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The Parliament of the Commonwealth of Australia

# Report 417

**Review of Auditor-General's Reports tabled between February 2009 and September 2009**

Joint Committee of Public Accounts and Audit

June 2010  
Canberra

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## Foreword

The Joint Committee of Public Accounts and Audit, as prescribed by the *Public Accounts and Audit Committee Act 1951* examines all of the reports of the Auditor-General tabled in the Parliament. This report details the findings of the Committee's examination of audit reports tabled between February 2009 and September 2009.

The nine reports chosen by the Committee cover a range of agencies and highlight a number of areas of concern, including the environmental impact of government procurement practice, the efficiency of government IT systems and data management and ongoing issues within the aged care sector.

The Committee was impressed by the progress being made by a number of departments in achieving better practice in green office procurement and sustainable office management. However, we are concerned at the seeming lack of urgency and leadership at a sector-wide level and are making a number of recommendations to help correlate and disseminate best practice across government departments and agencies. In particular the Committee is recommending that the Department of Environment, Water, Heritage and the Arts take a leadership role in promoting environmental management systems and develop a best practice environmental management system template with minimum standards for reporting.

Examination of the Defence Materiel Organisation's management of the M113 Armoured Personnel Carrier Upgrade Project again highlighted ongoing concerns over scope changes and lengthy delays to Defence projects. Despite being assured that appropriate processes are in place to keep decision makers informed of scope changes, the Committee is concerned at the apparent lack of administrative discipline in implementing these processes. Accordingly we have asked the Defence Materiel Organisation for details on how it is ensuring staff adhere to the existing processes. Although the M113 project is expected to meet a completion deadline of December 2010, it is still assessed as 'high risk', therefore the

Committee has asked Defence and the Defence Materiel Organisation to report back to us on the progress of the project.

On a related matter, the Committee reviewed the planning and approval of Defence Major Capital Equipment Projects to determine whether the two-pass approval process is being implemented effectively. The audit report identified a number of anomalies between process and practice and the Committee made three recommendations aimed at ensuring the accuracy of documentation, records and submissions.

The Committee was satisfied from its inquiry into the quality and integrity of the Department of Veterans' Affairs income support records that, although the system has experienced difficulties, there have been no instances of incorrect payments being made to DVA clients. However, we are concerned at the discrepancies and errors identified in the audit report and the lack of progress in implementing a comprehensive and accurate electronic database for the Department. There is potential for a detrimental flow-on effect with regard to client payments and service delivery. The Committee has asked the Department of Veterans' Affairs to report back to us on the implementation of the new information technology system.

On examining the review of the management of the Movement Alert List (MAL) by the Department of Immigration and Citizenship (DIAC), the Committee was particularly concerned over the number of Australian citizens listed on the system. We are satisfied that the Department has substantially reduced this number since the audit but urge DIAC to revise its policy and guidelines regarding the recording of Australian citizens on the system, to ensure a consistent approach is taken in future. Of further concern to the Committee is the lack of performance data available making it difficult to assess MAL's effectiveness. We have asked the Department to identify and report back to the Committee on specific instances where MAL has influenced decisions on visa and citizenship applications.

The Committee also examined the Department of Immigration and Citizenship's management of the Settlement Grants Program. The Committee is concerned that the effectiveness of the Settlement Grants Program is not being satisfactorily monitored and evaluated to determine if it is meeting its objective to help new arrivals to settle into Australian society. We are not convinced that enough is being done to identify and respond to the needs of immigrants at a local level and support programs specifically tailored to those needs. We have therefore asked the Department to report back to the Committee detailing how the effectiveness of the Program is being measured with regard to data collection and community consultation.

In this batch of reports, we pursued an ongoing interest in the aged care sector by reviewing two audits: the planning and allocation of aged care places and capital grants and the protection of residential aged care accommodation bonds. The first audit assessed the effectiveness of the Department of Health and Ageing's management of the planning and allocation of aged care places and capital grants, in accordance with the *Aged Care Act 1997*. The Committee is pleased to note that, overall, the planning and allocation of aged care places and capital grants by the Department is operating effectively.


The second audit was designed to assess the Department of Health and Ageing's administration of prudential arrangements for the protection of residential aged care accommodation bonds. The Committee understands the importance of these bonds to the capital growth of aged care facilities and acknowledges that to date no aged care clients have suffered the loss of their bonds. However, we are concerned at the potential for loss to occur and would like to see the prudential regulation strengthened with more attention paid to risk management implementation and ongoing monitoring. To this end, we have asked the Department to report back to the Committee on the implementation of the ANAO recommendations.

Finally, the Committee looked at the construction of the Christmas Island Immigration Detention Centre. While the Committee recognises that it is difficult at this distance to apportion blame, we are gravely concerned at the mismanagement of Commonwealth funds for this project. The substantial discrepancy between the initial cost estimate and final cost of the project and the apparent failure to identify significant risk factors in the project are of particular concern. The Committee feels that more could have been done during the planning stage to develop a realistic estimate of the cost of the project and is not satisfied with the argument that the uniqueness of the project led to such serious miscalculation of costs and risks.

The Committee acknowledges that this project was a catalyst for the implementation by Finance of the two-stage Cabinet approval process and the Gateway Review process. We have recommended that the Australian National Audit Office undertake an audit to determine the effectiveness of the implementation of both these processes in mitigating risk for Commonwealth construction projects.

Sharon Grierson MP  
Chair





## Membership of the Committee

**Chair** Ms Sharon Grierson MP

**Deputy Chair** Mr Petro Georgiou MP

**Members**

Hon Dick Adams MP (from 17/08/09)	Senator Guy Barnett
Hon Arch Bevis MP	Senator Mark Bishop
Hon Bronwyn Bishop MP	Senator David Bushby (until 02/02 /10)
Mr David Bradbury	Senator David Feeney
Mr Jamie Briggs MP	Senator Helen Kroger (from 02/02/10)
Mr Mark Butler MP (until 15/06/09)	Senator Kate Lundy
Ms Catherine King MP	
Hon Sussan Ley MP (from 03/02/10)	
Mr Shayne Neumann MP	
Mr Stuart Robert MP (until 03/02 /10)	

## Committee Secretariat

Secretary	Mr Russell Chafer
Research Officers	Mr Shane Armstrong
	Dr Stewart Ashe
	Dr Narelle McGlusky



## List of abbreviations

ACAR	Aged Care Approvals Round
ADF	Australian Defence Force
AFP	Australian Federal Police
AGD	Attorney-General's Department
ANAO	Australian National Audit Office
ASIO	Australian Security Intelligence Organisation
BOB	Border Operations Branch
CDF	Chief of Defence Force
CDG	Capability Development Group
CIIDC	Christmas Island Immigration Detention Centre
CMAL	Central Movement Alert List
CSA	Child Support Agency
Customs	Australian Customs and Border Protection Service
DAC	Departure Authorisation Certificate
DAL	Document Alert List
DCDM	Defence Capability Development Manual



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DCP	Defence Capability Plan
Defence	Department of Defence
DFA	Department of Finance and Administration
DFAT	Department of Foreign Affairs and Trade
DIAC	Department of Immigration and Citizenship
DICE	Data Integrity Cleanup Exercise
DIMIA	Department of Immigration and Multicultural and Indigenous Affairs
DIPs	Data Integrity Problems
DITRDLG	Department of Infrastructure, Transport, Regional Development and Local Government
DMO	Defence Materiel Organisation
DoHA	Department of Health and Ageing
DOTARS	Department of Transport and Regional Services
DPO	Departure Prevention Order
DPR	2003 Defence Procurement Review (Kinnaird Review)
DSTO	Defence Science and Technology Organisation
DVA	Department of Veterans' Affairs
ECP	Enhanced Compliance Program
ELF	Enhanced Land Force
EPAC	Enhanced Passenger Assessment and Clearance
Finance	Department of Finance and Deregulation
FMS	Feedback Management System
GMP	Guaranteed Maximum Price
GMS	Grants Management System

ICT	Information and Communication Technology
IT	Information Technology
JCPAA	Joint Committee of Public Accounts and Audit
MAL	Movement Alert List
MPR	<i>Defence Materiel Organisation Major Projects Report</i>
NatO	DIAC's National Office
NPOC	Net Personnel Operating Cost
NSC	National Security Committee of Cabinet
OACQC	Office of Aged Care Quality and Compliance
PACE	Passenger Analysis, Clearance and Evaluation system
PAL	Person Alert List
PIA	Privacy Impact Assessment
PM&C	Department of Prime Minister and Cabinet
POE	Post Occupancy Evaluation
PRB	Prudential and Approved Provider Regulation Branch
PWC	Public Works Committee
RAR	Royal Australian Regiment
RIF	Remote Input Function
SES	Senior Executive Service
SGP	Settlement Grants Program
SRL	Systems Readiness Level
STOs	DIAC's State and Territory Offices
The Principles	User Rights Principles 1997

The Scheme	Accommodation Bond Guarantee Scheme
TRA	Technical Risk Assessment
TRL	Technology Readiness Levels
UIN	Unique Identification Number
UNSCR	United Nations Security Council Resolution
VSC	Veterans' Service Centre
White Paper	Defence White Paper 2009



# List of recommendations

## 1 Introduction

## 2 Green Office Procurement and Sustainable Office Management

### Recommendation 1 ..... 12

That taking into account the findings of the Government Leadership in Sustainability Taskforce, environmental management systems be made mandatory across all agencies of the Australian Government.

Further, that the Department of the Environment, Water, Heritage and the Arts take the lead in developing a best practice environmental management system template with minimum standards for reporting.

### Recommendation 2 ..... 14

That Medicare Australia enter into stewardship agreements with its information and communication technology suppliers when its contracts are next scheduled for renewal.

### Recommendation 3 ..... 14

That the Department of Environment, Heritage and the Arts draft and promote an explicit policy that product stewardship clauses be the preferred option for public sector information and communication technology (ICT) in all cases where ICT assets are not to be re-sold or gifted at the end of their working life.

### Recommendation 4 ..... 17

That the methodology used and results of the Department of the Environment, Water, Heritage and the Arts desktop and server virtualisation project be disseminated to the other audited agencies.

### Recommendation 5 ..... 21

That the Department of Climate Change and Energy Efficiency create separate targets for commercial and passenger vehicles in the Defence

white fleet to allow for a stronger focus on the environmental performance of the Defence white fleet.

### **3 Management of the M113 Armoured Personnel Carrier Upgrade Project**

#### **Recommendation 6 ..... 29**

That the Defence Materiel Organisation (DMO) provide a brief report to the Joint Committee of Public Accounts and Audit (JCPAA) within six months of the tabling of the Committee's report on the steps taken to ensure DMO staff adhere to the existing processes to inform decision makers of scope changes.

#### **Recommendation 7 ..... 30**

That the Department of Defence and the Defence Materiel Organisation (DMO) provide the Joint Committee of Public Accounts and Audit (JCPAA) with a brief report detailing the progress of the M113 upgrade process, and the likelihood of the project being completed by the revised target date of December 2010.

### **4 Quality and Integrity of the Department of Veterans' Affairs Income Support Records**

#### **Recommendation 8 ..... 42**

The Committee recommends that the Department of Veterans' Affairs (DVA) report back to the Committee at the conclusion of the review of the agency's information technology systems and provide the Committee with details of the system chosen, the implementation plan and how the plan will address the Australian National Audit Office's recommendations.

#### **Recommendation 9 ..... 45**

That the Department of Veterans' Affairs (DVA) provide the Joint Committee of Public Accounts and Audit (JCPAA) with a copy of the review of the DVA's data entry system and procedural controls as soon as practicable after the tabling of the Committee's report.

### **5 Management of the Movement Alert List**

#### **Recommendation 10 ..... 58**

The Committee recommends that the Department of Immigration and Citizenship (DIAC) report back to the Committee on the effectiveness of the Movement Alert List (MAL) after implementing Recommendation

Number 3 from the Australian National Audit Office Report No. 35 2008-09 which requires DIAC to identify instances where MAL has alerted its decision makers to information that has been the reason, or part of the reason, for decisions on visa and citizenship applications. The report from DIAC should be presented to the Committee within six months of this report being tabled.

## **6 Settlement Grants Program**

### **Recommendation 11 ..... 67**

The Committee recommends that the Department of Immigration and Citizenship (DIAC) provides a brief report to the Joint Committee of Public Accounts and Audit (JCPAA) detailing how DIAC is measuring the effectiveness of the Settlement Grants Program (SGP) under the new performance framework including:

- type of data collected;
- methodology used to collect data; and
- methods of consultation with local communities.

### **Recommendation 12 ..... 71**

The Committee recommends that the Department of Immigration and Citizenship (DIAC) report within 12 months of tabling this report on the implementation and progress of the new Grants Management System (GMS) specifically addressing the issues raised in Australian National Audit Office Audit Report No 36 2008-09 with regard to the functionality of the GMS for the Settlement Grants Program (SGP).

## **8 Construction of the Christmas Island Immigration Detention Centre**

### **Recommendation 13 ..... 97**

The Committee recommends that the Department of Finance and Deregulation (Finance) provide to the Joint Committee of Public Accounts and Audit (JCPAA) the results to date of the implementation of the Post Occupancy Evaluation process and the Lessons Learned workshops as soon as such information is available.

### **Recommendation 14 ..... 98**

The Committee recommends that the Australian National Audit Office (ANAO) undertake an audit into the effectiveness of the implementation of the two-stage Cabinet approval process and the Gateway Review

process in mitigating risk for Commonwealth construction projects since their introduction.

## 9 Planning and Approval of Defence Major Capital Equipment Projects

### Recommendation 15..... 109

The Committee recommends that when preparing submissions Defence develop a procedure to ensure that any divergence from the generic guidance provided in the Defence Capability Development Manual (DCDM) is authorised at an appropriate level and to record:

- any modifications to the capability development approval process contained in the Defence Capability Development Manual (DCDM) for a project; and
- reasons for diverging from the generic model.

### Recommendation 16..... 114

The Committee recommends that Defence work with the Department of Prime Minister & Cabinet (PM&C) to amend the *Cabinet Handbook* to accurately reflect the more specific risk measurement process developed by Defence which should be included in submissions for both first and second pass assessment.

### Recommendation 17..... 115

The Committee recommends that Defence ensure that Cabinet submissions for future major capital equipment projects provide advice that is clear and consistent, and include the following:

- Technology Readiness Level (TRL) and System Readiness Level (SRL) scores for each option;
- description of likelihood and consequence of risk based on these ratings.

The Committee further recommends that Defence develop a procedure to ensure that staff involved in Technical Risk Assessments (TRAs) have a clear understanding of System Readiness Level (SRL) measurements so that the figure provided precisely reflects risk levels.

## 10 Protection of Residential Aged Care Accommodation Bonds

Recommendation 18.....	143
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The Committee recommends that the Department of Health and Ageing (DoHA) report back to the Committee within twelve months of the tabling of this report on DoHA's implementation of Recommendation Number 3 from the Australian National Audit Office Report No. 5 2009-10, outlining progress towards monitoring whether or not bonds and bond income is being used according to the requirements of the *Aged Care Act 1997*.







## Introduction

### Background to the review

- 1.1 The Joint Committee of Public Accounts and Audit (JCPAA) has a statutory duty to examine all reports of the Auditor-General that are presented to the Presiding Officers of the Australian Parliament, and report the results of its deliberations to both Houses of Parliament. In selecting audit reports for review, the Committee considers:
- the significance of the program or issues raised in audit reports;
  - the significance of the audit findings;
  - the arguments advanced by the audited agencies; and
  - the public interest of the report.
- 1.2 Upon consideration of 30 audit reports presented to the parliament by the Auditor-General between February 2009 and August 2009, the committee selected eight reports for further scrutiny at public hearings. In addition, the Committee decided to examine Audit Report No. 5 2009-10 *Protection of Residential Aged Care Accommodation Bonds* even though it was tabled after the review period, because of an ongoing interest in aged care issues and because the same Department of Health and Ageing officials were already required to provide evidence for Audit Report No. 40 2008-09.
- 1.3 The audit reports reviewed by the JCPAA are listed below:
- Audit Report No. 25 2008-09, *Green Office Procurement and Sustainable Office Management*;

- Audit Report No. 27 2008-09, *Management of the M113 Armoured Personnel Carrier Upgrade Project*;
- Audit Report No. 28 2008-09, *Quality and Integrity of the Department of Veterans' Affairs Income Support Records*;
- Audit Report No. 35 2008-09, *Management of the Movement Alert List*;
- Audit Report No. 36 2008-09, *Settlement Grants Program*;
- Audit Report No. 40 2008-09, *Planning and Allocating Aged Care Places and Capital Grants*;
- Audit Report No. 43 2008-09, *Construction of the Christmas Island Immigration Detention Centre*;
- Audit Report No. 48 2008-09, *Planning and Approval of Defence Major Capital Equipment Projects*; and
- Audit Report No. 05 2009-10, *Protection of Residential Aged Care Accommodation Bonds*.

1.4 The public hearings for the reports were held on:

- 15 June 2009 (Audit Report Nos. 27, 28);
- 24 June 2009 (Audit Report No. 25);
- 28 October 2009 (Audit Report No. 48);
- 16 November 2009 (Audit Report No. 35 & No. 36);
- 18 November 2009 (Audit Report No. 43); and
- 25 November 2009 (Audit Report No. 40 and No. 05).

1.5 A list of witnesses who appeared at the public hearings is available at Appendix C.

## **The Committee's report**

1.6 This report of the Committee's examination draws attention to the main issues raised at the respective public hearings. Where appropriate, the Committee has commented on unresolved or contentious issues, and has made recommendations.

1.7 The Committee's report is structured as follows:

- Chapter 2 – Audit Report No. 25 2008-09, *Green Office Procurement and Sustainable Office Management*;
- Chapter 3 – Audit Report No. 27 2008-09, *Management of the M113 Armoured Personnel Carrier Upgrade Project*;
- Chapter 4 – Audit Report No. 28 2008-09, *Quality and Integrity of the Department of Veterans' Affairs Income Support Records*;
- Chapter 5 – Audit Report No. 35 2008-09, *Management of the Movement Alert List*;
- Chapter 6 – Audit Report No. 36 2008-09, *Settlement Grants Program*;
- Chapter 7 – Audit Report No. 40 2008-09, *Planning and Allocating Aged Care Places and Capital Grants*;
- Chapter 8 – Audit Report No. 43 2008-09, *Construction of the Christmas Island Immigration Detention Centre*;
- Chapter 9 – Audit Report No. 48 2008-09, *Planning and Approval of Defence Major Capital Equipment Projects*; and
- Chapter 10 – Audit Report No. 05 2009-10, *Protection of Residential Aged Care Accommodation Bonds*.

1.8 The following appendices provide further information:

- Appendix A – Conduct of the Committee's review;
- Appendix B – List of submissions authorised; and
- Appendix C – List of witnesses who appeared at the public hearings.

1.9 A copy of this report is available on the Committee's website at:  
<http://www.aph.gov.au/house/committee/jpaa/reports.htm>.



## **Audit Report No. 25 2008-09**

# Green Office Procurement and Sustainable Office Management

## **Introduction**

- 2.1 Government agencies purchase, lease or consume a significant range of goods and services. In 2007-08, the procurement of goods and services by Australian Government agencies was valued at over \$26 billion. These include office supplies, vehicles, information and communications technology, energy, waste and water services as well as office buildings and facilities. While these goods and services are procured for agencies to achieve their outcomes, they do have an environmental impact. This impact includes greenhouse gas emissions (such as from energy consumption in buildings and from vehicles), waste to landfill from paper, equipment and office refurbishments as well as the consumption of scarce resources such as fresh water and fossil fuels.
- 2.2 The Australian Government has indicated that it is seeking to be at the forefront of environmental purchasing practice. In May 2008, the Prime Minister also commented that 'the Government accepts its own responsibility to provide practical leadership ... with practical measures to

reduce our own environmental footprint and measures to harness savings from more efficient use of energy and water'.<sup>1</sup>

- 2.3 In a previous audit report (No. 22, 2005-06, *Cross Portfolio Audit of Green Office Procurement*), the ANAO identified a small number of better practice examples of green office procurement across the Australian Government. The audit also identified shortcomings in achieving the Government's objective to be at the forefront of sustainable procurement practice. As a consequence, the audit concluded that sustainable development had not been fully integrated into Australian Government operations.
- 2.4 Significant improvement was required by agencies in terms of introducing targets for water, waste, energy and general procurement, and in implementing regular monitoring and reporting. The ANAO made specific recommendations to improve performance in sustainability. The 43 agencies involved in the audit generally agreed with or were supportive of the recommendations.

## The Audit<sup>2</sup>

### Audit scope and objective

- 2.5 The objective of this further audit was to assess and report on the progress being made by Government agencies in achieving better practice in green office procurement and sustainable office management. The scope of the audit included agencies incorporated under the *Financial Management and Accountability Act 1997* as well as a sample of bodies incorporated under the *Commonwealth Authorities and Companies Act 1997*. Sixty-three agencies were included in an audit survey. Detailed validation was carried out in nine of these agencies.
- 2.6 The audit also relied on wider whole-of-government data sets on energy use in Australian Government operations and the Australian Government vehicle fleet as well as annual reports from agencies. Where necessary, the ANAO also consulted with other parties such as state agencies and

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1 Leadership for Long Term Sustainability: The Roles of Government, Business and the International Community, Address to the National Business Leaders Forum on Sustainable Development, Parliament House, Canberra, 19 May 2008.

2 In this chapter, all references to 'the audit' are references to Audit Report No. 25 2008-09, unless specified otherwise.



building owners. The audit sought to assess progress relevant to sustainable development in the following areas:

- policies and procedures underpinning sustainable practices;
- higher value office consumables such as paper, information and communications technology and vehicles;
- water and waste management;
- energy use;
- sustainability in buildings and tenancies; and
- sustainability reporting.

## Overall audit conclusion

2.7 The ANAO made the following overall audit conclusion:

- Agencies had made some progress towards more sustainable development practices since the 2005 audit, with more examples of agency initiatives to better conserve resources, improve environmental performance and reduce corporate costs, particularly in energy and water conservation.
- As was the case in 2005, there was a wide disparity of performance across agencies from very poor to better practice. Measuring performance in waste management and water conservation was also still problematic because of the lack of consistency in measurement and gaps in performance information. The absence of a comprehensive sustainability framework, as recommended in 2005, also constrained further progress.
- Larger agencies such as the Department of Defence, Centrelink, Medicare Australia and the Australian Taxation Office had made progress towards more sustainable practices since 2005. This progress may have also reflected their capacity compared to smaller agencies.
- Substantive progress had been made in relation to environmental controls in individual agencies and in the reporting on energy use in Australian Government operations. Key controls such as environmental management systems are becoming more common practice in building and facility management. However, the design and quality of the majority of environmental management systems could be significantly improved; particularly in the application of measurable targets.

2.8 According to the ANAO:

Notwithstanding progress in particular agencies, as a whole, the Australian Government public sector has considerable work to do if it is to achieve its goal of being at the forefront of sustainable procurement practice. Many of the issues raised in the 2005 audit remain unresolved and many of the recommendations have yet to be fully implemented. More action is required from agencies if leadership is to be demonstrated in energy efficiency, water conservation and waste management. Energy efficiency is particularly important given that energy use accounts for over 95 per cent of greenhouse emissions from Australian Government agencies.

There is considerable scope to reduce the 'ecological footprint'<sup>3</sup> of Australian Government agencies. Positive results will not be achieved without a stronger effort from all Australian Government agencies that builds on the success of those agencies that have already integrated sustainable practices into their business operations.

Ideally, agencies should develop an integrated sustainability framework that identifies improvement opportunities and investment priorities tailored to their business requirements. Where agencies have limited capacity or resource constraints, there are still many opportunities to achieve 'quick wins' and implement cost effective measures to improve sustainability. The automated shut down of monitors and computers when not in use will provide immediate energy and cost reductions. Setting printers to print double sided as a default and reducing the weight of paper used for external publications will also offer immediate savings. While the implementation of energy efficiency initiatives will involve some capital cost, the resultant savings from such measures would be ongoing and further increase over time as energy costs increase.

Agencies will obviously need to prioritise their sustainability actions with an initial focus on meeting government requirements and achieving cost effective outcomes. For larger agencies, a focus on primary sites or administrative areas with the most significant environmental impacts would be expected to yield the best environmental returns. It is appreciated that the actions put in

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3 The ecological footprint is a tool used to measure ecological sustainability and tracks past and present demands made by people on the earth's renewable natural resources. It tracks how much humanity as a whole consumes and compares this amount to the resources nature can provide.

place will, to a large extent, depend upon the particular circumstances facing each agency. Full implementation will take time to complete.<sup>4</sup>

## ANAO recommendations

2.9 The ANAO made the following recommendations:

Table 2.1 ANAO recommendations, Audit Report No. 25 2008-09

1.	<p>To strengthen the quality and consistency of environmental management systems, the ANAO recommends that agencies (where they have not already done so), ensure that their system has quantifiable objectives that reflect better practice as well as both short and longer term sustainability goals.</p> <p><i>Agencies' responses</i> <i>All agencies agreed to or were supportive of this recommendation.</i></p>
2.	<p>To improve the energy efficiency of information and communications technology (ICT) equipment, the ANAO recommends that agencies (where they have not already done so) introduce:</p> <ul style="list-style-type: none"> <li>(a) environmental criteria in ICT business planning and procurement that explicitly requires energy efficiency and environmental performance standards for equipment; and</li> <li>(b) an ICT power management policy, that includes measures such as the automatic shut down of monitors and personal computers when not in use.</li> </ul> <p><i>Agencies' responses</i> <i>All agencies agreed to or were supportive of this recommendation.</i></p>
3.	<p>To improve sustainability practices in waste management the ANAO recommends that agencies (where they have not already done so):</p> <ul style="list-style-type: none"> <li>(a) consider practical measures to divert waste from landfill, such as organic and co-mingled waste recycling for primary sites;</li> <li>(b) require waste service providers to report the weight of major waste streams, including paper recycled, co-mingled waste recycled and general waste landfill, in future waste management contracts;</li> <li>(c) set agency-wide targets based on a standardised measure such as the weight of waste generated per person and/or diversion from landfill; and</li> <li>(d) report performance against these targets as part of agency commitments under the National Packaging Covenant obligations.</li> </ul> <p><i>Agencies' responses</i> <i>All agencies agreed to or were supportive of this recommendation.</i></p>
4.	<p>To improve water conservation, the ANAO recommends that agencies (where they have not already done so):</p> <ul style="list-style-type: none"> <li>(a) consult with building owners to obtain annual data on water consumption where practicable;</li> </ul>

4 Australian National Audit Office (ANAO) Audit Report No. 25, 2008-09, pp. 16-18.

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- (b) set agency-wide water reduction targets and implement cost effective water conservation measures for all primary sites; and
  - (c) monitor and publicly report progress against these water reduction targets.

*Agencies' responses*

*All agencies agreed to or were supportive of this recommendation.*

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5. To reduce energy consumption in Australian Government operations and improve compliance with Government policy, the ANAO recommends that agencies (where they have not already done so):
- (a) develop and implement an energy management plan that takes into account operational and management requirements across their property portfolio;
  - (b) conduct energy audits, where appropriate, to determine high priority energy savings that can be made across the organisation; and
  - (c) implement cost effective energy conservation initiatives within remaining lease periods.

*Agencies' responses*

*All agencies agreed to or were supportive of this recommendation.*

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6. To improve the sustainability of Australian Government operations, the ANAO recommends that the Department of the Environment, Water, Heritage and the Arts in consultation with other agencies:
- (a) develops and disseminates guidance for office refurbishments that set required environmental standards and practices to minimise waste going to landfill from Australian Government refurbishments; and
  - (b) considers introducing a standard requirement for agencies to have a waste minimisation plan for refurbishments over 2,000 square metres.

*Agencies' responses*

*All agencies agreed to or were supportive of this recommendation.*

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7. To enhance the consistency and comprehensiveness of the annual reporting required under section 516A of the *Environmental Protection and Biodiversity Conservation Act 1999*, the ANAO recommends that the Department of the Environment, Water, Heritage and the Arts revise the guidance material provided to agencies and include core mandatory performance indicators for operational environmental impacts in key areas such as energy, water and waste.

*Agencies' responses*

*All agencies agreed to or were supportive of this recommendation.*

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## The Committee's review

- 2.10 The Committee held a public hearing on Wednesday 24 June 2009, with the following witnesses:

- Australian National Audit Office (ANAO);
- Australian Taxation Office (ATO);
- Department of Finance and Deregulation (DFD);
- Medicare Australia; and
- Department of the Environment, Water, Heritage and the Arts (DEWHA).

2.11 The Committee took evidence on the following issues:

- green information technology:
  - ⇒ green tenders and environmental management systems;
  - ⇒ stewardship clauses; and
  - ⇒ server virtualisation;
- green buildings:
  - ⇒ environmental management systems;
  - ⇒ national frameworks for environmental standards; and
  - ⇒ green leases;
- resource and waste management:
  - ⇒ power management;
  - ⇒ water management; and
  - ⇒ waste management; and
- green car programmes.

## Green information technology

### Green tenders and environmental management systems

2.12 The Committee enquired whether the Department of Environment, Water, Heritage and the Arts (DEWHA) had taken any steps to identify best practice in green tendering and whether any information found had been disseminated further. DEWHA replied that it had recently gone through a tender process for information and communication technology (ICT) that was acknowledged to have a strong emphasis on sustainability.<sup>5</sup>

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5 Dr Diana Wright, Department of Environment, Water, Heritage and the Arts (DEWHA), p. 4. All references to witnesses' evidence comes from the Committee's hearing into this audit dated 24 June 2009, with page numbers relating to the Proof Committee Hansard.

- 2.13 The Committee asked whether there were any plans to make environmental management systems (EMS) mandatory for all agencies. DEWHA replied that it was not currently mandatory, but that there was guidance available to assist agencies in selecting and implementing an EMS that suited their needs.<sup>6</sup> Medicare, and the Australian Taxation Office (ATO) advised they had put in place an EMS, and the Department of Finance and Deregulation (Finance) noted that while they did not yet have an EMS in place, that it was 'well advanced'.<sup>7</sup>
- 2.14 The Committee is concerned at an apparent lack of urgency at a public sector-wide level. The Committee heard that the Government Leadership in Sustainability Taskforce led by the Department of Prime Minister and Cabinet was yet to report despite its deliberations concluding in late 2008.<sup>8</sup>
- 2.15 Whilst noting the role of the taskforce, the Committee is of the belief that the Department of the Environment, Water, Heritage and the Arts should take a leadership role in promoting environmental management systems. It is clear to the Committee that these environmental management systems deliver clear benefits, and the Committee recommends:

### **Recommendation 1**

**That taking into account the findings of the Government Leadership in Sustainability Taskforce, environmental management systems be made mandatory across all agencies of the Australian Government.**

**Further, that the Department of the Environment, Water, Heritage and the Arts take the lead in developing a best practice environmental management system template with minimum standards for reporting.**

### **Stewardship clauses**

- 2.16 The Committee examined the issue of stewardship clauses for ICT waste. Approximately 100,000 desktop computers and laptops are being replaced by the Australian Government every year. A significant proportion will end up in the waste stream. Only 16 agencies (25 per cent) reported that their contracts for the supply of ICT included product stewardship arrangements. Under stewardship clauses, ICT suppliers agree to take back assets after they have finished their working life and dispose of them

6 Dr Diana Wright, DEWHA, p. 4.

7 Mr Simon Lewis, Department of Finance and Deregulation (Finance), p. 5.

8 Dr Diana Wright, DEWHA, p. 3.

- appropriately. The Committee invited agencies to report on product stewardship arrangements.
- 2.17 DEWHA noted that under its new ICT tender, 95 per cent of ICT procurement included end of life provisions, and that plans for developing a handling methodology for the remaining five per cent were underway.<sup>9</sup>
- 2.18 Medicare advised that its ICT infrastructure contracts did not contain provisions for product stewardship as the contracts predated the Audit Report.<sup>10</sup>
- 2.19 Both the ATO<sup>11</sup> and Finance<sup>12</sup> noted that their current ICT contracts contained stewardship clauses.
- 2.20 Environment noted the existence of the Environment Protection and Heritage Council, which was a cross-jurisdictional council of environment ministers. The Council was currently examining product stewardship schemes, and that it was possible that a national product stewardship scheme may be created.<sup>13</sup>
- 2.21 The Committee asked whether there were cost implications in negotiating stewardship clauses, as it would be possible for the ICT supplier to gain a saleable asset at the conclusion of the agreement. DEWHA replied that by the time an ICT asset had been returned to the supplier, it had reached the end of its useful life and was considered to be a liability to the supplier.<sup>14</sup>
- 2.22 The Committee asked whether it was possible for end of life ICT assets to be passed on to community groups or training providers, and whether any such arrangements were in place at any of the agencies. DEWHA replied that this was the responsibility of the ICT supplier, and that different providers did different things with returned computers and monitors.<sup>15</sup>
- 2.23 The Committee sees great benefits in the operation of stewardship clauses, and while noting the current situation regarding Medicare's ICT infrastructure contracts recommends:

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9 Dr Diana Wright, DEWHA, p. 6.

10 Medicare Australia, *Submission No. 4*, p. 1

11 Mr David McMillen, Australian Taxation Office (ATO), p. 9.

12 Mr Simon Lewis, Finance, p. 9.

13 Dr Diana Wright, DEWHA, p. 10.

14 Mr Stephen Oxley, DEWHA, p. 9.

15 Dr Diana Wright, DEWHA, p. 10.

## Recommendation 2

**That Medicare Australia enter into stewardship agreements with its information and communication technology suppliers when its contracts are next scheduled for renewal.**

## Recommendation 3

**That the Department of Environment, Heritage and the Arts draft and promote an explicit policy that product stewardship clauses be the preferred option for public sector information and communication technology (ICT) in all cases where ICT assets are not to be re-sold or gifted at the end of their working life.**

## Green buildings

### National frameworks for environmental standards

2.24 The Committee noted that Medicare had implemented a national framework for environmental standards across all of its offices. Medicare reported that it had achieved considerable cost savings by implementing videoconferencing, purchasing hybrid cars, and using more public transport for staff in some capital cities.<sup>16</sup>

### Green leases

2.25 The Committee explored the issue of green buildings and green leases. DEWHA advised that any new buildings, leases for new buildings, or major refurbishments must be done on the basis of the office space achieving a minimum four and a half star energy rating.<sup>17</sup> Additionally, Finance reported that it was looking to introduce a green lease schedule as part of its next round of leasing arrangements.<sup>18</sup> Further, Finance reported that it had entered into voluntary green improvement programs with tenants in a number of its major buildings, a process which mimics the green lease schedule:

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16 Ms Rona Mellor, Medicare, pp. 8-9.

17 Mr Stephen Oxley, DEWHA, p. 12.

18 Mr Simon Lewis, Finance, p. 12.



What Finance has done with a number of its major buildings is entered into voluntary green improvement programs with our major tenants. Those voluntary green improvement programs mimic the green lease schedule. We have management meetings where we discuss issues to do with the environmental performance of the buildings and we put green improvement programs in place in those buildings. Once the leases do expire, which is still a few years away, we will certainly move to the green leases as required under the EEGO policy. But, in the meantime, we have got voluntary green improvement programs to try and get the same result.<sup>19</sup>

- 2.26 Medicare noted it had two green lease schedules, and green office guidelines,<sup>20</sup> and the ATO noted it had a number of new green leases which incorporated aspects of green energy and waste management arrangements.<sup>21</sup>

## Resource and waste management

- 2.27 The Committee expressed its disappointment in the ANAO finding that many issues raised in the 2005 Audit Report remained unresolved, and that many recommendations had not yet been fully implemented.

## Power management

- 2.28 The Committee noted the ANAO finding that energy use accounted for more than 95 per cent of greenhouse gas emissions from Australian Government agencies, and that savings of \$75 million per annum had been identified if more agencies adopted better practices. The Committee asked agencies about their power management practices and the savings identified as a result.
- 2.29 The ATO replied that building lights were only on for “core hours”, from seven in the morning until seven at night, and that lighting after hours was supplied via “zoned lighting”, allowing a small part of an office to be lit, rather than the entire floor.<sup>22</sup>
- 2.30 DEWHA noted that the issue was managed through its EMS, and that it was pursuing change through cultural measures, encouraging turning off

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19 Mr Andrew Smith, Finance, p. 13.

20 Ms Rona Mellor, Medicare, p. 14.

21 Mr John Cheney, ATO, p. 14.

22 Mr John Cheney, ATO, p. 17.

ICT assets when not in use.<sup>23</sup> Finance noted that it had similar measures in place.<sup>24</sup> DEWHA added that it had EMS targets and objectives set regarding electricity, fuel and paper use, and that these targets were reviewed annually.

- 2.31 Medicare reported that it audited energy usage on its sites, and noted the importance of monitoring, auditing and reinforcing the message of power management.<sup>25</sup>
- 2.32 ANAO's 2005 audit recommended that agencies consider energy efficiency in their ICT purchases. In the 2008 survey, 65 per cent of agencies advised that they now considered energy consumption in their ICT procurement. In addition, the vast majority of agencies indicated they had implemented at least one measure to reduce energy consumption of office and ICT equipment. Some of the 48 per cent of agencies who shut down personal computers overnight reported significant savings from the initiative.
- 2.33 Medicare cited substantial savings from implementing a PC shutdown policy and the automatic shutdown of monitors after 15 minutes of non-use (\$237,000 from PC shutdowns and over \$100,000 in the case of monitors),<sup>26</sup> noting that the process had been centralised by its IT department.<sup>27</sup>

### Server virtualisation

- 2.34 The Committee asked for more information on DEWHA's desktop and server virtualisation project. DEWHA advised that instead of running multiple servers that performed different functions, that a single server had been established with imaginary partitions allowing the system to perform separate functions. The trial covered 22 staff over five weeks, and identified energy savings of 83 per cent compared to the traditional PC model.<sup>28</sup>

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23 Dr Diana Wright, DEWHA, p. 17.

24 Mr Simon Lewis, Finance, p. 17.

25 Ms Rona Mellor, Medicare, p. 17.

26 Audit Report No. 25, 2008-09, p 74.

27 Ms Rona Mellor, Medicare, p. 8-9.

28 Dr Diana Wright, DEWHA, p. 10-11.

## Recommendation 4

**That the methodology used and results of the Department of the Environment, Water, Heritage and the Arts desktop and server virtualisation project be disseminated to the other audited agencies.**

### Water management

- 2.35 The Committee expressed its concern at the ANAO finding that only 35 per cent of surveyed agencies were able to measure their water usage, a small increase from 28 per cent at the previous audit in 2005. The Committee asked for further information on water management and reporting.
- 2.36 DEWHA replied that it was difficult to meter water usage in different buildings and under different tenancy operations, as in co-tenanted buildings, water consumption was often only measured at one point, making it difficult for individual tenants to find out their water consumption. Further, it was expensive to retrofit individual water metering for different tenants in different buildings.<sup>29</sup>
- 2.37 Finance noted that even though they were landlords in several buildings and it would be able to track water consumption in each building, that it would not be possible to ascertain how much water each agency located in the building used. Noting the importance of water consumption management, Finance advised that it would review the lease clauses in relation to water consumption management when leases were due for renewal.<sup>30</sup>
- 2.38 Medicare reported that there was data for its national headquarters, and that this data was used to produce estimates of water consumption at larger sites. However, it was difficult to estimate water usage in Medicare offices in shopping centres, as in some cases, offices did not contain a bathroom on site. When asked whether it had water management practices in place, Medicare noted that it had policies in place at an infrastructure level, and was continuing to promote cultural practices aimed at saving water.<sup>31</sup>

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29 Dr Diana Wright, DEWHA, p. 14.

30 Mr Simon Lewis, Finance, p. 15.

31 Ms Rona Mellor, Medicare, p. 16.

## Waste management

- 2.39 The quantity of solid waste produced in Australia continues to grow. The ANAO's 2005 audit found that the performance of agencies in managing waste was poor and recommended waste targets and improved measurement and reporting be introduced across all agencies. The ANAO also recommended agencies implement co-mingled and organic recycling schemes for office waste and include clauses in purchasing contracts to minimise packaging waste.
- 2.40 Little has changed in waste management since 2005. Performance across Australian Government agencies varies considerably. Agencies that have implemented recycling for co-mingled office waste increased from 65 per cent in 2005 to 89 per cent in 2008. Organic recycling increased from 28 per cent in 2005 to 33 per cent in 2008. Only 10 per cent of surveyed agencies were able to provide complete reporting on all waste streams. Only 21 per cent of agencies include contract clauses to minimise packaging waste. From the available data, the average rate of diversion from landfill was 67 per cent compared to Environment at 74 per cent.
- 2.41 The majority of surveyed agencies (52 per cent) were unable to provide any waste reporting data despite agencies advising Environment in 2006-07 that waste management reporting systems were in place or under development. When agencies have been required to measure and report on waste, such as under the Government's commitment to the National Packaging Covenant (NPC), performance by the majority of agencies was poor. To date, Australian Government agencies have not collectively been able to provide any meaningful performance data to indicate the success or otherwise of the NPC Action Plan (July 2006-June 2008). If Environment is to be in a position to report on progress in the next NPC reporting period (2008-10), there will need to be considerable improvement in the quality of data provided by agencies.
- 2.42 The Committee expressed its disappointment in the ANAO finding that 52 per cent of agencies were still unable to provide any waste reporting data. DEWHA advised that the Commonwealth was a signatory to the National Packaging Covenant, and, as a result, the department had whole-of-government responsibility for collecting and reporting data on packaging waste.<sup>32</sup> It advised that in preparing the report for the 2007-08 financial year it now had 83 per cent data coverage, though the presence of multi-tenanted buildings made data collection difficult.<sup>33</sup>

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32 Dr Diana Wright, DEWHA, p. 11.

33 Dr Diana Wright, DEWHA, p. 12.

- 2.43 Survey results indicate that there has been a general improvement in more sustainable building and refurbishment materials since 2005. However, the recycling of construction and refurbishment waste is still a low priority for most agencies. The 2008 survey indicated that only 13 agencies (21 per cent) had provisions for minimising and/or recycling of waste generated in their contracts for refurbishments (a decrease from 31 per cent in 2005) and only two agencies were able to provide estimates of the amount of waste going to landfill from the refurbishments. This figure was similar to 2005 when only three agencies provided estimates. Guidance for office refurbishments that set required environmental standards and practices to minimise waste going to landfill would be particularly helpful for agencies.
- 2.44 The Committee asked what happened to waste materials produced during the construction and refurbishment of buildings. DEWHA advised there were no specific guidelines, but that a national waste policy was being examined by the Environment Protection and Heritage Council, and that a report was due.<sup>34</sup>
- 2.45 The Committee is pleased to note the publication of the *National Waste Report 2010* by the Environment Protection and Heritage Council, and encourages all departments and agencies to take the report's findings into account when developing policy, procedures and processes.<sup>35</sup> The Committee particularly notes the difficulties with regard to data availability and collection and urges all relevant stakeholders to implement reforms in this area.

## Green car programs

- 2.46 The Australian Government is a significant consumer of motor vehicles with the Government fleet, including the Department of Defence 'white vehicle fleet' (non-military, commercially available vehicles) having over 13,000 vehicles in total. In February 2003, a target was established to have 28 per cent of the Government fleet vehicles scoring in the top half of the Green Vehicle Guide (GVG) by December 2005. This target was achieved in June 2007. The proportion of vehicles in the top half of the GVG by June 2008 was 36 per cent. The target was reviewed by the Government Leadership in Sustainability Taskforce in late 2008 and a revised target has

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34 Dr Diana Wright, DEWHA, p. 13.

35 Environment Protection and Heritage Council, *National Waste Report 2010*, <http://www.ephc.gov.au/taxonomy/term/89>, accessed 26.05.2010.

been proposed to Ministers to achieve more sustainable and cost effective vehicle fleets. At the date of preparation of this report, there has been no decision to update the target or revise the guidelines.

- 2.47 The 2005 audit highlighted tensions between costs, preferences for Australian made vehicles and meeting the Government's goal to reduce emissions. In 2008, these tensions still exist. Consistent with the findings in the 2005 audit, discounts of up to 30 per cent for large Australian made six cylinder cars are helping to keep the proportion of large cars in the fleet high. The most popular small cars tend to receive around ten per cent discount, while the most popular medium sized cars receive a discount of around 18 per cent. However, when considered on a whole-of-life cycle basis, large vehicles are 35 per cent more expensive than small cars.
- 2.48 Although the Defence white fleet was not included when the original GVG target was set, Defence advised that it is working towards achieving a target of 28 per cent of its passenger vehicles scoring a GVG rating greater than 10.5. However, with only seven per cent of vehicles currently in the top half of the GVG, little progress has been made in this area. The poor environmental performance of the Defence fleet may be partly explained by the high proportion of commercial vehicles (55 per cent), which have low GVG scores. However, other large agencies with a similar proportion of commercial vehicles in their fleets manage to have between 14 and 25 per cent of vehicles in the top half of the GVG. Defence advised that it is conducting further investigations into improving the environmental rating of its vehicle fleet.
- 2.49 The Committee asked about green car programs, with Finance replying that in 2003, a target was set that 28 per cent of government passenger vehicles would score 10 or better on the *Green Vehicle Guide*. While by 2005 this target had not yet been met, currently 49.5 per cent of government passenger vehicles meet the requirement. When asked why there had been a rapid increase in green car purchases, Finance replied that agencies had begun to consider environmental issues more seriously as a result of the adoption of a policy stating that:
- ... by 2020, 50 per cent of the Commonwealth's passenger vehicle fleet will be Australian made, value for money vehicles and environmentally friendly cars.<sup>36</sup>
- 2.50 The Committee notes the high proportion of commercial vehicles in Defence 'white vehicle fleet' raises the importance of considering separate targets for passenger and commercial vehicles to allow for a stronger focus

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36 Mr John Grant, Finance, p. 18.

on the environmental performance of the Defence white fleet.  
Accordingly, the Committee recommends:

### **Recommendation 5**

**That the Department of Climate Change and Energy Efficiency create separate targets for commercial and passenger vehicles in the Defence white fleet to allow for a stronger focus on the environmental performance of the Defence white fleet.**

## **Conclusion**

- 2.51 The Committee is pleased to see some of the progress made by agencies to improve their green procurement practices. The development of environmental management systems across the audited agencies is a positive development, and the Committee looks forward to seeing further positive outcomes stemming from these systems. However, clear disparities in performance across the entire public sector makes it clear that there is still more work to be done.
- 2.52 The Committee sees great benefit in stewardship clauses in ICT contracts, and is glad to see them in place at most agencies. The Committee is of the belief that stewardship clauses should be compulsory across all agencies that lease ICT infrastructure.
- 2.53 The Committee looks forward to seeing further progress in the next audit anticipated for 2011.





## Audit Report No. 27 2008-09

# Management of the M113 Armoured Personnel Carrier Upgrade Project

## Introduction

- 3.1 M113s are the only tracked vehicle in the Australian Defence Force's (ADF's) fleet of armoured troop transports used for transporting and supporting infantry in a battlefield. M113s first saw service with the ADF during the Vietnam War and are undergoing a major upgrade to improve protection, lethality, mobility and habitability.
- 3.2 Currently, 431 upgraded M113s are on order for delivery by the end of 2011 under Project Land 106: Upgrade of M113 Armoured Vehicles. The initial purchase in July 2002 of 350 upgraded vehicles for delivery by December 2010 was extended in December 2008 to include an additional 81 upgraded M113s as part of the Enhanced Land Force (ELF) initiative.<sup>1</sup>

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<sup>1</sup> See the Hon Joel Fitzgibbon MP, Minister for Defence (2008), *Government approves additional armoured personnel carriers*, Media Release 148/2008, 28 October. In December 2008, the Government purchased the additional vehicles as part of the ELF initiative, announced in 2006 at a total approximate cost of \$4.1 billion. ELF is intended to provide Army with a range of additional equipment, among which are additional upgraded M113s.

- 3.3 With the total anticipated expenditure in the order of \$1 billion<sup>2</sup>, the upgrade is one of Defence's top 30 projects by forecast 2008-09 expenditure, with some \$100 million in expenditure under Project Land 106 forecast for this financial year.<sup>3</sup>
- 3.4 Upgraded M113s are to be a core component of the ADF's capability. They are fundamental equipment for Army's two mechanised battalions, the 5<sup>th</sup> and 7<sup>th</sup> Royal Australian Regiments (7 RAR and 5 RAR), and are currently forecast to be in service until 2020.<sup>4</sup>
- 3.5 The Australian National Audit Office (ANAO) previously examined the Department of Defence's (Defence's) progress in delivering this project in Audit Report No. 3 2005-06, *Management of the M113 Armoured Personnel Carrier Upgrade Project*. Given the continuing significance of this project and developments since the 2005-06 audit, the ANAO scheduled this audit to provide updates on the progress against Project Land 106's stated schedule, cost and technical performance objectives, and on Defence's implementation of the recommendations and findings of the previous audit.

## The Audit<sup>5</sup>

### Audit objectives and scope

- 3.6 The objectives of this audit were to assess:
- the progress of the M113 Armoured Personnel Carrier Upgrade Project against stated schedule, cost and technical performance objectives; and
  - Defence Materiel Organisation's (DMO's) progress in implementing the recommendations and addressing the findings of ANAO Audit Report

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2 Expressed in January 2009 prices. The estimate comprises the approved budget of \$648 million for the first 350 vehicles, and additional \$241 million for the 81 ELF vehicles, along with estimates of the additional costs of preparing and extending the vehicle hulls prior to upgrade, and those of Defence project staff.

3 Department of Defence (2008), *Portfolio Budget Statements 2008-09*, p. 166.

4 The 81 additional ELF vehicles will allow these two mechanised battalions (established under the Hardened and Networked Army initiative announced in 2005 at a cost of approximately \$1.5 billion) to operate M113s exclusively rather than mixed fleets of M113s and Bushmasters. See Department of Defence (2007), *Australia's National Security: A Defence Update 2007*, p. 51.

5 In this chapter, all references to 'the audit' are references to Audit Report No. 27 2008-09, unless specified otherwise.

No. 3 2005-06, *Management of the M113 Armoured Personnel Carrier Upgrade Project*.

- 3.7 The audit covers significant developments since the previous audit, including contract negotiations and outcomes, the commencement of final production, and the initial introduction into service of the upgraded vehicles. The ANAO visited production facilities to examine the arrangements for final production of the upgraded M113s, and 7 RAR at 1 Brigade in Darwin to examine vehicle logs, reports of defects and faults, and the current state of the upgraded M113 capability.

## Overall audit conclusion

- 3.8 The ANAO made the following overall audit conclusion:

The M113 Major Upgrade Project commenced in July 2002 and has suffered a series of delays. Army has so far received 42 of the 350 vehicles to be upgraded. Of these, 16 are in service with 7 RAR, five are awaiting issue to units and the remaining 21 are allocated primarily to driver and crew training units.

Many of the initial technical difficulties with the Project were resolved by the end of 2007, at which time extensive negotiations with the Prime Contractor were successfully concluded. Those negotiations enabled final production to get underway and reaffirmed the December 2010 delivery date.

Subsequently, however, production has been slow. In July 2008, the Prime Contractor informed Defence that the existing production facilities at Bandiana, Victoria, were not adequate to the task and, at December 2008, there was a potential shortfall of around 100 upgraded vehicles by December 2010.

Defence is currently working with the Prime Contractor on measures to improve and expand the M113 production facilities and recover the anticipated production shortfall. On 28 October 2008, the Minister for Defence announced that additional production will occur at Williamstown, Victoria, and Wingfield, South Australia. ANAO notes that recovering the production schedule will be challenging.

Defence advised that the upgraded M113s achieved a limited Initial Operational Capability as of December 2007 and could, if circumstances required, be deployed. However, Defence has yet to complete the Operational Testing and Evaluation of the upgraded vehicles, which is necessary to achieve Operational Release. In

light of increasing threats, Defence is considering additional protection for its M113s, at a potential additional cost of up to \$0.2 million per vehicle, if they are deployed on more hazardous missions.

As of September 2008, the 16 upgraded M113s delivered to 7 RAR had travelled less than 1,000 kilometres. They were first used in a training exercise in November 2008 and, by December 2008, had travelled almost 9,000 kilometres. Defence advised ANAO in December 2008 that, notwithstanding delays in the delivery of the upgraded M113s, demands on capability had been manageable. This was due, in part, to Defence's ability to use alternative armoured troop transports, and because troops who would otherwise have been assigned to M113s were necessarily deployed elsewhere on operations. Defence advised ANAO in December 2008 that:

The development of the [*upgraded M113*] capability is adversely impacted by support to operations. This cost has been assessed and accepted by Chief of Army as Capability Manager. Indeed, the cost is manageable within Army's wider priorities and strategic guidance.

- 3.9 Until it receives all its upgraded vehicles, Defence will continue to operate its fleet of original M113s, many of which are over 35 years old. At the time of this audit, Defence's assessment was that there were no viable alternatives to the upgraded M113.<sup>6</sup>
- 3.10 The ANAO identified significant progress since the previous audit. To control scope changes, Defence specified and applied financial thresholds for the approval of changes to capital acquisition projects. To complement these arrangements, ANAO recommended Defence develop additional guidance to ensure that appropriate levels of approval are sought for scope changes that affect capability.
- 3.11 The ANAO found that Defence had successfully recovered against deliverables outstanding prepayments identified in the previous audit. However, it was difficult to establish with certainty the financial and other benefits accruing to the Commonwealth by making substantial prepayments under the Major Upgrade Contract. Consequently, ANAO recommended that Defence develop clear policy guidance on the circumstances in which prepayments will be considered for inclusion in future major acquisition contracts.

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6 Australian National Audit Office (ANAO) Audit Report No. 27, 2008-09, p. 15.

- 3.12 Defence has put in place a suite of guidance and instructions to staff responsible for administering liquidated damages. In the case of the Major Upgrade Contract, administration was hampered by complex arrangements that applied liquidated damages to approximately 3100 contract milestones. ANAO has recommended that liquidated damages arrangements in future major acquisition contracts apply to clearly identified, key contract milestones.
- 3.13 Defence provided evidence of its effective oversight of technical issues in the development of the upgraded M113s.<sup>7</sup>

## ANAO recommendations

- 3.14 The ANAO made the following recommendations:

Table 3.1 ANAO recommendations, Audit Report No. 27 2008-09

1.	ANAO <i>recommends</i> that Defence and DMO set suitable threshold criteria for determining changes in scope to acquisition projects and promulgate advice to staff to allow decision-makers to be provided with sufficient, consistent and appropriate information and advice on potential scope changes.
	<i>Defence response: Agreed</i>
2.	ANAO <i>recommends</i> that Defence develop clear policy guidance on the circumstances in which prepayments will be considered for inclusion in future major acquisition contracts, and maintain an appropriate record of the basis for agreeing to advance payments as part of contract negotiations.
	<i>Defence response: Agreed</i>
3.	ANAO <i>recommends</i> that Defence ensure that liquidated damages arrangements in future major acquisition contracts apply to clearly identified, key contract milestones.
	<i>Defence response: Agreed</i>

## The Committee's review

- 3.15 The Committee held a public hearing on Monday 15 June 2009, with the following witnesses:
- Australian National Audit Office (ANAO);
  - Defence Materiel Organisation (DMO); and

<sup>7</sup> Audit Report No. 27, 2008-09, pp. 14-16.

- Department of Defence (Defence).

3.16 The Committee took evidence on the following issues:

- scope changes;
- capability of the M113;
- timely delivery of the project; and
- value for money.

### Scope changes

3.17 The Committee noted there were inconsistencies in what constituted a scope change, asking Defence and DMO for more information. DMO replied that existing policy had been examined, and a review had been conducted. DMO reported that the Defence Procurement Policy Manual (DPPM) was the primary reference document for procurement, and that it complied with Commonwealth legislation and policy as well as internal Defence guidelines. The DPPM addressed the issue of scope changes:

Where the proposed contract amendment will increase the value of the contract, Proposal Approval must also be exercised for the additional amount.<sup>8</sup>

3.18 DMO also noted that there were specified financial thresholds for the approval of changes to capital acquisition projects via DMO instructions.<sup>9</sup>

3.19 The Committee asked whether it was as simple as applying a ratio that would not be proceeded past. DMO replied:

There are a number of delegations and a number of checks and balances that we go through in determining the scope. It involves both Defence and DMO – that is, Defence delivering the project in accordance with the requirements of Defence represented by capability development in this case. Our responsibility is to look at that change in scope – whether it is within the comprehension of the contract and government approval and certainly look at the value and magnitude of it. It is not just a financial consideration; it is about whether it breaches or is comprehended by the intent and the actual government approval. So there are processes there for

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8 Department of Defence, *Defence Procurement Policy Manual*, Chapters 6 and 7.

9 Mr Colin Sharp, Defence Materiel Organisation (DMO), p. 17. All references to witnesses' evidence comes from the Committee's hearing into this audit dated 15 June 2009, with page numbers relating to the Proof Committee Hansard.

us to review that, have a look at it and then bring it to government if we feel it needs government approval.<sup>10</sup>

- 3.20 The Committee asked what had been done to ensure decision makers were provided with sufficient, consistent and appropriate information and advice on potential scope changes. DMO replied that there was a clear process in place in the documentation, and that ‘administrative discipline’ was required to ensure those processes were followed.<sup>11</sup>
- 3.21 The Committee is pleased to see that the agencies have accepted ANAO Recommendation No. 1, and that DMO believes appropriate processes are in place to inform decision makers on potential scope changes. However, the Committee is somewhat concerned that staff may be unaware of the processes currently in place for providing advice on potential scope changes, and recommends:

### Recommendation 6

**That the Defence Material Organisation (DMO) provide a brief report to the Joint Committee of Public Accounts and Audit (JCPAA) within six months of the tabling of the Committee’s report on the steps taken to ensure DMO staff adhere to the existing processes to inform decision makers of scope changes.**

### Capability of the M113

- 3.22 The Committee inquired into the capabilities of the upgraded M113, noting that the vehicles were not currently suited to operating in Afghanistan.
- 3.23 Defence replied that the M113s provided a capability in various types of terrain and environments, and while they were suited to the terrain of Afghanistan, they were not suitable to operate in the current threat environment. Defence reported that the best combat vehicle for the current threat environment in Afghanistan was the ASLAV, and the best general duties vehicle was the Bushmaster. Defence noted that the M113 could be deployed to Afghanistan, but that it would require additional protection due to the current threat environment.<sup>12</sup>

10 Mr Colin Sharp, DMO, p. 17.

11 Mr Colin Sharp, DMO, p. 17.

12 Brig. Mal Rerden, Department of Defence (Defence), p. 20.

- 3.24 The Committee asked whether there was an identified need to upgrade the M113s to deal with rocket propelled grenades (RPGs) and Improvised Explosive Devices (IEDs), two key elements of the threat environment in Afghanistan.
- 3.25 Defence replied that this was the focus of the contract, and that they were also testing passive protection measures used overseas, as well as developing their own passive protection measures independently.<sup>13</sup> Further, Defence noted that the M113s would 'probably not' be deployed in a place where there is sustained close combat expected on a daily basis.<sup>14</sup>

### Timely delivery of the project

- 3.26 The Committee asked about the likelihood of the M113 upgrade being completed by its deadline. DMO replied that the project had been running a year late for several years, but that it was anticipated that the project would still be completed a year late. DMO noted, however, that the completion of the project by that deadline was still assessed as being 'high risk', but that there were incentives in place to encourage the company to complete the project by December 2010, still one year late.<sup>15</sup>
- 3.27 The Committee is concerned that the delivery of the M113 upgrades may yet be delayed further, and recommends:

### Recommendation 7

**That the Department of Defence and the Defence Materiel Organisation (DMO) provide the Joint Committee of Public Accounts and Audit (JCPAA) with a brief report detailing the progress of the M113 upgrade process, and the likelihood of the project being completed by the revised target date of December 2010.**

### Value for money

- 3.28 The Committee expressed its concern about the value for money obtained through the upgrade. It asked Defence whether, during the time the

13 Brig. Mal Rerden, Defence, p. 20.

14 Brig. Mal Rerden, Defence, p. 21.

15 Mr Colin Sharp, DMO, p. 18.



upgrade was being considered, any thought had been given to buying new vehicles, rather than upgrading the M113.

- 3.29 Defence replied that the terms of reference for the review into the business case for the M113 upgrade included a review of further alternatives, including the acquisition of a new vehicle. Defence rejected the purchase of the US Bradley, or similar vehicle, on several grounds:

Vehicles such as the US Bradley are prohibitively expensive. The need for a tracked capability (for mobility reasons in close combat in difficult terrain) was also restated by capability staff as the reason for rejecting replacement of the M113 fleet with a wheeled vehicle (and new wheeled vehicles such as ASLAV are also more expensive than an upgraded M113).

This assessment remains current. To use the Bradley example, the vehicle carries half the troops in comparison to the M113, and therefore Defence would need to buy twice the number of vehicles. Secondly, the Bradley costs four times the M113 upgrade cost and thirdly, the Bradley is 30 tonne and cannot be deployed by C130 (C17s are not suitable for the small dirt strips in our region).<sup>16</sup>

- 3.30 The Committee noted that a lot of money was being spent on the M113 for little return, comparing it to the Super Seasprite, a Defence procurement project that has been shelved. DMO replied that the Army considered the M113s to be capable assets that are useful, and that the Army would need within the next ten to twenty years due to conditions in Northern Australia and other tropical areas.<sup>17</sup>

## Conclusion

- 3.31 The Committee believes more must be done within DMO to ensure its staff are aware of their responsibilities to report potential scope changes to key decision makers, and believes the implementation of its recommendation would be of benefit.
- 3.32 The Committee is concerned that the prospect of the M113 upgrade project's timely delivery is still assessed as 'high risk', and is extremely

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<sup>16</sup> Department of Defence, *Submission No. 5*, p. 1

<sup>17</sup> Mr Kim Gillis, DMO, p. 18.

interested in ensuring the project is completed in a timely manner, and wishes to remain informed about the progress of the project.

- 3.33 The Committee is encouraged to see that alternatives to the M113 upgrade were considered, and that both operational requirements and value for money were primary considerations of Defence and DMO.
- 3.34 The Committee acknowledges that the M113 is not currently considered to be able to be deployed in Afghanistan due to its unsuitability to the current threat environment, and expresses its hope that it will be able to be readily deployed to other more suitable environments if it is required.
- 3.35 On a related matter, the *Defence Major Projects Report* initiated with the JCPAA's support in 2008 is an important initiative which will give the Parliament an improved capacity to track the progress of major projects such as the M113 project while they are still in train, rather than relying on the scrutiny of individual projects after projects have been completed.
- 3.36 Further, the Committee has also decided to continue to scrutinise Defence major capital equipment projects, resolving to review ANAO Audit Report No. 48 2008-09 *Planning and Approval of Defence Major Capital Equipment Projects* which examined the strengthened "two-pass" process for major capital equipment projects implemented following the Kinnaird review as the first post-Kinnaird review audit.

## Audit Report No. 28 2008-09

# Quality and Integrity of the Department of Veterans' Affairs Income Support Records

## Introduction

- 4.1 The Repatriation Commission was officially established on 1 July 1920 with the passing of the *Australian Soldiers' Repatriation Act 1920*, to provide support for veterans, widows and their families.<sup>1</sup> This Act was replaced by the *Veterans' Entitlements Act 1986* (the Act), which retained the functions of the Repatriation Commission. Under the Act, the Commission delegates its powers to the Department of Veterans' Affairs (DVA) to grant pensions and other benefits to veterans and their dependants, and certain other eligible people.
- 4.2 The service pension provides regular income support for people with limited means of income and is broadly equivalent to the Centrelink age and disability pensions. However, it is payable five years earlier than the age pension in recognition of the effects of war. The two critical criteria required of claimants in the Act are to be a veteran and have rendered qualifying service. Age and residency requirements are also mandatory for some pensions. There are rules related to assets and income that also affect pension eligibility and pension amount.

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1 Department of Veterans' Affairs, *Department of Veterans' Affairs Annual Report 2007-08*, p. 20.

- 4.3 The total required to deliver this output in 2007-08 was \$44,744,000.<sup>2</sup> DVA's client population has declined over the past three financial years. At 30 June 2008, the income support pensioner population was 4.6 per cent less than was reported in the previous financial year. There has been a corresponding downwards trend in the department's workload.<sup>3</sup>
- 4.4 In order to better manage the services provided to Australia's declining population of war veterans and the expected decrease in its workload and funding, DVA undertook a major restructure in 2005-06. This restructure, known as *oneDVA*, was the foundation for a new approach to the way DVA delivers its services to veterans. The reorganisation involved a move away from variable State-based practices and the expansion of geographically dispersed teams resourced along national business lines. The department's strategy to standardise its operations across all service areas was complemented by the introduction of the first phase of a new 'oneVoice' telephone service environment, the Veterans' Service Centre (VSC).
- 4.5 The department's administration of income support benefits relies on a combination of complex older heritage and new information technology (IT) systems. These systems contain extensive electronic records of personal and other information about DVA's clients and are used to process income support claims and other related work. In February 2008, the department's client databases held 1,580,546 total client records, of which 264,248 involved an income support payment.
- 4.6 In parallel with DVA's restructure, the department also recognised the need to modernise its IT and reduce its expenditure on maintenance of heritage systems.<sup>4</sup> As part of this initiative, the department purchased Cúram, an off-the-shelf, integrated IT application framework designed for service delivery environments. This IT-enabled business change offered the potential for better functionality of DVA's IT systems based on up-to-

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2 Department of Veterans' Affairs (Defence Portfolio), *Portfolio Budget Statements 2007-08: Budget Related Paper No. 1.4B*, May 2007, p. 49.

3 From time to time this trend in the workload may reverse in response to legislated or policy changes but this does not affect the overall systemic downwards trend. For example, in September 2007, a change to the taper rate of the assets test generated around 4800 additional claims over a short period, with workloads returning to the pre-1 July 2007 levels early in 2008-09.

4 The replacement of old systems hardware to reduce maintenance costs is not limited to DVA. The recent independent *Review of the Australian Government's Use of Information and Communication Technology* by Sir Peter Gershon, August 2008, illustrates the commonality of the issue both across agencies and internationally. Recommendations include agencies: strengthening governance around improving ICT capability; reducing expenditure on heritage systems without impairing service delivery; and increasing internal ICT capabilities.

date business rules, more reliable information underpinning decision-making and reporting, and increased convenience for veterans.

- 4.7 At the time of the audit DVA was taking a phased approach to implementing Cúram, with data migration (from the department's heritage IT systems into Cúram) scheduled over a number of years. The initial phase of the department's modernisation of its IT systems occurred in 2006, when several projects were implemented. This involved the migration of over 1.5 million records containing client personal information from heritage databases into the new Cúram environment. Despite DVA's considerable project planning, data testing and cleansing to prepare the heritage data for transfer into Cúram, unanticipated data incompatibility and integration issues emerged during the migration of the data. To enable the transfer of the data into Cúram, heritage records with blank date of birth fields were populated by DVA with 'dummy' data.<sup>5</sup>
- 4.8 The department has a major initiative to clean up data integrity errors. This is the Data Integrity Cleanup Exercise (DICE) project which predominantly revolves around correcting:
- data errors that were transferred from heritage systems into Cúram; and
  - newly created problems that arose as a result of incompatibility issues between heritage and Cúram systems during data migration.
- 4.9 The department also has an ongoing program for data cleanup – the Data Integrity Problems (DIPs) work. DIPs activity is directed to correcting complex data errors unable to be resolved directly via the existing applications.
- 4.10 The cost of implementing Cúram was to be offset by ongoing savings in administration and program costs arising from the improved IT framework and de-commissioning of relevant heritage systems.<sup>6</sup>

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5 Dummy data is a dummy variable that does not contain any useful data but it does reserve space for a real variable.

6 The Department's expenditure on Cúram application development over the previous three financial years 2005-06 to 2007-08 is estimated to be \$38 million.

## The Audit<sup>7</sup>

### Audit scope and objective

- 4.11 The objective of the audit was to examine the quality and integrity of DVA's income support records and to report on the effectiveness of the department's management of the data and how it impacts on service delivery. The audit included an examination of:
- DVA's management of the data including the quality of data stored on its client databases, the processing of claims and payment processing;
  - the accuracy, completeness and reliability of DVA's electronic income support records; and
  - the impacts the quality of data has on service delivery, and related issues of customer support and feedback.
- 4.12 The audit focused on data integrity issues associated with the various types of service pension, income support supplement, the social security age pension and other related allowances. The accuracy and completeness of records of selected mandatory fields and other key fields that underpin the integrity of DVA's income support records were examined.
- 4.13 The ANAO's data extraction and analysis encompassed 1,580,546 records in DVA's production environment which included the records of 264,248 income support clients who were *in payment*.<sup>8</sup> While the audit did not directly examine the accuracy of individual payments, it examined underlying data integrity issues that can impact on the accuracy of payments, such as the current status of client asset and income information.
- 4.14 The audit also included a limited number of reviews of paper files and consideration of documentation associated with DVA's IT governance, particularly in relation to data management.

### Overall audit conclusion

- 4.15 The ANAO made the following overall audit conclusion:
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7 In this chapter, all references to 'the audit' are references to Audit Report No. 28 2008-09, unless specified otherwise.

8 This refers to clients who were receiving any kind of DVA payment at the time of the data extraction.

The Department of Veterans' Affairs (DVA) has been undergoing significant change since 2005-06. Following a review of its service delivery arrangements, DVA adopted a new business and information technology (IT) strategy, in recognition of the declining population of war veterans and expected 30-50 per cent decrease in the department's workload over the next 10 years. A key element of DVA's IT strategy is to reduce expenditure on the maintenance of IT systems over time, by eventually decommissioning its heritage systems. The purchase of Cúram, an off-the-shelf IT product designed for social welfare environments, was a key part of this strategy. DVA identified Cúram as an enabler for its new model of business operation, known as *oneDVA*.

A challenge for DVA in this environment is balancing the resources required to maintain its heritage IT systems relative to its investment in new IT capability with its greater functionality. While Cúram is designed to be the 'source of truth' for client personal data and to provide a platform to better manage DVA's data in the future, it is still in the early stages of implementation. Income support data is not yet scheduled for migration into Cúram, and DVA continues to be dependant on the integrity of the data stored in heritage systems for administering income support payments. In this environment, the department relies heavily upon the corporate knowledge held by a few key staff about its IT systems and business processes.

Overall, the poor quality of the data in DVA's electronic databases is affecting the efficiency and reliability of the department's decision-making, and its internal and external reporting. While in most cases there was sufficient evidence in DVA's multiple systems and the hard copy customer records examined to support its clients' eligibility for income support benefits, the audit revealed:

- the department's management of electronic data and data integrity issues was not effective;
- key fields in many electronic records were not accurate, complete or reliable; and
- inaccurate recording and reporting of complaints and compliments in the department's Feedback Management System.<sup>9</sup>

## Management of data and data integrity issues

- 4.16 The ANAO found numerous data integrity problems during the audit, including:
- DVA clients with more than one Unique Identification Number (UIN) continuing to increase since the previous audit of DVA's administration of Repatriation Health Cards in 2003-04;
  - DVA not having a complete electronic record of the qualifying service details for 41 per cent of veterans eligible for the age service pension;
  - exempt assets of clients being disregarded beyond the legislated exemption period for the purpose of the assets test;
  - fragmentation of client information across multiple records; and
  - cases of pension misclassification, requiring DVA to further analyse the raw data to ensure the information reported was meaningful and reliable.
- 4.17 The ANAO found that these and other data integrity issues identified by the audit increase the risk of DVA providing untimely advice and incorrect payments, and reduce the department's capacity to provide assurance that the right person is receiving their correct entitlement. To mitigate this risk, the department has a range of administrative processes and checks in place. However, these add to the costs of administering the program. This situation also limits the ability of the department to garnish the dividends of *oneDVA*.
- 4.18 According to the ANAO, the quality of DVA's data would be substantially improved through the development and deployment of an organisation-wide data integrity improvement strategy, underpinned by stronger governance arrangements. In recent years, DVA has reviewed both its IT governance and committee structure and identified similar issues to those reported by the ANAO in this audit, including a need for greater clarity across the department for the authority, ownership and control of data management and data integrity issues. Strengthening oversight arrangements would assist DVA to monitor the progress of the strategy, as well as align elements with the roll-out of *Cúram* and recognise the interdependencies within the *oneDVA* initiative. DVA's progress would also be facilitated by setting targets and timeframes for reviewing records, and better utilising the opportunities presented by client and department initiated contacts, including compliance and review work, to improve data integrity.



## Accuracy, completeness and reliability of key fields in client records

- 4.19 The ANAO found that DVA's policy and procedural controls for new claims processing and updating of client records would benefit from review and consolidation. In particular, data entry controls and support materials should be standardised across the department's State offices and the Veterans' Service Centres (VSC), consistent with the *oneDVA* strategy. This would help to reduce data input errors and support consistency in decision-making and client records management generally. Additional assurance would be gained from a greater focus on data input standards and controls, and procedural compliance around claims processing and updating of client records.
- 4.20 Veterans/clients receiving the maximum pension or receiving a part pension (and considered by DVA to be low risk), are generally not reviewed through DVA's review program measures unless pensioners notify of a change in their circumstances. This has potential service delivery impacts when cases are not reviewed for a number of years as clients could incur unexpected debts or be underpaid for a significant period. Retrospective adjustments applied to pensions over a number of years does create higher administrative costs for DVA, when having to account for multiple changes to a pensioner's circumstances.
- 4.21 In 2004, DVA introduced its Enhanced Compliance Program (ECP) in order to manage the risk of pensioner non-compliance.<sup>10</sup> The ECP targets cases profiled by DVA as high risk with no recent review activity, or cases with potentially volatile income and assets. As well as achieving higher than expected benefit payment savings, the ECP has been successful in updating the current status of a client's circumstances. However, this program, coupled with the program of two-yearly reviews of pensioners receiving less than the maximum pension rate, reviews less than 7 per cent of the total income support population. Overall, more than 70 per cent of clients have not had a review that updates all of their previously submitted asset information, for eight years or more.
- 4.22 DVA has a range of IT controls and assurance programs, including the ECP and client contact activities, which present an opportunity to improve data integrity. These compliance activities and other direct contacts with clients provide opportunities to implement cost-effective arrangements to

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10 DVA's review of the ECP states: 'compliance reviews are the most effective and resource intensive review types as they update all aspects of a person's pension assessment. All other review types only update one or two assessment items.'

validate or correct client information. Improved data integrity would provide greater assurance that DVA's clients are receiving their correct income support entitlement and associated services.

### Management of feedback data and service delivery impacts

- 4.23 The ANAO indicated that the unreliability of DVA's client feedback data limited the department's capacity to effectively utilise the intelligence gathered from complaints and compliments to assist in setting client service priorities and to systematically monitor and generate reliable public reports. DVA's proposed new feedback management system was found to be in the early planning stages, with the projected timetable and resources yet to be defined. DVA advised that, in the meantime, its existing Feedback Management System (FMS) would continue to be used with its known data quality shortcomings.
- 4.24 The ANAO concluded that, in the interim, it would be prudent for DVA to raise departmental staff awareness of the need for all feedback to be recorded in the existing FMS and to ensure compliance with the department's Procedural Policy-Handling Feedback from the Veteran Community. In doing so, the focus should be on awareness raising and highlighting the value DVA places on client feedback and the intelligence gathered from complaints, as a driver of improvements to business and service quality. This would assist in ensuring that client feedback is accurately recorded and appropriately managed day-to-day and ensure its availability for long term business and service delivery improvement purposes.<sup>11</sup>

### ANAO recommendations

- 4.25 The ANAO made the following recommendations:

Table 4.1 ANAO Recommendations, Audit Report No. 28 2008-09

1.	<p>To improve the governance of income support data, the ANAO recommends that the Department of Veterans' Affairs:</p> <ul style="list-style-type: none"> <li>• clarifies the authority and role of its Data Integrity Sub-Committee responsible for resolving issues related to data ownership and enhancing the integrity of data held in the department's databases; and</li> <li>• develops an agency-wide strategy, assigning ownership for data management and integrity issues to business areas.</li> </ul> <p><i>DVA response: Agreed</i></p>
2.	The ANAO recommends that the Department of Veterans' Affairs:

<sup>11</sup> Audit Report No. 28 2008-09, pp. 17-20.

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- documents a controls framework for income support and systems based business rules; and
  - evaluates its current IT controls and assurance activities to determine which elements are most efficient and effective in improving data integrity.

*DVA response: Agreed*

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3. To enhance the quality and integrity of income support records, the ANAO recommends that the Department of Veterans' Affairs:
- strengthens its data entry system and procedural controls by implementing a standard set of national procedures for income support client records management;
  - validates customer data when interacting with clients and during income support assurance activities; and
  - updates incorrect data in all key fields of active electronic client records prior to granting a payment or benefit.

*DVA response: Agreed*

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4. The ANAO recommends that the Department of Veterans' Affairs implements interim measures to enhance the quality of its feedback data while designing the new feedback system to manage stakeholder feedback by:
- improving compliance by staff with the department's current procedural policy; and
  - raising staff awareness of the need for all complaints and compliments data to be recorded in the department's existing Feedback Management System.

*DVA response: Agreed*

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## The Committee's review

4.26 The Committee held a public hearing on Monday 15 June 2009, with the following witnesses:

- Australian National Audit Office (ANAO);
- Department of Veterans' Affairs (DVA).

4.27 The Committee took evidence on the following issues:

- current status of the Cúram project;
- data integrity;
- complaints;
- update of clients' asset records;
- incomplete electronic records of service; and

- risks associated with the reliance on corporate knowledge held by a few key staff members.

## Current status of the Cúram project

- 4.28 The Department of Veterans' Affairs reported to the Committee that since the Audit Report was presented the Cúram project has been put on hold, largely due to financial considerations. A review of the modernisation of the Department's information technology systems is being undertaken to establish 'which is the best platform and what is the best solution to our needs going forward'.<sup>12</sup>
- 4.29 DVA was anxious to stress to the Committee that the current difficulties with regard to the implementation of the modernisation of the agency's information technology systems in no way impact on the correctness or accuracy of payments made to veterans. The General Manager, Support Division, was quick to point out that none of their accountability processes have been compromised:

... the current state of our systems in no way fetters our capacity to inform government or inform anybody else about the current state of DVA's payments, benefits, expenditure and so forth.<sup>13</sup>

### Recommendation 8

**The Committee recommends that the Department of Veterans' Affairs (DVA) report back to the Committee at the conclusion of the review of the agency's information technology systems and provide the Committee with details of the system chosen, the implementation plan and how the plan will address the Australian National Audit Office's recommendations.**

## Data integrity

- 4.30 The ANAO identified links between the integrity of DVA's data and its data entry controls and recommended that the agency take specific steps

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12 Mr Barry Telford, Department of Veterans' Affairs (DVA), pp. 2-3. All references to witnesses' evidence comes from the Committee's hearing into this audit dated 15 June 2009, with page numbers relating to the Proof Committee Hansard.

13 Mr Barry Telford, DVA, p. 4.

to mitigate the risk of errors and improve quality.<sup>14</sup> The recommendation calls for a standard set of national procedures, the validation of customer data whenever there is client contact and updating of incorrect client data before granting a payment or benefit.<sup>15</sup>

- 4.31 DVA reported that it has instigated a review of its procedures which was to be concluded in September 2009 and that identified changes will be implemented as soon as possible. The Department maintains that it already validates data during client contact and that staff are continually being made aware of the need to follow this procedure. The National Manager, Income Support, assured the Committee that this is an ongoing process:

... we sent out a business line to all system users and client contact staff just last week reinforcing the message that they follow the Departmental protocols of updating all the client data information, which picks up gender, title, date of birth, name, address and contact details for the client.<sup>16</sup>

## Complaints

- 4.32 The Committee expressed concern in the rise in complaints and drop in client satisfaction with complaints handling in 2006-07 identified in the Report. This is despite a reported overall high rate of client satisfaction with the Department's services. Although they did not question the veracity of the findings, the ANAO detailed a number of weaknesses in the agency's complaint handling procedures and reporting.
- 4.33 DVA explained that the total figures masked varying levels of satisfaction with the Department between clients covered under the *Veterans Entitlement Act 1986* (VEA), the *Military Rehabilitation and Compensation Act 2004* (MRCA) and the *Safety, Rehabilitation and Compensation Act 1988* (SRCA). Clients under the VEA tend to be more satisfied with the service than those under the MRCA and SRCA. DVA provided a number of reasons for this higher dissatisfaction among the latter group:

It is a system where there is a greater emphasis on rehabilitation, they are younger individuals, they are people who have left the Australian Defence Force (ADF), which they had seen as potentially their career for life, and they are people who are clearly

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14 Audit Report No. 28, 2008-09, p. 62.

15 Audit Report No. 28, 2008-09, p. 32.

16 Mr John Sadeik, DVA, p. 7.

in a situation where they need a lot more work and assistance in getting them back to the position they were in prior to their injury and their discharge from the ADF.<sup>17</sup>

- 4.34 The Committee requested a disaggregation of the complaints data for 2006-07 and 2007-08 to allow a comparison to be made between both years. The disaggregated figures are available in Appendix D.
- 4.35 The Committee sought further information on the steps being taken to rectify the dissatisfaction being expressed by clients under the MRCA and SRCA. The Department explained that it has set up a younger veteran's task force to examine the issues and develop solutions. DVA has identified communication channels as of particular concern to younger clients and is exploring the use of new technology to facilitate better communication between these clients and the Department. Examples of reforms that are improving service delivery to clients include:
- a single claim form for all clients no matter which piece of legislation they are eligible under;
  - more efficient transfer of medical and service records from Defence to the Department; and
  - a single health examination form which reduces the need to consult separate doctors or practitioners.<sup>18</sup>

## Update of clients' asset records

- 4.36 The service pension for DVA clients is calculated using two tests: an income test and an asset test.<sup>19</sup> The ANAO found that while changes to income are monitored through regular reviews and data matching with Centrelink and the Australian Taxation Office, identifying changes to the value of assets is a more difficult task.<sup>20</sup> The audit report found that 'more than 70 per cent of client's asset records have not had all of their previously submitted asset items fully updated for eight years or more.'<sup>21</sup>
- 4.37 The Committee expressed concern that this backlog could be detrimentally affecting the income of veterans. DVA reported that in accordance with ANAO recommendations, they were undertaking a review of their data

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17 Mr Barry Telford, DVA, p. 8.

18 Mr Barry Telford, DVA, p. 10.

19 Audit Report No. 28 2008-09, p. 81.

20 Audit Report No. 28 2008-09, p. 82.

21 Audit Report No. 28 2008-09, p. 88.

entry system and procedural controls, scheduled to be completed by September 2009.<sup>22</sup>

## Recommendation 9

**That the Department of Veterans' Affairs (DVA) provide the Joint Committee of Public Accounts and Audit (JCPAA) with a copy of the review of the DVA's data entry system and procedural controls as soon as practicable after the tabling of the Committee's report.**

### Incomplete electronic records of service

4.38 Qualifying service (QS) is the criteria used to establish a veteran's eligibility for a service pension. The ANAO found that details of service are recorded on paper files but that 41 per cent of electronic records were incomplete with regard to these details.<sup>23</sup> As DVA advised that paper files are not used after the initial assessment, ANAO concluded that future decisions could be based on incomplete records which would increase the margin for error.<sup>24</sup>

4.39 DVA told the Committee that the transfer of information from paper records to the electronic database is resource intensive and not a high priority.<sup>25</sup> The Department explained that once qualifying service is established there is rarely any need to access the details:

... we do not consider the transfer of those to electronic files as being a priority because we just do not access those files once we have got the person in payment and eligible and we are confident of those particular details extracted from the paper files.<sup>26</sup>

4.40 The Committee nonetheless concurs with the ANAO that "when information is fragmented across different records, this leads to inefficient administration and increases the risk of error."<sup>27</sup> The Committee expects new entrants into the system with qualifying service to be entered into electronic records as a matter of course, and reiterates ANAO

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22 Department of Veterans' Affairs, *Submission No 3*, p. 7.

23 Audit Report No. 28 2008-09, Table 3.3, p. 76.

24 Audit Report No. 28 2008-09, Table 3.3, p. 76.

25 Mr Barry Telford, DVA, p. 2.

26 Mr Barry Telford, DVA, p. 12.

27 Audit Report No. 28 2008-09, Table 3.3, p. 76.

Recommendation No. 3, which calls for stronger data entry systems and procedural controls, better validation of customer data, and a commitment to updating incorrect data.

## Corporate knowledge and key staff

- 4.41 Throughout the Audit Report the ANAO highlighted the reliance by the DVA on the corporate knowledge of a few key staff to both interpret raw data and negotiate its IT system.<sup>28</sup> The Committee expressed concern that this presents a considerable risk if this knowledge is lost as staff retire or leave the organisation and asked what the Department is doing to mitigate the risk.
- 4.42 DVA assured the Committee it has noted the Report's finding and explained that the risk is chiefly to do with the heritage IT systems. As the information on these systems is migrated to newer systems, the heritage systems will be used less and less with a consequent decrease in the number of staff familiar with them.<sup>29</sup> The issue is being considered in the review of ICT currently being undertaken by the Department.<sup>30</sup>

## Conclusion

- 4.43 The Committee acknowledges that the ANAO found no instance of incorrect payments being made to DVA clients. It understands the importance of reassuring veterans that there is no reason for anxiety on their part with regard to the correctness or accuracy of their payments.
- 4.44 However, the Committee is concerned at the discrepancies and errors highlighted by the Audit Report and the lack of progress in implementing a comprehensive and accurate electronic database for the Department. Despite DVA's reassurances, the Committee is concerned at the potential for a detrimental flow-on effect with regard to client payments and service delivery.
- 4.45 The Committee recognises the importance of DVA to veterans and stresses the need for the Department to continue to adapt to the needs of its changing client base and deliver the same high level of support as it has in the past. To facilitate delivery, the Committee urges DVA to implement

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28 Audit Report No. 28 2008-09, pp. 50-51, 78, and 96.

29 Mr Barry Telford, DVA, p. 13.

30 Mr Barry Telford, DVA, pp. 2-3.



the ANAO recommendations to improve the data integrity of its income support records whichever system is selected after the current review of its IT services.



## **Audit Report No. 35 2008-09**

# Management of the Movement Alert List

## **Introduction**

- 5.1 The Movement Alert List (MAL) is a computer database maintained by the Department of Immigration and Citizenship (DIAC) to protect the country from those people who may pose a threat to the Australian community. MAL is used to inform decisions about visa and citizenship grant and admission of non-citizens into the country. Checking takes place at several points, contributing to a 'layered' approach to border management. In this way, MAL forms an important element in Australia's national security and border protection strategy.
- 5.2 MAL contains two subsidiary databases: the first, the Person Alert List (PAL), contains adverse information about people who are placed on this list for various reasons ('Alert Reasons'). The second is the Document Alert List (DAL), primarily a list of lost and stolen travel documents. DIAC checks MAL when any non-citizen seeks a visa, seeks to travel to or enter Australia or applies for citizenship. Essentially, MAL is a collection of information about identities and travel documents of interest, primarily, to visa decision-makers.

- 5.3 Travel to and from Australia has continued to grow in recent years<sup>1</sup> and the number of records in MAL has also grown in complexity and size, particularly after 2001. It now has around 680 000 PAL and over two million DAL records. Over half of PAL comprises records of non-citizens of national security concern.
- 5.4 The growth of the number of records in MAL has been encouraged by DIAC so as to maximise the likelihood of identifying a non-citizen of concern travelling, or seeking to travel, to Australia. Under such an approach it is important that the department have in place appropriate arrangements to review the quality of records over time to avoid deterioration in the quality of the database and the matches it generates.
- 5.5 The 2003 Budget funded a proposal to have a task force review MAL (the When Review). Subsequently, DIAC obtained government approval and funding in the 2005 Budget to implement the recommendations of the Review. Among other things, the Review identified risks in MAL's then mode of operation and proposed redevelopment of the system with all MAL checking taking place centrally. This has been the Central Movement Alert List (CMAL) project, which was being implemented at the time of the audit.

## **The Audit<sup>2</sup>**

### **Audit objectives and scope**

- 5.6 The objective of the audit was to assess the effectiveness of DIAC's management of MAL. The scope was confined to DIAC's management and use of the system: it did not examine the work of others with an interest in the system, such as security agencies.

### **Overall audit conclusion**

- 5.7 The ANAO made the following overall audit conclusion:

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1 Any changes in trend that may flow from the global financial crisis that commenced in late 2008 are not reflected in the available data, which covers the period to the end of the financial year 2007-08.

2 In this chapter, all references to 'the audit' are references to Audit Report No. 35 2008-09, unless specified otherwise.

Successive reviews over more than a decade have judged MAL to be conceptually sound and an increasingly important part of the suite of facilities used by DIAC and related agencies to control entry to Australia. MAL provides important information to DIAC decision-makers to help in deciding visa and citizenship applications and whether a person should be allowed into Australia.

DIAC has managed an extended period of growth in the number of records in MAL by adding substantial numbers of *National Security* records and maintaining light controls on new entries provided by departmental staff. However, the department has been less successful in ensuring the quality of its MAL records.

All the reviews of MAL have stressed the importance of it comprising sound data. However, the completeness, quality and currency of MAL data has proved an enduring problem for DIAC. Despite efforts to improve MAL data, the overall quality of data has been declining in recent years. Contributing to this position has been the challenge faced by the department in implementing an effective accountability regime to assure the quality of records over time.

Further, at an operational processing level, gaps have occurred in the arrangements designed to provide the department with assurance that all elements of MAL are working as intended. Given the centrality of the system to border protection, this aspect of the department's operations needs to be upgraded so that attention is drawn promptly to any substantial element that is not operating properly.

Over the last four years, DIAC has successfully managed the development and implementation of the new version of MAL, CMAL. This addresses certain substantial risks identified by the When Review. The introduction of CMAL has improved management control over DIAC's MAL operations and provides a basis for DIAC to enhance its quality assurance of MAL data and of the operation of the system as a whole.<sup>3</sup>

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3 Australian National Audit Office (ANAO) Audit Report No. 28 2008-09, pp. 14-15.

## ANAO recommendations

Table 2.1 ANAO recommendations, Audit Report No. 35 2008-09

1.	<p>The ANAO recommends that DIAC develop a plan for the population, maintenance and review of the MAL database. This should include, at a minimum:</p> <ul style="list-style-type: none"> <li>• clarification as to who (within the department and externally, as appropriate) is responsible for MAL data, the quality issues to be addressed and business rules for addressing them; and</li> <li>• a course of action which includes: <ul style="list-style-type: none"> <li>○ arrangements for data entry into MAL that ensures its own business rules and desired quality standards are observed;</li> <li>○ instigation of a program, with target dates, for data cleansing its existing stock of MAL records; and</li> <li>○ a mechanism for reviewing and reporting progress with this work.</li> </ul> </li> </ul> <p><i>DIAC response: Agreed</i></p>
2.	<p>The ANAO recommends that DIAC:</p> <ul style="list-style-type: none"> <li>• clarifies the circumstances in which it can properly record Australian citizens on MAL, consulting other agencies with an interest in MAL as appropriate;</li> <li>• in this light, revises its policy and procedural guidelines for recording Australian citizens on MAL; and</li> <li>• completes its review of records of Australians on MAL, and deletes records of Australians where they are inappropriately recorded.</li> </ul> <p><i>DIAC response: Agreed</i></p>
3.	<p>The ANAO recommends that DIAC improves its reporting on the performance of MAL by, where practicable, identifying instances where MAL has alerted its decision makers to information that has been the reason, or part of the reason, for decisions on visa and citizenship applications.</p> <p><i>DIAC response: Agreed</i></p>
4.	<p>To enable DIAC to manage MAL effectively, the ANAO recommends that DIAC seek to measure and report internally on:</p> <ul style="list-style-type: none"> <li>(a) data quality;</li> <li>(b) MAL's reliability; and</li> <li>(c) client service, measured by the service level agreements agreed internally with CMAL client areas of the department.</li> </ul> <p><i>DIAC response: Agreed</i></p>
5.	<p>The ANAO recommends that DIAC implements a mechanism for providing regular assurance that all key parts of the MAL system are operating satisfactorily.</p> <p><i>DIAC response: Agreed</i></p>

## The Committee's review

5.8 The Committee held a public hearing on Monday 16 November 2009, with the following witnesses:

- Australian National Audit Office (ANAO);

- Department of Immigration and Citizenship (DIAC).

5.9 The Committee took evidence on the following issues:

- number of Australian citizens on MAL;
- access by external agencies;
- data population;
- quality control of data including who enters the data, who can change the data and who can view the data on MAL;
- measurement and reporting;
- effectiveness of MAL;
- confidence displayed by the users of MAL in the data held on the system;
- child support and abduction; and
- privacy impact assessment.

## Australian citizens on MAL

5.10 The ANAO identified the substantial number of Australian citizens recorded on MAL and recommended that DIAC review the records of Australians on the system, delete those that have been inappropriately recorded and revise its policy and procedural guidelines for recording Australian citizens on MAL.<sup>4</sup> ANAO noted that:

DIAC's policy on the inclusion of Australians on MAL is not currently coherent or complete. It has not fully clarified its reasons for wanting to list Australians on MAL nor, therefore, identified the specific characteristics that would justify considering Australians for listing on PAL.<sup>5</sup>

5.11 DIAC informed the Committee that following the ANAO's recommendation it had conducted a thorough review of the listings of Australian citizens on MAL and had reduced the list from 578 individuals to 163.<sup>6</sup> The Committee questioned whether the clean up of the listings

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4 Audit Report No. 35 2008-09, p. 20.

5 Audit Report No. 35 2008-09, p. 88.

6 Mr Correll, Department of Immigration and Citizenship (DIAC), p. 4. All references to witnesses' evidence comes from the Committee's hearing into this audit dated 16 November 2009, with page numbers relating to the Proof Committee Hansard.

may have been a knee-jerk reaction to the Audit Report but DIAC assured the Committee it had been handled responsibly and that the cases that were removed were no longer current or contained unreliable data.<sup>7</sup>

- 5.12 The Committee asked DIAC to explain the reasons why an Australian citizen would be listed on MAL in the first place. DIAC identified the major reason as involvement in organised immigration malpractice including people-smuggling activities.<sup>8</sup> Other reasons include lost or stolen passports or damaged Australian travel documents.<sup>9</sup> DIAC also indicated that the Australian Federal Police (AFP) and the Australian Security Intelligence Organisation (ASIO) enter data onto MAL regarding issues of national security, criminal activity and child custody concerns.<sup>10</sup>

### Access by external agencies

- 5.13 The Committee asked DIAC to identify the external agencies that have access to MAL and were told that ASIO is the only external agency currently using the list. The Department of Foreign Affairs and Trade (DFAT) and the AFP previously had access but DFAT has not been re-provisioned with access since the 2009 system release. DIAC has established a Private MAL account for the AFP:

The purpose of a PMAL is to place alerts in a parallel database from the mainstream MAL whereby an activity will trigger a notification for a client against an alert on the PMAL without directly impacting visa, travel or citizenship processing.<sup>11</sup>

### Data population

- 5.14 The ANAO noted that there is no systematic approach to populating MAL, particularly with regard to DAL, and that data collection had 'developed piecemeal with no strategy and no structured or formal approach to other governments or agencies to obtain data'.<sup>12</sup> The Committee inquired whether or not DIAC had sought to obtain formal agreements from other agencies to use its data to populate MAL. DIAC confirmed that it holds a high level agreement with ASIO for the sharing of information and that the system holds national security alerts from this

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7 Mr Frew, DIAC, p. 11.

8 Mr Correll, DIAC, p. 4.

9 Mr Correll, DIAC, p. 4.

10 Mr Frew, DIAC, pp. 9, 10 and 12.

11 DIAC, *Submission No. 10*, p. 2.

12 Audit Report No. 35 2008-09, p. 39.



agency.<sup>13</sup> DIAC receives United Nations Security Council Resolutions (UNSCRs) and Travel sanction information from DFAT and Interpol data from the AFP.<sup>14</sup> DIAC told the Committee that these relationships are due for review in the first half of 2010:

As part of a review of the Alert Reason Code owner relationship commenced in December 2009, there will be a number of high level meetings with the external data owners to reaffirm the roles and functions of the stakeholders, and to put in place streamlined data access, data management and referral processes.<sup>15</sup>

- 5.15 The ANAO expressed concern that not enough care is being taken when data from open sources such as the internet, media and non-government agencies is added to MAL, which could compromise the integrity of the system.<sup>16</sup> DIAC indicated to the ANAO that it is setting up a new body to discuss issues of data ownership and quality.<sup>17</sup> The Committee requested an update on this initiative. DIAC told the Committee that a series of meetings had been convened by the Border Operations Branch (BOB) with the Alert Reason Code owners to review and discuss the current administrative operating model and look at data management. DIAC expects these discussions to 'determine more clearly the role of the BOB and the alert policy owners'.<sup>18</sup>

## Quality control of data

- 5.16 The ANAO noted that the lack of quality control regarding the entry and maintenance of data into MAL seriously compromises the effectiveness of the system and recommended that steps be taken to rectify the deficiencies.<sup>19</sup> The ANAO suggested that a review of a risk-based sample of change/update transactions could be a useful tool to improve quality control.<sup>20</sup>
- 5.17 The Committee asked how many people are authorised to enter data in the system and DIAC confirmed that just under 4000 departmental offices have authorisation plus a number of external agencies, including the AFP

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13 DIAC, *Submission No. 10*.

14 DIAC, *Submission No. 10*.

15 DIAC, *Submission No. 10*.

16 Audit Report No. 35 2008-09, pp. 44-45.

17 Audit Report No. 35 2008-09, p. 45.

18 DIAC, *Submission No. 10*.

19 Audit Report No. 35 2008-09, pp. 36 and 74.

20 Audit Report No. 35 2008-09, p. 78.

and ASIO.<sup>21</sup> A majority of these officers had the ability and authority to create, review, update and delete alerts and there is significant potential for unnecessary browsing of records.<sup>22</sup>

- 5.18 To improve quality control, DIAC informed the Committee that since the audit was carried out the Department has implemented quality assurance measures, withdrawing direct access to the system and requiring all new entries by departmental offices to be approved by the Border Operations Branch in Canberra.<sup>23</sup> DIAC told the Committee this formal, secure Remote Input Function (RIF) is operated by a small group of officers:

There are approximately 65 officers within the Border Operations Branch that have access to approve new or altered records to the Movement Alert List. However, only one-to-two officers are required at any one time to action this work queue. The work queue is rotated between day and shift teams so all requests are actioned 24 hours 7 days per week.<sup>24</sup>

- 5.19 DIAC confirmed that external agencies are also subject to the new quality assurance measures and that ASIO does not have the authority to load alerts directly onto the system. ASIO must use the RIF and go through the operative centre in Canberra if it proposes to create, delete or change a MAL entry.<sup>25</sup> Further, data received from external agencies is also subject to quality assurance through various software programs that element unsatisfactory records.<sup>26</sup>

## Measurement and reporting

- 5.20 The ANAO found that a series of reviews and reports have identified the need for better measurement and reporting on the performance of MAL to improve management of the system.<sup>27</sup> Of particular concern are the occasions when management has been unaware of the failure of parts of the system, occasionally for significant periods of time.<sup>28</sup> The ANAO

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21 Mr Correll, DIAC, p. 5; DIAC, *Submission No. 10*, p. 1.

22 Audit Report No. 35 2008-09, p. 78.

23 Mr Frew, DIAC, p. 5; DIAC, *Submission No. 10*.

24 DIAC, *Submission No. 10*, p. 2.

25 DIAC, *Submission No. 10*, p. 3.

26 Mr Frew, DIAC, p. 6.

27 Audit Report No. 35 2008-09, p. 128.

28 Audit Report No. 35 2008-09, p. 131.

recommended that DIAC develop the means to measure and report internally on 'data quality, client services and overall system reliability'.<sup>29</sup>

5.21 The Committee asked DIAC what steps have been taken to implement this recommendation. DIAC replied that the BOB prepares a daily report on processing queues to assess client service and fortnightly reports are generated for the Production Control Authority to 'identify system availability and performance'.<sup>30</sup> Reports are being identified to help detect transmission failures and ensure system to system connectivity.<sup>31</sup>

5.22 DIAC added that it is developing a range of reporting tools to interrogate the Business Intelligence Warehouse and provide more comprehensive performance information for management:

This will provide a range of routine reports and the mechanism for creating ad-hoc reports to cater for the range of queries with respect to data quality to assist the Border Operations Branch staff and key data owner stakeholder to better identify areas of vulnerability.<sup>32</sup>

## Effectiveness of MAL

5.23 DIAC maintains that MAL is a central element in Australia's national security and border protection.<sup>33</sup> However, the ANAO found that DIAC collects no information to assess the outcomes of the system.<sup>34</sup> The Committee questioned how the effectiveness of the system is being measured. DIAC explained that it is difficult to assess the specific outcomes from MAL as it is only one of the tools used by decision makers when assessing applications.<sup>35</sup>

5.24 The Committee notes the long standing concern over the lack of measurable performance data from MAL which has been identified over a number of reviews and inquiries. The ANAO has detailed the steps that can be taken to verify the outcomes of the system and provide relevant information that could be used to evaluate its effectiveness.

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29 Audit Report No. 35 2008-09, pp. 135-36.

30 DIAC, *Submission No. 10*.

31 DIAC, *Submission No. 10*.

32 DIAC, *Submission No. 10*.

33 Audit Report No. 35 2008-09, p. 26; Mr Correll, DIAC, p. 2.

34 Audit Report No. 35 2008-09, p. 126.

35 Mr Correll, DIAC, p. 10.

## Recommendation 10

**The Committee recommends that the Department of Immigration and Citizenship (DIAC) report back to the Committee on the effectiveness of the Movement Alert List (MAL) after implementing Recommendation Number 3 from the Australian National Audit Office Report No. 35 2008-09 which requires DIAC to identify instances where MAL has alerted its decision makers to information that has been the reason, or part of the reason, for decisions on visa and citizenship applications. The report from DIAC should be presented to the Committee within six months of this report being tabled.**

## Confidence in MAL

5.25 The Committee asked if users had confidence in MAL considering the problems identified with regard to data quality and the lack of evidence of the systems effectiveness. DIAC maintained that there is confidence in the system as demonstrated by the continuous use of the data by departmental offices and external agencies such as the AFP, ASIO and the Australian Custom and Border Protection Service (Customs).<sup>36</sup> The ANAO confirmed that the system is used extensively by DIAC officers and the external agencies.<sup>37</sup>

## Child support and abduction

5.26 The Committee asked for clarification of the role played by MAL with regard to the AFP and implementation of the Hague Convention on the Civil Aspects of International Child Abduction and prohibition orders in relation to child support. DIAC explained that the AFP operates Departure Prevention Orders (DPOs) and Departure Authorisation Certificates (DACs) issued by the Child Support Agency (CSA) through the PACE/EPAC system. In the past AFP have monitored the movement of DPO and DAC cases through MAL but at present this facility is not being used. DIAC facilitates CSA access to MAL as required.<sup>38</sup>

5.27 With regard to the Child Custody Concerns of foreign children, DIAC informed the Committee it facilitates 'any court order received through a

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36 Mr Frew, DIAC, p. 12.

37 Dr Rowlands, ANAO, p. 12.

38 DIAC, *Submission No. 10*, p. 3.

credible source up to the child's 18<sup>th</sup> birthday.' Credible sources include Interpol Yellow Notices and the Australian Chief Lawyer, Governance and Legal.<sup>39</sup> DIAC has no involvement with Australian child custody as the Family Court deals directly with the AFP who will list the child on PACE/EPAC.<sup>40</sup>

## Privacy Impact Assessment (PIA)

- 5.28 Although the ANAO acknowledges that DIAC is aware of its obligations under the *Privacy Act 1988* and related legislation, the report found that no Privacy Impact Assessment (PIA) had been carried out on MAL or CMAL.<sup>41</sup> A PIA is considered sound practice for any agency handling personal information as it will determine the effect of the agency's actions on individual privacy and help to identify potential problems.<sup>42</sup> The ANAO suggested that DIAC conduct a PIA and the Department agreed to the suggestion.<sup>43</sup>
- 5.29 The Committee asked for an update on the implementation of a PIA and if there had been any findings. DIAC informed the Committee that it has sort advice from its own internal Privacy Section and the Office of the Privacy Commissioner and will engage a consultant to undertake the PIA in the first quarter of 2010.<sup>44</sup>

## Conclusion

- 5.30 The Committee is concerned by the number of Australian citizens on MAL and is satisfied that DIAC has substantially reduced this number since the audit. The Committee urges DIAC to implement the ANAO recommendation to revise its policy and guidelines regarding the recording of Australian citizens on the system, to ensure a consistent approach is taken in future.
- 5.31 The Committee finds it difficult to assess the effectiveness of MAL and the contribution it is making to Australia's national security and border protection strategy due to the lack of performance data available. The

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39 DIAC, *Submission No. 10*, pp. 3-4.

40 DIAC, *Submission No. 10*, p. 4.

41 Audit Report No. 35 2008-09, pp. 91-96.

42 Audit Report No. 35 2008-09, p. 92.

43 Audit Report No. 35 2008-09, p. 96.

44 DIAC, *Submission No. 10*.

Committee notes DIAC's response to the ANAO Recommendation No. 3 and looks forward to seeing more concrete measurement of effectiveness in future.

- 5.32 The Committee notes that DIAC is taking steps to improve the quality control of data on MAL and is satisfied that relevant stakeholders have confidence in the system. However, the Committee is concerned at the lack of systematic control over data input and maintenance and the potential inconvenience or harassment that Australian citizens and visitors may suffer due to misinformation or incorrect information being entered into the system.

## Audit Report No. 36 2008-09

# Settlement Grants Program

## Introduction

6.1 The Department of Immigration and Citizenship (DIAC) is responsible for implementing the Government's immigration policies. The department's purpose is to enrich Australia through the well managed entry and settlement of people.<sup>1</sup> To achieve this purpose, DIAC is responsible for achieving two Government outcomes:

- Outcome 1. Contributing to Australia's society and its economic advancement through the lawful and orderly entry and stay of people<sup>2</sup>; and
- Outcome 2. A society which values Australian Citizenship and social cohesion, and enables migrants and refugees to participate equitably.<sup>3</sup>

6.2 Outcome 2 is divided into five outputs. Settlement services are covered by Output 2.1, which focuses on building self-reliance, developing English

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1 Department of Immigration and Citizenship, *Annual Report 2007-08*, Commonwealth of Australia, Canberra, 2008, p. 16

2 Department of Immigration and Citizenship, *Budget Statements 2008-09, Immigration and Citizenship Portfolio, Budget Related Paper No. 1.12*, Commonwealth of Australia, Canberra, 2008, p. 23.

3 Department of Immigration and Citizenship, *Budget Statements 2008-09, Immigration and Citizenship Portfolio, Budget Related Paper No. 1.12*, Commonwealth of Australia, Canberra, 2008, p. 39.

skills and fostering links with mainstream services.<sup>4</sup> Output 2.1 includes a wide range of activities, including the Settlement Grants Program (SGP).

## Settlement Grants Program

- 6.3 SGP was introduced on 1 July 2006 following a review of DIAC's settlement services.<sup>5</sup> The aim of SGP is to deliver services that assist eligible clients to become self-reliant and participate equitably in Australian society as soon as possible after arrival. Through SGP, DIAC funds settlement projects that target specified groups of new entrants.
- 6.4 These target groups are:
- permanent residents who have arrived in the last five years as humanitarian entrants or as family stream migrants with low English proficiency;
  - dependants of skilled migrants in rural and regional areas with low English proficiency who have arrived in the last five years;
  - select temporary residents (Prospective Marriage, Provisional Spouse, Provisional Interdependency visa holders and their dependants) in rural and regional areas who have arrived in the last five years and who have low English proficiency; and
  - communities which require assistance to develop their capacity to organise, plan and advocate for services to meet their own needs and which are still receiving significant numbers of new arrivals.<sup>6</sup>
- 6.5 Projects funded through SGP fall into three categories, referred to as service types. The three service types are Orientation to Australia – practical assistance to promote self-reliance, Developing Communities, and Integration – inclusion and participation.<sup>7</sup> Services are provided by SGP grant recipients, who are known as service providers. To be eligible for SGP funding, an organisation must be a not-for-profit incorporated community-based organisation, a local government organisation, currently funded to deliver services under the Adult Migrant English

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4 Department of Immigration and Citizenship, *New Beginnings*, Commonwealth of Australia, 2008, p. 3.

5 Department of Immigration and Citizenship, *Report of the Review of Settlement Services for Migrants and Humanitarian Entrants*, Commonwealth of Australia, May 2003.

6 Application Forms, Settlement Grants Program 2009-10.

7 Application Forms, Settlement Grants Program 2009-10.



Program, and/or a government service delivery organisation in a rural or regional area.<sup>8</sup>

- 6.6 DIAC's National Office (NatO) and State and Territory Offices (STOs) share responsibility for effectively managing the program. Service providers apply for grants in response to annual advertising. DIAC assesses applications and provides funding recommendations to the Minister for Immigration and Citizenship, who makes the decisions to award grants. After the Minister announces the outcome of the funding round, DIAC negotiates funding agreements with successful applicants. At regular intervals throughout the grant period, providers report on progress and DIAC pays grant instalments.
- 6.7 To date there have been three annual SGP funding rounds. Just over \$30 million has been allocated to SGP projects in each round, amounting to a total of \$95.5 million. This has funded 669 grants: 209 in the 2006-07 funding round; 231 in 2007-08; and 230 in 2008-09.

## The Audit<sup>9</sup>

### Audit objective and scope

- 6.8 The objective of the audit was to assess the effectiveness of the Department of Immigration and Citizenship's management of the Settlement Grants Program. The ANAO assessed DIAC's performance in terms of how effectively it planned for funding rounds, assessed and allocated grants, monitored and evaluated the program, and managed relationships with its stakeholders. In doing so, the ANAO focused on SGP projects that received funding in the 2007-08 [round].

### Overall audit conclusions

- 6.9 The ANAO made the following overall audit conclusion:

The Settlement Grants Program assists eligible migrants to become self-reliant and participate equitably in Australian society. The program funds service providers to manage projects which offer

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8 Application Form, Settlement Grants Program 2009-10.

9 In this chapter, all references to 'the audit' are references to Audit Report No. 36 2008-09, unless specified otherwise.

orientation, community development and/or integration services to specific groups of new migrants.

Overall, DIAC has developed an effective framework for managing SGP. DIAC has implemented the program in a manner that is consistent with Government policy and its strategic objective, and has clearly defined the program's parameters. It has also established a strategic risk management framework, focusing on managing risks at a whole-of program level, but has focussed less on risks to performance at an operational level. In addition, DIAC has developed sound procedures to:

- promote funding rounds;
- assist applicants to apply for SGP grants;
- assess applications and allocate grants; and
- monitor individual grant recipients' compliance with funding agreement conditions.

DIAC provides its officers with adequate guidance documents and training on essential elements of SGP and supports service providers to apply for grants and deliver funded projects. DIAC's grant managers and service providers reported that their relationships were positive and productive.

However, DIAC has not developed or implemented effective performance indicators and a performance management framework that would assist it to measure, monitor and assess the performance of individual projects and the program as a whole. Further, the department should provide more meaningful settlement needs information to assist applicants to better target settlement needs. Also, the current Grants Management System (GMS) does not support the effective administration of SGP.

In some areas DIAC has not effectively implemented its procedures for assessing grant applications and monitoring grant progress reporting, which are interpreted and applied inconsistently across DIAC's STOs. Also, DIAC has poorly documented the basis of funding recommendations, including actions taken in response to discussions with the Parliamentary Secretary. The standard of documentation supporting grant assessment processes has been a recurring theme in some recent ANAO audits of grants administration.<sup>10</sup> Without adequate documentation, departments are not able to demonstrate that all applicants have been treated equitably, and applications have been

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10 Audit Report No. 14 2007-08, *Performance Audit of the Regional Partnerships Programme*, Department of Transport and Regional Services.  
Audit Report No. 39 2006-07, *Distribution of Funding for Community Grant Programmes*, Department of Families, Community Services and Indigenous Affairs.

considered on their merits having regard to the program's objectives.

The ANAO has made six recommendations to improve DIAC's management of SGP. These are aimed at developing and implementing an effective performance management framework, improving settlement needs information, ensuring key decisions are adequately documented, and evaluating the program.<sup>11</sup>

## ANAO recommendations

6.10 The ANAO made the following recommendations:

Table 3.1 ANAO recommendations, Audit Report No. 36 2008-09

1.	<p>To assist DIAC and grant recipients to more effectively target SGP projects, the ANAO recommends that DIAC:</p> <ul style="list-style-type: none"> <li>(a) improves the quality of settlement needs information;</li> <li>(b) includes more meaningful information about settlement needs in funding round guidance; and</li> <li>(c) ensures that grant applicants address settlement needs when applying for grants.</li> </ul> <p><i>DIAC's response: Agreed</i></p>
2.	<p>The ANAO recommends that, in order to support transparent, accountable and equitable decision making, DIAC:</p> <ul style="list-style-type: none"> <li>(a) amends the SGP guidelines to outline the manner in which additional funding that becomes available after the initial assessment process will be allocated to SGP projects; and</li> <li>(b) ensures that key factors contributing to SGP grant allocation decisions are adequately documented.</li> </ul> <p><i>DIAC's response: Agreed</i></p>
3.	<p>The ANAO recommends that DIAC implements an effective process for fully acquitting grants at the end of their funding period.</p> <p><i>DIAC's response: Agreed</i></p>
4.	<p>The ANAO recommends that DIAC develops and implements a plan to periodically evaluate how effectively SGP is achieving its objective and identify opportunities for improvements in program administration.</p> <p><i>DIAC's response: Agreed</i></p>
5.	<p>The ANAO recommends that DIAC develops and implements an effective performance management framework, which includes collecting and analysing relevant data against useful SGP performance indicators, informs program evaluation, and that assists DIAC to measure, monitor and assess the impact of the program and whether it is achieving its objectives.</p> <p><i>DIAC's response: Agreed</i></p>

11 Audit Report No. 36 2008-09, pp. 13-14.

6. The ANAO recommends that DIAC formally decides the Grants Management System's future.

*DIAC's response: Agreed*

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## The Committee's review

6.11 The Committee held a public hearing on Monday 16 November 2009, with the following witnesses:

- Australian National Audit Office (ANAO); and
- Department of Immigration and Citizenship (DIAC).

6.12 The Committee took evidence on the following issues:

- effectiveness of the Settlement Grants Program (SGP);
- identifying settlement needs;
- five-year focus of the SGP;
- risk management:
  - ⇒ program risks; and
  - ⇒ grant risks;
- scope of grants following funding announcement;
- IT system stability; and
- future of the Grants Management System (GMS).

## Effectiveness of the SGP

6.13 The ANAO found that although DIAC is assessing and monitoring the SGP for administrative compliance, there is no process in place to evaluate whether the program is meeting its underlying objectives to help clients 'to become self-reliant and participate equitably in Australian society as soon as possible after arrival'.<sup>12</sup> While acknowledging the difficulty of measuring performance in the public sector, the ANAO notes that the performance indicators in place do not address any of the key elements of the program's objectives.<sup>13</sup>

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12 Audit Report No. 36 2008-09, pp. 11 and 73.

13 Audit Report No. 36 2008-09, p. 34.

- 6.14 The Committee questioned how DIAC are evaluating the effectiveness of the program and what processes it is using to assess delivery. DIAC told the Committee that since the audit the Department has taken steps to develop an improved performance framework in consultation with departmental offices and outside expertise.<sup>14</sup>

### Recommendation 11

**The Committee recommends that the Department of Immigration and Citizenship (DIAC) provides a brief report to the Joint Committee of Public Accounts and Audit (JCPAA) detailing how DIAC is measuring the effectiveness of the Settlement Grants Program (SGP) under the new performance framework including:**

- type of data collected;
- methodology used to collect data; and
- methods of consultation with local communities.

### Identifying settlement needs

- 6.15 The ANAO found that settlement needs reporting from state and territory offices varied in detail and that staff were uncertain about what to report.<sup>15</sup> The Committee expressed concern that the needs of new arrivals are not being effectively identified and asked DIAC what steps it has taken to rectify this situation. DIAC assured the Committee that it has improved the settlement needs reporting process, developing and implementing a new four monthly issue report template.<sup>16</sup> The template was designed to remove uncertainty and confusing over what is required from the report and provide consistent information across states and territories.<sup>17</sup>
- 6.16 The Committee stressed the importance of obtaining feedback directly from settler communities regarding their requirements and asked if DIAC is seeking such feedback. DIAC assured the Committee that it is consulting widely with clients around the country, both directly through

14 Mr Fox, Department of Immigration and Citizenship (DIAC), p. 14. All references to witnesses' evidence comes from the Committee's hearing into this audit dated 16 November 2009, with page numbers relating to the Proof Committee Hansard.

15 Audit Report No. 36 2008-09, p. 39.

16 DIAC, *Submission No. 11*.

17 DIAC, *Submission No. 11*.

focus groups, and indirectly through its network of community liaison officers as well as taking advice from formal advisory bodies.<sup>18</sup> The Department emphasised that it does not consider the SGP in isolation but as part of the full range of services DIAC offers to meet the needs of new arrivals.<sup>19</sup>

## Five-year focus of the SGP

6.17 The Committee asked the ANAO if the focus of the program on new arrivals that have been in the country for less than five years is being complied with. The ANAO replied that recipient agencies were applying the requirement flexibly:

... we found that the general approach is that if they had someone coming in the door who required services that did not exactly fit within the parameters of the program and who might be at the five-year limit, then they would provide those services.<sup>20</sup>

6.18 DIAC confirmed that agencies are inclined to consider the rule on a case-by-case basis.<sup>21</sup> In light of this, the Committee queried whether or not the imposition of an arbitrary five-year focus on the program was justifiable or appropriate. DIAC conceded that it is difficult to determine a timeframe in which individual new arrivals are settled within the Australian community but that there needed to be a cut off point where they would move into mainstream services.<sup>22</sup> DIAC added that the original period had been set by government policy sometime ago after extensive consultation with the community.<sup>23</sup>

## Risk management

### Program risks

6.19 The ANAO found that the Settlement Grants Program: Risk Framework addressed the major program-level risks for the program but that there is no formal monitoring of the framework throughout the year, and that some staff are unaware of its existence.<sup>24</sup>

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18 Mr Fox, DIAC, p. 13.

19 Mr Fox, DIAC, p. 13.

20 Ms Jackson, ANAO, p. 15.

21 Mr Fox, DIAC, p. 15.

22 Mr Fox, DIAC, p. 16.

23 Mr Templeton, DIAC, p. 16.

24 Audit Report No. 36 2008-09, p. 40.

- 6.20 The Committee asked DIAC what steps had been taken to ensure the framework is adhered to more effectively. DIAC told the Committee that quarterly exception reports were introduced in October 2008 for all state and territory offices. DIAC added that a range of other measures are in place to monitor risk:

... risk owners monitor and minimise program risks through strategies such as conducting stakeholder meetings, conferences and interviews, grant management assessments and reviews and providing support and advice to both internal and external stakeholders as issues emerge. Policies and procedures are also created and updated on a regular basis as a result of the reporting framework.<sup>25</sup>

### Grants risks

- 6.21 The ANAO noted that DIAC experienced problems with risk assessment at individual grant level and in 2008-09 introduced a standard risk assessment matrix to assist assessor to more accurately identify potential problems at the application stage.<sup>26</sup> The Committee asked if DIAC had seen any benefits from the new strategy.
- 6.22 DIAC explained that the matrix has helped assessors gauge the level of risk with individual projects and also determine how thoroughly an applicant has thought through each area of the application. DIAC are confident that the new assessment tool will prove beneficial in assessing risk at the individual grant level:

The benefit of the risk assessment matrix has been more consistent and rigorous assessment of the risks associated with grant applications, thereby maximising the many and varied outcomes delivered through this grants program for newly arrived migrants and refugees.<sup>27</sup>

### Scope of grants following funding announcement

- 6.23 The ANAO noted that information regarding the scope of successful projects was published on the DIAC website before negotiations for the grant are finalised. During the negotiation phase changes are regularly made to the scope of the project and the ANAO found that this may 'result

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25 DIAC, *Submission No. 11*.

26 Audit Report No. 36 2008-09, p. 41.

27 DIAC, *Submission No. 11*.

in disappointed community expectations'.<sup>28</sup> The Committee asked DIAC for its opinion on this assessment.

- 6.24 DIAC disagreed with this assumption maintaining that the information published on the website was of 'interest to service providers and clients, providing advice on the availability of settlement services'.<sup>29</sup> Rather than raising unrealistic expectations, DIAC expects the information to be used by communities to work with providers to develop suitable projects.<sup>30</sup>

### IT system stability

- 6.25 The ANAO report found that the IT system used to support the SGP was unstable and frequently unavailable, failing at critical times and causing frustration for staff and applicants.<sup>31</sup> The Committee asked what steps are being taken to ensure the existing system is more reliable.
- 6.26 DIAC told the Committee that monitoring of the system has been improved resulting in a significant drop in outages.<sup>32</sup> Additionally, DIAC informed the Committee that the implementation of the Systems for People 10 in November 2009 has rectified a number of system defects that were triggering the outages.<sup>33</sup>

### Future of the Grants Management System (GMS)

- 6.27 The ANAO found that the Grants Management System (GMS) used to administer the SGP is unstable and lacks functionality.<sup>34</sup> The system is frequently unavailable during peak periods, many processes have to be carried out manually, and it cannot interact with DIAC's financial management system.<sup>35</sup> Although DIAC has taken steps to modernise its technological support systems since 2006 there has been no improvement in the GMS and its future remains uncertain. The ANAO recommended that DIAC decides on the systems future so that GMS users and support staff can more efficiently manage the SGP.

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28 Audit Report No. 36 2008-09, p. 60.

29 DIAC, *Submission No. 11*.

30 DIAC, *Submission No. 11*.

31 Audit Report No. 36 2008-09, pp. 88-89.

32 DIAC, *Submission No. 11*.

33 DIAC, *Submission No. 11*.

34 Audit Report No. 36 2008-09, pp. 88 and 91.

35 Audit Report No. 36 2008-09, pp. 88 and 90.



6.28 The Committee asked what steps have been taken to implement this recommendation. DIAC informed the Committee that it has had a proposal approved to develop a grants management system that will address the concerns raised in the Audit Report.<sup>36</sup> The new GMS will support the end-to-end operations of all DIAC's settlement and multicultural grant programs.<sup>37</sup> The Department assured the Committee it will consult widely to ensure the new system is stable and functional and addresses the limitations of the current program.<sup>38</sup> DIAC is confident the new GMS improve management decision-making and accommodate future grant program expansion:

Establishing a consistent grants management and reporting capability across the DIAC's various grant programs will ensure more consistent decision-making, ensuring the policy objectives for the settlement and multicultural affairs programs are more effectively addressed. In addition, the new system will be able to incorporate any future grant types with ease.<sup>39</sup>

## Recommendation 12

**The Committee recommends that the Department of Immigration and Citizenship (DIAC) report within 12 months of tabling this report on the implementation and progress of the new Grants Management System (GMS) specifically addressing the issues raised in Australian National Audit Office Audit Report No 36 2008-09 with regard to the functionality of the GMS for the Settlement Grants Program (SGP).**

## Conclusion

6.29 The Committee is concerned that the effectiveness of the Settlement Grants Program (SGP) is not being satisfactorily monitored and evaluated to determine if it is meeting its objective to help new arrivals to settle into Australian society. The Committee is not convinced that enough is being

36 Mr Fox, DIAC, p. 17.

37 DIAC, *Submission No. 11*.

38 DIAC, *Submission No. 11*.

39 DIAC, *Submission No. 11*.

done to identify and respond to the needs of immigrants at a local level and support programs specifically tailored to those needs.

- 6.30 The Committee is concerned that the Grants Management System (GMS) does not provide support to either grant applicants or DIAC staff, is inefficient and an ongoing source of frustration. The Committee urges DIAC to implement the ANAO recommendations and upgrade the Grants Management System (GMS) without delay.

## Audit Report No. 40 2008-09

# Planning and Allocating Aged Care Places and Capital Grants

## Introduction

- 7.1 The Australian government has a primary role in the funding and regulation of Australia's aged care services. The provision of aged care is a high profile area of government activity, involving large amounts of government expenditure and the delivery of services to vulnerable populations.
- 7.2 Rather than directly providing aged care services, the Australian government supports the provision of aged care to those people who are assessed as requiring care, via subsidies and grants to aged care providers. The Department of Health and Ageing (DoHA) manages the planning and allocation of Australian government-funded aged care, under the *Aged Care Act 1997* (the Act).
- 7.3 The Australian government budget for aged care subsidies for residential, community and flexible care in 2008-09 is \$6.7 billion.<sup>1</sup> Up to \$44.5 million in capital grants for residential aged care will also be made available in

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<sup>1</sup> While the Australian government provides the majority of the funding for aged care, care recipients may also make a means-tested contribution towards the cost of their care.

2008–09. The government's expenditure on aged care is expected to rise in coming years, in line with Australia's ageing population.

- 7.4 The providers of aged care services include commercial companies and the not-for-profit sector. Indicative of the composition of the industry in terms of residential care services, in 2006–07 providers accounted for the following shares: religious organisations (28.8 per cent); private providers (26.9 per cent); community-based providers (17.5 per cent); charitable organisations (15.0 per cent); state government (9.1 per cent); and local government (2.6 per cent).
- 7.5 The government controls the supply of subsidised aged care places through its role in setting the aged care planning ratio target. In accordance with this target, DoHA allocates and funds aged care places supplied by approved aged care providers, for a set number of operational aged care places for every 1000 Australians aged 70 years and over. The current planning ratio target is 113 operational aged care places per 1000 people aged 70 years and over, to be achieved by June 2011. The target mix of care type within this target total is 44 high-care residential places, 44 low-care residential places and 25 community care places.
- 7.6 Owing to the time lag that necessarily occurs between DoHA allocating places and those places becoming operational (usually due to the need to construct a residential facility), DoHA has adopted an approach that 'over-allocates' places in order to meet the target ratio by the target date. At 30 June 2008, DoHA had allocated a total of 247 371 aged care places (resulting in the allocated ratio being 123.6 per 1000 people aged 70 and over). At the same point in time 223 107 aged care places were operational, that is, in a position to provide care (resulting in an operational ratio of 111.5 places per 1000 people aged 70 and over).
- 7.7 DoHA, as a matter of broad principle, seeks to achieve the national aged care planning ratio (currently 113 operational places per 1000 people aged 70 years and over) uniformly in all states and territories, as a way to provide equitable access to aged care for all older Australians.
- 7.8 DoHA provides advice to the Minister for Ageing on the number of new aged care places required to reach the planning ratio target. The decision on how many places to release each year is made by the Minister, taking into account the DoHA advice. Following this decision, DoHA allocates aged care places via a competitive, tender-like process – the Aged Care Approvals Round (ACAR). In recent years over 10 000 new places have been allocated each year. The ACAR is highly contested by current and prospective aged care providers because 'gaining a place' is a necessary

step in participating in the provision of aged care, with access to ongoing government subsidies.

- 7.9 The provision of aged care places and capital grants fits within a broader context of government and non-government activity in aged care and associated fields at the national, state and local levels.

## The Audit<sup>2</sup>

### Audit objective and scope

- 7.10 The objective of the audit was to assess the effectiveness of DoHA's management of the planning and allocation of aged care places and capital grants, in accordance with the *Aged Care Act 1997*.
- 7.11 Australian government-funded aged care relevant to this audit comprises:
- residential aged care;
  - community aged care packages which provide care services in a care recipient's home;
  - several flexible care programs including high care services in the care recipient's home and services for people with dementia living at home; and
  - support for aged care infrastructure via capital grants.

### Overall audit conclusion

- 7.12 The ANAO made the following overall audit conclusion:

The Department of Health and Ageing (DoHA) manages the planning and allocation of aged care places under the *Aged Care Act 1997* (the Act). The Act prescribes in detail much of the planning and allocation processes to be undertaken by DoHA. The planning and allocation of aged care places is a mature process and, overall, DoHA has adopted an appropriate approach to its planning, implementation and reporting against government targets. It has effectively managed the planning and allocation of aged care places and capital grants, in accordance with the Act.

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2 In this chapter, all references to 'the audit' are references to Audit Report No. 40 2008-09, unless specified otherwise.

DoHA has sound administrative processes that: take into account the objectives of the Act when providing advice to Minister for Health and Ageing on the planning ratio target; allow staff to follow established legislative and internal guidelines to implement each step of the Aged Care Approvals Round (ACAR); and provide adequate information for the department to report on outcomes against government targets.

DoHA achieved the government's 2004 and 2007 targets for the provision of aged care places. The national targets were designed to strike a balance between costs and the community's aged care needs. As at 30 June 2008 there were 111.5 operational places per 1000 people aged 70 years and over. Given the government's target is to achieve 113 operational places per 1000 people aged 70 and over by June 2011, DoHA is well placed to achieve the current target.

Although DoHA has an effective approach to managing and allocating aged care places, there are two high-level processes that could be augmented to strengthen aged care planning and the transparency of DoHA's provision of places to Indigenous Australians, and more generally, improve the equity of access to aged care for older Australians:

- DoHA providing advice to the Minister for Ageing on options for incorporating the Indigenous aged 50-69 population numbers into the planning ratio target; and
- DoHA assessing alternatives to how the department applies the government's national aged care planning ratio across state and territories, so as to better take account of state demographic differences.

The government's ratio target determines the number of places to be released each year, based on the number of people aged 70 and over. DoHA also allocates places for the Aboriginal and Torres Strait Islander population aged 50-69, recognising that the conditions associated with ageing generally affect Indigenous people earlier than the wider Australian population. In doing so, however, DoHA uses places that were determined based on the Australian population aged 70 years and over.

Changing the aged care planning ratio is a matter for government. DoHA could provide advice to the Minister for Ageing on options for incorporating the Indigenous population aged 50-69 into the national planning ratio target. Taking account of the Indigenous population aged 50-69 in the ratio would enhance DoHA's ability

to plan for the aged care needs of that population and plan the distribution of places accordingly, without the need for DoHA to reallocate places initially determined on the basis of the Australian population aged 70 and over.

In directing places to the Indigenous population aged 50-69, DoHA uses its administrative discretion to better facilitate Indigenous access to aged care services. In taking this approach, the department is recognising the demographic situation of a particular population. There is an opportunity to extend this approach to deal with other demographic differences between states and territories.

DoHA seeks to achieve the national aged care ratio uniformly in all states and territories. This approach is seen by DoHA as enhancing equitable access to aged care for all older Australians. However, the uniform application of the aged care planning ratio target does not recognise state and territory demographic differences. In order to better address state and territory differences, DoHA should, in consultation with its Minister and other stakeholders, assess the merits of alternative methods of planning the distribution of places across the states and territories.

DoHA advised the ANAO that it agrees that these matters should be considered in the context of the Government's planned review of the aged care planning ratios and allocation process.

The ACAR has been conducted for over ten years and, during this time its scale and complexity has continued to grow. In order to manage in this environment, decision makers need to be supported by appropriate management information relating to ACAR costs, particularly costing information on the key components of the process including at the state level.

## ANAO recommendations

7.13 The ANAO made the following recommendations:

Table 4.1 ANAO recommendations, Audit Report No. 48 2008-2009

- |    |  |
|----|--|
| 1. | The ANAO recommends that the Department of Health and Ageing assess the merits of alternatives for how the department applies the aged care planning ratio and sub-ratios across states and territories, so as to better take account of differences in state and territory demographics, including health status. |
|----|--|

DoHA response: *Agreed*

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|----|---|
| 2. | Recognising the scale and increasing complexity of the Aged Care Approvals Rounds |
|----|---|

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(ACAR) process, the ANAO recommends that the Department of Health and Ageing put in place appropriate costing arrangements that track the costs of key components of the ACAR, so as to inform management decisions relating to program delivery.

DoHA response: *Agreed*

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## The Committee's review

7.14 The Committee held a public hearing on Wednesday 25 November 2009 to examine this audit report. Witnesses from the following agencies attended and gave evidence:

- Department of Health and Ageing (DoHA); and
- Australian National Audit Office (ANAO).

7.15 The Committee heard evidence on the following issues:

- debriefing of unsuccessful applicants;
- requirements of special needs groups;
- review of planning ratios and allocation process;
- Indigenous allocation;
- costs of key components of the Aged Care Approvals Rounds (ACAR); and
- post-allocation monitoring of providers.

## Debriefing of unsuccessful applicants

7.16 The ANAO recognised that the debriefing process for unsuccessful applicants is important as it allows applicants to improve future applications.<sup>3</sup> The ANAO acknowledged the improvements DoHA has made to the process in recent years but found that some stakeholders still find the feedback and advice they receive too generic:

Providers would like more detailed information about how their applications could be improved, and the reasons for DoHA decisions.<sup>4</sup>

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3 Audit Report No. 40 2008-09, p. 89.

4 Audit Report No. 40 2008-09, p. 89.



7.17 The ANAO suggested the DoHA 'continue to seek to improve the debrief process, via staff training and by continuing to evaluate future ACAR debriefs'.<sup>5</sup> The Committee queried why the ANAO had not made this suggestion a recommendation in light of its findings. The ANAO advised that it is satisfied that the Department is taking positive steps to improve the process and therefore did not feel a recommendation is required:

One of the things that we try to do when we think about whether a recommendation is a useful idea or not is to take on board what the agency is already doing, and they have been progressing their thoughts in that area. As I said, they are using more senior people to provide the feedback.<sup>6</sup>

...

And they have done some work to consider what the feedback responses have been. We found that DoHa was actively reviewing the comments provided.<sup>7</sup>

## Requirements of special needs groups

7.18 In 2007 the ANAO found that not all states were addressing all five special needs groups identified in the Allocation Principles.<sup>8</sup> A number of states were only including information on selected special needs groups to the Aged Care Planning Advisory Committee (ACPAC) considering allocation of Aged Care Places in their state. In response to a recommendation by the ANAO to improve overall administrative effectiveness, including this deficiency, DoHA 'disseminated 'National Best Practice Guidelines on collection and Assessment of Supporting Information for ACPACs 'to its state and territory offices in January 2008'.<sup>9</sup>

7.19 Although the ANAO found overall improvements to the information provided to ACPACs during the current audit, only two of the four states had fully adhered to the guidelines with regard to the five special needs

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5 Audit Report No. 40 2008-09, p. 89.

6 Mr Steven Lack, Australian National Audit Office (ANAO), p. 10. All references to witnesses' evidence comes from the Committee's hearing into this audit dated 25 November 2009, with page numbers relating to the Proof Committee Hansard.

7 Ms Anne Cronin, ANAO, p. 10.

8 ANAO Audit Report No. 38 2006-07, *Administration of the Community Aged Care Packages Program*, Canberra, p. 74. The five groups identified under the *Aged Care Act 1997* and the Allocation Principles are: people from Aboriginal and Torres Strait Island communities, people from non-English speaking backgrounds, people who live in rural or remote areas, people who are financially or socially disadvantaged, and veterans.

9 Audit Report No. 40 2008-09, p. 64.

groups.<sup>10</sup> The ANAO concluded there is still room for improvement. The Committee asked DoHA why there are inconsistencies across state and territory offices. The Department maintained that a standard set of information is provided to all ACPACs but that the ACPACs are independent advisory committees and may not do things in an 'exactly standard way'.<sup>11</sup>

- 7.20 The Committee asked how transparent the deliberations, recommendations and names of the ACPACs are. DoHA assured the Committee that the names of the committees are publicly known and that, although their deliberations are confidential, the information they provide is incorporated into the Departments guide that is distributed to applicants.<sup>12</sup>

## Review of planning ratios and allocation process

- 7.21 The ANAO found that the current practice of applying the planning ratio uniformly across states and territories does not recognise demographic differences and recommended that alternative methods be explored to improve equity of access to aged care.<sup>13</sup> The Department responded that the Government is planning a review of the process.<sup>14</sup>
- 7.22 The Committee asked if the proposed review has commenced, what form it is taking and whether or not it is addressing the ANAO recommendation. The Department told the Committee:

The Government has indicated that it will provide a reference to the Productivity Commission to undertake a public inquiry into aged care in Australia. This inquiry will examine the needs of Australia's aged persons for the next 20 years and look at appropriate standards and funding arrangements to secure the best outcomes from aged care services. It is anticipated that the inquiry will consider issues around the planning and allocation of services.<sup>15</sup>

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10 Audit Report No. 40 2008-09, p. 65.

11 Mr Peter Broadhead, Department of Health and Ageing (DoHA), p. 11.

12 Mr Peter Broadhead, DoHA, p. 11.

13 Audit Report No. 40 2008-09, pp. 50 and 53.

14 Audit Report No. 40 2008-09, p. 54.

15 DoHA, *Submission No. 13*.

## Indigenous allocation

7.23 To accommodate the fact that the conditions of ageing often affect the Indigenous Australian population earlier, the ANAO found that DoHA allocates places for Aboriginal and Torres Strait Islander people aged 50-69.<sup>16</sup> To achieve this, DoHA reallocates places assigned to the whole Australian population aged 70 years and over.<sup>17</sup> The ANAO suggested that:

DoHA could provide advice to the Minister for Ageing on options for incorporating the Indigenous population aged 50-69 into the national planning ration target. Taking account of the Indigenous population aged 50-69 in the ration would improve DoHA's ability to plan for the aged care needs of that population and plan the distribution of places accordingly.<sup>18</sup>

7.24 The Committee asked if DoHA has, or intends to, provide such advice to the Minister. The Committee also asked whether or not the intended government review would consider specifically allocating extra places for special needs groups, particularly the Indigenous population aged 50-69 years. DoHA informed the Committee that it expected both these issues to be covered by the intended inquiry into aged care in Australia to be undertaken by the Productivity Commission.<sup>19</sup>

## Costs of key components of the Aged Care Approvals Rounds

7.25 The ANAO found that DoHA was unable to provide 'specific data or estimates on the costs and funding approach related to the planning and allocation of aged care places and capital grants'.<sup>20</sup> This indicated that DoHA had not 'systematically considered the resourcing' of the process.<sup>21</sup> In order to continue to meet its goals to provide aged care places in an increasingly competitive market, the ANAO recommended that DoHA put in place a costing framework to track the costs of key components of the ACAR.<sup>22</sup>

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16 Audit Report No. 40 2008-09, pp. 14-15 and 47-49.

17 Audit Report No. 40 2008-09, p. 15.

18 Audit Report No. 40 2008-09, p. 15.

19 DoHA, *Submission No. 13*.

20 Audit Report No. 40 2008-09, p. 70.

21 Audit Report No. 40 2008-09, p. 71.

22 Audit Report No. 40 2008-09, pp. 71-72.

7.26 The Department agreed to improve the cost tracking process but did not provide details of how it would go about this.<sup>23</sup> The Committee is concerned that the lack of data will inhibit DoHA's ability to implement future efficiencies and asked DoHA what action has been taken, or is planned to be taken, to implement the recommendation. DoHA informed the Committee:

As part of the Business Planning exercise for 2009-10, the Ageing and Aged Care Division and the Office of Aged Care Quality and Compliance undertook an exercise to improve the quality and consistency of resource allocations for aged care activities to ensure that the resource allocation was accurate for the round and affected activities. The results of this exercise were then submitted as part of the Business Plan for both of the Divisions which have responsibility for aged care programs.<sup>24</sup>

### Post-allocation monitoring of providers

7.27 After the allocation of places, the ACAR applicant has two year to ensure the places become operational. Over recent years, increases in building costs and construction times have made it more difficult to meet this deadline. The ANAO acknowledges that the DoHA is taking a more active role in monitoring this process in an attempt to ensure compliance. However, the ANAO found that DoHA had difficulty monitoring whether or not providers meet the conditions of allocation as the records were held on paper in files in state and territory offices.<sup>25</sup> The ANAO suggested that DoHA consolidate its records of conditions of allocation to enable post-allocation monitoring of providers.<sup>26</sup>

7.28 The Committee asked DoHA what actions it is taking to improve post-allocation monitoring of providers, for example has it implemented physical inspections. The Department informed the Committee that the intended enhancement of its Places Tracker IT system will provide a capability to undertake systematic and IT-assisted scrutiny of the conditions of allocation on a centralised and coordinated basis.<sup>27</sup> The Committee asked for an update on this process. DoHA replied:

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23 Audit Report No. 40 2008-09, p. 72.

24 DoHA, *Submission No. 13*.

25 Audit Report No. 40 2008-09, p. 91.

26 Audit Report No. 40 2008-09, p. 91.

27 Audit Report No. 40 2008-09, p. 91.

Since 2007, the Department has entered conditions of allocation into the National Approved Provider System (Places Tracker). The Department is undertaking work to incorporate information on past allocations into this system. This is a large task requiring manual data entry of information held in a variety of different forms and records systems including paper based files in state and territory offices of the department. The compilation of this information in the system in a readily available form is a necessary pre-cursor to more actively monitoring conditions of allocation from allocations prior to 2007.<sup>28</sup>

## Conclusions

- 7.29 The Committee acknowledges that overall the planning and allocation of aged care places and capital grants by DoHA is operating effectively. The Committee notes that the government is planning to undertake a review into aged care in Australia that will address concerns regarding planning and allocation of services.

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28 DoHA, *Submission No. 13*.



## **Audit Report No. 43 2008-09**

# Construction of the Christmas Island Immigration Detention Centre

## **Introduction**

- 8.1 In the latter part of 2001 several measures were introduced to address an increase in unauthorised arrivals to Australia. These measures included legislation excising Christmas Island, Ashmore and Cartier Islands and Cocos (Keeling) Islands from the migration zone for the purposes of unauthorised arrival as well as arrangements for the reception and accommodation of unauthorised boat arrivals and the processing of their claims for protection at various offshore locations.
- 8.2 In addition, on 11 March 2002, the Government decided to proceed urgently to construct a new purpose built permanent Immigration Reception and Processing Centre<sup>1</sup> on Christmas Island, together with the construction of essential infrastructure associated with the construction and on-going operation of the Centre. In terms of project delivery:

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1 The project is now referred to as the Christmas Island Immigration Detention Centre (CIIDC).

- the then Department of Immigration and Multicultural and Indigenous Affairs (DIMIA)<sup>2</sup> was to be responsible for the construction of the facility; and
  - the then Department of Transport and Regional Services (DOTARS)<sup>3</sup> was responsible for all associated infrastructure and headworks to support the facility, construction of staff housing in the Island's residential area and provision of the construction camp.
- 8.3 The project approved in March 2002 had been for a 1200 person facility to be built in 39 weeks for an indicative budget of \$242.9 million. By June 2002, architects and a Construction Contractor had been appointed. However, delays in the project timelines and increases in project costs had begun to emerge. By September 2002, the project estimate had increased to \$427 million with a delivery period in the order of 120 weeks.
- 8.4 After considering the work of a departmental taskforce as well as commercial and legal advice, in November 2002 the Government reaffirmed the need for the CIIDC [Christmas Island Immigration Detention Centre] project. However, following discussions with the appointed Construction Contractor, it was concluded that construction of a 1200 place purpose-designed and built facility could not be achieved within the budget, and it was decided to terminate the contract with the Construction Contractor.<sup>4</sup> After considering options, on 18 February 2003, the Government decided to respecify the project to an 800 place facility at a forecast estimate of \$276.2 million.

## Respecified project

- 8.5 Prior to the termination of the original construction contract entered into by DIMIA, a fully operational construction camp had been built, and some land clearing bulk earthworks for the CIIDC facility had been undertaken.

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2 The department is now known as the Department of Immigration and Citizenship (DIAC). It is referred to as DIMIA in relation to actions prior to its renaming and as DIAC in relation to actions since that time.

3 The department is now known as the Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG). As a result of the November 2007 Federal election and subsequent changes to the Administrative Arrangements Order, all relevant Territories staff and records associated with the CIIDC project and related infrastructure services for which DOTARS had been responsible were transferred to the Attorney-General's Department (AGD). The formal transfer occurred on 25 January 2008, with the physical relocation of the Territories staff occurring in March 2008. Local government services are provided on Christmas Island by the Shire of Christmas Island.

4 Termination took effect on 31 May 2003.



- 8.6 At the time the project was respecified, responsibility for delivering the CIIDC facility was transferred from DIMIA to the Department of Finance and Deregulation<sup>5</sup> (Finance), with a more conventional delivery method<sup>6</sup> to be adopted in an endeavour to provide greater cost certainty. Responsibility for the provision of associated infrastructure remained with DOTARS. Finance was to manage the facility construction project from 19 February 2003 to completion, which was expected to take 34 months (that is, practical completion by December 2005). The budget of \$276.2 million was allocated as follows:
- facility construction budget of \$197.7 million (referred to in this report as the Finance Budget Allocation);
  - \$58 million in budgeted costs for DOTARS to deliver housing and infrastructure works<sup>7</sup> and resume the mining lease on which the CIIDC would be constructed (the DOTARS Budget Allocation); and
  - \$20.5 million in budgeted costs associated with DIMIA's management of the project up to the February 2003 transfer of responsibility to Finance. DIAC was allocated a further \$3.1 million for project supervision and consultancies for the period from the February 2003 transfer of project management to Finance until project completion, but this allocation was not included in the \$276.2 million figure. Collectively, these amounts are referred to as the DIMIA Budget Allocation.
- 8.7 In June 2003, the proposal to construct a respecified, purpose-built CIIDC was referred to the Public Works Committee (PWC) for its consideration. The PWC's December 2003 report recommended that the respecified project proceed at its estimated facility construction cost of \$197.7 million.
- 8.8 A two-stage project delivery model was adopted by Finance for the remaining construction work for the CIIDC facility. The first stage was the 'Early Works', which were carried out under a lump sum contract arrangement and involved bulk earthworks. The second stage was the 'Main Works'.

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5 Prior to the change of Government following the 2007 Federal Election, the department was known as the Department of Finance and Administration (DFA).

6 As opposed to the 'fast-track' process, involving parallel design and construction for the purpose-built CIIDC proposed for the original project.

7 Specifically, DOTARS was provided with funding for an additional port facility at Nui Nui (the main port is at Flying Fish Cove) and an associated upgrade to the link road, upgrade of other roads (including the construction of crab crossings), provision of housing for facility staff, construction of sports facilities and the provision of water, communications and power to the facility site.

- 8.9 The planned Main Works delivery strategy was to involve a modified lump sum form of contract that included a Guaranteed Maximum Price (GMP). GMP construction contracts are arrived at through a staged process that involves the construction tender being carried out prior to the completion of the design, and the Preferred Tenderer being involved in the final documentation of the design. Each party participating in the tender process is provided with construction drawings and specifications to a sufficient level of detail to allow them to submit a fixed price for the works based on the required dates for practical completion.
- 8.10 A three phase open tender process to appoint the Main Works Contractor was conducted between February and December 2004. Two tenders were received in August 2004, with prices of both tenders being above the available budget. As a result, the Finance Budget Allocation was increased by \$59 million. The Main Works Contract was signed in January 2005, with a stated GMP of \$207.9 million and a date for Practical Completion of 31 August 2006. A second budget increase (of \$60 million) was obtained by Finance in August 2006, during the construction stage.
- 8.11 Practical Completion by the Main Works Contractor of the CIIDC occurred in October 2007. However, various deferred and additional works had to be completed by Finance (through its contracted Project Manger) in order to bring the facility to a 'fit for purpose' condition such that it could be handed over to DIMIA. This handover occurred in April 2008. The estimated out-turn cost of the facility works is within the amended Finance Budget Allocation of \$317.0 million.
- 8.12 The PWC Manual requires<sup>8</sup> that, if there are significant changes to a project after it has been considered by the Committee and approved by the Parliament, proponent agencies are to report these changes and, if necessary, seek the Committee's concurrence. Finance advised the PWC of the budget increases in January 2008. In June 2008, the Committee announced that it would receive a briefing from Finance and DIAC on the development of the CIIDC, focusing on the increase in the total budget from \$276 million in 2003 to \$396 million. After a public briefing was held in June 2008, the PWC wrote to the ANAO advising that it had concerns about the costing provided to it in September 2003, and the subsequent management of the project. ANAO advised the PWC that the audit of the project, which at that time was underway, would assess the rigour of the project estimates and budgets as well as the management of the project in terms of its cost, timing and scope.

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8 Parliamentary Standing Committee on Public Works, *Manual of Procedures for Departments and Agencies*, March 2008, Edition 7.2, p. 38.

## The Audit<sup>9</sup>

### Audit scope and objectives

- 8.13 A performance audit of the CIIDC construction project was first included as a potential audit in ANAO's Planned Audit Work Program for 2006-07. As the project was not completed in 2006-07, the audit of the construction of the CIIDC was not commenced that year but was rescheduled as a potential topic in the 2007-08 Planned Audit Work Program.
- 8.14 The objective of the audit, in examining the construction of the CIIDC, was to assess:
- the adequacy of the planning and delivery processes for the project;
  - the value-for-money achieved in the delivery of the project, including with regard to the suitability of the centre for its intended purpose; and
  - the extent to which the *Public Works Committee Act 1969* (PWC Act) and approved procedures have been complied with.

### Overall audit conclusions

- 8.15 The ANAO made the following overall audit conclusion:

The CIIDC was a more difficult construction project than many others undertaken by the Australian Government. It involved numerous challenges and risks including the isolation of Christmas Island, shipping being adversely affected by the swell season (which typically runs for five months from November to March), the absence of a wharf suitable for ships to berth alongside and the facility being constructed on reclaimed mining land that was surrounded by a National Park. In addition, the construction works were of considerable scale (the CIIDC facility comprises more than 50 buildings and associated landscaping works) with an ambitious design and delivery timetable, and a tight budget.

The CIIDC facility has been completed, has been accepted by DIAC as fit for its purpose and is now operational. However, this result has come at a considerably greater cost than budgeted at the time the project was respecified and over a substantially longer timeframe than had been expected. In this context, the audit has

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<sup>9</sup> In this chapter, all references to 'the audit' are references to Audit Report No. 43 2008-09, unless specified otherwise.

underlined several important messages for agencies to bear in mind when managing future construction projects.

The first is that it is only after sufficient scoping and planning work has been undertaken that reliable estimates and delivery timeframes can be established. The scope, budget and timeframe for the respecified project was established after nine months of detailed design work, market place investigation and cost reviews incorporating expert costing advice. Nevertheless, the revised delivery timeframe of 34 months (as opposed to 39 weeks for the original project) was exceeded by 27 months and Finance's Budget Allocation was increased by 60 per cent. Factors contributing to this outcome included that, at the time the respecified budget was approved, the design brief had not been finalised, a concept design had not yet been prepared and the revised budget included very little in the way of a contingency allowance for risk.

The second message relates to the importance of managing a project as a whole when individual agencies have separate budgets for sub-parts that are interdependent.<sup>10</sup> For the CIIDC project, Finance was responsible for the facility construction aspect with DOTARS responsible for most of the infrastructure works necessary to connect the facility to the services on the Island, as well as for an upgrade of the Island's port crane. Early in the project, Finance consulted with DOTARS to ensure there were sufficient spare parts on the Island for the port crane (given its importance to project logistics) but Finance (and prior to February 2003, DIMIA) was not involved in DOTARS' decision-making processes relating to the construction of the additional port facility at Nui Nui, and the subsequent procurement of a new crane or the upgrade to the existing pedestal at Flying Fish Cove (due to the decision to relocate the existing, older, crane to Nui Nui). For budgetary reasons DOTARS decided to have the crane pedestal upgraded rather than a new pedestal constructed. The relatively modest initial saving in capital expenditure was more than offset by the effects on the facility construction project of the crane being taken out of service due to the discovery of major foundation

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10 ANAO has outlined in other reports the importance of having a lead agency, allied with associated risk management and whole-of-government performance management arrangements (see ANAO Audit Report No. 50 2004-05, *Drought Assistance*, Canberra, 2 June 2005, pp. 24-25). Similarly, in March 2005, all Departmental Secretaries endorsed a guide entitled 'Working Together' that emphasised the importance of a whole-of-government approach to inter-agency work.

faults in the pedestal.<sup>11</sup> This example emphasises the importance of a whole-of-government perspective in such decisions by agencies.

Thirdly, it is important that agencies manage projects by developing and following delivery strategies that reduce identified risks to acceptable levels. There are a number of possible approaches to the development and delivery of Commonwealth capital works projects, each involving different risks and having advantages and disadvantages. To provide greater cost certainty given the original project had been respecified partly due to significant budget increases, Finance's chosen project delivery strategy was to involve the main works contract being tendered based on a detailed and developed design, and the contract being signed based on a completed design.<sup>12</sup> The strategy was sound but was not followed. Instead, the design and tendering processes were overlapped and the design was not completed until some time after the construction contract was signed.<sup>13</sup> The departures from the planned approach contributed to the project delays and increased costs to the Commonwealth.

To capture both industry and its own experience in managing construction projects, Finance has developed a better practice guide to the delivery of major capital works, which at the time of the audit was being updated. The first draft of this guide was introduced in July 2005, during the construction phase of the CIIDC project. Where the guide has adequately addressed matters identified by this audit as requiring attention, this has been recognised (in lieu of an ANAO recommendation being made).<sup>14</sup>

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- 11 In this respect, ANAO has estimated a net delay effect on the project of one month and additional costs of \$6.4 million (a new pedestal was estimated to cost \$700 000 more than upgrading the existing pedestal).
- 12 The strategy recognised that:
- tendering the Main Works Contract before a well-developed design had been prepared and/or signing the construction contract before the design had been completed adversely affects the Commonwealth's ability to transfer the risk of design errors and omissions to the construction contractor; and
  - delays during the design phases would ultimately cost less in time and money than delays in the construction phase.
- 13 The second budget increase (of \$60 million) was necessary, in large part, due to increased costs that resulted directly or indirectly from the change in approach.
- 14 Audit Report No. 43 2008-09, pp. 13-15.

## ANAO recommendations

Table 5.1 ANAO recommendations, Audit Report No. 43 2008-09

1.	<p>ANAO <i>recommends</i> that, in future circumstances where the Department of Finance and Deregulation is delivering capital works projects that depend upon Commonwealth owned and/or operated infrastructure, project governance arrangements be developed to manage the risk and cost of project construction and infrastructure decisions being made in isolation by:</p> <ul style="list-style-type: none"> <li>(a) developing a stronger leadership model that sets out the mutual obligations of each agency to coordinate decisions of critical importance associated with interdependent activities; and</li> <li>(b) adopting a sound approach to preparation and management of the overall project budget by comparing design milestone estimates of the cost of works to the overall budget and subsequently accounting for the final (out-turn) cost.</li> </ul>
<i>Agreed response: Finance, DIAC, AGD and DITRDLG</i>	
2.	<p>ANAO <i>recommends</i> that the Department of Finance and Deregulation informs the Public Works Committee of the project budget, the estimate of cost and order of accuracy on which the estimate is based when providing information to the Committee for projects it is delivering.</p>
<i>Agreed response: Finance, DIAC, AGD and DITRDLG</i>	
3.	<p>ANAO <i>recommends</i> that the Department of Finance and Deregulation, prior to committing funds to a major construction contract:</p> <ul style="list-style-type: none"> <li>(a) provide decision-makers with an assessment of any factors that may be reasonably expected to increase the overall cost to the Commonwealth, or reduce the scope or quality of the works; and</li> <li>(b) support spending authorisation and approval processes by advising decision-makers on the maximum amount that may become payable under the contract, as well as an assessment of the most likely cost.</li> </ul>
<i>Agreed response: Finance, DIAC, AGD and DITRDLG</i>	
4.	<p>ANAO <i>recommends</i> that the Department of Finance and Deregulation promote improved project delivery outcomes by:</p> <ul style="list-style-type: none"> <li>(a) providing decision-makers with a comprehensive assessment of risks and how they can be managed prior to making any significant departures from the planned project delivery strategy; and</li> <li>(b) implementing strategies aimed at promoting greater collaboration and teamwork between key consultants (including project managers, cost managers and designers) in working toward the established project objectives.</li> </ul>
<i>Agreed response: Finance, DIAC, AGD and DITRDLG</i>	
5.	<p>ANAO <i>recommends</i> that the Department of Finance and Deregulation require its key project management and other advisers to participate in a post-project review of major construction projects soon after they are completed so as to identify aspects and processes that have been particularly successful as well as those where lessons can be learned.</p>
<i>Agreed response: Finance, DIAC, AGD and DITRDLG</i>	
6.	<p>ANAO <i>recommends</i> that the Department of Finance and Deregulation:</p> <ul style="list-style-type: none"> <li>(a) when seeking additional funds for its capital works projects, develop budget breakdowns that clearly identify the elements that are proposed to be revised; and</li> <li>(b) explicitly recognise within its internal guidance material the requirement to report significant project changes, including to the budget, to the Public Works Committee.</li> </ul>
<i>Agreed response: Finance, DIAC, AGD and DITRDLG</i>	

## The Committee's review

8.16 The Committee held a public hearing on Wednesday 18 November 2009, with the following witnesses:

- Australian National Audit Office (ANAO);
- Attorney-General's Department (AGD);
- Department of Finance and Deregulation (Finance); and
- Department of Immigration and Citizenship (DIAC).

8.17 The Committee took evidence on the following issues:

- structural sustainability of the centre;
- transfer of responsibility for the project to Finance;
- unique nature of the project;
- cost estimates;
- overlapping of design and construction phases;
- post-implementation review; and
- protocols for whole-of-government contracts.

### Structural sustainability of the centre

8.18 The Committee queried whether or not sufficient thought had been given to the structural sustainability and design of the centre considering the environmental conditions of the island. Although transport costs had placed constraints on both the choice of design and materials, Finance maintained that environmental factors such as salt, humidity and high rainfall had been taken into account with regard to the selection of materials.<sup>15</sup> Finance added that the facility had been designed to cope with seismic activity.

### Transfer of responsibility for the project to Finance

8.19 The ANAO report noted that in 2002 DIMIA and DOTARS were given responsibility for the original CIIDC project.<sup>16</sup> This decision was made to

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15 Mr Richard Scott-Murphy, Department of Finance and Deregulation (Finance), pp. 2-3. All references to witnesses' evidence comes from the Committee's hearing into this audit dated 18 November 2009, with page numbers relating to the Proof Committee Hansard.

16 Audit Report No. 43 2008-09, p. 43.

facilitate a 'fast-track' process whereby design and construction could proceed together.<sup>17</sup> After project estimates and the timeline escalated, the project was respecified, a more conventional delivery method adopted and responsibility for the project transferred to Finance.<sup>18</sup>

- 8.20 The Committee asked why the project had gone to DIMIA first instead of directly to Finance. The ANAO told the Committee that at the time it was not unusual for a department to take on responsibility for its own construction projects.<sup>19</sup> The ANAO understands that the increase in the estimated cost of the project and the extended timeframe led to the decision to transfer the responsibility to Finance 'in an endeavour to provide greater cost certainty'.<sup>20</sup>

## Unique nature of the project

- 8.21 The ANAO report referred to the unique nature of the CIIDC project noting:

... the proposed purpose built permanent facility was recognised as being the first of its kind and, as such, there was no precedent upon which cost estimates could be accurately established.<sup>21</sup>

- 8.22 Finance reiterated this concept throughout the inquiry maintaining:

This project was unique in that it was the first purpose-designed and built Immigration Detention Centre in Australia, and as such there were no established benchmarks with which it could be compared.<sup>22</sup>

- 8.23 The Committee questioned the uniqueness of the project and the lack of benchmarks considering previous experience setting up and running the Baxter detention centre. DIAC explained that the CIIDC was unique in the sense that it had been designed as an immigration reception and processing centre rather than an immigration detention centre:

We take clients all the way through from reception to health, identity and security all within the centre premises. On the

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17 Audit Report No. 43 2008-09, p. 43.

18 Audit Report No. 43 2008-09, pp. 45-46.

19 Mr Brian Boyd, ANAO, p. 3.

20 Audit Report No. 43 2008-09, p. 10; Mr Brian Boyd, ANAO, p. 4.

21 Audit Report No. 43 2008-09, p. 43.

22 Audit Report No. 43 2008-09, p. 31.



mainland we have different arrangements and that certainly makes it unique.<sup>23</sup>

## Cost estimates

- 8.24 The Committee queried why cost estimates could not have been more accurate for the project considering the expertise and experience available across Australia. Finance affirmed that it had drawn on professional consultants during the cost estimate process but maintained that the project still faced a unique set of circumstances:

The unique nature of this project was delivering a detention facility in the environmental conditions evident at Christmas Island. There was no basis upon which they could draw for estimating the sort of variance that you might get for delivering a complex project on Christmas Island. The order of accuracy that they can impart in those estimates is constrained by that lack of data.<sup>24</sup>

- 8.25 The Committee asked the Audit Office for its opinion on the estimates process and the resulting shortfall. The ANAO identified the budget as the problem rather than the estimates. The budget was insufficient:

From our perspective, the estimates for some time had been saying 'You won't be able to design and construct this project within the budget.' So the estimates had a degree of accuracy to them. The budget was the problem. Trying to get it within budget was where the problems were arising.<sup>25</sup>

- 8.26 The ANAO added that the time frame caused further problems:

... because the time frames were so short, the department went to tender before its own strategy said it probably should have. Therefore you had a less mature design on which people were pricing, and that then led to further cost increases.<sup>26</sup>

## Overlapping of design and construction phases

- 8.27 With regard to the time frame, the ANAO noted that the design for the respecified project was to be prepared in four stages with a 'hold point'

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23 Ms Jackie Wilson, Department of Immigration and Citizenship (DIAC), p. 5.

24 Mr Richard Scott-Murphy, Finance, p. 5.

25 Mr Brian Boyd, ANAO, p. 6.

26 Mr Brian Boyd, ANAO, p. 6.

after each stage where design work would stop until DIMIA approved each stage.<sup>27</sup> This process would cause some delay during the design phase but would forestall more costly delays during the construction phase.<sup>28</sup> The ANAO found that this strategy had not been followed and this had directly contributed to the escalation of costs and time.<sup>29</sup>

- 8.28 The Committee questioned why Finance had abandoned the original delivery method and decide to overlap the design and construction phases of the project. Finance claimed that it was under time pressure from DIMIA to complete the facility and this had led to the decision.<sup>30</sup> The Committee asked for clarification as to the nature of those time pressures.
- 8.29 Finance reiterated that the pressure came from the urgency to complete the facility.<sup>31</sup> DIAC explained that pressure had been generated because the project was already well behind schedule when it was respecified and handed over to Finance to complete.<sup>32</sup> Under further questioning, DIAC confirmed that it had sufficient space in existing facilities to cope with demand and had not immediately utilised the CIIDC when it was completed.<sup>33</sup>

## Post-implementation review

- 8.30 The ANAO noted the importance of a post-implementation review of construction projects to determine whether or not the project has achieved the expected business benefits.<sup>34</sup> Additionally the ANAO recommended that Finance conduct a post-project review to 'identify aspects and processes that have been particularly successful as well as those where lessons can be learned'.<sup>35</sup>
- 8.31 The Committee noted that no post-implementation review of the CIIDC project had been conducted at the time of the audit and asked Finance if a 'lessons learned' review had been undertaken to determine what should or should not be done to ensure better outcomes for future construction projects. Finance told the Committee there had been no formal, lessons

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27 Audit Report No. 43 2008-09, p. 22.

28 Audit Report No. 43 2008-09, p. 23.

29 Audit Report No. 43 2008-09, pp. 23-24.

30 Mr Richard Scott-Murphy, Finance, p. 7.

31 Mr Richard Scott-Murphy, Finance, p. 8.

32 Ms Jackie Wilson, DIAC, pp. 8-9.

33 Ms Jackie Wilson, DIAC, p. 9.

34 Audit Report No. 43 2008-09, pp. 164-65.

35 Audit Report No. 43 2008-09, p. 167.

learned review of the CIIDC but that, as a direct result of the difficulties encountered with this project, the Department has introduced a two-stage Cabinet approval process<sup>36</sup>, the Gateway Review<sup>37</sup> process and developed internal best practice guidelines.<sup>38</sup> These include a Post Occupancy Evaluation (POE) and a Lessons Learned workshop:

The purpose of the POE is to ensure that project is working as intended, and the users are operating the facility(ies) as expected. The Lessons Learned workshop aims to identify positive and negative project experiences and outcomes, with a view to improving future project outcomes. Process improvements that are identified through these activities are incorporated within the Better Practice Guide.<sup>39</sup>

### Recommendation 13

**The Committee recommends that the Department of Finance and Deregulation (Finance) provide to the Joint Committee of Public Accounts and Audit (JCPAA) the results to date of the implementation of the Post Occupancy Evaluation process and the Lessons Learned workshops as soon as such information is available.**

- 8.32 The Committee is aware that the ANAO undertook a review of the initial implementation of the two-stage process and the Gateway Review process during Audit No. 20 2008-09 *Approval of Funding for Public Works*. The Committee understands that at that time the two processes had not been in operation for any length of time and it was difficult to determine their effectiveness in improving cost estimates and risk management of construction projects.
- 8.33 The Committee notes that an audit into the Administration of the Gateway Review Process is listed as a *potential* audit on the Audit Work Program for 2010-11. Considering the dependence being placed on the two-stage

36 Audit Report No. 43 2008-09, p. 32.

37 'Gateway involves short, intensive reviews at critical points in the project's lifecycle by a team of reviewers not associated with the project. This provides an arm's length assessment of the project against its specified objectives, and an early identification of areas requiring corrective action.' (Department of Finance and Deregulation, <<http://www.finance.gov.au/gateway/index.html>>, accessed 14 January 2010.)

38 Mr Richard Scott-Murphy, Finance, p. 13.

39 Finance, *Submission No. 9*.

process and the Gateway Review process to mitigate risk in future Commonwealth construction projects the Committee recommends:

#### **Recommendation 14**

**The Committee recommends that the Australian National Audit Office (ANAO) undertake an audit into the effectiveness of the implementation of the two-stage Cabinet approval process and the Gateway Review process in mitigating risk for Commonwealth construction projects since their introduction.**

### **Protocols for whole-of-government contracts**

- 8.34 The ANAO noted the difficulties experienced by the CIIDC project due to lack of leadership and coordination between the three agencies involved.<sup>40</sup> Despite a whole-of-project budget, decisions were taken by the three agencies independently leading to unacceptable budget overruns.<sup>41</sup> The ANAO recommends that in future governance arrangements be implemented for similar projects that provide a stronger leadership model, better coordination and milestones to track costs.<sup>42</sup>
- 8.35 The Committee asked what steps had been taken to implement this recommendation. Finance told the Committee that it has included lead agency arrangements in its Better Practice Guide that will be distributed to all its agencies.<sup>43</sup>

### **Conclusion**

- 8.36 The Committee recognises that it is difficult at this distance to apportion blame but is gravely concerned at the mismanagement of Commonwealth funds for this project. The Committee is particularly concerned by the substantial discrepancy between the initial cost estimate and final cost of the project and apparent failure to identify significant risk factors in the project.

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40 Audit Report No. 43 2008-09, pp. 77-80.

41 Audit Report No. 43 2008-09, pp. 82-86.

42 Audit Report No. 43 2008-09, p. 86.

43 Mr Richard Scott-Murphy, Finance, p. 15; Finance, *Submission No. 9*.

- 8.37 The Committee feels that more could have been done during the planning stage to develop a realistic estimate of the cost of the project and is not satisfied with the argument that the uniqueness of the project led to such serious miscalculation of costs and risks.
- 8.38 The Committee notes that Finance has taken positive steps to implement the two-stage approval process, the Gateway Review process and develop a Better Practice Guide to address the shortcomings identified throughout the design, planning and construction of the CIIDC. The Committee urges all government departments to ensure project governance arrangements and a strong leadership model are in place for whole-of-government contracts.



## **Audit Report No. 48 2008-2009**

# Planning and Approval of Defence Major Capital Equipment Projects

## **Introduction**

- 9.1 The management of major capital equipment projects in Defence is a complex and challenging activity. Defence's performance in this area has been the subject of a number of reports by Parliamentary Committees (including the JCPAA), the ANAO and other government commissioned reviews. Over the years, ANAO performance audits into Defence procurement have identified significant weaknesses in project planning – including risk identification and management, as well as project costing issues – resulting in projects experiencing cost overruns, scope changes and delayed implementation.
- 9.2 In December 2002 the then Government commissioned a review – the Defence Procurement Review (DPR) (also known as the Kinnaird Review) – of major capital acquisitions in Defence. The review's report, published in August 2003, made ten major recommendations and a number of additional points for consideration.
- 9.3 Recommendation No.3 of the Kinnaird Review was aimed at strengthening the then existing two-pass approval process for Defence's major capital equipment acquisitions. The recommendation was that:

Government should mandate, and enforce via revised Cabinet rules, a rigorous two-pass system for new acquisitions with government considerations dependent on comprehensive analyses of technology, cost (prime and whole-of-life) and schedule risks subjected to external verification.<sup>1</sup>

- 9.4 Following the then Government's broad acceptance of the recommendations of the Kinnaird Review in September 2003, Defence commenced implementing a strengthened two-pass process to support the planning and approval of major capital equipment projects.
- 9.5 Additionally, in May 2008 the Government commissioned the Defence Procurement and Sustainment Review (also known as the Mortimer Review). The Mortimer Review, provided to Government in September 2008, made 46 recommendations aimed at addressing five principal areas of concern, one of which was 'the inefficiency of the process leading to Government approvals for new projects'.<sup>2</sup> The Government agreed to 42 recommendations, agreed in part to a further three recommendations and did not agree to one recommendation (that DMO be established as an Executive Agency under the *Public Service Act 1999*).<sup>3</sup>

## The Audit<sup>4</sup>

### Audit objective and scope

- 9.6 The objective of the ANAO audit was to assess whether the strengthened two-pass approval process for major capital equipment projects is being implemented effectively.
- 9.7 The audit's scope included an examination of key capability development documentation prepared for a sample of 20 projects drawn from the 84 (as at 27 May 2008) projects that had received first pass, second pass or both first and second pass approval since the introduction of the strengthened two pass approval process.<sup>5</sup> The audit also undertook a review, against

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1 Kinnaird, Malcolm (2003) *Defence Procurement Review 2003*, p. 20.

2 Mortimer, David (2008) *Going to the next level: the report of the Defence Procurement and Sustainment Review*, p. xi.

3 Department of Defence (2009) *The Response to the Report of the Defence Procurement and Sustainment Review*.

4 In this chapter, all references to 'the audit' are references to Audit Report No. 48 2008-09, unless specified otherwise.

5 For an overview of each of these projects see pages 132-138 of the audit.



the requirements of the *Cabinet Handbook*, of the submissions to Government seeking first and/or second pass approval for these 20 projects.<sup>6</sup> The ANAO's sample included many of the highest value projects, balanced across the various environments (land, sea, air and joint projects) and reflected the diversity of types of major capital equipment acquisitions undertaken by Defence.

## Overall audit conclusion

9.8 The following is an extract from the ANAO's overall audit conclusion. This report will provide more detail on the ANAO's findings where relevant to the Committee's inquiry.

Defence has established an appropriate administrative framework for implementing the strengthened two-pass approval process, including high-level oversight, and established the Capability Development Group (CDG) to administer the system.<sup>7</sup> Defence has also issued a Defence Capability Development Manual (DCDM), that describes the strengthened two-pass approval process and provides 'authoritative guidance to CDG staff in carrying out the Group's core tasks of developing investment proposals (including options) for new Defence capabilities for consideration by Government and managing the Major Capital Equipment program'.<sup>8</sup>

[However]... the execution of the capability development processes for the case study projects in the ANAO's audit sample at times differed from the authoritative guidance set out in the DCDM and the *Cabinet Handbook*.

...Defence put in place a sound administrative framework following the 2003 Kinnaird Review but has not applied sufficient discipline through its governance arrangements to give assurance

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6 The *Cabinet Handbook* lays down the principles and conventions by which the Cabinet system operates, and the procedures designed to ensure that the Cabinet process fulfils its central purposes. The *Cabinet Handbook* also contains the rules applying to submissions and memoranda related to defence procurement. These rules are closely aligned to the Kinnaird Review's recommendations in respect of a strengthened two-pass approval system.

7 CDG is responsible for coordinating the preparation of first and second pass proposals. However, for many projects some capability development work is carried out by DMO, who provide specialist engineering, project management and industry expertise.

8 Compliance with Defence Manuals is 'mandatory and enforceable', however the DCDM is not an authorised Defence Manual, which are distinguishable from other manuals within Defence as they are either signed by the Secretary of Defence or the Chief of the Defence Force (CDF), or are endorsed through a Defence Instruction signed by the Secretary and the CDF.

that the key elements of the framework are consistently applied in the development of capability development proposals. This increases the risk that the benefits, particularly in terms of reduced risks, sought through the reforms flowing from the Kinnaird and Mortimer reviews may not be realised to the extent expected.

Given the importance of effective planning and scoping to the successful delivery of capability, further attention to a range of issues is required to provide government with assurance that the body of information provided to inform its decisions on major defence acquisitions meets the standards previously set, and expected, by government. These issues include the need to:

- revise the administrative framework, particularly the DCDM, such that:
  - ⇒ clear guidance is provided as to the key elements that are required to produce sound proposals to government at first and second pass; and
  - ⇒ the requirement for authorisation at an appropriate level for the rationale for, and the elements of, the approach to be applied in a particular project is mandated and that such authorisation is recorded;
- substantially improve CDG's recordkeeping policies and performance to ensure that key material supporting first and second pass submissions is appropriately stored and accessible. Sound document management is particularly important in the context of Defence major capital equipment projects given the sometimes long time-lines associated with both the capability development phase and also the acquisition phase;
- agree with Finance a suitable approach to allow Finance's early and ongoing involvement in the evaluation of capability development proposal costings;
- adequately resource, train and support CDG desk officers; and
- ensure adherence to the requirements of the *Cabinet Handbook*, particularly in relation to preparation and provision of costings and the assessment and description of technical risk in submissions.

## ANAO recommendations

9.9 The ANAO made the following recommendations:

Table 6.1 ANAO recommendations, Audit Report No. 48 2008-2009

1.	The ANAO recommends that Defence agree with Finance a suitable approach to allow Finance's early and ongoing involvement in the evaluation of capability development proposal costings.
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Defence response: *Agree*

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2. The ANAO recommends that Defence develop, promulgate and implement a sound records management policy within CDG.

Defence response: *Agree*

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3. The ANAO recommends that Defence refine its methodology for assessing and describing technical risk for future acquisitions and ensure that submissions do not proceed without a clear statement of technical risk, consistent with the agreed methodology as set out in the *Cabinet Handbook*.

Defence response: *Agree*

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4. The ANAO recommends that Defence ensure that submissions to the NSC for first or second pass approval include explicit acquisition and whole-of-life cost estimates, agreed by Finance, as required by the *Cabinet Handbook*.

Defence response: *Agree*

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## The Committee's review

9.10 The Committee held a public hearing on Wednesday 28 October 2009 to examine this audit report. Witnesses from the following agencies attended and gave evidence:

- Department of Defence (Defence);
- Defence Materiel Organisation (DMO); and
- Australian National Audit Office (ANAO).

9.11 The Committee heard evidence on the following issues:

- individually tailoring project requirements;
- description of technical risk and presentation of cost estimates in capability development Cabinet submissions;
- involvement of the Department of Finance in verifying cost estimates in Cabinet submissions;
- records management within Defence; and
- relationship between this performance audit and the *Major Projects Report*.

## Individually tailoring project requirements

### Audit Findings<sup>9</sup>

- 9.12 The Defence Capability Development Manual (DCDM) was released in 2005, amended in 2006, and at the time of the Committee hearing was in the process of being revised by Defence. The DCDM provides 'authoritative guidance' on the implementation of the strengthened two-pass approval process for Capability Development Group (CDG) staff. CDG are responsible for various aspects of the capability development process within Defence.
- 9.13 The ANAO's analysis of 20 sample projects proposed since reform to the two-pass process found a 'range of deviations from the guidance in the 2006 DCDM'. The Chief of CDG advised the ANAO that processes had evolved since the 2006 DCDM, which meant that there had not been strict adherence to the manual. The Chief of CDG also advised that the DCDM was developed by Defence to provide generic guidance to desk officers, but in practice the process is tailored for each project.
- 9.14 The DPR states that '(A) strong mandatory two-pass system should provide a precise and understandable process for the procurement of defence capabilities, which ensures that government will be presented with robust proposals'.<sup>10</sup> The ANAO notes that adopting a tailored, project by project approach is not inconsistent with this:
- Nevertheless, where a tailored approach is to be adopted on a project by project basis, it is still important to ensure that key elements required to produce sound proposals to government at first and second pass are clearly identified and executed and that the rationale for, and the elements of, the approach to be applied in a particular project are clearly authorised at an appropriate level. It was not evident that Defence consistently applied this level of discipline in relation to the approaches taken to developing the first and/or second pass approval submissions to Government for the projects in the ANAO's audit sample.
- 9.15 While not making a recommendation in this area, the ANAO considered that:
- Defence should ensure that the revised DCDM clearly identifies for CDG staff the key elements that are required to produce robust

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9 For the audit's coverage of this issue, see pages 71-73.

10 Kinnaird, Malcolm (2003) *Defence Procurement Review 2003*, p. v.

proposals to Government at first and second pass, and provides guidance on the process to be followed to obtain authorisation for the particular approach to be pursued in the context of an individual project.<sup>11</sup>

### The Mortimer Review and the Government response to the Review

9.16 The Mortimer Review argued that, to improve efficiency, the two-pass approval process should become more flexible and the number of times projects went to Government should be dependent upon project cost, maturity, complexity and risk.<sup>12</sup> The Government agreed with the Review's recommendation that 'Government approval of major Defence projects should occur through a tailored application of the two-pass process', however in their response highlighted the strength and flexibility of the existing approach. The Government's response also noted that the current two-pass approval process 'already allows for combined First and Second Pass approval for less complex projects and for more than two considerations where projects are particularly complex'.<sup>13</sup>

### Committee examination

9.17 The CEO DMO was asked for an overall appraisal of the effectiveness of the two-pass approval system. He observed the Mortimer Review findings that the process worked well but in some cases additional or fewer passes were required. A hypothetical example of a project that would only require Government consideration once would be a follow-on buy of an asset already in operation. Examples were provided of projects that have or will go for Government consideration more than twice:

- Joint Strike Fighter will likely be considered by Government four or five times;
- Air Warfare Destroyer went to Government seven times.<sup>14</sup>

9.18 The Committee asked the ANAO what is required to ensure a flexible approach to capability development is acceptable. The new Defence

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11 Audit Report No. 48 2008-09, p. 17.

12 Mortimer, David (2008) *Going to the next level: the report of the Defence Procurement and Sustainment Review*, pp. 13-16.

13 Department of Defence (2009) *The Response to the Report of the Defence Procurement and Sustainment Review*, p. 20.

14 Dr Steve Gumley, Defence Materiel Organisation (DMO), pp. 10-11. All references to witnesses' evidence comes from the Committee's hearing into this audit dated 28 October 2009, with page numbers relating to the Proof Committee Hansard.

Capability Development Manual (DCDM) would be central to outlining requirements:

In the course of the audit, [Vice Admiral Tripovich, Chief of Capability Development Group] did communicate to us that he was in the process of developing a new Defence Capability Development Manual and that would look to give guidance to CDG staff such that they would understand what to do in the flexible design to fit the particular project environment. Our only concern was that the guidance to staff made clear to them what elements are mandatory and what elements are not mandatory – in certain circumstances it may be that none are mandatory – that the process for particular projects is authorised at a sufficiently senior level and signed off and that, when things are done at the direction of government, the advice from government is recorded, clear and available.<sup>15</sup>

- 9.19 The ANAO was not opposed to having flexibility in the process, however stressed that 'there needs to be agreement in government on what is required and what is not required'. Defence acknowledged the need to correctly identify and record reasons for taking certain decisions. They felt, however, that the decision to take a tailored approach was captured in advice to the Minister and their subsequent agreement that a deviation was necessary.<sup>16</sup>
- 9.20 It was noted by Defence that most of the ANAO's sample projects would have deviated in their process from the guidance in the DCDM, and the ANAO added that there was no evidence that recorded the authorisation to tailor the approach. Defence was confident that despite a lack of records, decisions to tailor approaches were properly made.<sup>17</sup>
- 9.21 When Defence noted that relevant capability development desk officers do not themselves determine when to deviate from DCDM guidance, the Committee questioned Defence regarding the ANAO finding that there was no evidence tailored approaches had been clearly authorised. Defence stated that desk officers are guided by internal committee processes which are minuted:

ANAO observed that we did not capture in that or in any other form every single decision to deviate. We had quite a robust

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15 Ms Frances Holbert, ANAO, p. 11.

16 Ms Frances Holbert, ANAO, pp. 11-12; Vice Admiral Matt Tripovich, Department of Defence (Defence), p. 12.

17 Vice Admiral Matt Tripovich, Defence, p. 13 and 15; Ms Frances Holbert, ANAO, p. 14.

discussion about the level of recording that should be necessary. I have taken that on board and it is obviously important that, if at any time government wants to look back and ask, 'Why were certain things done?', we need to be able to provide the evidence.<sup>18</sup>

- 9.22 The Committee questioned whether the DCDM was generic guidance, highlighting the manual states that it is 'authoritative guidance'. Defence acknowledged that it was generic guidance, and noted that the revised manual would incorporate all lessons learned from the various reviews undertaken:

But it will always be the case that it will paint, if you like, the generic model, but it must always be tailored for the particular project. Otherwise we will be bound by process.<sup>19</sup>

- 9.23 Defence gave assurance to the Committee that a new DCDM will set out the approval process in cases where projects need to deviate from that listed in the manual. Defence added that the process will continue to evolve.<sup>20</sup>
- 9.24 It is appropriate to modify the process to approach Government, provided that this is initiated or agreed to by Government. Defence needs to ensure that officials involved in preparing submissions are aware of the requirements of an authorised tailored approach. Clear, formal records of deviations from standard process are needed.

### **Recommendation 15**

- 9.25 **The Committee recommends that when preparing submissions Defence develop a procedure to ensure that any divergence from the generic guidance provided in the Defence Capability Development Manual (DCDM) is authorised at an appropriate level and to record:**
- **any modifications to the capability development approval process contained in the Defence Capability Development Manual (DCDM) for a project; and**
  - **reasons for diverging from the generic model.**

18 Vice Admiral Matt Tripovich, Defence, p. 13.

19 Vice Admiral Matt Tripovich, Defence, p. 12.

20 Vice Admiral Matt Tripovich, Defence, p. 19.

## Description of technical risk and presentation of cost estimates in capability development Cabinet submissions

### Audit Findings<sup>21</sup>

- 9.26 The ANAO assessed whether the 20 projects in their sample met revised *Cabinet Handbook* requirements, which were introduced as a result of the Kinnaird Review.<sup>22</sup> Because it took CDG eight months to supply the ANAO with what it considered to be the required documents, the ANAO did not have time to undertake an audit of the adequacy of the information provided to support cabinet decisions, only to review whether key documents had been prepared. The ANAO's analysis found three key problem areas: addressing technical risk, whole-of-life costings, and discussion of trade-offs. Technical risk and whole-of-life costs were key focus areas in the Kinnaird review, and were raised during the Committee's hearing.

## Description of technical risk in Cabinet submissions

### Findings of the Defence Procurement Review

- 9.27 The 2003 Defence Procurement Review (DPR) stated that:

Standardised Technology Readiness Levels should be used to assess the technology maturity of equipment, including sub-systems, at various stages of development. Proposals lacking technology risk ratings would not proceed for government consideration...

Implementation of such a system enables non-technical readers to better understand the level of technological risk of particular proposals and therefore facilitat[e] a better assessment of their merits. We understand that [the Defence Science and Technology Organisation] would be capable of using this methodology to rate technology risks for new capabilities.<sup>23</sup>

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21 For the audit's coverage of this issue, see pages 101-121. A breakdown of the ANAO's analysis of submissions' conformance to the *Cabinet Handbook* is in pages 103-115.

22 Five of the 20 projects did not follow the full documented path for NSC approval, and were therefore not applicable to all of the ANAO's criteria. This was because of: government decisions (e.g. the acquisition of the Super Hornet was made by government outside the two-pass approval process); the value of the project was low enough to receive second pass approval from Ministers outside of the NSC process; or NSC made a combined first and second pass decision at the point Defence submitted for first-pass.

23 Kinnaird, Malcolm (2003) *Defence Procurement Review 2003*, p. 18.



### Audit findings<sup>24</sup>

- 9.28 The ANAO's analysis found that Cabinet submissions were inconsistent, and some even 'vague', in their assessment and description of technical risk, and used different categorisations including one (System Readiness Levels) that Defence was unable to explain. It found that only one out of 10 second pass submissions utilised the method to measure technical risk (Technology Readiness Levels) recommended by the DPR and required under the *Cabinet Handbook*. The ANAO recommended that Defence refine its methodology for addressing technical risk to ensure it is clear and conforms to *Cabinet Handbook* requirements.

### Committee examination

- 9.29 The provision of advice on technical risk to government was viewed by the ANAO as having improved over time, however it was still a work in progress. They were also surprised at the lack of precision in some of the Cabinet submissions.<sup>25</sup>
- 9.30 Defence agreed that the process was one of continual improvement, which was why Defence had developed a better method of expressing technical risk than only TRLs:
- ... we have grown to learn, as has the Government, that a TRL is in itself not sufficient. The more comprehensive technical risk assessment that now forms part of the Cabinet submission...is a more effective way than just a TRL to explain the important technical risks and the issues that arise from that for government.<sup>26</sup>
- 9.31 Defence agreed with the Committee's proposition that they were 'ahead of the game' in relating to addressing risk but this was not reflected in the *Cabinet Handbook*.<sup>27</sup>
- 9.32 Defence Science and Technology Organisation (DSTO) provided a detailed response to concerns over the adequacy of and approach to addressing technical risk in Cabinet submissions. Defence produce a document called a 'Technical Risk Assessment' (TRA) for each project, which 'informs the preparation of the Cabinet submission'. The TRA:
- ... starts with an assessment of a Technology Readiness Level of all the key subsystems in that equipment and from there goes to look

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24 For the audit's coverage of this issue, see pages 116-117.

25 Ms Frances Holbert, ANAO, pp. 2-4.

26 Vice Admiral Matt Tripovich, Defence, pp. 4 and 7.

27 Vice Admiral Matt Tripovich, Defence, p. 8.

at how those systems are integrated together, the suitability of the technology for the purpose for which it is intended and the risks which may arise due to the need to develop technology by a particular time so that you can acquire the system effectively. All of that information is assembled into a document which has a standard and defined format where all the risks terms are full[y] defined and that informs the preparation of the Cabinet submission. The simple answer is we do not use TRLs as a stand-alone indicator of risk because they do not actually tell you anything about risk; they tell you about the maturity of the technologies you start from.<sup>28</sup>

- 9.33 DSTO argued that TRLs are focused on the maturity of a particular piece of technology (a sub-system) and not the technical risk of integrating the sub-systems and delivering the integrated system. Defence are refining their methodology on addressing risk 'and we would expect to provide some recommendations as to what measures should be used to better describe risk so that the *Cabinet Handbook* can be updated'.<sup>29</sup>
- 9.34 In terms of the adequacy of advice, DSTO pointed out that the ANAO focused on the Cabinet submissions, and are 'not seeing the Defence documentation which lies behind those Cabinet submissions'. DSTO highlighted two publicly available publications that outline the nature of their TRAs.<sup>30</sup> The Committee later examined the two public reports highlighted by DSTO.<sup>31</sup>
- 9.35 The *Technical Risk Assessment of Australian Defence Projects* publication states that TRAs undertaken by Defence focus on TRLs (the maturity and feasibility of individual technologies) during the early stages of project development and the focus then shifts to using Systems Readiness Levels (SRLs), which measure technical risk associated with systems, including their integration into the one prime system, in the later stages of capability development, with SRLs becoming the primary measure at second pass approval. SRLs were seen to 'augment' the use of TRLs, however TRLs are still to be used 'at each decision point in the capability development lifecycle'.<sup>32</sup> In some cases TRL scores could be high (low risk) but SRL

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28 Mr Jim Smith, Defence Science and Technology Organisation (DSTO), p. 5.

29 Mr Jim Smith, DSTO, p. 5.

30 Mr Jim Smith, DSTO, p. 5.

31 DSTO(2004) *Technical Risk Assessment of Australian Defence Projects* (DSTO-TR-1656); DSTO (2007) *Technical Risk Assessment: a Practitioner's Guide* (DSTO-GD-0493).

32 Despite the two DSTO publications, the Committee is puzzled as to why Defence could not provide the ANAO with a definitive explanation of SRLs (p. 111 of the audit).

scores low ‘because of integration issues, environmental issues, interoperability and possible dependence on other (as yet untested) technologies’.<sup>33</sup>

- 9.36 In addition, the technical risk assessment is supported by a categorisation of likelihood (likely, possible, unlikely) and consequences of risks being realised (minor, moderate, major), with categorisations based on the standard AS/NZS 4369:2004.<sup>34</sup>
- 9.37 The second publication, *Technical Risk Assessment: a Practitioner’s Guide* notes that using TRLs to identify the maturity of technologies for a project is working well, however the use of SRLs is more problematic and there is confusion about the difference between technical and technology risk and identifying technical risks.<sup>35</sup>
- 9.38 In the hearing the ANAO emphasised that they were not purporting to have greater expertise on technical risk than Defence and DSTO, nor criticise the merits of Defence’s approach; their audit of technical risk was based on the requirements in the *Cabinet Handbook*. They noted that:
- Certainly what is being explained to us – the work that is being done at the moment – sounds very positive in further addressing the desire of Government for improvement in this area. We have no particular attachment to TRLs. It is simply that they were what [were] required at the time.<sup>36</sup>
- 9.39 Before making concluding remarks, the Committee wishes to highlight the ANAO finding that only 1 out of 10 second pass submissions used TRLs, while another used it for some options (not the recommended option) and assigned an imprecise rating of TRL 3-7. Two first pass submissions used TRLs (the *Handbook* only mandated TRLs for use at second pass), however one used an imprecise rating of TRL 4-8.<sup>37</sup> A lack of TRLs in Cabinet

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33 DSTO (2004) *Technical Risk Assessment of Australian Defence Projects* (DSTO-TR-1656), pp. 4 and 7.

An example provided in the publication where TRL could be low risk but SRL high risk was of a ‘multi-sensor, surveillance and reconnaissance aerial system. The platform could be a readily available aircraft that is tried and tested, but integrating a suite of sensors, even if commercially available, involves addressing [a range of] integration issues’ (p. 6).

Another example given in the *Practitioner’s Guide* is that buying a system already being used operationally in the US should present no technology risks, however technical risks could arise operating in Australia, for example because of Australia’s operating environment or differences in the way Australia operates the platform (p. ii).

34 DSTO (2004) *Technical Risk Assessment of Australian Defence Projects* (DSTO-TR-1656), p. 10.

35 DSTO (2007) *Technical Risk Assessment: a Practitioner’s Guide* (DSTO-GD-0493), p. I.

36 Ms Frances Holbert, ANAO, p. 7.

37 Audit Report No. 48 2008-09, p. 108.

submissions may reflect that they are used in documentation lying behind Cabinet submissions.

- 9.40 Based on evidence to the Committee and Defence publications, there appears to be a systematic process as part of capability development that focuses on risk, including utilising different standardised measurements for different stages of project development, and the Defence technical experts (DSTO) having a key role in the process. The Committee believes Defence is best placed to determine how they wish to rank technical risk. However, whatever approach is utilised needs to be communicated consistently, and in a concise and understandable manner, a point expressed in the hearing by Defence:

The important thing is that, when the government makes its decision, Defence and government fully understand what we are getting ourselves into, that we have full transparency of all of the issues and that they are known and in the Cabinet submission. Government has an assurance that we have them covered.<sup>38</sup>

- 9.41 It appears that this comprehensive approach using TRAs, including utilising both TRLs and SRLs, may not be making its way into Cabinet submissions in a clear, consistent and systematic manner.
- 9.42 In this context, the Committee encourages Defence to seek amendments to the *Cabinet Handbook* to reflect their approach, ensuring that this leads to consistent and accurate description of risk. Additionally, only one score should be applied to each TRL and SRL, not imprecise multiple scores (such as 3-7, 4-8 or even 1-2).
- 9.43 Government must be fully informed on capability options in a way that is understandable and allows comparison across projects. It is crucial that Defence ensure that technology and technical risks are clearly stated. This will provide a good basis with which government can make a decision on capability.

### **Recommendation 16**

- 9.44 **The Committee recommends that Defence work with the Department of Prime Minister & Cabinet (PM&C) to amend the *Cabinet Handbook* to accurately reflect the more specific risk measurement process developed by Defence which should be included in submissions for both first and second pass assessment.**

38 Vice Admiral Matt Tripovich, Defence, p. 7.

## Recommendation 17

**The Committee recommends that Defence ensure that Cabinet submissions for future major capital equipment projects provide advice that is clear and consistent, and include the following:**

- **Technology Readiness Level (TRL) and System Readiness Level (SRL) scores for each option;**
- **description of likelihood and consequence of risk based on these ratings.**

**The Committee further recommends that Defence develop a procedure to ensure that staff involved in Technical Risk Assessments (TRAs) have a clear understanding of System Readiness Level (SRL) measurements so that the figure provided precisely reflects risk levels.**

## Presentation of cost estimates in Cabinet submissions

### Findings of the Defence Procurement Review

9.45 The 2003 Defence Procurement Review (DPR) stated that:

When taking decisions on capability options at first and second pass the whole-of-life costs must be presented to and understood by government. These not only comprise the cost of the prime equipment, but also infrastructure, equipment operating costs, through-life-support, and the resources required to manage acquisition.<sup>39</sup>

### Government response to the Mortimer Review

9.46 As part of accepting a recommendation of the Mortimer Review relating to introducing a capability into service, Defence stated:

Capability Managers must include whole of life implications and independent advice from the CEO DMO on the cost, risk and schedule implications for projects in their advice to Government.<sup>40</sup>

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39 Kinnaird, Malcolm (2003) *Defence Procurement Review 2003*, p. 18.

40 Department of Defence (2009) *The Response to the Report of the Defence Procurement and Sustainment Review*, p. 26.

### Defence White Paper 2009

- 9.47 Under the heading of 'better managing Defence costs', The White Paper stated that:

The Government has also directed that greater attention be paid in the planning process to the whole-of-life cost dimensions of capability. This will be critical in providing Government with increased levels of confidence with respect to cost, schedule and technical risk when it considers major Defence projects. This will also assist in minimising scope variations in major acquisitions, and help drive down cost pressures.<sup>41</sup>

- 9.48 These three reports highlight the importance of, and continuing focus on, whole-of-life costing.

### Audit findings<sup>42</sup>

- 9.49 The ANAO's analysis found that most Cabinet submissions (14 out of 23) did not contain estimated whole-of-life costs as required by the *Cabinet Handbook*. The ANAO found that Defence often used NPOC (Net Personnel Operating Cost) estimates.<sup>43</sup> NPOC estimates only reflect anticipated change in operating costs associated with replacing a capability (where applicable), or update the estimate in the Defence Capability Plan for new capabilities. NPOC does not provide a transparent, understandable whole-of-life cost estimate, and may be a small number (even zero) depending on the estimated cost relative to the current capability, or relative to Defence Capability Plan estimates.
- 9.50 The DPR and the *Defence White Paper 2009* emphasise the importance of getting whole-of-life costs, as they are a significant source of cost (over two-thirds of the whole-of-life cost of a platform will be incurred after the platform is introduced into service). The ANAO recommended that Defence include explicit whole-of-life cost estimates, agreed by Finance, as required by the *Cabinet Handbook*.

### Committee examination

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41 Department of Defence (2009) *Defending Australia in the Asia Pacific Century: Force 2030*, p. 110.

42 For the audit's coverage of this issue, see pages 117-119.

43 Net Personnel and Operating Costs (NPOC) are Defence's estimates of the 'change in operating costs associated with replacing a capability (where applicable) or, alternatively, reflect an update of the estimate contained in the [Defence Capability Plan] for the operating cost of a new capability. They do not, however, show decision-makers what the whole-of-life cost of the capability is estimated to be' (p. 117 of Audit Report No. 48 2008-09).

- 9.51 NPOC was described as the extra cost ('new money that goes on top of the current funding stream') to go from the current capability to the new one. The annual NPOC cost was multiplied by the estimated life-of-type of the platform, and added together with the acquisition cost and other costs such as contingency to get the whole-of-life cost.<sup>44</sup>
- 9.52 When queried by the Committee how these costs differed from what the ANAO considered to be understandable whole-of-life costs, Defence believed that the key issue was consistent presentation to government. Defence stated that agreement had been reached with the Department of Prime Minister and Cabinet (PM&C) and Treasury on a format for the cost sheet that includes NPOC and whole-of-life cost.<sup>45</sup>
- 9.53 The Committee is pleased to hear that a standard format has been agreed to highlight both NPOC and whole-of-life costs. Again, like the technical risk issue discussed above, it is important that such clear and consistent information is communicated to Government in submissions. The ANAO found only nine of 23 Cabinet submissions contained comprehensive, transparent whole-of-life costs. It appears that NPOC costs were being added to other costs to give a total overall cost.
- 9.54 Using NPOC does not appear to reflect a true life-of-type costing: a submission with NPOC costs does not tell government how much the current capability costs to run. For ease of comparison, Defence may wish to include in Cabinet submissions both the whole-of-life cost and also mention the NPOC, which would be of interest to government as it is the additional money required for personnel and operating costs.
- 9.55 To support the views on whole-of-life cost presentation found in the ANAO's recommendation, the *Defence White Paper 2009* and the Government's response to the Mortimer Review, the Committee would emphasise to Defence that when presenting whole-of-life costs to government, they are clear, consistent and include the total estimated personnel and operating costs, not only variations from current costs. The Committee urges Defence to bear this point in mind when implementing Recommendation No. 4 of the ANAO report.

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44 Vice Admiral Matt Tripovich, Defence, p. 6.

45 Vice Admiral Matt Tripovich, Defence, pp. 6-7.

## Involvement of the Department of Finance in verifying cost estimates in Cabinet submissions

### Findings of the Defence Procurement Review

9.56 The 2003 Defence Procurement Review (DPR) found that:

Finance agreement to Cabinet submission costings is generally sought shortly before lodgement, and does not allow sufficient time for any in-depth analysis of capability, strategic, technical, legal or commercial issues associated with the costs and risks of major capital investments or other procurements. Ideally, Defence should provide well developed business cases for the proposed investments, based on sound costings models, for validation by Finance.<sup>46</sup>

9.57 The review stated that Finance 'should be involved much earlier, and on a continuous basis, throughout the two-pass approval process so that they can contribute to effective quality assurance in relation to costings and risk, and technology readiness respectively'.<sup>47</sup>

### Government response to the Mortimer Review

9.58 The Government's response to the Mortimer Review states that reforming the Capability Development process to 'provide Government with more reliable information on which to base judgements and a more efficient and effective capability development process' will be achieved by, amongst other initiatives 'ensuring early consultation with the Department of Finance and Deregulation on options, cost estimates and project risks'.<sup>48</sup>

### Audit findings<sup>49</sup>

9.59 Defence advised the ANAO during the audit that it had implemented reforms in this area in response to the Kinnaird Review's findings. The ANAO found, however, that Defence and Finance did not have an agreed process to facilitate Finance's involvement with capability proposals. Each Department also had different perspectives on how effectively Defence engaged with Finance. Defence disagreed with Finance's view that it does not receive relevant information early in the process, only receives costing

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46 Kinnaird, Malcolm (2003) *Defence Procurement Review 2003*, p. 17.

47 Kinnaird, Malcolm (2003) *Defence Procurement Review 2003*, p. 17.

48 Department of Defence (2009) *The Response to the Report of the Defence Procurement and Sustainment Review*, pp. 9-10.

49 For the audit's coverage of this issue, see pages 62-67.



and risk information 30 days or less from a submission to NSC, and that this information is often limited and of questionable quality.

- 9.60 The ANAO stated that it is important for both Departments to develop a common understanding on an appropriate approach to engagement. The ANAO also stated that the absence of agreed procedures and guidance for Defence engagement with Finance means that:

Government may not be consistently provided with the level of independent evaluation of capability development proposal costings envisaged by the DPR. In practice, this has meant that of the 23 submissions to government reviewed by the ANAO in this audit, four went to government containing cost estimates that Finance had been unable to agree to. The *Cabinet Handbook* states that 'each first and second pass submission or memorandum requires agreement with Finance on the detailed acquisition and operating costings and financial risk assessment'.

- 9.61 Defence agreed to the ANAO's recommendation that 'Defence agree with Finance a suitable approach to allow Finance's early and ongoing involvement in the evaluation of capability development proposal costings'. In their response to the recommendation Defence stated:

Defence will work to formalise the process for engagement with DoFD [Department of Finance and Deregulation] (and PM&C and Treasury).

### Committee examination

- 9.62 When asked about the different views between Defence and Finance on engagement around costings, Defence reiterated their perspective, expressed in the audit, that Finance was sufficiently engaged early in the process. Defence noted that after the audit report was released, they engaged at a SES band 2 level (equivalent to a Rear Admiral) with Finance, PM&C and Treasury to come up with an acceptable agreement on engagement, which had been established.<sup>50</sup>
- 9.63 The Committee sought comment from Finance in response to Defence's comments. The Department of Finance and Deregulation confirmed that it 'has agreed an approach with the Department of Defence to allow Finance early and ongoing involvement in the evaluation of capability development proposal costings'.<sup>51</sup>

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50 Vice Admiral Matt Tripovich, Defence, pp. 8-9.

51 Finance, *Submission No. 12*.

- 9.64 Defence stated that while they always try to get agreement with Finance on costings before submissions are lodged, they are not always successful. In such cases, the Minister can decide to take the submission forward, accepting the disagreement. The ANAO accepted this, noting that in some circumstances there may be disagreement that needs to be resolved by Cabinet. The audit was following the requirements of the *Cabinet Handbook*, which required Finance agreement. Of the four cases where Finance did not agree to the costings, in only one case did government decide to defer consideration because of the disagreement.<sup>52</sup>
- 9.65 The Committee is keen to ensure that costings receive adequate scrutiny by Finance, and part of this is ensuring they receive not only early engagement but also receive the Cabinet submission costings early enough to allow sufficient time for scrutiny. The Committee is pleased Finance has an agreed approach to allow sufficient scrutiny of capability development proposal costings.

## Records management within Defence

### Audit findings<sup>53</sup>

- 9.66 The ANAO analysed the DCDM (high-level guidance) and CDG's Process Map (detailed guidance) to identify the key activities and documents required under the strengthened two-pass approval process for 20 sample projects. Because it took CDG eight months to supply the ANAO with what it considered to be the required documents, the ANAO did not have time to undertake an audit of the adequacy of key documentation, instead they simply reviewed whether key documents had been prepared.
- 9.67 The ANAO was quite critical when outlining the overall results of the analysis:
- Defence was unable to demonstrate... that the procedures outlined in the DCDM and the Process Map have been consistently followed...or that alternative procedures were appropriately authorised, managed and documented.
- CDG could not provide the ANAO with final versions of around half of the key project documents requested...

52 Vice Admiral Matt Tripovich, Defence, p. 10; Ms Frances Holbert, ANAO, p. 10.

53 For the audit's coverage of this issue, see pages 81-87 and 99-100. Pages 88-99 of the audit provide a project-by-project breakdown of the results of the ANAO's analysis.

In most cases, the ANAO was unable to determine whether Defence's inability to provide requested documents was a consequence of poor records management practices or because the documents had not been prepared. Defence does not have an adequate audit trail of key decisions and requirements in relation to the capability development process.

- 9.68 The ANAO stated that significant improvement in CDG's record keeping was needed and recommended that 'Defence develop, promulgate and implement a sound records management policy within CDG'.

### Committee examination

- 9.69 In the hearing, the ANAO summarised the need for good records:

... as the National Archives say in the guidelines that they put out, you need to have the documentation so that people know that the records are genuine, that they are accurate, that they can be trusted, that they are complete, that they have not been altered, that they are secure, that they can be found when they are needed and that they relate to the relevant documents. For us, that was the heart of the CDG records management issue.<sup>54</sup>

- 9.70 Defence's progress on implementing the ANAO's recommendation was sought, and they provided an update to the Committee:

... since the audit came out, we have, within CDG, promulgated formal policies on our document and management system, a formalised document-naming convention to make it easier to recall things from the system and a process for signing off documents and keeping signed copies. Training has commenced across the 250 people that work in my organisation. I will have a change of some staff over Christmas and it will be firmly part of our annual training continuum thereafter. By about mid-2010, I will have done a compliance audit, an internal check, to see if people had been doing what they were told to do. As I said, the training has started to roll out. It is very difficult to try to recover documents that you cannot find now.<sup>55</sup>

- 9.71 Defence's management action plan for responding to audit recommendations was completed by December 2009.<sup>56</sup> The Committee is

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54 Ms Frances Holbert, ANAO, pp. 14-15.

55 Vice Admiral Matt Tripovich, Defence, p. 15.

56 Vice Admiral Matt Tripovich, Defence, p. 16.

hopeful that this action will mean that the significant problems with records access encountered by the ANAO will be ameliorated in the future.

- 9.72 Defence stated that a key contributor to poor records management is 'it is very difficult to find documents on Defence's ICT system'.<sup>57</sup> In this context the Committee notes that the ANAO has recently commenced an audit into Defence's ICT systems.

### The relationship between the Performance Audit and the *Major Projects Report*

- 9.73 In addition to addressing issues raised in the audit report, the question was asked about the relationship between the performance audit report and the ANAO's assurance report *Defence Materiel Organisation Major Projects Report* (MPR).<sup>58</sup> Concerns were raised that issues significant enough to be found in the *Planning and Approval of Defence Major Capital Equipment Projects* audit were not raised in the MPR review.<sup>59</sup>
- 9.74 The ANAO stated that the MPR was a different report from a more in-depth performance audit, and each report focused on different aspects of a project. The performance audit was of the approval process, while the MPR review covers the post approval process, where responsibility for procuring a capability is shifted to DMO. The assurance provided in the MPR is more limited than for a performance audit.<sup>60</sup> Only one 'pilot' MPR report has been released so far, and a key outcome of an annual MPR report is to document for Parliament trends in major projects.<sup>61</sup>
- 9.75 When asked whether the MPR document is a useful and reliable document given the lower lever of assurance, the CEO DMO stated:

I think the major projects report is very useful and reliable. I think we had a discussion in this committee several years ago about

57 Vice Admiral Matt Tripovich, Defence, p. 15.

58 Audit Report No. 9 2008-09 *Defence Materiel Organisation Major Projects Report 2007-08*.

59 The C-17 Heavy Airlift project was listed in both reports, although it was a project that received a combined first and second pass approval from Government (see page 90 of the Performance Audit). The performance audit also examined the project to purchase 24 new F/A18 Super Hornets, while the MPR examined F/A 18 upgrade program.

60 The MPR report provides 'limited assurance' (a negative form of expression) as opposed to the 'reasonable assurance' (positive expression) of a performance audit. See the Auditing and Assurance Standards Board *Standard on Assurance Engagements ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, [http://www.auasb.gov.au/admin/file/content102/c3/ASAE\\_3000\\_09-07-07.pdf](http://www.auasb.gov.au/admin/file/content102/c3/ASAE_3000_09-07-07.pdf).

61 Mr Peter White & Ms Frances Holbert, ANAO, pp. 16-18.

what the major projects report was supposed to achieve. We were faced with either doing 30 performance audits at the higher level of approval...or giving a summary year by year. What we are doing is giving a longitudinal summary so that you can see for every year how things have changed: how the risks have changed and how the dollars have changed. It is a very different process indeed from what [Audit Report 48] was about, which was examining the two-pass process.<sup>62</sup>

## Conclusion

9.76 Asked whether the findings of the audit sample (20 projects) could reasonably be expected to be found in other Defence projects, the ANAO agreed that the sample findings:

... would lead us to believe that there would be other projects that exhibited those characteristics and some of those may be in the current bundle of work.<sup>63</sup>

9.77 Defence agreed that similar issues could arise in projects from the same era, however:

I would like to think, though, that, if you picked one that was just about to go to cabinet this week, for example, you would not find those things. I would be very confident that ANAO would see a completely different document and a completely different process as a result.<sup>64</sup>

9.78 From the evidence provided in the hearing, there appears to have been considerable effort and action undertaken by Defence to improve their approach to capability development proposals. Major Defence procurement is a very complex area, and one that has received significant attention over time. It also takes time to bed down new processes and determine whether reforms have been implemented successfully.

9.79 One theme arising from the Committee's inquiry is a need for renewed effort in communicating to government consistently and clearly. Defence appear to have established a sound process internally to assess technical risk, and it is important that this work is adequately captured in

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62 Dr Steve Gumley, DMO, p. 18.

63 Ms Frances Holbert, ANAO, p. 18.

64 Vice Admiral Matt Tripovich, Defence, p. 19.

submissions to Cabinet. Government also needs clear information on the whole-of-life cost of capability options, including total personnel and operating costs.

- 9.80 Documentation and records management are important in maintaining the integrity of the capability development process. Defence must be able to deviate from the process outlined in the DCDM if directed by government. In such cases, staff within CDG must be informed as to what is required. In other cases of deviation not at the direction of government, a record must be made that includes sufficient explanation why the process is different and containing senior authorisation.
- 9.81 Finally, appropriate engagement of the Department of Finance and Deregulation is critical, as it provides government with independent scrutiny of Defence costings.
- 9.82 The ANAO's audit has proven to be highly valuable in examining Defence's progress in implementing reform properly and consistently, particularly as the nature of the information that goes to government receives little other public scrutiny. Given the findings of the ANAO, Defence internal reviews and external reviews such as Mortimer, and Defence assurances that processes will be improved, there is merit in the ANAO conducting a similar review to Audit No. 48 in the future, one that will cover issues addressed in the Committee's inquiry. Defence as well as the ANAO stated in the hearing that Defence is on a path of continuous improvement; it is appropriate that Defence's progress is monitored.

## Audit Report No. 05 2009-10

# Protection of Residential Aged Care Accommodation Bonds

## Introduction

### Accommodation bonds<sup>1</sup>

- 10.1 Over the next forty years, the proportion of Australians over the age of 65 is projected to double. This ageing of the Australian population is expected to increase the demand for aged care services, which will necessitate additional investment in quality residential aged care infrastructure. In order to meet this demand, the aged care industry requires access to capital to fund the construction of new aged care homes and to re-build or upgrade existing homes. Capital funding for the aged care sector is, in part, sourced from accommodation bonds lodged by residents.
- 10.2 Residents accessing low level aged care or those receiving extra services in high level care may be asked to pay an accommodation bond to an approved provider of aged care. With the average new accommodation bond at \$190 000 (as at 30 June 2008), bonds generally represent a

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<sup>1</sup> The Committee decided to examine this report even though it was tabled after the review period because of an ongoing interest in aged care issues and because Department of Health and Ageing officials were already required to provide evidence for Audit Report No. 40 2008-09.

significant proportion of a resident's life savings. Aged care providers are entitled to retain an amount from the bond each year for up to five years, in addition to the investment income derived, in order to improve building standards and increase the quality and range of aged care services. The balance of the bond is refunded to the resident, or their estate, on departure from the home.

- 10.3 Only aged care homes that are certified by the Australian Government as meeting required standards of accommodation can charge accommodation bonds. As at 30 June 2008, around 60 000 bonds with a total value of \$8 billion were held by approximately 1000 approved providers of aged care, with an average annual increase in the total bond value of around 25 per cent.

## Regulatory framework

- 10.4 A prudential scheme to protect accommodation bonds was first established in 1997 with the introduction of the *Aged Care Act 1997* (the Act). In order to improve the protections for residents paying bonds, the legislation introduced mandatory requirements for providers that included: a contractual guarantee of repayment from the provider to the resident; statutory timeframes for the repayment of bond balances by aged care providers to residents; and the submission of a certified annual statement by providers that they followed the requirements, were able to pay liabilities, maintained adequate insurance, and repaid bonds as required.
- 10.5 In 2006, the Australian Government supplemented existing prudential regulations with standards on liquidity, record-keeping and disclosure to further protect the significant sums of money held by providers on behalf of residents. The standards are aimed at assisting providers improve their financial management practices, enhance financial sustainability, and reduce the risk of default on the refund of bond balances. The changes in 2006 also introduced a requirement for the annual statement of compliance to be accompanied by an audit opinion provided by an independent, registered auditor.
- 10.6 In addition, the strengthening of protections in 2006 included the establishment of the Accommodation Bond Guarantee Scheme (the Scheme) whereby the Government guarantees repayment of bond monies to residents if an insolvent or bankrupt provider defaults on its obligation to refund accommodation bonds. In the event of the Scheme being triggered, there is provision for the industry to ultimately pay a levy to allow the Government to recoup the monies repaid to residents under the



Scheme. The Scheme is administered under the *Aged Care (Bond Security) Act 2006* and the *Aged Care (Bond Security) Levy Act 2006*.

- 10.7 Since its inception in 2006, the Scheme has been activated on three occasions, with bond balances to be refunded by the Commonwealth under the Scheme totalling around \$19 million. The Government did not levy the industry to recoup its outlays in relation to the first Scheme event and a decision is yet to be made in relation to subsequent events.
- 10.8 In introducing and augmenting prudential regulations, Australian governments have established arrangements covering bond refunds, uses for bonds and derived income and prudential standards, with new standards introduced over time to reduce the risks to residents and government. The approach taken to date involves a regime of self-managed funds held by individual aged care providers whereby providers must meet prudential standards on liquidity, record-keeping and disclosure, and ensure that bonds and bond income are used for the purpose of providing aged care to care recipients. However, in order to allow providers access to bond funds as a source of capital, the legislation does not prescribe restrictions in relation to the decisions taken by providers on where they invest bonds. That is, providers are free to determine how they invest bond holdings as long as they can demonstrate that the bonds, and any investment income generated, are used to provide aged care to care recipients. This reflects the policy approach stated by the Government in 2006 that it was not the Government's intention to run the business of each provider.

### DoHA's prudential regulation function

- 10.9 The Australian Government, through the Department of Health and Ageing (DoHA), is responsible for regulating:
- the prudential requirements under the *Aged Care Act 1997* (the Act) and *User Rights Principles 1997* (the Principles);
  - rules regarding the timeframes for refund of accommodation bonds and the payment of interest on late refunds; and
  - the use of accommodation bond funds and ensuring that the income derived from them is directed to improvements in residential aged care infrastructure and services by aged care providers.
- 10.10 The aim of prudential regulation is to safeguard the significant and increasing bond holdings lodged by older Australians residing in aged care homes, while keeping the regulatory burden and costs to the aged

care industry to a minimum. To this end, the Government has assigned DoHA responsibility for developing, in consultation with stakeholders, any necessary additional standards in order to reduce the risks to the residents and the Government. The establishment of new standards does not involve amendment to the primary legislation and can be achieved through amendments to the Principles. Amendments to the Principles require a policy decision by the Australian Government and are subject to Parliamentary scrutiny.

- 10.11 DoHA's role in administering the legislative framework established for prudential regulation under the Act and the Principles primarily comprises the following core activities:
- *monitoring compliance and acting on non-compliance by approved providers with their prudential responsibilities*: this involves assessing audited annual provider compliance statements, evaluating complaints data, reviewing regulatory intelligence, investigating possible cases of non-compliance and addressing non-compliance;
  - *educating and informing approved providers and care recipients of their rights and responsibilities*: this involves producing and distributing advisory materials to assist stakeholders to understand and meet prudential requirements;
  - *monitoring the efficacy of the policy framework for prudential regulation*: this involves identifying possible inefficiencies and gaps in the prudential framework, and determining the appropriate remedial response, which may include seeking amendments to the primary legislation or introducing new prudential standards; and
  - *safeguarding bonds*: this involves administration of the Accommodation Bond Guarantee Scheme including the *Aged Care (Bond Security) Act 2006* and the *Aged Care (Bond Security) Levy Act 2006*.
- 10.12 Within the legislative framework established by Parliament, DoHA has discretion to target its regulatory resources across its core activities in order to gain reasonable assurance as to providers' compliance with established regulations. In 2008–09, the department had resourcing of \$1.9 million and 12 central office staff to perform the prudential regulation function.
- 10.13 The department's administration of prudential regulations is positioned within the much larger national quality assurance framework for residential aged care established under the Act. This quality framework imposes a broad range of regulations on aged care providers in the key areas of accreditation, certification, and support for users' rights, which

includes complaints investigation. Responsibility for regulation under the framework is broadly allocated across DoHA and portfolio agencies.

- 10.14 Government reforms to the regulatory framework over time have necessitated an expansion of DoHA's regulatory responsibilities and have required the acquisition and development of new, specialist skills and tailored regulatory arrangements. In particular, it has been necessary for DoHA to acquire skills in areas such as financial analysis and insolvency in order to monitor prudential compliance and to ensure the effective operation of the Scheme.
- 10.15 DoHA has also facilitated the evolution of the regulatory framework for prudential regulation and commenced work to enhance arrangements in light of its initial experience. Further changes to the legislative framework to strengthen protections for residents' bonds and improve the operation of the Scheme, based on DoHA's initial regulatory experiences, were passed by Parliament in December 2008.

## Recent developments

- 10.16 In April 2009, the Senate Standing Committee on Finance and Public Administration reported on its inquiry into *Residential and Community Aged Care in Australia*. The report commented on a broad range of residential aged care issues, including financial risk factors in aged care and the viability of aged care providers. The committee considered there was a need to establish a clear understanding of the financial status of aged care providers and recommended that DoHA undertake a 'stress test' of the aged care sector in order to measure the sector's financial wellbeing.

## The Audit<sup>2</sup>

### Audit objective and scope

- 10.17 The audit objective was to assess DoHA's administration of prudential arrangements for the protection of residential aged care accommodation bonds.
- 10.18 The ANAO's assessment was based on the following criteria:

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2 In this chapter, all references to 'the audit' are references to Audit Report No. 05 2009-10, unless specified otherwise.

- DoHA has a sound governance framework to support prudential regulation;
  - DoHA's oversight of prudential arrangements is sound; and
  - DoHA effectively manages compliance with prudential arrangements.
- 10.19 The audit methodology was developed in accordance with the better practice principles outlined in the ANAO's *Administering Regulation Better Practice Guide*, which was published in March 2007. The audit report examines the extent to which the department has incorporated these principles into its prudential regulation function.
- 10.20 An examination of policy matters, such as the size of accommodation bonds or distinguishing between high care and low care in allowing the application of bonds, was outside the scope of this audit.

## Overall audit conclusion

- 10.21 The ANAO made the following overall audit conclusion:

The ageing of the Australian population is expected to result in an increase in demand for quality residential aged care homes and an expansion in building works to meet this growing demand through new and redeveloped infrastructure. Capital funding to support this increased investment in aged care homes will, in part, be sourced from resident contributions in the form of accommodation bonds.

Since the inception of prudential arrangements in 1997, there has been rapid growth in the number of bonds, the total value of bond holdings and the proportion and diversity of aged care providers relying on bonds to fund the delivery of aged care services. The scale of bond holdings (now totalling some \$8 billion), the self-managed model of stewardship, the ability of a large and diverse range of providers to make unfettered investment decisions relating to residents' funds, and ongoing structural changes in the aged care sector including the emergence of larger and more complex providers and the entry of major publicly listed corporations, present new challenges for the Department of Health and Ageing (DoHA). These challenges and successive government reforms of regulatory arrangements for accommodation bonds have expanded the scale of DoHA's responsibilities.

In the context of these challenges, the administrative framework established by DoHA to manage prudential arrangements for the

protection of residential aged care accommodation bonds does not sufficiently support effective regulatory oversight. The department has established some of the elements necessary to underpin a sound administrative framework, such as a dedicated prudential regulation capability, a separate database to hold prudential data, and an annual audited provider compliance statement process. Notwithstanding, the following three key areas require attention in order to strengthen regulatory oversight: the systematic assessment and treatment of prudential risks that have resulted from new and evolving threats; the expansion of DoHA's regulatory activities to include whether bonds and bond income are being used for the purpose of providing aged care as established under the *Aged Care Act 1997* (the Act); and the development of robust approaches to effectively identify and act upon instances of provider non-compliance with prudential regulations.

#### *Managing risks to effective regulation*

DoHA has indicated that the department is aware of a range of prudential risks, had considered their impact, and is working on approaches to manage these risks. Approaches included liaison with key stakeholders, such as major financiers and insolvency practitioners, to build an understanding of contemporary underlying factors that contributed to the levels of risk. While acknowledging departmental work in this area, DoHA's regulatory activities had remained generally reactive in nature and were not informed by the systematic identification of risks to the protection of bonds. There is scope to strengthen the department's capacity to identify and assess the significance of emerging threats, through effective risk management and the targeted collection of regulatory intelligence. Additional work in these areas would better position DoHA to reduce the likelihood of adverse events by adjusting regulatory settings or tailoring its compliance activities.

#### *Regulatory coverage*

While providers' decisions on where to invest bond holdings are unfettered, there has been a legislated requirement since the introduction of the Act in 1997 for bonds and bond income to be used for the purpose of providing aged care to care recipients. Access to bonds and bond income is an important avenue of funding for the aged care industry and is intended to complement other funding sources to improve the quality of aged care

infrastructure and the range of aged care services. Currently, DoHA responds to the possibility of non-compliance with the legislated uses of bonds and bond income by employing its information gathering powers on a case-by-case basis once a provider presents with problems. DoHA has not, however, established regulatory processes to determine provider compliance with legislated uses for bonds and bond income.

The department has recently commenced work on the development of legislative options for consideration by the Government to clarify the uses of accommodation bond funds. By clarifying the use of bonds, DoHA considered that the department would be better positioned to assess whether aged care providers are compliant with the legislated uses of bonds and derived income under the Act.

#### *Monitoring compliance with prudential regulations*

While DoHA has stated its approach to compliance in general terms in the *User's Guide to the Regulation of Approved Providers Holding Accommodation Bonds*, it has not comprehensively documented its approach to the monitoring and management of non-compliance over time in the form of a compliance strategy and underpinning compliance schedule. As a result, there is limited assurance that the department's activities to monitor provider compliance with prudential regulations are being effectively managed over time. As prudential regulation of around 1000 aged care providers is delivered by a relatively small team with an annual operating budget of around \$2 million, it is important for the department to employ a cost-effective approach to the monitoring of compliance with prudential regulations. An approach of this type would inform the establishment of a balanced program of compliance activity targeting the department's limited resources at the highest priority compliance risks and supporting the active management of changing and emerging risks to provider compliance.

To enhance regulatory performance and, as a consequence, ensure the protections intended by the regulatory framework are realised, the ANAO has made seven recommendations to strengthen DoHA's administration of prudential arrangements.

## **ANAO recommendations**

10.22 The ANAO made the following recommendations:

Table 7.1 ANAO recommendations, Audit Report No. 05 2009-2010

1.	In order to improve its regulatory effectiveness, the ANAO recommends that DoHA adopts a structured and systematic risk management methodology for its prudential regulation of residential aged care accommodation bonds to: routinely identify, analyse, document, evaluate and monitor regulatory risk; rank risks, based on assessments of likelihood and consequences; and plan and conduct activities to treat risks.
	DoHA response: <i>Agreed</i>
2.	To improve DoHA's internal management and external accountability for its prudential function, the ANAO recommends that the department establishes an integrated and balanced set of performance measures and targets for key regulatory activities, against which the achievement of prudential regulation objectives can be assessed and reported to internal and external stakeholders.
	DoHA response: <i>Agreed</i>
3.	The ANAO recommends that DoHA enhances its regulatory approach to include reviews of whether aged care providers are using bonds and bond income for the purpose of providing aged care to recipients as required in the <i>Aged Care Act 1997</i> .
	DoHA response: <i>Agreed</i>
4.	In order to better inform stakeholder expectations regarding the service levels to be achieved and the code of conduct to be observed, the ANAO recommends that DoHA: (a) develops, in consultation with stakeholders, a client service charter and regulatory code of conduct in relation to the prudential regulation of residential aged care accommodation bonds; and (b) reports annually on performance against the charter.
	DoHA response: <i>Agreed</i>
5.	The ANAO recommends that, in order to ensure nationally consistent implementation of prudential arrangements, DoHA establishes policy and procedural documentation for key aspects of its prudential regulation of residential aged care accommodation bonds.
	DoHA response: <i>Agreed</i>
6.	In order to plan and coordinate its prudential regulation compliance activities and facilitate the monitoring of compliance trends over time, the ANAO recommends that DoHA documents its compliance strategy, promulgates the strategy to internal and external stakeholders, and routinely reviews the strategy.
	DoHA response: <i>Agreed</i>
7.	The ANAO recommends that DoHA establishes a process or system to capture, collate and share regulatory intelligence from internal and external sources to build a risk profile of regulated entities.
	DoHA response: <i>Agreed</i>

## The Committee's review

10.23 The Committee held a public hearing on Wednesday 25 November 2009 to examine this audit report. Witnesses from the following agencies attended and gave evidence:

- Department of Health and Ageing (DoHA); and
- Australian National Audit Office (ANAO).

10.24 The Committee heard evidence on the following issues:

- risk management;
- record keeping and documentation;
- assisting aged care providers and identifying at risk providers;
- non-compliance issues;
- liquidity of providers;
- investing and using bond money; and
- smaller providers in low-income areas.

10.25 The Department's opening statement acknowledged the ANAO's contribution to assisting the administrative arrangements supporting the prudential regulation of accommodation bonds. Implementing the ANAO's findings was a high priority for the Department, as well as ensuring changes are effective and sustained.<sup>3</sup>

10.26 Corporate risk management planning and documentation was an area where the ANAO made a number of recommendations for improvement. DoHA's 2009-10 business planing has involved extending the scope of risk analysis and performance measures, as well as building upon existing policy and procedural documentation.<sup>4</sup>

## Risk management

10.27 The Audit Report noted that DoHA has not effectively implemented a structured and systematic risk management approach to inform its administration of prudential arrangements. The ANAO also found that the Prudential and Approved Provider Regulation Branch's 2008-09 operational plan contained high level risks without sufficient

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3 Department of Health and Ageing (DoHA), *Submission No. 5*.

4 DoHA, *Submission No. 5*.



underpinning information. Recommendation 1 of the audit was that DoHA adopts a structured and systematic risk management methodology for its prudential regulation of residential aged care accommodation bonds.<sup>5</sup>

- 10.28 The Committee asked for further information about action the department has taken around risk management. DoHA stated that its 2009-10 planning has involved enhancing risk management planning for prudential regulation: extending the scope of their risk management plan and explicitly separating internal administrative risks. In addition:

We have more explicitly identified risks around regulatory decision making and access to appropriate staff with appropriate skills and we have more clearly set out the sorts of strategies that we will pursue to manage those risks. We have also more explicitly set out the external risk factors that may impact on an approved provider's ability to meet their prudential obligations.<sup>6</sup>

- 10.29 The ANAO noted that the PRB operational and business plans were not routinely reviewed and updated to 'account for changes in the regulatory environment or work program priorities, for example the impact of the changed financial climate in late 2008 on provider compliance'.<sup>7</sup> The ANAO also found the OACQC business plan did not identify specific prudential risks.<sup>8</sup> Considering the high (and increasing) value of accommodation bond holdings, and acknowledging DoHA's response to Recommendation 1 of the Audit Report, the Committee asked what work DoHA has undertaken to mitigate and manage the risk posed by the global financial downturn on bond holdings.

- 10.30 DoHA explained that the Department:

... has monitored several key factors affecting prudential risks such as trends in the profitability of approved providers and the impact of the global financial downturn on the sector. This included meeting with a number of major aged care financiers as the global financial downturn began to unfold to assess the risks and implications for aged care.<sup>9</sup>

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5 Audit Report No. 05 2009-10, pp. 54-57.

6 Mr Iain Scott, DoHA, p. 3. All references to witnesses' evidence comes from the Committee's hearing into this audit dated 25 November 2009, with page numbers relating to the Proof Committee Hansard.

7 Audit Report No. 05 2009-10, p. 52.

8 Audit Report No. 05 2009-10, p. 53.

9 DoHA, *Submission No. 13*.

- 10.31 The ANAO notes the PRB has had a role in several cases in departmental efforts to transfer ownership from a troubled provider to a new provider, such as through negotiating ownership or service delivery matters, and that this may pose risks to the 'perceived objectivity and impartiality of a regulator'.<sup>10</sup> The ANAO notes that formally recognising risks and considering mitigation strategies in such cases would help the department manage potentially conflicting roles and responsibilities.<sup>11</sup>
- 10.32 The Committee asked DoHA if the Department intend to formally record such risks and mitigation strategies. DoHA indicated that the *Aged Care Act 1997* governs the transfer of aged care services between approved providers and that decisions regarding transfer of services are made by a separate delegate outside the PRB.<sup>12</sup> The Department confirmed that PRB:
- ... has adopted a more detailed approach to the identification of those internal risks that may affect the effectiveness of its administration of the prudential framework, including the management of approved providers in financial difficulty.<sup>13</sup>

## Record keeping and documentation

- 10.33 The ANAO found that DoHA's current record-keeping did not meet better practice standards or comply with departmental policy.<sup>14</sup> The ANAO noted that weaknesses had been identified in this area in previous audits, indicating that DoHA had not made the necessary improvements.<sup>15</sup> The Committee asked the Department what actions it was taking to improve their record-keeping procedures. DoHA replied:

Staff in Prudential and Approved Provider Regulation Branch have been reminded of obligations and responsibilities for record-keeping and are receiving formal training on Departmental records management policies and procedures. A guidance manual on record-keeping procedures is being developed and will be provided to all staff in Prudential and Approved Provider Regulation Branch.<sup>16</sup>

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10 Audit Report No. 05, 2009-10, p. 50.

11 Audit Report No. 05, 2009-10, p. 50.

12 DoHA, *Submission No. 13*.

13 DoHA, *Submission No. 13*.

14 Audit Report No. 5, 2009-10, pp. 73-74.

15 Audit Report No. 5, 2009-10, p. 74.

16 DoHA, *Submission No. 13*.

- 10.34 DoHA informed the ANAO that the PRB did not have a documented risk-based strategy or compliance schedule but had outlined its approach to the management of prudential non-compliance in its *User's Guide to the Regulation of Approved Providers Holding Accommodation Bonds*.<sup>17</sup> The ANAO recommended that DoHA document its compliance strategy, promulgate the strategy to internal and external stakeholders, and routinely review the strategy.<sup>18</sup>
- 10.35 In its response to this recommendation, the Department said it would review, update and expand its *User's Guide to the Regulation of Approved Providers Holding Accommodation Bonds* to include more detail and incorporate recent experience. The Committee asked DoHA what progress had been made with this project. The Department informed the Committee it had replaced the *User's Guide to the Regulation of Approved Providers Holding Accommodation Bonds* with a revised publication, the *Residential Care Manual 2009*, released in September 2009.<sup>19</sup> It further informed the Committee:

The Prudential and Approved Provider Regulation Branch is updating information on its prudential compliance strategy, including providing information that the Department uses in assessing compliance and the ways the Department may respond to a range of non-compliance risks. The updated strategy will balance the need to provide more detailed information on the Department's assessment of prudential compliance with the risk that some approved providers may use the information to attempt to evade their regulatory responsibilities.<sup>20</sup>

## Assisting aged care providers and identifying at risk providers

- 10.36 A significant area of interest and concern for the Committee is the stability of aged care providers.
- 10.37 Asked what changes to organisational planning will mean 'on the ground' for aged care providers, DoHA advised that additional information will be made available to providers about the Department's regulatory tasks to inform aged care providers on where any problems are arising.

For instance, we recently put out the results of the 2007-08 compliance processes to identify where approved providers were

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17 Audit Report No. 5, 2009-10, pp. 76-77.

18 Audit Report No. 5, 2009-10, p. 78.

19 DoHA, *Submission No. 13*.

20 DoHA, *Submission No. 13*.

having more difficulty in meeting their obligations. Another key change that we have made is that we have set up a framework to more systematically and regularly review our largest approved provider groups, to explore with them how they are travelling and to raise any issues that we have identified as part of a more holistic assessment of the group's performance. They are a couple of the key changes.<sup>21</sup>

- 10.38 Asked how providers are performing, DoHA stated that they had undertaken two visits with the two largest approved providers group, with things 'travelling okay'.<sup>22</sup> The Committee is pleased to see additional effort put into working with the largest providers; this represents a good approach to ensuring provider stability and obtaining feedback.
- 10.39 DoHA was asked about the number of at-risk providers and if they are identifiable. Various means are used to identify homes at risk of not repaying accommodation bonds. DoHA was unsure about the specific number of providers being monitored, 'but we are monitoring homes that we consider have some of the markers that could lead to default'. The Department is responding to findings of the ANAO and strengthening their monitoring targeting and refining their markers of home default.<sup>23</sup>
- 10.40 The ANAO reiterated their view, mentioned by DoHA, that improvements to monitoring would be based on better targeting and strengthening established mechanisms (one recommendation from the audit was to establish a process to capture, collate and share regulatory intelligence in order to build a risk profile of regulated entities).<sup>24</sup>
- 10.41 A standard procedure for identifying at risk providers is to monitor providers that have a large amount of bond money. Another approach of DoHA is to examine the financial arrangement of homes that are brought to their attention because of quality concerns:

... through a complaint, through an accreditation result, through an agency visit or through... an unannounced visit made by the department... Generally speaking – not always – we find that there is a correspondence between a default on quality and a default on bonds.<sup>25</sup>

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21 Mr Iain Scott, DoHA, p. 3.

22 Mr Iain Scott, DoHA, p. 3.

23 Ms Mary Murnane, DoHA, p. 3.

24 Mr Steven Lack, ANAO, p. 4; Audit Report No. 5 2009-10, pp. 89-90.

25 Ms Mary Murnane, DoHA, p. 3.

- 10.42 The Committee suggested that another indicator of risk is where a provider carries out another business unrelated to aged care. DoHA agreed, however noted that they are not in a position to necessarily know if this is the case.<sup>26</sup>
- 10.43 Asked to elaborate on the profile of providers that have encountered financial difficulties, DoHA provided a broad overview of common factors found. Of the approved providers that have either failed or got into significant financial difficulties, there have not been a lot of common elements. There was 'not really any consistency with the ownership structure'.<sup>27</sup>
- 10.44 Some common elements, however, were evident:
- 'very poor financial records' that were likely to be contravening the *Corporations Act*;
  - such providers were not receiving conditional adjustment payments, a supplementary payment contingent mainly on lodging audited general purpose financial reports; and
  - additionally, steep drop-offs in quality of care were evident.<sup>28</sup>
- 10.45 The lack of a clear pattern leading up to financial difficulties presents challenges for the Department in identifying risk indicators that provide clear, early warning of problems.<sup>29</sup>
- 10.46 The Committee encourages DoHA to continue to develop their targeted approach to monitoring, as outlined in the ANAO's audit report.

## Non-compliance issues

- 10.47 The ANAO noted that at least one case had arisen where a contracted processing firm that processes Annual Prudential Compliance Statements from providers had incorrectly processed a qualified audit opinion as being fully compliant (based on the advice of the provider).<sup>30</sup> The ANAO suggested that DoHA could undertake a risk-based approach to review audit opinions or better utilise contracted resources.
- 10.48 The Committee asked what action DoHA had taken to minimise the likelihood of not fully taking into account an auditor's opinion. The

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26 Ms Mary Murnane, DoHA, p. 4.

27 Mr Iain Scott, DoHA, p. 4.

28 Mr Iain Scott, DoHA, pp. 4-5.

29 Mr Iain Scott, DoHA, p. 5.

30 Audit Report No. 5, 2009-10, p. 88.

Department confirmed that it is moving to a risk-based approach and indicated that the case in question had occurred in the 2006-07 Annual Prudential Compliance Statement return and that the PRB:

... subsequently implemented a policy whereby all audit opinions are reviewed by Departmental staff, irrespective of whether the Annual Prudential Compliance Statement was referred by the contractor for consideration.<sup>31</sup>

10.49 The ANAO found that departmental investigators do not generally seek evidence to corroborate statements about remedial action made by aged care providers, who have been contacted by the department to undertake corrective action, in response to cases of prudential non-compliance.<sup>32</sup> The ANAO suggested DoHA adopt a risk-based approach to collecting evidence to demonstrate remediation of non-compliance. The Committee asked the Department what action it had taken to adopt such a risk-based approach.

10.50 DoHA told the Committee the PRB already adopts a risk-based approach when seeking evidence to demonstrate remediation of non-compliance.<sup>33</sup> The Department assured the Committee it continues to refine these procedures:

The Prudential and Approved Provider Regulation Branch will continue to build on its risk-based approach for seeking evidence of remediation of non-compliance as part of the work to update its prudential compliance strategy. The Prudential and Approved Provider Regulation Branch is working with the Department's State and Territory Offices (STOs) to develop a prudential 'check list' of the types of evidence that could be sought when resolving prudential-related complaints. The Prudential and Approved Provider Regulation Branch is also working to develop procedural documentation regarding evidence to be sought to demonstrate remediation of prudential non-compliance.<sup>34</sup>

## Liquidity of providers

10.51 Asked about the liquidity held by providers, DoHA explained that it varies significantly:

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31 DoHA, *Submission No. 13*.

32 Audit Report No. 5, 2009-10, p. 95.

33 DoHA, *Submission No. 13*.

34 DoHA, *Submission No. 13*.

... the prudential requirements we have in place include a liquidity requirement, but it has quite deliberately been pitched on an outcomes basis, so we put it on the approved provider to assess their business needs, including issues like the number of bonds they hold, their difficulty in replacing departing residents and the time it takes to access bonds from incoming residents to determine their own business needs, the liquidity they consider they need to meet accommodation bonds within the time frames that are required. So you will see quite a divergence in liquidity.<sup>35</sup>

- 10.52 DoHA stated that there is a requirement for these issues to be encapsulated in a liquidity management strategy. If concerns were identified, such as a pattern of late bond refunds, a provider's liquidity management strategy would be reviewed.<sup>36</sup>

### Impact of property and ownership structure

- 10.53 The Committee asked whether Victoria has a big leasehold base for aged care homes, and if this presented a greater risk to providers than those who owned freehold. DoHA stated that there was no clear link between property ownership and financial problems. There have been two homes fail in Victoria, in one case the provider owned the property and in the other the provider leased the property. Outside of Victoria, however, 'the bulk of the cases have been approved providers that own the land and buildings themselves'. The homes that failed in Victoria were both run by private for-profit organisations, whereas outside of Victoria the main cases of failure have been community based organisations.<sup>37</sup>

### Investing and using bond money

- 10.54 The audit noted that DoHA had not established processes to monitor whether bonds and bond income was being used for appropriate purposes. Recommendation No. 3 of the audit recommended that DoHA review whether aged care providers are using bonds and bond income for providing aged care, a requirement under the *Aged Care Act 1997*.<sup>38</sup> In response to this, DoHA are developing a proposal to put to government 'that would allow us to come a lot closer to assuring that the bond money was utilised, in a general sense, in the interests of aged care... but we want

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35 Mr Iain Scott, DoHA, p. 5.

36 Mr Iain Scott, DoHA, p. 5.

37 Mr Iain Scott, DoHA, pp. 5-6.

38 Audit Report No. 05 2009-10, pp. 65-67.

flexibility in the way in which we put proposals to government to consider how this might be done'.<sup>39</sup>

- 10.55 In response to DoHA's comment on potential legislative changes in this area, the ANAO made the following comment:

In the interim, DoHA should administer compliance within the existing legislative provisions under the Act through the establishment of appropriate processes to gain an assurance that providers are using accommodation bonds for the provision of aged care to care recipients and bond income to improve building standards and the quality and range of aged care services.<sup>40</sup>

- 10.56 While seeking legislative amendments is a positive step, the Committee is disappointed that such an important issue was not addressed prior to the ANAO audit. Additionally, the Committee urges DoHA to establish some process to obtain information on whether bonds and bond income are being used for legislated purposes (using a targeted risk based approach, not just being reactive when issues arise) within the current legislative framework, without the need for legislative reform.

### **Recommendation 18**

**The Committee recommends that the Department of Health and Ageing (DoHA) report back to the Committee within twelve months of the tabling of this report on DoHA's implementation of Recommendation Number 3 from the Australian National Audit Office Report No. 5 2009-10, outlining progress towards monitoring whether or not bonds and bond income is being used according to the requirements of the *Aged Care Act 1997*.**

- 10.57 The Committee questioned the Department about the need to have visibility of where bond monies are invested (there are no restrictions on where and how providers invest bonds). The Department acknowledged that this was a 'delicate area'. The ANAO commented that 'there needs to be coverage of these matters' without 'putting an unnecessary burden on the industry', using a risk profiling or other targeted arrangement: 'Hence, high-risk providers are scrutinised differently from those who are a lower risk and who do not necessarily need that burden'. The Department stated that advice will be provided to government on getting a balance between

39 Ms Mary Murnane, DoHA, p. 6.

40 Audit Report No. 05 2009-10, p. 67.



the need to have visibility and not intruding into private business arrangements.<sup>41</sup>

- 10.58 Some members of the Committee were concerned that the money received for bonds is included in the operating accounts of care facilities rather than a separate trust account that would impose restrictions on where the money is invested. Others maintained that introducing prescriptive measures on investment options was unworkable. DoHA indicated that the major concern of both government and industry was the interests of the 'frail aged person in their care' and that, despite a number of facilities going into liquidation in recent years, all bonds had been repaid.<sup>42</sup> However, the ANAO noted that this was due to the Government activating the Accommodation Bond Guarantee Scheme (the Scheme) three times since 2006 refunding bond balances totalling \$19 million that were jeopardised when providers went into liquidation.<sup>43</sup>

### Smaller providers in low-income areas

- 10.59 The Committee expressed concern that smaller providers operating in low-income areas who have access to fewer bonds may be disadvantaged as they would have less funds to invest and draw on for capital programs. DoHA informed the Committee that the government has a number of programs in place to assist these providers including special capital grants, a concessional scheme whereby providers receive an extra payment in lieu of a bond and a zero interest loans initiative.<sup>44</sup>

## Conclusion

- 10.60 The Committee understands the importance of aged care accommodation bonds to the capital growth of aged care facilities and acknowledges that to date no aged care clients have suffered the loss of their bonds. However, the Committee is concerned at the potential for loss to occur and would like to see the prudential regulation strengthened with more attention paid to risk management implementation and ongoing monitoring.

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41 Ms Mary Murnane, DoHA, pp. 6-7; Mr Matt Cahill, ANAO, p. 7.

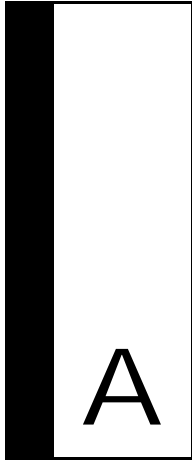
42 Ms Mary Murnane, DoHA, pp. 7-8.

43 Audit Report No. 05 2008-09, pp. 24 and 40.

44 Ms Mary Murnane, DoHA, p. 8.

- 10.61 The Committee believes that full implementation of the recommendations made by the ANAO will improve DoHA's administration of prudential arrangements for the protection of residential aged care accommodation bonds and assist in providing ongoing care for our frail aged.

Sharon Grierson MP  
Chair



## Appendix A – List of submissions

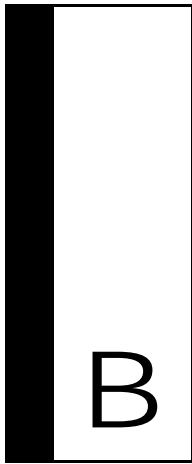
### Review of Auditor-General's Reports Nos. 18 to 31 (2008/09)

- 1 Australian National Audit Office
- 2 Australian National Audit Office
- 3 Department of Veterans' Affairs
- 4 Medicare Australia
- 5 Department of Defence

### Review of Auditor-General's Reports Nos. 32 (2008/09) to 1 (2009/10)

- 1 Department of Finance and Deregulation
- 2 Department of Finance and Deregulation
- 3 Department of Finance and Deregulation
- 4 Australian National Audit Office
- 5 Department of Health and Ageing
- 6 Australian National Audit Office
- 7 Australian National Audit Office
- 8 Department of Finance and Deregulation
- 9 Department of Finance and Deregulation
- 10 Department of Immigration and Citizenship
- 11 Department of Immigration and Citizenship
- 12 Department of Finance and Deregulation



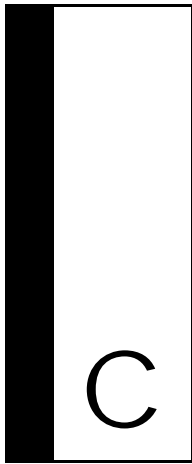


## APPENDIX B – LIST OF EXHIBITS

### Review of Auditor-General's Reports Nos. 18 to 31 (2008/09)

- 1 Department of Environment, Water, Heritage and the Arts  
*Australian and New Zealand Government Framework for Sustainable Procurement*





## Appendix C – Details of Public Hearings

### Review of Auditor-General's Reports Nos. 18 to 31 (2008/09)

Monday, 15 June 2009 - Canberra

#### Australian National Audit Office

Mr Kim Bond, Senior Director, Performance Audit Services Group

Mr Matt Cahill, Group Executive Director, Performance Audit Services Group

Ms Fran Holbert, Executive Director

Mr Steven Lack, Executive Director

Ms Kay Robinson, Audit Manager

Mr Peter White, Group Executive Director, Performance Audit Services Group

#### Defence Materiel Organisation

Mr Kim Gillis, General Manager Systems

Mr Tony Hindmarsh, Director General/Chief Audit Executive, Change and Assurance

#### Department of Defence

Brigadier Mal Rerden, Head of Capability, Army

Mr Colin Sharp, Head, Land Systems

**Department of Veterans' Affairs**

Mr John Sadeik, National Manager, Income Support

Miss Peta Stevenson, National Manager, Research, Development and Support Group

Mr Barry Telford, General Manager, Support Division

**Wednesday, 24 June 2009 - Canberra****Australian National Audit Office**

Ms Christina Bagot, Auditor, Performance Audit Services Group

Mr Matt Cahill, Group Executive Director

Ms Barbara Cass, Executive Director

Mr Darren Molineux, Auditor, Performance Audit Services Group

**Australian Taxation Office**

Mr John Cheney, Assistant Commissioner, Corporate Services Review Project

Mr David McMillen, Acting Assistant Commissioner, ICT

**Department of the Environment, Water, Heritage and the Arts**

Mr Stephen Oxley, Assistant Secretary, Renewables and Energy Efficiency Division, Energy Efficiency Branch

Ms Diana Wright, First Assistant Secretary, Environment Quality Division

**Department of Finance and Deregulation**

Mr John Grant, First Assistant Secretary, Procurement Division

Mr Simon Lewis PSM, Deputy Secretary and General Manager, Asset Management Group

Mr Andrew Smith, Assistant Secretary, Property Branch

**Medicare Australia**

Ms Rona Mellor, Deputy Chief Executive Officer, Medicare Australia



## Review of Auditor-General's Reports Nos. 32 (2008/09) to 1 (2009/10)

Wednesday, 28 October 2009 - Canberra

### Australian National Audit Office

Mr Greg Dare, Director

Ms Fran Holbert, Executive Director

Ms Kim Murray, Senior Analyst

Mr Peter White, Group Executive Director

### Defence Materiel Organisation

Dr Stephen Gumley, Chief Executive Officer

Mr Warren King, General Manager, Programs

### Defence Science and Technology Organisation

Mr Jim Smith, Chief, Projects and Requirements Division

### Department of Defence

Vice Admiral Matt Tripovich, Chief, Capability Development Group

Monday, 16 November 2009 - Canberra

### Australian National Audit Office

Mr Steve Chapman, Deputy Auditor-General

Dr Tom Clarke, Executive Director, Performance Audit Services Group

Ms Deborah Jackson, Senior Director

Mr Ian McPhee, Auditor-General

Dr David Rowlands, Audit Manager

Mr Peter White, Group Executive Director

### Department of Immigration and Citizenship

Mr Bob Correll, Deputy Secretary

Mr James Fox, First Assistant Secretary, Citizenship, Settlement and Multicultural Affairs Division

Mr Todd Frew, First Assistant Secretary, Border Security Division

Mr Michael Minns, Assistant Secretary

Mr Peter Templeton, Assistant Secretary, Settlement Branch

### **Wednesday, 18 November 2009 - Canberra**

#### **Attorney-General's Department**

Mr Stephen Clay, Acting Assistant Secretary, Territories West

Mr Julian Yates, Acting First Assistant Secretary, Territories and Information Law Division

#### **Australian National Audit Office**

Mr Brian Boyd, Executive Director, Performance Audit Services Group

Ms Nicola Rowe, Audit Manager

#### **Department of Finance and Deregulation**

Mr Geoff Anderson, Assistant Secretary, Product Delivery Branch

Mr Rick Scott-Murphy, First Assistant Secretary, Property and Construction Division

#### **Department of Immigration and Citizenship**

Ms Fiona Lynch-Magor, Assistant Secretary, Services Management Branch

Ms Jackie Wilson, First Assistant Secretary, Community and Detention Services Division

### **Wednesday, 25 November 2009 - Canberra**

#### **Australian National Audit Office**

Mr Matt Cahill, Group Executive Director

Ms Anne Cronin, Senior Director

Mr Steven Lack, Executive Director

Mr Mark Simpson, Director

#### **Department of Health and Ageing**

Mr Peter Broadhead, Assistant Secretary, Residential Program Management Branch

Ms Mary Murnane, Deputy Secretary

Ms Lesley Podesta, First Assistant Secretary, Office of Aged Care Quality and Compliance

Mr Iain Scott, Assistant Secretary, Office of Aged Care Quality and Compliance

Ms Carolyn Smith, First Assistant Secretary, Office of Aged Care Quality and Compliance