The Parliament of the Commonwealth of Australia

Report 435

**Review of Auditor-General's Reports
Nos. 33 (2011–12) to 1 (2012–13)**

Joint Committee of Public Accounts and Audit

November 2012
Canberra

Contents

Foreword

The Joint Committee of Public Accounts and Audit (JCPAA), as prescribed by its Act, examines all reports of the Auditor-General, and reports the results of the Committee's deliberations to the Parliament. This report details the findings of the Committee's examination of five performance audits selected for detailed scrutiny from twenty four audit reports presented to Parliament by the Auditor-General between May and August 2012.

In selecting these reports, the Committee considered the issues raised, the significance of the audit findings, the arguments advanced by the audited agencies and the level of potential public interest in each report. In order to maximise the opportunity for scrutiny, the Committee decided to examine three audits by public hearing, and two others through written questions to the responsible agencies.

The findings of the selected audit reports were largely positive, but a range of areas for improvement were also identified.

Firstly, the Committee reviewed an audit on the administration of the National Partnership for Literacy and Numeracy (LNNP)—a program which funds efforts by states and territories to improve literacy and numeracy outcomes for school students, especially those who are falling behind. This audit complemented the Committee's previous work inquiring into National Funding Agreements.

While overall the LNNP appears to be having a positive impact, the evidence presented to the Committee indicated that there was still room for improvement in the design and implementation of future partnership agreements. In particular, future programs would benefit from implementation plans and reform targets being negotiated at the same time as partnership agreements are made; performance data assurance mechanisms being built into agreements; and more time being allowed in agreements for facilitation payments to take effect before

performance is assessed and reward payments made. In general, departments and their Ministers need to be more active in ensuring that the terms of National Partnership agreements are adhered to during their implementation.

Two audits reviewed by the Committee examined programs that had been fast tracked by the Government in their early stages, leading to challenges in their implementation.

The Committee's review of the Health and Hospital Fund's administration sought to clarify aspects of the process used to select projects for funding and to confirm that the ANAO's recommendations were being implemented. The audit found that due to the fast tracking of two rounds of funding, there was insufficient time for the Department of Health and Ageing to develop a clear internal strategy to inform funding priorities, leading to a reliance on states to identify their own infrastructure gaps and needs. Another particular concern was the finding that the department did not advise the Health Minister on the relative merits of the projects submitted for potential funding, an issue the Committee has raised when reviewing previous audit reports. Disappointingly, the Department of Health and Ageing's response to the Committee's questions did very little to shed light on these matters. This lack of transparency and responsiveness to Parliament can serve to reduce confidence in the quality of decisions.

The ANAO's audit of the Renewable Energy Demonstration Program (REDP) revealed that the quality of the Department of Renewable Energy, Resources and Tourism's administration was negatively impacted by a Government decision to fast track funding. Compressed timeframes contributed to lower quality grant applications and inadequate documentation by the department of decisions around project selection and probity. It appears that the accelerated demands placed on the department were the major cause of the administration shortcomings—particularly given the REDP was the then new department's first major program. Moreover, the decision to bring forward the program appears to have produced little of the espoused benefits in terms of creating jobs, stimulating the economy and 'turbo-charging' investment in renewable energy technologies.

As these two fast-tracked programs highlight, when making decisions on program implementation the Government needs to give more consideration to the capacity of agencies to manage large and complex projects in compressed timeframes while still complying with administrative requirements.

A fourth audit reviewed by the Committee dealt with the important issue of quarantine in Northern Australia. The report contained mostly positive findings, pointing to effective risk-based management of the program by the Department of Agriculture, Fisheries and Forestry. However, the report's findings highlighted a

need for better data management systems to be employed. The department could also make better use of its existing data to inform its management decisions.

Finally, following up earlier work of the JCPAA, the Committee examined an audit of Customs' processing and risk assessing of incoming international passengers at Australia's airports—activities at the front line of Australia's national security efforts. In its review, the Committee focused its attention on the automated SmartGate clearance system, which has been rolled out at airports around Australia. The audit findings suggested a more strategic approach was needed to increase SmartGate usage and to help address a gap between the planned and achieved efficiency gains from the system. The Committee heard about recent efforts by Customs to improve SmartGate clearance rates, and noted that there were encouraging signs of progress in the most recent data.

In closing, I would like to sincerely thank the Committee members and agency representatives who appeared at public hearings for their cooperative approach to the Committee's important task of scrutinising the spending of public money. I would also like to remind agencies of the importance of providing full and complete information to parliament when asked to do so. Written questions from parliamentary committees should not be seen as an inconvenience, but rather as a necessary and important obligation that gives departments an opportunity to provide additional context behind their efforts. My hope is that closer engagement with the Committee will, over time, lead to sustained improvement to the way government agencies do their business.

Rob Oakeshott MP
Chair

Membership of the Committee

Chair	Mr Robert Oakeshott MP
Deputy Chair	Ms Yvette D'Ath MP

Members

Hon Dick Adams MP	Senator Mark Bishop
Mr Jamie Briggs MP	Senator Helen Kroger (30/09/10-13/09/12)
Ms Gai Brodtmann MP	Senator Louise Pratt
Mr Darren Cheeseman MP	Senator Anne Ruston (from 13/09/12)
Mr Josh Frydenberg MP	Senator Dean Smith
Ms Deborah O'Neill MP	Senator Matt Thistlethwaite
Ms Laura Smyth MP	
Hon Alex Somlyay MP	

Committee Secretariat

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Inquiry Secretary	Mr James Nelson
Senior Research Officer	Mr Shane Armstrong
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List of abbreviations

ACER	Australian Council for Educational Research
ACRE	Australian Centre for Renewable Energy
ANAO	Australian National Audit Office
ARENA	Australian Renewable Energy Agency
BioSIRT	Biosecurity Surveillance, Incident, Response and Tracing software application
CGGs	Commonwealth Grant Guidelines
COAG	Council of Australian Governments
CRC	COAG Reform Council
DAFF	Department of Agriculture, Fisheries and Forestry
DEEWR	Department of Education, Employment and Workplace Relations
DIAC	Department of Immigration and Citizenship
DoHA	Department of Health and Ageing
ECP	Entry Control Point
HHF	Health and Hospitals Fund
IGA FFR	Intergovernmental Agreement on Federal Financial Relations
IT	Information Technology

JCPAA   Joint Committee of Public Accounts and Audit

KPIs   Key Performance Indicators

LNNP   National Partnership Agreement on Literacy and Numeracy

NAQS   Northern Australia Quarantine Strategy

NAPLAN   National Assessment Program – Literacy and Numeracy

REC   Renewable Energy Committee

REDP   Renewable Energy Demonstration Program

RET   Department of Resources, Energy and Tourism

List of recommendations

2 National Partnership Agreement on Literacy and Numeracy

Recommendation 1

That the Department of Education, Employment and Workplace Relations report to the Committee within six months on the progress of its implementation of the Auditor-General's Recommendation 2 regarding the development of a longer term evaluation strategy for the National Partnership Agreement on Literacy and Numeracy.

Recommendation 2

That, in order to help ensure the expectations of future National Partnerships are met, the Department of Education, Employment and Workplace Relations work with states and territories to develop implementation plans and reform targets at the same time as any new National Partnership agreements are developed, in accordance with advice from the Treasury.

Recommendation 3

That where state and territory co-investment obligations are included in the terms of current National Partnership agreements, the Department of Education, Employment and Workplace Relations take responsibility for monitoring these investments and assessing them before payments are made, even if this requires negotiating more visibility of state and territory data.

Recommendation 4

That when negotiating National Partnership agreements, the Department of Education, Employment and Workplace Relations seek external advice, potentially from the Auditor-General, on the monitoring and assurance mechanisms that should be incorporated to enable verification of performance data provided by states and territories.

Recommendation 5

That the Department of Education, Employment and Workplace Relations and the Minister for School Education ensure that sufficient time is allowed in future National Partnership agreements for facilitation payments to take effect before measuring the performance of states and territories against reform targets and making reward payments.

3   Administration of the Health and Hospitals Fund

Recommendation 6

That the Department of Health and Ageing identify and action ways to apply the lessons of ANAO Recommendation 1 to its standard practices and procedures for all current and future grants programs.

Recommendation 7

That, within 6 months, the Department of Health and Ageing provide the Committee with an update on the progress of its evaluation of the Health and Hospitals Fund. The update should include how the department's evaluation framework has incorporated ANAO Recommendation 3, and any preliminary findings of the evaluation.

4   Administration of the Northern Australia Quarantine Strategy

Recommendation 8

That, using information currently available, the Department of Agriculture, Fisheries and Forestry calculate and maintain inspection and seizure rates of quarantine material for areas covered by the Northern Australia Quarantine Strategy zone, and use this information to inform management decisions regarding border operations.

Recommendation 9

That the Department of Agriculture, Fisheries and Forestry ensure that support for Northern Australia Quarantine Strategy activities is a high priority during the continuing development of the BioSIRT database in order to address the deficiencies identified by the Australian National Audit Office and in the Joint Committee of Public Accounts and Audit's review.

5   Processing and Risk Assessing Incoming International Air Passengers

Recommendation 10

That, within six months of the tabling of this report, the Australian Customs and Border Protection Service provide the Committee with an update on its progress in developing and implementing a strategic plan for SmartGate. The response should include:

■   an overview of measures introduced as part of the plan to improve SmartGate clearance numbers;

■   the latest figures on the number and percentage of eligible passengers clearing through SmartGate; and

■   how the year to date figures compare with the presentation and clearance targets identified in the 2012–13 Portfolio Budget Statements.

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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 Australian Parliament, and report the results of its deliberations to both Houses of Parliament. In selecting audit reports for detailed review, the Committee considers factors such as:

- 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 the twenty-four audit reports presented to Parliament by the Auditor-General between May and August 2012, the Committee selected five reports for further scrutiny.

1.3   The audit reports reviewed by the JCPAA in detail are listed below:

- Audit Report No.41 2011–12, *National Partnership on Literacy and Numeracy*

- Audit Report No.45 2011–12, *Administration of the Health and Hospitals Fund*

- Audit Report No.46 2011–12, *Administration of the Northern Australia Quarantine Strategy*

- Audit Report No.50 2011–12, *Processing and Risk Assessing Incoming International Air Passengers*

- Audit Report No.1 2012–13, *Administration of the Renewable Energy Demonstration Program*

1.4   Public hearings for two of the reports were held on:

- 12 September 2012 (Audit Report No.41 2011–12)

- 10 October 2012 (Audit Report No.46 2011–12)

1.5   The Committee conducted its reviews of the remaining three reports through written correspondence.

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 and in responses to questions on notice. 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.41 2011–12, National Partnership on Literacy and Numeracy

- Chapter 3 – Audit Report No.45 2011–12, Administration of the Health and Hospitals Fund

- Chapter 4 – Audit Report No.46 2011–12, Administration of the Northern Australia Quarantine Strategy

- Chapter 5 – Audit Report No.50 2011–12, Processing and Risk Assessing Incoming International Air Passengers

- Chapter 6 – Audit Report No.1 2012–13, Administration of the Renewable Energy Demonstration Program

1.8   The following appendices provide additional information:

- Appendix A – List of public hearings and witnesses

- Appendix B – List of submissions

1.9   A copy of this report, transcripts of hearings and submissions—including responses to the Committee's written questions—are available on the Committee's website: www.aph.gov.au/jcpaa.

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Audit Report No.41 2011–12

National Partnership Agreement on Literacy and Numeracy

Introduction

2.1   The *National Partnership Agreement on Literacy and Numeracy* (LNNP) was one of three 'Smarter Schools' National Partnerships announced in the 2008–09 Budget.[1] Commencing in 2009, the LNNP was one of the first National Partnerships operating under the *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR), and one of the first to include reward payments to states and territories.[2]

2.2   The LNNP was envisaged as a tool to:

> … galvanise the collective resources and energy of the Australian Government and the state, territory and non-government education systems, to put in place the infrastructure and practices that will deliver sustained improvement in literacy and numeracy outcomes for all students, especially those who are falling behind.[3]

2.3   The LNNP also aimed to 'accelerate progress towards the ambitious literacy and numeracy target' set by the Council of Australian

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1   Australian National Audit Office (ANAO) Audit Report No.41 2011–12, p. 34.
2   ANAO Audit Report No.41 2011–12, p. 35.
3   Council of Australian Governments (COAG), *National Partnership Agreement on Literacy and Numeracy*, p. 3.

Governments (COAG) to 'halve the gap for Indigenous students in reading, writing and numeracy within a decade'.[4]

2.4   The LNNP committed a total of $540 million of Commonwealth Government funding over four years,[5] comprising the following:

- $150 million in 'facilitation payments' to states and territories to support literacy and numeracy reform activities over the first two years of the partnership (2009 and 2010). These payments were to be contingent on equivalent 'co-investments' from states,[6] including existing or redirected funds.[7]

- $350 million in 'reward payments' to states based on the achievement of agreed literacy and numeracy targets over the last two years of the partnership (2011 and 2012). Targets were to be 'ambitious' and to 'aim for accelerated improvement' for schools and students involved in the partnership, but would reflect the 'different starting points in each state'.[8]

- $40 million for research initiatives targeted at improving teaching capacity in literacy and numeracy.[9]

2.5   In addition to the research initiatives, an agreed outcome of the LNNP was the Commonwealth's management of a database of effective strategies and approaches known as a 'framework for effective practice' or 'Evidence Base'. The Evidence Base was expected to encourage sharing of information and effective practice, leading to better informed and evidence-based decisions on literacy and numeracy. The Evidence Base was expected to be available by early 2009.[10]

2.6   The Department of Education, Employment and Workplace Relations (DEEWR) coordinated the implementation of the LNNP. This included negotiating bilateral agreements and implementation plans with state government agencies. As part of this process, DEEWR also negotiated the reform targets that would be the basis for reward payments to states.[11]

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4   COAG, *National Partnership Agreement on Literacy and Numeracy*, p. 3.
5   ANAO Audit Report No.41 2011–12, pp. 35–36.
6   Hereafter, the use of the word 'states' is to be taken to refer to both states and territories.
7   COAG, *National Partnership Agreement on Literacy and Numeracy*, p. 12.
8   COAG, *National Partnership Agreement on Literacy and Numeracy*, pp. 8, 12.
9   COAG, *National Partnership Agreement on Literacy and Numeracy*, p. 7.
10   COAG, *National Partnership Agreement on Literacy and Numeracy*, pp. 6–7.
11   ANAO Audit Report No.41 2011–12, pp. 37.

2.7   Approximately 1050 government and non-government schools received LNNP assistance, accounting for around 13 per cent of Australia's student population and around 14 per cent of Indigenous and low-performing students.[12]

2.8   In May 2012, the government committed to a $243 million extension to the LNNP in the form of a new agreement that will expire in December 2013.[13] At the time of writing, details of the extended partnership and its implementation plans were not publicly available.

The ANAO audit

Audit objective and scope[14]

2.9   The objective of the Australian National Audit Office (ANAO)'s audit was to assess the effectiveness of DEEWR's administration of the LNNP. The three high-level audit criteria used to form a conclusion examined the extent to which DEEWR:

- established sound administrative and payment arrangements consistent with government policy, including through its negotiation of bilateral agreements, implementation plans and reform targets;
- properly managed administrative and payment arrangements; and
- effectively monitored and reported on delivery and outcomes.[15]

2.10   The audit report also included analysis of changes in National Assessment Program – Literacy and Numeracy (NAPLAN) test results for participating schools; presented case studies of literacy and numeracy initiatives; and examined national trends in literacy and numeracy performance since the commencement of the LNNP.

2.11   In performing the audit, the ANAO consulted with education authorities in four states and other relevant stakeholders, including the Australian Council for Educational Research; the Australian Curriculum, Assessment and Reporting Authority; the COAG Reform Council; the Commonwealth

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12 ANAO Audit Report No.41 2011–12, pp. 38–39.

13 The Hon Peter Garrett MP, Minister for School Education, 'Literacy and Numeracy Schemes receive $243 million boost', *Media Release*, 5 May 2012.

14 ANAO Audit Report No.41 2011–12, pp. 18–19.

15 ANAO Audit Report No.41 2011–12, p. 18.

Treasury; and several schools that received LNNP funding. The audit covered the LNNP's operation from when it was signed in 2009 until March 2012.

Overall audit conclusion

2.12   The ANAO reported that, through the partnership, education authorities and schools had implemented a range of initiatives in the agreed reform areas, with positive impacts on schools, teachers and students.[16]

2.13   Despite these positive impacts, ANAO analysis of NAPLAN data found no statistically significant improvement in any state on the average results of schools receiving LNNP funding when compared to schools that did not receive funding.[17] This lack of progress was at least partially attributed to the short amount of time between the commencement of LNNP activities and NAPLAN testing, with the ANAO suggesting it may take several years until a 'reliable assessment of the impact of the LNNP' could be made.[18]

2.14   The ANAO concluded that 'overall, the effectiveness of DEEWR's administration of the LNNP has been mixed'. This was in the context of National Partnerships being a new form of program delivery and the LNNP being one of the first to include reward payments to states.[19]

2.15   The report noted that while DEEWR worked collaboratively with state agencies, the department 'did not apply a structured approach to negotiating key implementation arrangements', including the number of participating schools, performance indicators, and reform targets. This resulted in 'significant variability at a state level in the coverage of the LNNP and performance indicators used, and reward targets were not necessarily demanding'.[20]

2.16   Additionally, the ANAO found that DEEWR did not progress the Evidence Base of effective literacy and numeracy strategies as promptly as envisaged under the partnership agreement, limiting the guidance available to education authorities and schools implementing LNNP programs.[21]

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16   ANAO Audit Report No.41 2011–12, p. 20.
17   ANAO Audit Report No.41 2011–12, p. 20.
18   ANAO Audit Report No.41 2011–12, pp. 20–21.
19   ANAO Audit Report No.41 2011–12, p. 21.
20   ANAO Audit Report No.41 2011–12, p. 21.
21   ANAO Audit Report No.41 2011–12, p. 21.

ANAO recommendations

2.17   The ANAO made two recommendations aimed at strengthening program and payment design for future National Partnerships, and better assessing the partnership's impact on literacy and numeracy outcomes for participating schools following the conclusion of the LNNP.[22]

Table 2.1   ANAO recommendations, Audit Report No.41 2011–12

1.	To inform program and payment design that provides strong performance incentives for future National Partnerships, the ANAO recommends that DEEWR review the approach taken in establishing reform targets for the LNNP as the basis of reward payments, to draw on opportunities for improvement.
	DEEWR Response: *Agreed.*
2.	To assess the impact of the LNNP and different literacy and numeracy strategies, the ANAO recommends that DEEWR analyse the literacy and numeracy outcomes of participating schools at an appropriate stage following the conclusion of the National Partnership, as part of the national evaluation of the Smarter Schools National Partnerships.
	DEEWR Response: *Agreed*

2.18   The audit report also highlighted a range of broader lessons for the establishment of National Partnership payment arrangements by responsible agencies, including that National Partnerships should be designed to:

> … allow sufficient time for initiatives funded using facilitation payments to significantly influence performance results, prior to measuring achievement against reform targets and making reward payments;

and

> … provide the best opportunity for achievement of intended outcomes, such as by linking accessible reward funding with the coverage of planned initiatives and targeted levels of improvement.[23]

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22   ANAO Audit Report No.41 2011–12, p. 23.

23   ANAO Audit Report No.41 2011–12, p. 23. A full list of the ANAO's lessons for future National Partnerships can be found at Appendix 2 of the report (p. 111).

The Committee's review

2.19   The Committee held a public hearing on Wednesday 12 September 2012 with representatives of the following organisations:

- The Australian National Audit Office

- The Department of Education, Employment and Workplace Relations.

2.20   The Committee took evidence on the following issues:

- Administrative strengths and improvements over time

- Setting of reform targets

- Reward payments

- Co-investments by states

- Impact of the LNNP

- Evidence Base

- Ongoing evaluation

- New LNNP agreement.

Administrative strengths and improvements over time

2.21   At the public hearing, DEEWR emphasised the strengths that the audit found in elements of the department's implementation of the LNNP, including sound relationship management mechanisms and formal multilateral governance arrangements.[24]

2.22   DEEWR attributed these strengths to the National Partnerships Implementation Working Group, which was established by federal and state education ministers as an oversight body to steer the implementation of partnership agreements.[25]

2.23   DEEWR also highlighted the audit report's finding that the mixed effectiveness of its administration was in part due to DEEWR not having access to formal guidance when developing the LNNP framework. This

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24   Mr Martin Hehir, Deputy Secretary, Schools and Youth Cluster, DEEWR, *Committee Hansard*, 12 September 2012, p. 1; refer to ANAO Audit Report No.41 2011–12, pp. 44–45.

25   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 1.

was in the context of the LNNP being one of the 'earliest' National Partnerships and one of the first to include reward payments.[26]

2.24   DEEWR pointed to improvements that were made during the LNNP's implementation period to the process for assessing reward targets, and noted that lessons from the LNNP had helped inform guidance from central agencies.[27]

2.25   The department indicated that it accepted the ANAO's recommendations and has applied the lessons learned from the audit in its subsequent negotiation of a new literacy and numeracy partnership, and in developing the next phase of its evaluation of the LNNP.[28] The Auditor-General agreed that the department had 'responded positively to the report'.[29]

Setting of reform targets

2.26   As noted above, the LNNP agreement stipulated that the reform targets negotiated with states would be 'ambitious' and would 'aim for accelerated improvement' in literacy and numeracy outcomes, while reflecting 'the different starting points' of each state.[30] The initial targets were set by states based on 2008 NAPLAN data for reading and numeracy, supplemented by a range of local measures.[31] Targets were submitted by DEEWR to the Australian Council for Educational Research (ACER) for independent advice on their level of ambition.[32]

2.27   The audit found that ACER had used its 'professional judgement' to assess the ambition of the initial reform targets, and that DEEWR 'could have applied a more rigorous approach to assess ambition'.[33] At the public hearing, the ANAO explained that it was looking for more structure or methodology in how ambition was assessed,[34] and added:

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26   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 1; refer to ANAO Audit Report No.41 2011–12, pp. 20, 21.

27   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 1.

28   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 2.

29   Mr Ian McPhee, Auditor-General, *Committee Hansard*, 12 September 2012, p. 6.

30   COAG, *National Partnership Agreement on Literacy and Numeracy*, p. 8.

31   See DEEWR, *Submission 5*, pp. 3–5 for a full list of local measures used by states to measure performance.

32   ANAO Audit Report No.41 2011–12, p. 56.

33   ANAO Audit Report No.41 2011–12, p. 56.

34   Mr McPhee, *Committee Hansard*, 12 September 2012, p. 6.

> … it is a balancing act for the department. On the one hand, with the national partnership you are trying to provide flexibility to the states to develop the right implementation arrangements. On the other hand, in this national partnership we are looking for ambitious, accelerated improvements … We simply raise the point in terms of factors like the number of participating schools and students and the levels of improvement, we think the scale could have been tipped a little more towards the ambition side in providing that flexibility.[35]

2.28   The COAG Reform Council (CRC) had responsibility for independently assessing whether reform targets had been met before payments were made to states.[36] The CRC's performance report for 2010 noted wide variations in state reward frameworks and the level of ambition of targets, and made a range of recommendations for improving the performance reporting framework.[37]

2.29   When questioned about the negative findings on the level of ambition of the 2010 reform targets, DEEWR pointed out the difficulty that it faced in setting targets based on a 'very scant' evidence base. The initial targets were made against only one year of NAPLAN data (for 2008), meaning no existing trends were visible. DEEWR explained that this was likely to have led to a 'slightly conservative bias' on the part of states.[38] However, during the setting of targets for 2011, three years of NAPLAN data were available, meaning the department could apply a more structured approach that was 'far more transparent and robust'.[39]

2.30   The ANAO agreed with the department's position that during the setting of targets for 2011 the process had been improved.[40]

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35   Mr Stuart Turnbull, Executive Director, Performance Audit Services Group, ANAO, *Committee Hansard*, 12 September 2012, p. 6.

36   ANAO Audit Report No.41 2011–12, p. 40.

37   CRC, *National Partnership Agreement on Literacy and Numeracy: Performance Report for 2010*, p. xix.

38   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 5.

39   Ms Wenda Donaldson, Branch Manager, School Evidence and Reform Branch, DEEWR, *Committee Hansard*, 12 September 2012, pp. 5–6.

40   Mr Turnbull, *Committee Hansard*, 12 September 2012, p. 6. See also ANAO Audit Report No.41 2011–12, p. 79.

Reward payments

Timing of payments

2.31   The audit report noted the limited time allowed under the LNNP agreement for states to demonstrate improvements in literacy and numeracy prior to reward payments being made. The final bilateral agreement was signed in February 2010, and in some cases state-level planning prior to implementation was only completed at the end of 2010. The first LNNP reward payments were based on the results of the May 2010 NAPLAN tests. The ANAO commented that any improvements measured were therefore 'unlikely to be significantly influenced by LNNP activities'.[41]

2.32   At the hearing, the Auditor-General acknowledged that in administering the LNNP the department was acting within the particular framework established by government, but emphasised that more time needed to be allowed for measures to be implemented before performance was assessed.[42]

Funding withheld

2.33   Of the $350 million available in reward funding to states, the Committee heard that $64 million was withheld from the final payments in June 2012 due to targets not being met.[43]

2.34   The Auditor-General noted that it was 'encouraging' that where targets were not met, funds were being withheld, commenting that 'this is the system working as intended'.[44]

2.35   At the request of the Committee, DEEWR provided a state by state breakdown of the reward payments that were withheld. The data revealed that the largest amount of unspent reward funding was for New South Wales, which received only 26.67 per cent of its allocated funds. The best performing jurisdictions were Victoria and the Australian Capital Territory, which each received more than 90 per cent of the allocated reward funding.[45]

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41   ANAO Audit Report No.41 2011–12, pp. 51–52.

42   Mr McPhee, *Committee Hansard*, 12 September 2012, p. 6.

43   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 3. Funds that were withheld from states in the 2011 round of payments had been 'rolled over' to be made available again in 2012, in acknowledgement of the short amount of time some states had to influence outcomes (p. 9).

44   Mr McPhee, *Committee Hansard*, 12 September 2012, p. 6.

45   DEEWR, *Submission 5*, p. 1.

2.36   There was also wide variability between jurisdictions in both the performance against and the weighting allocated to Indigenous reading and writing targets. For example, information provided by DEEWR showed that Queensland met or exceeded two of its four Indigenous targets, and made significant progress on the other two. These Indigenous targets had been weighted to 31.5 per cent of the total performance targets. On the other hand, New South Wales did not make progress on any of its Indigenous targets, but these targets only accounted for 10 per cent of the total.[46]

2.37   The Committee noted the May 2012 media announcement that the majority of the LNNP's unallocated Commonwealth reward funding would be re-directed to the 'Focus Schools' program to improve Indigenous educational outcomes.[47]

Quality of state data

2.38   A criticism in the audit report was that neither DEEWR nor the CRC had access to the data or methodological information required to verify the accuracy of performance results provided by states, risking inaccuracies that 'may lead to corresponding inaccuracies in the allocation of reward funding'. Despite having access to a more detailed NAPLAN dataset than that which had been provided to DEEWR, the ANAO was unable to verify the states' performance data for either 2010 or 2011, as only limited information was available on the methodologies used to calculate the reported results.[48]

2.39   The report emphasised the importance of verifying or assuring the accuracy of results to ensure that public money is spent appropriately, and suggested that for future National Partnerships, 'administering agencies would benefit from working with states to coordinate preparation of performance results and to consider related assurance processes'.[49]

2.40   The ANAO explained at the hearing that DEEWR had only received aggregated data from the states, and reiterated that better quality assurance mechanisms were needed:

> … a department like DEEWR needs to be better positioned once it receives the performance data to be able to interrogate it and check

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46 DEEWR, *Submission 5*, p. 2.

47 The Hon Peter Garrett MP, Minister for School Education, 'States and Territories to benefit from $147 million for literacy and numeracy programs', *Media Release*, 30 May 2012.

48 ANAO Audit Report No.41 2011–12, p. 86.

49 ANAO Audit Report No.41 2011–12, p. 87.

> that it is accurate. That requires the school level data and a clear understanding of the methodologies used to calculate the performance results.[50]

2.41 The Committee was informed that individual states had negotiated their own reporting methodology within their implementation plans.[51]

2.42 DEEWR was asked about whether there was scope for the Commonwealth to increase its visibility over the spending of reward funding by states to ensure appropriate targeting. The department advised that its agreements with state education authorities stipulated that funds must be directed to educational outcomes, but that it had no further visibility or control over spending.[52] One of the 'end-points' of the LNNP, however, was to develop an evidence base on improving literacy and numeracy (see below) which would be informed by the LNNP funded activities of state education authorities.[53]

Co-investments by states

2.43 As noted earlier, the LNNP agreement stipulated that states were required to match the Commonwealth's facilitation payments. The agreement specified that the first facilitation payments would be triggered by the negotiation of bilateral agreements and implementation plans, and that bilateral agreements would include 'the monitoring and reporting arrangements' to track state co-investments.[54] Facilitation and reward payments would only be made once the Commonwealth Treasurer received advice that states had 'complied in full with their earlier funding (co-investment) obligations'.[55]

2.44 The ANAO reported that co-investment obligations by states had not been monitored by DEEWR. The audit found that the first facilitation payments had been approved by the Minister for School Education prior to the signing of bilateral agreements, 'so that the implementation of the LNNP was not further delayed'.[56] In the bilateral agreements, once signed, all states agreed to match or exceed the Commonwealth's payments, however, only four states agreed to include co-investment information in

50 Mr Turnbull, *Committee Hansard*, 12 September 2012, p. 4.
51 Ms Donaldson, *Committee Hansard*, 12 September 2012, p. 4.
52 Ms Donaldson, *Committee Hansard*, 12 September 2012, p. 7.
53 Mr Hehir, *Committee Hansard*, 12 September 2012, pp. 7–8.
54 COAG, *National Partnership Agreement on Literacy and Numeracy*, paragraphs 59 and 44e.
55 COAG, *National Partnership Agreement on Literacy and Numeracy*, paragraph 68.
56 ANAO Audit Report No.41 2011–12, pp. 62–63.

their annual reports to DEEWR. No states actually reported this information.[57]

2.45   The audit also found that DEEWR's Chief Financial Officer had made certifications to Treasury for facilitation and reward payments to be made that did not make reference to co-investments.[58] Treasury had access to data on co-investments for the relevant financial years through its role in acquitting co-investment reports on behalf of the Standing Council on Federal Financial Relations, however, it had not obtained agreement to share its data with relevant Commonwealth agencies.[59]

2.46   When questioned, DEEWR referred to the matter as a 'gap in the process', and explained to the Committee:

> We asked Treasury for the reports, because these reports are provided to Treasury, not to DEEWR. Treasury asked permission to provide them to DEEWR. That was not given. Therefore we did not have it in place.[60]

2.47   DEEWR further informed the Committee that subsequent to the LNNP, there has been agreement that co-investment requirements would no longer be included in future national partnerships, as such requirements are 'input controls' (and therefore at odds with an IGA FFR principle).[61]

Impact of the LNNP

2.48   It an opening statement to the Committee, DEEWR highlighted the LNNP's overall positive impacts:

> DEEWR is particularly proud of the fact that the literacy and numeracy national partnership is making a real and positive difference in our schools, particularly for the lowest-achieving students. It is pleasing to see that Indigenous students have shown the biggest gains in reading and numeracy over the past four years. LNNP reforms have contributed to a changed culture in schools through a focus on quality teaching, leadership, transparency and parental engagement.[62]

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57   ANAO Audit Report No.41 2011–12, p. 67.
58   ANAO Audit Report No.41 2011–12, p. 67.
59   ANAO Audit Report No.41 2011–12, p. 68.
60   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 9.
61   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 3.
62   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 1.

2.49   The CRC's performance report for 2011, released in May 2012, found that schools participating in the LNNP generally improved their results in reading and numeracy.[63]

2.50   In contrast, the ANAO's analysis of NAPLAN results found that when comparing LNNP schools to non-LNNP schools, the partnership was 'yet to make a statistically significant improvement' in any state. This finding was in the context that it may still have been 'too early for such impacts to be clearly evident' (as noted in the above discussion on the timing of reward payments).[64]

2.51   Asked about these findings, DEEWR explained that the ANAO's analysis was 'testing around a mean', whereas the department was also looking at 'other measures' in which there had been significant improvements.[65] The department explained that the LNNP was intended to focus on students that were falling behind, and that NAPLAN results have shown a reduction in the number of students below the national minimum standard—to 'decrease the tail'.[66]

2.52   In particular, DEEWR noted that the proportion of Indigenous Year 3 students at or below the minimum standard for reading had decreased from 53 per cent in 2008 to 46.1 per cent in 2011.[67]

2.53   Additionally, DEEWR noted strong support for the program amongst school communities and principals, and told the Committee that when assessing the success of the LNNP more outcomes than just NAPLAN results need to be considered:

> The report acknowledges that significant achievement has been made against the other key outcomes of the LNNP: increased collaboration between schools and systems in achieving literacy and numeracy reform, improved classroom practice in literacy and numeracy, and positive impact on school leadership, teacher practice and student engagement.[68]

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63   CRC, *National Partnership Agreement on Literacy and Numeracy: Performance report for 2011*, p. ii.
64   ANAO Audit Report No.41 2011–12, pp. 94–95.
65   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 5.
66   Ms Donaldson, *Committee Hansard*, 12 September 2012, p. 6.
67   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 5; DEEWR, *Submission 2*, p. [1].
68   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 2.

Evidence Base

2.54   DEEWR informed the Committee that the literacy and numeracy Evidence
        Base, a key output of the LNNP agreement, had been launched in
        June 2012 in the form of a website known as the *Teach, Learn, Share*
        database. DEEWR explained that the database was being used to 'share
        the success of the LNNP' by presenting a 'body of evidence' developed by
        state and territory education authorities over the four years of the
        partnership.[69]

Ongoing evaluation

2.55   The audit report noted that DEEWR had begun a national evaluation of
        the three Smarter Schools National Partnerships, with the first phase
        having been completed. The ANAO suggested that 'given the
        complexities in measuring the effectiveness of reform activities, it may
        take several years until a reliable assessment of the LNNP approach can be
        made'.[70] The report recommended that DEEWR analyse the literacy and
        numeracy outcomes of participating schools 'at an appropriate stage'
        following the LNNP's conclusion.[71]

2.56   At the public hearing, the ANAO further explained that although there
        were some 'positive signs', it was 'still too early to tell at this stage the
        overall impact'.[72]

2.57   DEEWR agreed with the recommendation, and undertook to continue
        monitoring the LNNP's impact with further analysis 'for many years'.[73]
        The department said it would use the findings of the audit report to
        inform the second phase of the LNNP's evaluation, which was currently
        being scoped.[74]

New LNNP agreement

2.58   DEEWR informed the Committee that negotiations were currently
        underway for the new agreement, commencing in the 2013 school year.

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69   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 2.
70   ANAO Audit Report No.41 2011–12, p. 100.
71   ANAO Audit Report No.41 2011–12, p. 90.
72   Mr Turnbull, *Committee Hansard*, 12 September 2012, p. 11.
73   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 11.
74   Ms Donaldson, *Committee Hansard*, 12 September 2012, p. 7.

> The department planned to have implementation agreements in place for the new agreement by the end of 2012.[75]

2.59   DEEWR indicated that under the new agreement it was 'looking' to require jurisdictions to identify 'what strategies have been working, evidence of why they have been working and for what cohorts, and for the funding to be provided to continue and expand that particular practice within the state or territory'.[76]

Committee comment

2.60   The Committee welcomes the audit report into the LNNP and strongly supports the Auditor-General's findings and recommendations.

2.61   While the audit report has highlighted a range of concerns, the Committee notes that the LNNP appears to be having a positive impact on literacy and numeracy outcomes and has provided a robust evidence base which education authorities can draw on for future initiatives. Moreover, DEEWR has made clear improvements to the LNNP's implementation over time, and has responded positively to the audit report's findings.

2.62   The Committee agrees with the Auditor-General's comments about the need for longer term evaluation of the LNNP's impacts. Such evaluation will help ensure future initiatives are better planned and public money is spent in the most effective way possible. The Committee is interested to hear more detail from the department on its plan for implementing the Auditor-General's recommendation for evaluating the LNNP's impact 'at an appropriate stage following its conclusion', and therefore recommends:

Recommendation 1

That the Department of Education, Employment and Workplace Relations report to the Committee within six months on the progress of its implementation of the Auditor-General's Recommendation 2 regarding the development of a longer term evaluation strategy for the National Partnership Agreement on Literacy and Numeracy.

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75   Mr Hehir, *Committee Hansard*, 12 September 2012, p. 4.

76   Ms Donaldson, *Committee Hansard*, 12 September 2012, p. 8.

2.63   It is concerning, however, that the initial performance targets set under the
         LNNP framework were not as ambitious as they could have been. The
         targets were not aimed at a level that would 'accelerate improvements' to
         the extent foreshadowed in the language of the LNNP agreement. It is also
         concerning that implementation plans were finalised, and performance
         targets set, in some instances, very shortly before the first round of reward
         payments were being evaluated. There may have been value in the LNNP
         specifying in clearer terms what 'ambitious' means, perhaps to the extent
         of including specific performance targets in the agreement at the outset.

2.64   These findings appear to strengthen the case for National Partnership
         agreements and implementation plans to be negotiated in tandem, as the
         Committee has previously suggested,[77] and as has now been included in
         advice to Commonwealth agencies issued by the Treasury.[78]

2.65   At the same time, the Committee was reassured to hear that where
         performance targets have not been met, reward funds have been
         withheld—as was intended under the framework.

2.66   Another key concern of the Committee is that DEEWR did not fulfil its
         obligation under the LNNP to monitor the agreed co-investment of
         literacy and numeracy funds by states. DEEWR apparently provided
         certifications for payments to be made to states despite having been
         unsuccessful in obtaining the required data from jurisdictions.

2.67   The Committee considers that the LNNP agreement was clear in its
         stipulation that DEEWR would confirm that co-investments had been
         made prior to payments being recommended to Treasury, and that state
         implementation plans would specify the mechanisms by which the
         relevant data would be provided. That only half of the implementation
         plans included the required details, and that, of those, none were adhered
         to in practice, suggests an unwarranted disregard for the terms and intent
         of the LNNP agreement.

2.68   Further, the inability of DEEWR, and the ANAO, to verify the accuracy of
         performance results provided by states suggests that departments need to
         pay more attention to setting up appropriate performance data monitoring
         and assurance mechanisms early in the development of National
         Partnership agreements. As was suggested in JCPAA Report 427—*Inquiry
         into National Funding Agreements*—outside expertise, either from the

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77   JCPAA, *Report 427: National Funding Agreements*, November 2011, pp. 41–42.
78   Federal Finance Circular No. 2011/04, *Developing Implementation Plans for National Partnerships*,
      9 December 2011 (p. i), states that 'Implementation Plans wherever possible should be
      developed in conjunction with the overarching National Partnership'.

Auditor-General or from other sources, could be engaged to assist departments in developing performance data monitoring and assurance frameworks, central to which would be consistent agreement on what data assurance means in the National Partnership context.

2.69   The above findings suggest a general need for DEEWR and the Minister for School Education to be more active in ensuring that the terms of its National Partnership agreements are abided by during their implementation. This may require: better mechanisms to ensure the adequacy of performance targets; the introduction of assurance measures for performance data; improving Commonwealth visibility of state co-investment data; and potentially negotiating more visibility over how the funds provided to states are being spent.

2.70   The findings echo previous JCPAA comments on the need for implementation plans to better reflect the expectations of National Partnerships and to have good quality performance indicators.[79]

2.71   Towards this end, the Committee recommends:

Recommendation 2

That, in order to help ensure the expectations of future National Partnerships are met, the Department of Education, Employment and Workplace Relations work with states and territories to develop implementation plans and reform targets at the same time as any new National Partnership agreements are developed, in accordance with advice from the Treasury.

Recommendation 3

That where state and territory co-investment obligations are included in the terms of current National Partnership agreements, the Department of Education, Employment and Workplace Relations take responsibility for monitoring these investments and assessing them before payments are made, even if this requires negotiating more visibility of state and territory data.

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79   JCPAA, *Report 427: National Funding Agreements*, November 2011, pp. 41–42, 65.

Recommendation 4

That when negotiating National Partnership agreements, the Department of Education, Employment and Workplace Relations seek external advice, potentially from the Auditor-General, on the monitoring and assurance mechanisms that should be incorporated to enable verification of performance data provided by states and territories.

2.72   Finally, the Committee strongly supports the Auditor-General's comments that in future National Partnership agreements more time must be allowed for programs to have an impact before the criteria for reward payments are assessed. In the case of the LNNP, more time being allowed between facilitation and reward payments could have enabled more ambitious targets to be set by states, and perhaps led to more meaningful and clearly measureable outcomes.

Recommendation 5

That the Department of Education, Employment and Workplace Relations and the Minister for School Education ensure that sufficient time is allowed in future National Partnership agreements for facilitation payments to take effect before measuring the performance of states and territories against reform targets and making reward payments.

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Audit Report No.45 2011–12

Administration of the Health and Hospitals Fund

Introduction

3.1   The Health and Hospitals Fund (HHF) was one of three funds established by the Commonwealth Government in the 2008–09 Budget, and given effect through the *Nation-building Funds Act 2008*. The HHF objectives, while not replacing state and territory effort, were to:

- invest in major infrastructure programs that would make significant progress towards achieving the Commonwealth's health reform targets; and

- make strategic investments in the health system that would underpin major improvements in efficiency, access or outcomes of health care.[1]

3.2   All infrastructure proposals for funding under the HHF were to be assessed by an Advisory Board appointed by the Health Minister. The Advisory Board was to consist of persons 'with substantial experience or knowledge' in a field relevant to its function. The Board included the Secretary of the Department of Health and Ageing (DoHA) and a range of other individuals, including a person with expertise in economics; a health practitioner; a clinician; a person with research expertise; an eminent

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1   ANAO Audit Report No.45 2011–12, pp. 34, 35.

community or business leader; and a person with expertise in infrastructure financing.[2]

3.3   The Health Minister was responsible for formulating the evaluation criteria to be applied by the Advisory Board in its assessment of applications. Of the projects assessed by the Advisory Board as meeting the evaluation criteria, the Health Minister would put forward selected projects to the Government for policy approval.[3]

3.4   DoHA was responsible for administering the HHF. This included providing advice to the Health Minister; providing administrative support to the Advisory Board; and administering HHF grants. DoHA also provided advice on eligibility, as well as background and contextual information to the Advisory Board during the proposal assessment processes.[4]

3.5   Four HHF funding rounds have taken place to date:

- The first round, announced in May 2009, totalled $2.61 billion and included identified 'shovel ready' projects in contribution to the Government's economic stimulus strategy in response to the global financial crisis.

- The second round, announced in early 2010, totalled $540 million and targeted regional cancer centres.

- The third round, announced in May 2011, totalled $1.33 billion and focused on regional infrastructure, in response to agreements with the independent members of parliament.

- The fourth round, announced in May 2012, totalled $475 million and also targeted regional infrastructure.[5]

3.6   Funds provided to states and territories under the HHF were not considered to be grants under financial management regulations. Rather, these funds were regarded as National Partnership project payments, subject to the terms and conditions set out in implementation plans under the National Partnership Agreement on Health Infrastructure. HHF funds provided to other organisations, however, were considered to be grants and therefore were subject to the Commonwealth Grant Guidelines.[6]

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2   ANAO Audit Report No.45 2011–12, pp. 35, 51–52.
3   ANAO Audit Report No.45 2011–12, pp. 35–37.
4   ANAO Audit Report No.45 2011–12, p. 38.
5   ANAO Audit Report No.45 2011–12, pp. 14–15.
6   ANAO Audit Report No.45 2011–12, p. 39.

The ANAO audit

Audit objective and scope[7]

3.7   The audit objective was to assess the effectiveness of DoHA's administration in supporting the creation and development of health infrastructure from the HHF, including DoHA's support for the Health Minister and the HHF Advisory Board.

3.8   To form its opinion, the Australian National Audit Office (ANAO) used the following criteria drawn from the requirements and principles of the Commonwealth Grant Guidelines and the ANAO better practice guide on grants administration:

■ DoHA's administration of the planning and conduct of the funding rounds effectively supports the purpose of the HHF;

■ DoHA provides appropriate support in the selection of projects for funding consistent with the requirements of the *Nation-building Funds Act 2008* and the *Financial Management and Accountability Act 1997* (FMA Act);

■ DoHA's negotiation and management of funding agreements is effective in delivering projects and outcomes from projects into the future; and

■ DoHA develops, collects and assesses output and outcome indicators of HHF performance and reports on them.

3.9   The audit focused on DoHA's role in the administration of the HHF relating to Rounds 1 to 3. This included the advice and support provided by DoHA: to the Health Minister in directing the work of the Advisory Board; and to the Board and the Health Minister in the assessment and selection of projects for funding.

Overall audit conclusion

3.10   The ANAO concluded that DoHA had generally established effective administrative processes to support the development of HHF funded infrastructure; established sound arrangements to support the HHF Advisory Board; and generally provided effective support to the Health

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7   ANAO Audit Report No.45 2011–12, p. 40.

Minister, although had 'at times adopted a relatively narrow view of its role'.[8]

3.11   The ANAO found that the department's administrative and support arrangements had improved over time. The report noted that these improvements had been made in the context of timing pressures caused by the first and third HHF rounds being expedited by the Government, and significant resource constraints within DoHA.[9] These pressures were, however, found to have had some impact on the program's administration:

> The limited time and resources available to DoHA to establish processes for Round 1 militated against the adoption of a more structured approach to the planning and conduct of that round. At the local and state level, DoHA relied on the infrastructure needs and gaps identified by stand and territory governments — a 'bottom up' approach. While the focus of the round at the national level was decided by government, with extra time and resources devoted to the administration of the HHF the department could have utilised a more formal 'top down' strategic planning approach, including independently assessing health infrastructure needs and gaps against government priorities.[10]

3.12   Despite the department's positive contribution to the HHF's administration and the advancement of projects, the ANAO identified scope for the department to better assist key decision-makers, particularly the Health Minister, in discharging their responsibilities.[11]

3.13   The ANAO noted that the Health Minister had been provided with a significant number of eligible projects with a value, if agreed, well in excess of the funds available in the HHF. However, the Health Minister did not receive further advice — such as a merit list or scores for individual projects against the evaluation criteria — to support her assessment of the relative merits of the eligible applications. The ANAO described DoHA's claim that there was no requirement for the Board or the department to rank projects for the Government as reflecting 'a relatively narrow view of responsibilities in grants administration'.[12]

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8   ANAO Audit Report No.45 2011–12, p. 17.
9   ANAO Audit Report No.45 2011–12, pp. 17–18.
10   ANAO Audit Report No.45 2011–12, p. 63.
11   ANAO Audit Report No.45 2011–12, p. 18.
12   ANAO Audit Report No.45 2011–12, p. 19.

3.14   The ANAO also identified scope for DoHA to expand its advice to the
        Minister and financial approvers on the financial implications of proposed
        early payments for HHF projects. For the first three HHF rounds,
        14 projects were provided with payments in advance of project
        requirements, and the ANAO estimated that the net present value of
        interest foregone by making these payments in advance of requirements
        was $145 million.[13]

3.15   While noting that HHF funded projects were intended to result in
        improvements to health outcomes, the ANAO reported that DoHA plans
        to implement an evaluation approach that focuses on progress against
        construction milestones. The ANAO suggested that while this approach
        was reasonable, it would be challenging to measure any tangible
        improvements to health outcomes at a project level. There would
        accordingly be benefit in further developing the evaluation strategy to
        determine the program's overall contribution to improving health
        outcomes.[14]

ANAO recommendations

3.16   The ANAO made three recommendations intended to improve the
        effectiveness of DoHA's administration of the HHF.[15]

Table 3.1   ANAO recommendations, Audit Report No.45 2011–12

1.	To maximise transparency in decision-making, the ANAO recommends that, for all future HHF assessment and selection processes, the Department of Health and Ageing:
	a) includes all significant aspects of the selection process in funding guidelines; and
	b) advises the Health Minister on priorities for funding proposals assessed as eligible by the HHF Advisory Board.
	DoHA Response: *Agreed*
2.	To enable decision-makers to form a considered view on the proper use of Commonwealth resources to fund Health and Hospitals Fund projects, the ANAO recommends that the Department of Health and Ageing provides advice to:
	a) the Health Minister on the risks, if any, and opportunity costs of making payments to funding recipients in advance of need; and
	b) the FMA Regulation 9 approver on government decisions, if any, relating to payments in advance of need and the implications of those decisions for spending proposals requiring consideration under FMA Regulation 9.
	DoHA Response: *Agreed*

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13   ANAO Audit Report No.45 2011–12, p. 20.
14   ANAO Audit Report No.45 2011–12, pp. 21–22.
15   ANAO Audit Report No.45 2011–12, p. 22.

3.	To improve the transparency and accountability of reporting on the outcomes achieved through HHF funding, the ANAO recommends that the Department of Health and Ageing further develops its evaluation strategy to determine the program's overall contribution to improving health outcomes, in addition to measuring progress against project milestones.
	DoHA Response: *Agreed*

The Committee's review

3.17   The Committee conducted its review of the audit report through written correspondence.

3.18   The Committee sent DoHA eight questions in writing. DoHA's response provided the Committee with evidence on the following matters:

- The implementation of ANAO recommendations

- Communications between the Commonwealth and states.

Implementation of ANAO recommendations

Resource availability

3.19   DoHA's response to the audit report noted that the department was not allocated additional resources for the administration of the HHF until the 2011–12 Budget, when funds were reallocated from savings made as a result of a strategic review of the portfolio. Although supporting the ANAO's recommendations, the response said that the department would continue to improve and strengthen HHF administration 'if resources can be identified to do this, taking into account a constrained resources environment and other competing priorities'.[16]

3.20   In a question to the department, the Committee sought to clarify this response, asking whether there had been any progress in finding additional resources and whether the 'resource availability' caveat applied to all three ANAO recommendations.

3.21   The department responded that HHF capital works projects were being administered 'within existing resources', supported by expert advice from the Centre of Excellence for Capital Works, which had been established to advise on establishing construction milestones, appropriate milestone

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16   ANAO Audit Report No.45 2011–12, p. 26.

payments and monitoring construction progress. However, the department recognised the need to 'consider additional resources to both manage the funding round and implement the audit recommendations' should a further HHF funding round be announced.[17]

3.22   DoHA advised that its 'resource availability' caveat applied primarily to implementing the ANAO's Recommendation 3 (regarding the HHF's evaluation), but would also apply to Recommendation 1 (regarding transparency in the decision-making process) if further funding rounds were held.[18]

Timing of implementation

3.23   Given the timing of the audit report's finalisation and the conduct of the fourth HHF round, the Committee asked DoHA to advise whether the ANAO's preliminary findings had been taken into account in Round 4.

3.24   The department advised that it had received the ANAO's preliminary findings in relation to the first three HFF rounds on 21 March 2012. The HHF Advisory Board's advice to the Health Minister (dated 27 February 2012), and the department's information to the Minister relating to the Board's advice (dated 28 February 2012), both preceded the departments receipt of the ANAO's preliminary findings.[19]

Implementation of ANAO Recommendation 1

3.25   The Committee asked the department how it was implementing the ANAO's recommendation that it advise the Health Minister on the priorities of eligible funding proposals and include all significant aspects of the selection process in funding guidelines.

3.26   The department's response stated that it would 'give consideration to the implementation of the recommendation' if the Government announced a further HHF funding round.[20]

Implementation of ANAO Recommendation 2

3.27   In the context of the ANAO's recommendation that DoHA improve its advice in relation to making payments in advance of need, the Committee asked the department what steps it was taking to ensure that future advice

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17   DoHA, *Submission 8*, p. [1].
18   DoHA, *Submission 8*, p. [1].
19   DoHA, *Submission 8*, p. [2].
20   DoHA, *Submission 8*, p. [2].

regarding pre-payments under the HHF, and other similar programs, would take the full financial implications into account.

3.28   The department replied that its internal procedures for HHF projects, and other similar programs, required an executed funding agreement with payments linked to milestones. The department said that advice from the Centre of Excellence for Capital Works on construction milestones and appropriate milestone payments ensured that delegates were 'fully informed of the payment conditions for each project and of the importance of providing advice to the Minister on the financial implications of making advance payments'.[21]

Implementation of ANAO Recommendation 3

3.29   The Committee asked DoHA how it was implementing the ANAO's recommendation to include, in its evaluation strategy for the HHR, an assessment of the program's overall contribution to improving health outcomes. Additionally, the Committee asked when the first evaluations were likely to take place.

3.30   The department informed the Committee that it had 'commenced development of an evaluation framework'. The framework would be 'progressed through the 2012–13 financial year' and the outcomes of the evaluation would be available in 2013.[22]

Communications between the Commonwealth and states

3.31   The Committee asked DoHA for the chronology of communications between the Commonwealth and states in respect to the HHF. The department advised that 'to compile the requested information would involve a significant resource effort that the department is not currently in a position to undertake'.[23]

3.32   In addition, in relation to the nomination of projects, the Committee asked DoHA whether the Commonwealth had sought further information on:

■ any hospitals offered by states for approval through the HHF; or

■ any hospitals not offered by states for approval.

The Committee requested details of which states, which hospitals and at what moment in the grants program.

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21   DoHA, *Submission 8*, p. [2].

22   DoHA, *Submission 8*, p. [3].

23   DoHA, *Submission 8*, p. [3].

3.33   In response to both questions, the department advised that there had been 669 applications received across the four HHF funding rounds, and that it had sought information on some hospital applications at the request of the Advisory Board.[24]

3.34   However, the department indicated that it could not disclose the requested information as it 'concerns the business and commercial affairs of the states' and its disclosure 'may impact on the Commonwealth's future dealings with the states'. In relation to non-government organisations, the department similarly said that it was 'not in a position to release this information' as it concerned 'the business and commercial affairs of those organisations'.[25]

Committee comment

3.35   The Committee welcomes the Auditor-General's report, and notes that the findings were positive overall regarding DoHA's role in administering the HHF.

3.36   It is concerning that DoHA was required to implement such a large program as the HHF for approximately three years before being provided with additional funding, particularly given that the implementation of Rounds 1 and 3 were fast-tracked. Under the circumstances, DoHA's performance in the administration of the HHF was commendable.

3.37   There are, however, some areas of concern identified in the report and in the department's response to the Committee's questions that are worthy of comment.

3.38   The Committee's primary aim during its review of the audit report was to ensure that the Auditor-General's recommendations were being effectively implemented by the department. Additionally, concerns raised by constituents of some Committee members indicate a level of dissatisfaction in the community about the transparency of the process used to select projects for HHF funding. Accordingly, the Committee focused its questions on how the department was implementing the ANAO's recommendations to improve the process in future rounds, and on clarifying the nature of the department's activities in liaising with

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24   DoHA, *Submission 8*, p. [3].
25   DoHA, *Submission 8*, p. [3].

states and territories on the projects proposed—and not proposed—for funding.

3.39   The response received from the department did little to ease concerns about the level of transparency in HHF funding. Most of the department's answers to the Committee's questions lacked detail and clarity, and questions about communications between the Commonwealth and states were left almost completely unanswered. Overall, DoHA's response was unhelpful and demonstrated a lack of respect for the Committee's important role in scrutinising, on behalf of the Parliament, the Government's use of public money. This was particularly unacceptable given the department took almost two months to respond to the questions.

3.40   DoHA's initial response to the audit report indicated that it supported the ANAO's recommendations, but in the context of a 'constrained resource environment and other competing priorities'. The department's response to the Committee's questions seemed to confirm that the department did not view implementing the ANAO's recommendations as a high priority, and that a lack of resources may prevent full implementation.

3.41   The Committee was particularly concerned to hear that this caveat placed on the department's support extended to ANAO Recommendation 1—on providing more detail in funding guidelines and in its advice to the Minister—for which the additional resource effort would presumably be small. Insufficient advice being provided to Ministers responsible for approving grants is a recurring issue that has been raised in previous JCPAA reviews.[26]

3.42   DoHA's response to the Committee's specific question on the implementation of ANAO Recommendation 1 stated only that the department would 'give consideration' to the implementation of the recommendation—should the Government announce a further HHF funding round.

3.43   The importance of providing comprehensive information in funding guidelines and delivering advice to decision makers on the relative merits of proposals cannot be understated. The fact that the department would only 'give consideration' to these concepts seems a poor approach to public administration.

3.44   Although the audit under review was limited specifically to the HHF, which does not currently have another round planned, the Committee

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26   See, for example, JCPAA *Report 430: Review of Auditor–General's Reports Nos. 47 (2010–11) to 9 (2011–12) and Reports Nos. 10 to 23 (2011–12)*, May 2012, p. 55.

considers a more comprehensive response to its question and to the
ANAO's recommendation was warranted. For example, the department
had the chance to inform the Committee of how Recommendation 1
would be applied to other similar grants programs managed by DoHA, or
whether DoHA's internal guidance was being updated in light of the
recommendation. Given the absence of this information, the Committee
assumes that this is not currently occurring, and an opportunity for the
department to improve its grants program framework is being missed.
The Committee therefore recommends:

Recommendation 6

**That the Department of Health and Ageing identify and action ways to
apply the lessons of ANAO Recommendation 1 to its standard practices
and procedures for all current and future grants programs.**

3.45   The Committee similarly found the department's response to its question
on ANAO Recommendation 3—on improving the HHF evaluation
strategy—to be lacking. The response provided some basic timeline
information, but no information on how an assessment of the program's
overall contribution to improving health outcomes would be included in
the evaluation strategy.

3.46   The Committee acknowledges that assessing a single program's
contribution to a goal as large as improving national health outcomes is a
complex task. Such an evaluation will unlikely be able to use a simple
numeric performance indicator, and instead with rely on partial
information and significant judgement. However, if such large goals are to
be included in the objectives of a program an attempt to evaluate progress
must be made.

3.47   At a minimum, the department's response to the Committee's questioning
could have outlined the approach being taken to developing the
evaluation framework; the basic features expected to be included; and
how the ANAO's recommendation was likely to be incorporated. The
Committee was left with inadequate information on what progress, if any,
had been made to date in implementing the recommendation. The
Committee therefore recommends:

Recommendation 7

> **That, within 6 months, the Department of Health and Ageing provide the Committee with an update on the progress of its evaluation of the Health and Hospitals Fund. The update should include how the department's evaluation framework has incorporated ANAO Recommendation 3, and any preliminary findings of the evaluation.**

3.48   DoHA's response to questions on the Commonwealth's communications with states could have done more to assist the Committee with its inquiry. The Committee accepts that providing a detailed account of every instance of communication between the Commonwealth and states would have been burdensome; however, the department could at a minimum have provided a high-level overview of the communications, or types of communications, that took place.

3.49   The Committee notes the ANAO's finding that DoHA, due to a lack of time to develop a clear internal strategy to inform funding priorities, relied on states to identify infrastructure gaps and needs in HHF Rounds 1 and 3.[27] The Committee was interested to learn more about the process by which the Commonwealth liaised with states in identifying suitable projects for funding, but as it was, the response shed no light on these legitimate questions.

3.50   The transparency of funding arrangements between the Commonwealth and states will continue to be an area of interest to the Committee in its future work program.

3.51   Finally, the Committee notes the Auditor-General's finding that, in the context of the HHF funding round being fast-tracked:

> … with extra time and resources devoted to the administration of the HHF the department could have utilised a more formal 'top down' strategic planning approach, including independently assessing health infrastructure needs and gaps against government priorities.[28]

3.52   The Committee considers that the fast-tracking of programs may undermine their integrity and that if more time was available and a more strategic approach undertaken, better value for money may have been achieved.

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27   ANAO Audit Report No.45 2011–12, p. 47.

28   ANAO Audit Report No.45 2011–12, p. 63.

4

Audit Report No.46 2011–12

Administration of the Northern Australia Quarantine Strategy

Introduction

4.1   Australia is presently free of many pests and diseases that have had major economic and environmental consequences for other countries. This favourable biosecurity status is particularly important to Australia's $32 billion agricultural export industry. However, Australia's expansive northern coastline and its proximity to neighbouring countries, such as Papua New Guinea and Indonesia, make it vulnerable to exotic pests, weeds and diseases that can be carried by migrating birds, human activities and wind currents to the mainland.[1]

4.2   In 1989, the Northern Australia Quarantine Strategy (NAQS) program was established within the Department of Agriculture, Fisheries and Forestry (DAFF) to respond to the unique biosecurity risks that face Australia's northern region. NAQS aims to facilitate the early detection of pests, weeds and diseases across northern Australia, covering approximately 10 000 kilometres of coastline from Broome, Western Australia to Cairns, Queensland, including the islands of the Torres Strait.[2]

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1   ANAO Audit Report No.46 2011–12, p. 11.
2   ANAO Audit Report No.46 2011–12, p. 16.

4.3   Consistent with DAFF's risk-based approach to managing the biosecurity continuum, the NAQS program is implemented through:

- scientific surveillance activities designed to detect early signs of exotic pests, weeds and diseases;

- Torres Strait border operations aimed at reducing the risk of quarantine risk material entering the Torres Strait and mainland Australia from Papua New Guinea; and

- public awareness activities aimed at encouraging the public to report sightings of exotic pests, weeds and diseases and to comply with quarantine restrictions that apply to Torres Strait border movements.[3]

The ANAO Audit

Audit objective and scope[4]

4.4   The objective of the audit was to assess the effectiveness of DAFF's administration of NAQS. The Australian National Audit Office (ANAO) examined whether the department had established effective:

- administrative and governance arrangements to support NAQS;

- processes for identifying biosecurity risks and conducting scientific activities to address identified risks;

- arrangements for managing the quarantine aspects of Torres Strait border movements; and

- public awareness activities that reflect identified biosecurity risks and support the program's objectives.

4.5   The audit did not examine DAFF's arrangements for managing the response to biosecurity emergencies when exotic pests, weeds and diseases are detected.

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3   ANAO Audit Report No.46 2011–12, p. 13.
4   ANAO Audit Report No.46 2011–12, pp. 15–16.

Overall audit conclusion[5]

4.6   In 2011–12, NAQS was delivered by approximately 68 officers, located at 21 locations across the NAQS zone. Since mid-2009, NAQS has reported 33 detections, including 17 targeted exotic pests and diseases, to state, territory and Australian Government biosecurity stakeholders.

4.7   NAQS is a mature program that is widely recognised as playing an important role in Australia's national biosecurity system by assisting to safeguard Australia's animal and plant health status.

4.8   In general, the audit found that DAFF has implemented effective arrangements to administer the NAQS program in line with the department's risk-based approach to biosecurity. These arrangements support the delivery of the program's diverse scientific and border operations activities. Systems and processes have been established to identify and review biosecurity risks and to target the delivery of animal and plant health scientific surveys. The department also has arrangements in place to manage the quarantine aspects of Torres Strait border movements, which focus on maintaining an ongoing presence in the Torres Strait, informing stakeholders of their quarantine responsibilities and undertaking inspections to limit the movement of quarantine risk material. In recent years, the department has formalised and more clearly articulated the program's public awareness strategies to reflect biosecurity risks and strengthened its relationships with key stakeholders, particularly Indigenous communities. Underpinning these arrangements is a sound governance framework.

4.9   The ANAO found, however, that there were aspects of the program that could be improved to better inform management decision-making and to enable the department to demonstrate the achievements of the NAQS program. These include: better managing scientific data; improving the integrity of border operations data; and further strengthening the department's arrangements for measuring and reporting NAQS performance.

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5   ANAO Audit Report No.46 2011–12, p. 16.

ANAO recommendations

4.10   The ANAO made three recommendations, each of which were agreed to by DAFF.

Table 4.1   ANAO recommendations, Audit Report No.46 2011–12

1.	To improve the effectiveness of scientific surveillance activity, particularly in relation to the plant science disciplines, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry strengthen existing arrangements for recording, monitoring and reporting survey and diagnostic data. **DAFF response:** *Agreed.*
2.	To provide meaningful data to inform border management decisions and measure performance, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry: • improve quality assurance processes to help ensure that border operations data are accurate and complete; and • analyse border operations data to calculate inspection and seizure rates to establish baselines for each Torres Strait island pathway. **DAFF response:** *Agreed.*
3.	To inform management decisions and improve accountability, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry: • articulate a clear objective for NAQS; • build on current work to develop performance measures that assess the extent to which NAQS is achieving this objective; and • collect and analyse relevant and accurate performance data. **DAFF response:** *Agreed.*

The Committee's review

4.11   The Committee held a public hearing on 10 October 2012 with representatives from the following organisations:

- The Australian National Audit Office

- The Department of Agriculture, Fisheries and Forestry.

4.12   The Committee took evidence on the following issues:

- DAFF's risk management framework

- Data management and information technology support for NAQS

- Seizure rates

- Community engagement

- Future challenges.

DAFF's risk management framework

4.13   Identifying and evaluating biosecurity risks is a key priority of the NAQS program. The program has established a risk framework that includes: target lists of known exotic pests, weeds and diseases; and risk area ratings of the NAQS zone. This framework is then used to guide the planning and delivery of surveillance efforts.[6]

4.14   The NAQS zone is divided into risk areas, which are each given a relative risk rating for animal and plant health, and are surveyed at the following rates:

- 'high' risk rating areas are surveyed at least annually;

- 'medium' risk rating areas are surveyed every two to three years;

- 'low' risk rating areas are surveyed every three to five years; and

- 'very low' risk rating areas are surveyed once every five years.[7]

4.15   At its appearance before the Committee, DAFF outlined the evolution from 'mandatory intervention' to the current risk based method that governs DAFF's approach to quarantine. DAFF noted that, in the early part of the 2000s, over 80 per cent of bags processed through airports were assessed, and that most of the time, there was a low rate of detection of quarantine material.[8]

4.16   The approach now taken by DAFF is based on using data to determine areas of greatest risk, and targeting the higher risk areas. DAFF identified improvements in data collection and data analysis as being key to improving risk assessments.[9]

Data management and information technology support for NAQS

4.17   A significant component of NAQS scientific work is directed at the identification and diagnosis of samples collected through field surveys.

4.18   The scientific data collected by NAQS officers are manually entered into the NAQS Database using data entry templates for each sample collected. Survey data is required to be entered into the NAQS Database within three months of survey completion.[10]

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6   ANAO Audit Report No.46 2011–12, p. 56.

7   ANAO Audit Report No.46 2011–12, pp. 59–61.

8   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, p. 5.

9   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, p. 6.

10   ANAO Audit Report No.46 2011–12, pp. 69–70.

4.19   During the audit, DAFF advised the ANAO that the current database presented constraints to improving data management and analytical capability. These constraints included:

- the inability to set up alerts for overdue tasks;

- slow network speeds;

- lack of capacity to spatially map the coverage of survey work; and

- data corruption.[11]

4.20   To address these information technology (IT) constraints, DAFF advised the ANAO that work was underway to migrate to a new data sharing system known as BioSIRT—a software package jointly designed by federal, state and territory biosecurity agencies to manage biosecurity data. The ANAO reported that DAFF was developing a data migration plan and a series of templates to log data, but that there was no set date for the migration of NAQS data to BioSIRT.[12]

4.21   At the public hearing, the Committee discussed the information technology platform that supported NAQS, noting the importance of reliable, up-to-date data to DAFF's risk based approach to assessing biosecurity threats.

4.22   DAFF advised the Committee that the planned IT updates to support NAQS were related to broader updates within the department, and that 'the overall full implementation will be some years away'.[13]

Seizure rates

4.23   The audit found that while DAFF collated data on arrivals in Australia, the department did not use this information to calculate inspection and seizure rates. The ANAO suggested that this additional analysis would enable DAFF to establish baselines and monitor trends and border management performance over time.[14]

4.24   At the hearing, the Committee expressed concern that DAFF was still not calculating figures to determine what percentage of inspections resulted in the seizure of quarantine material—data that would assist in assessing risk. DAFF explained that no data on seizures was collected during the

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11   ANAO Audit Report No.46 2011–12, pp. 69–70.

12   ANAO Audit Report No.46 2011–12, p. 70.

13   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, pp. 2–3.

14   ANAO Audit Report No.46 2011–12, p. 89.

period of 'mandatory intervention' described above, as under that approach all movements were stopped and checked. Accordingly, during that time there was no need to calculate seizure data to target risk.[15]

4.25   Further, DAFF reported that there was an older 'interceptions database' that detailed interceptions of quarantine material, but that it was 'clunky' and not easily accessible for users. To keep it updated, officers would have to double-enter data into the regular databases, and also into the interceptions database.[16]

4.26   The Committee was advised that while there were quality assurance systems in place to ensure that databases were reliable, these systems were still dependent on data being appropriately handled:

> … we do have various checks associated with inspection and seizure data that is collected, but, because they are in the main reliant on manual collection — use of spreadsheets, handing on data from our remote based officers to our central offices where the data is collated — the ANAO have rightly identified some areas where there are some improvements that can be made in that transfer of data.[17]

4.27   DAFF indicated that improvements to its IT systems would, when coupled with the implementation of better quality assurance measures, provide more information for the risk management framework and more easily enable the calculation of statistics like seizure rates. However, the Committee was advised that full implementation of the ANAO's recommendations would take some years,[18] and was dependent on the implementation of IT changes as part of the department's broader strategy for IT improvements.[19]

4.28   DAFF noted that while IT changes would take time, its business strategy was already taking into account the recommendations of the ANAO, with a view to ensuring the strategy would integrate with new IT systems when they were implemented:[20]

> … the investments that we are making in IT at the moment are to get stability and access so that we can actually build the tools into that, rather than build tools that no-one can use. The strategy for

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15   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, pp. 5, 6.
16   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, p. 5.
17   Mr Korff, *Committee Hansard*, Canberra, 10 October 2012, p. 5.
18   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, pp. 1–2.
19   Mr Korff, *Committee Hansard*, Canberra, 10 October 2012, p. 5.
20   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, p. 6.

these guys at the moment will be to enhance the manual work as
we move towards more reliable and accessible IT.[21]

Community engagement

4.29   One of the unique features of NAQS is the involvement of members of the
community in Northern Australia in assisting NAQS officers by reporting
unorthodox movements and potential plant threats. The Committee was
advised that DAFF used this information to prepare risk based
surveillance operations.[22]

4.30   NAQS has also engaged Indigenous ranger groups under contractual and
fee-for-service arrangements to assist in public awareness, plant host
mapping, bat colony mapping, and marine debris surveillance.[23]

4.31   DAFF informed the Committee that the local land knowledge of
community groups was a valuable resource in identifying potential
threats, and that the provision of species and weed identification training
enabled these groups to provide even more useful assistance to NAQS
officers.[24]

4.32   DAFF also noted the assistance provided by contracted community
groups, and described the relationship between these groups and NAQS
officers:

> The people in the community groups that we contract with are
> trained. They use PDAs [personal digital assistants] or other data
> input tools in survey and management work to provide us with
> data. We have officers who go out to the community groups on a
> regular basis with the activity plan for the surveys and activities
> that need to be done. These officers also provide training and
> sometimes work directly with the community groups where they
> are doing the work.[25]

Future challenges

4.33   The Committee asked DAFF to identify the biggest challenges in relation
to biosecurity and quarantine issues in the Northern Territory.

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21   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, p. 6.
22   Mr Korff, *Committee Hansard*, Canberra, 10 October 2012, p. 3.
23   ANAO Audit Report No.46 2011–12, pp. 98–99.
24   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, p. 3.
25   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, p. 3.

4.34   In respect to operational challenges, DAFF indicated that:

> … the challenges will remain the surveillance work, keeping our
> eye on the new things that are emerging offshore that present a
> risk onshore and continuing to respect the traditional movements
> in the Torres Strait and making sure we do not try to regulate
> those in a way that is not respectful of the traditional zones.[26]

4.35   DAFF also highlighted the ongoing budgetary challenges of managing the
        strategy in remote areas:

> The CPI [Consumer Price Index] increases you normally get in
> things are pretty tough to manage in the north when getting
> aviation fuel, getting access to helicopters and getting access to
> barges to move fuel when you are doing major surveillance
> activity. It is not just the price; it is the availability of
> infrastructure. These are normal challenges for any department
> but they are exacerbated when you are looking at the sort of zone
> we work in.[27]

4.36   In terms of specific threats to Northern Australia, DAFF identified the
        following high-priority disease risks which were regularly monitored for
        by the department: [28]

- Foot-and-mouth disease

- Avian influenza and 'swine flu'

- Rabies

- Plant diseases

4.37   Asked whether it had adequate resources to respond to problems that are
        detected, DAFF noted that states and territories were responsible for
        responding to threats onshore under cost-sharing arrangements. It added
        that whether there were enough resources would 'depend on the nature of
        the incursion or the finding', with some threats, such as myrtle rust, being
        'impossible technically to eradicate'.[29]

4.38   DAFF further indicated that severe animal disease posed the biggest risk
        in Northern Australia, and advised that 'our ability as a country to

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26   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, p. 2.
27   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, p. 2.
28   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, p. 4.
29   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, p. 7.

resource eradication will always be a difficult task, and it is not just the money; it is the size.'[30]

Committee comment

4.39   The Committee notes the ANAO's findings that the governance arrangements that support the NAQS program 'provide a sound framework to guide the implementation of the program.'[31] Given insufficient governance arrangements are one of the most commonly identified areas for improvement by the ANAO, the Committee is heartened by the audit's positive findings on DAFF's management of NAQS.

Risk management and seizure rates

4.40   The Committee notes the change in approach to quarantine that has taken place over the last decade from 'mandatory intervention' to a risk based approach. Risk based approaches ensure that resources can be directed to areas of most need, and this appears to be the best way to monitor movements of goods and people across Northern Australia.

4.41   However, the Committee also considers the importance of accurate, well-maintained data to properly guide a risk based approach, and encourages DAFF to ensure its databases are as accurate as possible—given the comparatively antiquated databases currently being utilised.

4.42   It was of some concern to the Committee that DAFF was not using the existing interceptions database to calculate at least approximate seizure rates. This statistic was not collected and used to establish baselines and monitor trends and border management performance over time. Having access to these figures and trends would help to inform DAFF officers when assessing risks, and accordingly, the Committee recommends:

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30   Ms Mellor, *Committee Hansard*, Canberra, 10 October 2012, p. 7.

31   ANAO Audit Report No.46 2011–12, p. 46.

Recommendation 8

> **That, using information currently available, the Department of Agriculture, Fisheries and Forestry calculate and maintain inspection and seizure rates of quarantine material for areas covered by the Northern Australia Quarantine Strategy zone, and use this information to inform management decisions regarding border operations.**

Information technology

4.43   It is clear that information technology provides an extremely important support to NAQS. It enables data logged by NAQS officers to be analysed by DAFF officials to detect potential threats and identify trends, informing the department's risk-based approach to quarantine management.

4.44   Accordingly, the Committee welcomed the advice that funding was available for enhancing DAFF's IT capacity to provide more reliable systems for logging NAQS data and allowing for analysis over time. Given the NAQS program is supported by an older database, and in some cases spreadsheets, a new IT system will be worthwhile development to further enhance the NAQS program.

4.45   The Committee was also pleased to hear that the new BioSIRT database has been established in conjunction with state and territory biosecurity agencies. However, the Committee notes the potential for a database for all federal, state and territory biosecurity agencies to not meet some of the individual needs of each party, and encourages the department to ensure that all of the requirements of staff working on the NAQS program are met during the continuing development of the system.

4.46   The Committee would like to ensure that DAFF takes on board all of the observations made by the ANAO concerning deficiencies in NAQS databases, and recommends:

Recommendation 9

> **That the Department of Agriculture, Fisheries and Forestry ensure that support for Northern Australia Quarantine Strategy activities is a high priority during the continuing development of the BioSIRT database in order to address the deficiencies identified by the Australian National Audit Office and in the Joint Committee of Public Accounts and Audit's review.**

4.47   The Committee was somewhat concerned to hear that IT support for the NAQS program is dependent on a broader IT reform program in DAFF, which may delay improvements, but understands the efficiencies that DAFF will achieve by this integration.

Community engagement

4.48   The Committee was pleased to hear about the level of involvement of members of local communities across the NAQS zone. The Committee welcomes the ANAO finding that NAQS community engagement:

- was supported by a communication strategy;

- embraced public awareness campaigns;

- involved an ongoing presence in Indigenous communities with twice-yearly visits; and

- was moving towards targeting interactions with the community using a risk based approach.[32]

Future challenges

4.49   The Committee acknowledges the future challenges faced in the management of NAQS, and believes that with appropriate support from the department and implementation of the ANAO and JCPAA recommendations, NAQS will continue to appropriately manage threats to Australia's biosecurity.

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32   ANAO Audit Report No.46 2011–12, p. 91–98.

5

Processing and Risk Assessing Incoming International Air Passengers

Introduction

5.1   The Australian Customs and Border Protection Service (Customs and Border Protection) is responsible for the protection of the safety, security and commercial interests of Australians through border protection designed to support legitimate trade and travel, and to ensure collection of border-related revenue and trade statistics.[1]

5.2   At the border, Customs and Border Protection makes primary interventions at the Entry Control Point (ECP) to 'verify identity, respond to risk assessments and activate secondary assessments of persons of interest'. Officers identify persons of interest through real time risk assessments and through the deployment of detector dogs. Secondary interventions include questioning, baggage examination and searching of persons of interest, and related follow-on activities.[2]

5.3   Customs and Border Protection is operating in 'an environment of growth in both passengers and goods'. Incoming passenger movements increased from around 11.3 million in 2006–07 to around 13.9 million in 2010–11,

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1   ANAO Audit Report No.50 2011–12, p. 29.
2   ANAO Audit Report No.50 2011–12, p. 30.

with numbers expected to continue to increase significantly over the coming years.[3]

5.4   The SmartGate automated border clearance system was progressively deployed at Australia's international airports between 2007 and 2011, and is an important strategy to assist with the efficient processing of increasing numbers of passengers. SmartGate kiosks enable eligible passengers and crew to 'self-process' through passport control, using the electronic information in the ePassport and facial recognition technology to perform the Customs and Border Protection and Department of Immigration and Citizenship (DIAC) checks normally undertaken by a Customs and Border Protection officer at the manual ECP.[4]

5.5   At the time of the audit, eligibility for SmartGate was restricted to Australian and New Zealand passport holders over 16 years of age, who made up 8.4 million, or 57.1 per cent, of incoming passengers and crew in 2010–11. The extension of SmartGate eligibility to other nationalities was part of the original planning for its implementation.[5]

5.6   The processing of incoming international air passengers was the subject of a previous ANAO audit report—No.10 2009–10—tabled in November 2009. That audit focused on the manual processing of passengers at the ECP, and made four recommendations to Customs and Border Protection to: improve assurance measuring and reporting of functions performed by officers; review and update a disaster recovery plan; improve information technology incident response processes; and update, monitor and report against the Key Performance Indicators in the Memorandum of Understanding with DIAC.

5.7   The JCPAA conducted an inquiry into this previous ANAO Report (No.10) in 2010.[6] Although the Committee did not make any recommendations, in its report it urged Customs and Border Protection to implement the ANAO's recommendation on information technology, and indicated that the JCPAA would continue to monitor the processing of incoming international passengers.

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3   ANAO Audit Report No.50 2011–12, p. 32.
4   ANAO Audit Report No.50 2011–12, p. 33.
5   ANAO Audit Report No.50 2011–12, p. 33.
6   JCPAA Report 418: *Review of Auditor-General's Reports Nos. 04 to 38 (2009/10)*, December 2010.

The ANAO audit

Audit objective and scope[7]

5.8   The objective of the audit was to assess the effectiveness of Customs and Border Protection's risk based management of end-to-end processing of incoming international air passengers in achieving border security and passenger facilitation outcomes.

5.9   As the Australian National Audit Office (ANAO)'s previous audit report, No. 10 2009–10 *Processing of Incoming International Air Passengers*, assessed Customs and Border Protection's manual processing of incoming international air passengers at the primary line, the scope of this audit was aligned to areas not previously covered: automated passenger processing through SmartGate; pre-arrival risk assessment; and secondary intervention outcomes.

5.10   The audit addressed whether:

- Customs and Border Protection's pre-arrival risk assessment effectively facilitates low-risk passenger movements and supports appropriate interventions for high-risk passenger movements;

- the SmartGate automated primary clearance facility is achieving its objectives of enabling Customs to process more travellers securely and simply; enhancing border security; and improving identity verification; and

- Customs and Border Protection effectively manages secondary examination interventions for passengers, including referrals to other agencies, on a risk basis.

Overall audit conclusion

5.11   The audit report noted that Customs and Border Protection was operating in a 'growing and increasingly complex passenger environment' with increasing resource constraints, meaning that a risk based approach to identifying potential persons of interest was essential.[8]

5.12   The ANAO concluded that, overall, Customs and Border Protection was effectively managing the clearance of incoming international air passengers. However, it found structural weaknesses, gaps and overlaps

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7   ANAO Audit Report No.50 2011–12, p. 15.

8   ANAO Audit Report No.50 2011–12, p. 16.

in the risk based approach to passenger clearance, reducing assurance that high-risk passengers were being consistently identified, and low-risk passengers were not subject to unnecessary intervention. In particular, the ANAO found that pre-arrival risk assessment and the development and review of profiles were not guided by a risk prioritisation model.[9]

5.13   The ANAO also found that while SmartGate worked well and passenger usage was increasing, its potential contribution to passenger processing efficiency had 'not been realised and could be improved'. Passenger clearances through SmartGate and the resultant efficiency savings, while increasing annually, were 'well below the forecasts advised to government in 2009'. The audit found that as management of SmartGate had been the responsibility of individual airports, there had been 'variable results' in encouraging and achieving passenger usage. The ANAO suggested that a national strategy for SmartGate would assist Customs and Border Protection to improve SmartGate performance.[10]

ANAO recommendations

5.14   The ANAO made three recommendations aimed at improving Customs and Border Protection's management of incoming international air passenger processing and risk assessment.[11]

Table 5.1   ANAO recommendations, Audit Report No.50 2011–12

1.	To guide and invigorate a coordinated national approach to improving SmartGate's presentation and clearance rates, the ANAO recommends that Customs and Border Protection:
	▪ develop a strategic plan for SmartGate, containing clear objectives, priorities, strategies and performance targets; and
	▪ identify, and promulgate nationally as appropriate, better practices for SmartGate.
	Customs and Border Protection Response: *Agreed.*
2.	To better identify and reduce the impact of system process errors on SmartGate clearances and referrals, the ANAO recommends that Customs and Border Protection enhance its monitoring and diagnostic tools for identifying exceptions and anomalies in SmartGate data.
	Customs and Border Protection Response: *Agreed*
3.	To improve assurance that passenger risk assessment is achieving effective border security outcomes, the ANAO recommends that Customs and Border Protection gives priority, in implementing the Passenger Targeting Model, to:
	▪ developing stronger systems for performance reporting and measurement of the effectiveness of its pre-arrival risk assessment activities;

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9   ANAO Audit Report No.50 2011–12, p. 16.

10   ANAO Audit Report No.50 2011–12, pp. 16, 17.

11   ANAO Audit Report No.50 2011–12, p. 17.

> ▪ better prioritising the allocation of passenger risk assessment and intervention resources through a risk priority model; and
>
> ▪ reviewing the internal governance arrangements to provide for appropriate coverage of national and local interests.
>
> **Customs and Border Protection Response:** *Agreed*

The Committee's review

5.15   The Committee conducted its review of the audit report through written correspondence.

5.16   The Committee sent Customs and Border Protection two questions in writing, focusing on the audit's findings in relation to the under-utilisation of SmartGate. The response provided the Committee with evidence on the following matters:

- SmartGate usage at Australian airports

- Measures to increase SmartGate usage.

SmartGate usage at Australian airports

5.17   The ANAO reported that 2.16 million passengers had presented at SmartGate kiosks in 2010–11, representing 42.24 per cent of eligible passengers.[12] Accounting for passengers who may have attempted to use SmartGate but were not automatically cleared—producing a more important figure when assessing the success of the initiative in achieving efficiencies—the ANAO found that 1.81 million passengers had *successfully* used SmartGate. This number was well below the 4.16 million passengers forecast in estimates provided to government in 2009. Consequently, 'biometric efficiency dividend' savings were 'well behind the forecast returns'.[13]

5.18   In percentage terms, the ANAO found that the SmartGate clearance rate was just 37 per cent of eligible passengers in 2010–11. The clearance rate had shown encouraging signs of improvement in 2011–12, increasing to 46 per cent by March 2012, however, this was still 'well behind' the forecasts.[14]

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12 ANAO Audit Report No.50 2011–12, p. 61.

13 ANAO Audit Report No.50 2011–12, p. 69.

14 ANAO Audit Report No.50 2011–12, p. 63.

5.19   The Committee requested updated figures from Customs and Border
        Protection on the number of passengers using SmartGate at Australian
        airports.

5.20   In its response, Customs and Border Protection reported that 3.09 million
        eligible travellers had used SmartGate in 2011–12. The figure for the
        month of August 2012 was 339 594, representing 61.9 per cent of eligible
        travellers.[15]

5.21   In regards to passenger clearance rates, the Committee was informed that
        in August 2012, 51.4 per cent of eligible passengers had successfully
        cleared through SmartGate.[16]

Measures to increase SmartGate usage

5.22   The audit report indicated that a key assumption underlying SmartGate
        forecasts was that the facility would be extended to holders of ePassports
        from other countries—something that still had not occurred at the time of
        the audit.[17]

5.23   The ANAO suggested that given this constraint, Customs and Border
        Protection would need to maximise SmartGate usage by the eligible
        passenger population of Australian and New Zealand ePassport holders
        over 16 years of age if more efficient processing was to be achieved. The
        ANAO concluded that SmartGate had lacked 'national direction' in the
        form of national clearance rate targets or a plan for achieving SmartGate's
        objectives. As noted above, it recommended that a Smartgate strategic
        plan be established and promulgated nationally.[18]

5.24   In this context, the Committee asked for an update on Customs and
        Border Protection's efforts to improve SmartGate presentation and
        clearance rates.

5.25   Customs and Border Protection informed the Committee that it had
        received $7.9 million in the 2012–13 budget to increase the capacity of
        SmartGate. This funding was being used to install five new gates in
        Melbourne Airport by December 2012 and eight new gates in Sydney
        Airport by June 2013.[19]

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15   Customs and Border Protection, *Submission 4*, p. 1.
16   Customs and Border Protection, *Submission 4*, p. 1.
17   ANAO Audit Report No.50 2011–12, pp. 69–70.
18   ANAO Audit Report No.50 2011–12, pp. 70–71.
19   Customs and Border Protection, *Submission 4*, pp. 1–2.

5.26   Customs and Border Protection indicated that increased SmartGate uptake would be achieved by the use of 'additional dynamic signage, way finding and marshalling' and estimated that at least 65 per cent of eligible travellers would be using SmartGate by June 2013, and 80 per cent by June 2014.[20]

5.27   The Committee was informed that plans were 'well advanced to extend the use of SmartGate to other nationalities', with a pilot for United States Global Traveller members planned to commence late in 2012.[21] Customs and Border Protection also advised that, depending on the outcome of this pilot, eligibility may be extended to eligible United States and United Kingdom ePassport holders in 2013.[22]

Committee comment

5.28   The Committee recognises the importance of Customs and Border Protection's role in minimising risks to Australian security, and welcomes the publication of the ANAO's report. The Committees fully supports the audit's findings and recommendations.

5.29   The Committee was disappointed to learn that the anticipated efficiency gains of the SmartGate automated passenger clearance facility had not all been realised due to lower than expected usage and clearance rates. It appears that at least some of the large cost-saving potential of the facility has been missed due to investments in technology not being followed up with the strategic direction needed to encourage its use.

5.30   Nevertheless, it is recognised that Customs and Border Protection is now taking measures to increase SmartGate usage in Australian airports, such as by improving signage and marshalling. The Committee is encouraged that SmartGate usage appears to have continued to increase in the period since audit was completed.

5.31   The Committee welcomes the allocation of additional funding in the 2012-13 budget to increase SmartGate capacity at the nation's busiest airports. This appears to be a logical investment of public money, given

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20   Customs and Border Protection, *Submission 4*, p. 2.

21   Global Entry is a United States Customs and Border Protection program that allows expedited clearance for pre-approved, low-risk 'Global Travellers' upon arrival in the United States. According to the Global Entry website, the SmartGate pilot was to commence on 1 November 2012. See <http://www.globalentry.gov/> viewed 27 November 2012.

22   Customs and Border Protection, *Submission 4*, p. 2.

the increased potential for efficiency returns in the longer term if clearance rates can be improved.

5.32   The Committee also supports efforts by Customs and Border Protection to extend eligibility to use SmartGate to passengers of other nationalities, where this can be done cost effectively and whilst maintaining appropriate levels of security. It is clear that this will be necessary to maximise the use of SmartGate and hence to achieve the potential efficiency gains originally anticipated.

5.33   The Committee was, however, surprised that there was no mention of a strategic plan for improving SmartGate presentation and clearance rates in Customs and Border Protection's response to its questions. The development of such a plan was a key recommendation of the ANAO. The Committee notes that at the time of the audit report, a strategic plan was reported to be 'under development', and that SmartGate presentation and clearance targets had been included in the 2012–13 Portfolio Budget Statements.[23]

5.34   The Committee is interested in learning more about the continuing development and implementation of the strategic plan, and therefore recommends:

Recommendation 10

That, within six months of the tabling of this report, the Australian Customs and Border Protection Service provide the Committee with an update on its progress in developing and implementing a strategic plan for SmartGate. The response should include:

- **an overview of measures introduced as part of the plan to improve SmartGate clearance numbers;**

- **the latest figures on the number and percentage of eligible passengers clearing through SmartGate; and**

- **how the year to date figures compare with the presentation and clearance targets identified in the 2012–13 Portfolio Budget Statements.**

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23   See ANAO Audit Report No.50 2011–12, pp. 70, 71.

6

Audit Report No.1 2012–13

Administration of the Renewable Energy Demonstration Program

Introduction

6.1   The Renewable Energy Demonstration Program (REDP) was designed to 'accelerate the commercialisation and deployment of new renewable energy technologies for power generation in Australia by assisting the demonstration of these technologies on a commercial scale'.[1]

6.2   The program was launched on 20 February 2009 as a merit-based competitive grants program. The Government initially committed $435 million to the program, with the private sector to contribute at least two dollars for every one dollar provided.[2]

6.3   The Department of Resources, Energy and Tourism (RET) was the administering agency responsible for the REDP's design and implementation.[3]

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1   ANAO Audit Report No.1 2012–13, p. 43.

2   ANAO Audit Report No.1 2012–13, p. 43.

3   ANAO Audit Report No.1 2012–13, p. 43.

Program timeframes

6.4   The REDP formed the bulk of the Government's 2007 election
        commitment to a $500 million Renewable Energy Fund, which was
        originally proposed to be funded for the period of 2008–09 to 2014–15.[4]

6.5   Initial details of the REDP were announced in May 2008 as part of the
        budget process, during which a decision was announced that funding
        would be delayed until the 2009–10 financial year to 'allow time for
        consultation and decisions on funding guidelines', and to 'allow potential
        applicants to plan projects in accordance with these guidelines and in the
        context of other climate change policies'.[5]

6.6   In December 2008, however, the Government announced that the
        Renewable Energy Fund would be brought forward for investment in the
        subsequent 18 months.[6] Bringing the funding forward was intended to:

        ■ turbo charge investment in solar and renewable energy
           projects;
        ■ complement the Carbon Pollution Reduction Scheme;
        ■ stimulate the economy; and
        ■ create low pollution jobs for the future.[7]

Program implementation

6.7   The department received 63 applications under the REDP, of which 61
        were considered by the Department to be eligible for funding
        (36 non-solar and 25 solar). An independent advisory committee, the
        Renewable Energy Committee (REC), was appointed to assess
        applications against the specified merit criteria and to make
        recommendations for funding. On 6 November 2009, the Minister for
        Resources and Energy announced grants for four non-solar projects (two
        geothermal energy, one wave energy and one combination energy).[8]

6.8   As part of the 2009–10 Federal Budget, the Government announced the
        $1.5 billion Solar Flagships Program and the establishment of the
        Australian Centre for Renewable Energy (ACRE). As a result, solar energy

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4   ANAO Audit Report No.1 2012–13, p. 42.

5   The Hon Martin Ferguson MP, Minister for Resources and Energy, 'Budget Boosts Clean Coal
     and Renewable Energy', *Media Release*, 13 May 2008.

6   ANAO Audit Report No.1 2012–13, p. 42.

7   Prime Minister of Australia, 'Government to Bring Forward Investment in Green Energy',
     Media Release, 14 December 2008.

8   ANAO Audit Report No.1 2012–13, p. 44.

projects were excluded from the REDP and $135 million of its funding was transferred to the Solar Flagships Program.[9]

6.9   In 2009, the Minister subsequently allocated up to $100 million to the ACRE board to make recommendations on solar energy REDP applications. An interim ACRE board—comprising the same members as the REC—assessed REDP solar applications using the REDP guidelines and made funding recommendations to the Minister. On 11 May 2010, grants for two solar technology projects were announced.[10]

6.10   Table 6.1 provides an overview of projects selected for funding.

Table 6.1   Projects funded under REDP (solar and non-solar)

Grant Recipient	Amount of Grant (millions)	Plant Capacity (MW)	Project Description
Geodynamics	$90.00	25	A hot rock geothermal energy demonstration plant in Innamincka, South Australia.
Solar Oasis	$60.00	40	Solar thermal big dish demonstration plant in Whyalla, South Australia.
Victorian Wave Partners	$66.47	19	Ocean energy demonstration plant off Portland, Victoria.
MNGI	$62.76	30	A heat exchanger within insulator geothermal energy demonstration plant in Paralana, South Australia.
CS Energy	$34.90	23	Solar powered booster for coal-fired power station at Kogan Creek, Queensland.
Hydro-Electric Corporation	$15.28	4	Combination of solar, wind and biodiesel technologies on King Island, Tasmania.
Total	$329.41	141	

Source   ANAO Audit Report No.1 2012–13, p. 45.

The Department of Resources, Energy and Tourism and the Australian Renewable Energy Agency

6.11   RET was formed in December 2007, with functions transferred from the former departments of Industry, Tourism and Resources; Education, Science and Training; and Environment and Water Resources.[11]

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9   ANAO Audit Report No.1 2012–13, p. 45.

10   ANAO Audit Report No.1 2012–13, pp. 44–45.

11   The majority of staff, resources and expenses related to functions that were transferred from the Department of Industry, Tourism and Resources. See RET Annual Report 2007–08, pp.37, 148–149.

6.12   On 1 July 2012, the Australian Renewable Energy Agency (ARENA) was established by the Government in order to consolidate renewable energy support into one independent statutory authority within the Resources, Energy and Tourism portfolio. ARENA, which replaced ACRE, is now responsible for managing existing renewable energy programs, including the REDP.[12]

Grants program administration framework

6.13   At the time of the REDP's launch, the Government was in the process of implementing a suite of reforms to improve grants administration. Although the enhanced legislative policy framework for grants administration—including the Commonwealth Grant Guidelines (CGGs)—did not come into full effect until 1 July 2009, after the commencement of the REDP assessment process, the reforms had been already given immediate effect through revised Finance Minister's Instructions issued in January 2009.[13]

6.14   The CGGs establish seven key principles for grants administration: robust planning and design; an outcomes orientation; proportionality; collaboration and partnership; governance and accountability; probity and transparency; and achieving value with public money. The CGGs also highlight the importance of record keeping to public accountability through 'proper maintenance and availability of relevant documentation'.[14]

The ANAO audit

Audit objective and scope[15]

6.15   The objective of the audit was to assess the effectiveness of RET's administration of the REDP (both solar and non-solar components), including progress towards achieving the program's objectives. The audit examined whether the department had established effective arrangements to:

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12   ANAO Audit Report No.1 2012–13, p. 19.

13   ANAO Audit Report No.1 2012–13, p. 47.

14   ANAO Audit Report No.1 2012–13, pp. 47–48; Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Canberra, July 2009, pp. 14, 25.

15   ANAO Audit Report No.1 2012–13, p. 20.

- implement the REDP, including governance arrangements;

- assess applications for REDP funding assistance and recommend projects to the Minister for funding approval;

- negotiate funding agreements for approved projects; and

- monitor progress towards the achievement of the REDP objective.

Overall audit conclusion

6.16   The audit report concluded that RET 'did not manage key aspects of the program's implementation well', and had departed from 'generally accepted practices for sound grants administration, which had only recently been reinforced by the release of the Commonwealth Grant Guidelines'.[16]

6.17   The report identified particular weakness in the following three aspects of the program's administration:

- Program planning—the department did not complete an implementation plan and did not perform a risk assessment until some eight months after the REDP's launch.

- Probity arrangements—the department did not keep records of the consideration of conflict of interest declarations by several members of the REC, nor the involvement of those members in discussing the individual applications for which they had declared a conflict. The department's probity office did not observe the REC's assessment deliberations or perform the required oversight tasks.

- Assessment of applications—the assessment process 'fell short' of the expected level of transparency and accountability, with insufficient documentation retained to evidence key aspects of the process.[17]

6.18   In making these conclusions, the Australian National Audit Office (ANAO) recognised the 'challenging environment' the department was operating in. The REDP was the first major program to be implemented by RET, which as a new department was still establishing its core functions. Additionally, the REDP's accelerated implementation 'meant that grant applications, assessments and decisions had to be completed within a compressed timeframe, adding to the program's implementation risks'.[18]

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16   ANAO Audit Report No.1 2012–13, pp. 22–23.

17   ANAO Audit Report No.1 2012–13, p. 22.

18   ANAO Audit Report No.1 2012–13, p. 21.

6.19   The audit report also acknowledged that since the REDP's assessment processes had taken place, the department had progressively strengthened its governance arrangements and guidance, better positioning it to effectively manage grants programs.[19]

ANAO recommendation

6.20   The ANAO made one recommendation aimed at the department enhancing its existing guidance materials for managing grants programs through greater coverage of the requirements relating to the documentation of merit assessment processes.[20]

Table 6.2   ANAO recommendation, Audit Report No.1 2012–13

1.	To improve accountability and transparency in grants administration, the ANAO recommends that the Department of Resources, Energy and Tourism strengthens processes for undertaking assessments of future grant programs by:
	(a) providing additional guidance in relation to documenting assessment and selection processes in the department's grants administration manual; and
	(b) reinforcing to departmental officers and advisory committee members the importance of documenting assessments against eligibility and merit criteria.
	RET Response: *Agreed.*

The Committee's review

6.21   The Committee initially scheduled a public hearing for Wednesday 19 September 2012 with representatives of the following organisations:

- The Australian National Audit Office

- The Department of Resources, Energy and Tourism.

6.22   The public hearing was unable to take place on the day scheduled due to a series of divisions in both Chambers, and the Committee resolved to undertake the remainder of the inquiry through written correspondence.

6.23   The Committee sent the department eight initial questions in writing, and one supplementary question.

6.24   The responses from RET provided the Committee with evidence on the following matters:

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19   ANAO Audit Report No.1 2012–13, pp. 22–23.
20   ANAO Audit Report No.1 2012–13, p. 23.

- Status of REDP projects

- Effectiveness of program acceleration

- Implementation of the ANAO recommendation

- Improvements to grant administration processes

- Development of Key Performance Indicators

- Management of conflicts of interest

- Support from other departments.

Status of REDP projects

6.25   The Committee requested that RET provide a brief progress update on the development of each of the six projects funded under the REDP, including when each project was expected to be fully operational and whether any were currently generating electricity.

6.26   The department advised that none of the projects were generating electricity, and provided a brief update on each project, as summarised in Table 6.3.

Table 6.3   Progress updates for REDP funded projects

Project	RET progress update	Expected completion
Geodynamics Cooper Basin 'Hot Rocks' Geothermal Demonstration	Geodynamics successfully completed drilling of its 4.2 kilometre deep Habanero 4 well in September 2012. Challenges with the reverse cementing of the final section of the well have been overcome and the company is preparing to commence a 'fraccing' process to enhance the reservoir.	Mid-2015
Solar Oasis Whyalla 'Big Dish' Solar Thermal project	The funding deed for this project was executed on 8 March 2012. Solar Oasis is undertaking activities required to implement the project.	End of 2016
Victorian Wave Partners Portland Wave Power Demonstration	The company has recently signed an agreement with Lockheed Martin to provide engineering and project management support as a new project participant following the withdrawal of Leighton Contractors from the project. The project is in the process of renegotiating its funding agreement, including project timing, with the Australian Renewable Energy Agency.	Unspecified
MNGI/Petratherm Paralana 'Hot Rocks' Geothermal Demonstration	This project is contingent on the company securing the funding needed to complete its precursor drilling program.	Unspecified

CS Energy Kogan Creek Solar Boost	This project is performing well. Bulk earth works are now complete and supporting towers for the first three solar steam generators have been erected and over 250 reflectors (mirrors) have been installed. The Dalby factory commenced fully automated construction of reflectors in June 2012. Construction of the first three solar steam generators will be completed by November 2012.	Mid-2013
Hydro Tasmania King Island Renewable Energy Integration Project	This project is progressing well and has recently successfully installed and commissioned the Diesel Uninterruptable Power Supply unit.	Late 2013

Source   RET Submission 7

Effectiveness of program acceleration

6.27   Noting the audit report's findings about the challenges caused by bringing forward the REDP's implementation in December 2008, the Committee asked how successful the REDP had been in achieving the aims of this acceleration, which included stimulating the economy and creating low carbon jobs for the future.

6.28   The response from RET indicated that although the REDP was accelerated during the global financial crisis, it was 'not formally part of the Government's stimulus package', and 'accordingly these outcomes were not part of the REDP's objectives'.[21]

Implementation of ANAO recommendation

6.29   The ANAO's recommendation called for additional guidance to be provided in the department's grants administration manual, and a reinforcing to staff of the importance of documenting assessments against eligibility and merit criteria. As noted earlier, RET agreed with the recommendation.[22]

6.30   The Committee enquired as to what progress had been made on implementing the recommendation to date; what future work was planned; and when that work would be completed.

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21   RET, *Submission 7*, p. 6.
22   ANAO Audit Report No.1 2012–13, p. 105.

6.31   RET responded that it was in the process of revising its grants administration manual and would 'ensure that the additional guidance recommended by the ANAO is incorporated into the new procedures'. The work was due to be complete by January 2013. The department advised that the findings of the audit had meanwhile been promulgated to program managers through its Program Management and Delivery Committee.[23]

Improvements to grant administration processes

6.32   The department also summarised for the Committee the changes it had made to strengthen program management since the REDP's implementation:

- Establishment and promulgation of a Grants Administration Procedural Rule and Grants Administration Manual in February 2011

- Establishment of a Program management and Delivery Committee in September 2010

- Establishment of genesis files for all programs, containing key planning and implementation documents

- Establishment of a program evaluation timeline, including mid-point and final evaluations for all programs

- Inclusion of a rolling program of Grants Administration Reviews in the department's Internal Audit program, focusing on compliance

- Establishment of the RET Grants Network of program managers, used to disseminate best practice information and discuss issues

- RET's joining of the Program Management Community of Practice Forum, a quarterly interdepartmental 'round table' forum to discuss issues and share innovative ideas

- Establishment of a risk management framework in May 2010

- Establishment of a RET Program Management framework

- Establishment of a Legal Services Panel in 2009, which is used to engage probity advisors for implementation of larger programs.[24]

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23   RET, *Submission 7*, p. 2.
24   RET, *Submission 7*, pp. 3–4.

Development of Key Performance Indicators

6.33   During the audit, the department told the ANAO that it had not
         developed Key Performance Indicators (KPIs) for the REDP, but that it
         was in the process of doing so while implementing the recommendations
         of ANAO Report No. 5 (2011–12) *Development and Implementation of Key
         Performance Indicators to Support the Outcomes and Programs Framework*.[25]

6.34   The Committee asked RET whether this work had now been completed,
         and if so, for an outline of the KPIs that had been developed and how the
         department would ensure that the system for data collection, monitoring
         and reporting was robust.

6.35   The department advised that a range of KPIs had now been approved for
         the REDP. The KPIs were developed in consultation with the RET
         procurement team and consulting firm BPPM Pty Ltd, and were consistent
         with ANAO recommendations.[26]

6.36   RET listed the program's KPIs, which are divided into two sections:
         'operational KPIs', which relate to program design and implementation;
         and 'objectives focused KPIs', which specify the program objectives and
         outcomes.[27]

6.37   The department advised that its KPI template 'sets out the information or
         data to be collected in order to measure performance against these KPIs,
         who is responsible for providing the information and the frequency and
         method of data collection required'. It noted that ARENA would be
         monitoring KPI compliance for the REDP projects.[28]

Management of conflicts of interest

6.38   The audit report records that on 11 May 2009, the Special Minister of State
         wrote to the Resources Minister to highlight the importance of effectively
         managing conflicts of interest for the REDP, and to advise that committee
         members were to 'remove themselves from the assessment of any such
         projects' where there was a conflict of interest.[29]

6.39   Five members of the REC had declared associations with entities when
         asked to identify any potential or actual conflicts of interest. The

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25   ANAO Audit Report No.1 2012–13, pp. 70–71.

26   RET, *Submission 7*, p. 4.

27   RET, *Submission 7*, p. 4.

28   RET, *Submission 7*, p. 4.

29   ANAO Audit Report No.1 2012–13, p. 90.

department advised the ANAO that an assessment had been made of the materiality of these associations, but the ANAO found no recorded evidence of this assessment.[30] Nevertheless, in its response to the draft audit report, the department repeated its view that no REC member had a material conflict of interest.[31]

6.40   The Committee noted the audit report's adverse findings on the management of potential conflicts of interest by RET, particularly in regards to the lack of documentation. It asked the department to explain how the assessment was made of the materiality of REC member's declared associations with entities; why there was no documentation of this assessment; and what evidence it had to support its statement that no REC member had a material conflict of interest.

6.41   In its response, RET maintained that 'due process was followed'.[32] The department explained that all members of the REC had signed confidentiality agreements and submitted conflict of interest returns against all projects, and it was 'decided by the Acting Program Manager and the REC Chair that none of the potential conflicts were material'.[33]

6.42   In addition, RET advised that potential conflicts were regularly discussed at REC meetings:

> The first item discussed at every REC meeting was previously-disclosed and new potential conflicts. In all cases, REC members agreed that the conflicts were minor and that they would prefer the potentially conflicted person to stay in the room and partake in the discussion. Members accepted that in their deliberations they could make judgements on the comments of potentially conflicted members given that they had knowledge of the potential conflict.[34]

6.43   RET noted that the REC members' confidentiality agreements and conflict of interest declarations had been maintained on departmental files, and showed that:

> … no REC members had an actual or perceived conflict of interest that was material. No REC members had conflicts of interest with applicants that would benefit them, either personally or

30   ANAO Audit Report No.1 2012–13, p. 91.
31   ANAO Audit Report No.1 2012–13, p. 129.
32   RET, *Submission 7*, p. 6.
33   RET, *Submission 7*, p. 5.
34   RET, *Submission 7*, p. 5.

financially, if the applicant had been successful in obtaining REC funding.[35]

6.44   The department attributed the lack of documentation of these matters to the compressed timeframes that resulted from the REDP's acceleration, adding:

> RET accepts that some of the documentation and record-keeping should have been better handled. This includes the assessment by the Acting Program Manager and the REC Chair that none of the potential conflicts identified were material. This assessment was not documented but any potential conflicts of interest were transparent and widely understood by participants.[36]

6.45   RET was also asked by the Committee whether any of the potential conflict of interest associations declared by members of the REC related to entities involved in projects that ultimately received REDP funding, and if so, what assurance could be offered that the REC member was not involved in the decision-making for this project's application for funding.

6.46   The department informed the Committee that one such declared association did relate to an entity that was awarded funding. The association was in the form of a small shareholding in a company listed on the Australian Stock Exchange. It was noted, however, that the project funded by REDP was a 'relatively minor activity in its overall portfolio of activities'. The department reiterated that 'all potential conflicts, including this one, were disclosed to and considered by the REC as part of its deliberations on the applications'.[37]

6.47   In response to another question, the department advised that it had not received any complaints about the REDP process or outcomes from any organisations who missed out on funding.[38]

Support from other departments

6.48   The audit report noted that the REDP was the first major program to be implemented by RET as a new department, and that at the time the REDP was being implemented RET was still establishing core departmental

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35   RET, *Submission 7*, p. 5.
36   RET, *Submission 7*, pp. 5–6.
37   RET, *Submission 7*, p. 6.
38   RET, *Submission 7*, p. 5.

functions. This finding was reiterated in RET's response to the proposed ANAO report.[39]

6.49   The Committee asked about the support RET received, as a relatively new department during the REDP's implementation, from its 'parent' departments—that is, those departments who had transferred functions to RET—in relation to managing grant programs.

6.50   The department replied that it had received 'no direct support' from other departments in the implementation of the REDP. It noted that there had, however, been some 'knowledge transfer with staff who moved into RET as a result of the 2007 Machinery of Government changes who had made use of AusIndustry templates and procedures'.[40]

6.51   In response to a supplementary question, the department advised that it did not request assistance from any other agency in managing the development and implementation of the REDP, nor did it receive any offers of additional resources to assist in delivering the program.[41]

Committee comment

6.52   The Committee was disappointed by the adverse findings contained in the ANAO's audit on the administration of the REDP.

6.53   However, the Committee recognises that the problems occurred within a difficult context. RET was implementing a major grants program under an accelerated timeline whilst also establishing a new department. The Committee also acknowledges the significant improvements that have been made to RET's procedures in the period since the REDP commenced, and commends the department for these efforts.

6.54   The Committee's comments on several aspects of the program and the audit report are contained below.

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39   ANAO Audit Report No.1 2012–13, p. 31.
40   RET, *Submission 7*, p. 6.
41   RET, *Submission 9*, p. 1.

Progress of funded projects

6.55   Based on the information provided by RET, of the six projects funded under the REDP, only two appear to be firmly on schedule to be fully operational by 2014–15. Of these, one project—the King Island Renewable Energy Integration Project—is not of the 'large scale' that was intended under the REDP.[42]

6.56   A third project — the Innamincka 'Hot Rocks' Geothermal Demonstration—is also expected by the department to be fully operational by around the end of 2014–15. However, the Committee notes the extensive setbacks this project has faced due to technical barriers, which have led to delays and cost overruns, causing Geodynamics' joint venture partner Origin Energy to cease its financial contributions to the project.[43] The Committee welcomes recent progress on the project, but also notes that current activity is focused on a relatively small pilot plant based on the 'Habanero 4' well. The final completion date for the project can be far from certain.

6.57   The department's update stated that the funding deed for the Whyalla 'Big Dish' Solar Thermal project (Solar Oasis) had only been executed in March 2012. The Committee notes the ANAO's comments on significant delays to the signing of funding deeds, which were intended to be executed within 30 days of the grants being offered. These delays were 'inconsistent with the department's advice that REDP applications would need to be for projects that were "shovel ready" and able to commence immediately a grant was announced'.[44] Clearly, this project was not 'shovel ready' at the time the grant was awarded in May 2010.

6.58   The department was not able to provide estimated completion dates for the other two projects, both of which have faced funding difficulties due to the withdrawal of joint venture partners.[45]

6.59   The Committee accepts that the nature of a grants program involving new technologies is that the funded projects will be high-risk. However, it is concerning that many of the funded projects—which were intended to be 'shovel ready'—have made such little progress to date. Some three years

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42   ANAO Audit Report No.1 2012–13, pp. 113–114.

43   Geodynamics, 'Innamincka Deeps Joint Venture: Habanero 4 drilling progress', *ASX Announcement*, 10 August 2012.

44   ANAO Audit Report No.1 2012–13, p. 119.

45   RET, *Submission 7*, p. 2; Petratherm Limited, 'Paralana Geothermal Energy Joint Venture Project Update', *ASX Release*, 16 December 2011.

after the first grants were announced, none of the projects are generating electricity yet and several have had funding difficulties.

Program acceleration and economic stimulus

6.60   The department's response to the Committee's question on whether the REDP had been successful in stimulating the economy and creating jobs was that as the REDP was 'not formally part of the Government's stimulus package', stimulating the economy and creating low carbon jobs for the future were 'not part of the REDP's objectives'.

6.61   However, jobs and stimulus were cited as key reasons for the program's acceleration when it was announced in December 2008,[46] and therefore the Committee had expected a more comprehensive response to this question. The department's very limited response on this matter was at best unhelpful, if not disrespectful to Parliament.

6.62   The Committee is uncertain what benefit, if any, was obtained by the government's decision to accelerate the REDP's implementation, given the much longer timeframes involved in actually getting projects underway.

6.63   As evidenced in the audit report, the acceleration appears to have negatively affected both the quality of applications received and the quality of the department's administration of the program in its initial stages—particularly in relation to planning, the management of probity and the process of selecting projects for funding. Given that the program had originally been delayed to 'allow time for consultation and decisions on funding guidelines', and to 'allow potential applicants to plan projects',[47] the negative impacts of the acceleration should have been foreseen.

Documentation of REDP decisions

6.64   The Committee was concerned by the Auditor-General's findings that the department had insufficient documentation to evidence key aspects of the process used by the REC to assess project applications and manage potential conflicts of interest. These issues are at the core of the ANAO's findings in relation to the REDP's administration.

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46   See Prime Minister of Australia, 'Government to Bring Forward Investment in Green Energy', *Media Release*, 14 December 2008; Prime Minister of Australia, 'Joint Press Conference with the Queensland Premier at Windorah Solar Farm Queensland', *Transcript*, 14 December 2008.

47   The Hon Martin Ferguson MP, Minister for Resources and Energy, 'Budget Boosts Clean Coal and Renewable Energy', *Media Release*, 13 May 2008.

6.65   These findings are disappointing. However, the Committee notes that there have been no complaints received from unsuccessful applicants about the REDP process or outcomes, supporting to some extent the department's claim that the project selection decisions themselves were sound.

6.66   In regards to conflicts of interest, the Committee accepts the department's claim that the identified potential conflicts were relatively minor and were appropriately handled in practice. However, without adequate documentation of how assessments of their materiality were made and how the matters were handled during REC meetings, the department is exposed to potential claims that the process was compromised.

Subsequent improvements to RET practices

6.67   The Committee acknowledges the range of significant improvements that RET has made to the administration and oversight of its programs in the period since the REDP's initial implementation.

6.68   Taken together, these improvements show that the department has taken seriously the lessons learned from the REDP and has worked to improve its processes over time. These improvements give the Committee confidence that the administrative problems identified in the audit of the REDP would be unlikely to occur in future grants programs administered by RET.

6.69   The Committee strongly supports the Auditor-General's recommendation for ongoing improvements to RET's management of grant programs through additional guidance being provided to staff in its grants administration manual. The Committee notes that RET is in the process of implementing the recommendation.

6.70   The Committee also acknowledges the finalisation of Key Performance Indicators for the REDP, which were still being developed at the time of the audit. While the fact that KPIs were not in place earlier reflects negatively on the department, it is encouraging to see that efforts have now been made to select meaningful and measureable KPIs, in line with previous recommendations of the ANAO.

Support for fast-tracked programs

6.71   The problems with the administration of the REDP program identified in the ANAO audit occurred in the context of RET being a new department taking on its first major program; coupled with the compression of the program's implementation timeframe in circumstances outside the department's control.

6.72   The problems with administration of the program were presumably either due to capacity problems (i.e. a lack of staff skill or staff numbers) or due to the compressed timeframes being simply too short to allow all aspects of good public administration to be followed.

6.73   Regarding capacity, the Committee notes that the Australian Public Service Commission's good practice guide on *Implementing Machinery of Government Changes* emphasises the importance of assistance being provided to new departments from the departments and agencies that are transferring functions to them:

> Support by portfolio Secretaries could take the form of loaning experienced staff with expertise in corporate functions, or arranging/supporting secondments where APS employees from other portfolios are needed.[48]

6.74   The Committee heard that RET did not request any assistance from other agencies and did not receive any offers of additional resources.

6.75   Given that a factor in the REDP's administrative weaknesses was that RET was still establishing its core functions, as the ANAO and the department both acknowledged, it is surprising that RET did not request additional support as it took on its first major program. Moreover, assuming that the REDP's acceleration represented an increase in its priority to the Government, the Government should have made further efforts to ensure that RET was able to effectively deliver the program whilst also following the Government's grant administration guidelines.

6.76   Of course, it is not clear whether additional support would have substantially changed the administrative shortcomings of the program, as the compressed timelines may simply have been too demanding.

6.77   Administering a major program within a condensed timeframe is a big challenge for even the most well-established departments. Requiring a new department to do so, when it had not yet developed its basic internal

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48   Australian Public Service Commission, *Implementing Machinery of Government Changes: A Good Practice Guide*, Second edition, August 2010, p. 6.

frameworks for grants administration and program oversight, was an invitation for problems to occur.

6.78   The findings of this audit report provide a lesson for the Australian Government when making decisions concerning implementation timeframes for large programs. This lesson is that the government should give more thorough consideration to the capacity of departments to deliver programs whilst still adhering to government administration requirements. This should include consideration of whether additional assistance is needed, especially when a department is still being established.

Rob Oakeshott MP
Chair
November 2012

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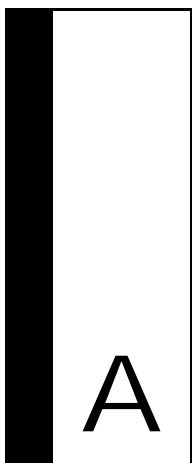
Appendix A – Public Hearings

Wednesday, 12 September 2012 – Canberra

Australian National Audit Office

> Mr Ian McPhee, Auditor-General

> Mr Stuart Turnbull, Executive Director, Performance Audit Services Group

> Mrs Jessica Scully, Senior Performance Analyst, Performance Audit Services Group

Department of Education, Employment and Workplace Relations

> Mr Martin Hehir, Deputy Secretary, Schools and Youth Cluster

> Mr Tony Zanderigo, Group Manager, Evidence and Innovation Group

> Ms Wenda Donaldson, Branch Manager, School Evidence and Reform Branch

Wednesday, 10 October 2012 – Canberra

Australian National Audit Office

> Mr Ian McPhee, Auditor-General

> Mr Mark Simpson, Executive Director, Performance Audit Services Group

> Ms Christina Bagot, Director, Performance Audit Services Group

Department of Agriculture, Fisheries and Forestry

> Ms Rona Mellor, Deputy Secretary

> Mr Murray Korff, Northern Australia Quarantine Strategy Program Manager

> Mr Robert Langlands, Regional Manager, Northern Region

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Appendix B – Submissions

1   Australian National Audit Office

2   Department of Education, Employment and Workplace Relations

3   Australian National Audit Office

4   Australian Customs and Border Protection Service

5   Department of Education, Employment and Workplace Relations

6   Australian National Audit Office

7   Department of Resources, Energy and Tourism

8   Department of Health and Ageing

9   Department of Resources, Energy and Tourism