for money in contracting arrangements for the construction of the Inland Rail, the Australian Rail Track Corporation:

- (a) develops and implements policies and procedures that have suitable regard to Commonwealth procurement and contract management standards, recognising that the company is not bound by the Commonwealth Procurement Rules;
- (b) implements full functionality and controls available in procurement and contract management systems modules; and
- (c) monitors performance in procurement and contract management through increased internal audit activity and / or the implementation of a quality assurance process.

Australian Rail Track Corporation response: *Agreed in principle with qualification.*

Key learnings and opportunities for improvement for Australian Government entities

Below is a summary of key learnings identified in this audit report that may be considered by other government business enterprises when developing and implementing pre-construction programs.

Governance arrangements

- To monitor the achievement of value for money, governance arrangements should include effective oversight of key areas of spending, such as procurement and contracting, property and staffing.
- Where there is a grant funding arrangement between a government business enterprise and shareholder Minister's department for a program, it should be finalised in a timely manner and include high-level deliverables, outcomes and reporting arrangements.
- There should be active internal audit and quality review of infrastructure programs to help ensure that administrative systems and processes are functioning as required, including ICT, records management and risk management.

Procurement

- To strengthen contracting activities, entities should assess the potential benefits of utilising the full functionality of their business systems (such as contracts and tender management modules).
- While government business enterprises are not subject to Commonwealth Procurement Rules, the enterprise's procurement policy should clearly articulate its procurement principles and approaches.
- To demonstrate value for money in procurement, entities should clearly document the reasons for adopting single source tenders, contract variations and instances where work commences prior to contract execution. Entities should also clearly document probity processes.

Summary of entity responses

13. A summary of entity responses are below.

Department of Infrastructure and Regional Development

The Department supports the recommendations provided in the report. As the report notes as part of its delivery of Inland Rail, the ARTC has already commenced action that will improve ARTC's procurement practices and risk management processes. I expect the ARTC Board will have due regard to the report and will take action for the timely completion of the report's recommendations. Further to this, I expect the ARTC Board will provide regular advice to the Shareholders Ministers confirming how and when all of the recommendations will be implemented.

Department of Finance

Finance agrees with the ANAO's recommendations. The Government announced in the 2017–18 Budget that it will invest a further \$8.4 billion in equity in the Australian Rail Track Corporation to deliver the Inland Rail project. The ANAO's findings will assist agencies and the ARTC, and will inform appropriate oversight and governance arrangements related to the delivery of the project. To this end, a Secretary-level Sponsors Group, including the Chairperson of the ARTC, has been established to closely monitor progress of the project.

Australian Rail Track Corporation

ARTC takes audit recommendations very seriously and has an ongoing commitment to continuous improvement. ARTC acknowledges your findings and your recognition in the body of the report that process improvements have already been made. At the same time, ARTC acknowledges the positive feedback on governance and the appropriate management of grant funding.

As a general observation, ARTC considers the findings do not adequately reflect the uncertainty and lack of clarity associated with the initial funding, longevity and responsibilities for the Programme during the period when decisions were being made as to the future of the Inland Rail project. Indeed, it was only in May 2016 that ARTC was confirmed as the delivery agency and in the May 2017 Budget that the funding commitment was confirmed. This imposed constraints on ARTC's approach to procurement, contract management and the project's risk management approach.

Notwithstanding this high level of uncertainty, 45 out of 54 tested procurements were competitively sourced through tenders, standing offers and quotes. Within this context, ARTC was also focussed on achieving value for money. Even though, as observed, ARTC is not obliged to follow the Commonwealth Government Procurement Guidelines, subsequently, ARTC has sharpened its approach to Inland Rail's procurement and contract management. In addition, monthly management reporting is being enhanced.

Finally, while the Ministers' funding agreement was not concluded, detailed scope of works and milestone deliverables were developed as part of each project proposal report (PPR).

**Design and Monitoring of the National Innovation and Science Agenda
No.10 2017–18**

**Department of the Prime Minister and Cabinet; Department of Industry, Innovation and Science;
Innovation and Science Australia**

Summary and recommendations

Background

1. On 7 December 2015, the Prime Minister and the Minister for Industry, Innovation and Science announced the National Innovation and Science Agenda (NISA)—a policy statement on innovation and science, and a package of 24 measures costed at \$1.1 billion over four years.¹
2. The announcement of the NISA included the statement that:

Innovation and science are critical for Australia to deliver new sources of growth, maintain high-wage jobs and seize the next wave of economic prosperity.²
3. The 24 measures, which include grant programs, tax incentives, funding for research infrastructure, and initiatives to promote science, technology, engineering and mathematics, were framed around four main ‘pillars’: Culture and capital; Collaboration; Talent and skills; and Government as an exemplar.
4. The development of the Agenda was assisted by the Department of the Prime Minister and Cabinet (PM&C) and a Taskforce set up within PM&C, which received input from other entities. Nine portfolios are involved in implementing the Agenda, supported by a governance framework that includes central oversight by a Delivery Unit operating in the Department of Industry, Innovation and Science (Industry) and an interdepartmental implementation committee. An independent body, Innovation and Science Australia (ISA), was established under the NISA to provide strategic advice to government on the broader innovation system.³

Audit objective and criteria

5. The objective of this audit was to assess the effectiveness of the design process and monitoring arrangements for the NISA by the relevant entities.
6. To form a conclusion against this objective, the ANAO adopted three high-level criteria:
 - Was sound and timely policy advice provided to government to help inform the development of the Agenda?
 - Were appropriate planning and governance arrangements established to support the implementation of the Agenda?
 - Is the implementation of the Agenda, and are outcomes to date, being effectively monitored and reported on?

¹ The breakdown of funding is provided at Appendix 2.

² See page 1 of the *National Innovation and Science Agenda*, available from www.innovation.gov.au.

³ ISA is supported by the Office of Innovation and Science Australia.

Conclusion

7. The design process for the National Innovation and Science Agenda allowed the Government to make decisions within short timeframes, and the monitoring arrangements have, in most respects, been effective. The quality of advice to government could have been improved by a better articulation of the evidence base and likely impacts of the proposals, including the likely net benefits of the overall \$1.1 billion in proposed expenditure.

8. The design process for the NISA was timely in supporting a government decision-making process. It was aided by active management by PM&C and the Taskforce, and drew on previous reviews and input from a range of entities. In addition to sector level material, some guidance on the development of policy advice was available within PM&C and Industry, but it was not evident how this material was applied to the work of the Taskforce or to the input provided by entities. The ANAO observed variability in the quality of the advice provided. The better developed proposals included a clear articulation of the evidence base and likely impacts of the proposals and also indicated when the proposal would be reviewed or evaluated. However, much of the advice was general in nature and did not present quantitative or in-depth analysis of problems, expected impacts or how outcomes would be measured.

9. Suitable planning and governance arrangements for the Agenda were established early in the post-announcement period to support most aspects of implementation. Some elements of the evaluation framework were delayed, including confirmation that entities had identified baseline data and robust evidence collection systems. Current indications are that impact assessment will be affected by variability in the quality of entities' performance measures and data collection systems. Assessing the impact of the package as a whole is also likely to be challenging.

10. Monitoring and reporting arrangements for the Agenda have, in most respects, been effective. Regular progress reports covering all measures and all responsible entities have been provided to government and other relevant stakeholders. The advice provided drew attention to various implementation risks, including not meeting the publicly announced timeframes. However, in a number of cases, the accompanying 'traffic light' ratings provided a more optimistic view of progress than was supported by the evidence. This included seven measures that did not meet the publicly announced timeframe but were not rated appropriately.

Supporting findings

Effectiveness of the policy design process

11. In response to the Prime Minister indicating the importance of innovation to the Government's agenda, PM&C provided policy advice on a new innovation agenda. PM&C was responsive in meeting the timeframes agreed with government for providing advice on the package of proposed measures. In the time available, a number of important matters were not addressed in the advice to government, including implementation risks, governance, and evaluation arrangements.

12. The better developed proposals articulated: the evidence base; the likely impacts of the proposals; and when the proposal would be reviewed or evaluated. The ANAO observed that much of the advice was general in nature and did not present quantitative or in-depth analysis of problems, expected impacts or how outcomes would be measured. A number of the proposals that involved significant expenditure aimed at transforming parts of the innovation system relied on assertions rather than evidence. There was no specific guidance on the standard of evidence required to support individual measures or the package as whole.

13. Consultation in the design phase was adequate given the short timeframes involved and given that a number of the proposed measures had been canvassed in earlier consultation processes.

Planning and governance arrangements

14. An implementation plan was developed for the NISA in the months following the launch of the Agenda. The implementation plan addressed relevant implementation principles, and was prepared in the timeframe set by government (1 March 2016), some four months before the first measures were due to be implemented.

15. Suitable governance arrangements were established to support implementation of the Agenda. Specific oversight bodies were established promptly, and operated within a governance framework for the Government's broader innovation agenda.

16. Oversight arrangements for stakeholder consultation were appropriate. Under the NISA Implementation Plan, the primary responsibility for stakeholder consultation was assigned to the lead entity for each measure. The Delivery Unit explored whether joint consultation sessions would be beneficial, but no specific need for structured consultation was identified. Lead entities have reported measure-specific consultation to the Delivery Unit.

17. An evaluation framework was developed but not in a timely or fully effective manner. Limited advice was provided to government during the design process about the specific impacts of the Agenda, and how or when they were to be measured. While evaluation arrangements were progressively developed post-announcement, there were delays and issues associated with the identification of suitable performance measures and data sources.

Monitoring and reporting on progress

18. Effective monitoring arrangements were established, which covered all relevant entities and all measures agreed by government. The arrangements centred on regular progress reports to government and other stakeholders. The reports were compiled by the Delivery Unit and underpinned by information provided by lead entities for each measure.

19. Progress reporting has been timely and, in most respects, accurate. The oversight bodies provided regular and generally clear advice to government on the status of measures and the risks of not meeting milestones or announced timeframes. In some cases, the 'traffic light' ratings used to signal progress did not appropriately match the level of progress. This included seven measures that did not meet the announced timeframe but were rated as either 'on track with emerging issues' or 'on track'.

20. Efforts have been made by Industry to identify early outcomes for measures that have been implemented. The key finding of the post-commencement review is that it is too early to assess whether intended outcomes are being achieved.

Recommendations

Recommendation no.1

Paragraph 2.26

The Department of the Prime Minister and Cabinet and the Department of Industry, Innovation and Science review and update their policy development guidance and training materials so that they:

- (a) are fit-for-purpose for the range of activities undertaken, including cross-entity taskforces;
- (b) clearly articulate an acceptable standard of analysis and evidence; and
- (c) include mechanisms to provide assurance that the guidelines are consistently applied.

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

Department of Industry, Innovation and Science's response: *Agreed in part.*

Recommendation no.2

Paragraph 3.34

The Department of Industry, Innovation and Science finalise the evaluation strategy for the National Innovation and Science Agenda, and establish formal monitoring arrangements with relevant entities, so that the results of evaluation activities can be used to inform advice to government on future measures and the continuation of existing measures.

Department of Industry, Innovation and Science's response: *Agreed.*

Key learnings and opportunities for improvement for Australian Government entities

21. Below is a summary of key learnings identified in this audit report that may be considered by other Commonwealth entities when designing, or monitoring the implementation of, a major policy or initiative.

Advice to government

- Accountable authorities should implement a framework that supports the development of quality policy advice to government and clear accountability for the provision of that advice.
- In the design phase (pre-decision), provide clear and objective advice that:
 - contextualises the nature and extent of the problem;
 - sets out the best available evidence for and against the proposal; and
 - provides a clear rationale where intervention is recommended, including identifying the likely net benefits.
- Clearly articulate any gaps or limitations with the available evidence base, and provide advice on whether the risks can be accepted, or propose mitigation measures, such as:
 - deferring consideration until better evidence is obtained;
 - trialling a smaller-scale or more targeted initiative;
 - consulting further on the detailed design of a measure;
 - conducting a post-implementation review or evaluation.
- Good practice is to provide advice on implementation risks, and prepare an implementation plan in the design phase; or if that is not feasible, early in the post-announcement period, prior to actual implementation.
- In setting timeframes for implementation, proposed implementation dates and milestones should be challenging but achievable.

Review and evaluation

- Good practice is to identify review and evaluation arrangements in the design phase, including baseline data and access to reliable sources of data to help measure or evaluate the intended impact of measures.

Reporting on progress

- For 'traffic light' reporting systems to be useful to decision-makers, they should define the different categories and, when applied, reflect the actual status of implementation.

Summary of entity responses

22. The summary response from each entity is provided below, with full responses provided at Appendix 1.

Department of the Prime Minister and Cabinet

The Department of the Prime Minister and Cabinet (PM&C) welcomes the ANAO's willingness to examine the NISA and finding that the NISA design process was timely in supporting the Government's decision-making process and that monitoring and reporting arrangements have, in most respects, been effective.

PM&C strives to provide a consistently high standard of advice to the Government, and has a range of frameworks to assist officials within PM&C and across the Australian Public Service (APS), including, but not limited to: the Cabinet Handbook, the Australian Government Guide to Regulation, the Legislation Handbook and a range of internal PM&C guidance for policy officers, including a disciplined policy design methodology.

While the framework materials managed by PM&C are periodically reviewed and updated to ensure they remain fit for purpose, the ANAO's findings are a valuable reinforcement of the position the Secretary of PM&C has been advancing. There is an ongoing need to test and refine our policy frameworks to ensure they clearly articulate an acceptable standard of analysis and evidence, and we need to continually work to promote good policy development practice within PM&C and across the APS. There is also an opportunity for PM&C to better draw together framework materials and improve their visibility and accessibility across the APS.

Department of Industry, Innovation and Science

The Department of Industry, Innovation and Science notes the ANAO's audit of the design and monitoring arrangements for the National Innovation and Science Agenda (NISA). We note the audit's findings that departments responded in a timely manner to support decision-making on an area of priority for the Government.

The development of the NISA package built upon a substantial body of advice that had been assembled by agencies and provided to ministers over a substantial period of time in the lead up to the Government's consideration of NISA. The policy development process coordinated by the NISA Taskforce (established within the Department of the Prime Minister and Cabinet) built upon that work and drew on further evidence as necessary to support the Government to launch a package of initiatives to stimulate innovation, invest further in Australia's science capabilities, increase skills in Science, Technology, Engineering and Maths, and foster innovation in government procurement and service delivery. Ministers were closely involved throughout the development of the package and the performance of the public service was publicly commended by the Government. However, noting the audit's findings, we will examine opportunities to further improve our policy guidance and associated training material.

The monitoring and reporting arrangements put in place to support implementation represented a novel and highly effective method of driving implementation across portfolios while also providing assurance to the Government. This approach was strengthened by the establishment of a senior interdepartmental committee led by an Independent Chair, and the formation of a dedicated delivery unit within the Department of Industry, Innovation and Science.

We welcome the audit's acknowledgement that monitoring arrangements were effective and that regular progress reports provided to the Government drew attention to areas of implementation risk. Notwithstanding the ANAO's view that the traffic light ratings were not sufficiently defined, the process supported ministerial consideration of areas warranting attention and the reports included detailed information through which the Government could satisfy itself of implementation progress. Advice was provided regularly through progress reports, correspondence from the Independent Chair and departmental briefing. Verbal briefing was also a substantial element of reporting arrangements over the first six months. These oversight arrangements also resulted in a coordinated approach to the evaluation of NISA measures.

Office of Innovation and Science Australia

The Office of Innovation and Science Australia provided comments on an extract of the proposed report and requested adjustments to Figure 1.2 *Overview of the governance arrangements for the NISA and Australia's broader innovation system*. The suggested changes included an adjustment to more accurately show the relationship between the Chief Scientist and the Innovation and Science Australia (ISA), as well as removing a reference to the Office of Innovation and Science.

Australia Post's Efficiency in Delivering Reserved Letter Services

[No.11 2017–18]

Australian Postal Corporation

Department of Communications and the Arts

Department of Finance

Background

1. The Australian Postal Corporation (Australia Post) is a Government Business Enterprise (GBE), which provides a regulated monopoly service for letter delivery. It also provides parcel delivery and other related services on a commercial basis. In relation to its letter delivery business, Australia Post is required to meet Community Service Obligations (CSOs); together with other regulations relating to price, frequency, reliability and accessibility for the community; as well as international obligations—these are collectively referred to in this report as Australia Post's obligations.¹ Letter delivery services are classified as either reserved or non-reserved. Reserved services broadly capture the letter services.
2. Nearly three decades have passed since the current regulatory framework relating to Australia Post's letter delivery service was first established. In that time, fundamental changes have occurred both to patterns of consumer demand for communications technology, as well as the depth and breadth of access to communications infrastructure across Australia.
3. The consequent reduction in demand for letter services has reduced Australia Post's profitability. At the same time, the rise in e-commerce has increased demand for parcel delivery services. Over time, this has led to the profitable, commercial side of Australia Post's business funding the losses from the declining letters business. The overall reduction in enterprise profitability has also reduced the dividends paid to Australia Post's sole shareholder—the Australian Government.
4. In response to these developments, aspects of the regulations relating to the CSOs have been changed, and a number of price increases to the Basic Postal Rate for letter services have been notified. Together, these changes have allowed Australia Post to reduce the losses being sustained by the letters delivery service and return the enterprise to profitability. In addition, Australia Post has implemented strategies to increase the efficiency with which it meets its CSOs. However, given the outlook for letter volumes, these measures are only likely to provide a temporary solution.
5. The Australian Government is the sole owner of Australia Post, represented by the Minister for Finance and the Minister for Communications and the Arts (together, the

¹ Australia Post's Community Service Obligations are detailed in s.27 of the Australian Postal Corporation Act 1979 (the APC Act), and requires Australia Post to provide a letters service. The APC Act (division 1A) also provides for performance standards to be made by regulation. These relate to the frequency, speed and accuracy of mail delivery; as well as the availability of street posting boxes and post offices. While the performance standards apply to some letter services they do not necessarily apply to all letter services. Further, the performance standards also cover items that are not part of the letter service (e.g. the provision of retail outlets is to enable persons to purchase Australia Post products and services). Australia Post also has obligations in relation to the delivery of international mail pursuant to the Universal Postal Union (UPU).

‘Shareholder Ministers’). In carrying out their governance responsibilities, the Shareholder Ministers are supported by their respective departments.

Audit objective and criteria

6. The objective of the audit was to examine whether the Australian Postal Corporation (Australia Post) is meeting its obligations efficiently and the effectiveness of Commonwealth shareholders in monitoring value for money.² To form a conclusion against the audit objective, the following criteria were adopted:

- Has Australia Post implemented strategies to improve the efficiency of meeting its obligations?
- Is Australia Post meeting its obligations efficiently?
- Do the Departments of Finance, and Communications and the Arts, effectively monitor the ongoing costs and benefits of meeting the obligations?

Conclusion

7. Australia Post has developed strategies to improve the efficiency with which it meets its obligations. It has not, however, improved its efficiency in its letters business as quickly as its international counterparts. The Department of Finance (Finance) and the Department of Communications and the Arts (Communications) provide briefing to their respective Ministers on Australia Post’s performance, but greater transparency is required regarding the costs and benefits of the obligations, the distribution of those costs and benefits within the Australian community, and the longer-term strategy for Australia Post’s business model.

8. Australia Post’s strategies to improve its efficiency have focussed on process optimisation and automation along with labour force flexibility, all with the objective of improving labour productivity. Australia Post has been relatively slow in developing and implementing some of these strategies. In particular, Australia Post has not fully implemented its strategies to improve labour productivity, which were to be a key driver of the planned efficiency improvements.

9. Australia Post has improved its efficiency over time, however these improvements have been relatively slow compared to its international peers, particularly in relation to its management of operating costs.

10. While Australia Post monitors and evaluates the efficiency with which it meets its obligations, there would be scope for Australia Post to provide its shareholder with more strategic information on the long-term sustainability of the letters business; changes in Australia Post’s performance over time; and the assumptions driving key forecasts that underpin the enterprise valuation.

11. The dual shareholding arrangements that underpin many Commonwealth Government Business Enterprises (GBEs) are intended to ensure that the public policy objectives delivered by the GBE are balanced by an appropriate focus on financial performance. The guidance underpinning the governance arrangements for GBEs does not distinguish between the roles of Finance, and that of the relevant portfolio entity (in this case, Communications) as advisers to their respective ministers.

² The Auditor-General may only conduct a performance audit of a Government Business Enterprise on request by the Joint Committee of Public Accounts and Audit (JCPAA) – Auditor-General Act 1997 s.17. The JCPAA requested a performance audit of Australia Post in October 2016.

12. Finance and Communications have established regular monitoring and reporting mechanisms in their capacity as advisers to the Shareholder Ministers. The departments have also advised Government on the forecast decline in the letter delivery service. This advice supported major changes that were introduced in 2016, and informed the identification of the need for further change. The advice by the departments has typically focussed on the net profitability of Australia Post as a whole and on conservative cost estimates of the CSOs. The entities' advice has not directly addressed the impact of reserved letter delivery service on Australia Post's competitive market activities. In addition, Communications, in its role as the lead policy agency, has not advised its Minister on the benefits provided by the CSOs, or the distribution of those benefits within the community. Consequently, the advice has provided the department's respective ministers with an incomplete picture of the costs and benefits of the CSOs.

13. Generating stakeholder support for policy change, particularly in the context of the current framework of the CSOs, is a lengthy process, and it can be a number of years from developing a proposal through to its implementation. Developing and testing proposals for more fundamental reforms of Australia Post's business model may take considerably longer. The current regulations underpinning the CSOs have a 'sunsetting' date of April 2019. This represents an opportunity for Finance and Communications to re-evaluate the CSOs, and Australia Post's role in delivering them, into the future.

Supporting findings

Australia Post's strategies to improve the efficiency of meeting its obligations

14. Australia Post has identified strategies to improve its efficiency in delivering its reserved letters services, having regard to the regulatory and practical constraints faced by its business, and the need to generate support for policy changes impacting on the CSOs. These strategies have focused on reducing labour costs, through such means as process optimisation, automation, and reducing the number of penalty shifts worked. In addition, Australia Post has sought to better utilise its fixed delivery network to grow revenue from existing sources and develop new sources of revenue. However, there would be scope to assess the costs and benefits of providing letters infrastructure over and above the requirements of the CSOs.

15. The strategies adopted by Australia Post to pursue changes to service standards, increase processing efficiency and reduce costs are comparable to postal agencies in other jurisdictions that are facing similar challenges. Australia Post commenced its implementation of these strategies later than its international peers, partly due to challenges in generating the impetus for change. The high fixed costs for operating Australia Post's delivery network, combined with the long implementation times, have highlighted the need to take a strategic, long-term view and to generate stakeholder support well in advance.

16. Australia Post is yet to realise many of its planned efficiency improvements. Australia Post's workforce profile, combined with its decisions relating to workforce management, have created challenges in implementing, and realising the benefits of, strategies to improve efficiency, particularly in relation to penalty hours and overall staff numbers.

Australia Post's efficiency in meeting its obligations

17. Australia Post has not performed as well as its international peers in managing its operating costs, both across its business as a whole and in relation to its letters business. Australia Post has improved its efficiency over time, however these improvements have been

relatively slow compared to its international peers, including those that also operate under the constraints of government ownership.

18. Australia Post monitors and evaluates the efficiency with which it meets its obligations. However, there would be scope for Australia Post to provide its shareholder with a more strategic view of the long-term sustainability of the letters business, Australia Post's performance in respect of reserved services over time, and the impact of the key assumptions underpinning the longer-term enterprise valuation.

Monitoring the costs and benefits of the obligations

19. The roles of Finance and Communications with respect to Australia Post are defined under the Commonwealth GBE Governance and Oversight Guidelines (the Guidelines). The Guidelines confer identical responsibilities for strategic control and oversight of GBEs upon the Portfolio Minister and the Finance Minister (together, the Shareholder Ministers). Consistent with this framework, Finance and Communications have largely taken a joint approach to supporting the governance roles of their respective ministers.

20. Previous changes to the GBE governance arrangements recognised the inherent tension between the role of GBEs as vehicles to deliver Government policy objectives and the Government's intention that GBEs operate under a commercial framework, with a strong focus on efficiency and financial performance. These changes saw the establishment of the current dual shareholding arrangements, whereby the Government's interest as both shareholder and policymaker were represented by the Finance Minister, and the relevant portfolio minister, respectively. These reforms also saw the establishment of a GBE unit within the Department of Finance.

21. Accordingly, while the joint briefing approach taken by Finance and Communications may be appropriate in the context of ongoing governance and oversight of Australia Post's operations, it is unlikely to realise the intent of having dual Shareholder Ministers, particularly in relation to the longer-term, strategic reforms that will be required to ensure the sustainability of Australia Post's business model.

22. Finance and Communications have recently strengthened their engagement with Australia Post with a view to providing their respective Shareholder Ministers with greater transparency regarding Australia Post's strategic direction, major initiatives, financial projections, and the assumptions driving these. Finance's analysis of the financial performance of Australia Post has, however, tended to be largely based on Australia Post's own financial reporting, and focused on the performance of the enterprise as a whole, as opposed to the ongoing sustainability of the letter delivery service. While there is some evidence that shareholder entities have briefed their ministers in broad terms on Australia Post's progress in realising efficiencies from its ongoing strategies, recent changes have been implemented to deepen the analysis and briefing.

23. The departments have supported policy changes which have temporarily arrested the impact of declining mail volumes. However, the letters business is anticipated to return to a loss-making position in the short-term. The timeframes required to effect policy change, together with the projected further declines in letters volumes, emphasise the need for further and more substantial policy changes in the immediate future.

24. The Department of Communications and the Arts, in its capacity as policy adviser, has examined benefits of the CSOs in general terms, but not with sufficient granularity to gain a complete understanding as to whom those benefits accrue or the value of those benefits in light of increasing access to communications technologies.

Recommendations

Recommendation no. 1 Paragraph 2.38

Australia Post should identify and address the impediments to improving the efficiency of its letters service, including implementing, and realising the benefits of, its efficiency strategies.

Australian Postal Corporation's response: Agreed, with qualifications.

Recommendation no. 2 Paragraph 3.27

Australia Post should improve its monitoring and evaluation to:

(a) facilitate greater shareholder visibility regarding the key assumptions underpinning the longer-term sustainability of the business model underpinning reserved services;

(b) facilitate monitoring and reporting of trends over time, including in relation to implementation and benefits realisation of key efficiency strategies; and

(c) examine performance against relevant benchmarks.

Australian Postal Corporation's response:

(a) Agreed, with qualifications.

(b) Agreed.

(c) Agreed, with qualifications.

Recommendation no. 3 Paragraph 4.16

The Department of Finance should review the GBE guidelines to ensure they give effect to the original policy intention of the dual ministerial shareholding arrangements.

Department of Finance's response: The Department of Finance did not state whether it agrees or disagrees with the recommendation.

Recommendation no. 4 Paragraph 4.61

The Departments of Finance, and Communications and the Arts, consistent with their respective portfolio responsibilities, should:

(a) provide their respective Shareholder Ministers with greater transparency over the total costs and benefits of the obligations and the distribution of those costs and benefits within the Australian community;

(b) review the approach to funding the delivery of the community service obligations through Australia Post's increasing involvement in competitive markets; and

(c) review the policy framework relating to Australia Post's Community Service Obligations in the context of the Australian Government's broader commitment to providing access to communications infrastructure.

Department of Finance's response: The Department of Finance did not state whether it agrees or disagrees with the recommendation.

Department of Communications and the Arts' response: The Department of Communications and the Arts did not state whether it agrees or disagrees with the recommendation.

Summary of entity responses

25. The Australian Postal Corporation's, the Department of Finance's and the Department of Communications and the Arts' summary responses to the proposed report are provided below.

Australia Post

Australia Post is a large, complex and challenging business with a rich history of serving the entire Australian community. Since 2010, we have been implementing a wide-ranging transformation program, called “Future Ready”, in response to the digital disruption of our traditional core business (the letters service). This transformation program has involved investing heavily in our parcels business to secure market share as online shopping has been growing in Australia. This strategy has enabled Australia Post to maintain its nationwide community-based networks and, importantly, provide ongoing and meaningful jobs for the dedicated employees who wish to continue working in our business.

It is of paramount importance to Australia Post that we manage the decline of the community’s use of the letters service in a purposeful and orderly way, while also continuing to deliver against the Community Service Obligations and Prescribed Performance Standards that have been set by our Shareholder (the Commonwealth Government). The ongoing decline in letter volumes and revenue will continue to present significant challenges to Australia Post’s operations and financial performance. For this reason, we are committed to working closely with our Shareholder and other stakeholders to explore options to ensure the ongoing financial viability of the letters service. We will continue to track and report our progress against the targets contained in the 2015 business case that was developed for the Reform our Letters Service (RoLS) program. We are proud of our progress in realising benefits thus far, but we recognise there will be a need for ongoing review and improvement as the community’s use of the letters service continues to decline.

Department of Finance

Finance accepts the recommendations in the report, and has commented on particular recommendations.

Department of Communications and the Arts

The Department notes the ANAO's findings that the Department has managed its responsibilities as a Shareholder Department by establishing regular monitoring and reporting mechanisms, with a strong focus on informing Ministers on the financial performance of Australia Post. We also note the finding that Shareholder Departments have strengthened engagement with Australia Post to provide greater transparency to Shareholder Ministers on Australia Post's strategic direction, major initiatives and financial projections.

Recommendation 4 is noted. Shareholder Departments are working with Australia Post to update the method by which the cost of the CSOs is calculated. Australia Post is providing Shareholder Departments with data to allow a better understanding of the value of and distribution of the benefits of the CSOs.

Management of the contract for telephone universal service obligations
No.12 2017–18
Department of Communications and the Arts

Summary and recommendations

Background

1. The telephone universal service obligation (USO) requires that Telstra provides all Australians with ‘reasonable access’ to standard telephone services¹ and payphones on an ‘equitable basis’. Telstra has had some form of statutory USO for several decades.

2. In 2012, the USO was incorporated into a 20 year contract (the *Telstra USO Performance Agreement*, or TUSOPA)² between Telstra and the Commonwealth. The customer service obligations of the TUSOPA essentially reflect those of the Commonwealth statutory USO regime³ however the TUSOPA contains additional detail on how Telstra is to provide the services.⁴ Under the TUSOPA, Telstra receives a fixed and unindexed annual GST inclusive payment of \$253 million to deliver standard telephone services and \$44 million to deliver payphones.

Audit objective, scope and criteria

3. The objective of the audit was to assess the effectiveness of the Department of Communications and the Arts’ (the Department’s) contract management of selected telephone universal service obligations (the TUSOPA), specifically standard telephone and payphone services.

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

- Does the contract support achievement of the stated policy objectives and provide value for money?
- Has the Department effectively managed the contract for telephone universal service obligations?
- Do the performance reporting and monitoring arrangements provide transparent information on how contract services are achieving stated policy objectives?

5. To conduct the audit the ANAO examined documentation and records relevant to the establishment, contract management and performance monitoring and assessment framework of

¹ These are also termed ‘landlines’ or ‘fixed lines’ and can be contrasted to mobile phones. They can be provided via a range of networks, including via the Telstra legacy copper network, the National Broadband Network, satellite, or radio concentrator networks.

² The contract was originally called the Telecommunications Universal Services Management Agency (TUSMA) agreement, but it was renegotiated with minor changes in 2014 and renamed as the TUSOPA. To avoid confusion, this audit uses TUSOPA to refer to both the original and renamed agreement.

³ As at July 2017 the statutory based USO regime is still in place, and operates in parallel with the TUSOPA. It is administered by Australian Communications and Media Authority (ACMA).

⁴ TUSOPA also contains additional obligations for Telstra to maintain its legacy copper wire network for areas that lie outside the NBN fixed line footprint and be the standard telephone services provider of last resort utilising NBN infrastructure within the footprint.

the TUSOPA held by the Department, the regulator—the Australian Communications and Media Authority—and the service provider—Telstra. Due to short-comings in the Department’s record keeping system, particularly in relation to records relating to the policy development process between April 2009 and April 2010, the Department has not been able to provide assurance that it has identified, located and provided all records relevant to chapter 2 of the audit—which covers the establishment of the TUSOPA.

Conclusion

6. The TUSOPA supports the achievement of the stated universal service obligation policy objective of providing reasonable access to standard telephone services and payphones on an equitable basis to all Australians—specifically by establishing a contract with Telstra to deliver basic voice telephony services for a period of 20 years. In addition to the stated policy objective, the TUSOPA also played an important role in securing Telstra’s involvement in the rollout of the National Broadband Network (NBN).

7. However, key aspects of the TUSOPA do not reflect value for money principles. In particular, the contract’s term of 20 years with a fixed annual fee based on 2009–10 costs does not reflect the demonstrated decline in demand for standard telephone and payphone services over the relevant period.⁵ Further the TUSOPA limits flexibility in relation to how standard telephone services can be delivered in areas outside the NBN fixed line network.

8. The annual fixed payment of \$297 million for standard telephone and payphone services provided under the TUSOPA is consistent with external advice commissioned by the Department in 2011. However there is no evidence that this advice was designed to provide guidance on Telstra’s likely costs to deliver the USO over the life of the contract, and therefore whether the value of the fixed annual contract payments to compensate Telstra for the provision of these services is appropriate. The contract further lacks a mechanism which would enable the Government to effectively manage the financial risks should it wish to end the contract before the scheduled 20 year term.

9. Since assuming responsibility for the TUSOPA in July 2015, the Department has been a relatively passive contract manager. The Department has not utilised the flexibility mechanisms within the contract which have the potential to reduce the annual payment amounts. The Department commenced work in May 2017, through the establishment of the USO Taskforce, to assess whether the annual fixed payments to Telstra continue to represent value for public money in the evolving telecommunications environment.

10. Existing performance reporting provides limited transparency as to whether contract services are achieving the stated policy objective. More specifically, because reporting provides no information on the quantity of standard telephone services that Telstra supplies solely on the basis of its universal service obligations, it is not possible to determine the extent to which the TUSOPA contributes to Australians having reasonable access to such services on an equitable basis. In relation to service quality, contract reporting indicates that, with the exception of some shortcomings in the first year of the TUSOPA in 2012–13, Telstra has met all service performance benchmarks. Neither the Australian Communications and Media Authority (ACMA) nor the

⁵ Preliminary reporting for 2016–17 indicates that the number of Telstra standard telephone services subject to the Customer Service Guarantee has increased by around three per cent in urban and rural areas as compared to the previous year, but continued to decline in remote areas. However, the overall number of Telstra fixed line services in 2016–17, some of which are not subject to the Customer Service Guarantee, has continued the trend of steady decline of previous years. The number of Telstra payphones in urban, rural and remote areas also continued to fall in 2016–17.

Department undertake processes to verify the accuracy of the underlying performance data provided by Telstra, which is used to determine compliance with the standard telephone customer service guarantee and payphone benchmarks.

11. While the TUSOPA has played a role in facilitating the involvement of Telstra in the rollout of the NBN, there is a lack of clear evidence that a net public benefit has been realised as a direct result of the introduction of the TUSOPA.

Supporting findings

Establishment of the Telstra Universal Service Obligation Performance Agreement

12. Due to short-comings in records management the Department has been unable to provide evidence of what options for delivering the USO were considered as part of the policy development process from mid-2009 through to early 2010. While the Department did provide advice to the Government in April 2010, which was subsequently reflected in a major policy announcement made in June of that year, the advice did not contain any information on alternative USO delivery options or provide a rationale for the approach that was recommended.

13. The Government's objectives associated with the establishment of the National Broadband Network (NBN) played an important role in the TUSOPA negotiations. The TUSOPA became the means through which the Government was able to deliver sufficient financial benefit to Telstra to ultimately secure its involvement in the rollout of the NBN.

14. Advice provided to the Government from the Department and NBN Co indicated that such involvement would significantly reduce the overall risks associated with the rollout and improve the financial returns generated by NBN Co.

15. Telstra's service obligations under the TUSOPA support the achievement of the stated universal service obligation policy objective of providing reasonable access to standard telephone services and payphones on an equitable basis to all Australians—specifically by establishing a contract with Telstra to deliver basic voice telephony services for a period of 20 years. However, the TUSOPA limits flexibility in relation to how standard telephone services can be delivered in areas outside the NBN fixed line network, and overall demand for Telstra's standard telephone and payphone services has continued to decline over the life of the TUSOPA.

16. The TUSOPA's term of 20 years with a fixed annual fee based on 2009–10 costs does not reflect value for money principles, as it does not reflect the demonstrated decline in demand for standard telephone and payphone services over the relevant period. The annual fixed fee was established based on external advice commissioned by the Department in 2011 which used assumptions provided by Telstra and data from the 2009–10 financial period. There is no evidence that this advice was designed to provide guidance on Telstra's likely costs to deliver the USO over the life of the contract, notwithstanding that the lack of indexation in the agreement results in the real value of the annual payments declining over time. The TUSOPA further lacks a termination for convenience provision or other mechanism to limit the Government's financial exposure should it wish to terminate the agreement early.

Management of the Telstra Universal Service Obligation Performance Agreement

17. The Department has not actively managed the contract towards achieving value for money. Since assuming responsibility for the TUSOPA in 2015, the Department has established a payment process and contract management plan, however this plan is silent on the utilisation of mechanisms in the contract which provide near-term opportunities for the Department to explore the

achievement of value for money. There is also no evidence that the Department has sought to utilise the flexibility mechanisms in the contract which are available to achieve cost savings or to review the scope of services.⁶

18. Existing performance reporting provides limited transparency as to whether contract services are achieving the stated policy objective. Reporting is focused on the quality of service delivery—specifically Telstra’s compliance with service benchmarks defined in the USO statutory regime—including the time taken to provide a new STS connection, and the time taken to repair a STS or payphone fault. This indicates that, with the exception of some shortcomings in the first year of the TUSOPA in 2012–13, Telstra has met all service performance benchmarks. However, because reporting provides no information on the quantity of standard telephone services that Telstra supplies solely on the basis of its universal service obligations, it is not possible to determine the extent to which the TUSOPA contributes to the Australian public having reasonable access to standard telephone services on an equitable basis. Further, the existing reporting does not provide data on Telstra’s net cost of supplying standard telephone services and payphones under its universal service obligation. Neither ACMA nor the Department undertakes assurance processes to verify the accuracy of the underlying performance data provided by Telstra that is used to calculate compliance with the service benchmarks.

19. There is a lack of clear evidence that a net public benefit has been realised as a direct result of the introduction of the TUSOPA. The TUSOPA has played a role in facilitating the involvement of Telstra in the rollout of the NBN. The Productivity Commission’s 2017 report into the future direction of the USO concluded that the USO is no longer serving the best interests of the Australian community.

⁶ Two out of the three flexibility mechanisms allow the Department to propose cost savings or adjust the scope of services as required. The review mechanism in place is restricted to a single review of the technology and systems used to deliver the services which is scheduled to occur in July 2021.

Recommendations

Recommendation no.1

Paragraph 3.14

The Department should:

- (a) determine if any of the existing flexibility mechanisms can be utilised to improve value for money outcomes while the National Broadband Network is being rolled out; and
- (b) develop options for an efficient transition to any potential alternative USO delivery arrangements.

Department of Communications and the Arts' response:

The Department did not state whether it agreed or disagreed with the recommendation.

Recommendation no.2

Paragraph 3.32

The Department should review whether existing arrangements provide an appropriate degree of assurance that Telstra's standard telephone service and payphone reporting is accurate and is an appropriate basis from which to assess Telstra's performance under the TUSOPA and make annual payments. An initial review should be completed in time to allow for any resulting changes to be implemented before making any payment for the 2016–17 financial year.

Department of Communications and the Arts' response:

The Department did not state whether it agreed or disagreed with the recommendation.

Key learnings and opportunities for improvement for Australian Government entities

20. A summary of key learnings identified in this audit report that may be considered by other Commonwealth entities when establishing and managing contracts is below.

Contract performance reporting frameworks

- The contract performance reporting framework should produce information that assists administering entities in monitoring the extent to which the contract continues to deliver value for money over its full term. This is particularly important for longer-term contracts that have been awarded through non-competitive processes.
- Administering entities should ensure that the overall performance reporting framework provides for assurance over the accuracy of performance reporting information, taking into account the financial materiality of the contract and an assessment of the risks of inaccurate or incomplete reporting.

Contract management plans

- Plans should identify what parts of the contract should be actively managed or utilised in order to promote the achievement of value for money. Where appropriate, timeframes for action on these parts should be included.

Records management

- Documentation recording key steps in the policy development process, including advice provided to Ministers and Government and relevant decisions made should be stored in a way that enables easy identification and retrieval.

Summary of entity responses

21. The Department of Communications and the Arts, the Australian Communications and Media Authority (ACMA), and Telstra were provided with a copy of the proposed audit report for comment. A summary of the responses received from Department of Communications and the Arts and Telstra is provided below. ACMA did not provide a summary response.

Department of Communications and the Arts

The Department notes the ANAO's finding that the Telecommunications Universal Service Obligation Performance Agreement (TUSOPA) supports the achievement of the stated USO policy objective of providing reasonable access to the standard telephone service and payphones.

The Department acknowledges that there is always scope to improve management of a complex contract such as the TUSOPA. The Department has already implemented changes to ensure more effective management of this significant agreement and ANAO's recommendations will be considered in the context of achieving improvements.

The Department notes the ANAO's comments regarding the establishment of the TUSOPA. The TUSOPA is one of a number of interrelated agreements between the Government, Telstra and NBN Co Limited, which were designed to support a broader package of telecommunications reform, the implementation of the National Broadband Network, and the structural separation of Telstra.

The Department is developing options to advise Government on future delivery of USO services.

Telstra

The Universal Service Obligation (USO) is national and general in scope. The telephone USO requires Telstra to establish and maintain the infrastructure and other capabilities necessary to meet this obligation, on request, at standard prices, at any time, literally anywhere in the country.

The guarantee of a voice service is important everywhere in the country, but we know it is particularly important in regional, rural and remote Australia where there are fewer alternative communication services available.

Telstra has always received a single annual payment to help maintain its ability to meet the obligation. Telstra does not receive individual payments to connect each premises on a per-premises basis.

The Commonwealth pays Telstra a fixed annual amount each year, not indexed. It therefore has absolute certainty of payments over the life of the contract. Telstra bears all the cost risk under this model. This is appropriate given Telstra is best placed to manage that risk.

The USO contract requires Telstra to maintain its copper network outside the NBN fixed line footprint for the delivery of USO telephone services. That is why changes in the number of voice services in operation over time do not have a material effect on Telstra's costs of meeting the USO.

If any cost saving measures are identified under the relevant mechanisms in the contract it is in both parties' interest to implement them. However, given the nature of the obligation, including the necessity to maintain the networks used to deliver it, the scope for cost saving is limited.

Taxpayers have also benefitted enormously from the broader agreement between the Commonwealth, Telstra and the NBN. The USO contract helped to secure Telstra's participation in the roll-out of the NBN, without which its cost would have been substantially higher.

Telstra endorses the ANAO's recommendation that the USO Taskforce should develop options for an efficient transition to any potential alternative USO delivery arrangements. A great deal of planning will be needed to ensure any transition is done smoothly and efficiently for customers.