



Commonwealth investments to achieve policy objectives: Inquiry into Auditor-General Reports Nos. 14, 26, 28 and 47 (2020-21)

Submission from the National Housing Finance and Investment Corporation (NHFIC) to the Joint Committee of Public Accounts and Audit

October 2021

Introduction

The National Housing Finance and Investment Corporation (NHFIC) welcomes the opportunity to make a submission to the Joint Committee of Public Accounts and Audit Inquiry into Commonwealth investments to achieve policy objectives based on Auditor-General Reports Nos. 14, 26, 28 and 47 (2020-21).

This submission refers to Auditor-General's Report No. 28 *Administration of the National Housing Finance and Investment Corporation* (the ANAO report) tabled in Parliament on 22 January 2021.

Background

The ANAO performance audit examined the effectiveness of the administration of NHFIC. The ANAO made five recommendations to support the continuous improvement of NHFIC's policies and procedures and its monitoring and reporting. The recommendations focused on the monitoring and reporting of performance under NHFIC's service level agreement (SLA) with Export Finance Australia (EFA), risk management, compliance management, and measuring and presenting of NHFIC's achievements in delivering improved housing outcomes. NHFIC accepted all five of the ANAO's recommendations.

Following the release of the ANAO report in January 2021, NHFIC management established multiple workstreams to progress NHFIC's response to each of the recommendations, with oversight by the Audit and Risk Committee (ARC). Comprehensive responses were developed and fully completed by June 2021.

NHFIC sought the independent advice of McGrathNicol to assess its responses to the ANAO report. McGrathNicol found that "NHFIC has provided evidence to demonstrate all actions to address the ANAO recommendations have been completed."

Progress on implementation of recommendations

Recommendation 1: NHFIC implement rigorous monitoring and reporting of performance under the Services Agreement between Export Finance Australia and NHFIC.

NHFIC has implemented more rigorous monitoring and reporting of performance under the SLA by formally scheduling monthly meetings with EFA to discuss quality and efficiency of service and value for money. These formal meetings complement the existing informal communications between EFA and NHFIC staff on routine core services such as payroll, accounts payable and technology related matters. All formal meetings between NHFIC and EFA are documented and any outstanding action items are reported to senior management.

Key performance indicators (KPIs) have been established for services provided by EFA under the SLA including in relation to accuracy, responsiveness/timeliness and quality of services. A performance measurement report on achievement against the KPIs has been presented to the ARC on two occasions and will continue to be reported semi-annually. NHFIC has further implemented a contract management plan and documented procedures and checklists for reviewing cost items prior to approval for payment.

The SLA was reviewed in April 2021 as part of NHFIC's internal audit program, focusing on services provided by EFA. Overall, internal audit found that the NHFIC has a strong working relationship with EFA, which is underpinned by a detailed SLA and processes to manage the provision of services delivered to the NHFIC.

The SLA was also reviewed by NHFIC management prior to its expiry and a report provided to the ARC on 8 June 2021 which concluded that services were delivered to a high degree of satisfaction and met the requirements of the SLA. The ARC endorsed NHFIC management continuing the SLA with EFA and a new SLA was signed on 30 June 2021 for a further 12 months.

Recommendation 2: NHFIC review and update the risk framework and risk assessments to better support the NHFIC Board in the identification and treatment of risks.

NHFIC's response to Recommendation 2 was implemented prior to the release of the ANAO report.

In December 2020, the ARC and Board approved a Risk Management Policy that had regard to the Commonwealth Risk Management Policy and ISO 31000 2018 Risk Management.

NHFIC engaged additional risk management expertise to review, revise and embed a risk management framework that meets NHFIC's emerging needs and complies with its Investment Mandate and the Accountable Authority Instructions.

The ARC approved a Risk Management Plan in February 2021. The plan included the development of several key structures to embed the risk management framework and promote a strong risk management culture. This included the establishment of an Executive Risk Committee (ERC), the enhancement of business unit risk registers, alignment of strategic risks with the corporate planning process and assessment of compliance within the Protective Security Policy Framework. Progress against the risk management plan is monitored by the ERC and reported to the ARC.

NHFIC has enhanced its framework of risk registers at the business unit level to drive risk ownership and accountability cross the organisation. The risk registers identify enterprise-wide risks and business unit specific, operational risks, including the identification of shared risks and fraud exposures.

Regular training on risk and compliance topics for NHFIC staff is a focus of the risk management plan and is aimed at deepening staff understanding of the overall risk and control processes and encouraging the promotion of a risk aware culture across NHFIC. Further, NHFIC holds an annual Board risk workshop to provide the Board with an overview of risk management developments across NHFIC and broader industry trends in risk, compliance and director's duties.

Recommendation 3: NHFIC implement additional measures to give greater assurance over the quality of, and compliance with, legislation, policies and procedures.

NHFIC's response to Recommendation 3 was implemented prior to the release of the ANAO report.

In December 2020, the ARC and Board approved a Compliance Policy that has regard to ISO 19600:2015 Compliance Management Systems. In addition, NHFIC enhanced its capability in this area with the recruitment of additional risk and compliance resourcing.

The ERC has oversight of an enhanced policy governance framework, key compliance activities, compliance training, breach management and reporting. NHFIC provides ongoing compliance training and periodic briefings for employees and requires all employees to complete a range of refresher training annually. This ensures employees are up to date with legislative requirements and other compliance matters, their legal obligations in financial dealings, information security and other emerging matters. All new employees complete a full suite of mandatory training as part of their induction and onboarding.

Recommendation 4: NHFIC present more consistent and transparent information to the NHFIC Board on how it contributes to 'improved housing outcomes'.

NHFIC has enhanced the quality and consistency of information presented to the NHFIC Board by implementing new decision-making templates that specifically address the issue of additionality as referenced in the ANAO report. The updated templates for transactions clearly detail the benefit associated with NHFIC financing, including in relation to the supply of new and existing social and affordable housing and anticipated interest savings to community housing providers from the provision of concessional loans.

NHFIC has also introduced internal peer review meetings to review approved transactions to ensure learnings from particular deals are adopted and incorporated into future transactions.

Recommendation 5: NHFIC strengthen its performance measures to address its legislative object 'to improve housing outcomes' and to provide a greater understanding of its efficiency and effectiveness in delivering outcomes.

NHFIC's 2021-22 Corporate Plan (the Plan) was approved by the Board in August 2021 and published on our website. As part of the process of developing the Plan, NHFIC incorporated feedback from the ANAO report and the Department of Finance and engaged an external consultant to assist with the development of a revised set of performance measures which were approved by the NHFIC Board in June 2021.

In drafting the Plan, we refined the format reflecting the maturing of our operations, strengthened the connectivity between our governing legislative framework and how we implement our key activities, and enhanced our performance measures so they provide a greater understanding of our efficiency and effectiveness in delivering improved housing outcomes. This included specifying new measures relating to additionality (that is, additional housing supply) where outcomes will be reported once known to complement the performance measures where it is reasonably practicable to set meaningful targets upfront.

Drawing on the classification framework in Finance RMG 131, the performance measures in the Plan include a mix of types (output, efficiency and effectiveness), measurement bases (quantitative, qualitative or combination) and hierarchy (accountability, strategic, tactical and management) to provide holistic information on the achievement of NHFIC's key activities. The external consultant validated NHFIC's classification of its performance measures against RMG 131.

Conclusion

As highlighted in our response to the ANAO report, NHFIC's Board and management are committed to continuous improvement and saw the ANAO report as an opportunity to further strengthen and refine NHFIC's systems, policies and procedures.

While NHFIC has made substantial progress since its establishment three years ago, we believe implementation of the recommendations has assisted NHFIC to increase the effectiveness of its risk management, reporting systems and governance arrangements.