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Ms Susan Cardel
Committee Secretary
Joint Committee of Public Accounts and Audit
PO Box 6021
Parliament House
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Dear Ms Cardell

Thank you for your letter of 9 July 2018 in relation to the Joint Committee of Public Accounts and Audit (JCPAA) second inquiry into Commonwealth Financial Statements and your follow-up on the Government response to the first inquiry.

I note that the National Disability Insurance Agency (NDIA) was required to present a response to the recommendations of the JCPAA by 6 March 2018 based on JCPAA Report 463, *Commonwealth Financial Statements*, based on Audit Report No. 33 (2016 -2017), *Audits of Financial Statements of Australian Government Entities for the Period Ended 30 June 2016*. I apologise for not submitting a timely response to the request.

Furthermore, I note that the NDIA is invited to make a submission to the JCPAA second inquiry into Commonwealth Financial Statements based on Audit Report No. 24 (2017 – 2018), *Audits of Financial Statements of Australian Government Entities for Period Ended 30 June 2017*.

The attached Executive Minute provides the NDIA's response to the recommendations from Report 463 and its submission in respect of the second inquiry.

Yours sincerely

Robert De Luca
Chief Executive Officer
National Disability Insurance Agency

16 July 2018

Encl.

EXECUTIVE MINUTE
on
JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT
REPORT No. 463
Commonwealth Financial Statements
and
SUBMISSION TO THE
JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT
SECOND INQUIRY – AUDIT REPORT 24

General comments

The Joint Committee of Public Accounts and Audit (JCPAA) issued its Report 463: Commonwealth Financial Statements in August 2017. This report was based on Audit Report No. 33 (2016 – 2017), Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016. The Report included a number of recommendations, the first recommendation being applicable to the National Disability Insurance Agency (NDIA).

Furthermore, the JCPAA has also invited the NDIA to make a submission to the JCPAA's second inquiry into Commonwealth Financial Statements, based on Audit Report No 24 (2017 – 2018), Audits of Financial Statements of Australian Government Entities for the Period Ended 30 June 2017.

The NDIA welcomes the JCPAA Report No. 463, Commonwealth Financial Statements.

The National Disability Insurance Scheme (NDIS) commenced its transition phase to full Scheme on 1 July 2016 following a three year trial period. The NDIA has a large and complex task to reach full Scheme maturity. The NDIA's operating model, as well as underlying processes and procedures, is in a state of constant refinement as the NDIS transition continues.

The NDIA has the benefit of a number of committee reviews, findings and recommendations, including the results of audits conducted by the Australian National Audit Office (ANAO), to inform its policies and practices. Many of these recommendations relate to issues of which the NDIA is aware, and in some cases, are a symptom of the fact the NDIS transition is a work in progress. As outlined in the NDIA's 2017-21 Corporate Plan, the NDIA is taking a structured approach to prioritising and implementing changes in order to have the greatest impact. ANAO recommendations, particularly those that are classed as significant, are being addressed as high priority items within this context.

Response to recommendation

Recommendation No: 1

The Committee Recommends that, should the Australian National Audit Office audits of the financial statements of the National Disability Insurance Agency...for the period ended 30 June 2017 result in any significant audit findings, whether new or unresolved from 2015-16, these entities promptly report back to the Committee on progress in responding to such findings, including actions taken on this matter by the entity's audit committee.

Summary of response: Agreed

Supporting rationale:

The NDIA agrees with the recommendation set out above. It is noted that at the end of the 2015 – 2016 ANAO audit, there was one Category A audit finding.

Furthermore, the 2016 – 2017 ANAO audit highlighted a number of significant and moderate findings as set out in the table below:

Categorisation	Reference	Description
Significant Level (2 issues)	A1 2015-16	<i>Business Assurance – Compliance Program</i> This is an outstanding finding relating to limited preventative controls between claim lodgement and release of claim payments.
	A1 2016-17	<i>IT User Access Management</i> NDIA had not developed a formal segregation of duties matrix for SAP CRM roles. In addition there was no process in place to regularly review access provisioned to users to ensure that access remains current and appropriate.
Moderate Level (5 issues)	B1 2016-17	<i>IT Change Management</i> NDIA was unable to provide evidence of user acceptance testing or business verification testing prior to the change being promoted in the system.
	B2 2016-17	<i>Provider Registration</i> The NDIA did not have appropriate segregation of duties in the registration and approval of providers.
	B3 2016-17	<i>Defined Programs</i> There were inconsistencies in data, limited access review points and limited risk mitigation strategies to identify ineligible participants who have entered the Scheme through the Defined Program pathway.
	B4 2016-17	<i>Scheme Eligibility</i> Insufficient evidence was attached to client records to support access decisions.
	B5 2016-17	<i>IT Logging and Monitoring</i> The NDIA did not have a formal policy for logging and monitoring privileged user activity and was unable to provide evidence of regular monitoring of privileged accounts.

There are two significant audit issues resulting from the audit process relating to the NDIA's Business Assurance and Compliance Program (unresolved from 2015-16) and IT User Access Management (newly identified in 2016-17).

Details of the findings, together with the steps that the NDIA is taking to remediate the issues, are outlined below.

Business Assurance – Compliance Program (A1 2015-16)

In 2015–16, the ANAO reviewed the NDIA's progress towards implementing an assurance framework, including a compliance program, over the integrity of claims paid to both

Scheme participants and service providers. The ANAO identified weaknesses and noted that:

- there were no documented compliance activities for payments made directly to self-managed participants;
- the review program for payments made to providers was based on a non-statistical sample methodology which does not allow results to be extrapolated across the population to estimate the potential rate of non-compliance within the Scheme; and
- there was insufficient documentary evidence to demonstrate quality assurance processes over the integrity of decisions made concerning provider registrations, participant identity or eligibility and participant plan approvals.

A significant finding was raised in the 2015–16 Closing Report to the NDIA in relation to this issue. In 2016-17, the ANAO noted the progress made in addressing this issue by the NDIA including:

- the endorsement of an Integrated Assurance Framework;
- the introduction of a Quality Assurance Program focussed on quality of decision making and payment correctness;
- early implementation of a program of work targeting payment integrity; and
- the establishment of a formal accountability structure for assurance and compliance.

The ANAO considered the issue unresolved as a number of areas of the NDIA's Business Assurance and Compliance programs are still being implemented or developing maturity, including there being no compliance program in place in 2016-17 for payments made directly to self-managed participants.

The NDIA has acknowledged this issue and its responsibility to build and maintain a strong control and assurance environment that assists in the monitoring of high quality participant outcomes and supports the financial sustainability of the Scheme. The NDIA is progressively implementing a suite of initiatives to address the underlying risks.

In 2017-18, priority areas include:

- enhancing the Agency's capability and capacity to detect, respond to and resolve identified instances of incorrect payment or fraud, complemented by establishing partnership arrangements with law enforcement and other regulatory agencies;
- further development of the quality checking systems covering NDIS access and planning decisions (including ICT functionality to support the checking of access decisions which was released in September 2017); and
- reviewing the sampling methodology used in these programs to ensure a robust estimate of payment accuracy is able to be provided to support financial reporting for the Scheme.

The NDIA is implementing a range of initiatives specific to payments, which are based upon recommendations from recent reviews. These new initiatives to strengthen compliance include expanded prevention activities, quality assurance reviews and specialist detection and investigation capabilities (as reported to the JCPAA in the Agency's submission to the Inquiry that produced Report No. 463 Commonwealth Financial Statements).

A1 – IT User Access Management

The NDIA implemented a new Customer Relationship Management (CRM) system on 1 July 2016 to manage Scheme participant records, assess eligibility to access the NDIS, create and approve participant support plans, create and register disability support service providers and process claims for payment by providers and participants.

The ANAO noted that in 2016-17, the NDIA had not developed mature processes for managing user access in this system, including establishing a formal segregation of duties matrix and having processes in place to regularly review user access.

The NDIA has acknowledged that its user access management processes require enhancement and is committed to the following actions during 2017-18 to remediate this issue:

- undertaking regular reviews of system access to ensure that any individual's access is consistent with their role including a risk assessment of user activity that took place;
- developing and enforcing a segregation of duties matrix which removes incompatible functions from any single role; and
- reviewing access to decision points within the CRM to ensure they are consistent with the formal instrument of delegation and the segregation of duties matrix.

Current status of ANAO findings

The ANAO has recently issued its report for the interim audit of the NDIA for the 2017-2018 financial year.

In the ANAO interim audit report the ANAO has noted that they have seen a considerable amount of work performed to address the issues raised. Furthermore, the ANAO has noted that this has led to the resolution of the significant audit issue relating to IT User Access and the downgrading of the significant audit issue on Business Assurance-Compliance Program to a moderate issue as it progresses to be addressed within planned timelines. The moderate audit issue on IT Change Management has also been downgraded to a minor issue.

No new issues were raised as a result of the audit work completed to date.

The other moderate findings remain open and their progress will be reviewed as part of the final audit phase. These findings all have action underway to address the identified risks. The five moderate findings (including the finding downgraded from significant to moderate) are:

- Provider Registration - A lack of segregation of duties in the registration and approval of providers in the CRM increases the risk that inappropriate providers may be registered and able to submit invalid claims.
- Defined Programs - Reliance on information provided by the state and territory governments increases the risk of ineligible participants accessing the Scheme through Defined Programs and this in turn has the potential to impact on the financial sustainability of the Scheme.

- Scheme Eligibility - Access decisions that allow people to enter the Scheme who do not meet the eligibility requirements will increase the cost of the Scheme and have the potential to impact on the Scheme's financial sustainability.
- IT Logging and Monitoring - Inadequate logging and monitoring of privileged user activity increases the likelihood that inappropriate activity will occur and not be detected. Accidental or malicious changes to data could result in inaccurate financial data and/or payments being processed and reported.
- Business Assurance – Compliance Program - The ANAO's review of the NDIA's progress towards implementing an assurance framework, including a compliance program, over the integrity of claims paid to both scheme participants and service providers identified a number of weaknesses.

The NDIA is committed to these actions to address the outstanding findings.

I trust this information is of benefit to the JCPAA.

Robert De Luca
Chief Executive Officer
National Disability Insurance Agency

16 July 2018