

## Audit Summaries

Auditor-General Reports tabled from 27 March to 9 October 2019

### ANAO Reports tabled 2018-19

No.	Name	Entities	Date Tabled	Link to Audit Summary
32	<a href="#">Addressing Illegal Phoenix Activity</a>	Across Entities	29 March 2019	<a href="#">Audit Summary</a>
33	<a href="#">Governance and Integrity of the Northern Australia Infrastructure Facility</a>	Northern Australia Infrastructure Facility	10 April 2019	<a href="#">Audit Summary</a>
34	<a href="#">Effectiveness of Board Governance at Old Parliament House</a>	Old Parliament House	18 April 2019	<a href="#">Audit Summary</a>
35	<a href="#">Governance of the Special Broadcasting Service Corporation</a>	Special Broadcasting Service Corporation	26 April 2019	<a href="#">Audit Summary</a>
36	<a href="#">Effectiveness of Board Governance at the Australian Institute of Marine Science</a>	Australian Institute of Marine Science	30 April 2019	<a href="#">Audit Summary</a>
37	<a href="#">Effectiveness of Board Governance at the Sydney Harbour Federation Trust</a>	Sydney Harbour Federation Trust	2 May 2019	<a href="#">Audit Summary</a>
38	<a href="#">Application of cost recovery principles</a>	Department of Agriculture and Water Resources; Australian Maritime Safety Authority; Department of Health (Therapeutic Goods Administration)	14 May 2019	<a href="#">Audit Summary</a>
39	<a href="#">The Bureau of Meteorology's Delivery of Extreme Weather Services</a>	Bureau of Meteorology	22 May 2019	<a href="#">Audit Summary</a>
40	<a href="#">Modernising Army Command and Control — the Land 200 Program</a>	Department of Defence	23 May 2019	<a href="#">Audit Summary</a>
41	<a href="#">Coordination Arrangements of Australian Government Entities Operating in Torres Strait</a>	Across entities	29 May 2019	<a href="#">Audit Summary</a>
42	<a href="#">Management of Small Business Tax Debt</a>	Australian Taxation Office	30 May 2019	<a href="#">Audit Summary</a>

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43	<a href="#">Design, Implementation and Monitoring of Reforms to Services on Norfolk Island</a>	Department of Infrastructure, Regional Development and Cities	31 May 2019	<a href="#">Audit Summary</a>
44	<a href="#">Effectiveness of the Export Finance and Insurance Corporation</a>	Export Finance and Insurance Corporation	6 June 2019	<a href="#">Audit Summary</a>
45	<a href="#">Coordination and Targeting of Domestic Violence Funding and Actions</a>	Department of Social Services	13 June 2019	<a href="#">Audit Summary</a>
46	<a href="#">Interim Report on Key Financial Controls of Major Entities</a>	Across Entities	13 June 2019	<a href="#">Audit Summary</a>
47	<a href="#">Evaluating Aboriginal and Torres Strait Islander Programs</a>	Department of Prime Minister and Cabinet	18 June 2019	<a href="#">Audit Summary</a>
48	<a href="#">Management of the Terrorism Reinsurance Scheme</a>	Australian Reinsurance Pool Corporation	19 June 2019	<a href="#">Audit Summary</a>
49	<a href="#">Management of Commonwealth National Parks</a>	Department of the Environment and Energy; Director of National Parks	21 June 2019	<a href="#">Audit Summary</a>
50	<a href="#">National Disability Insurance Scheme Fraud Control Program</a>	National Disability Insurance Agency	25 June 2019	<a href="#">Audit Summary</a>
51	<a href="#">Farm Management Deposits Scheme</a>	Department of Agriculture; Australian Taxation Office; Department of the Treasury	26 June 2019	<a href="#">Audit Summary</a>

## ANAO Reports tabled 2019-20

1	<a href="#">Cyber Resilience of Government Business Enterprises and Corporate Commonwealth Entities</a>	ASC Pty Ltd; Australian Postal Corporation; Reserve Bank of Australia	4 July 2019	<a href="#">Audit Summary</a>
2	<a href="#">Defence's Administration of Travel Allowances Paid to APS Employees</a>	Department of Defence	22 July 2019	<a href="#">Audit Summary</a>

No.	Name	Entities	Date Tabled	Link to Audit Summary
3	<a href="#">Defence's Quarterly Performance Report on Acquisition and Sustainment</a>	Department of Defence	23 July 2019	<a href="#">Audit Summary</a>
4	<a href="#">OneSKY: Contractual Arrangements</a>	Airservices Australia; Department of Defence	31 July 2019	<a href="#">Audit Summary</a>
5	<a href="#">Australian Research Council's Administration of the National Competitive Grants Program</a>	Australian Research Council	1 August 2019	<a href="#">Audit Summary</a>
6	<a href="#">Implementation of ANAO and Parliamentary Committee Recommendations</a>	Across entities	5 August 2019	<a href="#">Audit Summary</a>
7	<a href="#">Government Advertising: June 2015 to April 2019</a>	Across entities	26 August 2019	<a href="#">Audit Summary</a>
8	<a href="#">Management of the Tourist Refund Scheme</a>	Department of Home Affairs; Department of the Treasury; Australian Taxation Office	9 September 2019	<a href="#">Audit Summary</a>
9	<a href="#">National Ice Action Strategy Rollout</a>	Department of Health	23 September 2019	<a href="#">Audit Summary</a>
10	<a href="#">Design and implementation of the Child Care Package</a>	Department of Education	30 September 2019	<a href="#">Audit Summary</a>

**Addressing Illegal Phoenix Activity**  
**No.32 2018–19**  
**Across Entities**

## Background

1. Illegal phoenix activity occurs when a new company is created to continue the business of a company that has been deliberately liquidated to avoid paying its debts, including taxes, creditors and employee entitlements.<sup>1</sup> Illegal phoenix activity impacts employees, creditors, competing businesses and the Government, with direct costs estimated at between \$2.85 billion and \$5.13 billion for 2015–16.<sup>2</sup>
2. Australian Government activities to address illegal phoenix activity date back to the 1970s and 1980s in relation to Bottom of the Harbour schemes. The first major intergovernmental arrangement occurred in 2011 with the establishment by the Australian Taxation Office (ATO) of an Inter-Agency Phoenix Forum to address illegal phoenix behaviour. This was not a prescribed taskforce for the purposes of the Taxation Administration Regulations and the ATO consequently faced considerable limitations in sharing information with other forum members about potential phoenix cases.
3. In response to the information sharing limitations for tax officers, the Phoenix Taskforce (Taskforce) was established on 17 November 2014 through an amendment to the Taxation Administration Regulations.<sup>3</sup> The Taskforce's purposes are to: bring together key Government entities to allow the effective exchange of information and a collaborated approach to mitigate and deter fraudulent phoenix behaviour; and develop a course of action and preferred alternatives. The Taskforce also has five goals and deliverables.<sup>4</sup>
4. In December 2018, the Taskforce comprised 13 Commonwealth entities and 21 state and territory government entities working together through information sharing and data matching to identify, manage, monitor and take enforcement action against suspected illegal phoenix operators. The Taskforce Steering Committee has five members; the ATO, Australian Securities and Investments Commission (ASIC), Fair Work Ombudsman, Department of Jobs and Small Business, and Australian Border Force. The ATO provides the Chair and secretariat services for the Taskforce and the Steering Committee.

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<sup>1</sup> Australian Taxation Office, *Illegal Phoenix Activity* [Internet], available from <https://www.ato.gov.au/General/The-fight-against-tax-crime/Our-focus/Illegal-phoenix-activity/> [accessed February 2019].

<sup>2</sup> PricewaterhouseCoopers, *The Economic Impacts of Potential Illegal Phoenix*, July 2018, p. ii. [Internet], available from [https://www.ato.gov.au/uploadedFiles/Content/ITX/downloads/The\\_economic\\_impacts\\_of\\_potential\\_illegal\\_Phoenix\\_activity.pdf](https://www.ato.gov.au/uploadedFiles/Content/ITX/downloads/The_economic_impacts_of_potential_illegal_Phoenix_activity.pdf) [accessed February 2019].

<sup>3</sup> The Taxation Administration Regulations 2017, regulation 67, includes the Phoenix Taskforce as a prescribed taskforce for the purposes of section 355-70 of the *Taxation Administration Act 1953*.

<sup>4</sup> The goals (and equivalent deliverables) are to: protect the public finances of Australia by identifying, designing and implementing cross entity strategies to mitigate and deter fraudulent phoenix activity; coordinate the enforcement of state and federal laws against egregious fraudulent phoenix activity; enable the effective sharing of information, knowledge and experience across taskforce entities; support the reform of administrative practice, policy and where applicable, recommend legislative changes; and promote community awareness as a means of increasing voluntary compliance and community confidence.

## **Rationale for undertaking the audit**

5. The Australian National Audit Office selected illegal phoenix activity for audit because the activity imposes considerable costs on the Australian community (estimated up to \$5.1 billion for 2015–16), is a long-standing problem and requires extensive cooperation between government entities, which is often challenging to implement. The audit was intended to provide assurance on whether the Phoenix Taskforce is effectively addressing illegal phoenix activity at a whole-of-government level.

## **Audit objective and criteria**

6. The audit assessed the effectiveness of the Phoenix Taskforce to combat illegal phoenix activities.

7. The audit criteria are:

- Does the Phoenix Taskforce have effective governance arrangements?
- Has the Phoenix Taskforce developed and implemented effective strategies and processes to combat illegal phoenix activities?
- Do the Phoenix Taskforce performance measurement arrangements enable it to assess effectiveness?

## **Conclusion**

8. The Phoenix Taskforce is making progress against its purposes and goals in combating illegal phoenix activity, including through implementing cross-entity strategies, increasing the exchange of information between Government entities on potential cases, collaborating in the conduct of compliance cases and progressing reforms to strengthen compliance powers. Most member entities advised the ANAO that taskforce participation has provided them with benefits in addressing phoenix risks. Importantly, the ATO has significantly increased the amount of tax revenue collected from illegal phoenix operators through audits it has conducted. However, Taskforce joint compliance and enforcement operations are at relatively early stages and have not yet demonstrated major results.

9. Governance arrangements are generally fit for purpose, and support the development of strategies and conduct of operational activities to address illegal phoenix activity as a multi-entity taskforce. These arrangements include the Charter, and the structure and responsibilities of the Steering Committee and working groups. Arrangements are in place for the ATO to share its information with other Taskforce members. The Phoenix Taskforce has an ongoing strategy to develop proposals for law reforms that would help overcome barriers to it addressing illegal phoenix activity, including in sharing information.

10. The Phoenix Taskforce has developed and is implementing a suite of strategies and processes to combat illegal phoenix activity. This includes commencing 16 Top Phoenix Target operations where agencies from across government work together to address some of the most egregious cases of illegal phoenix activity. Although some successes have been reported, most strategies have only recently been created and it cannot yet be determined if the Taskforce has had a substantial effect in combatting illegal phoenix activity given the size of the problem.

11. Performance measures are in place and an evaluation has been conducted of the Phoenix Taskforce, but misalignment of the Evaluation Framework to the stated purposes and goals of the Phoenix Taskforce has undermined the assessment of effectiveness. There is detailed internal quarterly reporting on progress to the Phoenix Taskforce Steering Committee and half-yearly reporting to the Minister. Taskforce outcomes are published on the ATO's website.

## Supporting findings

### Phoenix Taskforce governance

12. The Phoenix Taskforce has developed, implemented and updated a Taskforce Charter to reflect the evolving focus of the Taskforce in collaborating on illegal phoenix matters. The Charter is supported by members exchanging letters to agree to participate in the Taskforce and accepting the *Statement of Principles for Information Exchange*. Member participation involves the ATO undertaking most activities on behalf of the Taskforce, with Steering Committee members providing support and guidance for operational and some strategic matters, and other members participating on an opt-in basis. Arrangements for working groups, including terms of reference and membership, have not been clearly articulated.

13. Partially effective information sharing arrangements have been established to support the Taskforce's intelligence and operational matters. Establishing the Phoenix Taskforce under taxation legislation has enabled the ATO to share information on potential high-risk phoenix operators with other Taskforce entities. The extent of this information sharing by the ATO has increased dramatically, from two instances in 2014–15 to 687 instances across 28 entities in 2017–18, when a single disclosure encompassed as many as 4412 companies and trusts related to 110 persons of interest. The ANAO's analysis identified instances of inconsistency with the ATO's disclosure process requirements. The ATO also shares non-protected information at Taskforce meetings and through its website on aspects of the Phoenix Taskforce strategies, activities and successes.

14. Most Taskforce entities' legislation prevents them from sharing information with all Taskforce member entities or the ATO from 'on-disclosing' the shared information to other members. These provisions limit the intelligence and operational activities of the Taskforce. Records of information shared with the ATO by Taskforce agencies and any on-disclosure limitations are not centrally maintained.

15. The ATO has developed and issued guidance to member entities to support the coordination of Phoenix Taskforce operations. However, there is limited guidance on developing intelligence for the Taskforce (beyond information sharing) or to support decision-making at intelligence and operational working groups when selecting cases to pursue.

16. Barriers to addressing illegal phoenix activity have been identified over a number of years, including by the ATO, other Taskforce members and research entities such as the Productivity Commission. Building on previous legislative reforms, in 2017 the Phoenix Taskforce Steering Committee developed a law reform proposal that was progressed by Treasury. Seven reforms were accepted by Government, with two implemented and five introduced to Parliament as legislation for consideration. The Taskforce has an ongoing program of work to propose law reforms to help overcome barriers to it addressing illegal phoenix activity.

### Strategies and processes to combat illegal phoenix activity

17. The Phoenix Taskforce, through the work of the ATO, has developed a suite of strategies and processes to address illegal phoenix activities across the regulatory spectrum of educate, engage and enforce. While there have been some successes, most strategies have not been in place long enough to produce significant impacts. The Australian Securities and Investments Commission developed its own strategy, which focused on addressing illegal phoenix activity in its role as a corporate regulator. No other Phoenix Taskforce members reported having specific strategies or processes to address illegal phoenix activity.

18. The Phoenix Taskforce has mostly effective risk-based processes for the selection of matters that are referred for compliance and enforcement activities. The ATO's risk-based processes are used to identify matters to be referred to the Phoenix Taskforce's Intelligence and Operational

Working Groups. However, the Working Groups do not have further risk and materiality concepts to apply when selecting suitable individuals to become Top Phoenix Targets. Where phoenix matters involve potential breaches of criminal law, the Phoenix Taskforce, through the ATO, has established processes for referring the matter for treatment.

19. The ATO, as the lead entity of the Phoenix Taskforce, and ASIC both manage programs of business as usual compliance activities. Under these programs, in 2017–18: the ATO completed 340 reviews and audits of phoenix operators and collected \$190 million in cash (which was a large increase on \$17 million collected in 2014–15); and ASIC completed 53 investigations and banned 45 company directors relating to illegal phoenix activity. Since adopting an operational focus in August 2016, the Phoenix Taskforce has commenced 16 cross-entity operations under its Top Phoenix Targets Strategy, which target some of the most egregious illegal phoenix operators. These operations have had initial successes, such as in raising liabilities and issuing garnishees, but have not run their course in progressing through civil or criminal enforcement and prosecution activities.

### **Performance measurement arrangements**

20. The endorsed Phoenix Taskforce Evaluation Framework is not adequate as it does not clearly assess achievement of the Taskforce’s purposes and goals, instead focusing on effectiveness of high-level treatment strategies (output groups). An evaluation was conducted in February 2018 that identified mixed effectiveness in achieving Taskforce strategies. The evaluation noted shortcomings in effectiveness measures and supporting data, which are being addressed.

21. The Phoenix Taskforce monitors and reports on Taskforce activities in a detailed quarterly report to the Steering Committee, which was introduced in 2017–18. A separate quarterly report to the Minister was introduced at the same time. The reports have an action and activity focus and do not include performance indicators from the Evaluation Framework. While the reports include some statistics, they rarely report these statistics against baselines, targets and benchmarks. The reports reflect all phoenix activities of the ATO, some activities of the Steering Committee and other members involved in operations. The majority of Taskforce members do not contribute to Taskforce reporting, and there is no consolidated reporting of the extent of Taskforce members’ efforts and their successes overall in combatting illegal phoenix activity.

## **Recommendations**

**Recommendation no. 1**  
**Paragraph 2.37** The Phoenix Taskforce provides guidance to clarify the basis on which intelligence and operational working groups refer, and recommend pursuing, potential illegal phoenix cases.

**Phoenix Taskforce Steering Committee entity response:** *Agree.*

**Recommendation no. 2**  
**Paragraph 3.40** The Phoenix Taskforce captures lessons learnt from its operations, and refines future operations accordingly to support their effective conduct.

**Phoenix Taskforce Steering Committee entity response:** *Agree.*

**Recommendation no. 3**  
**Paragraph 4.9**

The Phoenix Taskforce:

- (a) aligns the purposes, goals and outcomes in its Charter and Evaluation Framework;
- (b) ensures the purposes and goals clearly state the outcomes the Taskforce seeks to achieve; and
- (c) includes baselines or targets for performance indicators in the Evaluation Framework.

**Phoenix Taskforce Steering Committee entity response:** *Agree.*

## Summary of entity responses

22. The proposed report was provided to the five Phoenix Taskforce Steering Committee entities listed at paragraph 4 and an extract of the proposed report was provided to the Department of the Treasury. The ATO provided a response on behalf of the Phoenix Taskforce, the summary response is set out below. The Department of the Treasury also provided a summary response which is set out below. All Steering Committee entities confirmed with the ANAO that they supported the ATO's response.

### Australian Taxation Office (on behalf of the Phoenix Taskforce)

The ATO welcomes the audit findings and considers the report supportive of the Phoenix Taskforce's overall approach to combating illegal phoenix activity which has a significant impact on the Australian community and government.

The audit recognises the progress that the Phoenix Taskforce and the ATO are making by engaging in a whole-of-government approach to combat illegal phoenix activity. This includes implementing cross-agency strategies, increasing the exchange of information between government entities, collaborating in the conduct of compliance cases and progressing potential law reform. As noted in the audit report, the ATO has also significantly increased the amount of tax revenue collected from illegal phoenix operators through its audits.

The ANAO audit found the Phoenix Taskforce is making progress against its purposes and goals in combating illegal activity, while acknowledging that the Taskforce's joint compliance approaches to addressing illegal phoenix activity have not been in place long enough to fully determine their impact. The audit identified opportunities to improve Taskforce guidance, information sharing, intelligence, candidate development, debriefs, performance measurement and evaluation processes.

The ATO agrees with the three recommendations contained in the report. We are already implementing a number of measures to address these recommendations and suggestions.

The ATO notes the ANAO's comments regarding inconsistencies in the management of information disclosures to Taskforce members and is taking steps to automate and improve the processes. The ATO welcomes the ANAO's comments regarding improvements to our processes, but we consider that no legislative breaches have occurred.

### Department of the Treasury

The Treasury welcomes the ANAO's assessment of the effectiveness of the Phoenix Taskforce to combat illegal phoenix activities, and its examination of law reform efforts in this area.

While the report does not contain any recommendations for Treasury, we will consider the key insights from the report in the context of our policy responsibility for relevant corporations and tax laws and for law reform to combat illegal phoenix activity.



## Key messages for all Australian Government entities

23. Below is a summary of key messages from this audit that may be relevant for the operations of other Australian Government entities.

### Performance and impact measurement

- In designing performance measures for a program, the measures should enable an assessment of the achievement of the program's objectives (or outcomes) and be consistent with key corporate governance documents, such as the corporate plan.

### Governance and risk management

- The governance of multi-agency taskforce activities involved effective arrangements to support information sharing and cross-entity collaboration, including:
  - a clear and regularly updated Charter that established among other things purposes and goals, and roles and responsibilities;
  - an arrangement that supported collaboration between entities, in the form of a *Statement of Principles for Information Sharing* to which member entities agreed;
  - a Steering Committee to provide: assurance and oversight; endorsement of key operational matters; formulation and implementation of strategic projects; and effectiveness monitoring against program objectives;
  - clear links between working groups, committees and forums at different levels of program responsibility to ensure pathways for issue and risk communication and escalation;
  - multi-agency operation plans that set out shared intelligence, allocation of tasks, and planned outcomes; and
  - quarterly reporting on progress and outcomes.

**Governance and Integrity of the Northern Australia Infrastructure Facility**  
**No.33 2018–19**  
**Northern Australia Infrastructure Facility**

## Background

1. The Northern Australia Infrastructure Facility (NAIF) is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), established from 1 July 2016 under the *Northern Australia Infrastructure Facility Act 2016* (NAIF Act).
2. The objective of the NAIF is ‘to provide grants of financial assistance to the States and Territories for the construction of Northern Australia economic infrastructure’, which is defined in the NAIF Act as infrastructure that provides a basis for economic growth in Northern Australia and stimulates population growth in Northern Australia.<sup>1</sup> It can include infrastructure located outside Northern Australia that satisfies the statutory definition. The NAIF Act provided for \$5 billion to be appropriated from the Consolidated Revenue Fund for this purpose. The NAIF Board has until 30 June 2021 to make decisions to provide financial assistance.

## Rationale for undertaking the audit

3. On 14 June 2017, the Senate referred an inquiry into the governance and operation of the NAIF to the Senate Economics References Committee, which tabled its Final Report on the results of the inquiry on 6 July 2018.<sup>2</sup> The Final Report stated that a significant number of submissions to the Committee related to a ‘proposal for NAIF funding to build a railway line from the Carmichael coal mine to the Abbot Point port’.<sup>3</sup> The report included 12 recommendations covering:
  - governance changes with the addition of a second responsible minister, structured engagement with the Clean Energy Finance Corporation, publication of Indigenous Engagement Strategies and Indigenous representation on the Board;
  - publication of conflicts of interest, publication of more detail about investment decisions, prioritisation of projects with high local content, and allocating funds to the tourism industry; and
  - a review of NAIF transparency, a more transparent transaction pipeline, more resources in Darwin, and more transparency in senior staff remuneration.
4. The NAIF Act provides for a statutory review of the operation of the Act to be undertaken as soon as possible after the period of three years beginning when the Act commenced (as soon as possible after 1 July 2019). The statutory review must consider whether the time limit of 30 June 2021 for making decisions should be extended, and the appropriate governance arrangements after that date.<sup>4</sup>

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<sup>1</sup> NAIF Act, section 3.

<sup>2</sup> Senate Economics References Committee, *Governance and operations of the Northern Australia Infrastructure Facility (NAIF)*, Canberra, 6 July 2018, available from [www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Economics/NAIF/Final\\_Report](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/NAIF/Final_Report) [accessed 9 November 2018]. The report included a minority report by Government members. The NAIF made a submission to the Senate Inquiry (available as submission 43).

<sup>3</sup> *Ibid*, paragraphs 1.5 and 1.6.

<sup>4</sup> NAIF Act, section 43.

## Audit objective and criteria

5. The objective of the audit was to examine the effectiveness of governance and integrity arrangements for the NAIF.
6. To form a conclusion against the audit objective, the ANAO adopted the audit criteria:
  - Does the NAIF have in place a sound governance framework that is fit-for-purpose?
  - Has the NAIF implemented arrangements that support effective integrity and transparency in relation to its operations?
7. The audit scope did not address the merits of Northern Australia infrastructure policy, ministerial appointments to the Board, or particular decisions to grant financial assistance.

## Conclusion

8. The NAIF's arrangements to support the integrity of decision making were not fully effective. While NAIF has established appropriate governance and policy frameworks, decision support processes were not sufficiently transparent or evidenced to demonstrate projects have been treated in a consistent manner.
9. The NAIF has an appropriate governance framework, including systems of risk management and internal control, and effective arrangements with the Export Finance and Insurance Corporation (Efic) as its key service provider. Appropriate oversight is provided to the Minister for Resources and Northern Australia through reporting and regular meetings. While the Board adopted a flexible approach to strategy, only a small number of projects were assessed as addressing an identified infrastructure need, and amendments to the Investment Mandate changed the scale and scope of projects that the NAIF Board was considering beyond its original purpose. Remuneration policies and practices were not consistent with public sector governance standards, and information governance requires attention to meet National Archives standards and improve transparency.
10. The NAIF did not implement effective arrangements to support integrity and transparency throughout all elements of its operations. The NAIF had an appropriate integrity policy framework and the management of conflicts of interest was effective, however the NAIF adopted but did not adequately implement the Protective Security Policy Framework. Arrangements for engaging with stakeholders were generally effective. Arrangements for ensuring the integrity of decision support processes were not effective, with insufficient evidence that all applicants were evaluated in a consistent manner throughout the assessment stages. The Board placed reliance on the CEO to present projects for Board consideration, and the Board has not made any Investment Decisions to refuse financial assistance for the applications presented.

## Supporting findings

### Governance

11. The NAIF's governance framework is in accordance with relevant legislative and policy requirements. The NAIF has an appropriate statutory framework, Board processes and suite of governance policies. The NAIF provides the Minister for Resources and Northern Australia with oversight of its governance and decision-making through transaction pipeline reports and weekly meetings with the Minister's office, but did not keep minutes of these meetings. The NAIF Board has oversight of the Chief Executive Officer and staff, however remuneration policies and practices were not consistent with public sector governance standards.
12. While NAIF origination strategies promoted the achievement of its purpose: NAIF facilitated origination has not generated a significant or sustained increase in either the annual number of new projects or the annual number of successful applications; and only a small number of projects

considered by the NAIF Board were assessed as addressing an infrastructure need identified through a Commonwealth, State or Territory assessment process, pipeline, or priority list. The eligibility criteria for financial assistance were substantially broadened in order to increase the number of Investment Decisions.

13. The NAIF has developed an appropriate system of risk oversight and management that is consistent with the requirements of the *Commonwealth Risk Management Policy* and relevant Australian Prudential Regulation Authority (APRA) and Australian Stock Exchange (ASX) governance standards.

14. The NAIF has developed a system of internal control which is appropriate for its requirements. The NAIF Board adopted a blended system that relied primarily on service providers' policies and practices to provide coverage broadly equivalent to the *model accountable authority instructions*. The blended system has an inherent risk of insufficient clarity in relevant roles and responsibilities which should be monitored.

15. The Service Agreement and preceding inter-entity arrangement between the department and Efic were effective in supporting the establishment and operation of the NAIF, and had benefits for Efic in relation to demand management and the development of staff capability. Aspects of the NAIF's contract management of the Service Agreement could be improved to ensure ongoing value for money is maintained and evidenced.

16. The NAIF's information governance requires improvement to meet National Archives of Australia standards. The NAIF has implemented Freedom of Information and Information Publication Scheme processes. The NAIF published information about decisions to grant financial assistance as required by the Investment Mandate, but did not publish information about decisions not to grant financial assistance. The NAIF did not always disclose assessment criteria and processes, or non-confidential information about decisions.

### **Integrity and transparency**

17. The NAIF had an appropriate integrity policy framework. The integrity compliance program was largely reliant on induction training and self-reporting, which could be supplemented by ongoing training, pro-active compliance reviews and internal audit coverage.

18. The management of conflicts of interest was effective. The NAIF Board approved a conflicts of interest policy that applied to Board members and staff. The NAIF Board implemented sound declaration practices at Board meetings, and sound recusal practices at Board meetings and in Board papers. Declarations were more likely to be made after conflict checks were conducted or when an application reached the due diligence stage, indicating that there would be value in conducting conflict checks for all proposals from the earliest stage.

19. The NAIF adopted but did not adequately implement the Protective Security Policy Framework. The NAIF relied on service providers' security risk management policies and practices, and more recently approved policies specific to its own circumstances in areas such as business continuity. The NAIF did not use security classification and dissemination limiting markers on official documents. Some NAIF Board members used non-official email accounts to conduct official business and make decisions on projects with commercial and political sensitivities.

20. The NAIF implemented arrangements for engaging with stakeholders which were generally effective. The Board exercised regular oversight of stakeholder engagement. While the NAIF conducted regular consultation with government stakeholders with assistance from the department, providing more complete information to these stakeholders would help to identify and manage shared risks. The NAIF has draft bilateral protocols for statutory consultation with State and Territory jurisdictions under the Master Facility Agreements, and with Infrastructure Australia.

21. The arrangements for ensuring the integrity of decision support processes were not effective. The NAIF Board placed reliance on the CEO to determine whether a project progressed to the strategic assessment stage in circumstances where it is unclear why certain projects were presented to the Board and not others, and the Board has not made any Investment Decisions to refuse financial assistance for the applications presented to it. There was insufficient evidence that all projects were evaluated in a consistent manner throughout the assessment stages, and the NAIF sent letters of support or term sheets before applicants provided appropriate supporting documentation. There was no apparent consistency in how site visits were planned, conducted, documented or reported to the NAIF Board.

22. The NAIF Board met minimum external reporting obligations, but did not set measures that provided clear accountability and transparency in relation to its performance, did not measure the realisation of public benefit, and did not meet key performance targets in 2017–18.

## Recommendations

**Recommendation no.1** The NAIF publish criteria and all information necessary for applicants to submit complete applications for grants of financial assistance.

**Paragraph 2.34**

**The Northern Australia Infrastructure Facility response: Agree.**

*The NAIF Act and published Investment Mandate provide a comprehensive list of five mandatory criteria and at least an additional 27 requirements that the NAIF Board must either consider, have regard to or be satisfied with in making an Investment Decision. In addition the NAIF website publishes a detailed outline containing other information required as a project is assessed. Notwithstanding this existing transparency NAIF undertakes to assist proponents by publishing case studies and further guidance.*

**Recommendation no.2** The NAIF develop an information governance framework, electronic data and records management system, and appropriate records disposal authorities in line with National Archives of Australia requirements.

**Paragraph 2.72**

**The Northern Australia Infrastructure Facility response: Agree.**

*NAIF has commenced engagement with the National Archives of Australia (NAA) on the implementation of an information governance framework, including data and records management, in line with NAA requirements. NAIF will progress this work over 2019 to meet the requirements of the Australian Government's Digital Continuity 2020 Policy.*

**Recommendation no.3** The NAIF publish more information about decisions, public benefit assessments, environmental assessments and Indigenous engagement strategies.

**Paragraph 2.79**

**The Northern Australia Infrastructure Facility response: Agree.**

*Taking into account the requirements of NAIF's legislative framework to uphold both public accountability and appropriately maintain commercial in confidence information NAIF commits to, at a project or portfolio level as appropriate, continue to publish more information, by way of case studies, about its Investment Decisions together with examples of expected public benefit, Indigenous engagement strategies and environmental outcomes from NAIF investments.*

**Recommendation no.4** The NAIF cease the use of all non-official email accounts and servers to conduct official business.

**Paragraph 3.24**

**The Northern Australia Infrastructure Facility response:** *Agree.*

*NAIF has ceased the use of non-official email accounts, for any NAIF business. This does not extend to stakeholder or proponent engagement via the email accounts provided by those parties.*

**Recommendation no.5** The NAIF select projects at each assessment stage on a consistent and transparent basis in accordance with published criteria, and retain adequate documentation to record the rationale for decisions made and actions undertaken.

**Paragraph 3.60**

**The Northern Australia Infrastructure Facility response:** *Agree in principle.*

*NAIF has and will continue to consistently select projects by assessment against the published NAIF requirements which will include at the strategic assessment stage whether mandatory criteria have potential to be satisfied and at the Investment Decision stage whether the requirements have been satisfied. NAIF will refine its published guidance material to elaborate on the type of information and factors that may be taken into account at each stage noting projects vary on their facts and that expert commercial judgement is always applied. In addition, while NAIF strenuously rejects any assertion that its decisions have not been based on robust and consistently applied processes, NAIF will strengthen its internal protocols around documenting its rationale for early stage assessments.*

**Recommendation no.6** The NAIF revise its performance measures and targets to provide clearer accountability and transparency in the measurement of its performance, and measure and report on the realisation of public benefit.

**Paragraph 3.70**

**The Northern Australia Infrastructure Facility response:** *Agree.*

*NAIF's performance measures have been subject to review by its internal audit function, which has found the existing performance measures are considered relevant, reliable, complete and meaningful. The NAIF Board reviews all performance measures annually in a manner consistent with guidance provided through materials including the Public Governance, Performance and Accountability Act 2013 and Department of Finance Resource Management Guides. Within its capacity NAIF will monitor and publish information on public benefit realised through NAIF investments.*

## Entity response

23. The proposed audit report was provided to the Northern Australia Infrastructure Facility. The full response is reproduced at Appendix 1. The summary response is reproduced below.

NAIF agrees to ANAO Recommendations 1-4 and 6 agrees in principle to Recommendation 5. NAIF's full response is at Appendix 1 and in responses to those Recommendations provided in the report.

NAIF agrees with the ANAO that principles of accountability and transparency are essential to maintaining public confidence in the quality of public administration.

NAIF disagrees with the ANAO finding that NAIF's arrangements to support the integrity of NAIF decision making were not fully effective in terms of either transparency or evidence of consistent treatment of projects.

NAIF's decision making criteria are transparent being comprehensively set out in a list of five mandatory criterion and at least 27 requirements in the NAIF Act and Investment Mandate that the Board must consider in making an Investment Decision.

NAIF publishes information, at all times balancing transparency with its best practice statutory obligations to maintain commercial in confidence information, in order to deliver on its mandate.

Documentary evidence exists for all NAIF decisions to progress projects through NAIF's various stages. NAIF does not accept that the examples provided at paragraphs 3.46 – 3.52 are evidence of a lack of clarity as to why particular projects were presented to the Board and not others.

The NAIF process has been designed to deliver on its objective of accelerating infrastructure development. It involves a test (applied at the strategic assessment stage) requiring that a project demonstrates potential to meet all criteria. There is a separate test which requires the NAIF CEO to have formed a view that a project if it were presented to the Board, the Board would be likely to exercise its discretion to decline an Investment Proposal.

NAIF also disputes the ANAO's statements at paragraph 3.51. There were no instances where a project that did not have the potential to meet the criteria was recommended to be moved to due diligence.

All decisions have been made against consistent and correct criteria. NAIF accepts and has acted to ensure there is more consistency in documentation by different executives for the strategic assessment stage (in being clear the analysis at that stage relates to a potential to meet criteria). A lack of decisions by the NAIF Board to refuse financial assistance for the applications presented to it is also not reflective of any issue with NAIF's process.

The ANAO analysis (at paragraphs 3.41-3.42) focussing on the time projects are in the NAIF system is not evidence of any inconsistency or lack of integrity of NAIF's decision making process and is not determinative of an outcome. As a result of both the unique project and proponent characteristics and the overlay of commercial judgement, projects progress at different rates which creates variability in timing to progress. That is not evidence of a lack of consistency of approach or process. NAIF applies the same process consistently to the differing parameters of each project to assess against the NAIF requirements.

ANAO (at paragraph 3.43) asserts that NAIF should ensure it makes a decision to grant or refuse all projects expeditiously and to a 30 June 2021 deadline. NAIF's response is that projects may not be ready to be managed by NAIF to such an outcome. NAIF is actively seeking to progress projects quickly where feasible but it does not discount any opportunity peremptorily and it does not control project timelines.

24. The Department of Industry, Innovation and Science (the department) was provided with extracts of the report containing those sections where the department was specifically mentioned. The department did not provide comment.

## Key messages for all Australian Government entities

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

### **Accountability and transparency**

Principles of accountability and transparency are essential to maintaining public confidence in the quality of public administration. The Australian Parliament and the Australian Government give these principles specific expression in legislative and policy standards that apply to the powers, functions and duties of public sector bodies, including corporate Commonwealth entities such as the Northern Australia Infrastructure Facility (NAIF).

This audit concluded that the NAIF's arrangements to support the integrity of decision making were not fully effective. While the NAIF established appropriate governance and policy frameworks, decision support processes were not sufficiently transparent or evidenced to demonstrate that projects had been treated in a consistent manner.

It is concerning that the NAIF's response reflects a view that these findings are unjustified on the basis that they fail to consider the application of 'expert commercial judgement' in the decision making process. It is also concerning that the NAIF has chosen not to indicate to the Parliament whether it accepts or rejects the ANAO recommendations.<sup>5</sup>

The general duty imposed on officials in all Commonwealth entities to act honestly, in good faith and for a proper purpose<sup>6</sup> necessitates the demonstration of matters taken into consideration in arriving at a decision. While the use of expert judgement may be appropriate, this does not reduce the expectation that the use of this judgement is transparent and clearly documented. This audit found insufficient evidence of the specific circumstances considered in moving some projects forward in the decision making process in preference to other projects—whether these considerations took the form of expert judgement or otherwise.

The accountable authority of a Commonwealth entity must govern the entity in a way which demonstrates to the Parliament, and the Australian Public, that it is promoting the proper use and management of public resources.<sup>7</sup> It is incumbent on the NAIF Board, which has responsibilities with respect to the allocation of \$5 billion of public funds, to understand its accountabilities and responsibilities in this regard.

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<sup>5</sup> Parliament of the Commonwealth of Australia, Joint Committee of Public Accounts and Audit, *Report 472: Commonwealth Procurement—Second Report*, Canberra, October 2018, paragraphs 2.37-2.39.

<sup>6</sup> *Public Governance, Performance and Accountability Act 2013*, section 26.

<sup>7</sup> *Public Governance, Performance and Accountability Act 2013*, section 15.



**Effectiveness of Board Governance at Old Parliament House**  
**No. 34 2018–19**  
**Old Parliament House**

## Background

1. The governing board of a corporate Commonwealth entity is the accountable authority for the entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act)<sup>1</sup>, with responsibility for ‘leading, governing and setting the strategic direction’ for the entity.<sup>2</sup>
2. Around 60 corporate Commonwealth entities subject to the PGPA Act have governing boards, comprising a total of approximately 510 board positions.<sup>3</sup> Corporate Commonwealth entities with governance boards vary significantly by function, and governance boards may also vary in their composition, operating arrangements, independence and subject-matter focus, depending on the specific requirements of their enabling legislation and other applicable laws.

## Boards and corporate governance

### Duties and roles

3. Sections 15 to 19 of the PGPA Act impose duties on accountable authorities in relation to governing the corporate Commonwealth entity for which they are responsible.<sup>4</sup> As the accountable authority, members of Commonwealth governing boards are also officials under the PGPA Act and subject to the general duties of officials in sections 25 to 29 of the Act.<sup>5</sup> Guidance issued to accountable authorities by the Department of Finance (Finance) observes that ‘each of these duties is as important as the others’.<sup>6</sup>
4. Boards play a key role in the effective governance of an entity. Corporate governance is generally considered to involve two dimensions, which are the responsibility of the governing board. These are:

Performance—monitoring the performance of the organisation and CEO...

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<sup>1</sup> Section 12 of the *Public Governance, Performance and Accountability Act 2013*.

<sup>2</sup> Department of Finance, *Guide to the PGPA Act for Secretaries, Chief Executives or governing boards (accountable authorities) - RMG 200*, Summary: Governing your entity [Internet], Department of Finance, December 2016, available from <https://www.finance.gov.au/resource-management/accountability/accountable-authorities/> [accessed March 2019].

<sup>3</sup> Under the PGPA Act, the accountable authority of a Commonwealth entity may be a single person or group of persons (section 12). This total is based on the Department of Finance’s *List of Commonwealth entities and companies under the Public Governance, Performance and Accountability Act 2013 (PGPA Act)* as at 28 August 2018. It includes those entities that have a collective accountable authority and includes governing bodies which have the title of board, authority, commission, corporation, council, or trust. The number of people for each entity was derived from the number of people included as the accountable authority in each entity’s 2018 annual report as at 30 June 2018.

<sup>4</sup> For full details of the general duties as an accountable authority, refer to Appendix 2 of this audit report.

<sup>5</sup> For full details of the general duties as an official, refer to Appendix 3 of this audit report.

<sup>6</sup> Department of Finance, *Guide to the PGPA Act for Secretaries, Chief Executives or governing boards (accountable authorities) - RMG 200*, Summary: Your general duties as an accountable authority [Internet], Department of Finance, December 2016, available from <https://www.finance.gov.au/resource-management/accountability/accountable-authorities/> [accessed March 2019].

Conformance—compliance with legal requirements and corporate governance and industry standards, and accountability to relevant stakeholders.

... it is important to understand that governing is not the same as managing. Broadly, governance involves the systems and processes in place that *shape, enable* and *oversee* management of an organisation. Management is concerned with *doing* – with co-ordinating and managing the day-to-day operations of the business.<sup>7</sup>

## Old Parliament House

5. Old Parliament House (OPH) has a governing board and operates under the Public Governance, Performance and Accountability (Establishing Old Parliament House) Rule 2016 (OPH Rule) as a not-for-profit corporate Commonwealth entity. OPH key functions include to conserve, develop and present the OPH building and collections; and to provide public programs and research activities related to Australia's social and parliamentary history.<sup>8</sup>

## Rationale for undertaking the audit

6. This topic was selected for audit as part of the ANAO's multi-year audit program that examines aspects of the implementation of the PGPA Act. This audit provides an opportunity for the ANAO to review whether boards have established effective arrangements to comply with selected legislative and policy requirements and adopted practices that support effective governance. The audit also contributes to the identification of practices that support effective governance that could be applied in other entities. This audit is one of a series of governance audits that apply a standard methodology to the governance of individual boards.

## Audit objective and criteria

7. The objective of the audit was to assess the effectiveness of the governance board in Old Parliament House.

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

- the board's governance and administrative arrangements are consistent with relevant legislative requirements and the board has structured its own operations in a manner that supports effective governance; and
- the board has established fit-for-purpose arrangements to oversight compliance with key legislative and other requirements.

9. The audit examined the period July 2016 until March 2019.

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<sup>7</sup> M Edwards and R Clough, 'Corporate Governance and Performance: An Exploration of the Connection in a Public Sector Context', Corporate Governance ARC Project, Paper No.1, January 2005, pp. 2–3.

<sup>8</sup> Minister for Finance, Public Governance, Performance and Accountability (Establishing Old Parliament House) Rule 2016 *Explanatory Statement Issued by the Authority of the Minister for Finance* [Internet], Federal Register of Legislation, August 2016, available from <https://www.legislation.gov.au/Details/F2016L00739/Explanatory%20Statement/Text> [accessed March 2019].

10. Guidance to boards issued by Finance was reviewed by the ANAO having regard to the report of the 2019 Hayne Royal Commission<sup>9</sup>, which was released in the course of this audit, and other key reviews of board governance.<sup>10</sup>

## Conclusion

11. The governance and oversight arrangements adopted by the Old Parliament House board are effective.

## Supporting findings

### Guidance

12. The 2018 APRA Prudential Inquiry and 2019 Hayne Royal Commission have again highlighted the criticality of effective governance, and there would be merit in the Department of Finance issuing guidance which has regard to the key insights and messages of those inquiries directed to accountable authorities including governance boards.

### OPH board governance arrangements

13. The board's governance and administrative arrangements are consistent with relevant legislative requirements and the board has structured its own operations in a manner that supports effective governance.

14. The ANAO has identified a number of opportunities for improvement relating to:

- enhancing the board charter by including details of its processes for decisions without meetings, clearly defining the respective roles of the accountable authority and the employer on strategic issues such as remuneration policy and work, health and safety risks, and including behavioural expectations for board members;
- the board taking a more active role in approving key policies;
- providing board members with key policies and frameworks at induction;
- the board formally setting expectations for reporting to it by management;
- providing board members with consolidated progress results against all performance targets in the Corporate Plan; and
- annually reviewing the risk register.

### OPH board arrangements to oversight compliance with key legislative and other requirements

15. The board has established fit-for-purpose arrangements to oversight compliance with key legislative and other requirements.

16. The ANAO made a number of suggestions for improvement in relation to:

- including a reference to the Statement of Expectations and Statement of Intent in future corporate plans and annual reports;

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<sup>9</sup> K M Hayne, *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, Final Report, 1 February 2019.

<sup>10</sup> N Owen, *The Failure of HIH Insurance, The HIH Royal Commission*, 4 April 2003 and the Australian Prudential Regulation Authority (APRA) *Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report*, 30 April 2018.

- expanding the existing Certificate of Compliance process to include compliance with enabling legislation and other legislative requirements, and including details of the basis for compliance;
- updating materials in the board induction pack;
- referencing OPH's Corporate Plan in OPH strategy documents;
- reviewing the scheduling of audit committee meetings;
- systematically capturing instances of non-compliance;
- reviewing the board charter to better reflecting the specific requirements of the PGPA Act; and
- considering the application of the entertainment and hospitality policy to board members.

## Recommendations

### Recommendation

#### no. 1

#### Paragraph 1.20

The Department of Finance update its guidance to accountable authorities having regard to the key insights and messages for accountable authorities identified in recent inquiries and reviews

**Department of Finance response:** Agree.

### Recommendation

#### no. 2

#### Paragraph 3.17

Old Parliament House ensure its corporate plan meets all the minimum requirements of the Public Governance, Performance and Accountability Rule 2014.

**Old Parliament House response:** Agree.

## Summary of entities' responses

17. The proposed report was provided to OPH which provided a summary response that is set out below. An extract of the report was provided to the Department of Finance which also provided a summary response that is set out below. The full responses from OPH and Finance are provided at Appendix 1.

### Old Parliament House

18. OPH notes the ANAO's very positive findings that:

- governance and oversight arrangements adopted by the OPH board are effective;
- OPH board governance and administrative arrangements are consistent with relevant legislative requirements and the board has structured its own operations in a manner that supports effective governance; and
- OPH has fit-for-purpose arrangements to oversight compliance and alignment with key legislative and policy requirements.

19. OPH notes the ANAO's recommendation relating to ensuring OPH's corporate plan meets all the minimum requirements of the *Public, Governance, Performance and Accountability Rule 2014*. OPH is taking steps to ensure that all future OPH Corporate Plans are updated to include more dialogue around risk and capabilities across the four year period covered by the plan to ensure they meet the minimum requirements of the *Public Governance, Performance and Accountability Rule 2014*.

### Finance

20. The Department of Finance supports the findings of the report.

## Key messages from this audit for all Australian Government entities

21. This audit is one of a series of governance audits that apply a standard methodology to the governance of individual boards. The four entities included in the ANAO's 2018–19 board governance audit series are:

- Old Parliament House;
- the Special Broadcasting Service;
- the Australian Institute of Marine Science; and
- the Sydney Harbour Federation Trust.

22. Key messages from the ANAO's series of governance audits will be outlined in an upcoming ANAO Insights product available on the ANAO website.

**Governance of the Special Broadcasting Service Corporation  
No.35 2018–19  
Special Broadcasting Service Corporation**

## Background

1. The governing board of a corporate Commonwealth entity is the accountable authority for the entity under the Public Governance, Performance and Accountability Act 2013 (PGPA Act), with responsibility for ‘leading, governing and setting the strategic direction’ for the entity.

2. Around 60 corporate Commonwealth entities subject to the PGPA Act have governing boards, comprising a total of approximately 510 board positions. Corporate Commonwealth entities with governance boards vary significantly by function, and governance boards may also vary in their composition, operating arrangements, independence and subject-matter focus, depending on the specific requirements of their enabling legislation and other applicable laws.

3. Sections 15 to 19 of the PGPA Act impose duties on accountable authorities in relation to governing the corporate Commonwealth entity for which they are responsible. As the accountable authority, members of Commonwealth governing boards are also officials under the PGPA Act and subject to the general duties of officials in sections 25 to 29 of the Act. Guidance issued to accountable authorities by the Department of Finance (Finance) observes that ‘each of these duties is as important as the others’.

4. Boards play a key role in the effective governance of an entity. Corporate governance is generally considered to involve two dimensions, which are the responsibility of the governing board. These are

Performance — monitoring the performance of the organisation and CEO ...

Conformance — compliance with legal requirements and corporate governance and industry standards, and accountability to relevant stakeholders.

... it is important to understand that governing is not the same as managing. Broadly, governance involves the systems and processes in place that shape, enable and oversee management of an organisation. Management is concerned with doing — with co-ordinating and managing the day-to-day operations of the business.

5. The Special Broadcasting Service Corporation (SBS) is a corporate Commonwealth entity established under the Special Broadcasting Service Act 1991 (SBS Act) ‘to provide multilingual and multicultural radio, television and digital media services that inform, educate and entertain all Australians, and, in doing so, reflect Australia’s multicultural society’.

## Rationale for undertaking the audit

6. This topic was selected for audit as part of the ANAO’s ongoing audit program that examines aspects of the implementation of the PGPA Act. This audit provides an opportunity for the ANAO to review whether the SBS Board (SBS Board/the Board) has established effective arrangements to comply with selected legislative and policy requirements and adopted practices that support effective governance. The audit also identifies practices that support effective governance that could be applied in other entities. This audit is one of a series of governance audits that apply a standard methodology to the governance of individual boards.

## **Audit objective and criteria**

7. The objective of the audit was to examine the effectiveness of the governance arrangements for the SBS.
8. The high level criteria for this audit are to examine whether:
  - the Board's governance and administrative arrangements are consistent with relevant legislative and policy requirements;
  - the Board has structured its own operations in a manner that supports effective governance; and
  - the Board has implemented fit-for-purpose arrangements to oversight compliance/alignment with key legislative and policy requirements.
9. Guidance to boards issued by Finance was reviewed by the ANAO having regard to the report of the 2019 Hayne Royal Commission, which was released in the course of this audit, and other key reviews of board governance.

## **Conclusion**

10. The governance and oversight arrangements adopted by the Special Broadcasting Service Corporation (SBS) are effective.
11. The SBS Board's governance and administrative arrangements are consistent with relevant legislative and policy requirements, and the Board has structured its operations in a manner that supports effective governance.
12. The Board has implemented fit-for-purpose arrangements to oversight compliance and alignment with key legislative and policy requirements.

## **Supporting findings**

### **Design of governance arrangements**

13. The design of the SBS Board and committee structure is consistent with legislative and policy requirements.
14. The SBS Board does not have a charter document to articulate governance roles and responsibilities, however the risk associated with this is partially mitigated by the presence of stipulations on the roles and responsibilities of the SBS Board and management contained in the SBS Act and SBS Editorial Guidelines. There is an opportunity to formalise the functions, powers and procedures of the SBS Board through the development and implementation of a Board charter.
15. Review of documentation and interviews with SBS Board members found no indication that the SBS does not meet the legislative requirements for board composition. The composition and experience of the SBS Board is consistent with the SBS's governance needs. The duration of membership of the SBS Board is legislatively capped to not exceed 10 years. Four of the current members will reach their legislative maximum time in office at the end of their existing appointment.
16. The design of the SBS Board and committee governance arrangements provides for sufficient oversight and challenge over SBS operations. The SBS has implemented a sound approach to promoting the entity's purpose as set out in the SBS Charter, and to integrating this purpose into the SBS's operating culture.

## Implementation of governance arrangements

17. The flow of information and reporting between the SBS Board and management supports the SBS Board in effectively discharging its governance responsibilities. There are opportunities to improve the level of structure applied to the tracking of Board action items.

18. The SBS Board effectively manages enterprise risk, however the application of the SBS risk management framework could be improved to better support the Board in its identification and treatment of priority risks. The structure of the SBS's risk management framework addresses all nine elements of the Commonwealth Risk Management Policy. Elements such as risk categories, inherent risk assessment and risk treatment plans are not consistently implemented. Whilst the SBS are generally compliant with Australian Government fraud policy requirements, improvements are required in the linkage of fraud risks to the SBS Fraud Control Plan.

19. An internal audit program has been established to provide assurance over SBS operations. The coverage of the internal audit plan is explicitly targeted at the SBS's most important risks. Improvements are required in the delivery timeliness of internal audit reports, the clarity of management agreement/disagreement with internal audit recommendations, and in the monitoring of internal audit recommendation implementation.

20. The SBS Ombudsman confirms the adequacy of the SBS's governance arrangements in relation to Codes of Practice complaints.

## Recommendations

**Recommendation no. 1**  
**Paragraph 2.19** The Special Broadcasting Service Corporation establish a Board charter to formalise: the functions, powers, and membership of the board; the roles, responsibilities and expectations of members and of management; the role and responsibilities of the chairperson; procedures for the conduct of meetings; and policies on the ongoing review of board performance.

**Entity response:** *Agreed.*

**Recommendation no. 2**  
**Paragraph 3.32** The Special Broadcasting Service Corporation review and update its risk framework to better support the Board in the identification and treatment of priority risks.

**Entity response:** *Agreed.*

## Summary of the entity response

21. The proposed report was provided to SBS which provided a summary response that is set out below.

SBS notes the ANAO's very positive findings that:

- SBS governance and oversight arrangements are effective;
- SBS governance and administrative arrangements are consistent with relevant legislative and policy requirements, and Board operations are structured to support effective governance; and
- the SBS Board has fit-for-purpose arrangements to oversight compliance and alignment with key legislative and policy requirements.

SBS is pleased that the ANAO finds, among other things, that the Board has implemented a sound approach to promoting the purpose of SBS as set out in the SBS Charter, and to integrating this purpose into SBS's operating culture.



SBS notes that the ANAO has made only two recommendations. These relate to the establishment of a Charter for the Board of SBS and the review of SBS's risk framework in relation to the identification and treatment of priority risks. SBS is taking steps to enhance its governance framework in response to both recommendations.

The Board Charter will provide useful operational guidance to complement the clearly defined set of Board powers and duties prescribed in the Special Broadcasting Service Act 1991.

To date the SBS risk management framework has operated very effectively to mitigate risks of key importance to SBS and its audiences. SBS is, however, always open to making improvements and it will therefore review each element of its risk framework with reference to the ANAO's observations and findings.

## Key messages for all Australian Government entities

22. This audit is one of a series of governance audits that apply a standard methodology to the governance of individual boards. The four entities included in the ANAO's 2018–19 board governance audit series are:

- Old Parliament House;
- the Special Broadcasting Service;
- the Australian Institute of Marine Science; and
- the Sydney Harbour Federation Trust.

23. The first report in this series, Auditor-General Report No. 34 of 2018–19 *Effectiveness of Board Governance at Old Parliament House*, includes a recommendation directed to the Department of Finance (Finance) to update its guidance to accountable authorities having regard to the key insights and messages for accountable authorities, including governance boards, identified in the recent inquiries and reviews referenced in paragraph 9. Finance agreed with the recommendation.

24. Key messages from the ANAO's series of governance audits will be outlined in an upcoming ANAO Insights product available on the ANAO website.

**Effectiveness of Board Governance at the Australian Institute of Marine Science**  
**No. 36 2018–19**  
**The Australian Institute of Marine Science**

## Background

1. The governing board of a corporate Commonwealth entity is the accountable authority for the entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act)<sup>1</sup>, with responsibility for ‘leading, governing and setting the strategic direction’ for the entity.<sup>2</sup>
2. Around 60 corporate Commonwealth entities subject to the PGPA Act have governing boards, comprising a total of approximately 510 board positions.<sup>3</sup> Corporate Commonwealth entities with governance boards vary significantly by function, and governance boards may also vary in their composition, operating arrangements, independence and subject-matter focus, depending on the specific requirements of their enabling legislation and other applicable laws.

## Boards and corporate governance

### Duties and roles

3. Sections 15 to 19 of the PGPA Act impose duties on accountable authorities in relation to governing the corporate Commonwealth entity for which they are responsible.<sup>4</sup> As the accountable authority, members of Commonwealth governing boards are also officials under the PGPA Act and subject to the general duties of officials in sections 25 to 29 of the Act.<sup>5</sup> Guidance issued to accountable authorities by the Department of Finance (Finance) observes that ‘each of these duties is as important as the others’.<sup>6</sup>
4. Boards play a key role in the effective governance of an entity. Corporate governance is generally considered to involve two dimensions, which are the responsibility of the governing board. These are:

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<sup>1</sup> Section 12 of the *Public Governance, Performance and Accountability Act 2013*.

<sup>2</sup> Department of Finance, *Guide to the PGPA Act for Secretaries, Chief Executives or governing boards (accountable authorities) - RMG 200*, Summary: Governing your entity, [Internet], Department of Finance, December 2016 available from <https://www.finance.gov.au/resource-management/accountability/accountable-authorities/> [accessed March 2019].

<sup>3</sup> Under the PGPA Act, the accountable authority of a Commonwealth entity may be a single person or group of persons (section 12). This total is based on the Department of Finance’s *List of Commonwealth entities and companies under the Public Governance, Performance and Accountability Act 2013 (PGPA Act)* as at 28 August 2018. It includes those corporate Commonwealth entities that have a collective accountable authority and includes governing bodies which have the title of board, authority, commission, corporation, council, executive committee, or trust. The number of people for each entity was derived from the number of people included as the accountable authority in each entity’s 2018 annual report as at 30 June 2018.

<sup>4</sup> For full details of the general duties of as an accountable authority, refer to Appendix 2 of this audit report.

<sup>5</sup> For full details of the general duties as an official, refer to Appendix 3 of this audit report.

<sup>6</sup> Department of Finance, *Guide to the PGPA Act for Secretaries, Chief Executives or governing boards (accountable authorities) - RMG 200*, December 2016, Summary: Your general duties as an accountable authority [Internet], Finance, available from <https://www.finance.gov.au/resource-management/accountability/accountable-authorities/> [accessed March 2019].

Performance — monitoring the performance of the organisation and CEO.

Conformance — compliance with legal requirements and corporate governance and industry standards, and accountability to relevant stakeholders.

..... it is important to understand that governing is not the same as managing. Broadly, governance involves the systems and processes in place that *shape, enable* and *oversee* management of an organisation. Management is concerned with *doing* – with co-ordinating and managing the day-to-day operations of the business.<sup>7</sup>

## **Australian Institute of Marine Science**

5. The Australian Institute of Marine Science (AIMS) has a governing board and was established in 1972 as a Commonwealth statutory authority operating under the *Australian Institute of Marine Science Act 1972* (AIMS Act).<sup>8</sup> The key functions of AIMS include providing the research and knowledge of Australia's marine estate required to support growth in its sustainable use, effective environmental management and protection of its unique ecosystems.

### **Rationale for undertaking the audit**

6. This topic was selected for audit as part of the ANAO's multi-year audit program that examines aspects of the implementation of the PGPA Act. This audit provides an opportunity for the ANAO to review whether boards have established effective arrangements to comply with selected legislative and policy requirements and adopted practices that support effective governance. The audit also contributes to the identification of practices that support effective governance that could be applied in other entities. This audit is one of a series of governance audits that apply a standard methodology to the governance of individual boards.

### **Audit objective, criteria and scope**

7. The objective of the audit was to assess the effectiveness of the governance board in the Australian Institute of Marine Science (AIMS).

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

- the board's governance and administrative arrangements are consistent with relevant legislative requirements and the board has structured its own operations in a manner that supports effective governance; and
- the board has established fit-for-purpose arrangements to oversight compliance with key legislative and other requirements.

9. The audit examined the period July 2016 until March 2019.

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<sup>7</sup> M Edwards and R Clough, *Corporate Governance and Performance: An Exploration of the Connection in a Public Sector Context*, Corporate Governance ARC Project, Paper No.1, January 2005, pp. 2–3.

<sup>8</sup> *Australian Institute of Marine Science Act 1972* [internet], Federal Register of Legislation, January 2012, available at <https://www.legislation.gov.au/Details/C2012C00037> [accessed March 2019].

10. Guidance to boards issued by the Department of Finance was reviewed by the ANAO having regard to the report of the 2019 Hayne Royal Commission<sup>9</sup>, which was released during the course of this audit, and other key reviews of board governance.<sup>10</sup>

## Conclusion

11. The governance and oversight arrangements adopted by the Australian Institute of Marine Science Council (the board) are effective.

## Supporting findings

### AIMS board governance arrangements

12. The board's governance and administrative arrangements are consistent with relevant legislative requirements and the board has structured its own operations in a manner that supports effective governance.

13. The ANAO has identified a number of opportunities for improvement relating to:

- establishing a board charter;
- the board taking a more active role in approving key policies;
- setting board expectations for reporting to it by management through a board charter;
- periodically assessing board performance; and
- the board actively reviewing the risk register and using it to drive the management of risk.

### AIMS board arrangements to oversight compliance with key legislative and other requirements

14. The board has established fit-for-purpose arrangements to oversight compliance with key legislative and other requirements.

15. The ANAO also made a number of suggestions for improvement including in relation to:

- the board having a role in approving the Financial and Contract Delegations Policy;
- including details of the basis of assurance in annual compliance certification summaries;
- the board establishing Accountable Authority Instructions;
- updating the Financial and Contract Delegations Policy to reflect legislative requirements; and
- the board considering the Entertainment and Hospitality Policy, including its implications for board members.

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<sup>9</sup> K M Hayne, *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, Final Report, 1 February 2019.

<sup>10</sup> N Owen, *The Failure of HIH Insurance*, The HIH Royal Commission, 4 April 2003 and the Australian Prudential Regulation Authority (APRA), *Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report*, 30 April 2018.

## Recommendation

**Recommendation no. 1** The Australian Institute of Marine Science ensure its corporate plan meets all the minimum requirements of the Public Governance, Performance and Accountability Rule 2014.  
**Paragraph 3.16**

**Australian Institute of Marine Science:** *Agree.*

## Summary of entity response

16. The proposed report was provided to AIMS which provided a summary response that is set out below. The full response from AIMS is provided at Appendix 1.

### Australian Institute of Marine Science

The AIMS Council welcomed the ANAO's decision to conduct an audit of the effectiveness of its governance as a useful and timely undertaking. The AIMS Council is committed to delivering good governance and wishes to achieve and maintain best practice in meeting its responsibilities. In a changing environment, at a time when new standards and expectations for corporate and board governance are being set, including through the conduct of a number of Reviews and Enquiries, it has been beneficial to work through the audit process, to gain a clearer understanding of these changing standards and expectations and their implications for board governance, and also to receive considered advice about practices that support effective governance.

The Council was pleased with the central finding of the Audit Report: that the governance and oversight arrangements it has in place are effective, and with the supporting findings, that its governance and administrative arrangements are consistent with relevant legislative requirements, that it has structured its operations in a manner that supports effective governance, and that the Council has established fit-for-purpose arrangements to oversight compliance with ley legislative and other requirements.

The ANAO's Recommendation that AIMS ensure full compliance of its Corporate Plan with PGPA Rule 2014 will be acted upon when AIMS prepares its next Corporate Plan.

Council welcomes the Audit Report's identification of Opportunities for Improvement in a number of areas. These suggestions will be examined thoroughly, with a view to enhancing Council's governance arrangements and practices.

## Key messages from this audit for all Australian Government entities

17. This audit is one of a series of governance audits that apply a standard methodology to the governance of individual boards. The four entities included in the ANAO's 2018–19 board governance audit series are:

- Old Parliament House;
- the Special Broadcasting Service;
- the Australian Institute of Marine Science; and
- the Sydney Harbour Federation Trust.

18. The first report in this series, Auditor-General Report No.34 2018–19 *Effectiveness of Board Governance at Old Parliament House*, includes a recommendation directed to the Department of Finance (Finance) to update its guidance to accountable authorities having regard to the key insights and messages for accountable authorities, including governance boards, identified in the recent inquiries and reviews referenced in paragraph 10. Finance agreed with the recommendation.

19. Key messages from this series of audits will be outlined in an upcoming ANAO Insights available on the ANAO website.

**Effectiveness of Board Governance at the Sydney Harbour Federation Trust**  
**No. 37 2018–19**  
**Sydney Harbour Federation Trust**

## Background

1. The governing board of a corporate Commonwealth entity is the accountable authority for the entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act)<sup>1</sup>, with responsibility for ‘leading, governing and setting the strategic direction’ for the entity.<sup>2</sup>
2. Around 60 corporate Commonwealth entities subject to the PGPA Act have governing boards, comprising a total of approximately 510 board positions.<sup>3</sup> Corporate Commonwealth entities with governance boards vary significantly by function, and governance boards may also vary in their composition, operating arrangements, independence and subject-matter focus, depending on the specific requirements of their enabling legislation and other applicable laws.

## Boards and corporate governance

### Duties and roles

3. Sections 15 to 19 of the PGPA Act impose duties on accountable authorities in relation to governing the corporate Commonwealth entity for which they are responsible.<sup>4</sup> As the accountable authority, members of Commonwealth governing boards are also officials under the PGPA Act and subject to the general duties of officials in sections 25 to 29 of the Act.<sup>5</sup> Guidance issued to accountable authorities by the Department of Finance (Finance) observes that ‘each of these duties is as important as the others’.<sup>6</sup>
4. Boards play a key role in the effective governance of an entity. Corporate governance is generally considered to involve two dimensions, which are the responsibility of the governing board. These are:

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<sup>1</sup> Section 12 of the *Public Governance, Performance and Accountability Act 2013*.

<sup>2</sup> Department of Finance, *Guide to the PGPA Act for Secretaries, Chief Executives or governing boards (accountable authorities) - RMG 200*, Summary: Governing your entity [Internet], Department of Finance, December 2016, available from <https://www.finance.gov.au/resource-management/accountability/accountable-authorities/> [accessed March 2019].

<sup>3</sup> Under the PGPA Act, the accountable authority of a Commonwealth entity may be a single person or group of persons (section 12). This total is based on the Department of Finance’s *List of Commonwealth entities and companies under the Public Governance, Performance and Accountability Act 2013 (PGPA Act)* as at 28 August 2018. It includes those corporate Commonwealth entities that have a collective accountable authority and includes governing bodies which have the title of board, authority, commission, corporation, council, executive committee, or trust. The number of people for each entity was derived from the number of people included as the accountable authority in each entity’s 2018 annual report as at 30 June 2018.

<sup>4</sup> For full details of the general duties as an accountable authority, refer to Appendix 2 of this audit report.

<sup>5</sup> For full details of the general duties as an official, refer to Appendix 3 of this audit report.

<sup>6</sup> Department of Finance, *Guide to the PGPA Act for Secretaries, Chief Executives or governing boards (accountable authorities) - RMG 200*, Summary: Your general duties as an accountable authority [Internet], Department of Finance, December 2016, available from <https://www.finance.gov.au/resource-management/accountability/accountable-authorities/> [accessed March 2019].

Performance—monitoring the performance of the organisation and CEO...

Conformance—compliance with legal requirements and corporate governance and industry standards, and accountability to relevant stakeholders.

... it is important to understand that governing is not the same as managing. Broadly, governance involves the systems and processes in place that *shape, enable* and *oversee* management of an organisation. Management is concerned with *doing* – with co-ordinating and managing the day-to-day operations of the business.<sup>7</sup>

## Sydney Harbour Federation Trust

5. The Sydney Harbour Federation Trust (SHFT) has a governing board and was established in September 2001 as a corporate Commonwealth entity under the *Sydney Harbour Trust Act 2001* (SHFT Act) to conserve and preserve land in the Sydney Harbour region for the benefit of present and future generations of Australians.<sup>8</sup> This includes land at Chowder Bay, Cockatoo Island, Georges Heights, Macquarie Lightstation, Marine Biological Station, Middle Head, North Head, Sub Base Platypus, and Woolwich.

## Rationale for undertaking the audit

6. This topic was selected for audit as part of the ANAO's multi-year audit program that examines aspects of the implementation of the PGPA Act. This audit provides an opportunity for the ANAO to review whether boards have established effective arrangements to comply with selected legislative and policy requirements and adopted practices that support effective governance. The audit also contributes to the identification of practices that could be applied in other entities. This audit is one of a series of governance audits that apply a standard methodology to the governance of individual boards.

## Audit objective, criteria and scope

7. The objective of the audit was to assess the effectiveness of the governance board in the Sydney Harbour Federation Trust (SHFT).

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

- the board's governance and administrative arrangements are consistent with relevant legislative requirements and the board has structured its own operations in a manner that supports effective governance; and
- the board has established fit-for-purpose arrangements to oversight compliance with key legislative and other requirements.

9. The audit examined the period July 2016 until March 2019.

10. Guidance to boards issued by the Department of Finance was reviewed by the ANAO having regard to the report of the 2019 Hayne Royal Commission<sup>9</sup>, which was released during the course of this audit, and other key reviews of board governance.<sup>10</sup>

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<sup>7</sup> M Edwards and R Clough, *Corporate Governance and Performance: An Exploration of the Connection in a Public Sector Context*, Corporate Governance ARC Project, Paper No. 1, January 2005, pp. 2–3.

<sup>8</sup> *Sydney Harbour Federation Trust Act 2001* preamble [Internet], Federal Register of Legislation, July 2016, available from <https://www.legislation.gov.au/Details/C2016C00881> [accessed January 2019].

<sup>9</sup> K M Hayne, *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, Final Report, 1 February 2019.



## Conclusion

11. The governance and oversight arrangements adopted by the Sydney Harbour Federation Trust board were effective, although board members have limited visibility of the work done by the entity's Portfolio Audit Committee and place limited reliance on it for assurance purposes.

## Supporting findings

### SHFT board governance arrangements

12. The board's governance and administrative arrangements are consistent with relevant legislative requirements and the board has structured its own operations in a manner that supports effective governance. However, board members have limited visibility of the work done by the entity's Portfolio Audit Committee and place limited reliance on it for assurance purposes. To gain assurance in relation to financial reporting, performance reporting, risk oversight and management and internal controls, board members primarily rely on their own review and questioning of management reports and assertions rather than the advice and assurance provided by SHFT's audit committee.

13. The ANAO has identified a number of opportunities for improvement relating to:

- the board having more active engagement with the department and the Minister in relation to the skill requirements for future board appointments;
- enhancing the board charter by including requirements relating to acting and Deputy Chair arrangements;
- the board focusing its review and approval of policies on key policies, frameworks, and instructions (particularly those related to its duties as an accountable authority) and having a more active role in determining the timing and frequency of review;
- improving board induction by providing board members with key policies;
- setting board expectations for reporting to it by management; and
- periodically evaluating board performance.

### SHFT board arrangements to oversight compliance with key legislative and other requirements

14. With the exception of the Sydney Harbour Federation Trust board's use of its Portfolio Audit Committee, and arrangements to oversight compliance with a Government Policy Order, the board has established fit-for-purpose arrangements to oversight compliance with key legislative and other requirements.

15. The ANAO also made suggestions for improvement including in relation to:

- enhancing the board's oversight of SHFT compliance with a Government Policy Order; and
- improving SHFT record keeping practices.

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<sup>10</sup> N Owen, *The Failure of HIH Insurance*, The HIH Royal Commission, 4 April 2003 and the Australian Prudential Regulation Authority (APRA), *Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report*, 30 April 2018.

## Recommendations

**Recommendation no 1  
Paragraph 2.53** The Sydney Harbour Federation Trust board review its audit committee arrangements to ensure it obtains the external advice and assurance it requires from its audit committee.

**Sydney Harbour Federation Trust:** *Agree.*

**Recommendation no 2  
Paragraph 3.5** The Sydney Harbour Federation Trust ensure its annual report meets the requirements of the Public Governance, Performance and Accountability Rule 2014.

**Sydney Harbour Federation Trust:** *Agree.*

**Recommendation no. 3  
Paragraph 3.16** The Sydney Harbour Federation Trust ensure its corporate plan meets all the minimum requirements of the Public Governance, Performance and Accountability Rule 2014.

**Sydney Harbour Federation Trust:** *Agree.*

## Summary entity responses

16. The proposed report was provided to SHFT which provided a summary response that is set out below. An extract of the report was provided to the Department of the Environment and Energy (Environment). The full responses from SHFT and Environment are provided at Appendix 1.

### Sydney Harbour Federation Trust

The Sydney Harbour Federation Trust (the Harbour Trust) welcomes the proposed report and agrees with the recommendations.

The Harbour Trust was pleased that the ANAO found that the board's governance and administrative arrangements are consistent with relevant legislative requirements and that the board has structured its own operations in a manner that supports effective governance.

The Harbour Trust is confident that implementing the report's recommendations will further strengthen the robust structures and processes that are in place.

## Key messages from this audit for all Australian Government entities

17. This audit is one of a series of governance audits that apply a standard methodology to the governance of individual boards. The four entities included in the ANAO's 2018–19 board governance audit series are:

- Old Parliament House;
- the Special Broadcasting Service;
- the Australian Institute of Marine Science; and
- the Sydney Harbour Federation Trust.

18. The first report in this series, Auditor-General Report No.34 2018–19 *Effectiveness of Board Governance at Old Parliament House*, includes a recommendation directed to the Department of Finance (Finance) to update its guidance to accountable authorities having regard to the key insights and messages for accountable authorities, including governance boards, identified in the recent inquiries and reviews referenced in paragraph 10. Finance agreed with the recommendation.

19. Key messages from this series of audits will be outlined in an upcoming ANAO Insights available on the ANAO website.

**Application of Cost Recovery Principles**  
**Report No.38 2018–19**  
**Australian Maritime Safety Authority**  
**Department of Agriculture and Water Resources**  
**Department of Health (Therapeutic Goods Administration)**

## Background

1. Cost recovery is one element of the Australian Government’s ‘Charging Framework’, implemented in July 2015 across the general government sector to improve the consistency of charging activities and help determine when it is appropriate to charge for a government activity.<sup>1</sup> The Department of Finance has issued the *Australian Government Cost Recovery Guidelines* (Cost Recovery Guidelines) to support the implementation of the Charging Framework. The Cost Recovery Guidelines must be applied by all non-corporate Commonwealth entities, and by corporate Commonwealth entities where the Finance Minister has made a ‘government policy order’ that applies the Australian Government cost recovery policy to them.<sup>2</sup>
2. The Cost Recovery Guidelines (paragraph 15) state that entities must apply the following three principles across all stages of the cost recovery process: transparency and accountability; effectiveness and efficiency; and stakeholder engagement.
3. This audit considers the application of cost recovery principles in the: Australian Maritime Safety Authority (AMSA); Department of Agriculture and Water Resources (Agriculture); and Department of Health (Health) for the Therapeutic Goods Administration (TGA).<sup>3</sup>

## Rationale for undertaking the audit

4. The government charges people and businesses to recover the costs of providing some services. In auditing cost recovery in the selected entities, the Australian National Audit Office examined whether the Cost Recovery Guidelines were applied effectively, so that charges were set to not over- or under-recover costs, and stakeholders were engaged in the processes for setting charges.

## Audit objective and criteria

5. The objective of the audit was to assess whether selected regulatory entities effectively apply the cost recovery principles of the Australian Government’s cost recovery framework.

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<sup>1</sup> Department of Finance, *Australian Government Charging Framework*, Resource Management Guide No. 302, July 2015. Available from <https://www.finance.gov.au/resource-management/charging-framework/>, [accessed 14 January 2019].

<sup>2</sup> Department of Finance, *Australian Government Cost Recovery Guidelines*, paragraph 7, p. 4. Available from <https://www.finance.gov.au/resource-management/charging-framework/>, [accessed 14 January 2019]. The *Public Governance, Performance and Accountability (Charging for Regulatory Activities) Order 2017* requires all the agencies listed in the Order Schedule to apply approved regulatory charging activities, specifically cost recovery.

<sup>3</sup> Agriculture and Health are non-corporate Commonwealth entities and therefore automatically required to adhere to the cost recovery policy and associated principles. The Minister for Finance has made a government policy order that applies the cost recovery policy to AMSA.

6. Reflecting these principles, the audit criteria were:
- Are the entities' cost recovery arrangements transparent and do they promote accountability?
  - Are the entities' cost recovery arrangements effective and efficient?
  - Have the entities engaged stakeholders effectively in the design, planning and implementation of their cost recovery programs?

## Conclusion

7. Health, Agriculture and AMSA have each been partially effective in implementing the cost recovery principles of the Australian Government's cost recovery framework.

8. Each entity has scope to improve the transparency and accountability of its cost recovery arrangements, mainly through more current and/or comprehensive reporting of performance in Cost Recovery Implementation Statements. Otherwise, the governance and internal accountability arrangements of the three entities are fit for purpose.

9. Each entity also has scope to improve the effectiveness of its cost recovery arrangements. AMSA and Health have significantly over-recovered costs in recent years. Agriculture has over-recovered costs through levies and under-recovered costs through fees. There is no assurance that entity charges recover the efficient costs of their activities, although Agriculture has benchmarked some of its costs. Entities' cost recovery policies and cost recovery methodologies are at varying levels of being fit for purpose, with Health's approach for the TGA the most complete.

10. Each entity regularly engages with stakeholders on cost recovery through industry consultative committees, but none have documented cost recovery engagement strategies. Health has been largely effective in engaging with stakeholders to develop and implement the TGA's cost recovery activities, and has regularly updated the TGA's Cost Recovery Implementation Statements to support this engagement. AMSA and Agriculture have focused on consulting on the introduction of new or revised cost recovery arrangements and have not always updated their Cost Recovery Implementation Statements to support engagement on cost recovery of existing regulatory activities.

## Supporting findings

### Transparency and accountability

11. AMSA, Agriculture and Health have not fully complied with key requirements of the Cost Recovery Guidelines, particularly those relating to Cost Recovery Implementation Statements, with Agriculture and AMSA not updating these at least annually as required. Each entity has policy approval to charge for its regulatory activities and services and has legislative authority to charge, although Health has ministerial, not government policy approval, to meet the cost of fee-free activities through higher charges on other users. The Department of Finance should refine the Cost Recovery Guidelines to provide greater clarity on some requirements and take steps to promote greater levels of compliance with the Guidelines.

12. The three entities have reported on cost recovery performance principally through their Cost Recovery Implementation Statements and annual reports. However, Agriculture and AMSA have not updated their Cost Recovery Implementation Statements annually to include actual and updated financial data. Agriculture's last Cost Recovery Implementation Statement and accompanying report on performance was in 2015–16 and AMSA did not publish a Cost Recovery Implementation Statement for 2017–18. There is scope for each entity to improve the level of information on cost recovery performance included in their Cost Recovery Implementation Statements and annual reports.

13. Each entity has established effective cost recovery governance and accountability arrangements. The arrangements include an internal management committee to oversee cost recovery activities and provide guidance to staff on implementation of cost recovery policies, and reporting to the committee and entity executive board on cost recovery performance.

### **Efficiency and effectiveness**

14. There has been significant misalignment between revenue and expenses for AMSA and the TGA, with the costs of some activities being consistently over-recovered and others consistently under-recovered. Overall, Agriculture has had a proportionately small under-recovery on its cost-recovered activities.

15. AMSA and Health need to be more proactive in addressing structural over- and under-recovery of the costs of their activities. AMSA and Agriculture have reviewed their cost recovery legislated charges every four to five years. While this provides certainty to industry and the entities, charges should be reviewed and adjusted more frequently where there are structural misalignments in expenses and revenues for cost-recovered activities.

16. AMSA does not recover the full cost of its fee-based activities, and funds the shortfall from levy-based revenue. If it is not feasible to recover the full costs of these activities, AMSA should seek the government's approval of the partial recovery, and how the shortfall is to be met, with disclosures of any cross-subsidies included in its Cost Recovery Implementation Statements. AMSA should also examine suitable proxies for its levy-based charges in its review of charges related to the introduction of the National System.

17. Agriculture recovers the costs of activities provided to specific individuals or organisations through a combination of fees and levies, rather than recovering their full cost through fees, as required by the Cost Recovery Guidelines. Agriculture should use the current review of its charging arrangements to align the structure of its fees and charges with the requirements of the Cost Recovery Guidelines.

18. There is scope for all three entities to improve their costing practices. The cost model used by AMSA does not accurately capture the costs of providing the regulatory activities or calculate charges that are aligned to those costs. While Agriculture uses an activity-based methodology, it is not possible to determine the full cost of the output from Agriculture's model. Health also uses traditional activity-based costing for the TGA's activities, with the cost of regulatory activities linking to the prices and estimated revenues for those activities, although Health could improve the attribution of effort to regulatory activities.

19. None of the three entities have incorporated efficient costs in their cost recovery models and only Agriculture has sought to benchmark the costs of its regulatory activities with those of other entities. There is an opportunity for the Department of Finance to examine how benchmarking can be further encouraged and facilitated.

### **Stakeholder engagement**

20. None of the three entities have documented ongoing cost recovery engagement strategies. Rather, the entities have stakeholder engagement strategies for specific cost recovery activities and/or have drawn on broader engagement frameworks for the entity. The lack of documented ongoing cost recovery engagement strategies is reflected in little coverage of the issue in the entities' Cost Recovery Implementation Statements. Notwithstanding the lack of a documented strategy, Agriculture and Health have adjusted their consultative arrangements in response to stakeholder feedback. AMSA's stakeholder engagement has focused on implementing the National System and not directly on cost recovery of regulatory functions related to this audit.

21. Health has actively and regularly engaged with stakeholders on the TGA's activities through cost recovery policy development, implementation and review stages. AMSA and Agriculture have mainly consulted on new or changed cost recovery activities, although they do regularly engage with industry through their industry consultative committees. There is scope for all three entities to implement performance measures for consultation on cost recovery to promote continuous improvement of cost recovery stakeholder engagement processes.

## Recommendations

**Recommendation no. 1** The Australian Maritime Safety Authority, Department of Agriculture and Water Resources and Department of Health:  
**Paragraph 2.41**

- (a) ensure that their Cost Recovery Implementation Statements are fully compliant with the Cost Recovery Guidelines, including in relation to required updates; and
- (b) report annually in their Cost Recovery Implementation Statements on their cost recovery performance at the regulatory activity level.

**Australian Maritime Safety Authority:** *Agreed.*

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

**Department of Health:** *Agreed.*

**Recommendation no. 2** The Department of Finance:  
**Paragraph 2.48**

- (a) advises entities at the start of each budget year of their obligation to update their Cost Recovery Implementation Statements;
- (b) reviews and refines the Cost Recovery Guidelines to address issues listed at Appendix 2 of this audit; and
- (c) explores additional mechanisms to improve entities' compliance with the Cost Recovery Guidelines, including through the biennial charging survey.

**Department of Finance:** *Agreed.*

**Recommendation no. 3** The Australian Maritime Safety Authority:  
**Paragraph 3.61**

- (a) as part of its planned review of its charging arrangements following the introduction of the National System, examines the use of tonnage-based proxies for its levies to enable charges to be closely linked to the level of efficient regulatory effort expended for the specific outputs;
- (b) develops a cost recovery model that aligns revenues of outputs within regulatory activities to the efficient cost of providing those outputs;
- (c) reviews charges for regulatory activities covered by the Regulatory Functions Levy and the Marine Navigation Levy to enable alignment of the costs and revenues under each levy arrangement;
- (d) examines ways to reduce the cost of providing its fee-based services; and
- (e) seeks a decision from the government on how the cost of its fee-based services should be met if it cannot fully recover the

cost of these services.

**Australian Maritime Safety Authority: Agreed.**

**Recommendation no. 4  
Paragraph 3.63**

The Department of Agriculture and Water Resources:

- (a) uses the current review of its charging arrangements to align its fees and levies with the Cost Recovery Guidelines; and
- (b) develops a cost recovery model that aligns the prices, expenses and revenues of outputs within regulatory activities to the efficient cost of providing those outputs.

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

**Recommendation no. 5  
Paragraph 3.68**

The Department of Health:

- (c) implements a consistent quality assured approach for the collection of staff effort data for use in the cost recovery model of the Therapeutic Goods Administration;
- (d) adjusts charges to reduce cross-subsidisation across industry sectors; and
- (e) further reviews the cross-subsidisation of fee-free services and seeks a decision from the Government on how the cost of the services should be met.

**Department of Health: Agreed.**

**Recommendation no. 6  
Paragraph 4.10**

The Australian Maritime Safety Authority, Department of Agriculture and Water Resources and the Department of Health:

- (f) implement ongoing stakeholder engagement strategies for their respective cost recovery arrangements in consultation with stakeholders;
- (g) include these planned engagement strategies in their draft Cost Recovery Implementation Statement each year; and
- (h) include performance measures for engagement on cost recovery in their Cost Recovery Implementation Statements.

**Australian Maritime Safety Authority: Agreed.**

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

**Department of Health: Agreed.**

## Summary of entity responses

22. The proposed audit report was provided to the audited entities, which provided summary responses that are set out below.

### Australian Maritime Safety Authority

23. The Australian Maritime Safety Authority (AMSA) welcomes the audit report and findings, which to a significant extent mirror our own self-assessment in areas that require improvement. It provides AMSA with insights into the overall cost recovery management process and supports the improvements we are currently putting in place to strengthen our compliance and future cost recovery performance.



24. AMSA notes and agrees with the recommendations presented. With regard to the structure and pricing for levies, AMSA proposes to work with both the Department of Infrastructure, Regional Development and Cities, and the Department of Finance, to dovetail any structural considerations to the upcoming review of the domestic commercial vessel regulatory charging activities in 2020-21.

25. AMSA is committed to ongoing improvements in our cost recovery arrangements.

### **Department of Agriculture and Water Resources**

26. The department welcomes the audit report, and acknowledges the ANAO's overall findings and recommendations. The department is pleased that the report highlights the robust approach to cost allocation and cost modelling that is already in place for our regulatory functions.

27. The department remains committed to continuous improvement of the cost recovery arrangements in place for its regulatory functions. These improvements will underpin a stable and contemporary cost recovery approach that continues to support the regulatory functions of the department.

28. The department acknowledges the importance of stakeholder engagement as a key part of the cost recovery process, and will continue to develop and implement robust stakeholder engagement processes for cost recovery.

### **Department of Health**

29. The Department of Health (the department) welcomes the findings in the report and agrees with the recommendations relating to the TGA's cost recovery activities.

30. The audit found while every entity had scope to improve the effectiveness of cost recovery arrangements, it was pleasing to note the TGA's cost recovery policies and methodology are largely compliant with the Department of Finance's Cost Recovery Guidelines (CRGs). The department is fully committed to the effective implementation of the requirements set out in the CRGs and has already taken steps to address issues identified in this audit.

31. The department notes the ANAO has identified specific areas for further focus, including over recovery of costs, authority for fee-free services and the department's consultation strategy in the Cost Recovery Implementation Statement (CRIS). Most over recovery occurred in two sectors (prescription medicines and medical devices) as a result of delayed expenditure because of later than planned implementation of major reform projects while the Medicines and Medical Devices Review was underway. TGA revenue resulting from underlying fees and charges continued to be mostly on budget. The TGA will continue to review its fees and charges regularly to ensure they are aligned with revenue and costs as closely as possible for each sector. There is a need to provide for investments in updating ICT systems to ensure they meet regulatory needs. The TGA will consult with the industry before any changes are made.

32. The report noted providing certain fee-free services by the TGA is inconsistent with the CRGs. In accordance with the recommendation in the report, the department will seek a decision from the Government for relevant authority for these services.

33. The department continues to improve its stakeholder engagement on the TGA's cost recovery, including adjusting its consultative arrangements in response to stakeholder feedback and including the planned stakeholder strategy in the CRIS, as recommended in the report.

### **Department of Finance**

34. Finance agrees with the findings of the Report and notes the relevance of the key learnings to Commonwealth entities. The findings will support continuous improvement by entities in effectively implementing the cost recovery principles.

## Summary and recommendations

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### Background

1. The Bureau of Meteorology (the Bureau) is responsible for 'enabling a safe, prosperous, secure and healthy Australia through the provision of weather, water, climate and ocean services'.<sup>1</sup> The Bureau's weather forecasts, warnings and analyses support decision-making by governments, industry and the community. Australian sectors which rely heavily on timely and accurate weather services include emergency management, aviation, maritime, defence, agriculture, energy and resources.
2. The *Meteorology Act 1955* and the *Water Act 2007* defines the Bureau's functions and the powers of the Director of Meteorology. The Bureau is a non-corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* within the Environment and Energy Portfolio. The Bureau plays a key role in fulfilling a range of Australia's international obligations, including under the Convention of the World Meteorological Organization (WMO) and Convention on International Civil Aviation.
3. The Bureau delivers forecast and warning services for all meteorological events. Extreme weather services are a core function of the Bureau which is integrated with its delivery of routine weather services. During complex events the Bureau undertakes specific activities aimed at ensuring its staff and systems are able to operate effectively under pressure.

### Rationale for undertaking the audit

4. Effective forecasts and warnings are important in allowing the Bureau's stakeholders, customers and the public to prepare for extreme events, reducing the potential for loss of life and damage to infrastructure and property. The cost of natural disasters to the economy has been assessed as \$18.2 billion per year, equivalent to 1.2 per cent of gross domestic product.<sup>2</sup>

### Audit objective and criteria

5. The audit's objective was to determine if the Bureau's processes support the delivery of effective extreme weather services. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:
  - Does the Bureau's planning appropriately support its ability to provide extreme weather services?

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<sup>1</sup> Department of the Environment and Energy *Portfolio Budget Statements 2018–19*. Budget Related Paper No. 1.6 Environment and Energy Portfolio, Australian Government, Canberra, 2018, p. 118.

<sup>2</sup> Australian Business Roundtable for Disaster Resilience & Safer Communities (ABRDRSC) and Deloitte Access Economics, *Building resilience to natural disasters in our states and territories*, ABRDRSC, 2017, p.16.

- Does the Bureau manage its operational resources effectively in responding to extreme weather events?
  - Is the Bureau's assessment and reporting on the performance of its extreme weather services fit for purpose?
6. The Bureau's provision of extreme weather services is an integral part of its ongoing operational activities. This audit has therefore included an analysis of key elements associated with the Bureau's delivery of general weather services in order to examine its ability to escalate operational activity, when required, to deliver extreme weather services.

## Conclusion

7. The Bureau has established largely effective processes to support its delivery of extreme weather services.
8. Appropriate planning and governance structures have been implemented to underpin extreme weather services. Planning processes, including extensive stakeholder engagement activities, support the implementation of the Bureau's corporate strategy. Planning for changes to the delivery of aviation and associated services is being appropriately coordinated and managed at the strategic and operational levels. The Bureau's design of new policies and governance frameworks for risk management and resilience planning is appropriate, however improvement is required in the efficacy of controls to reduce residual risk.
9. The Bureau's operational processes and activities, including its management of resources, have allowed it to prepare for and respond effectively to extreme weather events. Improvements are required in the planning of asset investment and maintenance, rostering and workforce management.
10. The Bureau undertakes verification work to monitor its performance in specific areas of forecasting in order to improve accuracy and reliability. An overall program for the verification of all types of extreme weather has not yet been implemented. Reporting to the Parliament and the public is generally fit for purpose, however coverage of the Bureau's performance in delivering extreme weather services could be expanded.

## Supporting findings

### Planning and governance

11. The Bureau has formal planning processes in place which enable it to respond to extreme weather effectively. The Bureau's performance planning framework identifies priorities for operational activity, showing clear links between planned actions and expected performance outcomes. Extensive participation in stakeholder planning forums supports the Bureau in planning its investments and operations and contributes to national capabilities in responding to extreme weather. Cost recovery arrangements support relationships with key stakeholders, such as the aviation industry and the Department of Defence, and contribute to the rigour of the Bureau's planning frameworks. Planning for changes to operational models for the delivery of aviation and associated services is being appropriately coordinated and managed.
12. The Bureau's governance frameworks have the potential to support the effective delivery of extreme weather services, but implementation could be improved. The Bureau's executive structure and changes to its committee system have enhanced its capacity to plan and monitor the implementation of its corporate strategy, however committee processes for investment decisions and the commitment of funds would benefit from further refinement. The Bureau has established risk management frameworks which require improvement in the efficacy of controls to reduce residual risk, and has established crisis and incident management capabilities which require improvement in training and testing processes.

## **Management of operational resources**

13. The Bureau is appropriately engaging government, media and public stakeholders in relation to extreme weather events. Operational forecasting centres have developed effective liaison structures with state government stakeholders, and forecasters have established processes to provide timely and relevant advice to decision-makers before and during extreme weather events. The Bureau is progressing a project with the emergency management sector aimed at increasing the effectiveness of forecasts and warnings through a greater focus on communicating the potential impacts of weather to communities.

14. The Bureau's operational policies and processes are largely effective in supporting extreme weather services. Cross-jurisdictional cooperation and the introduction of enterprise-wide forecasting systems have increased standardisation in forecasting policies and processes. Initiatives have commenced to standardise state and territory processes for rostering, pre-season asset checks and manual record-keeping. The recent use of standard crisis and incident management processes supports effective decision-making during extreme events, however there is improvement required in the recording of operational judgements and decisions.

15. The Bureau has established partially effective processes for the planning and management of assets to facilitate the delivery of extreme weather services. Nine of the Bureau's 12 key business risks relate to asset management. Work is in progress to address identified risks through the introduction of new frameworks to manage the Bureau's asset base and prioritise associated investments. It is not evident that the capability requirements of the Bureau are yet being formally considered in planning processes to support asset investment decisions.

16. Bureau staffing and surge arrangements are effective in meeting existing increases in demand for flood support, and a national approach to scaling up regional staffing levels for other types of extreme weather was trialled during the 2018–19 season. The Bureau's Extreme Weather Desk provides additional surge capacity. The Bureau's systems for recording work effort do not readily allow for the analysis of information at an aggregate level to support longer term planning.

## **Performance assessment and reporting**

17. The Bureau commenced implementation of a formal post event review management methodology in early 2018 to capture and apply operational lessons after significant weather events. The methodology is appropriate, but it is unclear whether identified improvements are being implemented.

18. The Bureau undertakes activity to assess the accuracy of forecasts and warnings, and this information is used to improve models and forecaster ability on an ongoing basis. An overall program for the verification of all types of extreme weather has not yet been implemented.

19. The Bureau has established a performance reporting framework which aligns with Australian Government requirements in most respects. The performance criteria contained in the Bureau's 2017–18 Corporate Plan lack baselines or targets, reducing the line of sight between its criteria and reporting of performance in its Annual Report. The Bureau's broader external performance reporting could be expanded to better enable public visibility of performance in the delivery of extreme weather services.

## Recommendations

**Recommendation no.1**  
**Paragraph 3.32** The Bureau of Meteorology develop a nationally consistent approach to govern the recording of decisions and judgements before and during extreme weather events.

**Bureau of Meteorology's response:** *Agreed.*

**Recommendation no.2**  
**Paragraph 3.50** The Bureau of Meteorology establish a capability-based planning process to support the management of its existing asset base and prioritise associated investments.

**Bureau of Meteorology's response:** *Agreed.*

**Recommendation no.3**  
**Paragraph 3.70** The Bureau of Meteorology establish a process to analyse the operational effort involved in responding to extreme weather events on a national basis in order to inform long-term workforce management and financial planning.

**Bureau of Meteorology's response:** *Agreed.*

**Recommendation no.4**  
**Paragraph 4.37** The Bureau of Meteorology expand performance reporting to include information about the accuracy and timeliness of forecasts and warnings for extreme weather services.

**Bureau of Meteorology's response:** *Agreed.*

## Summary of entity response

20. The proposed audit report was provided to the Bureau of Meteorology, which provided a summary response that is set out below.

The Bureau of Meteorology “agrees” with the ANAO’s recommendations and has committed to a number of relevant actions as follows:

The Bureau will adopt a nationally consistent approach to govern the recording of decisions incorporating automated systems, situation reports, log-sheets/books in accordance with standard operating procedures, incident and crisis management plans.

Since the Audit, the Bureau has adopted an Enterprise Asset Policy and a Strategic Asset Management Plan in accordance with ISO 55000 Asset Management and ISO 19770 IT Asset Management. The Bureau has also committed \$40.9 million to a Radar Sustainment and Modernisation program. The Bureau will continue to uplift its assessment management practices in accordance with recognised standards.

Since the Audit, Bureau has adopted an organisation-wide workforce planning framework and capability development plan to better inform our future workforce requirements. This along with rolling four-year budgets and Group and Program plans will inform the allocation of human and financial resources, including provisions for extreme weather events. The Bureau’s capacity to respond to multiple and simultaneous extreme weather events will be enhanced as part of the Public Services Transformation Program.

The Bureau will accelerate its verification work and enhance public reporting on the accuracy and timeliness of extreme weather. The Bureau notes that existing reporting of severe and extreme weather uses accepted World Meteorological Organization categories.

Through these and other continuous improvement actions, the Bureau remains committed to providing the Australian community with national weather, climate and water services second to none.

## Key messages from this audit for all Australian Government entities

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

### Stakeholder engagement

- The Bureau established stakeholder engagement as a key platform of its *Strategy 2017–22*. This has ensured that effective stakeholder engagement is seen as a priority by all Bureau staff. The Bureau's relationships with key stakeholder groups are often the foundation for the coordinated or joint delivery of services.

### Fit for purpose policies, procedures and systems

- Clear and up-to-date guidance for entity staff is important for ensuring consistency in operational decision-making and outcomes. Processes and procedures should clearly align with policy guidance. Any variations between different business areas should be on the basis of a clear rationale and take account of risk.
- Operational entities should ensure they have fit for purpose systems in place for recording key operational judgements and decisions.

### Governance and risk management

- Entities should regularly monitor the implementation of planned risk treatments to ensure that risk ratings and the effectiveness of treatments are appropriate.
- It is important that the implementation of recommendations arising from internal and external reviews, where accepted by an entity, are appropriately overseen to ensure the full benefits of change are realised.

### Performance statements

- Performance criteria should enable the Parliament and the public to form a view about how well an entity has performed in delivering on its purpose. This requires an entity to establish metrics relevant to the key activities it undertakes to achieve its purpose. Metrics should enable the entity to measure and report on performance over time.

### Management support systems

- Establishing four year budgets can be an effective strategy in planning and maintaining critical capabilities.
- Frameworks for planning and managing future assets should include the consideration of all factors which contribute to capability, such as the availability of skilled staff, support systems and maintenance resourcing for the life of the asset.

**Modernising Army Command and Control — the Land 200 Program**  
**No.40 2018–19**  
**Department of Defence**

## Background

1. Since 2005, the Department of Defence (Defence) has been developing the digital command and control of Army forces, through an overlapping series of projects and tranches now known collectively as Land 200. This capability was noted as a critical enabler for land force operations in the Defence White Paper 2009. In 2017, the Chief of Army described Land 200 as the ‘highest-priority project in the Army’:

because when we build a network and connect all the parts of that force to that network we are greater than the sum of the individual. It is the improved quality of command and control of all aspects of our operations, so it’s not about high-end warfare, not about counterterrorism. It’s about everything we do.

2. The capability being acquired through Land 200 is comprised of two major systems:
- the Battle Management System — which enables commanders to monitor, direct and review operations with electronic displays of maps and combat data; and
  - the Tactical Communications Network — comprising secure, mobile infrastructure (such as radios) to support the data and voice distribution of the Battle Management System and other combat systems used by the Australian Army.
3. Land 200 is being acquired on behalf of Army by Defence’s Capability Acquisition and Sustainment Group, at a cost to date of some \$1.3 billion, with over \$600 million of expenditure remaining for Tranche 1 and Tranche 2.

## Rationale for undertaking the audit

4. Modernising the Australian Army’s communications capability is important for providing Army commanders with better visibility of, and communications with, soldiers and vehicle formations, and for improving soldier safety. This topic was selected for audit due to the importance of the Land 200 program to Army, the two-year delay in delivering Tranche 1 of the program and the expected cost of nearly \$2 billion to deliver Tranches 1 and 2. Tranche 3 is expected to cost a further \$1 billion–\$2 billion.

## Audit objective and criteria

5. The objective of the audit was to assess the effectiveness and value for money of Defence’s acquisition of a Battle Management System and a Tactical Communications Network through Land 200 Tranche 2 Work Packages B–D. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- Defence conducted effective and value-for-money acquisition processes.
- Defence established effective project governance and contracting arrangements.

6. The audit scope focused on Work Packages B–D of Land 200 Tranche 2. Given the complexity and interdependencies of the Land 200 program, the outcomes of earlier work — Tranche 1, and Work Package A of Tranche 2 — have also been reported in this audit.

## Conclusion

7. Defence did not conduct fully effective acquisition processes for Land 200 Tranche 2 Work Packages B–D, but may ultimately achieve value-for-money outcomes if the contracted quality and quantity of goods and services are delivered according to the agreed schedule and successfully integrated by Defence. Defence established an appropriate review framework for the acquisition projects, but its effectiveness was undermined by a failure of governance.

8. Inadequate requirements definition and poor coordination between the two responsible project offices contributed to an ineffective 2015 procurement for the Army's Tactical Communications Network, which required a lengthy post-tender refinement process to bring the acquisition within the approved budget. The 2015 sole-source procurement process for the Army's Battle Management System was ultimately effective, but the procurement was delayed pending resolution of affordability issues affecting Land 200 Tranche 2 as a whole. Defence addressed affordability issues by adopting a 'design to price' strategy, significantly reducing project scope and assuming additional risk and cost by taking on the role of Prime Systems Integrator. Defence has assessed that it can achieve value-for-money outcomes following these adjustments.

9. The difficulties encountered in Land 200 Tranche 2 stem in large measure from one project office's release of a Request for Tender with a scope that exceeded the approved cost and did not fully assess the budget consequences or governance and coordination arrangements at a program level. The desired outcome shifted from the procurement of radios to the procurement of a complex digital communications solution, as Army developed its understanding of how it would operate in a digital environment.

10. Defence did not establish fully effective project governance arrangements. Defence established an appropriate review framework, with successive reviews identifying project coordination risks from 2013. Defence management's failure to implement the recommendations of these reviews until 2017 constitutes a failure of governance that negatively affected the 2015 tender outcomes.

11. Defence has established effective contract arrangements. However, vehicle integration costs were not included at contract signature because funding was insufficient, and Defence has now accessed contingency funding to reinstate this scope into the contract.

## Supporting findings

### Procurement and Value for Money

#### *Requirements*

12. Defence did not conduct an effective requirements definition process. The need to align the capability being procured by the two responsible project offices was recognised in 2012 but the project offices did not align requirements for the interconnected projects and developed different conceptions of the capability, adding layers of risk and duplicated effort. Army's final stakeholder review before contract signature in 2017 raised concerns about the lack of verification statements for many requirements, which was considered to present risk to the achievement of an integrated network.

#### *Tactical Communications Network procurement to 2016*

13. Defence's 2015 procurement process for the Army's Tactical Communications Network was not effective. Weaknesses in the project office's requirements process resulted in surprises during the tender process and necessitated a lengthy post-tender refinement process to attempt to bring the acquisition within budget.



14. By late 2016, Defence had assessed the single tender received from Harris for the Tactical Communications Network as offering value for money but as unaffordable (both in terms of project budget and total Land 200 Tranche 2 budget) despite significant reductions in scope. The effectiveness of the procurement of the Tactical Communications Network was impacted by the significant disconnect between the funding allocated to JP 2072 Phase 3 in 2013 and the scope included in the 2015 Request for Tender. Defence records indicate that a number of companies declined to bid because the Request for Tender included a network solution rather than radio equipment. There is no documented government approval for the shift in scope from a simple procurement of radios (as approved by Government at First Pass in 2013) to a complete, new network solution.

### *Battle Management System procurement to 2016*

15. The 2015 sole-source procurement process for the Army's Battle Management System was ultimately effective, following significant refinement and scope reductions. The decision to undertake a sole-source tender to Elbit for the Battle Management System was based on the substantial investment already made by Defence and the difficulties inherent in operating another system concurrently. To maintain some competitive pressure in the context of a sole-source procurement, Defence reserved the right to release a limited tender to other firms.

16. By late 2016, Defence had assessed Elbit's tender as offering value for money but could not conclude the tender process until the overall affordability of the Land 200 Tranche 2 program — including the Tactical Communications Network — was addressed. Cost and risk ratings were adjusted to be more positive in successive tender evaluation reports, but the reasons for these changes were not documented.

### *Addressing unaffordability*

17. In 2017, Defence took a number of effective actions — including project rationalisation and adoption of a 'design to price' negotiation strategy — to address the unaffordability issues facing Land 200 Tranche 2. In doing so, Defence was able to conclude both tenders but accepted a significantly reduced project scope and extra risk (and cost) by assuming the role of Prime Systems Integrator. Prior to signing contracts with Harris and Elbit in 2017, Defence assessed that the revised procurement approach delivered value for money in terms of capability, cost and schedule. The value-for-money assessment also had regard to the potential cost, delay and loss of experience associated with adopting different systems.

## **Governance and Contracting**

### *Project governance and review frameworks*

18. Defence established an appropriate project review framework, including regular internal reviews, an internal audit, and the Land Enhanced Command and Control Capability Council. At the individual project level, successive reviews from 2013 to 2016 noted a lack of coordination between the two project offices responsible for Land 200 Tranche 2. However, management did not act on the advice provided, and the two project offices were not merged until 2017. The lack of alignment between the two projects was assessed by Defence as negatively affecting the 2015 tender outcomes. A subsequent internal review in 2017 recognised that significant progress had been made since the project office merger.

### *Contracting arrangements and internal reporting*

19. Defence has established effective contracting arrangements to monitor and manage the performance of the contractors. The arrangements include oversight bodies, an early baseline review, and regular contract reporting against milestones. Each contractor achieved completion of an Integrated Baseline Review in 2018, three months late in the case of Harris and on schedule in the case of Elbit. To date, each contractor has provided regular reports to Defence.

20. Vehicle integration was a known requirement before contract signature, but this cost was not included in the relevant contract in 2017 because funding was insufficient. Defence did not advise Government at Second Pass in 2017 of this scope reduction, but has subsequently drawn on project contingency funds to reinstate this scope into the contract. Delays in providing access to the Army's tanks and recovery vehicles for integration purposes are impacting the program schedule, and Initial Materiel Release may be delayed. Defence advised the ANAO in April 2019 that 'The 12 month delay in the Hawkei vehicle schedule is likely to impact the L200 [Land 200] Tranche 2 schedule. The subsequent impact on the L200 Tranche 2 Initial Operational Capability and Final Operational Capability is yet to be fully understood.'

## Recommendation

**Recommendation no.1** That Defence assess whether it has the capability to adequately perform the role of Prime Systems Integrator, and provide assurance on this matter to the Capability Manager, Chief of Army.  
**Paragraph 2.64**

**Department of Defence response:** *Agreed.*

## Summary of entity response

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

Defence presented an affordable capability option to Government for 2<sup>nd</sup> Pass Approval in 2017. Post 2<sup>nd</sup> Pass Approval, Defence identified issues and established effective contract arrangements to monitor and manage the performance of its contractors. Defence also put in place new program governance structures and successfully merged the two projects into a single, coherent Land 200 Program Office in 2017.

The Land 200 Program's governance, schedule and technical challenges reflect the nature of the rapidly changing digital systems and communications environment in which Defence operates. Defence is actively incorporating these lessons learned into the smart buyer process for Land 200 Phase 3, including improving Defence's requirements definition, understanding of the market, cost estimation, assessment of how the Prime System Integrator role will be performed and improved coordination with other interdependent programs.

Defence is confident that Army has access to a world leading system that will continue to evolve into a next generation Land Combat System under Land 200 Phase 3.

22. An extract from the proposed report was provided to Elbit Systems of Australia and Harris Communications (Australia) Pty Ltd. The full response provided by Harris Communications (Australia) Pty Ltd is at Appendix 2. Elbit Systems of Australia advised that it would not be providing a response.

## Key messages from this audit for all Australian Government entities

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

### Governance and risk management

- Interdependent projects require effective and coordinated program-level management and governance arrangements to support their delivery.
- Where similar recommendations to management are made by successive reviewers, they should not be rejected by line management without appropriate escalation and review by senior leaders.

- Audit committees can add value by reviewing management’s rationale for the closure of internal audit findings, particularly where the closure of specific project-level recommendations is based on the implementation of strategic entity-level initiatives.

**Procurement**

- It is good practice to reserve the right to release a limited tender to other companies if a contractor’s response to a sole-source tender has an unacceptable level of risk, offers less favourable conditions than an existing contract or fails to provide value for money.

## **Australian Government Coordination Arrangements in Torres Strait [No.41 2018–19]**

**Department of Agriculture and Water Resources, Department of Foreign Affairs and Trade,  
Department of Home Affairs, Australian Fisheries Management Authority, Torres Strait Regional  
Authority**

### **Background**

1. Torres Strait is located between the tip of Cape York in northern Australia and Papua New Guinea (PNG). It contains over one hundred islands and reefs, 17 of which are inhabited. The population consists of approximately 4,500 people, over 90 per cent of whom are of Torres Strait Islander and/or Aboriginal background.

2. The region is characterised by the operation of the Torres Strait Treaty (the Treaty), which defines the border between Australia and PNG and provides a framework for the management of the common border area. The Treaty establishes a Protected Zone (delimited in green on the map in Figure S.1), the main purpose of which is to protect the traditional way of life of Torres Strait Islanders and the coastal peoples of PNG. Within the Protected Zone, Torres Strait Islanders and the inhabitants of 13 defined PNG villages are able to move freely (without passports or visas) for the purpose of conducting traditional activities.<sup>1</sup> The Treaty also prescribes a set of principles to protect the fisheries and sea environment of Torres Strait, including that commercial fisheries should be administered in the Protected Zone so as not to prejudice traditional fishing.<sup>2</sup>

3. In 2017–18 traditional inhabitants from PNG made approximately 27,300 visits to the Protected Zone under the provisions of the Treaty. In comparison, the number of visits made by traditional inhabitants of the Protected Zone to PNG Treaty villages is significantly lower, with approximately 1,000 visits during the same period.

4. A large number of government entities operate in Torres Strait, at Australian, state and local government levels. At the Australian Government level, the Torres Strait Regional Authority (TSRA), which is part of the Prime Minister and Cabinet portfolio, has responsibility for the development and implementation of programs aimed at supporting: economic development; health and wellbeing; culture; land and sea management; and native title rights of Torres Strait Islander and Aboriginal peoples living in the region. Four other key Australian Government entities operate in Torres Strait:

- Department of Foreign Affairs and Trade (DFAT): DFAT has overall responsibility for the Torres Strait Treaty.
- Department of Agriculture and Water Resources (DAWR): Through the Northern Australia Quarantine Strategy, DAWR conducts operations to address biosecurity risks associated with southward movements of people, cargo, aircraft and vessels.

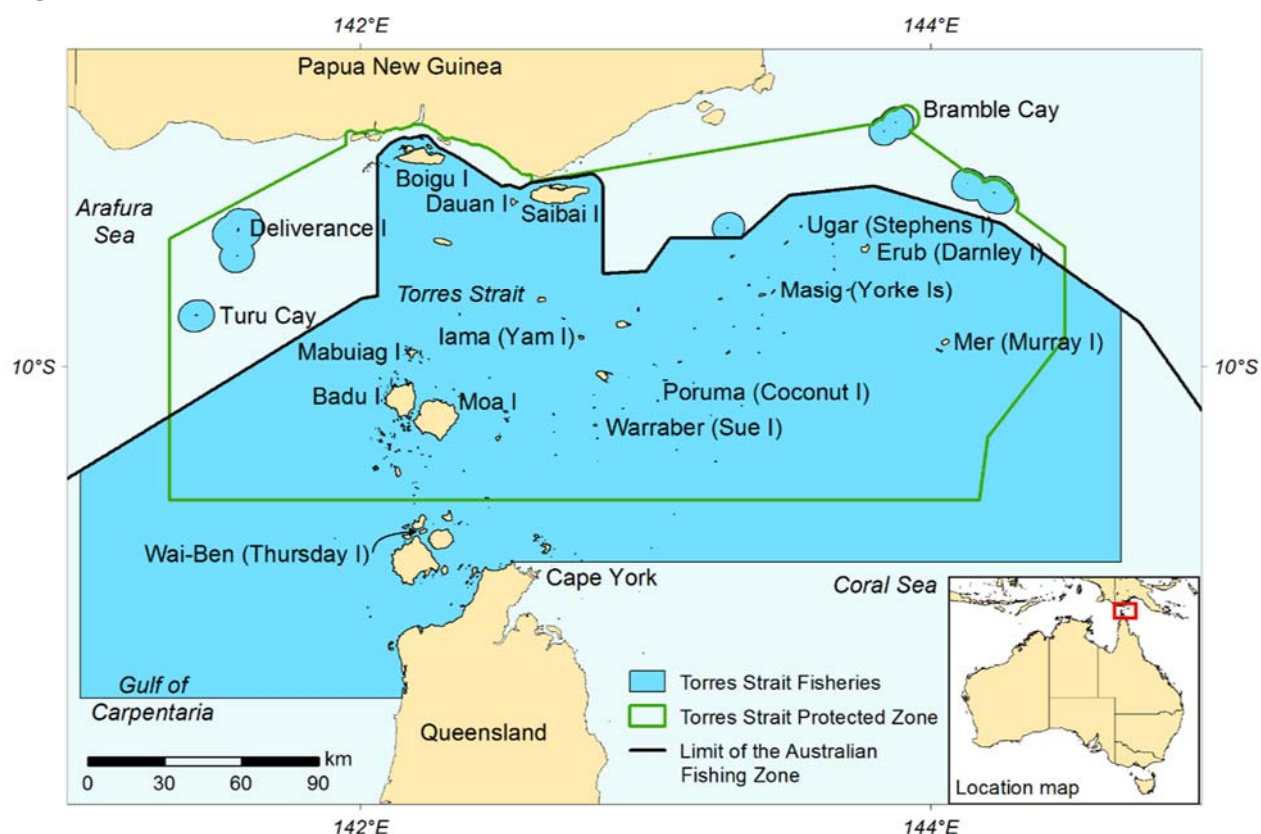
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<sup>1</sup> Traditional activities are defined in the Treaty as ‘activities performed by the traditional inhabitants in accordance with local tradition’, and include gardening, collection of food, hunting, traditional fishing, religious and secular ceremonies or gatherings for social purposes (for example, marriage celebrations and settlement of disputes), and barter and market trade.

<sup>2</sup> Traditional fishing is defined as ‘the taking by traditional inhabitants for their own or their dependants’ consumption or for use in the course of other traditional activities, of the living natural resources of the sea, seabed, estuaries and coastal tidal areas, including dugong and turtle’.

- Department of Home Affairs (Home Affairs), represented by the Australian Border Force (ABF): The ABF's purpose in Torres Strait is to manage the movement of people across the border, including the flow of people throughout the Protected Zone in accordance with the free movement provisions of the Treaty.
- Australian Fisheries Management Authority (AFMA): AFMA is responsible for the management and sustainable use of Commonwealth fish resources.

**Figure S.1: Map of Torres Strait**



Source: Department of Agriculture and Water Resources.

### Rationale for undertaking the audit

5. Australia recognises Torres Strait region as a sensitive and important zone because:
  - the scattered islands represent stepping stones between PNG and Australia and is often referred to as 'the closest thing Australia has to a land border'<sup>3</sup>. The close distance of PNG has immigration, customs and biosecurity implications;
  - the region supports critical fisheries habitats and ecosystem resources; and
  - the region is an international shipping route with difficult waters.

<sup>3</sup> Australian Government, Department of Foreign Affairs and Trade, *2017 Foreign Policy White Paper – Opportunity Security Strength*, p. 100. Available from <https://www.fpwhitepaper.gov.au/> [accessed 19 March 2019].

6. A 2010 Senate Inquiry into Torres Strait by the Foreign Affairs, Defence and Trade Reference Committee<sup>4</sup> documented key issues associated with health, biosecurity, law and order and border protection, relating primarily to the shared border with PNG and the operation of the Treaty. The committee's report stressed the importance of achieving effective whole-of-government cooperation and coordination between government entities. The audit examines the coordination arrangements of five Australian Government entities operating in Torres Strait.

### **Audit objective and criteria**

7. The objective of the audit is to assess the effectiveness of the coordination arrangements of key Australian Government entities operating in Torres Strait. To form a conclusion against this objective, the following high level criteria have been adopted:

- Do Australian Government entities operating in Torres Strait have appropriate governance arrangements to support the coordination of their activities?
- Are the coordination arrangements effective in supporting Australian Government activities in Torres Strait?

### **Conclusion**

8. The coordination arrangements of key Australian Government entities operating in Torres Strait are largely effective in supporting Australian Government activities.

9. The business rules are effective for the implementation of biosecurity and fisheries legislation, and support the application of the Treaty provisions and the coordination of activities in Torres Strait. The business rules are not fully effective for the implementation of immigration and customs legislation in the context of the Treaty. This impacts on the capacity of entities to coordinate their activities and to develop a shared understanding of immigration and customs rules applicable in the region.

10. The governance structures and joint activities are largely effective to support cross-entity coordination. However, key policy decisions made by the Torres Strait Joint Advisory Council (JAC)<sup>5</sup> are not adequately documented, and the risks associated with the impacts of a changing strategic and operational environment on the Treaty operation have not been analysed. The Protected Zone Joint Authority (PZJA)<sup>6</sup> annual reports and website are not up-to-date.

11. The key systems and assets support the coordination of Australian Government entities' operations in Torres Strait. An important project to improve telecommunications in Torres Strait is progressing.

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<sup>4</sup> Foreign Affairs, Defence and Trade References Committee, Parliament of Australia, *The Torres Strait: Bridge and Border*, 2010, available from [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Foreign\\_Affairs\\_Defence\\_and\\_Trade/Completed\\_inquiries/2010-13/torresstrait/report/index](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Foreign_Affairs_Defence_and_Trade/Completed_inquiries/2010-13/torresstrait/report/index) [accessed 9 August 2018].

<sup>5</sup> The Torres Strait Joint Advisory Council is the central bilateral (Australia and PNG) body overseeing the implementation of the Treaty provisions. It is supported by four bilateral advisory committees and reports to the Foreign Ministers for Australia and PNG.

<sup>6</sup> The Protected Zone Joint Authority is responsible for the administration of the Torres Strait Fisheries Act and comprises the Commonwealth minister responsible for fisheries, the chair of the Torres Strait Regional Authority and the Queensland minister responsible for Fisheries.

## **Business rules**

12. Immigration and customs business rules do not fully support the implementation of legislation and the coordination of activities in Torres Strait. There is insufficient guidance to implement the Treaty provisions, which has impacted on the consistency and lawfulness of some of immigration and customs decisions and has contributed to long-term immigration issues.

13. Biosecurity business rules are comprehensive and up-to-date, and support the implementation of the biosecurity legislation in Torres Strait.

14. The business rules, combined with the legislation, applying to fisheries in Torres Strait are comprehensive and fit-for-purpose, but some key governance documents are not up-to-date.

## **Governance Structures and Joint Activities**

15. The governance structures provide an effective framework to support the operation of the Treaty, but could be improved by the establishment of a central register to record key decisions reached by the JAC. Also, issues relating to the changing strategic and operational environment represent a risk to the enduring operation of the Treaty.

16. Effective governance structures and joint activities support the control of cross-border movements and related law enforcement activities.

17. The governance structures and joint activities that support the management of biosecurity in Torres Strait are effective.

18. Through the PZJA, the consultative framework is largely effective to support and coordinate the decision making process of the range of entities involved in Torres Strait fisheries. Some of the actions agreed following the 2009 review of the PZJA's administrative arrangements are still to be completed, and the PZJA's annual reports and website are not up-to-date.

## **Systems and assets**

19. Systems supporting the monitoring and recording of traditional inhabitant visits are fit for purpose. However there are some issues with: the data quality of the IT system used to record traditional inhabitants' visits; and the controls applied to verify that traditional visits are conducted for the purpose for which they are authorised.

20. Robust arrangements are in place to optimise the use of vessels and aircraft across government entities operating in Torres Strait. Home Affairs could further engage with local stakeholders to assess and, as appropriate, address concerns that the ABF's utilisation of assets is not always sufficiently timely or effective to respond to law enforcement issues of local relevance, in particular in the northern part of the Protected Zone.

21. The TSRA, in partnership with other entities including DAWR, is coordinating a project to improve telecommunications across the islands of Torres Strait.

## Recommendations

**Recommendation no.1** Noting the complexities in Torres Strait and the need for a degree of flexibility and discretion, the Department of Home Affairs develop comprehensive business rules to guide the implementation of immigration and customs legislation in Torres Strait and ensure consistent application of Treaty and legislative provisions.

**Paragraph 2.18**

**Department of Home Affairs:** *Agree.*

**Recommendation no.2** Department of Foreign Affairs and Trade establish and maintain a central register of policy decisions made by the Torres Strait Joint Advisory Council and ensure that the register is accessible to stakeholders, including Australian Government entities, operating in Torres Strait.

**Paragraph 3.12**

**Department of Foreign Affairs and Trade:** *Agree.*

**Recommendation no.3** Department of Foreign Affairs and Trade conduct an analysis of the risks associated with the impacts of a changing strategic and operational environment on the enduring implementation of the Torres Strait Treaty.

**Paragraph 3.16**

**Department of Foreign Affairs and Trade:** *Agree.*

**Recommendation no.4** Australian Fisheries Management Authority work with the Protected Zone Joint Authority's other member entities, the Torres Strait Regional Authority and Queensland Department of Agriculture and Fisheries, to:

**Paragraph 3.68**

- (b) finalise the Protected Zone Joint Authority annual reports for the 2015–16, 2016–17 and 2017–18 financial years and implement a process to ensure that future annual reports are published in a timely manner; and
- (c) keep the Authority's website up-to-date.

**Australian Fisheries Management Authority:** *Agree.*

## Summary of entity response

22. Summary responses from the entities are provided below.

### Department of Agriculture and Water Resources

23. The department welcomes the audit's overall conclusions and findings.

24. The department is pleased the audit recognises that the business rules, governance structures and joint activities supporting biosecurity in Torres Strait are comprehensive, up-to-date and effective.

25. The department is also pleased the audit illustrates its strategic and collaborative approach to working with Australian Government entities and other agencies in Torres Strait and the Northern Peninsula Area (NPA). By way of update, the Exchange of Letters with the Australian Border Force has now been finalised by both parties and formalises current and future operational arrangements.

26. The department notes the audit's recommendations and, while it is not directly responsible for any of the recommendations, will maintain awareness of initiatives to address the audit findings and will participate where appropriate.

27. The department remains committed to working in partnership with Australian Government entities, other agencies and communities in Torres Strait and NPA, to manage biosecurity risk and to support the ongoing implementation of the Torres Strait Treaty.



## **Department of Foreign Affairs and Trade**

28. The Department of Foreign Affairs and Trade [DFAT] welcomes the Australian National Audit Office [ANAO] findings that the governance structure and coordination arrangements of key Australian Government entities operating in the Torres Strait area are largely effective. The report's acknowledgement of the complex and challenging environment in which agencies operate is also welcomed.

29. DFAT remains committed to ensuring the enduring integrity of the Torres Strait Treaty and the traditional way of life for Torres Strait Islanders and the coastal people of Papua New Guinea, which the Treaty protects. We are pleased that ANAO recognises DFAT's efforts including: coordinating governance arrangements supporting the Treaty's operation; Treaty Awareness Visits and joint multi-agency cross-border compliance activities; and extensive stakeholder engagement with traditional inhabitants.

30. We welcome the recommendations that support improvements in the Torres Strait area. The ANAO has noted some key areas requiring improvement, particularly in identifying risks associated with a changing strategic and operational environment on the implementation of Treaty arrangements and documenting key policy decisions made by the Torres Strait Treaty Joint Advisory Council. DFAT agrees to implement the relevant recommendations to strengthen the effectiveness of our cooperative arrangements and to ensure the relevance of the Treaty in a modern setting.

## **Department of Home Affairs**

31. The Department of Home Affairs (the Department) and the Australian Border Force (ABF) acknowledge the value of the ANAO providing independent analysis of and insights into the coordination arrangements in the Torres Strait. We are pleased that the report found that the coordination arrangements in place optimise the use of vessels and aircraft for planned surveillance and intelligence activities, and that the governance structure and joint activities that support the management of biosecurity in the Torres Strait are effective.

32. The Torres Strait is a particularly unique and complex operating environment involving the collaboration of multiple Government entities, the operation of the Torres Strait Treaty aimed at protecting the traditional way of life of Torres Strait Islanders and the coastal peoples of PNG, and application of legislation including the Migration Act 1958. Operations are conducted and powers are exercised in the context of appropriately regulating the jurisdiction sympathetic to the normal activities and traditions of the indigenous people.

33. The Department and the ABF note the findings, conclusions and the recommendation made in the report. We agree with the recommendation regarding the need for comprehensive business rules to guide the implementation of immigration and customs legislation in the Torres Strait, which should have regard as the report notes, to the complexities of operating in the Torres Strait and the need for a degree of flexibility and discretion in applying legislative and Treaty provisions. The Department agrees that good governance is essential in any operating environment and is actively addressing relevant policies and procedural instructions to guide the implementation of immigration and customs legislation in Torres Strait, and the consistent application of the relevant Treaty and legislation.

34. On 10 May 2019, the Department finalised a Policy Statement relating to allowed inhabitants of the Protected Zone. This Statement broadly satisfies the recommendation and will facilitate the ABF to enhance Procedural Instructions and Standard Operating Procedures to provide further guidance around the exercise of discretionary detention powers. A Procedural Instruction for detaining an unlawful non-citizen in an excised offshore place and a Standard Operating Procedure providing further guidance border monitoring officers on the importation of goods used in connection with traditional activities, have been reviewed and are currently in the final stages of drafting. We

expect to finalise these two documents soon. Further, on 18 April 2019, the ABF and the Department of Agriculture and Water Resources (DAWR) signed a Letter of Exchange which articulates roles, responsibilities and work instructions, and reflects the amendments to the Biosecurity Act 2015.

35. In relation to the suggested areas of improvement, we note that IT connectivity in the Torres Strait will continue to impact operations in the region until it is more generally improved in the region and the ABF will continue to assist with local law enforcement matters based on a holistic consideration and prioritisation of threat and risk to the Australian border. The ABF has a standing Concept of Operations and command, control and coordination (C3) doctrine to deliver operational effect and outcomes. Under this operating model the Australian Border Operations Centre as the centralised and unified operations centre plays a critical role in the provision of a single source of truth or situational awareness to ensure decision making on the acceptance of tasks and any redirection or allocation of resources and capability is undertaken based on a holistic consideration and prioritisation of threat and risk to the Australian border.

### **Australian Fisheries Management Authority**

36. AFMA has extensive responsibilities in managing Commonwealth fisheries resources in the Torres Strait and works to deliver on these in cooperation with a number of Commonwealth and other agencies.

37. AFMA has considered the proposed audit report and accepts that timely finalisation of Protected Zone Joint Authority annual reports and regular updating of the Authority's website will enable stakeholders to be better informed about fisheries management issues and actions. Together with other PZJA member agencies, AFMA will also continue to work towards further integration and coordination of fisheries in the Torres Strait.

### **Torres Strait Regional Authority**

38. The Torres Strait Regional Authority provided a letter of response to the audit. The letter is provided at Appendix 1.

## **Key learnings for all Australian Government entities**

39. Below is a summary of key learnings, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

### **Governance and risk management**

- Entities should ensure that the governance framework and business rules established to support their operations at the enterprise level are adapted to the requirements specific to local contexts. For example, the Australian Border Force implements an operational framework based on its enterprise-wide purpose (protecting Australia's border and enabling legitimate travel and trade). In Torres Strait, this purpose needs to be adapted to comply with the provisions of Torres Strait Treaty, which prescribe a unique set of requirements. Business rules (such as procedures and guidance), articulating how the national operational framework applies to the local circumstances, need to be developed.

## Summary and recommendations

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### Background

1. The Australian Taxation Office (ATO) administers the taxation system for the Australian Government, collecting \$397 billion of net tax in 2017–18. Under the self-assessment system of taxation, the vast majority of taxes are paid on time, without intervention by the ATO. In 2017–18, over 70 per cent of small business tax liabilities were paid on time. The ATO’s compliance and dispute activities for small business are conducted on a relatively low proportion of these businesses<sup>1</sup>, and generally involve undertaking audits of higher risk cases and seeking to resolve taxpayers’ objections.
2. In 2017–18, 3.8 million small businesses (with an annual turnover of less than \$10 million) were registered in the tax system. Collectively, small businesses owe nearly two thirds of collectable tax debt and are almost twice as likely to have a debt with the ATO compared to other taxpayers. The ATO has introduced a range of educational and support material designed to inform small business about their tax liabilities and help prevent them acquiring a tax debt.
3. As with other types of taxpayers, a key challenge for the ATO with respect to small business is to target its resources to those areas of greatest compliance risk, while ensuring that debt collection policies and practices are equitable and uniformly enforced. This particularly relates to firmer and stronger debt actions, such as garnishee notices, director penalty notices, departure prohibition orders and company wind up processes initiated by the ATO.

### Rationale for undertaking the audit

4. Tax debt owed by small businesses makes up 63 per cent of overall tax debt, with collectable debt for small businesses totalling \$15 billion in June 2018. Debt collection requires the deployment of strategies and actions by the ATO using the powers given to it under legislation. These strategies and actions were called into question in the media in April 2018. In response, the Commissioner of Taxation requested that the Australian National Audit Office (ANAO) undertake an audit into the effectiveness of the ATO’s approaches to debt collection associated with compliance and dispute activities. Individual cases were not reviewed.

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<sup>1</sup> The ATO advised that in 2017–18, small businesses lodged around 5.4 million income tax returns and 12.2 million activity statements. These small businesses include related individuals, trusts, partnerships and companies. The ATO also advised that in 2017–18 it conducted 130,000 audits and reviews, amending 68,000 taxpayer assessments of which there were approximately 4,200 objection cases and 35 court decisions.

## **Audit objective and criteria**

5. The objective of the audit was to assess the effectiveness of the ATO's management of small business tax debt arising from compliance activities. The high-level audit criteria were:

- the ATO has effective arrangements for managing small business tax debt arising from compliance activities;
- the ATO's processes provided for consistent management of small business tax debt arising from compliance activities; and
- the ATO effectively monitors and reports on the collection of small business tax debt arising from compliance activities.

## **Debt arising from compliance activities**

6. In undertaking the audit, it was not possible for the ANAO to assess the ATO's management of small business tax debt arising from compliance activities separately from its overall management of small business tax debt. Consequently, the ANAO was unable to conclude on the effectiveness of the ATO's management of small business tax debt arising from compliance activities as a separate population. The ANAO has assessed the effectiveness of the ATO's management of small business tax debt in its entirety and formed a conclusion on that basis.

## **Conclusion**

7. The ATO's management of small business tax debt has been largely effective.

8. The ATO's organisational structures and processes support the effective management of small business tax debt. The ATO has introduced a number of initiatives to improve coordination between small business compliance, dispute and debt activities, drawing on stakeholder views and international practices.

9. There are limitations on the effectiveness of the ATO's processes that support consistent management of small business tax debt. The ATO has largely effective automated processes for lower impact debt activities such as prompting debtors to pay. However, quality assurance processes over firmer and stronger debt actions do not provide sufficient visibility about the effectiveness of controls.

10. The ATO's framework for monitoring and reporting of its management of small business tax debt is largely effective. The ATO has extensive internal monitoring on characteristics of tax debts including for small business. A performance framework for debt management has been developed, which includes measures that are relevant and reliable but provide an incomplete view of the efficiency, effectiveness and consistency of the ATO's debt management.

## **Supporting findings**

### **Organisational arrangements for managing small business tax debt**

11. The ATO has comprehensive strategies and processes to support the effective management of small business tax debt. These include broad debt strategies, extensive debt policies and practice statements, training and support programs, and electronic allocation of work tied to staff capability. There are dedicated case management systems to support debt management, although ATO staff need to access different systems to action cases and obtain a complete view of taxpayer details in relation to registration, lodgement, payment, debt, compliance and dispute history.

12. The ATO has largely effective processes for coordination across small business compliance, dispute and debt activities, although further work remains to achieve desired levels of coordination across the three organisationally separate groups. Recent initiatives designed to improve coordination include: encouraging compliance staff to consider how tax debt will be paid when the liability is first

raised; piloting independent pre-assessment reviews for small business from 1 July 2018; and developing a risk matrix for triaging serious debt cases at early stages. A small proportion of disputed debt is subject to formal recovery activity (2.7 per cent as at 31 October 2018), but such cases have been subject to criticism, which the ATO is in the process of addressing.

13. The ATO has used international practice and stakeholder views to inform debt strategies and processes for small business, including: drawing on other tax administrations internationally; the Organisation for Economic Co-operation and Development; and various small business stakeholder forums that involve small business operators, intermediaries and representatives from federal and state agencies. More recently, the ATO has introduced a continuous improvement strategy based on analysis of complaints received.

### **Consistent management of small business debt**

14. The ATO has largely effective automated processes that support ATO officers in providing tax debtors, including small business tax debtors, with prompts to pay, and progressing them towards firmer and stronger actions if debts are not paid. The processes include: risk-based guidance within relevant IT systems as to the debt pathways to use; delegation approvals to apply the debt processes; and technical aspects such as mandatory fields and audit logs. However, the ATO does not apply consistent approaches to debts relating to different taxes, and there are significant differences in the time taken to get to firmer and stronger actions under different debt management pathways, which the ATO should review.

15. The ATO has partially effective controls, including quality assurance processes over debt actions including firmer and stronger actions for small business tax debt.

16. The Service Delivery Quality Framework undertakes extensive assessments — in the order of 5,000 per month across all service delivery activities — which are used for coaching and quality assurance purposes. However, the Service Delivery Quality Framework has not produced results that readily or reliably indicate the extent to which administrative errors have impacted the taxpayer or tax revenue. There has also been no set tolerances for errors in important administrative actions such as firmer and stronger debt recovery actions, against which to measure actual performance. The redesign of the Service Delivery Quality Framework provides an opportunity for the ATO to enhance quality assurance arrangements for high-risk debt activities, including those involving small business.

17. The ATO has developed a corporate quality system, ATO Quality, to provide assurance that its actions meet community expectations and standards. More recently, this quality system has adopted a risk-based approach with a number of limitations, including that: the sampling methodology is not sufficiently robust to provide assurance over a representative body of ATO work; and ATO Quality reporting does not identify trends for critical errors in relation to firmer and stronger debt action.

### **Performance monitoring and reporting**

18. The ATO is effective in its monitoring and internal reporting of small business tax debt, which mainly comprises data on the number, value and other characteristics of these debts. This data provides valuable insights that could be more fully included in external reporting to better inform the Parliament and the public about debt trends. Reporting is not provided separately for debt arising from compliance activities.

19. The ATO has documented a performance framework for debt management, including a purpose, strategic priorities, initiatives and measures. The framework could be improved to support assessment of how the purpose will be achieved, including in 'balancing support for clients trying to do the right thing with timely stronger action against those who don't'. This would involve clearer articulation of the activities and improvements to performance measures, to enable better assessment and reporting of the effective, efficient and consistent recovery of small business tax debt. Performance measures for debt management are relevant and reliable, but are incomplete and would

benefit from the inclusion of: an additional effectiveness measure—debt recovery rate (when ATO systems enable its calculation); a measure of the overall efficiency of debt management operations; and coverage of consistency (drawing on quality assurance results).

## Recommendations

**Recommendation no.1**  
**Paragraph 3.50** In revising the Service Delivery Quality Framework and ATO Quality more broadly, the ATO ensures that quality assurance arrangements for debt activities include:

- (b) accurate identification of errors that result in an adverse outcome for the taxpayer, the ATO or both parties;
- (c) reporting on trends over time in assessed levels of conformance against specified tolerances for errors in important administrative actions such as firmer and stronger debt recovery actions; and
- (d) identification of systemic issues and improvements in relation to firmer and stronger debt recovery actions, including for small business.

**Australian Taxation Office response:** *Agreed.*

**Recommendation no.2**  
**Paragraph 4.35** The ATO refines its performance framework for debt management to establish a complete set of performance measures that supports accurate reporting of the effective, efficient and consistent management of tax debt, against the stated purpose for debt management.

**Australian Taxation Office response:** *Agreed.*

## Summary of entity response

20. The proposed audit report was provided to the ATO, which provided a summary response that is set out below.

The ATO welcomes this review and considers the report supportive of our overall administrative approaches for small businesses.

The Commissioner requested that the ANAO undertake this review as we recognise the significant contribution small businesses make to the economy and the broader community. We are receptive to feedback and scrutiny and use these sources of intelligence to help us make improvements by fostering positive engagement with the small business sector.

We focus on debt prevention by helping small businesses understand their obligations and pay their tax on time. We assist those experiencing short term cash flow issues by providing payment plans tailored to their specific circumstances. Where a small business does not engage with us we take action to prevent them gaining an unfair financial advantage over the majority that pay, ensuring a level playing field for all.

In finding the ATO's management of small business tax debt has been largely effective, the review also recognises a number of recent initiatives the ATO has introduced to further improve the management of small business debt.

The ATO agrees with the two recommendations contained in the report which will help us further improve our coordinated, client-first approach to debt management.

## Key messages from this audit for all Australian Government entities

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

### **Governance**

- There is value in entities undertaking tailored projects to improve coordination among related activities undertaken in separate organisational areas, as the Australian Taxation Office is doing for its compliance, dispute resolution and debt management arrangements.
- Core quality assurance systems should have well-defined frameworks, with clear criteria, benchmarks and a reliable data collection methodology. In addition, the quality assurance system needs to identify and report critical errors and systemic issues.

### **Performance and impact measurement**

- Performance measurement and reporting frameworks need well-defined objectives and outcomes linked to a strategic purpose as the reference for the development of relevant, reliable and complete performance indicators.

## Background

1. Norfolk Island is an external territory of the Commonwealth of Australia located 1676 kilometres northeast of Sydney, and had a population of 1748 in 2016.<sup>1</sup> The Australian Government administers Norfolk Island through the Department of Infrastructure, Regional Development and Cities (department).<sup>2</sup>
2. Norfolk Island's main industry is tourism, with 58 per cent of economic activity relating to the tourism trade.<sup>3</sup> A key tourist attraction is the Kingston and Arthur's Vale Historic Area (KAVHA), which was the site of two separate British convict settlements between 1788 and 1855. KAVHA is a UNESCO world heritage site.
3. The *Norfolk Island Act 1979* (Cth) established a level of self-government on Norfolk Island, providing for a Legislative Assembly, Executive Council, and the Administration of Norfolk Island. Until 2016, the Norfolk Island Government had responsibility for delivering services across the local, state and federal tiers of government. The Norfolk Island Act provided for an Administrator appointed by the Governor-General and reporting to the responsible Australian Government Minister.<sup>4</sup> While Norfolk Island legislation required the Administrator's assent, the Australian Government's direct influence over the Norfolk Island Government was limited during the self-government period.<sup>5</sup>
4. In March 2015, the Australian Government announced comprehensive reforms<sup>6</sup> to governance and service delivery on Norfolk Island.<sup>7</sup> The reforms included the:
  - abolition of the Norfolk Island Legislative Assembly and Executive Council and the creation of a Norfolk Island Regional Council, which would be responsible for local and municipal matters;

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<sup>1</sup> Australian Bureau of Statistics, 2016 Census QuickStats [Internet], ABS, available from [http://quickstats.censusdata.abs.gov.au/census\\_services/getproduct/census/2016/quickstat/SSC90004?opendocument](http://quickstats.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/SSC90004?opendocument) [accessed 22 November 2018].

<sup>2</sup> The department also administers the internal non self-governing Jervis Bay Territory in addition to the external territories of Ashmore and Cartier Islands, Christmas Island, Cocos (Keeling) Islands and the Coral Sea Islands. Other external territories, which includes the Australian Antarctic Territory and Heard and McDonald Islands, are administered by the Department of the Environment and Energy.

<sup>3</sup> Centre for International Economics, *KAVHA Economic Feasibility Study*, 2017.

<sup>4</sup> The first Administrator was sworn in on Norfolk Island in 1896. The Administrator's legislative powers were removed on 1 July 2015.

<sup>5</sup> Prior to 2010, the responsible Australian Government Minister could only provide instructions to the Administrator in relation to a small range of matters listed in schedule 3 of the Norfolk Island Act. The Administrator had to act in accordance with advice from the Norfolk Island Executive Council in relation to most other matters. Changes introduced under the *Territories Law Reform Act 2010* increased the level of Australian Government oversight of the Norfolk Island Government, particularly in relation to financial management and also extended the jurisdiction of the Commonwealth Auditor-General, Ombudsman and Administrative Appeals Tribunal to include Norfolk Island.

<sup>6</sup> The reforms were codified in the *Norfolk Island Legislative Amendment Act 2015*, which received royal assent on 26 May 2015.

<sup>7</sup> Australian Government response to the Joint Standing Committee on the National Capital and External Territories report *Same country: different world - The future of Norfolk Island*, 2015.



- creation of an interim Advisory Council to offer advice to the Administrator in the period between the abolition of the Legislative Assembly and the creation of the Regional Council;
- application of New South Wales state law to Norfolk Island as Commonwealth law and the extension of Commonwealth laws to Norfolk Island, including laws relating to immigration, biosecurity, the superannuation guarantee and employment; and
- integration of Norfolk Island into the Australian taxation system and the extension of the mainland social security system and health arrangements.

### **Rationale for undertaking the audit**

5. There were significant risks involved with the Australian Government taking on additional responsibilities in a remote location where, similar to the Indian Ocean Territories, service delivery is complex and expensive. ANAO reporting for the 2015–16 financial statements audit reported two significant audit findings in relation to the Administration of Norfolk Island, indicating that ‘At the conclusion of the 2015–16 audit, the finalisation of key governance processes and policies by the Administration remained outstanding.’ As Norfolk Island’s new governance and service delivery arrangements began on 1 July 2016, it was timely to undertake an audit focusing on the design, implementation and monitoring of reforms to services on Norfolk Island.

### **Audit objective and criteria**

6. The audit assessed whether the department had designed and implemented appropriate governance and administration arrangements for the transition and delivery of sustainable reforms to services on Norfolk Island.

7. To form a conclusion against the objective, the audit examined whether:

- sound evidence informed the design of reforms for the delivery of services on Norfolk Island;
- appropriate arrangements were implemented to support the transition and delivery of reforms to services on Norfolk Island; and
- the arrangements in place for the delivery of services on Norfolk Island were subject to appropriate ongoing performance monitoring processes.

### **Conclusion**

8. While the department’s design of governance and administration arrangements for the reforms to services on Norfolk Island was largely appropriate, its implementation of those arrangements was partly effective.

9. The department’s advice to the Australian Government presented a range of reform options, which was based on an assessment of Norfolk Island’s self-governance arrangements and input from a community consultation process. Elements of the reform design relating to state and local government services could have benefited from more detailed analysis.

10. The department’s governance framework and arrangements for the transition and implementation of reforms to services on Norfolk Island were partly effective. Roles and responsibilities for the implementation of the reforms were clearly outlined, but the department’s prioritisation plans lacked appropriate detail. Governance arrangements to coordinate the implementation of Australian Government and state services were appropriate, but arrangements established for the oversight of the Norfolk Island Health Residential Aged Care Service (NIHRACS) were inappropriate and the department’s approach to secure a partner to deliver all state-type services was not fully effective. The arrangements established for the delivery of local government services were largely effective. Risk management arrangements for the reforms were not developed until September 2017 and were not fully articulated or reviewed in the subsequent period.

11. The department monitored the progress of the implementation of Australian Government services, although there were weaknesses in the department's monitoring of the performance of state services and an evaluation of the impact of reforms has not been undertaken. The department regularly reported on the progress of the reforms to the responsible Minister although it did not report in a timely manner on options for a state service provider.

## Supporting findings

### Reform design

12. The department's advice to the Australian Government on the need for comprehensive reform was informed by a body of evidence showing the existing arrangements on Norfolk Island were not sustainable. There was an appropriate community consultation process. Advice on the extension of Australian Government arrangements to Norfolk Island was informed by economic analysis and input from relevant Australian Government entities. Advice relating to the delivery of state-type services was not informed by appropriate engagement with the State Government of NSW (NSW Government) on the development, implementation and monitoring of service delivery. Advice relating to local government services was appropriate but could have benefited from more detailed analysis in relation to the estimated cost of service delivery.

### Governance framework and arrangements

13. The department established a governance framework for the overall management of the reform program which was largely effective. The department clearly articulated roles and responsibilities in its reform plan but business plans for the management of the reforms lacked appropriate detail on milestones and timelines, particularly on the identified priority to secure an alternative jurisdiction for the delivery of state-type services. The department implemented a number of approaches for communicating with stakeholders although did not have an overarching communications strategy in place until January 2018.

14. The department's governance arrangements for the implementation of Australian Government and state-type services on Norfolk Island were partly effective. Governance groups were established to provide oversight and coordination for the Australian Government service reforms, although the department did not continue regular interdepartmental committee meetings after the end of the 2015–16 transition year despite ongoing legislative reform requirements. There were adequate governance arrangements in place with the NSW Government for the continuation of core state-type services, but the department was not able to obtain a fully engaged state partner to deliver all state-type services. The NIHRACS was inappropriately established outside of the Australian Government accountability framework.

15. The arrangements put in place for the delivery of local government services and the establishment of the Norfolk Island Regional Council (NIRC) were largely effective. The department facilitated and managed the Administration of Norfolk Island over the transition period and established arrangements for the election of local government representatives. The department undertook to identify a more efficient structure for the future delivery of services by the NIRC, and there is ongoing work to reform the number of NIRC operated business enterprises. The baseline used for the calculation of Financial Assistance Grants to support the NIRC's delivery of local government services was not adequate, but was revised to a more appropriate level in 2018–19. There was no formal channel established by the department for the NIRC to apply for additional grant funding normally provided by states and territories.

16. The department identified risks to the achievement of the Norfolk Island reforms in its advice to the Australian Government in February 2015 but did not develop a risk management plan until September 2017. Risk owners or risk managers were not identified, and some controls to mitigate

risks, particularly in regard to the risk of not securing a fully-engaged partner for the delivery of state-type services, were inadequate.

## Performance monitoring, evaluation and reporting

17. The department had appropriate arrangements in place to monitor the progress of the reforms to Australian Government services on Norfolk Island, but there were weaknesses in the department's monitoring of the performance of state-type and local government services. State-type services delivered by the NSW Government were monitored through an oversight committee, and performance indicators for key services such as education were identified in a Service Delivery Schedule. There were no performance standards or key performance indicators (KPIs) identified for health services provided by the NSW Government although activities were regularly reported. There are opportunities to improve performance reporting by the NIRC under the Service Delivery Agreement.

18. The department established an evaluation framework for the reforms with broad timelines but there was no action taken to commence an evaluation process or gather baseline data.

19. The department regularly reported on the progress of the Norfolk Island reforms to the responsible Minister, although there were delays in the provision of advice on options for the delivery of state-type services.

## Recommendations

**Recommendation no. 1** The Department of Infrastructure, Regional Development and Cities establish suitable arrangements for the ongoing review and update of business plans and priorities, and establish milestones and timelines for the future delivery of reforms on Norfolk Island, including securing a state-type services provider.

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

**Recommendation no. 2** The Department of Infrastructure, Regional Development and Cities undertake legislative reform to apply the *Public Governance, Performance and Accountability Act 2013* to the Norfolk Island Health and Residential Aged Care Service.

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

**Recommendation no. 3** The Department of Infrastructure, Regional Development and Cities establish a process to actively manage risks and integrate risk management into its ongoing reform activities.

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

**Recommendation no.4** The Department of Infrastructure, Regional Development and Cities develop and implement robust performance measurement, monitoring and evaluation strategies to assess the progress and impact of the Norfolk Island reforms to service delivery.

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

## Summary of entity response

20. The proposed audit report was provided to the Department of Infrastructure, Regional Development and Cities, which provided a summary response that is set out below.

The Department of Infrastructure, Regional Development and Cities (the Department) notes the ANAO's findings and agrees with three of the recommendations. One recommendation has been noted as the Department considers the action recommended falls within the responsibilities of the Department of Finance.

### *ANAO notes on the Department's summary response*

21. This audit identifies that the Norfolk Island Health and Residential Aged Care Service (NIHRACS), which is an entity controlled and funded by the Australian Government, has been established outside Commonwealth legislation and is not subject to requirements for the governance, reporting and accountability of Commonwealth entities as set out in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). It is inappropriate for the NIHRACS not to be subject to the coherent system of governance and accountability established by the PGPA Act, including mandatory financial statement audit by the Auditor-General.

22. The State Government of New South Wales Department of Premier and Cabinet and the Norfolk Island Regional Council were provided with extracts of the proposed audit report containing those respective sections where they were mentioned.

## Key messages from this audit for all Australian Government entities

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

### **Policy and program design**

- When designing a major new program, key elements should include undertaking economic analysis, key cost drivers, consultation with affected stakeholders and establishing clear benchmarks for evaluating performance over time.

### **Governance and risk management**

- For projects requiring cross-entity input, planning for the establishment of comprehensive governance arrangements is essential to facilitate whole-of-government strategic oversight, continuity of service delivery and effective risk management.

### **Performance and impact measurement**

- When designing a performance measurement framework for a program or delivery of services, it is important to clearly define performance benchmarks and develop relevant, reliable and complete indicators and targets in order to facilitate a meaningful assessment of progress and achievement.

## Summary and recommendations

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### Background

1. The Export Finance and Insurance Corporation (Efic) is the Australian Government's export credit agency. Efic was established in its current form<sup>1</sup> on 1 November 1991 under the *Export Finance and Insurance Corporation Act 1991* (the Efic Act) as a corporation wholly owned by the Australian Government. EFIC sits within the Foreign Affairs and Trade portfolio. Efic is classified as a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).
2. The primary purpose of Efic is to provide financial solutions and support to Australian export businesses that are unable to secure funding from the private sector, with the objective of facilitating and encouraging Australian export trade and to encourage private financiers in Australia to finance or assist in financing exports.
3. Efic is classified by the Department of Finance (Finance) as a material agency. It has risk weighted assets of \$2.7 billion; exposure on its Commercial Account of \$1.9 billion<sup>2</sup> and available capital of \$674.5 million as at 30 June 2018.

### Rationale for undertaking the audit

4. The Australian Government is increasingly undertaking balance sheet activity to achieve policy objectives. Given Efic is responsible for the investment and management of over \$5 billion in funds on behalf of the Australian public, this audit assessed whether Efic's mandate and purposes are being met effectively.

### Audit objective and criteria

5. The objective of this audit was to assess the effectiveness of Efic.
6. To form a conclusion against the audit objective, the ANAO adopted the following high-level audit criteria:
  - Efic is operating within its prescribed mandate;
  - Efic is effectively managing its financial and service delivery functions; and

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<sup>1</sup> Export finance and insurance was officially provided under the operations of the former Australian Trade Commission in accordance with the *Australian Trade Commission Act 1985* and prior to this by the Export Payments Insurance Corporation under the *Export Payments Insurance Corporation Act 1956* (House of Representatives (the Parliament of the Commonwealth of Australia), *Export Finance and Insurance Corporation Bill 1991: Explanatory Memorandum*, Canberra, 1991 and W Truss, (Former Minister for Trade), 'EFIC 50<sup>th</sup> Anniversary Celebration', media release, Parliament House, Canberra, 10 July 2007).

<sup>2</sup> Comprising loans, export finance guarantees, medium-term insurances, bonds and rescheduled credit insurance debts.

- Efic is meeting its statutory and prudential responsibilities.

## Conclusion

7. Efic is effectively undertaking its functions, except for its annual performance statement reporting.
8. Efic is operating within its prescribed mandate. It has developed a framework to interpret, operationalise and comply with each mandate requirement.
9. Efic effectively manages its financial and service delivery functions, and the evidence can support a view that Efic is operating on an appropriately commercial basis.
10. Efic is meeting its statutory and prudential management responsibilities, however Efic's annual performance statement reporting does not enable a comprehensive assessment of overall progress against its purpose.

## Supporting findings

### Compliance with prescribed mandate

11. Efic has established a framework to interpret its mandate and determine how it will be operationalised. This includes an internal compliance document to define how Efic intends to operationalise its Statement of Expectation requirements.
12. Efic's activities in monitoring commercial markets to identify situations where the private sector will not provide financial support to an export business (the 'market gap') are largely appropriate. Efic communicates with customer relationship banks and analyses comparative market pricing for small and medium-sized enterprise (SME) transactions, although it does not undertake proactive monitoring of the market gap for the wider export industry and does not report on situations where it assists an export business to obtain private sector finance.
13. Efic is adequately focusing its efforts on SMEs through tailored products and services. In response to the 2014 Statement of Expectations specifying the need for SMEs to be effectively supported, Efic implemented the EficDirect online loan platform to streamline Small Business Export Loans. In combination with other new initiatives and strategies, this has resulted in a general increase in both the volume of facilities provided to SMEs, and in the average value of SME transactions as a proportion of the total value of transactions undertaken annually in the Efic portfolio. There are opportunities to improve Efic's coverage of export supply chain SMEs.
14. Efic complies with its prescribed mandate in relation to Australian content, financial viability and other relevant requirements. Efic consistently applies requirements in relation to the number of facilities which can be provided to an individual entity over a three-year period. Efic has appropriate structures for understanding and applying requirements in relation to environmental and social standards.
15. The Defence Export Facility has been established and Efic is providing support to the defence export sector in line with Australian Government objectives. Efic participates in intergovernmental discussions to remain informed on opportunities to support the defence export sector, and is undertaking a campaign to raise awareness of the financial support services available to defence exporters.

### Financial and service delivery functions

16. The evidence can support a view that Efic is operating on an appropriately commercial basis. In line with its mandate, Efic generates sufficient reserves to sustain and expand its operations and undertakes its functions with the objective of not undercutting private sector financiers. There is a

need for Efic to ensure an appropriate balance is maintained between its commercial objectives and its fulfilment of government expectations surrounding the facilitation and encouragement of private sector support for Australian export trade.

17. Efic engages effectively with government and external stakeholders to execute its mandate through activities closely overseen by responsible managers. Marketing campaigns and initiatives are used by Efic to extend knowledge of its support offering to exporters in new and existing industries. Efic proactively engages with export businesses to facilitate potential applications.

### **Statutory and prudential responsibilities**

18. Efic engages effectively with government and external stakeholders to execute its mandate through activities closely overseen by responsible managers. Marketing campaigns and initiatives are used by Efic to extend knowledge of its support offering to exporters in new and existing industries. Efic proactively engages with export businesses to facilitate potential applications.

19. Efic meets its risk management obligations and manages its credit, funding and other risks effectively.

20. Efic has established governance structures that are aligned to its statutory obligations. The Board comprises members appointed by the responsible Minister together with the Efic Managing Director, and is supported by the Audit Committee, internal management committees and the Executive.

### **Recommendation**

**Recommendation no. 1**  
**Paragraph 4.21** The Export Finance and Insurance Corporation include both quantitative and qualitative performance measures in the annual performance statement to provide a comprehensive assessment of its overall progress against its purpose. This should include measures to address mandated requirements to encourage banks and other financial institutions to finance, or assist in financing, export contracts or eligible export transactions.

### **Summary of entity response**

21. A summary response from the Export Finance and Insurance Corporation is provided below, while the full response is provided at Appendix 1 to the report.

The Export Finance and Insurance Corporation (Efic) welcomes the proposed report and is pleased with the Report's conclusion that:

- Efic is operating within its prescribed mandate. It has developed a framework to interpret, operationalise and comply with each mandate requirement.
- Efic effectively manages its financial and service delivery functions, and the evidence can support a view that Efic is operating on an appropriately commercial basis.
- Efic is meeting its statutory and prudential management responsibilities, noting Efic's annual performance statement reporting could be improved to enable a more comprehensive assessment of overall progress against its purpose.

Efic notes that the ANAO has made only one recommendation to include more qualitative measures in the annual performance statement reporting. We welcome the ANAO's suggestions on the types of qualitative measures that can be incorporated into our reporting. For example, we know that Efic's involvement often acts as a catalyst for the private market to step forward and

provide support to businesses. While it is often difficult to quantify the benefit of Efic's 'crowding in' of the private market, we acknowledge that such qualitative measures would enhance our current reporting.

## Key learnings for all Australian Government entities

22. Below is a summary of key learnings, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

### Performance and impact measurement

- Management and the Board constantly monitor the control framework to support and enhance the commercial basis of operations and ensure the performance and profitability of the entity. Other corporate Commonwealth entities could benefit from applying a similar governance and cultural framework to their operations and service delivery activities.
- Within the PGPA accountability framework, an entity's purpose statement is fundamental in framing its performance reporting. If a purpose statement is too vague or not clearly connected with the legislative purpose of the entity, it can undermine the effectiveness of the entity's overall performance reporting framework.



**Coordination and targeting of domestic violence funding and actions  
No.45 2018–19  
Department of Social Services**

## Background

1. The *National Plan to Reduce Violence against Women and their Children 2010–2022* (the National Plan) was developed in partnership with all states and territories and endorsed and released by COAG in February 2011. The National Plan is the Australian Government’s framework to address two types of violence where women are more likely to be victims: domestic and family violence; and sexual assault.

2. The vision of the National Plan is that ‘Australian women and their children live free from violence in safe communities’.<sup>1</sup> Governments set the target for ‘a significant and sustained reduction in violence against women and their children’<sup>2</sup>, over the 12-year plan.

3. The National Plan sets out six National Outcomes for all governments to deliver during the 12 years from 2010–2022. These National Outcomes are:

- Communities are safe and free from violence.
- Relationships are respectful.
- Indigenous communities are strengthened.
- Services meet the needs of women and their children experiencing violence.
- Justice responses are effective.
- Perpetrators stop their violence and are held to account.

4. The National Plan identifies that outcomes will be delivered through four three-yearly action plans. Governments agreed that each action plan would identify priority areas for all governments to focus on over the three-year period and practical actions designed to drive national improvements. The Third Action Plan 2016–2019, was launched in October 2016. The Fourth Action Plan is due to be launched in July 2019.

5. The Australian Government has responsibility for delivering financial support and other services through family law, legal assistance and the social security system, including crisis payments. The Commonwealth also funds national support services, primary prevention and evidence building initiatives led by national partners<sup>3</sup> under the National Plan.

6. Total expenditure by the Commonwealth across the life of the National Plan to date, is around \$723 million. This figure includes \$103.9 million announced in 2016 under the Third Action Plan, \$328 million announced in March 2019 in advance of the start of the Fourth Action Plan and the \$101.2 million Women’s Safety Package announced in 2015.

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<sup>1</sup> *National Plan to Reduce Violence Against Women and their Children 2010–2022*, 2011, p. 10.

<sup>2</sup> *ibid.*

<sup>3</sup> The National Partners are Medibank Health Solutions, Australia’s National Research Organisation for Women’s Safety, Lifeline Australia, Our Watch and White Ribbon Australia.

7. The Department of Social Services (the department) is the lead Commonwealth entity overseeing implementation of the overall National Plan, three-yearly action plans and key national services. These national services, delivered by National Plan partners are:

- 1800RESPECT — a national telephone and online counselling and support service launched in 2010;
- Australia’s National Research Organisation for Women’s Safety (ANROWS)—provides access to information services, conducts and commissions research and was established in 2013;
- DV-alert — provides free nationally accredited domestic and family violence response training to frontline workers since 2007;
- Our Watch — established in 2013 to focus on primary prevention activities and raise awareness of violence against women; and
- White Ribbon — an international campaign, starting in Australia in 1992, aimed at engaging men and boys to end violence against women.

### **Rationale for undertaking the audit**

8. Domestic violence causes long-term impacts to individuals and families as well as significant costs to the economy. Reducing these impacts involves changing individual behaviour and delivering integrated services across organisational boundaries and at all levels of government. In 2011, all Australian Governments agreed to a long-term plan to reduce violence, with the Commonwealth Government taking a leadership role. As this National Plan is in its ninth year, it is timely to assess whether the Department of Social Services has been effective in administering its responsibilities under the National Plan, including monitoring the plan’s achievements and progress.

### **Audit objective and criteria**

9. The objective of the audit was to assess the effectiveness of the Department of Social Services’ role in implementing the *National Plan to Reduce Violence Against Women and their Children 2010–2022*.

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

- Effective governance arrangements are in place.
- Targeting of funding and actions is aligned to the outcomes of the National Plan.
- Monitoring and reporting of performance for key Department of Social Services’ initiatives and the National Plan is effective.

### **Conclusion**

11. The Department of Social Services’ effectiveness in implementing the *National Plan to Reduce Violence Against Women and their Children 2010–2022* is reduced by a lack of attention to implementation planning and performance measurement.

12. The department has established effective governance arrangements to support implementation of the *National Plan to Reduce Violence against Women and their Children 2010–2022*. These arrangements include clear accountabilities, processes for oversight and decision-making, and information sharing arrangements. The department has used a variety of mechanisms to engage formal stakeholders at key points throughout the life of the National Plan.

13. The evidence suggests that the department’s funding and actions taken during the Third Action Plan are aligned with the Plan’s key priorities and that the department established the two mechanisms required under the National Plan to improve the evidence base. The department cannot

demonstrate that the actions taken are prioritised based on available evidence or that they are collectively contributing to the outcomes of the National Plan. Subsequently, there is scope to better target research activities towards projects that identify what works for whom and in what contexts.

14. Performance monitoring, evaluation and reporting is not sufficient to provide assurance that governments are on track to achieve the National Plan's overarching target and outcomes. In order to assess and demonstrate the achievements of the National Plan as a whole, the department will need to develop new measures of success and data sources, plan for evaluations beyond the National Partner initiatives and improve public transparency.

## Supporting findings

15. The roles and responsibilities for the implementation and monitoring of the National Plan are clear and fit-for-purpose for the cross-jurisdictional delivery of the National Plan. The Council of Australian Governments and relevant Commonwealth, state and territory ministers oversee implementation of the Third Action Plan and lead whole-of-government involvement. Implementation Executive Groups (ImpEG), with representatives from several Commonwealth entities and all states and territories, provide strategic and operational policy advice to ministers. The Department of Social Services develops and reports against action plans, oversees key national services and provides secretariat support to the ImpEG.

16. The department has established and implemented suitable arrangements to share and coordinate information and engage formal stakeholders, including government and non-government representatives with expertise in areas relevant to the National Plan. Mechanisms established to interact with these stakeholders include: working groups, engagement with National Plan partners, committees, National Summits and other consultations.

17. Consultations undertaken for the Second Action Plan evaluation and development of the Fourth Action Plan have identified scope to improve links with the community and collaboration with the non-government sector.

18. The National Centre of Excellence committed to in the National Plan has been established and progress made towards operationalising a National Data Collection and Reporting Framework (DCRF). In the absence of a plan identifying the sequence and priority of activities required to ensure that DCRF is operational by its target date of 2022, the department cannot demonstrate that jurisdictions are on track to deliver this outcome.

19. The department has funded research to build the evidence base. This research program as a whole does not provide sufficient focus on program evaluation and research synthesis to inform policy decisions and program improvements that contribute to achieving the National Plan's outcomes.

20. The development of the Third Action Plan incorporated past learnings, drawing on a range of evidence including stakeholder feedback, findings from government inquiries and an evaluation report of the Second Action Plan.

21. Funding provided by the Commonwealth and administered by the department is aligned to the key priorities agreed and endorsed by all governments for the Third Action Plan. An implementation plan for the Third Action Plan was not completed, reducing the transparency around what actions governments have committed to and accountability in meeting those commitments.

22. Some metrics to assess performance against outcomes were established at the outset of the National Plan, except these currently measure limited aspects of each outcome. During development of the Fourth Action Plan and any future National Plan there is opportunity for the department to consider developing short- and medium-term outcomes, new measures of success and more frequent data collection mechanisms. Without such changes the ability for jurisdictions to demonstrate the success of the National Plan will be limited.

23. Appropriate administrative arrangements are in place to monitor progress against the Australian Government's commitments under the National Plan's action plans, including initiatives delivered by National Plan partners. These arrangements include monitoring project status and deliverables agreed in activity work plans.

24. Evaluations or reviews of National Partner initiatives and of the Second and Third Action Plans have been completed or are planned, but do not sufficiently focus on assessing the achievement of outcomes. The Third Action Plan evaluation methodology proposes assessing the contribution of this plan to the National Plan outcomes, but without robust data, is unlikely to achieve this purpose.

25. The quality of data and assessment of the impacts of actions undertaken across jurisdictions need to be improved to support outcome-focused action plan evaluations. Without these improvements, the overall achievements of the National Plan will not be able to be fully assessed.

26. Overall, Annual Progress Reports do not provide a sufficient level of information for public transparency and accountability. The department does not publicly report on the extent to which outcomes of the National Plan are being achieved, with the exception of the draft 2017–18 report (yet to be released). Limited internal reporting of outcomes is undertaken and is focused on disseminating results from the two National Surveys undertaken every four years.

## Recommendations

**Recommendation no. 1**  
**Paragraph 3.32** The Department of Social Services specify research and data projects as actions under each of the priority areas agreed by governments for the Fourth Action Plan.

**Department of Social Services response:** *Agreed*

**Recommendation no.2**  
**Paragraph 3.67** The Department of Social Services, in consultation across governments, develop a National Implementation Plan for the Fourth Action Plan.

**Department of Social Services response:** *Agreed*

**Recommendation no. 3**  
**Paragraph 4.10** The Department of Social Services identify and develop new measures of success, data sources and specific outcomes for the Fourth Action Plan, and any future National Plan.

**Department of Social Services response:** *Agreed*

**Recommendation no. 4**  
**Paragraph 4.45** The Department of Social Services work with the states and territories to plan evaluations of individual services and programs funded across jurisdictions under action plans to inform an outcome evaluation of the Fourth Action Plan and overall National Plan.

**Department of Social Services response:** *Agreed*

**Recommendation no. 5**  
**Paragraph 4.61** That public annual progress reports for the Fourth Action Plan document the status of each action item and the outcomes of the National Plan as a whole.

**Department of Social Services response:** *Agreed*

## Summary of entity response

27. The proposed report was provided to the Department of Social Services (DSS). An extract was provided to Australia's National Research Organisation for Women's Safety. The summary response from DSS is set out below.

The department is committed to building on what the ANAO acknowledges are the effective governance arrangements already in place to support implementation of the *National Plan to Reduce Violence Against Women and their Children 2010–2022* (the National Plan). The report's insights will help strengthen the final development phase and subsequent implementation of the Fourth Action Plan of the National Plan.

## Key messages from this audit for all Australian Government entities

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

### **Policy/program implementation**

When delivering large-scale and long-term initiatives it is important to signpost success by developing interim performance expectations backed by practical implementation plans. It may also be necessary to invest in developing new and improved data sources or more frequent data collections. Identifying what works and why it works helps drive towards ultimate outcomes through better targeting resources to high value add activities.

**Interim Report on Key Financial Controls of Major Entities**  
**No. 46 of 2018-2019**  
**Across entities**

**Executive Summary**

1. The ANAO prepares two reports annually that, drawing on information collected during audits, provide insights at a point in time to the financial statements risks, governance arrangements and internal control frameworks of Commonwealth entities. These reports explain how entities' internal control frameworks are critical to executing an efficient and effective audit and underpin an entity's capacity to transparently discharge its duties and obligations under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). Deficiencies identified during audits, that pose either a significant or moderate risk to an entity's ability to prepare financial statements free from material misstatement, are reported.

2. This report, is the first in the series of reports and focuses on the results of the interim audits, including an assessment of entities' key internal controls, supporting the 2018–19 financial statements audits. It examines 26 entities, including all departments of state and a number of major Australian government entities. The entities included in the report are selected on the basis of their contribution to the income, expenses, assets and liabilities of the 2017–18 Consolidated Financial Statements of the Australian Government (CFS). Significant and moderate findings arising from the interim audits are reported to the responsible Minister(s), and all findings are reported to those charged with governance of each entity.

**Summary of audit findings and related issues**

***Entity internal controls***

3. The interim audit phase includes an assessment of the effectiveness of each entity's internal controls as they relate to the risk of misstatement in the financial statements. At the completion of our interim audits for the 26 entities included in this report we noted that key elements of internal control were operating effectively for 19 entities. For four entities,<sup>1</sup>

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<sup>1</sup> The Departments of: Agriculture and Water Resources; Communications and the Arts; Health; and Jobs and Small Business.

except for particular finding/s outlined in chapter 3, the key elements of internal control were operating effectively to support the preparation of financial statements that are free from material misstatement. For the Departments of: Defence; Education and Training, and the National Disability Insurance Agency, the ANAO identified a number of findings which reduced the level of confidence that could be placed on key elements of internal control and limited the assurance that could be obtained from that entity's control framework.

### ***Summary of audit findings***

4. A total of 70 findings were reported to the entities included in this report as a result of interim audits, comprising of one significant, 12 moderate and 57 minor findings. This is an increase of one significant and a reduction of 30 minor findings compared with the 2017–18 interim audit results.

5. Fifty-six per cent of findings relate to the management of Information Technology (IT) controls, particularly the management of privileged user access. The continued level of findings indicates that entities need to focus on processes to monitor IT controls to prevent reoccurrence of issues.

### ***Policies reviews for fraud, payment cards and compliance with finance law***

6. Accountable authorities duties under Division 2 of the PGPA Act include: promoting the proper use and management of public resources; and reporting to the Minister on significant issues and activities in the entity. In the context of these obligations and a review of entity internal controls, this report includes a focus on and an analysis of, payment card and fraud control policies together with a continued review of compliance with the Commonwealth's finance law.

7. Review of these areas found that entities' have an opportunity to learn from each other to strengthen monitoring and reporting processes, leading to increased transparency over compliance with internal policies, building fraud awareness and enhancing assurance that payment card expenditure is appropriate, within delegation and supported by receipts

8. The ANAO observed that entities had processes in place for monitoring and reporting instances of non-compliance with finance law. Following changes to the mandatory external reporting of non-compliance in 2015–16, where entities have reduced their internal reporting of breaches of finance law, this can lead to a lack of visibility over, or capacity to

identify, risks and reduce the completeness and relevance of the information provided to the accountable authority.

## Reporting and auditing frameworks

### ***Summary of developments***

9. Major changes in accounting standards are applicable in 2018–19 and 2019–20 with the implementation of revised standards for financial instruments, revenue and leases. Early engagement in planning for these standards will provide entities with more options for transitioning, time to review and potentially renegotiate underlying contracts and agreements and time to organise and implement necessary FMIS changes.

10. The *Independent Review into the operation of the Public Governance, Performance and Accountability Act 2013 and Rule* has made a number of recommendations to the Minister for Finance including, for example, bringing forward the date for the tabling of annual reports, removing duplication and improving linkages between accountability documents, and increasing disclosures around remuneration paid to executives and highly paid staff. In response, the Minister for Finance amended the PGPA Rule to require Commonwealth entities to make remuneration disclosures for key management personnel, senior executives and other highly paid staff in annual reports. The Minister for Finance also amended the PGPA (Annual Report) Rules to require Commonwealth companies and Commonwealth entities to publish annual reports online.

### Cost of this report

11. The cost to the ANAO of producing this report is approximately \$405,000.



## Evaluating Aboriginal and Torres Strait Islander Programs

No.47 2018–19

The Department of the Prime Minister and Cabinet

### Background

1. Program evaluation (commonly referred to as ‘evaluation’) can be defined as the systematic and unbiased assessment of the efficiency, effectiveness or appropriateness of government policies or programs (or parts of policies or programs). Under the enhanced Commonwealth performance framework, performance monitoring and comprehensive evaluations are identified as key mechanisms that entities can use for reporting on their performance through their annual performance statements.<sup>1</sup>

2. The Department of the Prime Minister and Cabinet (PM&C or the department) has been the lead agency for Aboriginal and Torres Strait Islander Affairs since 2013. With the introduction of the Indigenous Advancement Strategy (IAS) in 2014, 27 programs were consolidated into five broad programs under a single outcome, with \$4.8 billion initially committed over four years from 2014–15. The Australian National Audit Office’s (ANAO’s) performance audit of the IAS (Auditor-General Report No.35 2016–17) noted that the department did not have a formal evaluation strategy or evaluation funding for the IAS for its first two years.<sup>2</sup>

3. In February 2017 the Minister for Indigenous Affairs announced funding of \$40 million over four years from 2017–18 to strengthen IAS evaluation, which would be underpinned by a formal evidence and evaluation framework.<sup>3</sup> In February 2018 the department released an IAS evaluation framework document, describing high level principles for how evaluations of IAS programs should be conducted, and outlining future capacity-building activities and broad governance arrangements.<sup>4</sup>

### Rationale for undertaking the audit

4. There is strong interest from Parliament and the community in ensuring funding provided through government programs achieves intended outcomes. Effective performance measurement and evaluation is critical to determining whether these outcomes are being achieved.

5. The audit was undertaken to provide assurance that the design and early implementation of the department’s evaluation framework for the IAS has been effective. It also provided an opportunity to assess the early impacts of the framework on evaluation practices and inform its ongoing management.

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<sup>1</sup> Department of Finance, *Resource Management Guide No. 130: Overview of the enhanced Commonwealth performance framework*, July 2016, p. 9.

<sup>2</sup> Auditor-General Report No.35 2016–17 *Indigenous Advancement Strategy*, pp. 11 and 63–64.

<sup>3</sup> N Scullion, (Minister for Indigenous Affairs), ‘\$10m a year to strengthen IAS evaluation’, media release, Parliament House, Canberra, 3 February 2018.

<sup>4</sup> PM&C, *Indigenous Advancement Strategy (IAS) Evaluation Framework*, February 2018, p. 2.

## **Audit objective and criteria**

6. The objective of the audit was to examine the effectiveness of the design and implementation of the department's evaluation framework for the IAS in achieving its purpose to ensure that evaluation is high quality, ethical, inclusive and focused on improving outcomes for Aboriginal and Torres Strait Islander peoples.

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

- Has the department's evaluation framework been designed to support the achievement of the Government's policy objectives?
- Is the department's evaluation framework being effectively implemented and managed?
- Are evaluations being conducted in accordance with the department's evaluation framework to improve outcomes for Aboriginal and Torres Strait Islander peoples?

## **Conclusion**

8. Five years after the introduction of the IAS, the department is in the early stages of implementing an evaluation framework that has the potential to establish a sound foundation for ensuring that evaluation is high quality, ethical, inclusive and focused on improving the outcomes for Aboriginal and Torres Strait Islander peoples.

9. Following substantial delays in establishing an evaluation framework, the department is now designing a framework that has the potential to support the achievement of the Government's policy objectives by strengthening evaluations under the IAS. The design of the framework has been informed by recognised principles of program evaluation, relevant literature, previous evaluation activity and stakeholder feedback. The framework could more clearly link evaluation to the Government's objectives for the IAS and other relevant strategic frameworks such as Closing the Gap.

10. The department's implementation and management of the IAS evaluation framework is partially effective. Management oversight arrangements are developing, and evaluation advice provided to program area staff has been relevant and high quality. The department has not developed a reliable methodology for measuring outcomes of the framework and its evaluation procedures are still being developed.

11. As the department is still developing procedures to support the application of the IAS evaluation framework, it is too early to assess whether evaluations are being conducted in accordance with the framework. The department's approach to prioritising evaluations should be formalised by developing structured criteria for assessing significance, contribution and risk. The department has taken recent steps to: mandate early evaluation planning; publish completed evaluations; and ensure findings are acted upon.

## **Supporting findings**

### **Design of the Framework**

12. From its initial policy commitment to develop an evaluation framework for the IAS by June 2014, the department set several deadlines for finalising the framework that were not met. In 2017 the department established a dedicated evaluation program under the IAS and committed to establishing a new evaluation framework. By July 2018 most elements of the IAS evaluation framework were in place.

13. The development of the framework was informed by relevant literature, including other entities' evaluation strategies and recognised program evaluation principles, and the limited evaluation activity previously undertaken in Aboriginal and Torres Strait Islander programs. The

department undertook consultation on the framework and incorporated stakeholder feedback into its design.

14. The extent to which the IAS evaluation framework aligns with relevant strategic frameworks is mixed. The framework document includes references to the enhanced Commonwealth performance framework and a future whole-of-government evaluation strategy for policies and programs that affect Aboriginal and Torres Strait Islander peoples. However, it provides limited detail of how evaluations under the framework will assess contribution to Closing the Gap or whether the Government's policy objectives for the IAS are being achieved.

### **Implementation and Management of the Framework**

15. The department has established an implementation process for the IAS evaluation framework, which could be improved through more regular reviews of its project activity schedule. Implementation has included a range of activities designed to improve evaluation quality and build evaluation capability.

16. While its performance criterion is relevant, the department has not developed a reliable methodology for measuring the longer-term outcomes of the framework. The department's performance targets for the IAS evaluation framework focus on the delivery of short-term outputs.

17. The department is developing procedures and tools for evaluation activities but they are not yet fully accessible or comprehensive. It has facilitated discrete evaluation training activities and evaluation advice provided to program area staff has been relevant and high quality.

18. The department's management oversight arrangements for the IAS evaluation framework are maturing. A mechanism for monitoring evaluation findings and management responses is being developed.

19. There are early indications that the implementation of the IAS evaluation framework may be developing a culture of evaluative thinking within IAG. Developing a plan for how framework implementation activities will lead to the desired changes in maturity would assist the department in achieving its future maturity levels.

### **Application of the Framework**

20. From October 2018 the department mandated integrating evaluation strategies into the design of all new or refreshed policies and programs and developing evaluation strategies for existing programs prior to conducting evaluations.

21. The department has some processes in place to support the design of respectful, independent and ethical evaluations of Aboriginal and Torres Strait Islander programs. The development of additional guidance and business processes would help to clarify requirements and embed these principles.

22. Although the department has committed to increasing its focus on impact evaluation, it is too early to assess whether evaluations under the new IAS evaluation framework will be impact-focused and evidence-based.

23. The department is working to increase compliance with the IAS evaluation framework requirements to publicly release evaluation reports or summaries and develop management responses. Evaluation findings have been used to support decision-making and improvements in service delivery in four IAS programs.

## Recommendations

**Recommendation no.1**  
**Paragraph 3.12** The Department of the Prime Minister and Cabinet ensure its performance information for Program 2.6 is supported by a reliable methodology for measuring the longer-term outcomes of better evidence from the evaluation framework.

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

**Recommendation no.2**  
**Paragraph 3.21** The Department of the Prime Minister and Cabinet develop a comprehensive and easy to navigate set of procedures to support the implementation of the IAS evaluation framework.

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

**Recommendation no.3**  
**Paragraph 4.10** The Department of the Prime Minister and Cabinet formalise its evaluation prioritisation process by developing structured criteria for assessing significance, contribution and risk and conducting a strategic analysis of gaps in evaluation coverage.

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

## Summary of entity response

24. The proposed report was provided to the Department of the Prime Minister and Cabinet. The department did not provide a summary response.

**Management of the Terrorism Reinsurance Scheme**  
**[No.48 2018–19]**  
**Australian Reinsurance Pool Corporation**

## Background

1. The Terrorism Reinsurance Scheme (the scheme) was established in 2003 initially as an interim measure to operate while terrorism insurance cover was unavailable in the private market following the terrorist events of 11 September 2001. The scheme was established under the *Terrorism Insurance Act 2003* (TI Act) and is managed by the Australian Reinsurance Pool Corporation (ARPC), a public financial corporation within the Treasury portfolio.
2. The scheme has a total funding capacity of \$13.4 billion (2017–18) and provides cover for eligible terrorism losses involving commercial property, associated business interruption losses and public liability. Through the scheme, insurance companies can reinsure the risk of terrorism losses by paying premiums to ARPC. Insurers are required to initially meet any claims in accordance with the terms and conditions of individual policies, with claims against the scheme met once an individual insurance company's threshold has been reached.
3. The scheme is activated when the responsible Minister, after consulting the Attorney-General, announces that an event is a 'declared terrorist incident' under the TI Act. Since 2003, there has been one declared terrorist incident — the Lindt Café siege in December 2014. This resulted in claims being made by policy holders against their insurance companies, but no claims were paid out from the scheme as insurers were able to cover the costs from their individual insurance company thresholds.

## Rationale for undertaking the audit

4. The Terrorism Reinsurance Scheme has been in place for 15 years and as at 30 June 2018 had a large claims funding capacity of \$13.4 billion (including a \$10 billion Commonwealth guarantee), funded through \$169.6 million in annual premiums paid by the commercial insurance sector. The scheme is designed to ensure that Australia has the necessary cover to mitigate the risk of significant loss and negative impact on the economy in the event of a terrorist attack impacting commercial property.

## Audit objective and criteria

5. The objective of the audit was to assess the effectiveness of ARPC's management of the Terrorism Reinsurance Scheme by addressing two criteria:
  - Are there processes in place that support the effective administration of the scheme?
  - Do governance arrangements enable the effective oversight and management of the scheme?
6. The audit scope included:
  - policy approval and policy management processes, claims management processes and supporting policy and process documents;
  - governance arrangements, including of the Board and supporting committees, and risk management;
  - stakeholder engagement activities; and
  - monitoring and review of scheme performance, including the Department of the Treasury's (Treasury) assessment of economy in providing the scheme.

## Conclusion

7. ARPC is effective in managing the Terrorism Reinsurance Scheme.
8. ARPC has effective processes for reviewing and collecting premiums, as well as assessing whether the scheme's participation requirements are being met. Suitable processes for assessing and paying claims have also been established, although these have not been implemented in practice as no claims have been paid against the scheme to date.
9. ARPC's governance arrangements enable effective oversight and management of the scheme. Since the commencement of the scheme, mandated triennial reviews have confirmed the need for the scheme to continue. ARPC provides effective annual reporting of its performance. The ARPC Board is effective in overseeing the scheme, ARPC has a suitable organisational structure in place to support the operation of the scheme, and has appropriate arrangements for engaging and communicating with stakeholders.

## Supporting findings

10. Premiums are set by the Minister and determined by postcode according to population density, and ARPC reviews the postcodes periodically. ARPC can price the risk by estimating the losses of a terrorist attack impacting Australian commercial property through specialist modelling that it has developed by partnering with experts in the field. Understanding the potential financial impact of a terrorist attack informs ARPC's purchase of its own reinsurance (retrocession) to share the risk across the private insurance industry and reduce the Australian Government's exposure. Treasury is responsible for setting the payments to government required from ARPC however the level of payments is a significant proportion of ARPC's annual premium revenue.
11. ARPC has a process to accept policy applications, effective processes to reconcile premiums due and paid, and a suitable debt management process. ARPC also has an effective process in place to review whether insurers are compliant with the requirements of the scheme and are paying the correct premiums.
12. ARPC has a suitable process for assessing claims made by insurers in the event of a declared terrorist incident. The process is logical and linear and is tested at regular intervals. Arrangements for paying approved claims have appropriate control points to manage risk and are consistent with ARPC's payment practices. As ARPC has yet to pay claims under the scheme, the effectiveness of the claims process in practice remains to be seen.
13. There are regular reviews and reports on the scheme. There is a legislative requirement for the scheme to be formally reviewed every three years by the Department of the Treasury, and all required recommendations were implemented by ARPC. Since the commencement of the scheme, these triennial reviews have confirmed the need for the scheme to continue. ARPC reports annually on its performance measures however those measures could be enhanced to fully meet the Department of Finance's appropriateness criteria for performance information, particularly for ARPC's strategic projects measure.
14. The ARPC Board is effective in overseeing the scheme, but could improve in two areas. The *Terrorism Insurance Act 2003* requires the Board to inform the Minister of any conflicts of interest a member may have to due to outside employment, and this was not done when a potential conflict arose (noting that management of the conflict was handled correctly by the Board). The Board Charter requires the Board to assess its performance annually however reviews were undertaken most recently in 2012, 2013 and 2016 and a review is underway for 2019.
15. ARPC has a suitable organisational structure in place to support the operation of the scheme. Core functions to manage the scheme are undertaken by ARPC staff, and specialist advice on matters such as legal issues or the purchase of retrocession reinsurance is procured when required.

16. ARPC has effective communications activities and products that promote the scheme and inform industry of emerging trends, and ARPC regularly engages with stakeholders through various forums.

## Recommendations

**Recommendation No. 1** Treasury reviews the options available to rebuild ARPC's capital following an event leading to significant claims on the scheme, in order to minimise the need for premium increases.

**Paragraph Reference** Error! source not found.

**Treasury:** *Agreed*

## Summary of entity responses

17. The proposed report was provided to ARPC and Treasury and a summary of the responses is set out below.

### ARPC

18. The scheme stakeholders will be pleased that ANAO concluded ARPC is effective in managing the Terrorism Reinsurance Scheme. This finding reflects ARPC's vision to be an effective provider of terrorism risk insurance that facilitates private participation, supports national resilience and reduces losses arising from catastrophic events caused by terrorism. It also reflects the commitment of ARPC to constantly strive to improve outcomes and meet the objectives of the scheme.

19. ARPC agrees with the suggested area for improvement which is to enhance the corporate plan by strengthening the performance measure on strategic projects and implementing a performance measure for stakeholder engagement and communications.

20. ARPC notes the recommendation to the Treasury that it review the options available to rebuild ARPC's capital following any terrorism event leading to significant claims on the scheme, with a view to minimising the need for premium increases. ARPC will support the Treasury in this review.

### Treasury

21. The Treasury welcomes the ANAO's report. It provides reassurance to the Government on ARPC's performance, governance and preparedness to handle claims.

**Management of Commonwealth National Parks  
No.49 2018–19  
The Director of National Parks  
The Department of the Environment and Energy**

## Background

1. The Director of National Parks (the Director) is appointed under the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) to conserve and manage biodiversity and cultural heritage within Commonwealth parks and reserves. Parks Australia, a division of the Department of the Environment and Energy, assists the Director to fulfil these functions.
2. There are six terrestrial Commonwealth national parks under the EPBC Act:
  - Booderee, Kakadu and Uluru-Kata Tjuta national parks, which are jointly managed by the Director and traditional owners; and
  - island national parks in the territories of Norfolk, Christmas and Cocos (Keeling) Islands.
3. Core management activities undertaken across these parks include invasive species control, threatened species monitoring, asset maintenance, visitor and park use management, and community and stakeholder engagement. As required by the EPBC Act, activities are to be undertaken in accordance with 10-year statutory park management plans. The Director also maintains operational plans for each park.

## Rationale for undertaking the audit

4. Terrestrial Commonwealth national parks cover over 2.1 million hectares and have been established to conserve natural and cultural heritage that is of national and international significance. The government holds over \$200 million in assets and invests approximately \$50 million per year to manage these parks in line with international commitments for biodiversity protection as well as commitments to traditional owners. This funding is designed to contribute not only to environmental conservation, but also the tourism industry and the economic development of Aboriginal communities associated with the parks.

## Audit objective and criteria

5. The objective of the audit was to assess the effectiveness of the Director's management of the six terrestrial Commonwealth national parks. To form a conclusion against the audit objective, the ANAO adopted the following high level criteria:
  - Are appropriate governance arrangements in place to support strategic risk management and business and operational planning?
  - Are national park business management and operational plans effectively implemented?
  - Does the Director effectively measure, monitor and report on park operational activities?



## Conclusion

6. The Director of National Parks has not established effective arrangements to plan, deliver and measure the impact of its operational activities within the six terrestrial national parks. As a result, it is unable to adequately inform itself, joint managers and other stakeholders of the extent to which it is meeting its management objectives.

7. Governance arrangements to support the Director's management of national parks do not adequately support the delivery of corporate services, risk management, planning and engagement with traditional owners to the benefit of park management objectives.

8. The Director has not established robust arrangements to ensure that corporate, park management and operational plans are being implemented.

9. Park activities are not effectively measured, monitored and reported on. The Director's performance measures are not complete, and lack rigour, clear targets, baselines and descriptions of measurement methods.

## Supporting findings

### Governance arrangements

10. The Director and the Secretary of the Department of the Environment and Energy have not established appropriate administrative arrangements to support park management. The arrangements between the two accountable authorities were set out in a 2001 memorandum of understanding and a 2013 service delivery agreement. Neither document fully reflects current practice, giving rise to duplication in corporate support and reduced effectiveness and efficiency in park management. The current review of administrative arrangements should be expedited to address these issues.

11. The Director does not effectively manage risks to the objectives of the parks. The Director's risk management framework lacks engagement with boards of management on risk oversight. The implementation of the framework has been undermined by a lack of suitable system support to record risks and monitor the implementation of treatment measures. There is also scope for the Director to strengthen its management of climate, probity and compliance risks.

12. The planning framework established by the Director does not support the development of well aligned plans. Annual operational plans do not clearly indicate how they contribute over time to the objectives of the park management plans. Operational plans are not informed by input from boards of management in jointly managed parks.

13. While meeting statutory engagement requirements, feedback to the ANAO on the effectiveness of the Director's engagement with stakeholders has been mixed. In particular, there is criticism that the Director has not effectively engaged the boards of management to establish constructive relationships with traditional owners at the jointly managed national parks.

### Implementation of plans

14. The arrangements to monitor the implementation of actions as set in corporate, park management and operational plans are not robust. There is scope for the Director to improve the induction and professional development it provides to boards of management to support their oversight role.

15. The Director's operational activities are not underpinned by relevant and complete procedural guidance. The lack of appropriate guidance in key areas of corporate support and operational delivery, including asset management and compliance activities, limits the extent to which these activities are delivered appropriately and consistently across the national parks.

16. Arrangements to manage staff capability require strengthening. Annual and strategic workforce plans are not monitored. Aboriginal and Torres Strait Islander employment pathways are yet to be established. Arrangements to ensure that staff have completed required training and performance agreements need to be developed.

## Performance measurement, monitoring and reporting

17. The Director has not established an effective performance measurement framework. Performance measures do not fully identify beneficiaries or the impacts of activities. Targets, baselines and descriptions of measurement methods and data sources are not clearly stated. As a consequence, the Director and stakeholders have limited visibility on whether individual parks and park management overall are meeting established objectives.

18. Key decisions of the Director's Executive Board and boards of management are generally supported by evidence. There is scope for the Director to improve its communication with boards of management.

19. The Director monitors and evaluates its performance but has not incorporated lessons learnt into its ongoing operations.

20. Reporting arrangements are not appropriate and transparent. Public reporting is limited to high level performance measures across all national parks and does not provide transparency on the impact of management activities in each park.

## Recommendations

**Recommendation no.1** The Director of National Parks:

### Paragraph 2.28

- (b) review its risk management framework to ensure that it is appropriately engaging with boards of management in its management of risk; and
- (c) implement suitable system support to identify and document its strategic and operational risks, and to monitor the implementation of treatment measures across strategic and operational risks.

**Director of National Parks response:** *Agreed.*

**Recommendation no.2** The Director of National Parks review its planning framework to ensure that it is: meeting the requirements of the EPBC Act; efficiently meeting the objectives and goals of the Director; and effectively discharging the responsibilities of all parties involved in the management of the national parks. This should, where relevant, be:

### Paragraph 2.47

- (d) supported by implementation schedules and aligned with other relevant plans;
- (e) informed by input from relevant stakeholders; and
- (f) endorsed by an appropriate oversight body.

**Director of National Parks response:** *Agreed.*

- Recommendation no.3** The Director of National Parks strengthen its arrangements to monitor the implementation of the corporate, park management and operational plans.  
**Paragraph 3.15** **Director of National Parks response:** *Agreed.*
- Recommendation no.4** The Director of National Parks establish a systematic approach to:  
**Paragraph 3.30** (g) maintaining its procedural guidance, including arrangements to ensure that guidance is relevant and complete; and  
(h) assure itself that its procedural guidance is implemented consistently across all locations.  
**Director of National Parks response:** *Agreed.*
- Recommendation no.5** The Director of National Parks improves its governance of projects, including the maintenance of robust project monitoring arrangements. **Director of National Parks response:** *Agreed.*  
**Paragraph 3.38**
- Recommendation no.6** The Director of National Parks improve the relevance, reliability and completeness of performance measures presented in its corporate plan by:  
**Paragraph 4.26** (i) ensuring performance measures identify beneficiaries and signal the impacts of activities;  
(j) specifying targets and baselines, data sources and rigorous methodologies against each performance criterion; and  
(k) monitoring and reporting on its performance for all significant aspects of its purposes, including conservation of cultural heritage values.  
**Director of National Parks response:** *Agreed.*
- Recommendation no.7** For improved transparency of the Director’s impact in managing the national parks, the Director of National Parks should publish the technical audits of management plans.  
**Paragraph 4.55** **Director of National Parks response:** *Agreed.*

## Summary of entity responses

21. The proposed audit report was provided to the audited entities. Summary responses from the Director of National Parks and the Department of the Environment and Energy are provided below.

### The Director of National Parks

The Director of National Parks (the Director) agrees with all recommendations in the report.

The Director is the Commonwealth corporate entity responsible for six terrestrial national parks and 59 marine protected areas. The six terrestrial national parks that were the subject of this audit include some of Australia’s most recognisable and iconic national parks. Each displays its own unique set of historical, cultural, and ecological characteristics, along with wide-ranging social, economic and jurisdictional influences. Vast distances separate the parks from each other, with three parks operating in Australia’s external territories, and three occurring within territory jurisdictions. Against this backdrop, the Director would like to particularly acknowledge the efforts of the Australian National Audit Office (ANAO) in visiting several of these parks and meeting with a number of Traditional Owners and other local stakeholders as part of their review.

The Director is committed to continuous improvement in the delivery against legislative and related objectives for Commonwealth national park management. This includes the areas for improvement identified in this audit. This commitment is demonstrated by progress on a range of corporate

governance and business improvement projects with many to be completed in the next six to twelve months.

Working in partnership with Traditional Owners, improving the governance and performance of the joint boards of management for Kakadu, Booderee and Uluru-Kata Tjuta national parks will be a particular and ongoing focus.

## **The Department of the Environment and Energy**

Pursuant to section 19 of the *Auditor-General Act 1997*, this letter is the Department's response. We note the suggestion that the review of administrative arrangements between the Department and the Director of National Parks be completed as soon as possible. The Operations and Corporate Change project, which was initiated in 2018, is both analysing and implementing changes. The project has already resulted in Parks Australia's corporate functions reporting through to the relevant Department SES officers, with the Department delivering those services to the Director under a new model. These arrangements will support the Director to focus on the operation of the national parks and to continue to meet his obligations as an Accountable Authority under the *Public Governance, Performance and Accountability Act 2013*. The project will be completed by 30 August 2019.

In relation to the oversight from the Portfolio Audit Committee, I understand an assessment of its performance is scheduled for the 2019-20 Financial Year. The matters raised in this audit report would be taken into account in that assessment. We will consult with your officers as part of that review.

I note the Director of National Parks, as the relevant appointment under the *Environment Protection and Biodiversity Conservation Act 1999*, will be responding separately to the findings and recommendations in the report as directed to that position.

## National Disability Insurance Scheme Fraud Control Program

No. 50 2018–19

### National Disability Insurance Scheme

## Background

1. The National Disability Insurance Scheme (NDIS / the Scheme) is being rolled out nationally over three years from 2016 to 2019. Once fully implemented, the NDIS will provide about 460,000 Australians aged under 65, who have permanent and significant disability, with funding for supports and services.<sup>1</sup> The National Disability Insurance Agency (NDIA) is an independent statutory agency responsible for implementing the NDIS.<sup>2</sup>
2. The NDIA has a Fraud Strategy Statement<sup>3</sup> which states that:

The NDIA has strengthened its fraud control arrangements to protect the Scheme and the Agency from exploitation through fraud. The NDIA and Commonwealth Government will not tolerate fraud or the misuse of funds intended to support people with disability.
3. The *Commonwealth Fraud Control Framework*<sup>4</sup> is designed to manage the risks of fraud against Commonwealth entities. Under Section 10 of the *Public Governance and Accountability Rule 2014*, the NDIA (as a corporate entity) must comply with the *Fraud Rule*. However, the other elements of the *Fraud Control Framework*, the *Fraud Policy* and the *Fraud Guidance*, are not binding for NDIA.
4. The Commonwealth Government is aware of the need to enhance its response to fraud, noting that the 2019–20 Budget included ‘\$16.4 million over two years for a targeted approach to tackling fraud’.<sup>5</sup>

## Conclusion

5. The NDIA is largely compliant with the requirements of the Commonwealth *Fraud Rule* and is undertaking work which has the potential to make its fraud control program effective.
6. The NDIA Risk Appetite Statement states that fraud is unacceptable. The NDIA has developed strategies to prevent fraud, although after controls were implemented, two residual risk ratings remained high. The NDIA’s Fraud Control Plan is aligned with better practice and it has processes in place to assess fraud risks and raise fraud awareness. Further work is needed to reassess fraud risk, consolidate fraud controls, and prioritise and deliver future enhancements.

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<sup>1</sup> NDIA, [Internet], available at: <https://www.ndis.gov.au/understanding/what-ndis> [accessed 8 April 2019].

<sup>2</sup> NDIA, About us [Internet], available at: < <https://www.ndis.gov.au/about-us>>, [accessed 8 April 2019].

<sup>3</sup> NDIA: Fraud strategy, [Internet], available at: < <https://www.ndis.gov.au/about-us/fraud-strategy>> [accessed 8 April 2019].

<sup>4</sup> Commonwealth Fraud Control Framework 2017, page IV, [Internet], available at: <<https://www.ag.gov.au/Integrity/FraudControl/Documents/CommonwealthFraudControlFramework2017.PDF>> [accessed 26 April 2019].

<sup>5</sup> Attorney General 2019–20 Budget Media Release 2 April 2019, [Internet], available at: < <https://www.attorneygeneral.gov.au/Media/Pages/Budget-increase-provides-funding-certainty-for-legal-assistance-services-2-4-2019.aspx>> [accessed 8 April 2019].

7. The NDIA has largely appropriate fraud detection and response mechanisms, except data analytics and data matching capabilities are being progressively implemented and it is developing a case management system that more effectively supports investigations.

8. The NDIA has implemented largely effective oversight, monitoring and reporting of its fraud control arrangements, with improvements made over 2018 and planned for 2019. The NDIA engages effectively with other government entities on fraud control, although fraud related governance should be improved via enhanced project management and reporting.

## Supporting findings

### Preventing fraud

9. The NDIA's assessment of fraud risk was largely comprehensive, except that some risks were not adequately considered at the time of the risk assessment, including: self-managed participants; third party provision of the NDIA's ICT services; and the upcoming transition of provider registration to the NDIS Quality and Safeguards Commission.

10. In 2018, the NDIA established an appropriate Fraud Control Plan that contains all of the elements listed in the Commonwealth's better practice guidance.

11. The NDIA's policy is that fraud is 'unacceptable' and high risk ratings are 'typically undesirable'. The NDIA has identified fraud controls, except many of the 'controls' are not active controls. The control effectiveness rating for many fraud risk types is 'poor' and the Risk Register rates two risk types as having a high residual risk. The Risk Register should be updated so it is comprehensive and records control weaknesses and prioritised future actions.

12. The NDIA has developed appropriate training and activities to raise awareness of fraud amongst all agency and partner staff, except the completion rates of the training should be improved. It is mandatory for NDIA staff to complete the fraud training annually. Forty seven per cent of NDIA staff are up-to-date with the training, 35 per cent need to recomplete the training and 18 per cent have not completed the training. Fraud control officials and investigation staff are sufficiently qualified and experienced for their roles and the NDIA has received assurance that seconded staff and contractors on the Fraud Taskforce have the required qualifications.

13. The NDIA has published appropriate resources to raise awareness of fraud amongst external stakeholders. The NDIA records attendance and collects feedback for face-to-face provider training but does not monitor providers' usage of online materials.

### Detecting and responding to fraud

14. The NDIA has implemented appropriate processes for NDIA staff, providers, participants and members of the public to report fraud. The NDIA has established procedures to manage the confidentiality of the reports, however adherence to these procedures should be improved. During the course of the audit the NDIA updated guidance documentation, trained staff and commenced the procurement of a new case management system that may enhance compliance with the procedures.

15. The NDIA has implemented appropriate measures to detect potential fraud, except the important detection methods, data analytics and data matching, are being progressively implemented. Other detection methods include budget variance analysis, participant plan sampling and review, internal audit, and referral pathways with the NDIS Quality and Safeguards Commission. The NDIA redesigned the fraud control data analytics profiles and applied three profiles in March 2019, with an additional nine profiles planned. The NDIA is working to improve its data capability through the recent development of standardised frameworks, draft methodologies, and enhanced data sharing arrangements with other entities.

16. Processes for investigating and taking action against suspected fraud are largely appropriate. In December 2018, NDIA developed policies and procedures for investigations which are compliant with the *Australian Government Investigations Standards (AGIS) 2011*. The NDIA is undertaking investigations in line with these policies and has established an appropriate triaging, escalation, and oversight model. The NDIA also established the NDIS Fraud Taskforce in July 2018, which is a key enhancement to the practical capacity to respond to fraud.

17. The NDIA's fraud response management is not fully compliant with investigations policies or the AGIS. The electronic case management system does not centrally record investigation activities or assist with the preparation of briefs of evidence. The NDIA has not established key performance indicators for investigations or undertaken assurance activities to confirm that investigations are being conducted in line with these policies and procedures. The NDIA is taking action to improve compliance in these areas.

### **Oversight, monitoring and reporting**

18. The NDIA works effectively with other entities to mitigate fraud. Of note are:

- the NDIA's membership of the Fraud and Anti-Corruption Centre;
- the July 2018 establishment of the NDIS Fraud Taskforce which draws in the expertise of the Australian Federal Police and Department of Human Services;
- the NDIA reviews Department of Education and Training data on providers who have defrauded family day care; and
- active engagement with the NDIS Quality and Safeguards Commission.

19. The NDIA is undertaking several projects to improve its fraud controls including delivery of a Fraud and Compliance Roadmap. The NDIA has completed risk assessments for its major fraud related projects. However, it has not provided evidence that risk assessments, which consider fraud risk, have been conducted for all NDIA projects. The NDIA should review its projects to identify how these will close the gaps between fraud risks and controls. This would assist in updating the Risk Register.

20. The NDIA has enhanced its governance and internal reporting of fraud control activities over 2018. The Board, Audit Committee, Risk Committee and the Executive Leadership Team have considered different aspects of the NDIA's fraud control program including fraud risks, ICT fraud security, the Fraud Control Plan and fraud investigations. Fraud control governance and reporting would be more effective if the Board and the Executive Leadership Team were regularly updated on the status of fraud controls in response to fraud risks.

21. The NDIA responds to the annual Australian Institute of Criminology (AIC) questionnaire on fraud. Under the Fraud Control Framework, given the NDIA is a corporate entity, this reporting is better practice rather than being mandatory. There is scope for NDIA to enhance future reports given improvements in its fraud control activities.

## Recommendations

**Recommendation no. 1** That, to gain a better understanding of the overall fraud control strategies and to prioritise and track future control enhancements, the NDIA:

**Paragraph 2.31**

- (a) remove any non-controls from the Risk Register;
- (b) assess if key individual controls are implemented and effective; and
- (c) regularly update the Risk Register with planned controls, the delivery date and the project or activity under which the control will be developed and implemented.

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

**Recommendation no. 2** That the NDIA improve its active fraud detection methods by implementing the planned data analytics and data matching activity as a matter of priority, and on a continuing basis.

**Paragraph 3.26**

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

**Recommendation no. 3** The NDIA improve compliance with investigations policies by:

**Paragraph 3.49**

- a) ensuring the new case management system has the functionality identified in pre-procurement planning documents;
- b) establishing performance measures for its investigative functions that align with organisational goals for fraud investigation; and
- c) undertaking quality assurance reviews of recent investigations to gain assurance that the NDIA Investigations Manual is being consistently applied.

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

**Recommendation no. 4** That the NDIA undertake a review of its project management of fraud control. This review should:

**Paragraph 4.18**

- a) map all projects and activities with fraud control dimensions, including their status, linkages, relative priority and resourcing;
- b) determine whether additional projects or activities are required to close any gaps between the fraud risks and the implemented and planned fraud controls within projects; and
- c) support updating the Fraud and Corruption Risk Register (Recommendation 1).

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



**Recommendation  
no. 5**

**Paragraph 4.43**

That, to ensure visibility of the fraud control environment, NDIA provide regular reports to the Executive Leadership Team and the Board containing a summary of the status of the Fraud and Corruption Risk Register including:

- a) the untreated risk rating and the residual overall impact after controls are applied for each of the 17 fraud risk types;
- b) the controls effectiveness rating for each of the 17 fraud risk types; and
- c) the actions required on controls, with implementation dates.

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

**Recommendation  
no. 6**

**Paragraph 4.57**

That, in making improvements to its fraud control processes and systems, the NDIA ensures that it is able to record and report more detailed fraud control data, including for the Australian Institute of Criminology Annual Reporting Census.

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

## Summary of entity response

22. The National Disability Insurance Agency (the Agency) welcomes the ANAO's audit report into the NDIS Fraud Control Program. The Agency is committed to preventing, detecting and responding to fraud against the National Disability Insurance Scheme (the Scheme) to ensure we continue to support the independence and social and economic participation of people with a disability.

23. The Agency has strengthened its fraud control arrangements to protect the Scheme and the Agency from exploitation through fraud. Recent media regarding the Agency addressing serious fraud is an example of our efforts to detect and respond to fraud against the NDIS appropriately.

24. In addition to the audit finding that the Agency is compliant with the requirements of the Commonwealth *Fraud Rule*, the Agency is pleased the audit acknowledges that our investigation policies and procedures are compliant with best practice standards outlined in the *Australian Government Investigation Standards* and our investigations are undertaken in accordance with these policies.

25. The Agency accepts the six recommendations and is pleased to advise steps have already been taken to address a number of the recommendations and findings in the report.

26. The Agency is well progressed in delivering a strategic multi-year program to strengthen our management of fraud and compliance risks. The Agency is pleased to advise that since the audit we have procured a new case management system, continued to invest and mature our data analytics capability so fraud can be detected and responded to quickly, and introduced a rolling program to update the fraud risk assessment and fraud risk mitigation measures.

27. As noted in the report, the NDIA Board has recently endorsed an updated Fraud and Corruption Risk Register. This register includes an updated fraud risk profile as well as a comprehensive view of controls to ensure the Agency is well positioned to protect the Scheme and the Agency from exploitation through fraud.

**Farm Management Deposits Scheme**  
**No.51 2018–19**  
**Department of Agriculture**  
**Australian Taxation Office**  
**Department of the Treasury**

## Summary and recommendations

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### Background

1. The Farm Management Deposits (FMD) Scheme is designed to assist primary producers deal more effectively with fluctuations in their cash flows. The policy intent of the Scheme, which was established in 1999, is to encourage increased financial self-reliance among primary producers by allowing them to set aside cash reserves earned during high-income years, for use in low-income years.
2. Under the Scheme, primary producers are able to defer—and potentially reduce—their income tax liability for eligible amounts deposited into specific FMD accounts at authorised deposit-taking institutions. Deposits that qualify as ‘deductible’ reduce a primary producer’s taxable primary production income in the year they are made, while amounts withdrawn from FMDs are to be included in assessable income in the year of withdrawal.
3. The balances held in FMD accounts have increased steadily over the past decade and more sharply in recent years. There is a distinct pattern of deposits at the end of each financial year followed by a drawing down of deposits at the beginning of the following financial year. In June 2016, some \$5 billion in FMDs were held, rising to over \$6.6 billion in June 2018. There are around 45,000 FMD holders participating in the Scheme.
4. On 1 July 2016, three policy changes were introduced to the FMD Scheme as part of the Government’s *Agricultural Competitiveness White Paper*:
  - the deposit limit for FMDs, for each FMD holder, was increased from \$400,000 to \$800,000;
  - primary producers experiencing severe drought conditions can now access FMDs within 12 months of deposit without losing their claimed tax concession; and
  - FMDs can now be used to offset a loan or other debt relating to the holder’s primary production business.
5. Three entities are responsible for the FMD Scheme: the Department of Agriculture (Agriculture); the Australian Taxation Office (ATO); and the Department of the Treasury (Treasury). Agriculture is the policy owner of the FMD Scheme; the ATO is responsible for administering the tax legislation; and Treasury is responsible for tax policy and for preparing tax expenditure estimates.<sup>1</sup>

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<sup>1</sup> The estimates are now reported in the Tax Benchmarks and Variations Statement (previously called the Tax Expenditures Statement).

## Rationale for undertaking the audit

6. The audit was undertaken to provide assurance on whether a key measure delivering tax relief for primary producers is being administered effectively. The audit was also undertaken in light of the steep increase in the estimate of revenue forgone for the FMD Scheme in 2017–18 and the broader scope of the Scheme following the 2016 policy changes.

## Audit objective and criteria

7. The objective of the audit was to assess whether the ATO and Agriculture have effectively administered the FMD Scheme.

8. In assessing this objective, the ANAO adopted the following two high-level criteria:

- advice on the policy changes to the FMD Scheme in 2016 was provided on a sound basis to help achieve the Scheme’s objectives; and
- effective risk identification and compliance arrangements are in place to support the integrity of the FMD Scheme.

## Conclusion

9. The administration of the FMD Scheme has not been fully effective.

10. Largely sound advice was provided to Government on the limited extent to which the proposed changes to the FMD Scheme were expected to help achieve the Scheme’s objectives. Agriculture proposes to assess the impact of the 2016 policy changes through a broader evaluation of the Scheme within the next two years. Current data indicates that take-up rates of the three policy measures have been low, especially for the loan offset measure.

11. Risk identification and compliance arrangements to support the integrity of the FMD Scheme have not been fully effective. The ATO’s compliance arrangements reflect its assessment that risks to revenue are relatively low, and its approach of managing risks at the sector level (for example, small business risks). However, the compliance arrangements and risk assessment processes have not fully captured key elements of the Scheme’s design. As the policy owner of the Scheme, Agriculture should work with the ATO to be satisfied that risk assessment and compliance processes are appropriate.

## Supporting findings

### Policy changes introduced in 2016

12. Largely sound advice and evidence was provided to Government on the assessed costs, benefits and implementation risks associated with the three 2016 policy changes to the FMD Scheme. None of the proposals were assessed to provide a strong case for change. The rationale for increasing the deposit limit to \$800,000 could have been better explained, and consultation undertaken earlier on the loan offset measure.

13. Appropriate available data was used by Treasury to prepare the Budget costings for the 2016 policy changes and the tax expenditure estimates for the FMD Scheme.

14. Mechanisms of variable reliability have been established to monitor the uptake of the 2016 policy changes and to collect qualitative data through farm surveys. Agriculture proposes to undertake an evaluation of the Scheme within the next two years. Current data indicates that take-up rates have been low, especially for the loan offset measure — suggesting modest impacts to date for the changes.

## **Risk identification and compliance arrangements**

15. Compliance and other risks to the operation of the FMD Scheme have not been sufficiently assessed and reviewed. A joint risk assessment between Agriculture and the ATO was last drafted (but not finalised) in 2012 and has not since been revised despite several changes to the Scheme and a significant increase in the estimated tax expenditure. The ATO's last FMD risk assessment was undertaken in 2010 and had a number of limitations. In recent years, FMD Scheme risks have been incorporated into the ATO's broader Small Business risk assessment processes. These broader processes need to be strengthened to better reflect the key compliance elements of the Scheme's design.

16. Agriculture and the ATO's arrangements to use the data provided by financial institutions have been partially effective. In line with Scheme design, financial institutions provide considerable information on FMD accounts. Agriculture uses the information for reporting purposes but the ATO could use the available data in a more complete and systematic way to support risk and compliance activities.

17. The ATO has undertaken minimal specific compliance activity on the FMD Scheme, reflecting its assessment that risks to revenue are low and other controls and broader compliance processes sufficiently address serious risks. As the ATO's risk assessment and identification processes do not sufficiently capture FMD risks, it is unclear whether this level of compliance activity is appropriate.

## Recommendations

**Recommendation no.1** In line with the policy intent of the Scheme, the Department of Agriculture’s planned evaluation of the Farm Management Deposits Scheme includes:

**Paragraph 2.49**

- (a) a focus, with specific questions, on the extent to which the Scheme assists primary producers to become more financially self-reliant; and
- (b) the findings from this analysis in the evaluation report, which draws out implications for the administration of the Scheme and for related policies and programs that provide financial support to primary producers.

**Department of Agriculture response:** *Agreed.*

**Recommendation no.2** Consistent with their respective roles and responsibilities:

**Paragraph 3.19**

- (a) the Department of Agriculture completes an overarching risk assessment for the Farm Management Deposits Scheme that includes issues raised in this audit, with the Australian Taxation Office providing input on tax risks; and
- (b) both entities work collaboratively and in a timely way on identified issues such as data integrity and data sharing.

**Department of Agriculture response:** *Agreed.*

**Australian Taxation Office response:** *Agreed.*

**Recommendation no.3** The Department of Agriculture and the Australian Taxation Office:

**Paragraph 3.34**

- (a) each review the quality of the Farm Management Deposits Scheme data provided to them by financial institutions to ensure the data is fit for purpose; and
- (b) consider options to improve the use of the data, to increase the net benefits of the data collection and/or reduce costs on financial institutions or within government.

**Department of Agriculture response:** *Agreed.*

**Australian Taxation Office response:** *Agreed.*

**Recommendation no.4** The Australian Taxation Office:

**Paragraph 3.47**

- (a) extends its use of data matching to support compliance with the Farm Management Deposits Scheme; and
- (b) maintains visibility over the nature and extent of compliance activities conducted on the Scheme to ensure these are commensurate with the assessed level of risk.

**Australian Taxation Office response:** *Agreed.*

## Summary of entity responses

18. The summary response provided by the ATO and Treasury is provided below.

### Australian Taxation Office

The ATO welcomes the review of the administration of the Farm Management Deposits Scheme and notes that it raises several areas that the ANAO believes would further enhance our approach to data quality and risk assessment processes.

The risks posed by this Scheme are low in comparison to, and when considered in the context of, the many other risks managed by the ATO. We are supportive of efforts to improve compliance with this legislation, but believe our current risk management and compliance processes for assuring compliance with this scheme are adequate and commensurate with the level of relative risk to the system.

We will continue working collaboratively with the Department of Agriculture to refine our approaches to administration of the Scheme including a focus on seeking to realise potential benefits from improved data quality.

### Department of the Treasury

The Treasury notes the overall conclusions and findings of the audit.

While the report does not contain any recommendations for the Treasury, we will consider the learnings identified within the report in the context of the Treasury's responsibilities in relation to the Farm Management Deposits Scheme.

## Key learnings for all Australian Government entities

19. Below is a summary of key learnings, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

### Governance

- Providing balanced advice to government on the costs, benefits and implementation risks of policy proposals, as was largely done for changes to the Farm Management Deposits Scheme, constitutes a sound basis to inform decision-making.
- Where multiple entities are involved in administering a program, the lead policy entity should ensure that program delivery arrangements, including compliance activities, are informed by an assessment of risks and benefits undertaken on a 'whole-of-government' basis.
- Where data is collected from external parties, and imposes a cost on those parties and within government, entities should ensure that the data is used to deliver the intended benefits, or review its ongoing collection.

**Cyber Resilience of Government Business Enterprises and Corporate Commonwealth Entities**  
**Report No.1 2019–20**  
**Australian Postal Corporation, ASC Pty Ltd and Reserve Bank of Australia**

## Background

1. The Australian Government’s ability to effectively and efficiently deliver its functions relies on government entities prioritising information security. If government information systems can be accessed by intruders, this could compromise the financial and identity security of individuals and the commercial interests of corporations. A secure cyberspace supports online activities for individuals, business and the public sector. Cyber resilience is an entity’s ability to continue providing services while deterring and responding to cyber intrusions. Cyber resilience also reduces the likelihood of cyber intrusions that threaten Australians’ privacy and Australia’s social, economic and national security interests.
2. The *Protective Security Policy Framework* is administered by the Attorney-General’s Department to assist Australian Government entities protect their people, information and assets, at home and overseas. Non-corporate Commonwealth entities are required to apply the *Protective Security Policy Framework*. While cyber security is a strategic priority for the Australian Government, it is not mandatory for government business enterprises and corporate Commonwealth entities to apply the *Protective Security Policy Framework*. Accordingly it is better practice for such entities to implement the Top Four and other Essential Eight mitigation strategies in the *Australian Government Information Security Manual* (Information Security Manual).<sup>1</sup>
3. Since 2013–14 when the Information Security Manual became mandatory policy for non-corporate Commonwealth entities, the Auditor-General has tabled four performance audits in the Parliament that assessed the cyber security resilience of 14 such entities.<sup>2</sup> The audits identified that only four entities (29 per cent) had complied with mandatory government requirements for information security, and that the regulatory framework had not driven sufficient improvement in cyber security.
4. Three corporate entities were included in this audit: Australian Postal Corporation (Australia Post) and ASC Pty Ltd (ASC), both government business enterprises; and the Reserve Bank of Australia (Reserve Bank), a corporate Commonwealth entity. These entities were selected based on the character and sensitivity of the information collected, stored and

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<sup>1</sup> The Top Four strategies are application whitelisting, patching applications, patching operating systems, and restricting administrative privileges. The non-mandatory Essential Eight strategies are configuring Microsoft Office macros, user application hardening, multi-factor authentication, and daily backup of systems and data.

<sup>2</sup> Auditor-General Report No.50 2013–14 *Cyber Attacks: Securing Agencies’ ICT System*; Auditor-General Report No.37 2015–16 *Cyber Resilience*; Auditor-General Report No.42 2016–17 *Cybersecurity Follow-up Audit*; and Auditor-General Report No.53 2017–18 *Cyber Resilience*.

reported — including that the entities manage critical infrastructure or systems of national interest.

### **Rationale for undertaking the audit**

5. Despite the importance of cyber security in safeguarding the Australian Government's digital information, there has been ongoing low levels of cyber resilience of non-corporate Commonwealth entities and weaknesses in the regulatory framework for ensuring compliance with mandatory cyber security strategies. This audit was undertaken to enable comparison with government business enterprises and corporate Commonwealth entities, and provide information to help strengthen the regulatory framework and improve cyber resilience of Commonwealth entities. In line with the requirements for performance audit of government business enterprises under the *Auditor-General Act 1997*, the Joint Committee of Public Accounts and Audit provided approval for the Australian National Audit Office (ANAO) to examine the cyber resilience of Australia Post and ASC.

### **Audit objective and criteria**

6. The audit objective was to assess the effectiveness of the management of cyber security risks by Australia Post, ASC and the Reserve Bank.

7. To form a conclusion against this objective, the ANAO adopted three high-level criteria:

- Have entities managed cyber security risks in line with their own risk arrangements?
- Have entities managed cyber security risks in line with key aspects of the Information Security Manual?
- Do entities have a culture of cyber security resilience?

### **Conclusion**

8. The Reserve Bank and ASC have effectively managed cyber security risks. Australia Post has not effectively managed cyber security risks, and should continue to implement its cyber security improvement program and key controls across all its critical assets to enable cyber risks to be within its tolerance level.

9. All three entities have a fit for purpose cyber security risk management framework. ASC and the Reserve Bank have met the requirements of their respective frameworks by implementing the specified information and communications technology (ICT) controls that support desktop computers, ICT servers and systems. Australia Post has not met the requirements of its framework, having not implemented all specified key controls.

10. The Reserve Bank and ASC have implemented controls in line with the requirements of the Information Security Manual, including the Top Four and other mitigation strategies in the Essential Eight. Australia Post has not fully implemented controls in line with either the Top Four or the four non-mandatory strategies in the Essential Eight.

11. The Reserve Bank and ASC are cyber resilient, with high levels of resilience compared to 15 other entities audited over the past five years. Australia Post is not cyber resilient but is internally resilient, which is similar to many of the previously audited entities. The Reserve Bank has a strong cyber resilience culture, ASC is developing this culture, and Australia Post is working towards embedding a cyber resilience culture within its organisation.



## Supporting findings

### Cyber security risk management frameworks

12. All three entities have a fit for purpose cyber security risk management framework. They each have enterprise-wide risk management arrangements that incorporate cyber security, and specific frameworks for managing cyber security risks appropriate to their operations. Each specific framework either includes the Information Security Manual or incorporates elements of it, with Australia Post and the Reserve Bank also adopting aspects of recognised national and international cyber security frameworks applicable to their industry and regulatory environment. The Reserve Bank has fully established all six assessed risk management and governance arrangements for cyber security. Australia Post and ASC have established three of the six arrangements and partially or largely established the other three arrangements.

13. The Reserve Bank and ASC have met the requirements for implementing ICT controls contained in their cyber security risk management framework. Australia Post has not met the requirements for ICT controls in its framework, having not implemented all specified key controls, and as a result has rated the overall cyber risk as significantly above its defined tolerance level.

### Alignment with the Information Security Manual risk mitigation strategies

14. The Reserve Bank and ASC have implemented controls in line with the requirements for the Top Four mandatory cyber security risk mitigation strategies of the Information Security Manual. Australia Post has implemented two of the Top Four mitigation strategies: patching ICT applications and minimising privileged user access.

15. ASC and the Reserve Bank have implemented controls in line with all four non-mandatory mitigation strategies in the Essential Eight. Australia Post has implemented controls for one of those mitigation strategies — daily backups of data. All three entities have implemented mitigation strategies beyond the requirements of the Essential Eight, such as the Reserve Bank using machine learning and analytics to detect cyber threats.

### Cyber security resilience

16. The three entities are at different stages in embedding a cyber resilience culture. The Reserve Bank has a strong cyber resilience culture, having established all 13 assessed behaviours and practices in the areas of cyber security governance and risk management, roles and responsibilities, technical support and monitoring compliance. ASC is developing a cyber resilience culture, having embedded seven of the assessed behaviours and practices and working to more fully establish the other six cyber security behaviours and practices within its business processes. While having embedded eight of the 13 assessed behaviours and practices, Australia Post has not systematically managed cyber risks, including not assessing the effectiveness of controls applied outside its specified cyber security risk management framework. Nevertheless, Australia Post is working towards embedding a cyber resilience culture.

17. The Reserve Bank and ASC are cyber resilient as they have met the requirements of their fit for purpose cyber security risk management frameworks. Australia Post is not cyber resilient as it has not met the requirements of its own framework. The Reserve Bank and ASC

are also cyber resilient under the requirements of the Information Security Manual, as they have implemented the Top Four cyber security risk mitigation strategies and have effective ICT general controls for logical access and change management. Accordingly, the two entities have a high level of protection from internal and external cyber security threats. Australia Post is not cyber resilient under the requirements of the Information Security Manual, but is internally resilient with effective ICT general controls in place for managing logical access and change processes.

18. The Reserve Bank and ASC respectively had the highest and equal third highest level of cyber resilience of 17 entities examined by the ANAO over the past five years. Australia Post was not cyber resilient, which was similar to many of the previously audited entities. The small number of government business enterprises and corporate Commonwealth entities assessed (three) means it is not possible to draw conclusions as to the relative level of cyber resilience of corporate compared to non-corporate Commonwealth entities.

## Recommendation

**Recommendation no. 1**  
**Paragraph 2.28** Australia Post conducts risk assessments for all its critical assets where it has not already done so and takes immediate action to address any identified extreme risks to those assets and supporting networks and databases.

**Australia Post:** *Agreed.*

## Summary of entity responses

19. Summary responses from Australia Post, ASC and the Reserve Bank are provided below.

### Australian Postal Corporation

As a government business enterprise operating in a number of competitive markets (including parcel services, government services, financial services, identity services and retail services), Australia Post conducts its complex business operations in a highly competitive commercial environment, maintaining both community and commercial obligations. We are committed to upholding the security and integrity of the assets and information we maintain.

Australia Post agrees with Recommendation no. 1. Australia Post has clear oversight of its critical asset infrastructures and has prioritised actions under a program of work already underway to address this recommendation. This will involve conducting risk assessments for critical assets not yet assessed, updating assessments for those already assessed, and taking immediate action to address any concerns that are identified. Monitoring of the implementation of this program of work will be managed through our information security risk management and compliance programs, and will be reported to senior management and our Board, through its Audit & Risk Committee.

Australia Post notes that it has been assessed as 'Internally Resilient' under the grading scheme developed by the Australian National Audit Office and applied in the Report. In our view that determination reflects the significant volume of resources and effort Australia Post has already committed to developing its cyber resilience, but that there is still work to be done to move towards, and maintain, a high level of external resilience.

Australia Post maintains a high level of cyber resilience across its critical platforms and systems supporting government, identity and financial services – a number of which have received external accreditation against the *Australian Government Information Security Manual* (Manual).

Australia Post is not required to apply or comply with the Manual or its Top Four mitigation strategies, but has voluntarily chosen to incorporate aspects of the Manual into its cyber security framework – together with other industry-leading frameworks such as the National Institute of Standards and Technology Cybersecurity Framework – as a matter of best practice.

Australia Post is committed to ensuring the security and integrity of its information systems, and to deterring and responding to cyber intrusions. Our continued vigilant focus on the further implementation of our cyber security risk management framework, and on protecting the integrity and security of our systems, will assist in the preservation of a strong framework of cyber resilience for the benefit of our employees, customers and the Australian community.

### **ASC Pty Ltd**

ASC agrees with the findings in the report with regard to ASC and is pleased with the ANAO determination that ASC is cyber resilient. ASC will use the detail contained in the report to further strengthen those areas where opportunities to improve have been highlighted by the ANAO audit team.

ASC would like to express our appreciation of the manner in which the ANAO audit team conducted the audit with the audit activities providing ASC with a thorough and independent review and assessment of our cyber security implementation and posture. ASC believes that both parties exited from the audit with new learnings that will assist us both in future activities around cyber security.

### **Reserve Bank of Australia**

The Reserve Bank of Australia (RBA) agrees with the findings in the report and that the report is an accurate assessment of our cyber resilience.

The RBA will continue to align with the security controls outlined in the *Australian Government Information Security Manual* and relevant industry security standards as part of our efforts to maintain a strong financial system for all Australians. The RBA is committed to ensuring that we are a cyber-resilient organisation and we will continue to adapt our security strategy to the changing cyber landscape.

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Defence's Administration of Travel Allowances paid to APS Employees  
No.2 2019–20  
Defence

## Summary and recommendations

### Background

1. Where Australian Public Service (APS) employees<sup>1</sup> are required to travel on Department of Defence (Defence) business, Defence's policy is that it will provide its employees with the facility to meet reasonable travel costs on the basis that they neither gain nor lose financially.
2. Travel allowance payments are made through the Defence Travel Card (DTC)<sup>2</sup>, Defence's payroll system and Defence's financial management information system, depending on the type of allowance and whether the traveller has a DTC. The estimated amount of travel allowances paid to APS employees through the three payment systems for the period 1 July 2016 to 30 June 2018 is shown in Table 1.

**Table 1: Estimate of travel allowances paid to Australian Public Service employees in Defence (July 2016 to June 2018)**

Allowance type	Payment method	2016–17 \$ (estimate) <sup>d</sup>	2017–18 \$ (estimate) <sup>d</sup>
Meals and incidentals <sup>a</sup>	DTCs (primarily cash withdrawals)	16,900,244	17,110,518
Meals and incidentals	Defence financial management information system <sup>b</sup>	147,754	145,844
Motor vehicle	Defence payroll system	357,983	366,212
Part day travel	Defence payroll system	181,428	179,485
Total <sup>c</sup>		17,587,409	17,802,059

Note a: Defence defines incidentals as minor expenses incurred casually and in addition to the amounts provided for meals.

Note b: Used when the employee does not hold a DTC, or when the card is not accepted.

Note c: This total is net of refunded, repaid, and disputed transactions during the period, which appear as negative amounts in each of the three systems listed.

Note d: The reasons amounts reported are estimates rather than actuals, and the criteria and method used to compile information for this set of transactions are outlined in Appendix 3.

Source: ANAO analysis of Defence data.

<sup>1</sup> For the purposes of this audit, Defence's Australian Public Service employees comprise the Secretary of Defence, and Defence employees at the Senior Executive Service (SES) level, Executive Level (EL), and Australian Public Service (APS) employment categories. This audit did not include travel allowances paid to Australian Defence Force personnel.

<sup>2</sup> A credit card issued to individual employees to pay for Defence related travel expenses.

## Rationale for undertaking the audit

3. The administration of employee allowances is a routine corporate function undertaken by government sector entities. Effective arrangements for the administration of allowances support entities to demonstrate the proper use of public money.

4. This audit focused on travel allowances, rather than all allowances paid to Defence's APS employees as originally outlined in the ANAO's 2017–18 Annual Audit Work Plan, because:

- the results of an audit focusing on common allowances paid to public sector employees were expected to be useful to all government sector entities;
- Defence has identified the fraudulent use of a Defence credit card (including the DTC) as a Defence-wide risk; and
- testing conducted by the ANAO in the course of auditing Defence's financial statements in recent years identified non-compliance with regard to travel allowance payment approvals.

5. Auditor-General Report No.33 2015–16, *Defence's Management of Credit and other Transaction Cards* (which included the DTC) found that Defence did not have a complete and effective set of controls to manage the use of credit and other transaction cards. In May 2017, the Parliament's Foreign Affairs, Defence and Trade References Committee expressed interest in the Auditor-General following up on the recommendations made in that audit report.<sup>3</sup> This audit includes an examination of Defence's implementation of the two recommendations made in the previous audit report that are applicable to the DTC.

## Audit objective, criteria and scope

6. The objective of this audit was to assess the effectiveness of Defence's administration of travel allowances paid to its APS employees. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- Defence has appropriate arrangements that support accurate payments of travel allowances to eligible APS staff; and
- Defence has effective arrangements in place to provide assurance over the payment of travel allowances to APS staff.

7. This performance audit focuses on Defence's systems and processes to support travel allowance payments made to Defence's APS employees during the period 1 July 2016 to 30 June 2018. The audit examined three types of travel allowance payments: meals and incidentals, motor vehicle, and part day travel. The rates for each type of allowance are outlined in Appendix 2.

## Conclusion

8. Defence's administration of travel allowances paid to its Australian Public Service (APS) employees is not fully effective.

9. Defence's administrative arrangements to support the payment of travel allowances to APS employees exhibit shortcomings, which reduce their appropriateness. These include: inconsistency in guidance; a failure to consistently reflect policy requirements in guidance and supporting tools (such as travel calculators); and the division of policy and administrative responsibility across three Defence

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<sup>3</sup> Senate Foreign Affairs, Defence and Trade References Committee, *Department of Defence's management of credit and other transaction cards*, May 2017, available from [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Foreign\\_Affairs\\_Defence\\_and\\_Trade/Credittransactionscards](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Foreign_Affairs_Defence_and_Trade/Credittransactionscards) [accessed 29 October 2018].

Groups. The 2015 *Review of Red Tape in Defence* made similar findings and recommended that Defence produce a 'single, brief policy guidance document in plain English' on official travel and the use of the Defence Travel Card. Defence reported internally that it had addressed this recommendation, when it had not. Another agreed recommendation to give overarching policy and administrative responsibility to one Defence Group, has not yet been implemented. Defence advised that, as a result of this audit, it had established a Travel Board in May 2019 to govern travel policy, controls, processes and compliance. It is too early to establish whether this arrangement will address the intent of the 2015 *Review of Red Tape in Defence* recommendations.

10. Defence's arrangements for providing assurance over the payment of travel allowances to APS employees are not fully effective. Defence has identified shortcomings in the design of detective controls for credit cards and ANAO testing of a sample of travel allowance transactions indicates that preventative controls are not fully effective. This performance audit identified a number of instances where Defence reports to senior committees overstated the progress of activities intended to improve assurance across the administration of travel and credit cards. These instances included: incorrect advice about residual risk; and advice that recommendations from reviews and audits had been addressed, when they had not.

11. A key feature of this audit has been that Defence's senior committees have been provided with advice that overstates the progress of activities intended to improve the administration of travel allowances and credit cards. Inaccurate performance reporting reduces accountability and senior leaders' ability to assess risks and consider the need for remediation strategies.

## Supporting findings

### Defence's management of travel allowances

12. Defence has established arrangements for the administration of travel allowances including accessible processes, procedures and tools for calculating travel budgets, documenting the travel approval process and enabling payment of travel allowances. Administrative responsibilities for the arrangements continue to be divided between three Defence Groups, notwithstanding an agreed recommendation from the 2015 *Review of Red Tape in Defence* to consolidate responsibility for travel in the Defence Finance Group. Defence informed the ANAO that, as a result of this audit, it had established a Travel Board in May 2019 to bring together the Defence groups responsible for overseeing travel expenditure.

13. The guidance and tools available to APS employees about travel allowances do not consistently reflect policy requirements. Defence's collection of policies, procedures and guidance on travel allowances is fragmented and spread across multiple documents, tools and intranet pages. In April 2019, Defence implemented a new travel intranet site, which improves clarity and accessibility of information, but gaps, duplication and inconsistencies remain. Defence has not implemented agreed recommendation 19 of the 2015 *Review of Red Tape in Defence* relating to the simplification of guidance, even though it reported to a senior committee in 2018 that it had done so.

### Defence's assurance and reporting arrangements for travel allowances

14. Risks associated with the payment of travel allowances have been assessed and Defence has identified controls to manage identified risks. The March 2018 Enterprise Wide Defence Credit Cards Fraud Risk Assessment (current as at June 2019) identified three areas of high risk and set out controls that were expected to reduce the residual risk to 'medium'. In March 2019, Defence Finance Group recommended that the Enterprise Business Committee note that 'no individual high risk areas within financial management decision making have been identified'. Defence advised that its recommendation took into consideration 'work that had been undertaken to mitigate some of the risks'. However, the committee was not advised that the controls set out in the March 2018 risk

assessment had not yet been fully implemented or that the effectiveness of additional compliance activities had not yet been assessed.

15. Defence has not yet established appropriate and effective controls to ensure that accurate travel allowances are paid to eligible employees. ANAO analysis indicated that Defence's preventative controls are not fully effective, with Defence unable to provide documented approvals for 21 per cent of the sample travel allowance transactions reviewed as part of this audit. Defence has progressively implemented detective controls since July 2017, in the form of credit card compliance activities, and expects that these activities will continue to evolve to address emerging and ongoing risks.

16. Defence has not fully implemented recommendations from the following review and audit relating to the administration of travel allowances:

- The 2015 *Review of Red Tape in Defence* made 20 recommendations related to Defence's administration of travel. Defence reported to its Enterprise Business Committee that ten of these recommendations had been completed as at 14 February 2018. The ANAO assessed that of the 10 recommendations reported as completed, five have not yet been implemented.
- Auditor-General Report No.33 2015–16, *Defence's Management of Credit and other Transaction Cards* made two recommendations to improve Defence's management of credit cards. Defence advised that these recommendations had been completed in January 2016 and March 2016 respectively. The ANAO has assessed that one recommendation has been partially implemented, and the other has been progressively implemented since July 2017.

17. The 2015 *Review of Red Tape in Defence* recommended the introduction of an automated travel management system to simplify and improve the effectiveness of Defence's administration of travel. In December 2016, Defence approved \$11.9 million to implement the Travel and Expense Management project, which was 'paused' in March 2019, and subsequently 'ceased', after expenditure of over \$10 million and delays in implementation. Reporting to the Enterprise Business Committee on the status of this project was largely positive until December 2018, shortly before the project was paused.

18. Assurance on compliance activities is provided internally through regular reporting to the Defence Enterprise Business Committee and Defence Audit and Risk Committee. External assurance on compliance with minimum standards for managing risks and incidents of fraud is provided through annual certification by the accountable authority, as required by the Public Governance, Performance and Accountability Rule 2014. This performance audit identified instances where Defence reports to senior committees overstated the progress of activities intended to improve the administration of travel and credit cards.

## Recommendations

**Recommendation no. 1** Defence:

**Paragraph 2.38**

- review its travel guidance material to eliminate duplication and inconsistency and promote compliance with relevant policies and processes; and
- implement a process that ensures Defence policy relevant to travel is accurately reflected in guidance material and tools.

Department of Defence Response: *Agreed*

## Summary of the Department of Defence's response

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

Defence welcomes the findings contained in the audit report on Defence's Administration of Travel Allowances paid to APS employees and agrees with the single recommendation.

Through its own internal review processes, Defence had already begun work on a number of initiatives to improve its administration and oversight of travel allowances and associated travel card processes. Defence has been actively improving the administration of travel allowances, making significant progress in the last six months. Some improvement initiatives were delayed pending the introduction of the travel requisition and expense management system project that was being relied upon to introduce a range of new controls. Following testing, this project has now ceased.

Defence commenced the implementation of a system that would support the administration of travel including the requisition, approval and acquittal of travel. Defence envisaged that this replacement system would also undertake the calculation and authorisation of travel allowances. Such issues were the subject of previous review recommendations. It became apparent through the implementation project that the varied and complex nature of some of the travel allowances paid to Australian Defence Force (ADF) and Australian Public Service (APS) officials would make the use of an off the shelf commercial software system difficult at this time. Defence will implement further controls and processes for travel administration whilst meeting the business requirements of the organisation. Principles underpinning this work will focus on making it easier for staff to comply, moving to electronic approvals by supervisors and improved management reporting.

As a result of this audit, Defence established a Travel Board in May 2019 to bring together the Defence groups responsible for overseeing travel expenditure. The Board will govern travel policy, controls processes and compliance. It will report to the organisation's Enterprise Business Committee and Defence Committee on progress made in improving travel administration, compliance and performance across the business.

## Key messages from this audit for all Australian Government entities

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

### **Governance and risk management**

- Informed decision-making by senior leaders and governance committees relies on accurate and timely advice and management reporting.
- Risk-based controls and testing can help provide assurance that departmental requirements have been complied with and payments are accurate.

### **Policy/program implementation**

- Clear alignment between policy, guidance and administrative systems facilitates compliance with policy and process requirements.





**Defence's Quarterly Performance Report on Acquisition and Sustainment  
No.3 2019–20  
Department of Defence**

## Background

1. The Department of Defence's Capability Acquisition and Sustainment Group is responsible for purchasing and maintaining military equipment and supplies in the quantities and to the service levels that are required by Defence and approved by government. Defence's forecast expenditure for 2018–19 is \$8.6 billion for acquisition projects and \$6.0 billion for sustainment products.
2. The Capability Acquisition and Sustainment Group prepares a Quarterly Performance Report focusing on key major acquisition projects and key sustainment products, with the purpose of providing:

senior stakeholders within Government and the Department of Defence with a clear and timely understanding of emerging risks and issues in the delivery of capability to our Australian Defence Force end-users. These risks and issues are highlighted so that stakeholders can respond in a coordinated manner to guide the conduct of remediation actions.<sup>1</sup>
3. Internal Defence guidance on the Quarterly Performance Report further states that:

In keeping with the primary goal of the QPR, the focus remains on highlighting Projects and Products of Interest. By identifying and remediating issues early on in the Capability Life Cycle the QPR aims to prevent the capability from becoming a Project of Concern (PoC).
4. The Capability Acquisition and Sustainment Group's Business Framework states that:

the Deputy Secretary of Capability Acquisition and Sustainment Group confirms business assurance through the Quarterly Performance Report provided to the Minister, Secretary of Defence and Chief of the Defence Force.
5. The report provides performance information for approximately 30 per cent of the total number of projects and products being managed by the Capability Acquisition and Sustainment Group — representing approximately 70 per cent of the Major Capital Equipment budget and 70 per cent of the sustainment program budget in Defence. The report is largely compiled manually using data sourced primarily from Defence's key information technology systems for reporting on acquisition projects and sustainment products, including the Sustainment Performance Management System. Additional data is sourced from the areas responsible for the management of projects and products in Defence, and Independent Assurance Reviews.<sup>2</sup>
6. The report is approved by the Deputy Secretary, Capability Acquisition and Sustainment and provided to the Secretary and Chief of the Defence Force (CDF) for endorsement. The Secretary and CDF provide the report to the Ministers for Defence and Defence Industry. The report is also provided to the Defence Investment Committee for noting and feedback. The Defence Investment Committee

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<sup>1</sup> Capability Acquisition and Sustainment Group, Quarterly Performance Report, 30 June 2018, p. 5.

<sup>2</sup> Independent Assurance Reviews (previously known in Defence as 'Gate Reviews') are a review of a Defence program, product or project by a specifically chartered board of Defence personnel with relevant skills and experience. Reviews are normally conducted annually for acquisition projects, or periodically (one to three years) for sustainment products. These reviews were examined in Auditor-General Report No.52 2011-12, *Gate Reviews for Defence Capital Acquisition Projects*.

includes representatives from the Department of the Prime Minister and Cabinet and the Department of Finance.

### **Rationale for undertaking the audit**

7. The Quarterly Performance Report is an area of interest to the Parliament. Quality performance reporting supports the accountable authority and those charged with governance in their oversight of an entity.<sup>3</sup> Regular reporting on performance to senior management also provides incentives for local line management to improve performance.

8. The Quarterly Performance Report is prepared to facilitate oversight by Defence senior leaders, help identify projects and products that require additional senior leadership attention and escalation, and support informed decision making. The report is also provided to Defence Ministers and key external stakeholders — the Department of the Prime Minister and Cabinet and Department of Finance in their capacity as members of the Defence Investment Committee — to support their understanding of Defence’s administration and their own decision-making.

### **Audit objective and criteria**

9. The objective of the audit was to examine the effectiveness of Defence’s Quarterly Performance Report as a mechanism to inform senior stakeholders on the status, risks and issues in the delivery of capability to the Australian Defence Force.

10. The high-level audit criteria were:

- The Quarterly Performance Report provides senior stakeholders with accurate and timely information about status and emerging risks and issues.
- The Quarterly Performance Report provides senior stakeholders with information they value, as an aid to monitoring status, risks and issues and to inform decision-making.

### **Conclusion**

11. The June 2018 Quarterly Performance Report reviewed by the Australian National Audit Office was largely effective in providing Defence senior stakeholders, within the agreed benchmark timeframe, with relevant and mostly accurate information on the status, risks and issues associated with Defence’s: key acquisition projects, Top 30 sustainment products, Projects of Interest or Concern, and Products of Interest or Concern.

12. Quarterly Performance Reports for December 2017 to December 2018 were provided to senior stakeholders within the two month timeframe agreed by the Minister. The timeliness of reporting improved in 2018 when compared to average delivery times achieved in 2017. The information reported was mostly accurate. Factors affecting the accuracy of the report were the quality of data in Defence information technology systems, and when the results of other sources of performance information — such as Independent Assurance Reviews — were not appropriately reflected. While Defence has made

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<sup>3</sup> The ANAO’s recent series of governance audits noted that one of the central themes in notable Australian inquiries into organisational behaviour — the 2003 Royal Commission into the failure of HIH Insurance, the 2018 APRA Prudential Inquiry into the Commonwealth Bank of Australia and the 2019 Royal Commission into the financial services industry — is that those charged with governance cannot operate properly without having the right information. While the specific focus of those inquiries was on financial institutions, their key insights on culture and governance have wider applicability and provide lessons for accountable authorities in the public sector. The first report in the series is Auditor-General Report No.34 of 2018-19 *Effectiveness of Board Governance at Old Parliament House*, available from <https://www.anao.gov.au/work/performance-audit/effectiveness-board-governance-old-parliament-house>.

improvements to the Sustainment Performance Management System, which informs sustainment reporting in the Quarterly Performance Report, it has not yet fully realised the commitment that was made to Parliament in August 2017 that it would implement an improved reporting system which addresses data quality in the report.

13. Feedback from senior stakeholders indicates that the Quarterly Performance Report provides them with information they value. The impact of the report on decision-making is unclear, as there is limited Defence documentation indicating that information contained in the report has prompted action of some type by recipients, and other indirect impacts, such as incentives on line management to improve performance due to the need to report, are difficult to assess. Defence has sought feedback on the report from recipients and incrementally improved the report over the past two years, based on that feedback.

## Supporting findings

### Timeliness and accuracy of information

14. The June 2018 Quarterly Performance Report reviewed by the ANAO was provided to senior stakeholders and Ministers within agreed benchmark timeframes. Since December 2017, all Quarterly Performance Reports have been provided to Ministers within the agreed two month timeframe and the timeliness of reporting improved in 2018 (taking an average of 48 days for the report to be provided to the Minister after quarter-end) when compared to 2017 (when it took an average of 71 days). Over the last two years, information in the Quarterly Performance Report has been between 44 days (1.5 months) and 107 days (3.5 months) old at the time of reporting to Ministers.

15. The ANAO's review of the June 2018 Quarterly Performance Report indicated that the information reported for 26 of the 27 acquisition projects reviewed and one of the eight sustainment products reviewed was accurate. For one acquisition project and seven of the eight sustainment products examined, there were one or more issues with the accuracy of the information reported in the June 2018 report. In particular, accuracy was affected where reporting on risks and issues did not reflect risks raised in contemporary Independent Assurance Reviews, the Sustainment Performance Reporting System monthly reports and other key internal documents. The ANAO also observed shortcomings in the accuracy and quality of performance information in Defence's information technology systems. While Defence has made improvements to the Sustainment Performance Management System, it has not yet fully realised the commitment made to Parliament in August 2017 that it would implement an improved reporting system which addresses data quality in the Quarterly Performance Report.

16. There is evidence of review activity by senior line management and the central production team during the compilation of the Quarterly Performance Report. The ANAO identified inconsistencies between the Quarterly Performance Report and other Defence reporting in its sample, as well as delays in reporting on emerging risks. These findings indicate that while Defence has taken steps to implement the recommendation made in Auditor-General Report No.2 2017–18 *Defence's Management of Materiel Sustainment*, the cross referencing process envisaged as part of the quality assurance process is not yet functioning effectively.

### Feedback from senior stakeholders

17. Defence has sought feedback on the Quarterly Performance Report from stakeholders on the format and content of the report. Feedback provided on various Quarterly Performance Reports by the Defence Investment Committee indicates there are opportunities to add to the value of the existing report. In their responses to the ANAO's survey of report recipients, senior stakeholders indicated that the report is valued.

18. The purpose of the Quarterly Performance Report is to provide senior stakeholders with a clear and timely understanding of emerging risks and issues for projects and products to allow a coordinated approach to remediating these risks and issues. The value of the report can be improved by including in the report: trend performance data for sustainment products; and information on emerging candidates for Defence's Projects of Concern regime and Projects and Products of Interest list. To assure senior stakeholders that emerging risks are being addressed, the report should include information on those projects and products recommended as candidates by Independent Assurance Reviews and those under active consideration by senior Defence management.

19. The impact of the report on decision-making is unclear, as there is limited Defence documentation indicating that information contained in the report has prompted action of some type by recipients. Indirect impacts, such as incentives in line management to improve performance due to the need to report, are difficult to assess. Available evidence indicates that the Defence Investment Committee has requested further information on project and product status, costs, budget and risks. Stakeholder feedback has been used to incrementally improve the report over the past two years.

## Department of Defence's response

20. The proposed report was provided to the Department of Defence. The Department's summary response is below.

Defence agrees with the recommendation presented in the audit report on *Defence's Quarterly Performance Report on acquisition and sustainment*. Defence is committed to continuously improve the readability and utility of the Quarterly Performance Report.

The Sustainment Performance Management System was implemented by the end of 2017 and all products were reporting in the system by mid-2018. Improvements have been made in the management of the sustainment activities as a result of the Sustainment Performance Management System. Defence considers that the commitment to Parliament in 2017 to implement an improved reporting system has been met and the processes to assure data quality issues in the Quarterly Performance Report will continue to be strengthened. Defence is committed to a culture of collaboration and values transparency in reporting. These positive behaviours are well recognised since the implementation of reform following the First Principles Review.

## Recommendations

**Recommendation no.1** Defence improve the Quarterly Performance Report as a tool for senior leaders by reporting on:

**Paragraph 3.18**

- (a) trend performance data for sustainment products; and
- (b) emerging candidates for the Projects/Products of Concern list and Products/Projects of Interest list that have been recommended by an Independent Assurance Review or which are under active consideration by senior management.

**Department of Defence response:** *Agreed.*

## Background

1. The December 2009 National Aviation White Paper identified expected benefits from synchronising civil and military air traffic management through the procurement of a single solution to replace the separate systems of Airservices Australia (Airservices) and the Department of Defence (Defence). The OneSKY Australia program involves the procurement of a Civil Military Air Traffic Management System (CMATS). Airservices is the lead entity for the procurement.
2. The procurement process commenced with a Request for Information issued to industry in May 2010, with 23 responses received. A Request for Tender (RFT) was issued in June 2013. Six tenders were received, four of which proceeded to detailed evaluation, during which one was set aside on the basis that it was clearly not competitive. The two highest ranked tenderers proceeded to the final evaluation stage. Decisions were then taken to set-aside, and later exclude, the second-ranked tenderer from further consideration (on the basis that it was ‘clearly non-competitive’) rather than enter into parallel negotiations with two tenderers.<sup>1</sup>
3. Negotiations with the successful tenderer (Thales Australia) commenced in September 2014. Offers were submitted by the successful tenderer in October and December 2014. On 27 February 2015, it was announced that an advanced work contracting arrangement would be entered into allowing discrete parcels of work to be performed while negotiation of the acquisition and support contracts was progressed. The earlier offers (including the response to the RFT) expired in October 2015. Another offer was submitted in June 2016, with a final offer submitted in September 2017, followed by further negotiation on scope, price and commercial terms.
4. In February 2018:
  - an acquisition contract was signed by Airservices and the successful tenderer (as well as a support contract). The acquisition contract had a target price of AUD\$1.22 billion and a ceiling price of AUD\$1.32 billion (applying exchange rates on the date the contract was signed);
  - Defence obtained Government approval for a \$243 million increase to its project budget (including \$90 million identified as relating to CMATS) to enable it to afford its share of project costs. Associated with the budget increase, Airservices and Defence were to undertake cost reduction measures, including capability offsets, to enable work to be delivered within the revised Defence budget for CMATS; and
  - cost sharing arrangements between Airservices and Defence were updated and formalised through the execution of an On-Supply Agreement. For a fixed price of \$521 million, CMATS will be provided to Defence along with an alternative air traffic management tower solution

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<sup>1</sup> The Conditions of Tender had envisaged that the outcome of the ‘Parallel Negotiations and Scope Refinement Process’ was to have negotiated one or more draft contracts with each of the tenderers selected to participate to a point where they would be able to be executed, to enable Airservices to then select the preferred tenderer. Contract execution was scheduled for April 2015.

at four sites<sup>2</sup> and the voice control switch developed under Advanced Work Order 3. Defence's contribution to program management costs are also included within this agreed amount. Airservices and Defence are each responsible for their own personnel and resourcing costs.

5. In February 2018 when the decision was taken by Airservices to enter into the acquisition contract, it estimated its acquisition program costs to be \$1.517 billion. This figure does not include the fixed acquisition price of \$521 million agreed between Airservices and Defence.

### **Rationale for undertaking the audit**

6. OneSKY Australia was selected for audit because it is a significant program. The program has an estimated total cost of more than \$4.11 billion.<sup>3</sup> Australian airspace covers 11 per cent of the globe and OneSKY is expected to improve safety and efficiency for civil and military air traffic, while catering for the significant forecast growth in the aviation sector.

7. In August 2015, the Minister for Infrastructure and Regional Development and the Senate Rural and Regional Affairs and Transport Legislation Committee requested that the Australian National Audit Office (ANAO) examine the implementation of the OneSKY program. This is the third audit the ANAO has undertaken in response to those requests.<sup>4</sup>

### **Audit objective and criteria**

8. The objective of the audit was to assess whether the contract for the acquisition of the Civil Military Air Traffic Management System demonstrably represents value for money.

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

- Were required timeframes achieved for the replacement of existing systems?
- Is there adequate assurance that the price being paid is consistent with a value for money outcome for the capability being acquired?

### **Conclusion**

10. Important changes were made, after the successful tenderer was selected, to the timeframe for delivery, scope of work, type of contract and price. An appropriate governance framework was established to evaluate whether negotiations had resulted in contract terms that represent value for money. Shortcomings in the application of that framework mean that value for money has not been adequately demonstrated.

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<sup>2</sup> Advice from Airservices CEO to the Chief of Air Force in January 2018 was that the cost of the alternative tower solution at four Defence sites (Richmond, Edinburgh, Oakey and Gingin) would be approximately \$8 million. In March 2019 Defence advised ANAO that 'Defence contracted for the entirety of its agreed scope at a fixed price of \$521 million, with no breakdown agreed for the alternate air traffic management solution. The ultimate cost of the alternate air traffic management solution, as with the CMATS solution, is a matter for Airservices.'

<sup>3</sup> This estimate comprises: the acquisition cost of \$1.517 billion for Airservices of the OneSKY Program, including CMATS, other associated projects and contingencies; the \$1.445 billion estimate for support costs of the existing and new Airservices air traffic management system (see paragraph 3.36); and the project budget for Defence as at February 2018 of \$1.149 billion (see paragraph 2.16).

<sup>4</sup> See Auditor-General Report No.1 2016–17 *Procurement of the International Centre for Complex Project Management to Assist on the OneSKY Australia Program* and Auditor-General Report No.46 2016–17 *Conduct of the OneSKY Tender*.

11. If the current contracted timeframes are achieved, there will be a more than ten year delay (from 2015 to 2026<sup>5</sup>) in the replacement of the existing separate civil and military systems compared with the timeframe envisaged at the start of the procurement process. The capability baseline for the new combined system was established in advance of issuing the Request for Tender through appropriate engagement with industry. Delays with tender evaluation activities were exacerbated by even longer delays in the negotiation phase. Negotiations took so long that the offer submitted by the successful tenderer expired and the lives of the existing separate systems needed to be further extended. Negotiations also resulted in a late change in the contracting model from the one that had been presented to the market in June 2013.

12. There is inadequate assurance that the acquisition price is consistent with a value for money outcome:

- For the June 2016 offer, a comprehensive evaluation report was produced that included a clear conclusion that value for money had not been achieved. This was principally due to concerns about the \$1.449 billion estimated acquisition cost.
- Through further negotiations, changes were made to delivery timeframes, the scope of work and the contract model, leading to a September 2017 final offer (with an estimated target price of \$1.23 billion with the ceiling price to be 10 per cent higher) followed by further negotiation on scope, price and commercial terms. An evaluation report addressing each criterion, the expected total cost of ownership and whether the negotiated outcome represented value for money, was not prepared by the CMATS Review Board (CRB) and provided to the Airservices Board to inform the decision to sign the acquisition contract. Rather, the Board was provided with a report prepared by the Lead Negotiator<sup>6</sup>, who was not authorised to and did not undertake a full evaluation of the offer.<sup>7</sup> The records of the relevant Board meeting do not identify or discuss the provision of the February 2018 Lead Negotiator's Report<sup>8</sup>, and do not outline the value for money considerations of the Board.

13. Price risk is dealt with in the terms of the acquisition contract.

## Supporting findings

### Negotiation timeframes

14. The planned timeframe of replacing the systems in 2015 was not met. The current date for acceptance of the replacement system is 2026. Delays with the conduct of the tender, tender evaluation and contract negotiations contributed to this more than ten year delay. This meant that Airservices and Defence had to extend their existing, separate air traffic management systems beyond that which was originally envisaged.

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<sup>5</sup> The contract was amended in December 2018 to delay final acceptance by six months from 20 August 2025 to 20 February 2026.

<sup>6</sup> The Lead Negotiator's report was endorsed by each member of the CRB.

<sup>7</sup> Under Airservices and Defence's Contracting Negotiating Directive, the Lead Negotiator did not have the authority to examine in full the total cost of ownership criterion, or reach a conclusion on whether the offer represented value for money. These were matters reserved for the CRB, but the CRB did not produce an evaluation report.

<sup>8</sup> The Lead Negotiator's report concluded that the offer represented 'better' value for money than the previous offer which had been assessed as not value for money. The Lead Negotiator's report confirmed the rankings for four of the five evaluation criteria (but did not provide this assurance against the total cost of ownership criterion).



15. Scope requirements for the harmonised civil military air traffic management systems were established prior to entering into negotiations. A request for information and industry briefing process had been undertaken, and the resulting feedback was used to inform the development of the tender requirements. The requirements were released with the June 2013 Request for Tender and updated in October 2013, prior to tenders being received.

16. In November 2016, more than two years after negotiations began, it was decided to change the acquisition contract from the firm fixed price model that had been part of the June 2013 request for tender. A change to a target cost incentive contract model had first been suggested by the successful tenderer in December 2015. Airservices' decision to change the contracting model was made after various price submissions under the fixed price contract model received during the negotiation process had been identified as not representing value for money and/or as not likely to be affordable. The ceiling price under the target cost incentive model that was then adopted is more than double the price submitted by the successful tenderer in its response to the 2013 request for tender.

17. The delays in negotiating and finalising an acquisition contract, together with the scheduled delay in replacing the existing separate civil and military systems, have required the lives of the existing systems to be extended beyond that which was originally envisaged at an estimated cost of at least \$212 million. Delays have also required additional resourcing from both entities for contract negotiations and project management. The costs relating to the additional resources for negotiations and project management were not quantified.

### **Negotiation outcome**

18. Traceability was not maintained between offered requirements and the original Request for Tender. Traceability focused on changes over time in the various offers submitted by the preferred tenderer against updated versions of the requirements. The number of high priority requirements at the end of negotiations was 3.6 per cent greater than at the beginning of negotiations, with 6.7 per cent of the high priority requirements included in the Request for Tender modified in the signed acquisition contract.

19. There is a clear scope specified for the signed acquisition contract. Changes to the contract scope were envisaged before the acquisition contract was signed. To date, two change proposals have been actioned (in August 2018 and December 2018).

20. Price risk is dealt with in the terms of the acquisition contract. Of note is that the contract:

- requires the successful tenderer to use its 'reasonable endeavours' to ensure that the outturn price is, at final acceptance, lower than a target price of \$1.22 billion;
- incorporates a painshare/gainshare framework intended to incentivise cost containment. This includes providing that Airservices' exposure to actual costs being greater than the target price is limited to a 50 per cent share of the costs above the target price up to the ceiling price, capping Airservices' exposure at \$1.32 billion; and
- allows the contract scope to be amended, and provides a mechanism for the target and ceiling prices to be adjusted for scope changes.

21. There is inadequate assurance that the contracted acquisition price is consistent with a value for money outcome for the capability being acquired. Assessment governance arrangements for the June 2016 offer (which was rejected for not providing value for money) were appropriate. There were shortcomings in the application of the governance arrangements for the final (accepted) September 2017 offer. Of significance was that the CMATS Review Board did not prepare a comprehensive assessment report that addressed each of the evaluation criteria, quantified the expected total cost of ownership and analysed whether value for money had been achieved.

## Summary of entity response

22. Summary responses provided by Airservices and Defence are provided below.

### Airservices

Airservices notes the audit found that a number of elements of value for money examined in accordance with the audit scope were found to be sound, including that program scope requirements were well understood prior to entering negotiations, a clear scope was established for the signed contract, and there is appropriate management of price risk in the contract. We further note that no recommendations are made by the ANAO.

Air traffic control systems are not an off-the-shelf product and there are only a very small number of suppliers of air traffic management systems worldwide. Each system is a system of systems which must cater for a nation's differing requirements including airspace coverage, surveillance inputs, system interfaces, national security and the specific requirements of the local aviation industry. These differences create complexities and mean that all air traffic control systems are unique for each country. Furthermore, recent international experience in air traffic management system procurement has demonstrated the importance of ensuring that scope is locked down as early as possible, that operational and safety assurance requirements can be met, and that the negotiated contractual terms are appropriate to manage any risks that emerge during the execution phase of a program.

In this circumstance, the value for money considerations are necessarily broad and must include supplier market maturity, the specialist nature of the capability required and the level of risk. We accept that there are some areas that the report has identified where, with the benefit of hindsight, we could have better documented to provide a more auditable trail of decision making. However, that would not have materially impacted the decision-making process, nor the substance of the evidence relied on by the Board as decision-maker, nor the outcome. The Airservices Board, as the approval authority for the acquisition, clearly understood and acquitted its obligations in relation to making all reasonable enquiries to ensure the contract represented value for money.

### Defence

Defence acknowledges there is room to enhance the administrative arrangements supporting and documenting actions and decisions in such a complex program. Defence maintains however, that its procurement of a Civil and Military Air Traffic Management and Control System adequately demonstrates value for money. Defence thoroughly considered and documented its value for money assessment in the delegate submission for the On-Supply Agreement, through which Defence is acquiring the capability from Airservices.

**Australian Research Council's Administration of the National Competitive Grants Program**  
**[No. 5 2019–20]**  
**Australian Research Council**

## Summary and Recommendations

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### Background

1. The Australian Research Council (ARC) is a Commonwealth entity established under the *Australian Research Council Act 2001* that advises the Australian Government on research matters, administers the National Competitive Grants Program (NCGP) and has responsibility for Excellence in Research for Australia and Engagement and Impact assessments. The ARC's purpose is to grow knowledge and innovation for the benefit of the Australian community through funding the highest quality research, assessing the quality, engagement and impact of research, and providing advice to Government on research matters.
2. The NCGP funds fundamental and applied research and research training across all disciplines, except clinical medical research, to eligible organisations. The NCGP comprises 13 schemes under two programs: the Discovery program, which primarily focuses on supporting individuals and small teams to undertake fundamental research; and the Linkage program, which focuses on creating links between university researchers, industry partners and other community organisation to undertake applied research.
3. From 2016 to 2018 the ARC received 17,556 applications across all NCGP schemes. Over this period, the ARC commenced funding for 3,493 grants with a total value of \$1.99 billion.

### Rationale for undertaking the audit

4. Government-funded research contributes to improving Australia's social and cultural environment, international competitiveness and ensuring that the economy can embrace changing economic and technological conditions, deliver future prosperity and support the wellbeing of all Australians. The NCGP is one of the key sources of research funding, with an allocation of \$791.3 million in 2019–20. The audit provides assurance to Parliament about whether this significant source of research and development funding is being administered by the ARC in an effective manner and is meeting the objectives set for the NCGP by the Government.

### Audit objective and criteria

5. The objective of the audit was to assess the effectiveness of the ARC's administration of the NCGP. To form a conclusion against the audit objective, the ANAO adopted the following criteria:
  - Do the NCGP guidelines align with the Commonwealth Grants Rules and Guidelines (CGRGs) and government objectives in relation to research and innovation?
  - Do the ARC's grant assessment processes comply with the NCGP guidelines?
  - Has the ARC implemented effective monitoring, assurance, evaluation and reporting arrangements for the NCGP?

## Conclusion

6. The ARC's administration of the NCGP is effective, except that its performance indicators and monitoring and assurance arrangements should be strengthened.

7. The NCGP guidelines align with the CGRGs and the government's research and innovation objectives, and have recently increased the focus on government priorities. The guidelines clearly outline the elements of the NCGP and are effectively communicated to stakeholders.

8. The ARC has mature and effective processes in place to assess grants, manage conflicts of interest and provide funding recommendations that comply with the NCGP guidelines.

9. The ARC's arrangements to measure the performance of the NCGP, monitor and evaluate the program and provide assurance that administering organisations comply with funding requirements are largely effective. Most of the ARC's key performance indicators (KPIs) are relevant, but not all are reliable. Its assurance arrangements could be more risk-based to provide greater assurance that administering organisations comply with grant agreement requirements and the program is achieving its objectives.

## Supporting findings

### Guidelines and communications

10. NCGP guidelines are consistent with all mandatory elements of the CGRGs and also incorporate better practice elements. Consistent with the CGRGs, the guidelines include eligibility and assessment criteria, approval requirements and performance reporting.

11. The focus of the NCGP is to support the highest quality research and research training through a competitive grant process. The guidelines broadly align with the Government's objectives, including the Science and Research Priorities, Australia's National Science Statement and National Innovation and Science Agenda.

12. The NCGP guidelines clearly outline the program governance arrangements, including detailed program and scheme-specific eligibility and assessment criteria, assessment processes, decision-making, and reporting and performance requirements.

13. The ARC has implemented strategies to effectively communicate with key stakeholders. The ARC uses a variety of communications activities, targeting different audiences and key stakeholders, to provide information on NCGP guidelines and its elements, as well as NCGP-funded research outcomes.

### Assessment and funding decisions

14. The ARC has appropriate assessment, eligibility, scrutiny and appeal processes to support well informed and transparent grant assessment and funding decisions.

15. The ARC has established appropriate arrangements to manage actual and perceived conflicts of interest in the NCGP process.

16. The ARC provided the Minister for Education clear advice and funding recommendations consistent with requirements of the ARC Act, the CGRGs and the NCGP guidelines.

### Performance and reporting

17. The performance management framework established by the ARC for the NCGP is largely appropriate. Most of the KPIs are relevant but they require further refinement to be reliable and do not include any efficiency measures.

18. Internal reporting about the NCGP focuses on point-in-time data and current status, but does not include historical or contextual information. Including this type of information in internal management reporting would improve the ARC's capacity to effectively monitor and administer the NCGP.

19. The ARC has appropriate monitoring and assurance arrangements for the NCGP. However implementation could be improved by ensuring that the arrangements are more risk-based and effectively contribute to the ARC's assurance that administering organisations comply with grant agreement requirements and NCGP risks are being managed appropriately.

20. The ARC assesses the effectiveness of the NCGP through various activities, including evaluations, and has used the results of these activities to inform program improvements. In 2018 the ARC established a new evaluation strategy and plan, which resulted in two evaluations in 2018–19.

## Recommendations

**Recommendation no. 1** The Australian Research Council review the practice of issuing NCGP guidelines annually.

**Paragraph 2.8** **Australian Research Council response:** *Agreed.*

**Recommendation no. 2** The Australian Research Council ensure that its KPIs for the NCGP are reliable and include efficiency.

**Paragraph 4.12** **Australian Research Council response:** *Agreed.*

**Recommendation no. 3** The Australian Research Council ensures that its monitoring and assurance activities, in particular institutional reviews, are risk-based and contribute to the Australian Research Council's assurance that NCGP objectives are being achieved.

**Australian Research Council response:** *Agreed.*

## Summary of entity response

21. The proposed report was provided to the Australian Research Council. The ARC did not provide a summary response. Its full response is reproduced at Appendix 1.

## Key messages from this audit for all Australian Government entities

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

### Governance and Risk Management

- Grant application, assessment, assurance, monitoring and reporting requirements in grant programs should be proportional to identified risks, in accordance with the CGRGs.

### Grants

- By engaging subject matter experts throughout the NCGP assessment process, the ARC has been able to harness expert advice on complex and highly specialised research topics.

### Records management

- The ARC administers the NCGP using a bespoke end-to-end Research Management System. Where cost effective, IT infrastructure for grants assessment and grants management should be fit-for-purpose. Systems that embed and validate high volume and transparent processes, such as those used by the ARC for managing potential conflicts of interest within the research sector, can deliver enhanced efficiency and assurance.



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18 July 2019

Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
19 National Circuit  
BARTON ACT 2600

Dear Mr Hehir

ANAO PROPOSED REPORT UNDER section 19: THE AUSTRALIAN RESEARCH COUNCIL'S ADMINISTRATION OF THE NATIONAL COMPETITIVE GRANT PROGRAM

Thank you for the opportunity to respond to the Australian National Audit Office (ANAO) proposed report on the Australian Research Council's Administration of the National Competitive Grants Program under section 19 of the *Auditor-General Act 1987*.

I am particularly pleased that the ANAO found that the Australian Research Council's (ARC) administration of the National Competitive Grants was found to be effective. I also appreciate that the ANAO identified three instances of good practice at the ARC, which may be relevant for the operations of other Australian Government entities.

The ARC accepts the three recommendations and our response is detailed in the attachment to this letter.

I would like to thank you and your staff for the collaborative and professional approach that ANAO has demonstrated during the performance audit.

Yours sincerely

Professor Sue Thomas  
Chief Executive Officer

## Implementation of ANAO and parliamentary committee recommendations

### No.6 2019–20

Department of Agriculture; Australian Pesticides and Veterinary Medicines Authority; Department of Infrastructure, Transport, Cities and Regional Development; Airservices Australia

## Background

1. The operations and performance of Australian Government entities are subject to external scrutiny from the Australian National Audit Office (ANAO), the Joint Committee of Public Accounts and Audit (JCPAA), and other parliamentary committees.
2. The purpose of the ANAO is to support accountability and transparency in the Australian Government sector through independent reporting to the Parliament, and thereby contribute to improved public sector performance. The ANAO's performance audit activities involve the audit of all or part of an entity's operations to assess its economy, efficiency, effectiveness, ethicality or legislative and policy compliance. The ANAO identifies areas where improvements can be made to aspects of public administration and makes specific recommendations to assist public sector entities to improve their program management.<sup>1</sup>
3. The JCPAA reviews all Auditor-General reports tabled in Parliament, including the recommendations and audited entities' proposed actions, and reports the results of its deliberations to both Houses of the Parliament. A key aspect of JCPAA inquiries is to hold Commonwealth entities accountable for the implementation of audit recommendations.<sup>2</sup>
4. Other parliamentary committees investigate specific matters of policy, government administration or performance and may review part or all of an Auditor-General report or reports. Recommendations are then made to government.
5. Government responses are required to be tabled in Parliament. Responses to recommendations inform the Parliament of government activities and provide accountability by formalising the commitment to implement the recommendations.

## Rationale for undertaking the audit

6. Reports of the ANAO and parliamentary committees identify risks to the successful delivery of outcomes and areas where administrative or other improvements can be made. The appropriate and timely implementation of agreed recommendations is an important part of realising the full benefit of an audit or parliamentary inquiry.
7. This audit will highlight to the Parliament and the public where entities have implemented recommendations in line with intended commitments made to the Parliament.

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<sup>1</sup> Australian National Audit Office, Corporate Plan 2018–19.

<sup>2</sup> Joint Committee of Public Accounts and Audit, *Report 472: Commonwealth Procurement – Second Report*, October 2018, p. 15–16.

## **Audit objective, criteria and scope**

8. The objective of the audit was to examine whether selected entities implemented agreed ANAO performance audit, JCPAA and other parliamentary committee recommendations.

9. The audit used a two-staged approach. The first stage involved a limited (negative) assurance engagement and the second stage, where required, involved a reasonable (positive) assurance engagement. This approach was undertaken separately for agreed ANAO performance audit and JCPAA and other parliamentary committee recommendations.

10. To form a conclusion against the audit objective, the ANAO adopted the following high level audit criterion, for the first stage of the audit:

- Does the entity have appropriate governance arrangements in place to respond to, monitor and implement recommendations?

11. Where the evidence obtained was insufficient to conclude on the appropriateness of the governance arrangements in place (stage one), an additional criterion was adopted (stage two):

- Were agreed recommendations implemented effectively in a timely manner?

12. The audit examined ANAO, JCPAA and other parliamentary committee recommendations from reports or inquiries with agreed recommendations related to 2016–17 for the following four entities:

- Department of Agriculture (Agriculture);
- Airservices Australia (Airservices);
- Australian Pesticides and Veterinary Medicines Authority (APVMA); and
- Department of Infrastructure, Transport, Cities and Regional Development (Infrastructure).

## **Conclusion**

13. None of the selected entities demonstrated that they had effectively implemented all agreed recommendations within the scope of this audit.

### **ANAO recommendations**

14. Agriculture advised that 2016–17 ANAO performance audit recommendations had been implemented. Based on the procedures performed and the evidence obtained, nothing came to the ANAO's attention that Agriculture's governance arrangements are not effective for responding to, assigning responsibility for, monitoring and implementing agreed ANAO recommendations. As a result, the ANAO has not adopted criterion two, to include additional substantive examination of Agriculture's reporting of implementation of ANAO recommendations.

15. Infrastructure has a formal governance process for monitoring ANAO performance audit recommendations. However, this was not consistently applied to 2016–17 recommendations. Airservices and APVMA had not established formal governance arrangements to ensure a consistent approach over time with appropriate oversight and scrutiny. Accordingly, additional substantive testing of the implementation of ANAO recommendations was undertaken for Airservices, APVMA and Infrastructure.

16. The additional substantive procedures undertaken by the ANAO evidenced activities undertaken by Airservices, APVMA and Infrastructure in relation to addressing ANAO recommendations. However, none of the entities could demonstrate that all recommendations were fully implemented.

17. Entities that did not have formal governance arrangements in place, or did not consistently apply formal governance arrangements, did not fully implement 2016–17 ANAO performance audit recommendations.



## **JCPAA and other parliamentary committee recommendations**

18. Each of the four entities has processes in place to provide responses to recommendations from inquiries and requests. However, none of the four entities has formalised governance arrangements in place to monitor the implementation of agreed JCPAA and other parliamentary committee recommendations.

19. Only Agriculture and Infrastructure had JCPAA or other parliamentary committee recommendations directed to them relevant to 2016–17. Neither entity was able to demonstrate that all recommendations were fully implemented.

## **Supporting findings**

### **Governance of ANAO recommendations — all entities**

20. Agriculture has established processes and responsibilities for initially responding to recommendations. Airservices and Infrastructure did not have documented processes in place for responding to recommendations, while APVMA endorsed a formal process during the course of this audit. However, these entities were able to apply a process that included appropriate management consideration and endorsement of the entity's response to ANAO recommendations.

21. The selected entities had processes for assigning management responsibility for the progression of the implementation of individual ANAO recommendations. APVMA and Infrastructure did not clearly record the responsibility for all recommendations, which negatively impacted on implementation of 2016–17 ANAO performance audit recommendations.

22. Agriculture, Airservices and Infrastructure have IT systems in place to track the progress of ANAO performance audit recommendations. APVMA has an officer responsible for this function. Airservices and Infrastructure did not effectively use their respective IT systems to capture 2016–17 ANAO performance audit recommendations and ensure appropriate reporting and oversight. APVMA used existing governance arrangements that resulted in reporting and provided management oversight.

23. Agriculture has implemented controls for its recommendation tracking systems that are intended to maintain complete and accurate data, however there are opportunities to strengthen the controls and supporting processes. Airservices and Infrastructure documented roles and responsibilities and associated controls for their respective recommendation tracking systems. These controls were not fully effective in maintaining complete and accurate data for 2016–17.

24. The completeness and appropriateness of advice provided to audit committees varied between the selected entities. Agriculture provides regular and complete reports to its audit committee. Airservices and APVMA reported directly to the accountable authority for ANAO performance audit recommendations, while Infrastructure's reporting to the audit committee on 2016–17 recommendations was incomplete.

### **Implementation of ANAO recommendations — Airservices, APVMA and Infrastructure**

25. The selected entities did not develop clear implementation plans or maintain sufficient and appropriate evidence to clearly demonstrate all recommendations have been implemented.

26. None of the entities have fully implemented agreed ANAO performance audit recommendations.

27. Entities' testing of the implementation of recommendations was not exhaustive. Further, entities' approaches to addressing additional issues or acting on opportunities for improvement identified in testing also varied.

## **Governance of JCPAA and other parliamentary committee recommendations — all entities**

28. Entities have established processes for responding to inquiries and requests. However, none of the four entities have formalised governance arrangements in place to monitor and implement JCPAA and other parliamentary committee recommendations.

## **Implementation of JCPAA and other parliamentary committee recommendations — Agriculture and Infrastructure**

29. Agriculture and Infrastructure did not develop implementation plans or maintain sufficient and appropriate evidence to clearly demonstrate JCPAA and other parliamentary committee recommendations have been fully implemented.

30. Neither Agriculture nor Infrastructure have tested the implementation of recommendations or reported to the relevant committee following the tabling of responses to the inquiry and report.

## **Recommendations**

**Recommendation no.1** Airservices Australia, Australian Pesticides and Veterinary Medicines Authority, and the Department of Infrastructure, Transport, Cities and Regional Development finalise implementation of 2016–17 ANAO performance audit recommendations. Specifically:  
**Paragraph 3.17**

- (b) Airservices Australia complete implementation of the recommendations from Auditor-General Report No.1 2016–17 Procurement of the International Centre for Complex Project Management to Assist on the OneSKY Australia Program;
- (c) Australian Pesticides and Veterinary Medicines Authority complete implementation of recommendations one and two from Auditor-General Report No.56 2016–17 Pesticides and Veterinary Medicine Regulatory Reform; and
- (d) The Department of Infrastructure, Transport, Cities and Regional Development implement plans to complete the outstanding recommendation from Auditor-General Report No.38 2016–17 The Approval and Administration of the Commonwealth Funding for the WestConnex Project.

**Airservices Australia response:** Disagreed

**Australian Pesticides and Veterinary Medicines Authority response:** Agreed

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

**Recommendation no.2**  
**Paragraph 4.13** Entities implement formalised governance arrangements to provide greater executive oversight of the implementation of JCPAA and other parliamentary committee recommendations. This framework should include development of implementation plans, assignment of responsibility for progressing recommendations, and appropriate tracking and reporting against the implementation of JCPAA and other parliamentary committee recommendations.

**Department of Agriculture response:** Agreed

**Airservices Australia response:** Agreed

**Australian Pesticides and Veterinary Medicines Authority response:** Agreed

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

**Recommendation no.3**  
**Paragraph 4.18** The Department of the Prime Minister and Cabinet reinforce the responsibility of accountable authorities to monitor and implement agreed parliamentary committee recommendations.

**Department of the Prime Minister and Cabinet response:** Agreed

**Recommendation no.4**  
**Paragraph 5.20** The Department of Agriculture, and the Department of Infrastructure, Transport, Cities and Regional Development each undertake an analysis of the actions taken to date in relation to the relevant JCPAA and other parliamentary committee recommendations examined in this audit and implement plans to complete the recommendations. The entities should also advise the relevant committees of the status of the recommendations.

**Department of Agriculture response:** Agreed

**Department of Infrastructure, Transport, Cities and Regional Development response:** Partially agreed

## Summary of entity response

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

### Department of Agriculture

The Department of Agriculture (the department) is committed to appropriate and timely implementation of agreed recommendations to both ANAO and parliamentary committee reports and therefore welcomes the report's conclusions and findings.

There have been four recommendations made in this report, two of which are applicable to the department.

The department is pleased that the report recognises that governance processes are in place to ensure effective monitoring and implementation of ANAO recommendations. The department acknowledges that there is work to be done to strengthen the governance processes to support monitoring and implementation of Joint Committee of Public Accounts and Audit's and other parliamentary committees' recommendations. The department is in full support of strengthening these processes as identified by the ANAO.

### Airservices Australia

Airservices notes the report's findings and in response to the audit, has introduced formalised governance processes for the implementation of JCPAA and other parliamentary committee recommendations in accordance with Recommendation No. 2.

Airservices completed implementation of the action it identified to address the recommendations from the 2016 performance audit in September 2016 and therefore will not be accepting Recommendation No. 1. Airservices remains committed to continuous improvement of its procurement system, demonstrated by our ongoing actions since the 2016 audit, and will ensure that the learnings from this audit are reflected in our ongoing improvements.

#### **Australian Pesticides and Veterinary Medicines Authority**

The APVMA acknowledges the findings of the report and agrees with the recommendations relating to the APVMA.

As the audit report notes, the APVMA has taken a number of actions to improve quality assurance processes and to strengthen risk management, governance and performance monitoring frameworks. The APVMA remains committed to continuous improvement in these areas and the audit recommendations will assist us to continue this work.

#### **Department of Infrastructure, Transport, Cities and Regional Development**

The Department of Infrastructure, Transport, Cities and Regional Development (the Department) welcomes the ANAO report and agrees with the recommendations.

The Department has governance arrangements in place to monitor the implementation of recommendations from ANAO performance audits, including regular reporting to the Audit and Risk Committee and Performance and Assurance Committee.

The existing arrangements have recently been extended to monitoring the implementation of recommendations from the Joint Committee of Public Accounts and Audit and the recommendations examined in the audit have been added to the Audit Recommendations Database. Arrangements will be established for monitoring the implementation of agreed recommendations from parliamentary committees.

## Background

1. Successive Australian governments have maintained a framework to regulate the use of campaign advertising by selected government entities.<sup>1</sup> The overarching aim of the framework introduced in 2008 is to provide the Parliament and the community with confidence that public funds are used to meet the genuine information needs of the community. The current framework provides that the ‘underlying principles governing the use of public funds’ for all government information and advertising campaigns are that:

- (a) members of the public have equal rights to access comprehensive information about government policies, programs and services which affect their entitlements, rights and obligations;
- (b) governments may legitimately use public funds to explain government policies, programs or services, to inform members of the public of their obligations, rights and entitlements, to encourage informed consideration of issues or to change behaviour; and
- (c) government campaigns must not be conducted for party political purposes.<sup>2</sup>

2. Since 2008, key confidence-building features of the framework have included principles-based guidelines, and a process for entity chief executives to certify the compliance of campaigns against these principles. In certifying campaigns, chief executives have also been supported by third-party advice for most of the period since 2008. The five ‘information and advertising campaign principles’ included in the most recent (2014) iteration of the guidelines are:

Principle 1: Campaigns should be relevant to government responsibilities.

Principle 2: Campaigns should be presented in an objective, fair and accessible manner and be designed to meet the objectives of the campaign.

Principle 3: Campaigns should be objective and not directed at promoting party political interests.

Principle 4: Campaigns should be justified and undertaken in an efficient, effective and relevant manner.

Principle 5: Campaigns must comply with legal requirements and procurement policies and procedures.<sup>3</sup>

3. The Special Minister of State is responsible for the administration of the campaign advertising framework and is supported by the Department of Finance (Finance). Finance manages whole-of-government provider contracts, reports annually on expenditure, publishes the guidelines following their approval by government, and provides further guidance and advice to entities through its website and on request from entities.

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<sup>1</sup> The framework currently applies to non-corporate Commonwealth entities.

<sup>2</sup> Department of Finance, *Guidelines on Information and Advertising Campaigns by non-corporate Commonwealth entities*, December 2014, p. 3. These principles have remained broadly consistent since 2008.

<sup>3</sup> *ibid.*

4. Between 2010–11 and 2017–18, average Australian Government expenditure each financial year on advertising campaigns was \$210 million (adjusted for inflation). This expenditure included media placement, communications suppliers and GST, but did not include administrative costs.

### Rationale for undertaking the audit

5. The rationale for undertaking this audit is to provide the Parliament with assurance as to whether the campaign advertising framework and its implementation provide public confidence in the administration of taxpayer-funded advertising, as expected when the framework was introduced a decade ago. The audit has been conducted in a context where aspects of the framework are not as rigorous as arrangements applying in other jurisdictions and there has been a general weakening of the framework over time.<sup>4</sup>

6. The Australian Parliament retains a strong interest in the framework's operation. There has been a continued focus on the accountability issues articulated by the Joint Committee of Public Accounts and Audit in 2000 and the Senate Finance and Public Administration References Committee in 2005, which informed the framework's introduction in 2008:

Government advertising or information campaigns are an accepted means by which governments inform the public about new initiatives, policies or programs. They help to advise people on how they might benefit or be affected by or what they need to do to comply with new requirements ... The problem with government advertising arises when the distinction between legitimate government advertising for public policy purposes and political advertising for partisan advantage is blurred. In other words, the problem arises when governments use taxpayer funds to gain political advantage through partisan promotion of their views or themselves, rather than to meet the genuine information needs of citizens.<sup>5</sup>

7. In the course of this audit, specific requests for ANAO review of government advertising were received from five Parliamentarians<sup>6</sup>, reflecting Parliamentary and community debate of government advertising campaigns and related expenditures in the period before the 2019 federal election. The cost and purposes of government funded advertising, including the Powering Forward campaign reviewed as part of this audit, were a focus of the Parliament during the 2019–20 Budget Estimates hearings held in April 2019.

8. This audit continues the ANAO's coverage of the framework, to provide Parliament with: information on its development; campaign expenditures over time; and assurance as to whether entities have effectively implemented the framework and complied with the requirements of the campaign advertising guidelines.

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<sup>4</sup> See paragraphs 1.10–1.12 of this audit report.

<sup>5</sup> Senate Finance and Public Administration References Committee, *Government advertising and accountability*, December 2005, p. xiii.

<sup>6</sup> The Auditor-General responded on 8 October 2018 to a request from Mr Pat Conroy MP dated 28 September 2018, asking that the Auditor-General conduct an audit of aspects of the Government advertising campaign: *Powering Forward*. That correspondence is available at <https://www.anao.gov.au/work/request/government-advertising-campaign-powering-forward>.

The Auditor-General also responded on 26 April 2019 to correspondence from Dr Kerryn Phelps AM, MP and three co-signatories dated 10 April 2019, requesting that the Auditor-General conduct an investigation to examine campaign advertising expenditure and related matters. That correspondence is available at <https://www.anao.gov.au/work/request/audit-advertising-expenditures-the-australian-government-phelps-bandt-sharkie-banks>.

## Audit objective and criteria

9. The objective of the audit is to assess the effectiveness of the Department of Finance's and selected entities' implementation of the Australian Government's campaign advertising framework.

10. To form a conclusion against this objective, the following high-level criteria apply:

- Does the Department of Finance effectively administer the Australian Government's campaign advertising framework?
- Were selected campaigns compliant with the Australian Government's campaign advertising framework?

11. The audit examined developments in the administration of the framework from the end of the period examined by the previous ANAO audit (June 2015) until April 2019. In addition, three campaigns were selected for review:

- the *Powering Forward campaign* conducted from late 2017 to April 2019, administered by the Department of the Environment and Energy (Environment);
- the *Physical Activity for Young Women campaign* conducted from early 2016 to mid-2018, administered by the Department of Health (Health); and
- the *National Child Care Plan campaign* conducted in late 2017 and mid-2018, administered by the Department of Education and Training (Education).<sup>7</sup>

## Conclusion

12. Finance and the selected entities have been largely effective in elements of their administration of framework requirements. Finance has been largely effective in its central agency role and the selected entities have largely complied with the framework's process requirements relating to campaign review and certification and the publication of certification advice. There remains scope for improvement in entities' administrative practices relating to: documenting the accuracy of campaign statements (Environment); procurement and financial commitments (Environment); assessing and documenting the need for additional campaign activity (Environment and Health); and the basis for evaluating campaigns (Health and Education).

13. The Australian Government's campaign advertising framework was introduced in 2008 with the express purpose of providing confidence that taxpayer funded campaigns are legitimately authorised, properly targeted and non-political. A decade on, this area of government administration remains contested, with an ongoing focus on the discretion inherent in the framework and the long-term trend of increased campaign expenditure before elections. The persistence of debate over the use of public resources for certain government campaigns indicates that the framework has not achieved its primary purpose of building confidence and is therefore ineffective in respect to this outcome. In these circumstances, there would be merit in the Parliament and Australian Government revisiting the framework. This audit report includes recommendations aimed at improving both the selected entities' administration and the framework's transparency. The recommendations reflect the findings of this audit and four previous ANAO audits conducted since the framework's introduction. Framework-level recommendations focus on: clarifying mandatory requirements to reduce the large measure of discretion which is a feature of the framework; strengthening the third-party compliance advisory function to enable it to review campaigns at any stage of development; improving the

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<sup>7</sup> The department was renamed the Department of Education following changes to the Administrative Arrangements Order on 29 May 2019.

transparency of approved campaign budgets and annual expenditure reporting; and applying certification processes to media releases associated with launching a campaign.

14. Finance has been largely effective in its central agency role of supporting entities, providing secretariat support to third-party reviewers, preparing the annual campaign expenditure report and advising government on emerging issues such as the management of online reputational risks. The whole-of-government framework administered by Finance continues to exhibit shortcomings. Four of the five principles in the guidelines are not mandatory and the third party compliance advisory process does not help chief executives determine that a campaign complies with the guidelines, as third party review happens early in the campaign development process. Annual expenditure reporting to Parliament is not consolidated or complete and the release of information on government approved campaign budgets is discretionary. Transparency and accountability to Parliament would be improved if all related advertising costs and GST were included in the total annual figures reported by Finance, and if approved campaign budgets were reported as soon as possible after launching a new campaign or phase.

15. Environment undertook most of the required review and certification processes for each phase of the Powering Forward campaign. The campaign was relevant to Australian government responsibilities but the department's verification of campaign statements, which presented information as fact, was not documented before the campaign first launched or before the launch of subsequent phases. The ANAO is not in a position to provide assurance on whether all the reviewed campaign statements were accurate and verifiable, as the department was not able to demonstrate a clear line of sight between those statements and source material provided for review. Procurement was not consistent with all requirements until Phase 5, and Environment did not create a clear audit trail of approvals and decisions about procurement, as required by the guidelines. Benchmarking, monitoring and evaluation was conducted throughout the campaign. While evaluations called into doubt the campaign's effectiveness, Environment continued the campaign.

16. Health undertook the required review and certification processes for the Physical Activity for Young Women campaign. Health adhered to principles 1 to 3 and largely with principle 5 of the guidelines. Regarding Principle 4, while there was an identified justification for the initial phase of the campaign, the department was unable to adequately demonstrate the continuing justification for the campaign based on evaluation results. Health included a number of additional activities for the campaign (events, merchandise and partnerships) but did not evaluate these to determine effectiveness or value for money.

17. Education undertook the required review and certification processes for the National Child Care Plan campaign. Education adhered to Principles 1 to 4 of the guidelines and left a clear audit trail. There is scope to improve compliance with Principle 5, as not all procurement requirements were satisfied. Education evaluated the campaign and found it to be effective, although the evaluations did not report against the performance targets set for the campaign.

## Supporting findings

### **Administration of the Australian Government campaign advertising framework (Chapter 2)**

18. Roles and responsibilities under the framework are clear and well documented. The 2014 Guidelines specify the roles and responsibilities of the Special Minister of State, the Independent Communications Committee, responsible Ministers, entities and their chief executives. Terms of reference have been provided to the third-party reviewer (the Independent Communications Committee) and relevant Cabinet committee administrative processes have been documented by the Department of the Prime Minister and Cabinet.



19. The Department of Finance's annual public report on *Campaign Advertising by Australian Government Departments and Agencies* documents Finance's role in the framework, the role of key stakeholders, and the framework's operation.

20. Four of the five 'information and advertising campaign principles' are not mandatory. This has been the case since 2008, notwithstanding previous ANAO commentary and an agreed audit recommendation to clarify which parts of the guidelines are mandatory. Failure to strengthen the guidelines indicates that retaining flexibility and discretion in the framework's operation is valued over certainty and clarity of expectations.

21. The third-party review process undertaken by the Independent Communications Committee does not provide a high level of confidence to accountable authorities — and by extension the Parliament and community — regarding a campaign's compliance with the guidelines. The framework does not enable review later in a campaign's development and the Committee's advice is limited to whether a campaign is 'capable' of compliance, not whether it is compliant. A previous ANAO recommendation to strengthen the third-party compliance advisory function, by enabling review at any stage of a campaign's development, has not been taken up by government. Finance's two Ministerial submissions on the ANAO recommendation did not demonstrate good practice, with the first recommending that the Special Minister of State note the recommendation, and the second recommending what the department understood to be the Minister's preferred approach without providing considered options.

22. Annual expenditure reporting to Parliament is not consolidated or complete and can be enhanced to provide additional confidence to Parliament and the community on the use of taxpayers' money. Consolidated total expenditure figures in Finance's annual reports to Parliament have only captured 62 to 70 per cent of total expenditure as they have not included the work of third-party communication suppliers or GST. Finance would enhance the transparency of its annual public reporting by providing consolidated information on all campaign advertising expenditures and by separating the Australian Electoral Commission's advertising spend relating to general elections from the overall media placement spend. Transparency and accountability to the Parliament would be further enhanced by reporting the approved government budget for a campaign, or a new phase of an existing campaign, as soon as possible after launching a new campaign or phase.

23. Finance has proactively responded to various brand safety risks facing Australian Government advertising. Finance also issued guidance to entities regarding talent management and the use of social influencers, to further support entities' management of reputational risk. The Australian Government introduced restrictions on the use of paid social media influencer strategies in campaign advertising and/or related public relations activities in August 2018.

### **Powering Forward campaign (Chapter 3)**

24. In its Powering Forward campaign, Environment undertook most review and certification requirements. The Independent Communications Committee reviewed four of the five campaign phases and provided reports to the departmental Secretary. The Secretary certified all campaign phases but the certification for Phase 1 occurred after the campaign launch. The guidelines require that the entity chief executive give the campaign certification to the responsible Minister — the ANAO has seen no evidence that this occurred. Publication requirements were undertaken.

25. The campaign was relevant to Government responsibilities and was presented in an accessible manner. Environment did not document the verbal briefings which informed the Secretary's campaign certification and did not contemporaneously document the links between information presented as fact in the campaign and underlying information sources. Environment advised the Independent Communications Committee that the campaign's key messages and supporting information could be verified by other agencies or parties. However, the department was not able to demonstrate a clear line of sight between all campaign statements and the source material it referenced in a verification

matrix prepared for ANAO review. As a consequence the ANAO is not in a position to provide assurance on whether all the reviewed campaign statements were accurate and verifiable.

26. Campaign materials were objective and not directed at promoting party political interests. The Ministerial statement released at the launch of Phase 4 contained overt political argument and could be interpreted as being directed at strengthening community support for the government of the day. There would be benefit in providing for all media releases associated with launching a taxpayer funded campaign or campaign phase to be subject to the approval and certification processes applying to campaign materials.

27. Environment's justification for producing 3,400 brochures outside the campaign advertising framework is unclear. The brochures were prepared at the department's discretion and at public expense without authorising statements, notwithstanding the use of campaign imagery, branding and content. The brochures were provided to the Minister's office.

28. Environment did not comply fully with relevant legal requirements and procurement policies and procedures. Ongoing justification for the campaign was not clear-cut, as successive evaluation reports indicated that the campaign was not realising all of its key performance indicators.

29. Environment benchmarked, monitored and evaluated each phase of the campaign. Environment also set performance measures and used them to gain insights into the campaign's overall effectiveness. The overall evaluation for the campaign's first three phases reported that its impact was limited. Environment nonetheless conducted a fourth phase at a cost of \$4 million (including GST). After receiving an evaluation that Phase 4 of the campaign struggled to engage the audience, Environment conducted a fifth phase at a cost of \$11 million (including GST) without documenting whether this represented a proper use of public resources.

#### **Physical Activity for Young Women campaign (Chapter 4)**

30. Health undertook most of the necessary review and certification requirements for the Physical Activity for Young Women campaign. Health's Secretary certified all campaign phases before they commenced. Health did not provide its Minister with a copy of the Secretary's Certifications prior to the launch of each phase, as required by the guidelines. Publication requirements were undertaken.

31. The campaign was: relevant to government responsibilities; presented in an objective and accessible manner; and campaign messaging was not directed at promoting party political interests. The campaign justification was an identified public health need and the department followed a media plan and the master media agency's advice for efficient and effective media placement. There was a variance of \$1 million between actual expenditure and the figure reported in Finance's annual report to Parliament, due to the approach adopted for reporting expenditures to Finance. There is no basis on which to assess the overall efficiency and effectiveness of the campaign, as Health did not evaluate the impact of campaign events, merchandise or campaign partnerships on the physical activity of young women. Health sought advice on compliance with legal requirements. There was compliance with procurement policies and procedures, with the exception of some contract publication timeframes.

32. Each phase of the campaign was evaluated, with the Phase 3 evaluation providing an overview of the entire campaign. Health did not develop performance targets until Phase 3 and did not report performance against these targets in the final evaluation report. The evaluations reported high reach but there was little evidence of impact on the physical activity levels of the target audience. Phase 3 was undertaken at a cost of \$6 million, notwithstanding evaluations indicating that the campaign was unlikely to change behaviour in the short-term.

## National Child Care Plan campaign (Chapter 5)

33. Education undertook the necessary review, certification and publication requirements for the National Child Care Plan campaign. The Independent Communications Committee reviewed the two campaign phases together. The Secretary's certification was aided by a thorough briefing pack, including a checklist developed by the department to ensure compliance with the guidelines.

34. The campaign was: relevant to government responsibilities; presented in an objective and accessible manner; and campaign messaging was not directed at promoting party political interests. The campaign justification was that it communicated changed administrative and financial arrangements directly affecting families, and policy changes requiring families to take action to update their personal details. Education adopted the recommended media plan which advised on how to achieve efficient and effective reach for the campaign. Education sought advice on compliance with legal requirements and largely complied with procurement requirements for the campaign.

35. The department closely monitored traffic to the campaign website and media channel performance to assess effectiveness, and reported positive results for the campaign. Education evaluated the campaign, but in the absence of specific performance targets for public awareness, transition, webpage traffic and stakeholder activity, there is no basis to fully evaluate the success of the campaign.

## Recommendations

**Recommendation no.1** The *Guidelines on Information and Advertising Campaigns by non-corporate Commonwealth entities* be strengthened to ensure that:

**Paragraph 2.22**

- (a) campaigns *must* be relevant to government responsibilities (Principle 1);
- (b) campaigns *must* be presented in an objective, fair and accessible manner and be designed to meet the objectives of the campaign (Principle 2);
- (c) campaigns *must* be objective and not directed at promoting party political interests (Principle 3); and
- (d) campaigns *must* be justified and undertaken in an efficient, effective and relevant manner (Principle 4).

**Department of Finance response:** *Noted.*

**Recommendation no.2** The Australian Government amend the terms of reference for the third-party compliance advisory function (currently undertaken by the Independent Communications Committee) to enable it to review and advise on:

**Paragraph 2.38**

- (e) campaigns at any stage of development; and
- (f) final advertising materials, including creative materials and the media plan.

**Department of Finance response:** *Noted.*

**Recommendation no.3** The Department of Finance improve the transparency of its annual reporting on campaign expenditure by:

**Paragraph 2.52**

- (g) reporting a total expenditure figure for all campaigns that consolidates media spend, 'consultants, services and other costs', and GST; and
- (h) separating the Australian Electoral Commission's advertising spend relating to general elections from the overall media placement spend.

**Department of Finance response:** *Partially agreed.*

- Recommendation no.4**  
**Paragraph 2.58** The Australian Government require entities to report on the government approved budget for any new campaign or any new phase of an existing campaign, as soon as possible after launching the campaign or new phase.  
**Department of Finance response:** *Noted.*
- Recommendation no.5**  
**Paragraph 3.33** The Department of the Environment and Energy amend its campaign certification process to:
- (i) contemporaneously document how it has verified the accuracy of all statements to be made in its advertising campaigns; and
  - (j) ensure the chief executive has access to documented advice on the factual basis of all campaign statements before certifying that a campaign complies with the campaign advertising guidelines.
- Department of the Environment and Energy response:** *Disagreed.*
- Recommendation no.6**  
**Paragraph 3.42** The Australian Government require all media releases associated with launching a campaign or campaign phase to be subject to the approval and certification processes applying to campaign advertising materials.  
**Department of Finance response:** *Noted.*
- Recommendation no.7**  
**Paragraph 3.61** The Department of the Environment and Energy review its procurement and commitment processes for campaign-related services to ensure full compliance with its procurement policies and the requirement of the campaign advertising guidelines for a clear audit trail regarding decision-making.  
**Department of the Environment and Energy response:** *Agreed.*
- Recommendation no.8**  
**Paragraph 3.75** If a campaign is evaluated to have weak results against its objectives, the Department of the Environment and Energy assess whether continuing the campaign represents proper use of taxpayer resources, and document the reasons for continuing the campaign.  
**Department of the Environment and Energy response:** *Disagreed.*
- Recommendation no.9**  
**Paragraph 4.43** The Department of Health set clear and measurable performance targets for short and long-term advertising campaigns and report against the targets.  
**Department of Health response:** *Agreed.*
- Recommendation no.10**  
**Paragraph 5.34** The Department of Education report against the performance targets it has set for its advertising campaigns.  
**Department of Education response:** *Agreed.*

## Summary of entity responses

36. Summary responses from the four departments are provided below. Extracts of the draft report were also provided to the Department of the Prime Minister and Cabinet, the Independent Communications Committee, the Minister for Energy and Emissions Reduction (the Hon Angus Taylor MP) and former Minister for the Environment and Energy (the Hon Joshua Frydenberg MP). Responses from the Independent Communication Committee and Minister Taylor were also received.

## Department of Finance

Finance welcomes the conclusion that it has been largely effective in its administration of the Government's campaign advertising framework, including proactively managing brand safety risks, and providing strong support and advice to the Independent Communications Committee, and entities conducting campaigns.

Finance notes Recommendations 1, 2, 4 and 6 which are policy matters for consideration by Government. Finance partially agrees to Recommendation 3, reflecting that a high level of transparency is already achieved through the current format of annual reporting on campaign expenditure.

## Department of the Environment and Energy

The Department of the Environment and Energy notes the ANAO's findings that the Powering Forward campaign has met the standard expected in the government advertising guidelines. The Department's view, based on independent evaluation, is that the campaign was very successful and met all of its key objectives.

Specifically, the campaign built recognition strongly, delivered clear messaging around asking for a better electricity deal and encouraged people to take action.

The final evaluation report states that 63 per cent of those exposed to the campaign taking at least one action directly as a result of seeing the advertising, with almost one in four contacting an energy provider to request a better deal — equating to around 700,000 households.

These evaluation results are further supported with the Australian Energy Market Commission's 2019 annual retail competition review which notes that households switching energy retailers has hit a record high of 24.4 per cent.

The Department of the Environment and Energy notes the ANAO's conclusion that it has complied with the campaign advertising framework, with the exception of administrative procurement process improvements and welcomes the ANAO's recognition of improvements implemented during phase 5 of the campaign.

The Department of the Environment and Energy disagrees with the ANAO recommendation to amend its campaign certification process and stands by the current process. Accountable Senior Executive Service officers undertake significant due diligence in their advice to the chief executive and use appropriate judgement to determine how much documentation is required to support that decision. The Department notes the ANAO's acknowledgement that there is no prescribed form of briefing required by the guidelines.

### *ANAO comment on Department of the Environment and Energy summary response*

37. The ANAO has not concluded that the Powering Forward campaign 'met the standard expected in the government advertising guidelines'. As discussed in paragraph 24 and Recommendation 7, the ANAO found shortcomings in Environment's administration of the campaign.

## Department of Health

The Department of Health (the department) welcomes the findings in the report for the Physical Activity for Young Women campaign and agrees with recommendation 9 which relates to the department setting clear and measurable performance targets for short and long-term advertising campaigns and report against the targets.

The audit found whilst the campaign had attitudinal, behavioural, awareness and intentional objectives for all three phases of the campaign, to effectively evaluate the performance of advertising campaigns against stated objectives, the department should set clear and measurable performance targets and report against them. The department will continue to build on the short and long term objectives with clear performance targets for campaigns in line with the behavioural change model for communication campaigns and the whole of government campaign evaluation framework. The department will report against the targets.

In addition, the report states the department did not formally evaluate the events, merchandise and partnerships for the campaign. Formal evaluation of these activities sits outside the scope of the evaluation framework. However the master media buying agency provided a report on the performance of the events. The department conducted and documented an internal analysis of their performance which incorporated website analytics, social media metrics, the use of the campaign hashtag, event reach and attendance, distribution numbers and media coverage to determine value for money and effectiveness in engaging young women.

The ANAO report states the campaign adhered to principles 1 to 3 and largely with principle 5 of the guidelines. The department attained letters from the Independent Communication Committee (ICC) for each phase of the campaign stating it is capable of complying with principle 1–4 of the guidelines. The department used the evaluation research from each phase and existing research and data on physical activity levels in Australia to demonstrate the need for each phase of the campaign. The documented evidence provided for ICC consideration formed the basis of certification of the campaign against the principles, including principle 4.

The department notes recommendation 3 by the ANAO relating to the financial reporting of campaign expenditure by the Department of Finance. The Department of Finance is provided these figures directly from the master media buying agency without any oversight from the department. The department can confirm the figures reported in the annual report are the gross media buy value only and not the total media buy expenditure.

### *ANAO comment on Department of Health response*

38. As discussed in paragraphs 4.26 to 4.30, the internal analysis by Health on events, merchandise and partnerships did not conclude on the effectiveness or the value for money for conducting these activities.

### **Department of Education**

The department welcomes the report and will use the findings and observations in the report to continue to strengthen our compliance with all aspects of the information and advertising campaign principles for future campaigns.

The department agrees with the ANAO's recommendation and notes the positive findings, including that the department's briefing package to the Secretary reflects a better practice example of supporting the chief executive on compliance with the guidelines.

The department is committed to ensuring that its administration of future advertising campaigns addresses the recommendation. Additional procedures that focus on reporting against set performance targets have been included in our advertising campaign compliance processes.

## Management of the Tourist Refund Scheme

[No. 8 2019–20]

Australian Taxation Office, Department of Home Affairs, the Treasury

### Background

1. Under the Tourist Refund Scheme (TRS), travellers leaving Australia can claim a refund of the Goods and Services Tax (GST) and Wine Equalisation Tax (WET) that they have paid on goods that they have purchased in Australia within the previous 60 days.<sup>1</sup> Refunding the GST and WET reflects the fact that they are domestic taxes levied on goods or services that are consumed in Australia and so do not apply to exports. Around 60 countries around the world also have such schemes and promote the availability of refunds as an incentive for tourists to spend money in their countries. The Australian Taxation Office (ATO) believes that Australia is the only country that allows its citizens and residents to participate in the scheme<sup>i</sup>.

2. The Department of Home Affairs (Home Affairs)<sup>2</sup> and ATO jointly administer the TRS. Although TRS refunds of GST amounted to almost \$230 million in 2017–18, it represents a very small fraction of the ATO's revenue responsibility: less than one-quarter of one per cent of the total tax refunds the ATO pays out each year. Similarly, Home Affairs does not consider the TRS to be one of its operational priorities.

### Rationale for undertaking the audit

3. The use of the TRS is growing rapidly. Since July 2000, the TRS has paid refunds of more than \$1.6 billion in GST and WET<sup>ii</sup> (\$229.6 million in 2017–18) with the expectation that the scheme would boost tourism and sales by Australian retailers to international travellers<sup>iii</sup>. Around 41 per cent (\$683.4 million)<sup>iv</sup> of all refunds are paid to Australian citizens and residents, with the balance (\$989.5 million) paid to non-residents. This audit aims to provide assurance to the Parliament about whether the TRS is being administered effectively, and will improve transparency of the scheme's management and performance.

### Audit objective and criteria

4. The objective of this audit is to examine whether the TRS is being effectively administered, with the appropriate management of risks.

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

- Do Home Affairs and ATO governance systems and procedures support the effective administration of the TRS?

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<sup>1</sup> The goods must accompany the person out of the country, have a combined value of at least \$300 and have been purchased from a single business that is registered with the Australian Taxation Office for GST. If the traveller subsequently brings the goods back into Australia, they must repay the refund that they have received.

<sup>2</sup> Within Home Affairs, the Australian Border Force (ABF) is responsible for the operational administration of the TRS. The ABF is legally a part of Home Affairs, functioning as a separate operational unit.

- Have Home Affairs and the ATO established suitable controls to identify and mitigate delivery risks?

## Conclusion

6. The administration of the TRS by Home Affairs and the ATO has been partly effective.
7. Home Affairs and ATO governance processes and procedures largely support effective administration. While governance arrangements are in place, procedural guidance and performance information could be improved.
8. Home Affairs and the ATO have determined that TRS compliance is a low priority compared with their other responsibilities. They have done so in the context of an inappropriate risk assessment process and evidence suggesting there is a large level of non-compliance from Australian citizens and residents and significant revenue leakage (\$244.3 million to \$556.6 million over the life of the scheme). Although the entities have developed data analysis tools to review claims, the tools have not been embedded in business processes.

## Supporting findings

### Governance and procedures

9. Governance arrangements for the TRS are clearly documented and in place. The high-level governance arrangements for the TRS are included in the Intergovernmental Agreement on Federal Financial Relations and in a Memorandum of Understanding (and associated subsidiary arrangements) between the ATO and Home Affairs. Concerns by Home Affairs that the funding it receives to administer the TRS at the border has not kept pace with growth in the number of TRS claims remain unresolved.
10. The instructions and guidance provided to assist with the administration of the TRS are largely adequate. However, a TRS procedural instruction, which is to include Home Affairs officer training requirements, had not yet been updated.
11. Performance information is collected, analysed and reported, including on the timeliness of claim payments and activities to deliver the TRS. The information does not address the quality or integrity of the TRS system.
12. There have been a number of internal and external reviews of the TRS which have identified both structural and operational deficiencies and made a number of recommendations, most of which have been implemented.

### Risks and controls

13. Home Affairs and the ATO have not undertaken appropriate risk assessments:
  - the entities have not developed a joint risk assessment of the TRS, which would facilitate better understanding and management of shared risk;
  - Home Affairs has not provided a full risk assessment and annual update of risks, as required under the Memorandum of Understanding between it and the ATO; and
  - Home Affairs has not fully implemented the additional risk mitigations it identified in its 2018 risk assessment, to achieve its objective of reducing the risk from 'high' to 'medium'.
14. Home Affairs and the ATO have put in place limited systems and processes to manage revenue leakage. This reflects their assessment that the TRS is a low operational priority, and not a priority risk for treatment when compared with the other risks the entities manage.



15. The entities have not improved the TRS information technology system in any meaningful respect, since its introduction almost 20 years ago, to support officers to identify non-compliant or fraudulent claims. Home Affairs and the ATO have not used the available TRS data to implement systematic and routine compliance approaches to assist in detecting patterns and indicators of revenue leakage. Detections of significant instances of fraud have been ad hoc rather than as a result of systematic data analysis.

16. Based on Home Affairs and ATO figures, there has been between \$244.3 million and \$556.6 million in GST revenue leakage from the TRS since the scheme commenced in 2000. This money would otherwise have been paid to the states and territories.

17. While Home Affairs has the capacity to impose GST penalties, Home Affairs stopped issuing penalties for undeclared importation of TRS-claimed goods between 2013 and 2018 and has used the GST penalty regime infrequently since it recommenced issuing them. Home Affairs can place alerts on returning Australian citizens and residents where it suspects that goods may be reimported without being declared. However, although this has produced a 'hit' rate of 41.9 per cent when it has been used, it is used relatively infrequently.

18. Proposals to government to develop options for it to consider abolition of the scheme, exclusion of Australians from its operation or outsourcing its operation have not been agreed.

## Recommendations

**Recommendation no.1**  
**Paragraph 3.13** The ATO and Home Affairs improve risk management of the TRS by preparing a joint risk assessment of the TRS which identifies all risks and appropriate treatments, and review the assessment annually.

**Department of Home Affairs response:** *Agreed.*

**Australian Taxation Office response:** *Agreed.*

**Recommendation no.2**  
**Paragraph 3.49** In order to provide advice to the government about the numbers of Australian citizens and residents who fail to declare at the border goods for which they have previously received a GST refund through the TRS, and the amount of revenue leakage due to these goods being reimported, that Home Affairs, the ATO and the Treasury:

- (b) jointly develop a methodology for estimating this non-compliance and revenue leakage;
- (c) conduct an exercise to measure the non-compliance and revenue leakage; and
- (d) report the results of this exercise to the government.

**Department of Home Affairs response:** *Agreed.*

**Australian Taxation Office response:** *Agreed.*

**Treasury response:** *Agreed.*

**Recommendation no.3**  
**Paragraph 3.68** Home Affairs and the ATO implement and embed into business practices the data analysis tools that they have already developed.

**Department of Home Affairs response:** *Agreed.*

**Australian Taxation Office response:** *Agreed.*

## Summary of entity responses

### Department of Home Affairs

19. The Department of Home Affairs (the Department) and the Australian Border Force (ABF) welcome the review of the Management of the Tourist Refund Scheme (TRS) and acknowledge the value of the ANAO providing independent analysis of and insights into the administration of the TRS. We are pleased that the ANAO found that there are robust governance arrangements for the TRS in place which largely support effective administration of the TRS.

20. As noted in the report, the Department and ABF consider the administration of the TRS of relatively low risk and operational priority compared with our other responsibilities such as national security, border protection and immigration policy. We are committed to delivering the government's intent to the best of our ability within the current funding envelope, however the funding we receive to administer the TRS at the border has not kept pace with the escalating number of claims made each year. We raised this on a number of occasions over the past five years noting that the number of TRS claims has almost doubled whilst the funding provided by the Australian Taxation Office (ATO) has slightly fallen.

21. The TRS has been subject to a number of reviews since 2000 and the Department has actively addressed recommendations for improvement. For example, all six recommendations arising from an internal audit conducted in October 2011 were implemented and formally closed by the Departmental Audit Committee. Through the process of relatively continuous review, we are comfortable that any

risks associated with the administration of the TRS at the border are well-known to the Department as are the potential avenues for revenue leakage.

22. We note that the report raises areas that the ANAO believes would further enhance our approach to risk assessment and estimating revenue leakage in the TRS, by working with the ATO to prepare a joint risk assessment and implement data analysis tools. The Department and ABF agree with these recommendations. The Department and ABF are engaging with the ATO to develop a joint risk assessment that will be reviewed annually and endorsed by the Inter-Agency Liaison Committee, established under the Memorandum of Understanding between the ATO and the Department. A joint-agency workshop to commence this work was held in July 2019.

23. We also note the recommendation to the Department, ATO and Treasury regarding the development of a methodology for estimating the numbers of Australian citizens and residents who fail to declare goods for which they have previously received a GST refund through the TRS, and the amount of revenue leaked due to the re-importation of these goods, for reporting to the Government. The Department and ABF agree with this recommendation and will work with the ATO and Treasury to develop and implement an appropriate methodology and mechanism for reporting to Government. This work was also commenced at the joint-agency workshop held in July 2019.

24. In terms of governance, the Department finalised and distributed to relevant staff the Tourist Refund Office Procedural Instruction identified in your report which applies to the operations of the TRS Support team in Strategic Border Command located in Canberra. This Procedural Instruction will soon be published on the Department's intranet and be available more broadly across the Department. The operation of data analysis tools referred to in recommendation three of your report will be included and explained in a Standard Operating Procedure for the Tourist Refund Office that will be developed following publication of the TRS procedural instruction. This will provide further guidance on the operation of these tools and further embed the use of the tools into standard business practice.

## **Australian Taxation Office**

25. The ATO welcomes this review and considers the Report supportive of our overall approach to managing the Tourist Refund Scheme (TRS). In finding the ATO's compliance approach toward the TRS to be generally effective, we accept that the review did identify a number of opportunities for improvement by conducting a joint risk assessment process with the Department of Home Affairs.

26. The ATO notes that the ANAO has relied on unverified Department of Home Affairs' non-compliance rates to calculate revenue leakage. The joint risk assessment will provide a more robust process to verify revenue leakage.

27. We also observe that it would appear to be impractical to enforce the TRS at airports to reduce the ANAO's currently stated revenue leakage. Whilst this is a matter for the Department of Home Affairs to consider, the ATO believes that any compliance strategy under the current TRS framework will have a negative impact on international passenger experience.

28. The ATO acknowledges that improvements to the TRS framework are required and has previously supported several submissions to Government for legislative amendments.

29. The ATO agrees with the three recommendations contained in the Report.

## **Treasury**

30. The Treasury notes the overall conclusions and findings of the audit.

31. Recommendation 2 is the only recommendation directed at Treasury, along with the Australian Taxation Office and the Department of Home Affairs. Treasury agrees with this recommendation.

32. We will consider the learnings within the report in the context of Treasury's responsibilities in relation to the Tourist Refund Scheme.

## Key messages for all Australian Government entities

33. Below is a summary of key messages that have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

### **Governance and risk management**

- Where separate entities have responsibility for a single program and it is known that significant program risks exist, the entities should jointly develop a risk-based approach to compliance, including through shared identification of risks and together preparing risk management plans and strategies to mitigate the risks.

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**National Ice Action Strategy Rollout**  
**[No.9 2019–20]**  
**Department of Health**

## Background

1. In April 2015 the Australian Government established a National Ice Taskforce (the Taskforce) to report on actions needed to address crystal methamphetamine use in Australia. The Taskforce recommended actions aimed at reducing demand, supply, and the harms associated with crystal methamphetamine use.<sup>1</sup>
2. The National Ice Action Strategy (NIAS) was endorsed by the Council of Australian Governments (COAG) in December 2015 with the goal of:  
Reducing the prevalence of ice use and resulting harms across the Australian community.<sup>2</sup>
3. The NIAS identified five action areas, as follows:
  - support for families and communities;
  - targeted prevention;
  - investment in treatment and workforce;
  - focused law enforcement; and
  - better research and data.<sup>3</sup>
4. All governments are responsible for the implementation and monitoring of the NIAS. The NIAS included that a Ministerial Drug and Alcohol Forum (MDAF) would be formed to oversee the development, implementation and monitoring of Australia’s national drug policy framework, including the NIAS, from 2016. The forum was to consist of health and justice Ministers with responsibility for alcohol and drug policy and law enforcement, and report directly to COAG.

## Rationale for undertaking the audit

5. This audit was undertaken to provide assurance that a key strategy to reduce the prevalence of crystal methamphetamine use and resulting harms across the Australian community is being implemented effectively and that progress on the delivery of the actions presented in the NIAS is transparent. According to the Australian Institute of Health and Welfare, in 2016, 50,000 people self-reported using crystal methamphetamine at least once a week.<sup>4</sup> The Australian Government budgeted NIAS funding for actions that the Department of Health has responsibility for implementing is \$451.5 million over six years (from 2016–17 to 2021–22). Through consultation with the Joint Committee of Public Accounts and Audit, this audit topic was identified as an Audit Priority of the Parliament in 2018.

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<sup>1</sup> National Ice Taskforce, *Final Report of the National Ice Taskforce*, Commonwealth of Australia, 2015, p. vi–xv.

<sup>2</sup> Council of Australian Governments, *National Ice Action Strategy*, COAG, 2015, p. 7.

<sup>3</sup> Council of Australian Governments, *National Ice Action Strategy*, COAG, 2015, p. 23.

<sup>4</sup> Australian Institute of Health and Welfare, *National Drug Strategy Household Survey 2016: detailed findings*, AIHW, 2017. The number of people who self-reported using crystal methamphetamine was calculated from the estimated residential population for 2016 published in Table 10.7.

## Audit objective and criteria

6. The objective of the audit was to assess the effectiveness of the Department of Health's (the department) implementation of the NIAS.

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

- planning and governance arrangements established to support implementation of the NIAS were appropriate;
- delivery of NIAS actions was effective; and
- progress is transparent.

## Conclusion

8. The Department of Health's implementation of the National Ice Action Strategy is partially effective. While Australian Government funding to the alcohol and other drug sector has been increased and actions have been progressed, there is no monitoring to assess whether progress is being made towards the Strategy's goal of reducing the prevalence of ice use and resulting harms across the Australian community.

9. The department has established appropriate governance arrangements to support implementation of the National Ice Action Strategy, but did not plan for implementation effectively. Performance and accountability measures were not developed, and implementation and risk plans were not used.

10. The department's delivery of actions contained in the National Ice Action Strategy is largely effective. The department has delivered, or is in the process of delivering, the 19 actions it has responsibility for and Australian Government funding for the alcohol and other drug sector has increased. Although the department monitors the activities of Primary Health Networks, it has not finalised a quality and assurance framework that would allow it to assess that Primary Health Networks are effectively commissioning, monitoring and evaluating alcohol and other drug services.

11. The department does not have an evaluation approach in place for the National Ice Action Strategy, and is not monitoring progress towards the goal and objective. Public reporting by the department does not currently provide sufficient transparency about how implementation is progressing or what progress is being made towards the goal and objective.

## Supporting findings

### Planning and Governance

12. Roles and responsibilities for implementing, monitoring and reporting on the National Ice Action Strategy (NIAS) have been clearly assigned and formalised with all relevant parties. The department supported the establishment of the Ministerial Drug and Alcohol Forum (MDAF) and the National Drug Steering Committee to oversee Australia's national drug policy framework. The department has briefed the MDAF on progress towards implementing the 19 actions it has responsibility for. The MDAF has not met since June 2018 and has not yet provided its 2018 annual report to COAG.

13. The department's planning for the implementation of the NIAS was not effective. The department drafted, but did not use or update, an implementation plan and risk register aside from monitoring progress of the actions it has responsibility for implementing. An approach to measuring performance was not established. Actions recommended by the department's program assurance team to ensure performance and accountability measures are in place have not been progressed by

the program area. These actions include developing a risk management plan, a logic model, a stakeholder engagement framework and a change management plan.

### **Delivery of National Ice Action Strategy actions**

14. The department's implementation planning to expand alcohol and other drug treatment services through the Primary Health Networks (PHNs) was partially effective. The department developed processes and guidance to assist the PHNs to undertake the commissioning process but the department's timeframes for PHNs to undertake strategic planning proved to be unrealistic. The department's framework for assessing the quality of the PHN planning documentation is also incomplete. All 31 PHNs were commissioning services by December 2017, 12 months later than the department initially anticipated.

15. The department does not yet have appropriate mechanisms in place to verify the information it collects from PHN reporting or assess PHN performance management.

16. Out of the 19 NIAS actions for which the department is responsible, three are being delivered through the PHNs. The first action, to increase investment in the alcohol and other drug sector, has been delivered through the Australian Government's investment of around \$59 million per year. While the department does not have a clear way of demonstrating the delivery of the remaining two actions, relating to increasing linkages between providers and enhancing early intervention and post-treatment care, evidence suggests they are being progressed.

17. The department has delivered nine of the remaining 16 NIAS actions, and is progressing the remaining seven actions, either through contracts with external providers or through the NIAS governance arrangements. The department has monitored delivery through reporting arrangements as specified in relevant contracts. The delay in establishing the National Centre for Clinical Excellence has resulted in revised timeframes for the Centre to deliver its agenda. Planned enhancements to national treatment data are either on hold, or may be implemented in time for the 2020–21 collection year on a best endeavours (rather than mandated) basis. Of the \$13 million allocated for new Medicare Benefits Schedule (MBS) items for Addiction Medicine Specialists, as at 31 March 2019, only \$3.1 million (24 per cent) has been paid in MBS benefits.

### **Monitoring progress and transparency**

18. The department did not develop an evaluation framework as required by the Australian Government. Out of the 19 actions for which the department has responsibility, two actions have evaluation frameworks in place, another two actions have been evaluated, and one action is scheduled to be evaluated from July 2019. However, there is no overarching evaluation framework or evaluation plan in place, and baseline performance information from which to assess what is being achieved by delivering the actions through the NIAS has not been defined.

19. The department does not monitor progress toward the goal and objective of the NIAS. While the NIAS does not contain outcomes, performance indicators, or a performance framework that would facilitate monitoring progress towards the goal and objective, the department did not address this gap. Data capable of measuring progress towards the NIAS goal and objective is collected and publicly reported by a range of entities. The department has not developed an approach to draw this data together in a manner that would allow for progress toward the goal and objective to be monitored.

20. Public reporting on the implementation of the NIAS has not been adequate for transparency and accountability purposes, as the two annual progress reports provided by the MDAF to COAG for 2016 and 2017 have not been made public. The intended inclusion and publication of NIAS progress reports within the National Drug Strategy annual progress reports will increase transparency regarding the progress of individual NIAS actions, if information in the report is adequate. Public reporting by the Australian Institute of Health and Welfare on alcohol and other drug treatment services cannot separately identify services funded under the NIAS.



## Recommendations

- Recommendation no. 1**  
**Paragraph 2.30** That the Department of Health ensures performance, risk and accountability measures are in place to support implementation of the National Ice Action Strategy.
- Recommendation no. 2**  
**Paragraph 3.24** That the Department of Health finalise the Primary Health Network Quality and Assurance Framework, with appropriate actions to assess whether PHNs are operating appropriately across the commissioning cycle.
- Recommendation no. 3**  
**Paragraph 4.11** That the Department of Health develop an evaluation framework for the National Ice Action Strategy, including the identification of suitable baseline performance information from which progress can be measured.
- Recommendation no. 4**  
**Paragraph 4.26** That the Department of Health monitor progress towards the goal and objective of the National Ice Action Strategy and provide this information to government.
- Recommendation no. 5**  
**Paragraph 4.42** That the Department of Health improve public reporting on how the implementation of the National Ice Action Strategy is progressing and what is being achieved.

## Summary of entity response

Australian Government initiatives and funding supporting the National Ice Action Strategy has led to increased availability of alcohol and drug treatment services across Australia which help to overcome dependence and reduce harm.

The report found the administrative planning of the health-led actions was not effective. However, the appropriate level of planning was undertaken to ensure services were implemented in a timely manner. There was multi-jurisdictional consultation and engagement with Primary Health Networks to ensure local needs assessments were carried out. The report also indicated effective delivery of the actions the Department of Health (department) was responsible for.

While the department acknowledges initial planning processes could have been improved, there is some evidence the department's roll out of activities—including providing funding for alcohol and other drug treatment services through Primary Health Networks—is contributing to reducing the harms associated with crystal methamphetamine. While direct attribution for reductions of national prevalence under the NIAS is not valid, the department is encouraged by recent data showing a decrease in the national rates of use of reported consumption of methamphetamines (from 2.1% to 1.4% between 2013 and 2016), including ice (1.0% to 0.8% over the same period). The department will continue to monitor trends in drug use, including the work undertaken by Australia's alcohol and other drug research sector and state and territory governments.

The department is successfully progressing the 19 National Ice Action Strategy actions for which it has primary or shared responsibility, on schedule, and is continuing to work collaboratively with states and territories to ensure shared NIAS actions and objectives are realised.

More is being done to work with the Primary Health Networks—responsible for managing over 500 alcohol and drug treatment services across Australia—in adjusting our strategic approach to reducing the harms crystal methamphetamine and other illicit drugs are causing to individuals, families and communities.

The department is continuing to implement and monitor these treatment services, as well as other related activities through the broader Drug and Alcohol Program of the Australian Government. The department—with the Department of Home Affairs—is also working closely with the states and territories through the National Drug Strategy Committee to continue oversight and collaboration on areas of shared responsibility and focus. This work includes the development of a robust National Drug Strategy Reporting Framework, which will include reporting of progress against the objectives in the National Ice Action Strategy.

The department is fully committed to adopting better practices in governance arrangements, management and program evaluation, and has already taken steps to address issues identified in this audit. In 2018, the department took action to improve its internal capability to oversee the Primary Health Network Program, including establishing the risk management plan, refining the program performance and quality framework, and establishing projects to strengthen implementation.

The effective implementation of the National Ice Action Strategy is underpinned by a recognition of the need for national collaboration across jurisdictions and across agencies in reducing the harms associated with ice use across Australia. The report has focused on health-related actions exclusively and has attributed sole ownership for all health actions to the department. While this is true for a number of individual actions, the responsibility for planning, delivery and implementation of the majority of actions is shared between the Commonwealth and states and territories as reflected in the joint governance arrangements and reporting. An overarching evaluation of the National Ice Action Strategy, developed in collaboration with the states and territories for the consideration of the Council of Australian Government's, will assess the effectiveness of the rollout of the National Ice Action Strategy.

## Design and Governance of the Child Care Package

[No. 10 2019–20]

Department of Education

# Summary and Recommendations

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## Background

1. In the December 2018 quarter more than 1.3 million children used approved child care in Australia — representing 32 per cent of Australia’s children aged 12 years and under. The Australian Government has been providing child care fee assistance since 1972. Between mid-2000 and mid-2018, the Child Care Benefit<sup>1</sup> and Child Care Rebate<sup>2</sup> were the two most widely used forms of child care fee assistance.

## Child Care Package

2. The Australian Government announced the new Child Care Package (the Package) on 10 May 2015, with the policy objective to deliver ‘a simpler, more affordable, more flexible and more accessible child care system’ and ‘to help parents who want to work or work more’.<sup>3</sup> The Package comprises the Child Care Subsidy (\$35.7 billion over four years from 2019–20) and support for the child care system, including the Child Care Safety Net, \$1.4 billion over four years from 2019–20.

3. The Department of Education<sup>4</sup> (the department) is the policy owner, accountable authority and lead entity with responsibility for implementing the child care reforms that make up the Package.<sup>5</sup> The department engaged Services Australia<sup>6</sup> under service delivery arrangements to deliver information technology (IT) services and manage the child care subsidy payments. The department also has a memorandum of understanding with the Department of Social Services for the delivery of information and communication technology (ICT) services.

4. The *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Act 2017*, which outlined the new Package arrangements and requirements, was enacted on 4 April 2017, and the Package took effect on 2 July 2018.

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<sup>1</sup> The Child Care Benefit was introduced on 1 July 2000, replacing Childcare Assistance and the Childcare Cash Rebate. It was a means-tested payment designed to help low and middle-income families with the cost of child care.

<sup>2</sup> The Child Care Rebate was introduced in 2005 as a non-means-tested payment providing families who were eligible for the Child Care Benefit with additional financial assistance.

<sup>3</sup> The Hon S Morrison MP, (Minister for Social Services), ‘Jobs for families child care package delivers choice for families’, media release, Parliament House, Canberra, 10 May 2015.

<sup>4</sup> The Department of Education and Training became the Department of Education under the Administrative Arrangements Order of 29 May 2019.

<sup>5</sup> The Administrative Arrangements Order of 23 December 2014 transferred responsibility for child care functions from the department to the Department of Social Services (DSS). Nine months later, the Administrative Arrangements Order of 21 September 2015 transferred child care functions from DSS back to the department.

<sup>6</sup> For most of the period covered by the audit, Services Australia was called the Department of Human Services. The Department of Human Services became Services Australia under the Administrative Arrangements Order of 29 May 2019. The ANAO refers to this department as Services Australia throughout this report.

### *Child Care Subsidy*

5. The Child Care Subsidy (the subsidy) is the centrepiece of the Package. It replaced the Child Care Benefit and the Child Care Rebate as a single means-tested subsidy to be paid to child care service providers (providers) and passed on to families as a fee reduction. In addition to basic eligibility requirements, the amount of subsidy entitlement is determined by a combination of family income, hours of activity and the type of child care service used.

### *Child Care Safety Net*

6. The Child Care Safety Net comprises three main elements: the Additional Child Care Subsidy; the Community Child Care Fund (including Connected Beginnings); and the Inclusion Support Program. These programs aim to provide additional support to disadvantaged or vulnerable communities and families.

## **Rationale for undertaking the audit**

7. The Australian Government has provided financial support for child care since 1972 and established a new Child Care Package in 2018, with the objective to deliver a simpler, more affordable, more flexible and more accessible child care system that would help parents who want to work or work more. More than 1.3 million children used approved child care in the December 2018 quarter. This audit examines whether the new Package has been designed to support the achievement of the policy objectives and is being governed effectively.

## **Audit objective and criteria**

8. The audit objective was to assess the effectiveness of the Department of Education's design and governance of the Child Care Package.

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

- Was the Child Care Package designed to support the achievement of the Australian Government's policy objectives?
- Have sound arrangements been established and implemented to support the transition to, and management of, the Child Care Package?

## **Conclusion**

10. The Department of Education's design and governance of the Child Care Package was largely effective, except that the focus on key policy objectives for the Package in key documentation has diminished over time and ongoing oversight arrangements were not established in a timely manner.

11. The department's design of the Package to support the achievement of the Australian Government's policy objectives was largely effective. The department considered impacts on key stakeholders in the design of the Package, implemented an effective engagement strategy and provided appropriate advice to the Australian Government at key stages of design and implementation. Objectives were developed for the Package that aligned with the Australian Government's policy objectives, however, these have not been consistently stated in departmental documents and the focus on key policy objectives in these documents, such as greater workforce participation, has diminished over time.

12. Sound arrangements were implemented to support the transition to the Package. Arrangements for the management of the Package are being implemented, with frameworks established for the Package's risk management, compliance, performance management and evaluation activities. However, oversight arrangements for the management of the Package, were not established in a timely manner and are still under development.

## Supporting findings

13. Objectives were developed for the Package that aligned with the Australian Government's policy objectives. The focus on key policy objectives, such as greater workforce participation, has not been consistently or accurately stated in key departmental documents such as the 2018 Corporate Plan and Package planning, governance and communications documents.
14. Impacts on key stakeholders, such as families and child care service providers, were considered in the design of the Package.
15. An effective engagement strategy was developed and implemented for the Package.
16. Appropriate advice was provided to the Australian Government on the design and implementation of the Child Care Package.
17. Effective arrangements were established and implemented to assist key stakeholders, including families and child care providers, to transition to the new package arrangements in a timely manner, with 88.1 per cent (1,024,359 of 1,162,908) of the families who had been invited to transition and 99.9 per cent of child care providers transitioning by the 2 July 2018 deadline.<sup>7</sup>
18. Effective oversight arrangements were established and implemented for the transition to the Package. Oversight arrangements for the ongoing management of the Package were not established in a timely manner and are still under development.
19. Effective risk management plans, which were consistent with the department's entity-wide risk management policy and framework, have been established and implemented for the Package.
20. A compliance framework has been established for the Package, building on prior compliance strategies and activities, and is in the process of being implemented.
21. A performance management framework has been established for the Package which has the potential to be effective.
22. An evaluation framework has been developed and is being implemented, with the first report finalised in July 2019 and the final report expected in June 2021.

## Recommendations

- Recommendation no. 1**  
**Paragraph 2.13**
- The department ensure that the Child Care Package objectives are accurately described in internal and external documents and are consistent with the Australian Government's key policy objectives, such as greater workforce participation.

**Department of Education response:** *Agreed.*

## Department of Education's response

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

The department welcomes the ANAO's report and will use the findings and observations from the report to inform and enhance ongoing Package implementation and delivery arrangements. The recommendation is agreed and the ANAO's suggested area for improvement regarding oversight arrangements for the Package will also be used to strengthen existing arrangements including where service delivery is outsourced to another entity.

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<sup>7</sup> 1,024,359 of the 1,162,908 families invited to transition completed the transition process by 2 July 2018. The Department advised that some families invited to transition in April 2018 would have ceased using child care by 2 July 2018 due to changes in their circumstances and hence did not need to transition.

## Key messages from this audit for all Australian Government entities

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

### **Policy/program design**

- When designing major policy initiatives, it is good practice to dedicate sufficient time and resources for meaningful consultation with affected stakeholders and consideration of how elements of the policy design will impact these stakeholders. This has been a strength of the department in designing the Package.

### **Governance and risk management**

- Outsourcing service delivery (for example, IT services) does not reduce an entity's accountability responsibilities. As the entity remains accountable for all elements of delivery, it should ensure that effective oversight arrangements are established in a timely manner, service and quality control expectations are agreed and maintained and its business is appropriately prioritised, to help provide assurance that policy objectives are being met.

### **Performance and impact measurement**

- Evaluation is a critical element of establishing accountability for program performance against objectives and providing insight to ensure ongoing improvement in program impact. It is good practice to consider the evaluation approach early and to establish an evaluation framework during the design phase, as was done by the department.

## Appendix 1 Entity Response



Australian Government  
Department of Education

Secretary  
Dr Michele Bruniges AM

Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Mr Hehir

### **Design and Governance of the Child Care Package**

Thank you for the opportunity to respond to the proposed Australian National Audit Office (ANAO) audit report on the 'Design and Governance of the Child Care Package'. The Department of Education ('the department') acknowledges the need to accurately and consistently describe the Australian Government's policy objectives in the implementation of the Child Care Package ('the Package') and the need to further develop oversight arrangements to maintain implementation of the Package.

The department's summary response and response to the recommendation is below:

#### *Summary Response*

*The department welcomes the ANAO's report and will use the findings and observations from the report to inform and enhance ongoing Package implementation and delivery arrangements. The recommendation is agreed and the ANAO's suggested area for improvement regarding oversight arrangements for the Package will also be used to strengthen existing arrangements including where service delivery is outsourced to another entity.*

#### *Response to the recommendation*

*The department agrees with the recommendation and will ensure that the Australian Government's key policy objectives for the Child Care Package are accurately and consistently stated in all relevant documentation at the entity and program level.*

I would like to thank the ANAO audit team for their professional and collaborative approach and acknowledge the usefulness of the insights and suggestions for improvement that are included in the report.

If you would like further information on the department's response, please contact Ms Kylie Crane, Group Manager, Payment Policy and Engagement on (02) 6240 9177.

Yours sincerely

**Dr Michele Bruniges AM**  
14 September 2019

*Opportunity through learning*

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