

The Auditor-General
Audit Report No.23 2012–13
Performance Audit

The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Victoria

**Department of Regional Australia, Local Government,
Arts and Sport**

Australian National Audit Office

© Commonwealth of Australia 2013

ISSN 1036-7632

ISBN 0 642 81313 2 (Print)

ISBN 0 642 81314 0 (On-line)

Except for the content in this document supplied by third parties, the Australian National Audit Office logo, the Commonwealth Coat of Arms, and any material protected by a trade mark, this document is licensed by the Australian National Audit Office for use under the terms of a Creative Commons Attribution-NonCommercial-NoDerivatives 3.0 Australia licence. To view a copy of this licence, visit

<http://creativecommons.org/licenses/by-nc-nd/3.0/au/>

You are free to copy and communicate the document in its current form for non-commercial purposes, as long as you attribute the document to the Australian National Audit Office and abide by the other licence terms. You may not alter or adapt the work in any way.

Permission to use material for which the copyright is owned by a third party must be sought from the relevant copyright owner. As far as practicable, such material will be clearly labelled.

For terms of use of the Commonwealth Coat of Arms, visit It's an Honour at <http://www.itsanhonour.gov.au/coat-arms/index.cfm>.

Requests and inquiries concerning reproduction and rights should be addressed to:

Executive Director
Corporate Management Branch
Australian National Audit Office
19 National Circuit
BARTON ACT 2600

Or via email:

webmaster@anao.gov.au





Canberra ACT
26 February 2013

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Regional Australia, Local Government, Arts and Sport with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament. The report is titled *The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Victoria*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act* 1997 to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

For further information contact:

**The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601**

Telephone: (02) 6203 7505

Fax: (02) 6203 7519

Email: webmaster@anao.gov.au

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

Audit Team

David Spedding
Amanda Ronald
Brian Boyd

Contents

Abbreviations.....	7
Summary and Recommendations	9
Summary	10
Introduction	10
Audit objective, scope and criteria	12
Overall conclusion.....	13
Key findings by Chapter	18
Summary of agency responses	22
Recommendations	23
Audit Findings	25
1. Introduction	26
Background	26
Oversight and accountability measures	27
Audit objective, scope and criteria	30
Report structure	32
2. Development of Operating Protocols	33
Introduction	33
Protocols with key agencies.....	34
Victorian protocol development timeframe	38
Matters covered in the Victorian protocol.....	40
Conclusions.....	42
3. Scrutiny of Recovery and Reconstruction Projects.....	44
Introduction	44
Approach to identifying Queensland projects for review.....	46
Scope of review activities in Victoria	48
Victorian projects identified for review	52
Reconstruction projects valued at greater than \$5 million	57
Inspectorate's terms of reference	62
Conclusions.....	65

Appendices	71
Appendix 1: Agency Responses	72
Appendix 2: Australian Government Reconstruction Inspectorate Terms of Reference	85
Appendix 3: Role of the Commonwealth National Disaster Recovery Taskforce	87
Appendix 4: Inspectorate Protocol for Reviewing Victorian Reconstruction Projects	89
Appendix 5: Inspectorate Three Tier Project Review Process	94
Index.....	99
Series Titles	101
Current Better Practice Guides	104

Tables

Table 3.1	Requirements of the Inspectorate (as per terms of reference)	63
-----------	--	----

Figures

Figure 2.1	Timeline for development of Victorian protocol	39
------------	--	----

Abbreviations

AGD	Attorney-General's Department
AGDRC	Australian Government Disaster Recovery Committee
ANAO	Australian National Audit Office
COAG	Council of Australian Governments
DIT	Department of Infrastructure and Transport
DPI	Department of Primary Industries (Victoria)
EMA	Emergency Management Australia
Finance	Department of Finance and Deregulation
Inspectorate	Australian Government Reconstruction Inspectorate
LGA	Local Government Authority
NDRC	National Disaster Recovery Committee of Cabinet
NDRRA	Natural Disaster Relief and Recovery Arrangements
NPA	National Partnership Agreement
PM&C	Department of the Prime Minister and Cabinet
QRA	Queensland Reconstruction Authority
RDA	Regional Development Authority
Regional Australia	Department of Regional Australia, Local Government, Arts and Sport (from 14 December 2011 – formerly Department of Regional Australia, Regional Development and Local Government)
SDA	State Departments and Agencies
SOCG	Senior Officials Coordination Group (Victoria)
Taskforce	National Disaster Recovery Taskforce
VfM	Value for Money

Summary and Recommendations

Summary

Introduction

1. The eastern states were subject to widespread flooding during the 2010–11 Australian spring and summer seasons, and Queensland was also impacted by a number of tropical cyclones. In this context, on 27 January 2011, the Prime Minister announced that preliminary estimates indicated that the Australian Government would need to contribute \$5.6 billion to the rebuilding of flood-affected regions, to be funded under the existing Natural Disaster Relief and Recovery Arrangements (NDRRA). The majority of expenditure was expected to be on rebuilding essential infrastructure.

2. On 7 February 2011, the Prime Minister announced new oversight and accountability measures to ensure value for money would be obtained in the rebuilding of flood affected regions. Features of the new governance arrangements included an Australian Government Reconstruction Inspectorate to provide assurance concerning value for money, a Secretaries' Steering Committee and the National Disaster Recovery Cabinet Sub-Committee, the appointment of the Minister Assisting on Queensland Floods Recovery and, for Victoria, the Minister for Regional Australia, Regional Development and Local Government having an oversight role in respect of recovery. In addition, Queensland established the Queensland Reconstruction Authority (with two Commonwealth appointments to its Board). In Victoria, the state established the Secretaries' Flood Recovery Group and the Senior Officials' Coordination Group (with one Commonwealth member on the latter). These various governance arrangements are in addition to the existing oversight, acquittal and audit requirements of NDRRA, and they do not alter States' obligations under those arrangements.

3. Separate National Partnership Agreements¹ (NPAs) were signed with the Queensland and Victorian state governments in February and May 2011

¹ The NPA with Queensland relates to the reconstruction of communities that were affected by the 2010–11 floods and Tropical Cyclone Yasi. The NPA with Victoria relates to the early 2011 flooding in Victoria. NDRRA continues to apply to those natural disasters covered by the NPAs, with payments to the states authorised by Emergency Management Australia (EMA) within the Attorney-General's Department (which administers NDRRA).

respectively.² The NPAs outline that the Inspectorate had been established to oversee reconstruction activity to provide assurance that value for money is being achieved in the expenditure of funds during the reconstruction phase. This was principally to be achieved by the Inspectorate undertaking value for money reviews of reconstruction projects. The Inspectorate is to perform its functions by:

- working collaboratively with any reconstruction agency on the development of contractual frameworks, tendering processes and project management systems used;
- where necessary, undertaking scrutiny of requests for reimbursement by local government for completed reconstruction projects;
- undertaking scrutiny of contracts and benchmark prices, to ensure value for money;
- undertaking scrutiny prior to execution for complex or high value contracts;
- monitoring achievement against agreed milestones; and
- responding to and investigating complaints or issues raised by the public.

4. The Inspectorate is supported by the National Disaster Recovery Taskforce (the Taskforce) located within the Department of Regional Australia, Local Government, Arts and Sport (Regional Australia). The Taskforce is responsible for Commonwealth engagement with Queensland and Victorian reconstruction agencies and for the implementation of the additional oversight requirements contained in the NPAs.³ This includes undertaking, on behalf of the Inspectorate, value for money reviews of individual recovery and reconstruction projects. In relation to Victoria, it has been agreed through the operating protocol between the Inspectorate and Victoria that value for money reviews will only be undertaken on projects of \$5 million or more.

² The existing NDRRA arrangements continue to apply to expenditure covered by the NPAs. These arrangements include the states and territories providing audited financial statements to acquit expenditure, including expenditure of advance payments.

³ Initially, the Taskforce was funded to operate until the end of 2012. The May 2012 Budget included additional funding to extend the operation of the Taskforce by one year. This was in response to the increased time granted to the Queensland Government for the completion of reconstruction projects.

5. The Taskforce is also responsible for:
- providing secretariat support to the Inspectorate;
 - reporting to relevant Ministers and providing the National Disaster Recovery Cabinet Sub-Committee with monthly progress reports on state plans for recovery, including updated estimates of the Commonwealth's liability under NDRRA;
 - assessing spending on recovery and reconstruction efforts arising from the flooding and cyclone events so as to ensure consistency with NDRRA;
 - assessing requests for Commonwealth funding assistance outside of those automatically triggered by a NDRRA declaration; and
 - ensuring that a strategic approach is taken to reconstruction and recovery efforts.
6. The Taskforce and the relevant state body completed reviews of the Queensland and Victorian NPAs in 2012. The reviews found that the new arrangements were largely effective at coordinating and overseeing reconstruction activity and did not recommend any changes to either NPA. Nevertheless, the review of the Victorian NPA noted some areas relating to Commonwealth-state collaboration in emergency recovery that would benefit from further consideration between the Australian Government and the states for future events. Among other matters, the review suggested that the appropriate cost threshold and methodology for value for money assessments should be considered for discussion and clarification. A second review of each NPA is scheduled for 2013, once further progress has been made on the reconstruction program.
7. In January 2013, the Taskforce advised the ANAO that the Australian Government is considering the extension of both the Taskforce and the Inspectorate.

Audit objective, scope and criteria

8. The ANAO is undertaking three audits of key aspects of the NPAs signed with Queensland and Victoria in relation to natural disasters over the 2010–11 Australian spring and summer seasons.
9. The objective of this audit was to assess the effectiveness of the Inspectorate, supported by the Taskforce, in providing assurance that value for

money is being achieved in recovery and reconstruction expenditure in Victoria.

10. The report of a second audit, examining the effectiveness of the Inspectorate in providing assurance that value for money is being achieved in respect to Queensland reconstruction projects is expected to be tabled in the 2013 Budget sittings.

11. Because the Australian Government will meet up to 75 per cent of eligible reconstruction expenditure, the audit focused on the activities undertaken by the Inspectorate, supported by the Taskforce, in conducting value for money reviews of Victorian reconstruction projects.⁴ The audit criteria were based on the role of the Inspectorate as announced by the Prime Minister in February 2011 and subsequently reflected in the Inspectorate's terms of reference and the NPAs.

12. The ANAO has also undertaken a separate but related audit assessing the extent to which the disaster recovery work plans required under the NPAs for Queensland and Victoria were prepared, and appropriate monitoring reports provided, in accordance with the relevant NPA. The report on that audit is being tabled in conjunction with this report.

Overall conclusion

13. The flooding that occurred in Victoria over the 2010–11 summer was widespread. Reconstruction was expected to be expensive, with the latest (December 2012) data available from Victoria estimating the cost to the state of the resulting damage to be in the vicinity of \$1 billion. A significant proportion of reconstruction expenditure is expected to be met by the Australian Government through the Natural Disaster Relief and Recovery Arrangements (NDRRA).

14. With the stated intention of ensuring recovery and rebuilding could start as soon as possible, a significant advance payment was made in 2010–11 to Victoria (\$500 million).⁵ The advance payment also assisted the Australian

⁴ It also included examination of the level of scrutiny applied to the contractual frameworks, tendering processes and project management systems developed by Victoria, and to the rebuilding contracts, requests for reimbursement and benchmark prices.

⁵ Australian Government obligations under the NPA are forecast by Victoria to be less than the \$500 million advance provided in May 2011.

Government to secure the agreement of Victoria to the additional oversight and accountability measures announced by the Prime Minister in early February 2012, which were then included in the NPA.

15. The conduct of value for money project reviews by the Inspectorate was expected to provide a greater level of oversight and assurance concerning reconstruction expenditure than would have occurred relying solely on NDRRA, which provides for the Australian Government to meet up to 75 per cent of the cost of reconstruction. This is because NDRRA generally operates on a reimbursement basis, with the Australian Government having little oversight of reconstruction as it occurs as there is no reporting from the states until such time as they seek reimbursement, which is commonly some years after the disasters occur. In addition, limited Australian Government oversight at the conclusion of reconstruction is afforded by audited claims submitted by states and territories, with no project level information provided in these claims. NDRRA also does not include value for money assurance arrangements.

16. Monthly reports from Victoria to the Taskforce indicate that recovery and reconstruction in flood-affected areas is well underway.⁶ However, to date, the creation of the Australian Government Reconstruction Inspectorate has not provided the Australian Government with the expected assurance that value for money is being achieved through Victorian reconstruction projects. This is because, as at December 2012, no value for money reviews have been completed in respect to any Victorian projects, and a review of one project had only recently commenced.⁷ In this context, in November 2012, the Inspectorate wrote to Victoria stating that:

The Inspectorate is also troubled that, more than 18 months after the disaster events, it has been unable to complete a value for money assessment on any Victorian project. In comparison, the National Disaster Recovery Taskforce, on behalf of the Inspectorate, has completed 61 value for money reviews of Queensland reconstruction projects.⁸

⁶ In this context, the Inspectorate's most recent four-monthly report to the Prime Minister noted that, by the end of August 2012, more than \$464 million had been spent on recovery and reconstruction, representing 47 per cent of the estimated cost of damage.

⁷ See paragraph 29.

⁸ At the time of preparing this ANAO report, Victoria had identified to the Taskforce nine tenders with a value over \$5 million, it was not clear whether any of these projects would be the subject of a value for money review. See further at paragraphs 3.54 to 3.60.

17. In addition, in January 2013 the Taskforce advised the ANAO that this issue has been the subject of discussion between the Attorney-General's Department (AGD) and the Department of the Prime Minister and Cabinet (PM&C), in the context of Victoria's request for an extension of the timeframe for NDRRA funding. In this respect, in December 2012 the Chair of the Inspectorate wrote to the Minister for Regional Australia, Regional Development and Local Government raising this issue and recommending that any extension to funding arrangements in Victoria be contingent upon the Inspectorate being provided with sufficient projects to be able to provide the required level of assurance. The Minister responded in February 2013, advising that he: shared the Inspectorate's concerns about its ability to assess value for money in circumstances where only one project had been identified for review; strongly supported the Inspectorate's recommendation that an extension to the allowable period for reconstruction be contingent upon Victoria's agreement to increase oversight; and had written to the Attorney-General recommending this approach as responsibility for the extension request rests with Emergency Management Australia.

18. ANAO analysis is that the lack of value for money reviews of Victoria reconstruction projects at the time the ANAO's audit work was completed reflects that:

- the Taskforce initially focused its work on developing a review methodology and project sampling processes for Queensland, given this is where the majority of expenditure will occur. There was relatively little attention given at that time, or subsequently, to developing a robust methodology for identifying projects to review in Victoria (proportionate to the level of expenditure expected in that state); and

- the parties to the NPA intended that the Inspectorate would only examine reconstruction projects with a value more than \$5 million.⁹ Even allowing for this threshold, the Taskforce has not been active in seeking to ensure that projects with a value greater than \$5 million are identified for value for money review. One project has been identified for review, but it is not representative of the reconstruction program and there is also some evidence that a number of other projects with a value above \$5 million have proceeded, without being referred to the Taskforce for a value for money review. At the time of preparing this ANAO report, no formal requests had been made to Victoria concerning Inspectorate reviews of these other projects.¹⁰

19. The audit highlights the importance of greater attention being given to oversighting reconstruction activity in Victoria.¹¹ The Taskforce is currently funded to continue operating until the end of 2013 (and this date may be extended), thereby providing time for some value for money project reviews to be undertaken in Victoria. However, as reflected in the protocol with Victoria, in order to obtain the maximum benefit, it was intended that the Inspectorate's review of a project for value for money would be conducted at the development phase of projects, although they can also be undertaken on completion of the project.

20. Notwithstanding advice from both the Taskforce and PM&C that it was intended that the NPA place restrictions on the Inspectorate's ability to examine projects with a value below \$5 million¹², there were opportunities for

⁹ This restriction is included in the operating protocol agreed to by the Taskforce with Victoria. The Taskforce advised the Inspectorate that this restriction also exists in the NPA, but the ANAO's analysis did not support this view. (The NPA only applies a threshold in relation to Victoria being required to seek the views of the Inspectorate on proposed project plans and strategies for projects over \$5 million, which were to be included in the work plan developed in accordance with the NPA). Although it is not evident from the NPA agreed between governments, PM&C advised the ANAO in December 2012 that it was the clear intention of the Commonwealth at the time of drafting the NPA that no individual reconstruction projects in Victoria would be subject to value for money assessment by the Inspectorate unless the value of the project exceeded \$5 million. By way of comparison, in Queensland, around one in three of the 91 projects selected for review by October 2012 was valued at less than \$5 million.

¹⁰ The Victorian protocol states that the Inspectorate may also 'propose' to review additional projects to those identified by the state as costing more than \$5 million. Up to the time of preparation of this ANAO report, no such project reviews had been proposed.

¹¹ The Taskforce has advised the ANAO that it has provided meetings of the Australian Government Reconstruction Inspectorate with an overview of recovery and reconstruction progress in both Victoria and Queensland.

¹² At the time of preparation of this ANAO report, the NPA had not been amended to reflect the intended (but omitted) restriction on the Inspectorate's ability to examine projects valued under \$5 million.

the Taskforce to have obtained greater insight into reconstruction projects being undertaken in Victoria. In particular:

- the Taskforce was the lead Australian Government agency in terms of developing the work plans with Queensland and Victoria but, as discussed in the related audit of the development of the work plans with these two states, in many instances the work plan for Victoria identifies broad categories of work rather than specific reconstruction projects; and
- the operating protocol with Victoria was negotiated by the Taskforce, but this did not require the state to provide and regularly update information on all reconstruction projects (which is the approach taken in Queensland). This would have enabled the Taskforce to identify those projects costing over \$5 million that the Inspectorate wishes to review.

21. The ANAO recognises that the majority of the expected expenditure under the two NPAs relates to Queensland. Nevertheless, reconstruction activity in Victoria was significant in absolute terms and relative to the amount of natural disaster assistance expenditure typically experienced.¹³ Further, additional oversight and assurance through Inspectorate reviews of individual reconstruction projects was anticipated in the agreement reached between the Australian and Victorian Governments. In this context, there was considerable scope for the Taskforce to have more actively supported the work of the Inspectorate.

22. In addition, whereas the Inspectorate has endorsed the value for money strategy applied by the Queensland Reconstruction Authority (QRA) to projects in that state prior to a project being reviewed by the Taskforce, similar work has not been undertaken in respect to Victoria. These different circumstances place added importance on value for money project reviews being undertaken by the Taskforce of Victorian reconstruction projects in the remaining lifetime of the Inspectorate. Accordingly, the ANAO has recommended improved arrangements for conducting value for money reviews of Victorian reconstruction projects.

¹³ The average total annual payment to all states under NDRRA (and its predecessor the Natural Disaster Relief Arrangements) between 2001–02 and 2009–10 was less than \$100 million.

Key findings by Chapter

Development of Operating Protocols (Chapter 2)

23. The Inspectorate's terms of reference stated that it would develop operating protocols with the other Commonwealth and state bodies with which it interacts 'as soon as is practicable after its establishment'. In its role of providing support to the Inspectorate, the Taskforce was responsible for developing operating protocols.

24. The Taskforce did not initiate the process of developing an operating protocol with Victoria until early 2012. The protocol was finalised in August 2012, more than 18 months after the Inspectorate was established, and subsequently endorsed by the Victorian Deputy Premier in early December 2012. The delay in developing the protocol adversely affected the Inspectorate's ability to scrutinise Victorian reconstruction projects. This is because it was decided that the protocol should be developed prior to any information being provided to the Taskforce on flood recovery projects for review.¹⁴

25. The Victorian protocol does not address a number of the key responsibilities of the Inspectorate set out in its terms of reference. For example, it does not outline the processes by which the Inspectorate is to review the state's contractual frameworks, tendering processes and project management systems. It also does not address the sharing of relevant information and documentation that would be necessary for the Inspectorate to track the use of NDRRA funding from its source to the point of final expenditure.

26. In large part, those matters that are addressed by the protocol involve restrictions being placed on the way in which the Inspectorate is able to conduct its value for money project reviews. Of note is that possible projects for Inspectorate review are to be identified by the state, rather than the state being required to provide information on all reconstruction projects to enable the Taskforce to identify a sample of projects for review (which is the approach taken in Queensland, and was the approach originally envisaged for Victoria

¹⁴ While the protocol was submitted by state officials to the Victorian Deputy Premier for approval, the Taskforce did not seek the Inspectorate's endorsement or approval of the protocol.

as well).¹⁵ In addition, the Queensland protocol provides for NDRRA funding to be reduced where a project review concludes that value for money is not being achieved, but the Victorian protocol instead provides for a process of dispute resolution.¹⁶ Also in this respect, in January 2013 the Taskforce advised the ANAO that:

The Inspectorate still retains the power to recommend to Senior Commonwealth Ministers that NDRRA funding be reduced if it determines that a project does not represent value for money. The decision as to whether funding will be reduced ultimately resides with the Attorney-General, who is responsible for the NDRRA (as it does for Queensland projects).

Scrutiny of Recovery and Reconstruction Projects (Chapter 3)

27. In announcing the creation of the Inspectorate, the Prime Minister emphasised that the focus of review activity would be on high value, complex contracts.¹⁷ The Prime Minister further stated that any project that was being funded under NDRRA would be under the oversight of the Inspectorate.¹⁸

28. Both states have documented public sector procurement frameworks, but the Australian Government's decision to create the Inspectorate recognised that reliance on existing procurement frameworks would not provide sufficient assurance that value for money was being achieved. In this context, in response to the 2010–11 flooding, Queensland developed a value for money strategy that was subsequently endorsed by the Inspectorate. That strategy involves pre-approval review by QRA of each project against value for money

¹⁵ The protocol states that the Inspectorate may also 'propose' to review additional projects to those identified by the state.

¹⁶ In its third report to the Prime Minister, the Inspectorate recommended that 'the Commonwealth take a strong position on withholding funds under the Natural Disaster Relief and Recovery Arrangements for projects which the Inspectorate has determined do not represent value for money.'

¹⁷ The Hon Julia Gillard MP, Prime Minister of Australia, *Australian Government Reconstruction Inspectorate*, Media Release, Monday 7 February 2011.

¹⁸ The Hon Julia Gillard MP, Prime Minister of Australia, Transcript of press conference, Canberra, Monday 7 February 2011.

criteria.¹⁹ It is only after QRA has completed its value for money review that the Taskforce undertakes its own value for money review of a sample of approved projects. There is no equivalent value for money strategy in place under the arrangements adopted with Victoria; a situation that should have increased the Taskforce's focus on conducting its own value for money reviews in that state.

29. Against this background, reporting from Victoria to the Taskforce, and reports subsequently prepared by the Taskforce from the Inspectorate to the Prime Minister, have outlined that reconstruction is well advanced in Victoria. However, notwithstanding that, by November 2012 (the latest report available from Victoria), some \$749 million in project expenditure had been reported, there have been no value for money reviews completed in respect to any Victorian reconstruction projects. In January 2013, the Taskforce advised the ANAO that a value for money assessment of the first Victorian reconstruction project has been underway since late-October 2012 when the documentation for Inspectorate review was received. It also advised that further information has been requested and will be taken into consideration before the report is completed. However:

- this \$22.7 million project (the relocation and reconstruction of the Charlton Hospital) is not representative of the reconstruction program in Victoria, where most of the funding relates to the reconstruction of road and rail infrastructure by local government and state government authorities. In addition, the Charlton Hospital project is not expected to be completed within the (currently funded) lifetime of the Inspectorate; and
- the Inspectorate's third report to the Prime Minister (provided in February 2012) had stated that review of reconstruction projects in Victoria for value for money would begin 'shortly', with three initial projects identified (including the Charlton Hospital project). However,

¹⁹ As of January 2013, QRA was reporting that \$1.7 billion in project submissions in Queensland had been assessed by the Authority as not eligible or otherwise returned to the relevant delivery agency, thereby avoiding \$1.3 billion in cost to the Australian Government and \$434 million in potential state costs. The ANAO understands that these figures may include some submissions that have been returned on more than one occasion (thereby overstating the extent of any costs avoided) and that, in some instances, submissions initially returned are later approved. Pre-approvals of Department of Transport and Main Roads projects usually exclude value for money reviews, as these are not conducted until after tenders have been received.

the Taskforce did not request that the relevant documentation for two of these projects be provided for review, and the reviews were not undertaken. Subsequent Inspectorate reports did not identify that these reviews had not proceeded, or advise of the reasons for this situation.

30. Commencing in late-September 2012, the Taskforce also started requesting information from Victoria on projects with a value greater than \$5 million²⁰, and a list of all reconstruction projects underway or completed in Victoria. At the time of preparing this ANAO report, Victoria had identified to the Taskforce nine tenders with a value over \$5 million.²¹ However, to date a list of all reconstruction projects has not been provided and there has been no agreement reached on what constitutes a 'project' for the purposes of the Inspectorate's value for money review activities. Although Regional Australia has informed the ANAO that it has been advised by Victoria that a list of reconstruction projects is not feasible, delivery agencies hold the necessary project level information and such data is being reflected, in aggregate, in the monthly progress reports being provided to the Taskforce in respect to the flood work plan. Given that two years have elapsed since the disaster events occurred, it is reasonable to expect that by now reconstruction projects arising from those events should be identifiable.

31. There has also been a general absence of the envisaged involvement by the Inspectorate and the Taskforce in developing and reviewing contractual frameworks, tendering processes and project management systems in relation to flood reconstruction in Victoria.

²⁰ In January 2013, Regional Australia advised the ANAO that 'the Inspectorate's methodology for identifying projects to review in Victoria is straightforward: all projects valued over \$5 million are subject to Inspectorate review.' A decision to adopt such a methodology is not recorded in the minutes of the Inspectorate meetings. The Taskforce had earlier advised Victoria that 'only two or three Victorian projects may be selected for review' (see paragraph 3.11) and the Inspectorate's June 2011 first report to the Prime Minister had foreshadowed that a sampling approach to selecting projects for review would be adopted in both Queensland and Victoria (see paragraph 3.22).

²¹ These tenders over \$5 million had already been identified by the ANAO.

Summary of agency responses

32. The proposed audit report was provided to Regional Australia, the Chair of the Inspectorate, the Attorney-General's Department, the Department of Finance and Deregulation, the Department of Infrastructure and Transport (DIT), the Department of the Prime Minister and Cabinet, the Victorian Senior Officials Coordination Group and the Queensland Reconstruction Authority. Regional Australia, the Chair of the Inspectorate, DIT and the Victorian Senior Officials Coordination Group provided formal comments on the proposed report. These are included at Appendix 1. PM&C also provided a departmental response on the recommendation.

Recommendations

Set out below is the ANAO's recommendation and the responding agencies' abbreviated responses. More detailed responses are shown in the body of the report immediately after the recommendation.

Recommendation No.1

Paragraph 3.73

The ANAO recommends that the Department of Regional Australia, Local Government, Arts and Sport improve the arrangements for conducting value for money reviews of Victorian reconstruction projects by pursuing amendments to the operating protocol with Victoria to require that, at regular intervals, the Taskforce is provided with information on all reconstruction projects being delivered within the scope of the National Partnership Agreement.

Regional Australia's response: Agreed in principle.

Inspectorate's response: Not agreed.

PM&C's response: Noted.

Audit Findings

1. Introduction

This chapter provides an overview of the assistance provided by the Australian Government under the Natural Disaster Relief and Recovery Arrangements, and outlines the additional oversight and accountability mechanisms introduced in respect to the significant financial assistance being provided to Victoria and Queensland in response to widespread flooding in those states during the spring and summer of 2010–11. It also sets out the audit objective, scope and criteria.

Background

1.1 Prime responsibility for the response to a disaster rests with state and territory governments. Nevertheless, as natural disasters often result in large-scale expenditure by state governments in the form of disaster relief and recovery payments and infrastructure restoration, the Commonwealth has established arrangements to provide financial assistance to the states in certain circumstances.

1.2 The key mechanism for providing financial assistance is the Natural Disaster Relief and Recovery Arrangements (NDRRA), which is a Commonwealth ministerial determination. NDRRA assistance takes account of a state's/territory's capacity to fund disaster recovery and is usually in the form of partial reimbursement of actual state expenditure. Advance payments may be provided through NDRRA if the relevant Minister is satisfied that exceptional circumstances exist. States are required to provide audited financial statements to acquit expenditure, including expenditure of advance payments, and repay to the Commonwealth amounts not properly spent.

1.3 The determination defines those natural disasters that are covered by NDRRA, and identifies those measures that are eligible for NDRRA funding. Subject to administrative rules set out in the determination, upon notification of the natural disaster to the Commonwealth Attorney-General by the affected state, Commonwealth assistance will be provided in respect to eligible measures. In this context, there are four categories of assistance:

- Category A — emergency assistance provided to individuals;
- Category B — restoration of essential public assets, concessional loans and counter disaster operations;

- Category C — community recovery (for community facilities) and clean-up and recovery grants for small businesses and primary producers; and
- Category D — exceptional circumstances assistance.

Oversight and accountability measures

1.4 The eastern Australian states were subject to widespread flooding during the 2010–11 spring and summer seasons, and Queensland was also impacted by Tropical Cyclones Tasha, Anthony and Yasi. In this context, on 27 January 2011, the Prime Minister announced that preliminary estimates²², following consultation with the Queensland Government, indicated that the Australian Government would need to contribute \$5.6 billion to the rebuilding of flood-affected regions, with the vast majority going on rebuilding essential infrastructure. The Prime Minister also announced that, to ensure recovery and rebuilding could start as soon as possible, and to provide certainty to the Queensland Government and local authorities, the Australian Government had agreed to make an advance payment of \$2 billion to Queensland.

1.5 Subsequently, on 7 February 2011 the Prime Minister announced new oversight and accountability measures to ensure value for money would be obtained in the rebuilding of flood affected regions. Accordingly, under National Partnership Agreements²³ (NPAs) signed with the Queensland and Victorian state governments in February and May 2011 respectively:

- a Recovery Work Plan was required to be developed by each state, outlining a set of projects to assist with reconstruction and/or recovery, with each work plan to be agreed between the relevant state and the Australian Government; and
- the Australian Government Reconstruction Inspectorate was established with the objective of providing assurance that value for

²² Excluding the effects of Tropical Cyclone Yasi, which reached the mainland in the early hours of 3 February 2011.

²³ NDRRA continues to apply to those natural disasters covered by the NPAs, with payments to the states made (through the Department of the Treasury) by the Attorney-General's Department (which administers NDRRA). The stated intention of each NPA was to strengthen and complement the NDRRA governance and accountability provisions.

money was received in the recovery effort. The Inspectorate is to perform its functions by:²⁴

- working collaboratively with any reconstruction agency on the development of contractual frameworks, tendering processes and project management systems used;
- where necessary, undertaking scrutiny of requests for reimbursement by local government for completed reconstruction projects;
- undertaking scrutiny of contracts and benchmark prices, to ensure value for money;
- undertaking scrutiny prior to execution for complex or high value contracts;
- monitoring achievement against agreed milestones; and
- responding to and investigating complaints or issues raised by the public.

1.6 Advance payments of \$500 million for Victoria and \$2 billion for Queensland were made after finalisation of the respective NPAs.

1.7 The Inspectorate is supported by the National Disaster Recovery Taskforce located within the Department of Regional Australia, Local Government, Arts and Sport (Regional Australia). The Taskforce is responsible for Commonwealth engagement with Queensland and Victorian reconstruction agencies during the recovery phase and is responsible for the implementation of the additional oversight requirements contained in the NPAs.²⁵ It was also the lead Australian Government agency in terms of developing the work plans with Queensland and Victoria. Its responsibilities also include (as specified in its terms of reference and the Queensland NPA):

- providing secretariat support to the Inspectorate;
- reporting to relevant Ministers and providing the National Disaster Recovery Cabinet Sub-Committee with monthly progress reports on

²⁴ As set out in the Inspectorate's terms of reference, which were also reflected in the Queensland NPA.

²⁵ Initially, the Taskforce was funded to operate until the end of 2012. The May 2012 Budget included additional funding to extend the operation of the Taskforce by one year. This was in response to the increased time granted to the Queensland Government for the completion of reconstruction projects.

state plans for recovery, including updated estimates of the Commonwealth's liability under NDRRA;

- assessing spending on recovery and reconstruction efforts arising from the flooding and cyclone events so as to ensure consistency with NDRRA;
- assessing requests for Commonwealth funding assistance outside of those automatically triggered by a NDRRA declaration; and
- ensuring that a strategic approach is taken to reconstruction and recovery efforts.

1.8 In January 2013, the Taskforce advised the ANAO that the Australian Government is considering the extension of both the Taskforce and the Inspectorate.

1.9 In addition to the Inspectorate and Taskforce, other features of the new governance arrangements included a Secretaries' Steering Committee and the National Disaster Recovery Cabinet Sub-Committee, the appointment of the Minister Assisting on Queensland Floods Recovery and, for Victoria, the Minister for Regional Australia, Regional Development and Local Government having an oversight role in respect of recovery. In addition, Queensland established the Queensland Reconstruction Authority (with two Commonwealth appointments to its Board). In Victoria, the state established the Secretaries' Flood Recovery Group and the Senior Officials' Coordination Group (with one Commonwealth member on the latter). These various governance arrangements are in addition to the existing oversight, acquittal and audit requirements of the NDRRA, and they do not alter States' obligations under those arrangements.

Coverage of the NPAs

1.10 The NPA with Queensland relates to the reconstruction of communities that were affected by the 2010–11 floods and Cyclone Yasi. The NPA with Victoria relates to the early 2011 flooding in Victoria and outlined the three priority areas the Victorian work plan was to target. It was to build on the planning work undertaken by Regional Development Australia committees and local governments so as to ensure a strategic approach to reconstruction and recovery efforts, incorporating the principles of local input and leverage. In addition, the Victorian NPA required that the work plan for that state provide information on Victorian procurement policies, outline a set of projects

to assist with reconstruction and recovery, and outline project plans and strategies for projects over \$5 million.

NPA reviews

1.11 In 2012, the Taskforce and the relevant state body (QRA and representatives of the Victorian Secretaries' Flood Recovery Group) undertook reviews of the Queensland and Victorian NPAs. The reviews found that the new arrangements were largely effective at coordinating and overseeing reconstruction activity and did not recommend any changes to either NPA.²⁶ Nevertheless, the review of the Victorian NPA noted some areas relating to Commonwealth-state collaboration in emergency recovery that would benefit from further consideration between the Australian Government and the states for future events. Among other matters, the review suggested that the appropriate cost threshold and methodology for value for money assessments should be considered for discussion and clarification.

Audit objective, scope and criteria

1.12 The ANAO is undertaking three audits of key aspects of the NPAs signed with Queensland and Victoria in relation to natural disasters over the 2010–11 Australian spring and summer seasons.

1.13 The objective of this audit was to assess the effectiveness of the Inspectorate, supported by the Taskforce, in providing assurance that value for money is being achieved in recovery and reconstruction expenditure in Victoria.

1.14 The report of a second audit, examining the effectiveness of the Inspectorate in providing assurance that value for money is being achieved in respect to Queensland reconstruction projects, is expected to be tabled in the 2013 Budget sittings.

1.15 The ANAO has also undertaken a separate but related audit assessing the extent to which the disaster recovery work plans required under the NPAs for Queensland and Victoria were prepared, and appropriate monitoring reports provided, in accordance with the relevant NPA. The report on that audit is being tabled in conjunction with this report.

²⁶ A second review of each NPA is scheduled for 2013, once further progress has been made on the reconstruction program.

1.16 These audits focus on the performance of the relevant Australian Government entities in discharging their responsibilities following agreements reached with the Queensland and Victorian Governments by the Australian Government.

Audit scope and criteria

1.17 The audit focused on the activities undertaken by the Inspectorate, supported by the Taskforce, specifically in relation to its oversight of the flood recovery and reconstruction effort in Victoria. It also included examination of the level of scrutiny applied to the contractual frameworks, tendering processes and project management systems developed by Victoria, and to the rebuilding contracts, requests for reimbursement and benchmark prices. The extent to which the Inspectorate directly inspected projects and monitored progress against milestones was also reviewed.

1.18 The audit criteria were based on the role of the Inspectorate as announced by the Prime Minister in February 2011 and subsequently reflected in the Inspectorate's terms of reference (see Appendix 2) and the Victorian NPA.²⁷ In this regard, the audit also examined the development and operation of the protocol with Victoria for Inspectorate review of recovery and reconstruction projects.

1.19 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$265 000.

²⁷ The terms of reference for the Taskforce are at Appendix 3.

Report structure

1.20 The audit findings are reported in the following chapters.

Chapter	Chapter overview
2. Development of Operating Protocols	Examines the development of the Inspectorate’s operating protocol with Victoria and other relevant government agencies. It also assesses the extent to which the protocol facilitates effective oversight by the Inspectorate, supported by the Taskforce, to provide assurance that value for money is being achieved in recovery and reconstruction expenditure in Victoria.
3. Scrutiny of Recovery and Reconstruction Projects	Examines the scrutiny of Victorian recovery and reconstruction projects by the Taskforce and the Inspectorate, as well as other elements of the Inspectorate’s role in providing assurance that value for money is being received in reconstruction expenditure.

2. Development of Operating Protocols

This chapter examines the development of the Inspectorate's operating protocol with Victoria and other relevant government agencies. It also assesses the extent to which the protocol facilitates effective oversight by the Inspectorate, supported by the Taskforce, to provide assurance that value for money is being achieved in recovery and reconstruction expenditure in Victoria.

Introduction

2.1 Any government entity created to perform a new role or function can be expected to take some time to establish its internal processes and procedures, as well as its processes for interacting with other government departments and external agencies. In this context, the Inspectorate was established by the Prime Minister on 7 February 2011. Clause 7 of the Inspectorate's terms of reference state that:

The Commonwealth will develop operating protocols for the Inspectorate, setting out how the Inspectorate will interact with other Commonwealth and State bodies involved in reconstruction activity, as soon as is practicable after the Inspectorate's establishment.

2.2 Clause 32 of the Victorian NPA signed some three months later adopted the same wording, except that it also specified that both the 'Commonwealth and Victoria' will develop the operating protocols.²⁸ The Victorian flood recovery work plan signed on 16 December 2011, seven months after the NPA was finalised, assigned responsibility for developing the operating protocols for the Inspectorate to the Senior Officials Coordination Group (SOCG).

2.3 The SOCG includes Commonwealth representatives from the Taskforce and Emergency Management Australia (Attorney-General's Department), and Victorian representatives from the Departments of: Primary Industries; Premier and Cabinet; Treasury and Finance; Human Services; and Health. The

²⁸ By way of comparison, the Queensland NPA reflected the terms of reference in that it required (at clause 39) the Commonwealth to develop operating protocols for the Inspectorate. For that state, the NPA included a further commitment that 'The Commonwealth will consult the states when developing the operating protocols'.

SOCG is chaired by a Victorian official and met monthly in 2011, but now meets bi-monthly.

2.4 Against this background, the ANAO examined whether effective protocols were developed in a timely manner with Victoria and other relevant Australian Government agencies.

Protocols with key agencies

2.5 Both the Victorian and Queensland NPAs indicated that operating protocols for the Inspectorate would be developed setting out how the Inspectorate would interact with other Commonwealth and state bodies involved in reconstruction activity.

2.6 The Inspectorate interacted with a range of Commonwealth and state bodies²⁹ from soon after it commenced operations. Given the requirement of the NPA for operating protocols, it therefore is reasonable to expect that early attention would have been given to developing either an overarching protocol or a set of individual protocols covering dealings with each agency and clearly specifying respective roles and responsibilities. Up to the time of preparation of this ANAO report, the only protocols developed have focused on interactions with state entities in Queensland and Victoria. Specifically:

- in mid-September 2011, the Queensland Reconstruction Authority (QRA) provided the Taskforce with a protocol it had developed to guide the process (including QRA response timelines) by which the Taskforce was able to request information to inform the conduct of value for money reviews.³⁰ It also set out the documentation that QRA would provide and stated that the Taskforce would not be provided with any documentation from external organisations that may be commercial-in-confidence. That protocol was accepted by the Taskforce, without change, in late-October 2011; and
- a protocol with Victoria for value for money reviews of reconstruction projects in that state (see further at paragraphs 2.20 to 2.33). The protocol states (at clause 6) that it:

²⁹ Including around 30 Commonwealth and state bodies, in addition to numerous local government entities.

³⁰ This is the only protocol developed to date with Queensland, and it was not developed by the Taskforce. This is notwithstanding the Queensland NPA requiring the Commonwealth to develop operating protocols for the Inspectorate, in consultation with the state (see paragraph 2.2).

...outlines how the Inspectorate will interact with Victoria and other Commonwealth bodies involved in reconstruction activity.

2.7 However, this is not the case. The protocol with Victoria includes no clauses addressing how the Inspectorate will interact with any other Australian Government agencies.³¹ Similarly, the Queensland protocol developed by QRA in relation to submission requests does not address the Inspectorate's interaction with other Commonwealth bodies involved in reconstruction activity. The only possible exception to this situation relates to the Attorney-General's Department (AGD), where procedures (but not a protocol) have been agreed in relation to ensuring there is only partial reimbursement for projects that the Inspectorate determines do not represent value for money.

2.8 In this context, there would have been particular benefits in protocols being developed early in the life of the Inspectorate for interactions with key agencies such as Emergency Management Australia (EMA) and the Department of Infrastructure and Transport (DIT). The role of these entities is outlined below.

Emergency Management Australia

2.9 EMA has overall policy responsibility for the NDRRA Determination, except for the elements assigned to the Taskforce and the Inspectorate through the administrative arrangements. In effect, EMA has responsibility for all disaster events throughout the other states of Australia, and all disaster events before and after those specified in the NPAs with Queensland and Victoria. The Inspectorate and the Taskforce are responsible only for events covered by the NPAs.

2.10 EMA has responsibility for approving all claims for reimbursement or acquittal of NDRRA advances (irrespective of when the disaster event occurred). Under the Federal Financial Relations framework, payments are made through Treasury.

2.11 The need for a protocol with EMA was identified by the Taskforce as early as mid-July 2011. However, to date, a protocol has not been developed.

³¹ As noted at paragraph 2.5, both the Victorian and Queensland NPAs indicated that operating protocols for the Inspectorate would be developed setting out how the Inspectorate would interact with other Commonwealth and state bodies involved in reconstruction activity.

In addition, it was not until August 2012 that EMA started attending Inspectorate meetings (as an observer). Greater engagement with EMA from early in 2011 would have facilitated discussion about areas of shared interest and enabled the Taskforce to benefit from EMA's knowledge of the NDRRA framework (including issues concerning the application of the NDRRA eligibility requirements).³²

Procedure for Queensland projects not representing value for money

2.12 There is no prescribed course of action in the NPAs with Queensland and Victoria, or the Inspectorate's terms of reference, in the event that the Inspectorate determines that value for money is not being achieved.

2.13 In early May 2012, the Taskforce wrote to QRA outlining actions to be taken where the Inspectorate determines that a project does not represent value for money. In mid-May 2012, the Minister Assisting on Queensland Floods Recovery wrote to the Attorney-General (as Minister for Emergency Management) on this matter, and a process was agreed by the Attorney-General in late-July 2012. That letter cited advice from PM&C that it was not necessary to seek the Prime Minister's approval 'on administrative arrangements that have been agreed at departmental level'.

2.14 The process (which has not been described as a protocol) applies to Queensland projects only. The Inspectorate may recommend to the Attorney-General that the Commonwealth's reimbursement under NDRRA reflect the likely cost of the project had value for money been achieved, rather than the actual project costs incurred. The process also includes provision by QRA of project identification information to EMA at the time of NDRRA acquittal, to prevent the full reimbursement of funds for these projects. The pre-claim audit undertaken by the state Auditor-General is expected to consider the Inspectorate's recommendation regarding value for money. Queensland has also agreed that the project or part of a project not representing value for money would be excluded from the claim submitted to EMA in the first instance, thus negating the need to recoup funds from the state. However, this does not reflect that considerable funds were paid to Queensland in advance.

³² For example in this respect, in October 2012 in its fifth report to the Prime Minister, the Inspectorate noted that: 'While the (NDRRA) Determination provides some broad definitions of what is eligible for funding, there is a lack of clarity about how these definitions should be interpreted. The Inspectorate is working closely with (EMA) to ensure that a consistent approach is applied.'

Department of Infrastructure and Transport

2.15 Almost three quarters of the reconstruction expenditure identified in the Victorian work plan related to roads and rail infrastructure. There are two particular areas where a protocol with DIT setting out how the Inspectorate would interact with the department may have benefited both agencies and facilitated the work undertaken by the Taskforce. Specifically:

- sharing information to manage the risk of any ‘double dipping’ of claims under NDRRA and DIT programs, including the Nation Building, Roads to Recovery, Black Spots and other infrastructure funding programs; and
- drawing on DIT’s experience in overseeing funding for road construction and other infrastructure projects across Australia.

2.16 In January 2013, DIT advised the ANAO that its view is that partnering agencies do not always require formal protocols to produce expected outcomes in an efficient, effective and economic manner and, as such, was confident that the absence of operating protocols between the Taskforce³³ and DIT did not impede the flood recovery and reconstruction effort in any way. DIT further advised that:

It should be noted that DIT worked closely and cooperatively with the Taskforce during the Victorian flood recovery and reconstruction effort. This included official attendance on the Australian Government Disaster Recovery Committee (AGDRC) – identified as the committee to take forward the Commonwealth’s coordinated recovery efforts, and the AGDRC’s Secretaries’ Group, chaired by the Secretary, Attorney-General’s department.

2.17 In November 2012, Regional Australia also commented to the ANAO that: ‘The absence of formal protocols with other Commonwealth agencies has had no demonstrable impact on the work of the Taskforce or the Inspectorate.’ Similarly, the Chair of the Inspectorate advised that:

I think this is an area where some early thinking around governance was essentially overtaken by the practicalities of getting on with the job. I do not believe that the absence of formal protocols with other Commonwealth

³³ The requirement under the NPAs was for operating protocols between the Inspectorate and other Commonwealth and state bodies involved in reconstruction activity, not between the Taskforce and these other agencies. ANAO analysis has been in respect to the requirement of the NPA.

agencies has impeded the Inspectorate's work in any way, nor do I believe that this has had an impact on the outcomes that have been achieved to date.

2.18 However, AGD advised the ANAO in November 2012 that it noted:

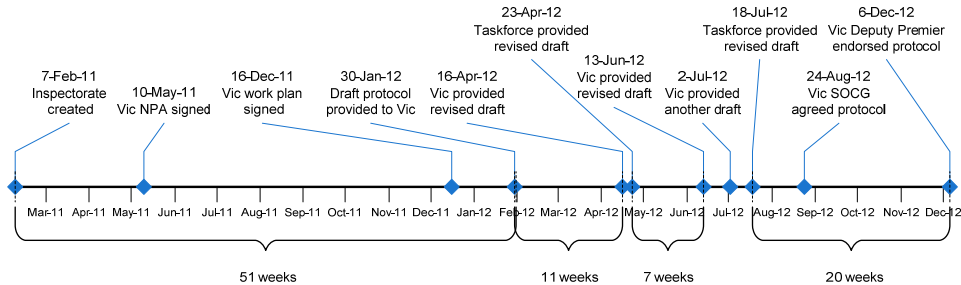
... particularly the finding that the work of the Inspectorate may have been better supported had an operating protocol been developed with EMA to assist with the understanding and application of the Natural Disaster Relief and Recovery Arrangements. Nevertheless, EMA has been working closely with the Department of Regional Australia, Local Government, Arts and Sport since the establishment of the Taskforce in early 2011 and will continue to do so until its work is complete. As noted in the issues paper, EMA has also been working closely with the Inspectorate.

2.19 As noted at paragraph 2.5, it was a requirement specified in the NPA that protocols would be developed. As indicated above, in light of this being the approach decided upon by the parties to the NPA, the ANAO considers that protocols with EMA and DIT would have been beneficial. However, where matters have been agreed between governments (in this case, that protocols would be developed setting out how the Inspectorate would interact with other Commonwealth bodies), but subsequent experiences or circumstances suggest that the approach envisaged by the NPA was no longer beneficial, then it is reasonable to expect that the responsible agencies would agree a revised approach to achieving the desired result, and obtain ministerial endorsement as required.³⁴

Victorian protocol development timeframe

2.20 The operating protocol was required to be developed as soon as practicable after the Inspectorate was established. However, the Taskforce took almost twelve months to initiate the process of developing the protocol (see Figure 2.1).

³⁴ In May 2012, the Taskforce advised the SOCG in relation to the NPA review then underway that one of the key issues for the review identified during Commonwealth consultation was the need for 'clarification of the division of responsibility of Commonwealth departments'. This suggests that the existing arrangements were less than fully effective. Matters such as this could have been addressed in the envisaged Inspectorate protocol (see paragraph 2.5).

Figure 2.1**Timeline for development of Victorian protocol**

Source: ANAO analysis of Taskforce documentation.

2.21 As also illustrated by Figure 2.1, once the process of developing the protocol commenced, the Taskforce generally provided a reasonably timely turnaround of responses during the negotiations thereafter. In this regard, the majority of the delays in 2012 occurred while the Taskforce was awaiting actioning of changes by Victoria.

2.22 At its 13 August 2012 meeting, the Inspectorate was advised by the Taskforce that the SOCG and the Taskforce had agreed to the protocol, and Victoria had sent the protocol to its Deputy Premier for his approval, prior to its implementation. The Inspectorate was provided with a copy of the protocol.³⁵ However, while the Taskforce advised the ANAO that the Victorian protocol was developed with the input of the Inspectorate, the Inspectorate was not requested to endorse or approve the Queensland or Victorian protocols, and has never been provided with a copy of the protocol with Queensland.³⁶

2.23 In November 2012, the Taskforce advised the ANAO that the Victorian protocol was agreed at the 24 August 2012 meeting of the SOCG. This was more than 18 months after the Inspectorate had been established. In December 2012, the Taskforce provided the ANAO with correspondence to it from the SOCG dated 6 December 2012 stating that the Deputy Premier had endorsed both the review of the Victorian NPA and the protocol.

³⁵ As an attachment to 'Agenda Item 3 – Taskforce Update – For Noting'.

³⁶ The Inspectorate's meeting records do not indicate that it had any input into the development of the protocol with Victoria.

2.24 In view of the extended period of time before the Taskforce provided the first draft protocol to Victoria, and the subsequent protracted negotiations, the requirement to develop operating protocols as soon as practicable after the Inspectorate's establishment was not met. The delays in initiating and finalising the protocol have adversely affected the Inspectorate's ability to scrutinise Victorian reconstruction projects. This is because the SOCG agreed in early December 2011 that the protocol should be developed 'prior to any further work or information being provided to the Commonwealth' on flood recovery projects for review.

Matters covered in the Victorian protocol

2.25 The five main elements addressed in the 21 clauses of the three-page protocol for reviewing Victorian reconstruction projects are the: background; projects for review; review methodology; value for money assessment process; and reporting and resolution of issues. A copy of the protocol is included at Appendix 4.

2.26 The protocol provides that possible projects for Inspectorate review will be identified by the SOCG (discussed further in Chapter 3). It also confines the Inspectorate to interacting solely with the SOCG, except that it may also meet with delivery agents and funding recipients during site visits. The protocol requires that any requests for relevant project documentation be made to the SOCG and, where possible, the Inspectorate's review of a project for value for money is to be conducted at the development phase of projects. The protocol further provides that Inspectorate review of a project is not to delay reconstruction progress.

2.27 More broadly, the Inspectorate retains a comparatively greater degree of independence in relation to conducting Queensland project reviews than is provided for by the protocol with Victoria. In particular, for Queensland there is no requirement to provide the state with a progress report at the conclusion of each tier of the assessment process, nor to consult the state where a project is deemed to require progression to a next tier review. (The Inspectorate's three tier value for money review process is outlined in Appendix 5).

2.28 It was the last section of the protocol, covering the reporting and resolution of value for money issues that presented the greatest challenge in reaching agreement with Victoria. In April 2012, Victoria proposed that, where the Inspectorate makes a finding that value for money has not been achieved for a particular project, this would not affect the provision of NDRRA funding.

2.29 Such an approach would have significantly reduced the benefits from the Inspectorate conducting value for money reviews. It was also markedly different to the approach reflected in the procedures developed for Queensland in mid-2012. Specifically, the agreed procedure in relation to Queensland projects (outlined in paragraph 2.14) requires the Inspectorate to notify EMA of the details of projects deemed not to represent value for money so that the appropriate amounts can be deducted from the NDRRA claim for reimbursement.

2.30 The finalised wording in the Victorian protocol better protects the Australian Government's interest than that first proposed by the state. However, whereas the Queensland protocol provides that the amount of NDRRA funding will be reduced where the Inspectorate concludes that value for money has not been achieved, the Victorian protocol replicates the dispute resolution mechanisms set out at clauses 39 to 42 of the NPA. Specifically, the protocol provides that:

If the Inspectorate believes value for money may not have been achieved in relation to a particular project, the Inspectorate will hold discussions with the SOCG to seek resolution prior to making a final conclusion. The Inspectorate may make a determination that a project does not represent value for money. A copy of the Inspectorate's report will be provided to the SOCG Secretariat prior to submission to the Victorian Deputy Premier and Commonwealth Minister for Regional Australia for decision as to the implications of such a determination. If the Ministers cannot reach agreement, the issues will be referred to the Premier and Prime Minister.

2.31 In this context, in January 2013 Regional Australia advised the ANAO that:

The Inspectorate still retains the power to recommend to Senior Commonwealth Ministers that NDRRA funding be reduced if it determines that a project does not represent value for money. The decision as to whether funding will be reduced ultimately resides with the Attorney-General, who is responsible for the NDRRA (as it does for Queensland projects).

Matters not addressed

2.32 The protocol focuses on value for money reviews of projects and does not address a number of other important aspects of the Inspectorate's interactions with Victoria. In particular, it is silent in relation to state reporting on flood recovery progress (including in relation to agreeing the format, content and frequency of reports after the initial six months covered by the

NPA).³⁷ In addition, the protocol does not require Victoria to disclose information in relation to complaints or issues raised by the public.³⁸

2.33 The protocol also provides no insights into how the Inspectorate will work collaboratively with reconstruction agencies to develop and review contractual frameworks, tendering processes and project management systems. As outlined in Appendix 2, this was one of the primary purposes of the Inspectorate. Further, the protocol does not address the sharing of relevant information and documentation to allow the use of NDRRA funding to be tracked from its source to the point of final expenditure and/or final recipient. This was a key shared role and responsibility outlined at clause 20(b) of the NPA.

Conclusions

2.34 The Inspectorate's terms of reference stated that it would develop operating protocols with the other Commonwealth and state bodies with which it interacts 'as soon as is practicable after its establishment'. In its role of providing support to the Inspectorate, the Taskforce was responsible for developing operating protocols.

2.35 The Taskforce did not initiate the process of developing an operating protocol with Victoria until early 2012. The protocol was finalised in August 2012, more than 18 months after the Inspectorate was established. The time taken was inconsistent with the protocol being developed as soon as practical after the Inspectorate's establishment. The delay in developing the protocol also adversely affected the Inspectorate's ability to scrutinise Victorian reconstruction projects.³⁹ However, while the protocol was submitted by the SOCG to the Victorian Deputy Premier for approval, the Taskforce did not seek the Inspectorate's endorsement or approval of the protocol.

³⁷ Clause 22 of the NPA states that 'reporting will operate monthly for a period of six months. The frequency and the form of reporting thereafter (is) to be agreed in the light of the milestones and the projects specified in the flood recovery work plan. Victoria and the Commonwealth acknowledge that the circumstances of this agreement provide a clear need for reporting arrangements that are particular to this agreement.'

³⁸ That is, complaints made to or issues raised directly with Victorian state or local government entities in relation to flood recovery and reconstruction.

³⁹ This is because it was decided that the protocol should be developed prior to any information being provided to the Taskforce on flood recovery projects for review.

2.36 The Victorian protocol does not address a number of the key responsibilities of the Inspectorate set out in its terms of reference. For example, it does not outline the processes by which the Inspectorate is to review the state's contractual frameworks, tendering processes and project management systems. It also does not address the sharing of relevant information and documentation that would be necessary for the Inspectorate to track the use of NDRRA funding from its source to the point of final expenditure.

2.37 In large part, those matters that are addressed by the protocol involve restrictions being placed on the way in which the Inspectorate is able to conduct its value for money project reviews. Of note is that possible projects for Inspectorate review are to be identified by the state, rather than the state being required to provide information on all reconstruction projects to enable the Taskforce to identify a sample of projects for review (which is the approach taken in Queensland, and was the approach originally envisaged for Victoria as well).⁴⁰ In addition, the procedures approved by the Attorney-General in relation to Queensland provide for NDRRA funding to be reduced where a project review concludes that value for money is not being achieved, but the Victorian protocol instead provides for a process of dispute resolution.

2.38 The NPAs required protocols to be developed, but agencies have advised the ANAO that they have worked closely, notwithstanding that no steps were taken to develop operating protocols with other Commonwealth entities (such as Emergency Management Australia, which administers NDRRA, or the Department of Infrastructure and Transport, which administers the Australian Government funding for land transport projects, including in respect to infrastructure that has been the subject of reconstruction work). While there have been different views expressed about the benefits of protocols, the Attorney-General's Department particularly noted the ANAO's finding that the work of the Inspectorate may have been better supported had an operating protocol been developed with Emergency Management Australia to assist with the understanding and application of the Natural Disaster Relief and Recovery Arrangements.

⁴⁰ The protocol states that the Inspectorate may also 'propose' to review additional projects to those identified by the state.

3. Scrutiny of Recovery and Reconstruction Projects

This chapter examines the extent to which value for money reviews have been undertaken of recovery and reconstruction projects in Victoria. It also examines other elements of the Inspectorate's role in providing assurance that value for money is being received in reconstruction expenditure.

Introduction

3.1 The Victorian work plan reported that 56 LGAs were impacted by the floods in early 2011, with 29 of those significantly impacted. It also identified that, of the total estimated damage cost of \$1.1 billion, the estimated gross cost to the Victorian and Australian Governments as a result of the floods in late 2010 and early 2011 was expected to be \$766.7 million.⁴¹ As indicated in Chapter 1, upon reaching agreement to the terms of the NPA, the Australian Government advanced \$500 million in assistance to Victoria under NDRRA. As at 30 November 2012, total project expenditure of some \$749 million had been reported to the Taskforce by Victoria.

3.2 At the commencement of operations, the Inspectorate and the Taskforce focused their attention on reconstruction progress and projects in Queensland.⁴² This reflected that the majority of the expected expenditure (and therefore risk) related to that state. Nevertheless, reconstruction activity in Victoria was significant in absolute terms (as illustrated, for example, by the \$500 million advance payment) and relative to the amount of natural disaster assistance expenditure typically experienced.⁴³ In this context, the Taskforce has advised the ANAO that it has provided the Australian Government

⁴¹ This estimate included damage arising from events outside the NPA (that is, flooding that occurred before early 2011).

⁴² In this respect, in June 2011, in its first four-monthly report to the Prime Minister, the Inspectorate stated that: 'Current damage estimates from Queensland and Victoria indicate that the Commonwealth's contribution to the reconstruction effort will be in the order of \$5 billion. Over 90 per cent of that expenditure will occur in Queensland. The focus of the majority of the Inspectorate's work in this period has, therefore, been to establish appropriate frameworks in Queensland, where the majority of the risk lies.'

⁴³ The average total annual payment to all states under NDRRA (and its predecessor, the Natural Disaster Relief Arrangements) between 2001–02 and 2009–10 was less than \$100 million. Category C and D assistance measures were added to the Arrangements in 2007.

Reconstruction Inspectorate with an overview of recovery and reconstruction progress in both Victoria and Queensland.

3.3 Against this background, in August 2011, the Inspectorate wrote to the ANAO outlining its proposed review methodology, including the use of sampling to identify those projects that would be selected for review. The focus of the Inspectorate's correspondence was arrangements that had been agreed with Queensland. The Inspectorate noted that its initial focus had been on developing arrangements for that state, given the expenditure governed by the Queensland NPA was expected to be significantly greater than that under the Victorian NPA. The Taskforce also discussed the proposed methodology with the ANAO, including advising that a similar sampling methodology and tiered assessment approach would be used in Victoria, but that fewer projects were expected to be examined, given the different scale of the natural disasters in the two states.

3.4 The ANAO provided preliminary observations on the review methodology to the Inspectorate (based on the advice provided by the Inspectorate and the Taskforce, and recognising that performance audit work had yet to commence). These preliminary observations included supporting the:

- benefits of a robust sampling approach being developed to select the projects to be reviewed by the Inspectorate, including drawing on actuarial and other expert advice as an input to Inspectorate decisions on sample size and methodology;
- Inspectorate retaining the capacity to investigate the value for money of projects that are not included in the sample, including those referred to the Inspectorate by state or local government bodies or as the result of a complaint by a member of the public, as well as to expand review activities should the findings of the initial work provide cause for concern; and
- adoption of a tiered assessment process, with sampled projects that are seen as being at greater risk of not representing value for money being subject to a more detailed review than those where initial work indicates value for money is likely to be achieved.

3.5 Against this background, the ANAO examined:

- the approach developed for identifying projects for review in Queensland (as this was where the Inspectorate initially focused its attention);
- the extent to which a similarly robust process for selecting Victorian projects for review has been put in place, including any evidence that complex or high value projects have not been the subject of a value for money review by the Taskforce; and
- other elements of the Inspectorate's role in providing assurance that value for money is being received, as specified in its terms of reference.

Approach to identifying Queensland projects for review

3.6 Based on actuarial consultants' advice in mid-2011, the Taskforce proposed, and the Inspectorate endorsed, the use of a Cumulative Monetary Amount (CMA)⁴⁴ sample for the projects to be reviewed in Queensland. At this time, the expected value of the Queensland projects within the Inspectorate's mandate was \$5.4 billion.

3.7 As outlined in the Inspectorate's second report to the Prime Minister, the primary reason for adopting this sampling methodology was that it would 'provide a 95 per cent level of confidence that the sample results can be extrapolated across all reconstruction projects' in that state.⁴⁵ A further consideration was that this methodology also favours the selection of higher value projects over lower value projects.

3.8 The CMA sample is supplemented by projects directly selected by the Taskforce or the Inspectorate. The Taskforce has stated that the reasons for direct selection include that the project:

⁴⁴ Under CMA sampling, the projects are listed in the order in which they were approved, a running total of the cumulative total value of the projects is maintained, and projects that cross a predetermined threshold are selected.

⁴⁵ The Taskforce's August 2011 correspondence to the ANAO (see paragraph 3.3) outlined a similar rationale for the approach adopted in Queensland.

- represents particular interest or risk to the Commonwealth⁴⁶;
- provides greater stratification of location or delivery agent;
- has been identified through the complaints process; or
- has been identified by QRA as representing high risk.

3.9 The current process for selecting projects is that QRA provides an updated list of approved projects to the Taskforce approximately monthly. The Taskforce requests access to the project files in the QRA database for the projects it has selected (using the CMA sampling methodology or by direct selection) and then downloads the relevant documentation.

3.10 QRA has reported that, by early October 2012, nearly \$4.5 billion in project submissions had been approved, with more than \$2.9 billion paid by it to LGAs and SDAs, including nearly \$1.2 billion in NDRRA grant advances. Similarly, each of the five reports provided by the Inspectorate to the Prime Minister between June 2011 and October 2012 has consistently reported that there has been significant reconstruction progress, as evidenced by the pipeline of works.

3.11 As at early October 2012, the Taskforce had selected 91 Queensland projects⁴⁷ for value for money reviews and intended to select at least another 51 projects. The estimated total cost of the 91 projects at the time they were selected was \$2.02 billion. By way of comparison, the Taskforce advised Victoria in mid-June 2011 that only two or three Victorian projects may be selected for review.⁴⁸

3.12 Consistent with the expected focus of the Inspectorate's work on complex or high value projects, the value of the 91 Queensland projects already selected for review represents some 45 per cent of the total value of projects approved as at early October 2012. Reflecting the importance of the project review population being representative, over 30 projects (about one in every three projects selected) had an approved value that was less than \$5 million.

⁴⁶ Such as: high value projects (over \$20 million); delivery agents that have been identified as high risk from previous projects/programs; delivery agents operating significantly beyond their capital expenditure (three times greater than usual); projects that have or are likely to attract significant media attention; and Category D projects.

⁴⁷ Including 13 projects outside the CMA sample (as per paragraph 3.8).

⁴⁸ However, at the time this advice was provided to Victoria there had been no Inspectorate decision regarding the number of projects it expected to review.

Scope of review activities in Victoria

3.13 The Prime Minister's 7 February 2011 announcement of the Inspectorate's establishment stated that the Inspectorate was expected to 'increase scrutiny and accountability of rebuilding projects' and that:

While the Inspectorate will be able to review any relevant project, it will have a particular focus on high value, complex contracts. *[emphasis added]*

3.14 The Victorian NPA, similar to the Queensland NPA, committed the Commonwealth to establishing the Inspectorate to 'oversee the construction activity to provide assurance that value for money is being achieved in the expenditure of Commonwealth funds during the reconstruction phase' (at clause 31 of the Victorian NPA). Clause 32 further provided that the Commonwealth and Victoria would develop operating protocols for the Inspectorate.

3.15 Separate to clause 31 of the NPA, which outlines the establishment of the Inspectorate and the scope of its value for money review activities, the NPA included a \$5 million threshold in relation to project plans and strategies. In this respect:

- clause 13 states that the Victorian Flood Recovery Work Plan would, among other things, 'outline project plans and strategies for projects over \$5 million'⁴⁹; and
- clause 36 states that 'To assist the Inspectorate in providing assurance that value for money is being achieved in the expenditure of Commonwealth funds during the reconstruction phase, the Victorian Government will seek the views of the Inspectorate on proposed project plans and strategies for projects over \$5 million'.

3.16 Accordingly, and consistent with the Prime Minister's February 2011 announcement, the NPA does not overtly restrict the scope of the Inspectorate's review activities to projects with a value greater than \$5 million. Rather, the wording of the NPA indicates that the provision of proposed plans and strategies for projects over \$5 million was intended to assist the Inspectorate undertake its work.

⁴⁹ The ANAO's audit of the preparation of the natural disaster recovery work plans for Queensland and Victoria identified that the Victorian work plan did not outline the project plans and strategies that the state proposed to adopt for any projects with a value greater than \$5 million.

Limitation agreed to by the Taskforce on Inspectorate review activities

3.17 An initial draft of the operating protocol prepared by the Taskforce in December 2011 stated that 'The Taskforce will work with the SOCG to identify relevant projects for review'. The Inspectorate had also reported in its second report to the Prime Minister on 8 November 2011 that it 'is continuing to work with Victoria to identify relevant projects' for review.

3.18 However, later drafts of the protocol proposed that the Taskforce would rely on the state to identify projects for review. The rationale for changing from a joint approach was not documented. Nor was there any rationale documented for the protocol not requiring the regular provision of a list of projects for the Taskforce to sample from (as occurs with Queensland – see paragraph 3.9).⁵⁰

3.19 Later drafts of the protocol included a further restriction on the Inspectorate's ability to review Victorian reconstruction projects. In this respect, a January 2012 draft proposed by the Taskforce provided for the SOCG to identify possible projects for review, 'especially those projects worth more than \$5 million'.⁵¹

3.20 Victoria proposed revised wording to clause 10 of the protocol in mid-April 2012, which would further restrict the Inspectorate's scrutiny to only those projects valued at more than \$5 million. The revision was accepted without question by the Taskforce. As a result, clause 10 of the finalised protocol:

⁵⁰ In December 2012, the Taskforce advised the ANAO that 'Victoria has advised that it is unable to provide a list of projects'. However, the Taskforce first requested a list of projects from Victoria on 24 September 2012, one month after the SOCG agreed to the protocol. Rather than Victoria being 'unable to provide a list of projects, the response provided by Victoria on 14 November 2012 advised the Taskforce that 'providing the Inspectorate with a complete list of projects undertaken, would be inconsistent with the spirit of the (Intergovernmental Agreement on Federal Financial Relations) and early discussions of the SOCG'.

⁵¹ This clearly countenances the possibility of examining projects valued at less than \$5 million. At the same time, the Taskforce made an offer to Victoria to include in the protocol in relation to clause 36 of the NPA 'something ... about the Inspectorate seeing proposed project plans and strategies for projects over \$5m'. (An offer that was not taken up by Victoria). This suggests that the Taskforce had a literal understanding of the clauses of the NPA at that time in relation to the Inspectorate's ability to examine all projects, and to provide its views on project plans and strategies for projects valued at or above \$5 million.

- on a literal reading of the NPA, incorrectly⁵² links the identification of possible projects to clause 36 of the NPA, with the \$5 million threshold; and
- otherwise permits the Inspectorate to 'propose' to the SOCG additional projects to review.

3.21 In addition, notwithstanding that clause 10 of the protocol provides that the Inspectorate may propose additional projects for review, at the time of preparing this report, no additional Victorian projects (beyond those nominated by that state) had been put forward by the Taskforce to the Inspectorate for review.

Taskforce advice

3.22 In its June 2011 first report to the Prime Minister, the Inspectorate foreshadowed that a sampling approach to selecting projects for review would be adopted in both Queensland and Victoria. Specifically, this report stated that:

A rolling work program will be developed for the Inspectorate that identifies projects for examination and scrutiny on a quarterly basis. The work program will be based on risk-based sampling methodology and data analysis of information supplied from State governments (in the first instance QRA) and may also include projects that have been referred to the Inspectorate by state or local government bodies or as a complaint by a member of the public.

3.23 While project sampling has been employed in Queensland (see paragraphs 3.6 and 3.12), no sampling has been employed in Victoria.⁵³ Rather, commencing with the November 2011 second report prepared for the Inspectorate by the Taskforce, the Prime Minister has been advised that:

⁵² As noted at paragraph 3.15, the \$5 million threshold included in the NPA is an additional requirement (separate to the clauses relating to value for money reviews by the Inspectorate) to obtain the views of the Inspectorate on proposed project plans and strategies, but does not overtly prevent Inspectorate review of projects (whether under or over \$5 million) that have commenced or been completed.

⁵³ In January 2013, Regional Australia advised the ANAO that 'the Inspectorate's methodology for identifying projects to review in Victoria is straightforward: all projects valued over \$5 million are subject to Inspectorate review.' A decision to adopt such a methodology is not recorded in the minutes of the Inspectorate meetings, and the Taskforce had earlier advised Victoria that 'only two or three Victorian projects may be selected for review' (see paragraph 3.11).

The Inspectorate may review Victorian reconstruction projects exceeding \$5 million in value. Any such reviews will be in addition to those Queensland projects captured under the sampling methodology.

... To date, there have been no approved Victorian projects which exceed the \$5 million trigger for Inspectorate review. The Inspectorate is continuing to work with Victoria to identify relevant projects.

3.24 The third report (provided in February 2012) stated that review of reconstruction projects in Victoria for value for money would begin 'shortly', with three initial projects identified. However, this did not occur. Instead, in the June 2012 fourth report, the Prime Minister was advised that: 'The Inspectorate has received initial information pertaining to the first Victorian reconstruction project to be reviewed, and assessment of this project will begin shortly.' No explanation was provided as to why reviews of three projects foreshadowed in the February 2012 report had not been undertaken.

3.25 In addition, commencing with the fourth report, the Prime Minister was advised that the NPA limited the scope of the Inspectorate's review activities in Victoria. Specifically, the fourth report and the October 2012 fifth report stated that:

The National Partnership Agreement on Victorian Flood Reconstruction and Recovery prescribes that the Inspectorate can only review projects for value for money that are valued at more than \$5 million.

3.26 The fifth report further advised that:

It should be noted that the Inspectorate's visibility of project level activity in Victoria is limited, due to the financial threshold for its review of projects that is prescribed in the National Partnership Agreement for Victorian Flood Reconstruction and Recovery. This agreement between the Victorian and Commonwealth Governments prescribes that a project must meet a \$5 million cost threshold for a detailed value-for-money assessment to be conducted by the Inspectorate. To date, only one project in Victoria has met this criterion.

3.27 The advice included in these reports does not reflect the actual provisions of the NPA. Specifically, the NPA does not include any overt restriction on the Inspectorate reviewing projects valued at or below \$5 million.

3.28 In September 2012, the ANAO drew to the Taskforce's attention that the NPA includes no such restriction on the Inspectorate's activities. Rather, the \$5 million threshold specified in the NPA relates to proposed project plans

and strategies and that it was through the operating protocol that a \$5 million threshold on value for money reviews was introduced.

3.29 The Taskforce did not provide the ANAO with any analysis that supported its perspective that the NPA restricts the Inspectorate's review activities. Instead, the October 2012 report to the Prime Minister continued the earlier practice of stating that the NPA 'prescribes that the Inspectorate can only review for value for money those projects that are valued at more than \$5 million'.

3.30 In November 2012, Regional Australia advised the ANAO that both the Victorian and the Commonwealth Governments:

... clearly understand the Victorian NPA to contain a \$5 million threshold for projects that can be assessed by the Inspectorate. ... it is evident from the interactions of both Ministers and officials, both during the negotiation period and after the Victorian NPA was signed, that this was the interpretation intended.

3.31 PM&C provided similar advice to the ANAO in December 2012. Specifically, the ANAO was advised that:

It was the clear intention of the Commonwealth at the time of drafting of the NPA that no individual reconstruction projects in Victoria would be subject to value for money assessment by the Inspectorate unless the value of the project exceeded \$5 million.

3.32 The ANAO's September 2012 discussions with the Taskforce also highlighted to the Taskforce that it was not obtaining any data from Victoria to satisfy itself that there was only one project in Victoria (from a \$1 billion program of works) with a value greater than \$5 million. The ANAO suggested that the Taskforce should be obtaining regular reports on project applications and approvals, similar to the approach that has been taken with Queensland. Subsequently, the Taskforce prepared correspondence for the Inspectorate to Victoria seeking 'further details of projects being undertaken in Victoria or, at a minimum, a list of tenders in excess of \$5 million that have been let' (see further at paragraphs 3.54 to 3.60).

Victorian projects identified for review

3.33 As noted in paragraph 1.10, it was a requirement of the NPA that the Victorian work plan outline a set of projects to assist with reconstruction and recovery in that state, and outline project plans and strategies for projects over

\$5 million. In this context, the work plan included an appendix that listed 41 proposed reconstruction and recovery initiatives for which the Victorian Government requested Commonwealth funding (recognising that an 'initiative' may comprise a number of projects). Some 21 of these initiatives were costed at greater than \$5 million. However, in many instances, the initiatives did not identify specific reconstruction and recovery projects but related to general categories of work. In any event, for none of these initiatives did the work plan outline the project plans and strategies that the state proposed to adopt.

3.34 Against this background, a draft of the work plan provided to the Taskforce was reviewed by the Inspectorate in late-August 2011. Amongst other matters raised by the Inspectorate in relation to the adequacy of the draft, the Taskforce was directed to 'suggest to Victoria that the work plan include all projects, not just those in excess of \$5 million'. The Taskforce was unable to provide the ANAO with any evidence that this matter was raised with Victoria. In addition, although the directive was recorded as an action item arising from the August meeting, there was no report back to the Inspectorate's next meeting in relation to action taken.⁵⁴ As noted above, the signed work plan did not include the required information on projects.

3.35 At the Inspectorate's 13 October 2011 meeting, the Taskforce advised that there had been no projects that exceed the \$5 million threshold to trigger Inspectorate involvement and that the Taskforce was working with Victoria to identify any such projects at an early stage. Meeting records also stated that 'the possibility of encouraging Victoria to relax the \$5 million limit if no projects over the threshold are identified was discussed'.

3.36 Subsequently, on 26 October 2011, the SOCG identified three projects for review by the Inspectorate: Charlton Hospital relocation (estimated \$20 to

⁵⁴ However, the Taskforce's update for the Inspectorate's 13 October 2011 meeting advised in relation to 'Victoria progress' that the work plan was currently with the Minister for signature and that comments made by Inspectorate members on the work plan have been reflected in the document.

\$25 million)⁵⁵; Bridgewater-Maldon Road (\$495 000); and Hepburn Springs Reserve (\$2 million).⁵⁶ By early December 2011, Victoria had replaced the latter two projects by nominating for review one bundle of projects totalling \$5.013 million (Regional Rail Network) and another bundle of projects totalling \$2.7 million (Loddon Mallee arterial roads). Notwithstanding that on 21 December 2011 the Inspectorate formally agreed to review these projects nominated by Victoria, the Taskforce did not request that the relevant documentation for the two bundled projects be provided for review. In this respect, the SOCG advised the ANAO in November 2012 that:

At no stage, did Victoria agree to the bundle of projects being in the NPA value for money review. Two possible bundles of projects were explored but not agreed to by the SOCG and nor would the bundles undergo value for money assessment as they would not be provided under clause 31 of the NPA. SOCG minutes note no reviews were to be undertaken until the protocols were developed and agreed to. Eight months had elapsed before the Taskforce had provided a draft of the protocol to the SOCG since the signing of the NPA.

There was also no advice provided to Victoria by the Taskforce that the Inspectorate had formally agreed to reviewing the two possible bundles of projects.

3.37 While the projects for review were not publicly identified, the Inspectorate's third report to the Prime Minister, issued in February 2012, disclosed that three reconstruction projects in Victoria had been identified for review by the Inspectorate, and that 'these will be conducted over the next few months.' However, as indicated in paragraph 3.25, the Inspectorate's fourth report stated that the Inspectorate can only review projects for value for money that are valued at more than \$5 million. It added that one project had been

⁵⁵ Charlton Hospital was identified in the work plan signed on 16 December 2011 as a Category B initiative estimated to cost around \$2.45 million (this was for temporary facilities, relocation of beds and staff and other related costs pending repair or replacement of the building). However, in October 2011, EMA provided Victoria with business case templates including the cost-benefit methodology required to be used for Charlton Hospital and several other projects that it identified as potential betterment proposals. At the time EMA reviewed the Charlton Hospital proposal, which comprised a business case for rebuilding the hospital in a new location, the estimated cost was \$22.7 million. However, the work plan has never been updated to reflect this cost, notwithstanding that on 8 December 2011 the SOCG advised that 'the work plan will be updated when planning for Charlton Hospital commences'. In this regard, the SOCG had already advised in October 2011 that 'planning for the re-establishment of permanent health services has commenced'.

⁵⁶ At this meeting the Taskforce also informed the SOCG that: 'Due to the timing of betterment decisions, it was preferred not to have betterment examples to review, however, the Inspectorate has confirmed their interest with the Charlton Hospital'.

identified for review and an initial assessment of the documentation was being undertaken. There was no reference to the other projects that had been mentioned in the previous report.

3.38 Accordingly, although the total estimated cost of the initiatives identified in the Victorian work plan exceeded \$1 billion, as of October 2012, only one discrete project had been identified as exceeding the \$5 million threshold.

3.39 In early-June 2012, the Taskforce commenced its review of the draft business case betterment proposal for the (then estimated) \$22.7 million Charlton Hospital relocation project.⁵⁷ However, in late-July 2012, the Taskforce was informally advised that Victoria would not be proceeding with its proposal for betterment funding for this project, but would instead seek Category B restoration funding for the construction costs only. The Inspectorate undertook a familiarisation visit to the Charlton Hospital in mid-August 2012 and the Taskforce was provided with project documentation in late-October 2012. In addition, the Charlton Hospital project is not expected to be completed within the Inspectorate's lifetime (noting that this date may be extended).⁵⁸ In January 2013, Regional Australia advised the ANAO that:

The Tier One value-for-money assessment of the first Victorian reconstruction project has been underway since October 2012 when the documentation for Inspectorate review was received (the information previously received by the Commonwealth related to a potential betterment funding request from

⁵⁷ On 4 May 2012, the Taskforce advised the SOCG that the Inspectorate will look at the value for money of the overall project but not necessarily the cost benefit analysis on betterment. The Taskforce was unable to provide the ANAO with the rationale for this approach when requested in November and again in December 2012. On 15 June 2012, the Inspectorate was advised that the Taskforce will review the documentation provided and assess whether any further information is required prior to beginning the value for money assessment. In January 2013, Regional Australia advised the ANAO that:

The Taskforce does not have the authority to approve betterment applications under the NDRRA. Betterment proposals are submitted by the States to EMA and the decision as to whether to approve such applications is made by EMA and the Department of Finance and Deregulation. The Taskforce was therefore not reviewing the betterment application, but rather assessing whether the information contained within it was sufficient to allow a value-for-money review to begin.

However, the ANAO notes that the Taskforce is required under its terms of reference to assess requests for Commonwealth funding assistance outside of those automatically triggered by a NDRRA declaration (see 4th dot point at paragraph 1.7). This includes betterment applications (as well as Category D proposals).

⁵⁸ The Inspectorate was advised in mid-August 2012 that Victoria was in discussions with EMA about an extension to the end of 2014 for the Charlton Hospital project. On 18 September 2012, the Inspectorate was advised that a 24 month extension was expected. A formal application for extension was submitted by Victoria in November 2012.

Victoria). Further information has been requested and will be taken into consideration before the Tier One report is completed.

3.40 The advantages of conducting value for money reviews as early as possible in the project life cycle have been recognised by the Inspectorate. In this regard, the Victorian protocol states that, wherever possible, the Inspectorate's review of a project for value for money would be conducted at the development phase of projects.⁵⁹ The Inspectorate's first report also acknowledged that 'retrospective examination reduces the effectiveness of the Inspectorate function'. It also stated that:

An ... emerging issue is the access to project information at an appropriate time in the project lifecycle. The Inspectorate's ability to perform the functions described in the National Partnership Agreements — to provide assurance of value for money prior to funds being spent — relies on it having the opportunity to scrutinise project applications before approval. This function is limited to a retrospective examination if the Inspectorate's involvement commences after project approval or commencement.

Inspectorate site visits

3.41 The Inspectorate has conducted three visits to see first-hand the damage and progress in reconstruction in Victoria, and to discuss the factors affecting reconstruction with local council and state government representatives. Specifically:

- on 6 June 2011, the Inspectorate visited Grampians, Loddon, Mallee and Campaspe Shires;
- on 29 September 2011, it visited Mildura and Kerang; and
- on 15 August 2012, it visited Buloke Shire (including the Charlton Hospital).

3.42 However, these visits supplement, but are not a substitute for, the Inspectorate's three-tiered value for money assessments of Victorian projects described in the protocol.

⁵⁹ An independent consultant's review of the Taskforce's three tier value for money assessment process also highlighted the importance of early conduct of the reviews.

Reconstruction projects valued at greater than \$5 million

Projects identified in the work plan

3.43 Although many of the initiatives listed in the Victorian work plan were not specific projects, there were instances where the work plan identified a project with a value of greater than \$5 million. In particular:

- flood warning system recovery—estimated at \$7.14 million;
- repair of Wilsons Promontory entrance road leading to Tidal River—estimated at \$6.0 million⁶⁰; and
- Catchment Management Authorities—North East \$5.34 million, North Central \$10.13 million and Melbourne Water \$15.33 million.

3.44 In none of these instances has the Taskforce sought to undertake a value for money review of the project.

3.45 Further in this respect, a number of damage estimates were increased in the period leading up to and following the finalisation of the work plan. However, the Taskforce did not take any action to investigate when notified of these changes, including to establish whether the revised estimates now included projects with a value greater than \$5 million.

Projects identified drawing from public information sources

3.46 At its December 2011 meeting, the Taskforce advised the Inspectorate that Victoria was having difficulty identifying projects over the \$5 million threshold. However, the Taskforce did not seek from Victoria any data that would provide assurance that there were not projects above this threshold that had not been brought forward for review. In this respect, in September 2012, the ANAO suggested that the Taskforce request the SOCG to provide a list of all Victorian reconstruction projects covered by the NPA and their estimated value, from which the Taskforce would be able to select projects for Inspectorate review.

3.47 Up to September 2012 the Taskforce had also not undertaken research of publicly available information to identify possible instances of projects

⁶⁰ According to the VicRoads website, on 4 September 2011, a contract for \$1.9 million was awarded to Fulton Hogan (Construction) Pty Ltd to repair 'flood damage to various sections of the Wilsons Promontory Road between Tidal River and Darby River'.

above the \$5 million threshold. The ANAO's review of such material, and subsequent engagement with a number of LGAs, indicated that numerous individual tenders and contracts exceeding \$5 million in value have been awarded for flood reconstruction works in Victoria. Some examples are provided below.

Single contract for works in close proximity

3.48 The Taskforce has conducted tier one reviews on a number of Queensland projects that have involved a single contract for works that are in close proximity. An example is the \$4 million Department of Transport and Main Roads project DTMR.203.11 for reconstruction of 10 roads in the Wide Bay/Burnett area (the contract was awarded to Neumann Contractors).

3.49 By way of comparison, an essentially similar activity in Victoria has not been reviewed because it was not specifically designated as a project. Specifically, on 28 November 2011, VicRoads⁶¹ awarded a contract for \$10.233 million (excluding GST) to a private contractor (Boulderstone Pty Ltd) for flood reconstruction works in the Grampians National Park. Three roads were to be repaired during the period January to August 2012; the Northern Grampians Road, which joins the Silverband Road, which in turn joins the Grampians Road. The total cost of the project would be expected to exceed the contract price, for example, where indirect costs incurred by VicRoads in preparing the contract and managing the project are included.

Series of works across a local government area

3.50 Information provided to the Inspectorate by QRA in December 2011 outlined that a:

key characteristic of the reconstruction program across the 73 LGAs is the significant variation in the nature of the projects. While there have been instances of significant damage to large high profile assets, such as the ferry terminals and river walk in Brisbane, the vast majority of reconstruction projects across the LGA networks are multiple smaller projects, such as gravel re-sheeting of rural roads and straight forward pavement repairs.

3.51 In this context, a commonly adopted approach in Queensland has been the 'bundling' of required works across a local government area, especially

⁶¹ VicRoads is a Victorian statutory authority that was established under the *Transport Act 1983* and continued under the *Transport Integration Act 2010*. It employs more than 3100 people and its annual expenditure is over \$2 billion. Source: Vic Roads Annual Report 2010–11.

where the works are similar in nature. Bundling works into one project, or in many cases into one contract, has been seen as beneficial to both the LGAs/SDAs and their contractors. It takes advantage of the economies of scale and reduces administration costs associated with issuing, and responding to, many thousands of individual contracts. For example, Queensland projects reviewed by the Inspectorate included:

- works required across more than 2100 sites throughout the local government area that were included in one \$11.4 million project by the Somerset Regional Council (SRC.2.11); and
- Gladstone Regional Council entering into a contract for \$23 million with Golding Contractors Pty Ltd, packaging its \$6.2 million GRC.4.12 project (covering 30 roads) with other works required across the region involving restoration activities for some 250 roads in total.

3.52 By way of comparison, in Victoria, the Hindmarsh Shire Council had estimated flood damage of \$24 million included in the work plan (subsequently revised to \$36.5 million as at 30 November 2012). Three contracts over \$5 million have been awarded by Council for works across the shire: two to Citywide Service Solutions in October 2011 and September 2012 for \$5.735 million and \$8.537 million respectively (excluding GST) and one to Downer EDI Limited in June 2012 for \$5.124 million (excluding GST).⁶²

3.53 Other similar examples were identified in relation to:

- Hepburn Shire Council. The damage estimate shown in the work plan for Hepburn Shire was \$20 million. This had increased to \$26.1 million by 30 November 2012. In July 2011, Hepburn Shire Council awarded a contract for \$5.174 million (including GST) to Re Civil Pty Ltd for gravel re-sheeting of various roads across the shire; and
- Gannawarra Shire Council, which has entered into several contracts in relation to repairing its estimated \$25.4 million in flood damage. These included one contract in March 2011 for \$7.3 million (excluding GST) to Global Contracting Pty Ltd for re-sheeting of unsealed roads and associated works across the shire.

⁶² The contract values inclusive of GST are \$6.3 million, \$9.4 million and \$5.6 million respectively. These figures do not include Council's costs for preparing the tenders and managing the projects.

Inspectorate request to Victoria for project information

3.54 Commencing in late-September 2012, the Taskforce started requesting information from Victoria on projects with a value greater than \$5 million, and a list of all reconstruction projects underway or completed in Victoria by dollar value. In addition, in early November 2012, the Inspectorate wrote to Victoria stating that:

The Inspectorate is also troubled that, more than 18 months after the disaster events, it has been unable to complete a value for money assessment on any Victorian project. In comparison, the National Disaster Recovery Taskforce, on behalf of the Inspectorate, has completed 61 value for money reviews of Queensland reconstruction projects. I understand that the information pertaining to the relocation and reconstruction of the Charlton Hospital has been provided and we look forward to commencing our value for money assessment shortly.

As you are aware, the National Partnership Agreement restricts the Inspectorate's value for money assessments to those projects valued at more than \$5 million. To date, there appears to be only one project in almost \$900 million of reconstruction which fulfils that criterion. The Inspectorate is concerned that this one project may not be sufficient to assure the Australian public that value for money is being achieved across the Victorian reconstruction program, and, if possible, would appreciate further details of projects being undertaken in Victoria or, at a minimum, a list of tenders in excess of \$5 million that have been let.

3.55 In addition, in January 2013 the Taskforce advised the ANAO that this issue has been the subject of discussion between AGD and PM&C, in the context of Victoria's request for an extension of the timeframe for NDRRA funding. In this respect, in December 2012, the Chair of the Inspectorate wrote to the Minister for Regional Australia, Regional Development and Local Government raising this issue and recommending that any extension to funding arrangements in Victoria be contingent upon the Inspectorate being provided with sufficient projects to be able to provide the required level of assurance.

3.56 The Minister responded in February 2013, advising that he: shared the Inspectorate's concerns about its ability to assess value for money in circumstances where only one project had been identified for review; strongly supported the Inspectorate's recommendation that an extension to the allowable period for reconstruction be contingent upon Victoria's agreement to increase oversight; and had written to the Attorney-General recommending

this approach as responsibility for the extension request rests with Emergency Management Australia.

3.57 At the time of preparing this ANAO report, Victoria had identified to the Taskforce nine tenders with a value over \$5 million.⁶³ Victoria had also identified to the Taskforce that it considered a 'project' for the purposes of the Inspectorate's value for money review activities referred to a single piece of infrastructure (for example, one road or one bridge).

3.58 Should this definition be accepted by the Inspectorate, such an approach would be problematic in the context of the new oversight and accountability measures introduced through the NPA that were intended to provide assurance concerning value for money in reconstruction expenditure. In particular, the NPA required that the Victorian natural disaster recovery work plan identify a set of specific reconstruction projects. If the definition set out by Victoria had similarly been applied to the development of the work plans, separately identifying each individual road and bridge in the work plan, rather than consolidating reconstruction activities into projects by type of activity or collective activities at defined sites or localities, would have presented significant challenges to all levels of government.

3.59 The definition proposed by Victoria was also inconsistent with the approach adopted in Queensland. In this respect, QRA's value for money strategy (which has been endorsed by the Inspectorate⁶⁴) defined a project as including 'works at single or multiple sites'. Consistent with this definition, and as noted at paragraph 3.51, the more practical approach taken in respect to identifying Queensland reconstruction projects for the purposes of the Inspectorate's value for money reviews recognised that flood reconstruction projects commonly involve a number of roads and bridges, sometimes dispersed across geographic areas that had been affected by flooding. The Queensland approach also recognised that a project may comprise a single tender and contract, or a series of tenders and contracts, or be undertaken by one or more work crews employed by the delivery agency rather than being tendered and contracted.

⁶³ These were the same tenders over \$5 million already identified by the ANAO.

⁶⁴ See further at paragraph 3.64.

3.60 In addition, the information sought from Victoria related to tender costs, rather than the expected out-turn cost of the entire project. By way of comparison, the QRA value for money strategy related to the 'total outturn cost' of reconstruction projects, which was defined as 'the total NDRRA eligible cost of delivering the project, including design, construction and management costs'. In this context, as is evident from some Queensland projects examined by the Taskforce, a project could involve more than one tender and/or the full cost of a project (for example, including project management costs) is often greater than the value of work tendered.

3.61 In January 2013, Regional Australia informed the ANAO that it has been advised by Victoria that a list of reconstruction projects is not feasible. However, it was not evident that the Taskforce had fully explored the rationale for this advice. The ANAO notes that delivery agencies hold the necessary project level information and such data is being reflected, in aggregate, in the monthly progress reports being provided to the Taskforce in respect to the flood work plan. In this respect, for land transport reconstruction projects (which comprise the majority of estimated expenditure), the work plan commonly referred to performance targets relating to the number of roads for which work had commenced or been completed, the number of bridges repaired or replaced, or the kilometres of rail line that had been repaired. Such data should also provide the basis for the identification of reconstruction projects for Inspectorate review. Given that two years have elapsed since the disaster events occurred, the ANAO considers that it is reasonable to expect that by now reconstruction projects arising from those events should be able to be identified.

Inspectorate's terms of reference

3.62 Consistent with the Prime Minister's February 2011 announcement of the Inspectorate's establishment, section 5 of the Inspectorate's terms of reference set out six specific requirements expected of the Inspectorate in undertaking its role of ensuring that there is proper accountability, scrutiny and value for money being received in the expenditure of Commonwealth funds during the recovery phase in Queensland and Victoria. The requirements and a summary of the ANAO's assessment of their implementation up to the time of preparation of this report are shown in Table 3.1.

Table 3.1**Requirements of the Inspectorate (as per terms of reference)**

Requirement	Met?	Summary comments
Work collaboratively with any reconstruction agencies to develop and review contractual frameworks, tendering processes and project management systems	No	No involvement in the development and review of contractual frameworks, tendering processes and project management systems in Victoria. ⁶⁵ By way of comparison, some generic proforma contracts have been reviewed in Queensland.
Where necessary, scrutinise requests for reimbursement by local government for projects completed for the purpose of reconstruction	No	No requests for advance payments or reimbursements have been scrutinised in Victoria. By way of comparison, over 90 project submissions have been reviewed in Queensland. A number of these were for completed projects, or where progress payments had been made or progress reports submitted.
Where necessary, scrutinise rebuilding contracts and benchmark prices, to ensure value for money	No	No rebuilding contracts have been scrutinised and no benchmarking of prices has been undertaken in Victoria. ⁶⁶ By way of comparison, selective benchmarking has been undertaken on a number of Queensland projects reviewed to date and selected benchmarking information commissioned by QRA has been examined.
Directly inspect projects, if required, to ensure they are meeting progress milestones	Yes, for one project.	One project has been directly inspected in Victoria. ⁶⁷ By way of comparison, several Queensland projects have been directly inspected by the Inspectorate and the Taskforce.

⁶⁵ Except that VicRoads provided a short presentation to the Inspectorate on its procurement approach in July 2011.

⁶⁶ In January 2013, Regional Australia advised the ANAO that 'the Inspectorate is currently assessing the costs of the Charlton Hospital against industry standards, including those in Rawlinsons' *Australian Construction Handbook 2012*.' However, the benchmarks being used for conducting a review of an individual reconstruction project is different from the broader benchmarking of prices envisaged in the terms of reference which, as noted in Table 3.1, is being undertaken by QRA in respect to the Queensland reconstruction program.

⁶⁷ In January 2013, Regional Australia advised the ANAO that 'the Inspectorate not only visited the old site of the Charlton Hospital, but also inspected the new site. State government officials provided a detailed briefing on the planned design and process of the new hospital to the Inspectorate members.'

Requirement	Met?	Summary comments
Examine high value or complex projects prior to execution, that is, scrutinise contracts before they are signed	No	No high value or complex projects have been examined in Victoria and no contracts have been scrutinised before being signed. By way of comparison, many high value projects have been reviewed in Queensland (but no contracts in that state have been scrutinised before being signed).
Respond to and investigate complaints or issues raised by the public, relating to value for money	N/A	No complaints or issues have been raised by the public in relation to Victorian reconstruction.

Source: ANAO analysis of Inspectorate terms of reference and Taskforce records.

State value for money assurance strategies

3.63 The Inspectorate's project review process developed by the Taskforce places reliance on there being a soundly based pre-approval review of the project against value for money criteria by the relevant state reconstruction agency. As noted in Appendix 5, the Taskforce applies its three-tiered review process only after projects have been reviewed and approved by the state.

3.64 In this regard, the Taskforce received a value for money strategy from QRA in April 2011. After Inspectorate members agreed that they needed to be much more involved in the crucial stages of defining the value for money concept, QRA convened a workshop with the Inspectorate and Taskforce on 20 April 2011 to work through a number of issues in relation to the strategy. Following the engagement of consultants with construction and procurement expertise to assist in reviewing the strategy, the Inspectorate wrote to QRA outlining enhancements on 25 May 2011. The Inspectorate subsequently endorsed the Queensland value for money strategy on 26 July 2011.

3.65 This approach was not adopted for Victoria. Unlike for Queensland, the Taskforce did not request that Victoria provide a value for money framework, strategy or methodology for review and endorsement by the Inspectorate. In this respect, the Victorian work plan makes no reference to value for money. The whole-of-Victorian-Government risk assessment at Appendix 4 of the work plan states that: 'Standard procurement processes require demonstration of value for money'; while also noting that it is the Inspectorate that is responsible for assessing value for money. However, the requirement for standard procurement processes to demonstrate value for money does not address issues such as whether the expenditure:

- was necessary in the first instance;
- was the best available option for like-for-like restoration or replacement of the damaged asset to its pre-existing condition in all the circumstances; and
- met all the eligibility criteria for NDRRA funding.

3.66 These are matters that were addressed by the Queensland value for money strategy that has been endorsed by the Inspectorate.

Conclusions

3.67 The expected cost to the Australian Government under NDRRA for the Victorian flooding covered by the relevant NPA is much less than that expected in respect to Queensland, but the amount nevertheless remains significant (\$500 million was advanced). It is in this context that the NPA with Victoria outlines that the Inspectorate was established to oversee reconstruction activity to provide assurance that value for money is being achieved in the expenditure of funds during the reconstruction phase. This was principally to be achieved by the Taskforce, on behalf of the Inspectorate, undertaking value for money reviews of reconstruction projects.

3.68 Both states have documented public sector procurement frameworks, but the Australian Government's decision to create the Inspectorate recognised that reliance on existing procurement frameworks would not provide sufficient assurance that value for money was being achieved. In this context, in response to the 2010–11 flooding, Queensland developed a value for money strategy that was subsequently endorsed by the Inspectorate. That strategy involves pre-approval review by QRA of each project against value for money criteria.⁶⁸ It is only after QRA has completed its value for money review that the Taskforce undertakes its own value for money review of a sample of approved projects. There is no equivalent value for money strategy in place under the arrangements adopted with Victoria; a situation that should have

⁶⁸ As of January 2013, QRA was reporting that \$1.73 billion in project submissions in Queensland had been assessed by the Authority as not eligible or otherwise returned to the relevant delivery agency, thereby avoiding \$1.3 billion in cost to the Australian Government and \$434 million in potential state costs. By way of comparison, the Taskforce has not quantified any savings achieved from its conduct of value for money reviews of Queensland reconstruction projects that have been approved by QRA.

increased the Taskforce's focus on conducting its own value for money reviews in that state.

3.69 Reporting from Victoria to the Taskforce, and reports subsequently prepared by the Taskforce from the Inspectorate to the Prime Minister, have outlined that reconstruction is well advanced in Victoria. However, notwithstanding that the total estimated damage cost in Victoria is \$1.1 billion and that, by November 2012, some \$749 million in project expenditure had been reported, there have been no value for money reviews completed in respect to any Victorian reconstruction projects. Some work has been undertaken in respect to the review of only one project (estimated to cost \$22.7 million). This situation has arisen because:

- the Taskforce initially focused its work on developing a review methodology and project sampling processes for Queensland, given this is where the majority of expenditure will occur. There was relatively little attention given at that time, or subsequently, to developing a robust methodology for identifying a representative sample of projects to review in Victoria (proportionate to the level of expenditure expected in that state); and
- the parties to the NPA intended that the Inspectorate would only examine reconstruction projects with a value more than \$5 million.⁶⁹ Even allowing for this threshold, the Taskforce has not been active in seeking to ensure that projects with a value greater than \$5 million are identified for value for money review. One project has been identified for review, but it is not representative of the reconstruction program and there is also some evidence that a number of other projects with a value above \$5 million have proceeded, without being referred to the Taskforce for a value for money review. At the time of preparing this

⁶⁹ This restriction is included in the operating protocol agreed to by the Taskforce with Victoria (see paragraph 3.20). The Taskforce advised the Inspectorate that this restriction also exists in the NPA, but the ANAO's analysis did not support this view. (The NPA only applies a threshold in relation to Victoria being required to seek the views of the Inspectorate on proposed project plans and strategies for projects over \$5 million, which were to be included in the work plan developed in accordance with the NPA). Although it is not evident from the NPA agreed between governments, PM&C advised the ANAO in December 2012 that it was the clear intention of the Commonwealth at the time of drafting the NPA that no individual reconstruction projects in Victoria would be subject to value for money assessment by the Inspectorate unless the value of the project exceeded \$5 million. By way of comparison, in Queensland, around one in three of the 91 projects selected for review by October 2012 was valued at less than \$5 million.

ANAO report, no formal requests had been made to Victoria concerning Inspectorate reviews of these other projects.

3.70 In January 2013, the Taskforce advised the ANAO that a value for money assessment of the first Victorian reconstruction project has been underway since late-October 2012 when the documentation for Inspectorate review was received. It also advised that further information has been requested and will be taken into consideration before the report is completed. However:

- this project (the relocation and reconstruction of the Charlton Hospital) is not representative of the reconstruction program in Victoria, where most of the funding relates to the reconstruction of road and rail infrastructure by local government and state government authorities. In addition, the Charlton Hospital project is not expected to be completed within the (currently funded) lifetime of the Inspectorate; and
- the Inspectorate's third report to the Prime Minister (provided in February 2012) had stated that review of reconstruction projects in Victoria for value for money would begin 'shortly', with three initial projects identified (including the Charlton Hospital project). However, the Taskforce did not request that the relevant documentation for two of these projects be provided for review, and the reviews were not undertaken. Subsequent Inspectorate reports did not identify that these reviews had not proceeded, or advise of the reasons for this situation.

3.71 Commencing in late-September 2012, the Taskforce started requesting information from Victoria on projects with a value greater than \$5 million⁷⁰, and a list of all reconstruction projects underway or completed in Victoria. At the time of preparing this ANAO report, Victoria had identified to the Taskforce nine tenders with a value over \$5 million.⁷¹ However, to date a list of all reconstruction projects has not been provided and no agreement has been reached on what constitutes a 'project' for the purposes of the Inspectorate's

⁷⁰ In January 2013, Regional Australia advised the ANAO that 'the Inspectorate's methodology for identifying projects to review in Victoria is straightforward: all projects valued over \$5 million are subject to Inspectorate review.' A decision to adopt such a methodology is not recorded in the minutes of the Inspectorate meetings. The Taskforce had earlier advised Victoria that 'only two or three Victorian projects may be selected for review' (see paragraph 3.11) and the Inspectorate's June 2011 first report to the Prime Minister had foreshadowed that a sampling approach to selecting projects for review would be adopted in both Queensland and Victoria (see paragraph 3.22).

⁷¹ These tenders over \$5 million had already been identified by the ANAO.

value for money review activities. Although Regional Australia informed the ANAO that it has been advised by Victoria that a list of reconstruction projects is not feasible, delivery agencies hold the necessary project level information and such data is being reflected, in aggregate, in the monthly progress reports being provided to the Taskforce in respect to the flood work plan. Given that two years have elapsed since the disaster events occurred, it is reasonable to expect that by now reconstruction projects arising from those events should be identifiable.

3.72 There has also been a general absence of the envisaged involvement by the Inspectorate and the Taskforce in developing and reviewing contractual frameworks, tendering processes and project management systems in relation to flood reconstruction in Victoria.

Recommendation No.1

3.73 The ANAO recommends that the Department of Regional Australia, Local Government, Arts and Sport improve the arrangements for conducting value for money reviews of Victorian reconstruction projects by pursuing amendments to the operating protocol with Victoria to require that, at regular intervals, the Taskforce is provided with information on all reconstruction projects being delivered within the scope of the National Partnership Agreement.

Regional Australia's response:

3.74 *Agreed in principle. The Department of Regional Australia, Local Government, Arts and Sport ('the Department') agrees that, in accordance with the intent of the National Partnership Agreement ('the NPA'), the Victorian Government should submit enough reconstruction projects for assessment by the Australian Government Reconstruction Inspectorate ('the Inspectorate'), for it to provide an assurance of value for money over the entire reconstruction program.*

3.75 *The Department and the Inspectorate have advised the Victorian Government that a single project will not allow a judgement to be made on the value for money of the reconstruction program and are working to identify further projects for value-for-money assessment by the Inspectorate.*

3.76 *The Victorian Government has recently sought an extension to the timeframe for the reconstruction program and in conjunction with this we will work with the Victorian Government to improve reporting of project-level information to identify further projects for Inspectorate value-for-money review.*

Inspectorate's response:

3.77 *Not agreed. The Australian Government Reconstruction Inspectorate notes the Australian National Audit Office's (ANAO) recommendation, but does not believe that seeking an amendment to the operating protocol would be of any practical benefit. The Inspectorate does not agree with the ANAO's interpretation of the National Partnership Agreement for Victorian Flood Reconstruction and Recovery ('the NPA') concerning the projects that may be reviewed for value for money by the Inspectorate. It has always been the Inspectorate's understanding that the intent of the NPA – and the intent of both parties in agreeing to the NPA – was to limit the Inspectorate's*

review to those projects valued at more than \$5 million.⁷² The Inspectorate was not involved in the negotiation of the Commonwealth's interests in the NPA; that was undertaken by the Department of Prime Minister and Cabinet.⁷³ The Inspectorate was presented with the document in May 2011 once it had been signed by both parties.

3.78 The Inspectorate is currently reviewing the only reconstruction project that has been identified as crossing the threshold for Inspectorate review. The Inspectorate acknowledges that at this point in time, it does not have sufficient information to make an assessment of whether value for money can be achieved in the Victorian reconstruction program and I have written to both the Victorian Government and the Minister for Regional Australia, Regional Development and Local Government on this issue. However, reconstruction in Victoria is far from complete, and the identification of projects for Inspectorate review continues to be a point of discussion with Victorian officials.

PM&C's response:

3.79 Noted.



Ian McPhee
Auditor-General

Canberra ACT
26 February 2013

⁷² **ANAO Comment:** The report recognises (see paragraphs 18 and 3.69) that the ANAO has been advised that the parties to the NPA intended that a \$5 million threshold apply to Inspectorate value for money reviews of Victorian flood reconstruction projects. The report also outlines that this threshold on project reviews was not included in the NPA but is reflected in the operating protocol (see paragraphs 4 and 3.13 to 3.21).

⁷³ **ANAO Comment:** Records provided to the ANAO by PM&C show that the Taskforce was consulted in the development of both NPAs, with briefings on progress provided to the Inspectorate at its meetings.

Appendices

Appendix 1: Agency Responses

Department of Regional Australia, Local Government, Arts and Sport

In 2010–11, Victorian communities suffered extensive and prolonged flooding. The cost of recovery and reconstruction in the state is estimated to be more than \$1 billion, although a portion of this will be recovered through insurance arrangements. To assist with reconstruction, the Australian Government provided a \$500 million advance payment to the Victorian Government, which is to be acquitted against claims under the Natural Disaster Relief and Recovery Arrangements ('the NDRRA').

In conjunction with this advanced payment, the Australian Government negotiated a National Partnership Agreement with the Victorian Government ('the Victorian NPA') to include enhanced arrangements for oversight and reporting of reconstruction (in addition to the existing NDRRA framework). The Victorian NPA provides for the Australian Government Reconstruction Inspectorate ('the Inspectorate'), announced by the Prime Minister in February 2011, to assess value for money in the Victorian reconstruction program.

While the Victorian NPA shares some components with Queensland's National Partnership Agreement, there are important differences between the two. Notably, the Victorian NPA was finalised in May 2011 after several months of negotiations between the Australian and Victorian Governments and reflects decisions made by the Victorian Government on how it would administer its reconstruction program.

The method of administering disaster recovery and reconstruction is decided by the state or territory government with regard to the specific needs of its communities after each disaster. There is no standard response. In this case, the Victorian Government decided not to establish a centralised approval and coordination body, as it had in the aftermath of the 2009 bushfires. It instead decided to rely on existing state agencies and administrative arrangements already in place.

Similarly, the Victorian Government decided to use its existing procurement and contract management frameworks, rather than establish disaster-specific arrangements. The Victorian Government has provided advice on these arrangements

to the Inspectorate, which considers them to be appropriate to the task and able to deliver value for money in the reconstruction program.⁷⁴

The arrangements put in place in Victoria in the aftermath of the 2011 floods provide for significantly greater visibility and oversight than has ever been the case for disaster recovery in that State. The National Disaster Recovery Taskforce ('the Taskforce') and the Inspectorate have been active participants in interagency and intergovernmental meetings on reconstruction, reviewing progress reports and data on progress, and undertaking site visits with front line staff, community members and local government agencies.

It should be noted the reconstruction program is far from complete and the Department will continue to assess projects to assure that value for money is achieved across the reconstruction program.⁷⁵

The Department notes that, while the \$5 million threshold for Inspectorate value for money review of reconstruction projects is not explicit in the drafting of the Victorian NPA, it was the intent of the Commonwealth and the Victorian governments that the Inspectorate focus on and review projects valued at more than \$5 million. The Department of the Prime Minister and Cabinet – the agency responsible for drafting the agreement and for concluding the negotiations with Victoria – supports the interpretation applied by the Inspectorate and the Taskforce.

Against this background, the Department believes that the ANAO's assertion that it is the operating protocol that limits the Inspectorate is misleading.⁷⁶

As the ANAO has identified, the operating protocol was agreed by the Victorian Government in December 2012. The Department does not consider that the

⁷⁴ **ANAO comment:** *An important matter examined in project value for money reviews is the project delivery approach. As outlined at paragraphs 2.39 to 2.43 of the related report on the preparation and delivery of the flood recovery work plans, the Victorian procurement policies outlined in the work plan did not apply to important elements of the recovery and reconstruction effort. Further, in the context of this audit of value for money reviews of Victorian flood reconstruction projects, ANAO engagement with councils (to assess the extent to which reconstruction projects greater than the \$5 million threshold exist) indicated that the documented procurement framework may not be being consistently applied. This situation was drawn to the Taskforce's attention during the course of the audit.*

⁷⁵ **ANAO comment:** *The Inspectorate's third report to the Prime Minister (provided in February 2012) had stated that review of reconstruction projects in Victoria for value for money would begin 'shortly', with three initial projects identified (including the Charlton Hospital project). However, the Taskforce did not request that the relevant documentation for two of these projects be provided for review and the reviews were not undertaken. Subsequent Inspectorate reports did not identify that these reviews had not proceeded, or advise of the reasons for this situation.*

⁷⁶ **ANAO comment:** *The report recognises (see paragraphs 18 and 3.69) that the ANAO has been advised that the parties to the NPA intended that a \$5 million threshold apply to Inspectorate value for money reviews of Victorian flood reconstruction projects. The report also outlines that this threshold on project reviews was not included in the NPA but is reflected in the operating protocol (see paragraphs 4 and 3.13 to 3.21).*

development period had any material impact on the Inspectorate conducting value-for-money assessments.⁷⁷ The project currently being assessed by the Inspectorate was identified while the protocols were being developed.⁷⁸ The substantial documentation required for the review could not be assembled until late 2012 as the design phase was still underway.

The Department disagrees with the ANAO's view that the Taskforce and the Inspectorate have not been active in seeking projects for review and specifically that the Taskforce only 'started requesting information from Victoria on projects with a value greater than \$5 million' in September 2012 (see paragraph 3.71). The Department notes that paragraph 3.35 indicates that discussions on this matter occurred as early as October 2011.⁷⁹

The ANAO has identified a number of advertised tenders which it believes should have been the subject of review by the Inspectorate. These are currently under consideration by the Taskforce, however advice provided in 2012 by the Victorian

⁷⁷ **ANAO comment:** As noted at paragraphs 24, 2.24 and 3.36, the Taskforce and Victorian officials agreed the protocol should be developed 'prior to any further work or information being provided to the Commonwealth' on flood recovery projects for review.

⁷⁸ **ANAO comment:** As noted at paragraph 3.36, the Charlton Hospital project was identified for Inspectorate review in October 2011, several weeks before the Taskforce commenced the initial draft protocol provided to Victoria in late-January 2012 (see Figure 2.1).

⁷⁹ **ANAO comment:** Prior to September 2012, the Taskforce action had been limited to raising with Victoria that no projects above the \$5 million threshold had been submitted for review. However:

- the operating protocol did not require any reporting from Victoria to allow the Taskforce to be satisfied that there were no projects above \$5 million (which was the advice to the Taskforce from Victoria) and the Taskforce did not examine other sources of information (such as public information on tenders and Council websites) to identify projects that had not been reported to it by Victoria;
- a definition of the key term 'project' was agreed at an early stage with Queensland, but similar action was not taken in respect to Victoria. An inconsistent approach has been adopted, with the result being reduced accountability and oversight. Specifically, Victoria has advised the Taskforce that it considered a 'project' for the purposes of the Inspectorate's value for money review activities referred to a single piece of infrastructure such as one road or one bridge but, for the flood recovery work plan (which the NPA required include a list of specific reconstruction projects) individual roads and bridges were not identified. Rather, in many instances, the work plan identified general categories of work (for example, the work plan included a \$121.5 million initiative titled 'Repair of Flood Damage to Arterial Roads' but did not provide any details as to which particular arterial roads required repair or reconstruction, or at what estimated cost); and
- when projects were put forward by Victoria for Inspectorate review, the Taskforce did not pursue the documentation to allow a review to commence, such that these reviews did not proceed, even though it had been reported to the Prime Minister in February 2012 that reviews would commence shortly (and later reports to the Prime Minister did not address this situation).

Government is that a number of these are substantially funded by insurance and are therefore out of scope.⁸⁰

The Department does not consider that a separate protocol governing the interactions of the Inspectorate and other Commonwealth bodies, particularly Emergency Management Australia ('EMA'), is necessary or impacts on current effective working arrangements.⁸¹ Interactions between EMA and the Department occur using the same framework as all other Commonwealth agencies, including inter-agency meetings, the use of seconded officers and the Cabinet coordination process. As recognised in the ANAO's report, EMA and the Inspectorate do not agree that an operating protocol is needed for an effective working relationship between the two bodies.

As recognised in the ANAO's report, EMA and the Inspectorate do not agree that an operating protocol is needed for an effective working relationship between the two bodies.⁸²

There has been and continues to be close dialogue between EMA and the Department on matters arising from the Taskforce and Inspectorate's oversight of the reconstruction programs in Victoria and Queensland. Therefore, the Department does not agree with the ANAO that it did not access advice from EMA on disaster recovery arrangements or emerging issues identified by the Inspectorate. These were addressed in a timely manner.

⁸⁰ **ANAO comment:** *The department has not indicated how many of the nine projects have insurance offsets and has not quantified the insurance offsets (and whether this has been budgeted insurance, which has often not been achieved according to Victorian reporting, or actual insurance recoveries). In any event, similar to the absence of any agreed definition of a reconstruction project, there are no clauses in the NPA or protocol indicating that the value of projects for the purposes of applying the \$5 million threshold excludes the amount of any insurance recovery.*

⁸¹ **ANAO comment:** *In May 2012, the Taskforce advised the SOCG in relation to the NPA review then underway that one of the key issues for the review identified during Commonwealth consultation was the need for 'clarification of the division of responsibility of Commonwealth departments'. This suggests that the existing arrangements were less than fully effective. Matters such as this could have been addressed in the envisaged Inspectorate protocol (see paragraph 2.5).*

⁸² This comment was repeated in the department's formal response.



Australian Government Reconstruction Inspectorate

Chair

Mr Ian McPhee PSM
Auditor-General
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Mr McPhee

I refer to the letter of 14 December 2012 from Ms Barbara Cass seeking comment from the Australian Government Reconstruction Inspectorate ('the Inspectorate') on the proposed audit report on *The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Victoria*, and on the revised version sent on 28 January 2013.

I note that changes have been made to the report since the issues paper, particularly in providing a broader context. I continue, however, to have the concerns that I expressed in my initial response and in my subsequent conversation with Ms Cass.⁸³

The Inspectorate does not agree with the Australian National Audit Office's (ANAO) interpretation of the National Partnership Agreement for Victorian Flood Reconstruction and Recovery ('the NPA') concerning the projects that may be reviewed for value for money by the Inspectorate. It has always been the Inspectorate's understanding that the intent of the NPA – and the intent of both parties in agreeing to the NPA – was to limit the Inspectorate's review to those projects valued at more than \$5 million. The Inspectorate was not involved in the negotiation of the Commonwealth's interests in the NPA; that was undertaken by the Department of Prime Minister and Cabinet, which confirms that the Inspectorate's

⁸³ **ANAO comment:** *The Issues Papers were discussed with the Chair of the Inspectorate prior to his written comments being provided to the ANAO. The Inspectorate's comments during the course of the audit resulted in changes being made to the proposed report to:*

- *recognise the action that was taken in November 2012 by the Inspectorate to write to Victoria advising that it was 'troubled that, more than 18 months after the disaster events, it has been unable to complete a value for money assessment on any Victorian project' (see paragraphs 16 and 3.54); and*
- *reflect the Inspectorate's perspective that the absence of formal protocols with other Commonwealth agencies (as had been required by the NPA) has had no demonstrable impact on the work of the Taskforce or the Inspectorate (see paragraph 2.17).*

interpretation of the NPA is correct. The Inspectorate was presented with the NPA in May 2011 once it had been signed by both parties.⁸⁴

In line with this, I note that the report continues to state erroneously that the Inspectorate's Operating Protocol bound the Commonwealth to the \$5 million limit for Inspectorate value-for-money reviews (see for example paragraph 3.20). This needs to be corrected.⁸⁵

The Inspectorate is currently reviewing the only reconstruction project that has been identified as crossing the threshold for Inspectorate review. The Inspectorate acknowledges that at this point in time, it does not have sufficient information to make an assessment of whether value for money can be achieved in the Victorian reconstruction program, and I have written to both the Victorian Government and the Minister for Regional Australia, Regional Development and Local Government on this issue. However, reconstruction in Victoria is far from complete, and the identification of projects for Inspectorate review continues to be a point of discussion with Victorian officials.

The National Disaster Recovery Taskforce provides regular reports to the Inspectorate on its active discussions with the Victorian Government on the identification of further appropriate projects for Inspectorate review, that is those projects valued at more than \$5 million and funded by the State and Commonwealth under the Natural Disaster Relief and Recovery Arrangements ('the NDRRA'). I am hopeful that a resolution to this issue can be reached in the near future.

The audit report attempts to identify further Victorian projects valued at more than \$5 million, including 21 initiatives in the Flood Recovery Work Plan; these initiatives, however, are comprised of multiple projects across the State, such as the reconstruction

⁸⁴ **ANAO comment:** Records provided to the ANAO by PM&C show that the Taskforce was consulted in the development of both NPAs. In respect to the Queensland NPA, the minutes of the Inspectorate's 15 February 2011 meeting reflect that the Inspectorate had been provided with a copy of the draft NPA, and offered the opportunity to provide comments. The records of the 1 March 2011 and 12 April 2011 Inspectorate meetings outline that the Taskforce briefed the Inspectorate on progress with the Victorian NPA. The records of the 20 May 2011 meeting outline that the Inspectorate was advised by the Taskforce that a NPA had been finalised with Victoria but that 'it differs from the NPA between the Commonwealth and Queensland, particularly in relation to the scope of the Inspectorate and the threshold for projects which will come under the Inspectorate's Governance'.

⁸⁵ **ANAO comment:** The report recognises (see paragraphs 18 and 3.69) that the ANAO has been advised that the parties to the NPA intended that a \$5 million threshold apply to Inspectorate value for money reviews of Victorian flood reconstruction projects. The report also outlines that this threshold on project reviews was not included in the NPA but is reflected in the operating protocol (see paragraphs 4 and 3.13 to 3.21).

programs of the Catchment Management Authorities. They are not appropriate projects for Inspectorate review.⁸⁶

The Victorian Government has recently sought an extension to the timeframe for the reconstruction program. I have written to the Minister for Regional Australia, Regional Development and Local Government suggesting that any agreement to extend this date should be conditional on the Victorian Government providing a sufficient number of reconstruction projects – or bundles of projects – for value-for-money assessment. The Inspectorate would then be in a much stronger position to fulfil its mandate in providing value-for-money assurance in the Victorian reconstruction effort.

This has been a new and challenging exercise, but one that has already delivered clear and significant benefits for the Australian community. By its nature, the Inspectorate has needed to be flexible in dealing with unforeseen issues and in ensuring that we avoid duplication of effort or placing an unnecessary administrative burden on front-line agencies.

I have attached some specific comments on the recommendation for inclusion in the audit report. I would be happy to discuss these issues with you in person, if you would like any further information.

Yours faithfully

A handwritten signature in black ink, appearing to read 'John Fahey', with a stylized flourish at the end.

The Hon John Fahey AC
31 January 2013

⁸⁶ **ANAO comment:** *The associated audit report on the preparation and delivery of the flood reconstruction work plans outlines (at paragraphs 2.44 to 2.53) that many of the 'initiatives' listed in the Victorian work plan do not identify specific reconstruction and recovery projects but relate to general categories of work. Neither at that time, nor subsequently, did the Taskforce seek information from Victoria that identified each specific project included within these 'initiatives'. Nevertheless, as outlined at paragraphs 3.43 to 3.45 of this report examining project reviews of Victorian flood reconstruction projects, there were instances where the work plan identified a project with a value of greater than \$5 million but in none of these instances has the Taskforce sought to undertake a value for money review of the project. In addition, although the Inspectorate's third report to the Prime Minister (provided in February 2012) stated that review of reconstruction projects in Victoria for value for money would begin 'shortly', with three initial projects identified, this did not occur. Instead, in the June 2012 fourth report, the Prime Minister was advised that: 'The Inspectorate has received initial information pertaining to the first Victorian reconstruction project to be reviewed, and assessment of this project will begin shortly.' No explanation was provided as to why reviews of three projects foreshadowed in the February 2012 report had not been undertaken.*



Australian Government

Department of Infrastructure and Transport

Secretary

Ms Barbara Cass
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Ms Cass

Audits for Australian Government Reconstruction Inspectorate and Preparation and Delivery of the Natural Disaster Recovery Work Plans for Victoria

Thank you for providing an extract of the proposed audit report to me for comment.

I note the audit findings of relevance to the Department of Infrastructure and Transport (DIT) centre around the perceived lack of operating protocols between the Australian Government Reconstruction Inspectorate (the Inspectorate) and DIT. It is postulated that the development of such protocols may have benefited the work undertaken by the Taskforce, specifically in relation to managing the risk of "double dipping" and facilitating a sharing of information and experience.⁸⁷

I take the opportunity to provide a formal comment on the audit findings detailed above, to be published in the final audit report.

⁸⁷ **ANAO Comment:** Paragraph 2.5 outlines that it was the NPAs that required the operating protocols between the Inspectorate and other Commonwealth and state bodies involved in reconstruction activity. The NPAs were jointly agreed by the Australian Government and the governments of Queensland and Victoria respectively.

It should be noted that DIT worked closely and cooperatively with the Taskforce during the Victorian flood recovery and reconstruction effort. This included official attendance on the Australian Government Disaster Recovery Committee (AGDRC) – identified as the committee to take forward the Commonwealth's coordinated recovery efforts, and the AGDRC Secretaries' Group, chaired by the Secretary, Attorney Generals' Department.

Additionally, this Department, through its Flood Response Working Group, was in regular communication, through a significant number of phone calls and meetings, with the Taskforce and other partnering Agencies to provide information and expertise toward assisting in the oversight of the reconstruction projects. Through clear cooperation, the Department was able to provide expert information on the management of large scale infrastructure projects, in particular reviewing project cost estimations and delivery expectations. Officers of this Department involved in the Nation Building Infrastructure Investment (NBII) Program monitored closely the delivery of the projects to minimise the risk of "double dipping".

Lastly, I draw to your attention paragraph 2.18 and the references it make to the Attorney General's view of the relationship between Emergency Management Australia and the Department of Regional Australia, Local Government, Arts and Sports. As there is no relevance to the working relationships of my Department, I believe this commentary should be removed or placed under a more appropriate heading.

For the reasons I have outlined here, it is the view of the Department that partnering agencies do not always require formal protocols to produce expected outcomes in an efficient, effective and economic manner. As such, I am confident that the absence of operating protocols between the Taskforce and DIT did not impede the flood recovery and reconstruction effort in any way.

The contact officer in the Department is Roland Pittar, whose details are:

Mr Roland Pittar
General Manager
North West Roads
Department of Infrastructure and Transport
GPO Box 594
CANBERRA ACT 2600

Telephone: 02 6274 6424

Email: roland.pittar@infrashucture.gov.au

Yours sincerely



Mike Mrdak

29 January 2013



Department of Primary Industries

24 January 2013

Ms Barbara Cass
Group Executive Director
Performance Audit Service Group
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Dear Ms Cass,

Proposed Audit Report on the Performance Audit of the Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Victoria

In early 2011, Victoria experienced some of the most extensive and damaging storm events in its history. A partnership approach by the Victorian and Commonwealth Governments to provide recovery and reconstruction funding, together with appropriate governance and coordination mechanisms, have been instrumental in enabling communities to recover and rebuild.

The flood events experienced by Victoria in 2011 and the governance and coordination arrangements established to guide reconstruction are significantly different to those relating to the Queensland floods. These differences were noted by Victoria's Deputy Premier, the Hon. Peter Ryan MP, in his letter to the Commonwealth Minister for Regional Australia, Regional Development and Local Government, the Hon. Simon Crean MP, in March 2011. Deputy Premier Ryan noted that Victoria was not establishing a separate authority to undertake recovery and reconstruction, consistent with its aim to keep the agreement as simple as possible and not create an unnecessary administrative burden. He also stated that given the large number of relatively small projects, procurement would not be centralised and for projects over \$5 million Victoria will seek the view of the Australian Government Reconstruction Inspectorate.

Following agreement to this approach by Minister Crean in April 2011 these arrangements were reflected in the intent and content of the National

Partnership Agreement for Victorian Flood Reconstruction and Recovery (NPA), the Victorian Flood Recovery Work Plan and the Protocol for Reviewing Victorian Reconstruction Projects (the Protocol) agreed to between Victoria and the Commonwealth.⁸⁸

Victoria notes that consistent with the foregoing, the Department of Prime Minister and Cabinet, the Commonwealth National Disaster Recovery Taskforce, Australian Government Reconstruction Inspectorate and Victorian agencies all share the view that the NPA and the Protocol reflects that no reconstruction projects in Victoria would be subject to value-for-money assessment unless the value of the project exceeded \$5 million. Victoria notes that only the ANAO has a different interpretation.⁸⁹

Victoria is confident that the existing procurement policies and practices employed by State agencies and Local Governments in Victoria, together with the requirement under the Natural Disaster Relief and Recovery Arrangements (NDRRA) to provide financial statements audited by the Victorian Auditor-General to support any claim under the NDRRA, will enable effective reconstruction and value-for-money for the community.⁹⁰

Victoria will continue to meet its obligations of the NPA. Victoria's view is that consistent with the NPA and Protocol, there has been a common understanding between Victorian and Commonwealth agencies that a project in this circumstance refers to a single piece of infrastructure (a road, a bridge, etc.) rather than a tender (which could be a group of projects).⁹¹ This is evidenced in past discussions with the Taskforce where only one reconstruction project, the Charlton Hospital, was identified as exceeding the \$5 million threshold. However, Victoria will continue to work with the Commonwealth Taskforce to ensure an efficient and effective approach in identifying appropriate reconstruction projects for value-for-money review, consistent with the NPA and the Protocol.⁹²

⁸⁸ **ANAO Comment:** See footnote 85.

⁸⁹ **ANAO Comment:** See footnote 85.

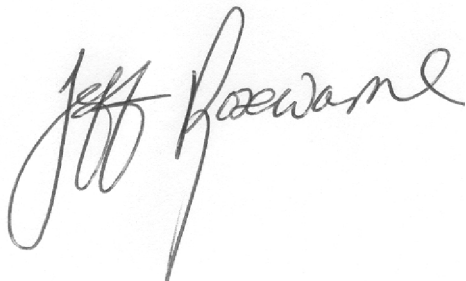
⁹⁰ **ANAO Comment:** As noted at paragraph 1.5, Inspectorate value for money reviews of individual reconstruction projects were one of the oversight and accountability measures introduced in addition to the existing procurement policies and practices documented for Victoria that was designed to ensure value for money would be obtained in the rebuilding of flood affected regions. As noted at footnote 19, QRA has reported achieving significant cost reductions in that state from its activities. To date, no similar benefits have been reported in respect to the Victorian reconstruction program.

⁹¹ **ANAO Comment:** See the second dot point of footnote 79.

⁹² **ANAO Comment:** See footnote 75.

Victoria also welcomes the opportunity for further discussions between the Commonwealth and States and Territories on future reforms for Commonwealth-State collaboration in emergency recovery.

Yours Sincerely

A handwritten signature in black ink, reading "Jeff Rosewarne". The signature is fluid and cursive, with the first name "Jeff" written in a more compact, stylized manner than the surname "Rosewarne".

Jeff Rosewarne.

Chair, Senior Officials Coordination Group

Secretary, Department of Primary Industries, Victoria



For more information about DPI visit the website at www.dpi.vic.gov.au or call the Customer Service Centre on 136 186

Appendix 2: Australian Government Reconstruction Inspectorate Terms of Reference⁹³

Function of the Inspectorate

1. The Australian Government Reconstruction Inspectorate has been established to oversee the reconstruction activity to provide assurance that value for money is being achieved in the expenditure of both Commonwealth and State funds during the recovery phase in Queensland, New South Wales⁹⁴ and Victoria. The Inspectorate will ensure that there is proper accountability, scrutiny and value for money, with a particular focus on high value, complex contracts. It will not replicate the function or responsibilities of decision-making bodies such as the Queensland Reconstruction Authority.

Term of Operation

2. The Inspectorate will report directly to the National Disaster Recovery Committee of Cabinet (former Australian Floods Cabinet Sub-Committee), chaired by the Prime Minister.⁹⁵

Membership

3. The Inspectorate will be chaired by the Hon John Fahey AC. Other members will include Mr Martin Albrecht AC, former Managing Director of Thiess Pty Ltd, Mr Matt Sheerin⁹⁶, partner at consultancy firm Deloitte, and Mr David Tune PSM, Secretary of the Department of Finance and Deregulation.
4. The Inspectorate will be supported as necessary by others with expert knowledge of relevant fields, for example, quantity surveying; construction management; and contract law.

⁹³ Source: Australian Government Reconstruction Inspectorate *First Report February to June 2011*, Attachment A.

⁹⁴ At the time NSW was included here, it was anticipated that an NPA may also be signed by that state. However, this did not occur.

⁹⁵ This clause does not specify the term of operation of the Inspectorate. See footnote 3 regarding the initial and extended term.

⁹⁶ Mr Sheerin resigned from the Inspectorate on 7 March 2012. At the time of preparation of this ANAO report a replacement member of the Inspectorate had not been appointed.

Terms of Reference

5. The purpose of the Inspectorate will be to:
 - work collaboratively with any reconstruction agencies to develop and review contractual frameworks, tendering processes and project management systems;
 - where necessary, scrutinise requests for reimbursement by local government for projects completed for the purpose of reconstruction;
 - where necessary, scrutinise rebuilding contracts and benchmark prices, to ensure value for money;
 - directly inspect projects, if required, to ensure they are meeting progress milestones;
 - examine high value or complex projects prior to execution, that is, scrutinise contracts before they are signed; and
 - respond to and investigate complaints or issues raised by the public, relating to value for money.⁹⁷
6. The roles, responsibilities and powers of the Inspectorate will be incorporated into the terms of the national partnership agreement or other agreement which delivers reconstruction funding from the Commonwealth.
7. The Commonwealth will develop operating protocols for the Inspectorate, setting out how the Inspectorate will interact with other Commonwealth and State bodies involved in reconstruction activity, as soon as is practicable after the Inspectorate's establishment.

Secretariat

8. The Inspectorate will be supported by the Department of Regional Australia, Regional Development and Local Government [now the Department of Regional Australia, Local Government, Arts and Sport].

⁹⁷ In August 2011, the Commonwealth granted Queensland a twelve-month extension to the allowable expenditure period under NDRRA. At the request of the Australian Government, the Inspectorate accepted the additional responsibility of monitoring project scope to guard against scope expansion.

Appendix 3: Role of the Commonwealth National Disaster Recovery Taskforce

Paragraphs 40 and 41 of the National Partnership Agreement for Natural Disaster Reconstruction and Recovery (Commonwealth and Queensland, February 2011) state that:

40. A Commonwealth National Disaster Recovery Taskforce (the Taskforce) will be established and located in the [Department of Regional Australia, Local Government, Arts and Sport]. Its work will be guided by a steering committee chaired by the Secretary of the [Department of Regional Australia, Local Government, Arts and Sport], and include Secretaries of: the Attorney-General's Department; Department of Infrastructure and Transport; Department of Finance and Deregulation; the Treasury; and the Associate Secretary, Domestic Policy, Department of the Prime Minister and Cabinet.
41. The Taskforce will have as its sole focus the oversight and coordination of Commonwealth interests in relation to the recovery and reconstruction efforts regarding the flooding events that took place in late 2010 and early 2011 and Cyclone Yasi. The Taskforce will:
 - a) provide support, including Secretariat services, to the Inspectorate;
 - b) report to the Minister Assisting the Attorney-General for Queensland Flood Recovery and the Deputy Chair of the Australian National Disaster Recovery Cabinet Sub-Committee;
 - c) provide the Australian National Disaster Recovery Cabinet Sub-Committee with monthly progress reports on State plans for recovery, including updated estimates of the Commonwealth's liability under NDRRA;
 - d) provide the secretariat function for the Business Leaders Taskforce;
 - e) assess spending on recovery and reconstruction efforts arising from the flooding and cyclone events to ensure consistency with NDRRA;
 - f) assess requests for Commonwealth funding assistance outside those automatically triggered by a declaration under NDRRA (including all Category D requests) consistently with the Principles Related to Proposals for Additional Natural Disaster Assistance set

out in a Schedule to this Agreement, and advise the Commonwealth Government on these requests; and

- g) ensure that a strategic approach is taken to reconstruction and recovery efforts, incorporating the principles of local input, and leverage efforts across all three tiers of government and the private and not-for-profit sectors.

Appendix 4: Inspectorate Protocol for Reviewing Victorian Reconstruction Projects

Background

2. The Victorian and Commonwealth Governments signed the National Partnership Agreement for Victorian Flood Reconstruction and Recovery (the NPA) in May 2011, to provide a framework for cooperation and oversight of the significant flood recovery effort required.
3. The Australian Government Reconstruction Inspectorate (the Inspectorate) was established to oversee the reconstruction activity by Queensland and Victoria and to provide assurance that value for money is being achieved in the expenditure of Commonwealth funds during the reconstruction phase.
4. A Commonwealth National Disaster Recovery Taskforce (the Taskforce) was established to support the Inspectorate.
5. The Senior Officials Coordination Group (the SOCG) promotes good coordination between Victoria and the Commonwealth to achieve the objectives and outcomes described in the NPA. The secretariat responsibilities for the SOCG lie with the Department of Primary Industries (DPI).
6. Clause 32 of the NPA states 'The Commonwealth and Victoria will develop operating protocols for the Inspectorate, setting out how the Inspectorate will interact with other Commonwealth and State bodies involved in reconstruction activity, as soon as is practicable after the Inspectorate's establishment.'
7. This protocol outlines how the Inspectorate will interact with Victoria and other Commonwealth bodies involved in reconstruction activity.
8. This protocol supports the NPA for Victoria and will not supersede the clauses of the NPA.
9. Clause 31 of the NPA states: 'The Commonwealth will establish an Australian Government Reconstruction Inspectorate (the Inspectorate) to oversee the reconstruction activity to provide assurance that value for money is being achieved in the expenditure of Commonwealth funds during the reconstruction phase. The Inspectorate will:

- a) report to the Prime Minister;
 - b) work closely with the established processes within Victoria and provide an additional level of check and balance for the expenditure of funds; and
 - c) not replicate the function or responsibilities of decision-making or statutory bodies.'
10. Clause 36 of the NPA states: 'To assist the Inspectorate in providing assurance that value for money is being achieved in the expenditure of Commonwealth funds during the reconstruction phase, the Victorian Government will seek the views of the Inspectorate on proposed project plans and strategies for projects over \$5 million.'

Projects for Review

11. Possible projects for Inspectorate review for value for money will be identified by the SOCG, as per Clause 36 and will be submitted by the Taskforce to the Inspectorate. The Inspectorate may propose to the SOCG additional projects to review, including those projects that are funded under Category D of the Natural Disaster Relief and Recovery Arrangements (NDRRA) as per Clause 31.

Review Methodology

12. Where possible, the Inspectorate's review of a project for value for money will be conducted at the development phase of projects.
13. Inspectorate review of a project will not delay reconstruction progress.
14. The Taskforce will submit a request for relevant project documentation to the SOCG. This may include project plans, milestone reports and any other relevant documentation.

Value for Money Assessment Process

15. Projects selected for review will undergo a three-tiered value for money assessment and as per the NPA the assessment will recognise state practice and Victorian standards for procurement. The three tiers are:

Tier One: Desktop Review

Where a project has been selected for a tier one review, the project analysis may include:

- comparison of projects against benchmarks (calculated using industry standards and other similar projects);
- examination of the project file provided by Victoria;
- comparison of estimated and actual expenditure (where projects have commenced); and
- stakeholder surveys.

Based on these elements the likelihood that the project will achieve value for money will be assessed. Where a project is deemed to be value for money, a report will be prepared. In instances where it is unclear or unlikely that a project will achieve value for money, it will be transitioned to tier two.

Tier Two: Secondary Review

Projects that progress to a tier two review will be subject to a comprehensive review by members of an expert panel. Tier two analysis may include:

- an expert cost opinion;
- a site visit, incorporating meetings with delivery agents and funding recipients; and
- examination of all key documentation including project plans and tender documents.

At this stage, the project will receive a rating according to each of the criteria: time, cost, quality, and local engagement. Each criterion is weighted differently and a project's overall rating will be translated into a percentage score. Based on these scores each project will receive a grade of 'pass', 'marginal value for money', or 'fail'. These results will inform whether projects are referred to tier three.

Tier Three: Inspectorate On-Site Review

Tier three analysis may include:

- site visits by the Inspectorate; and
- meetings between the Inspectorate and relevant stakeholders.

16. Projects will be assessed according to the criteria of time, cost, quality, and local engagement. Each criterion will be weighted to provide an overall value for money rating and will be consistent with Victorian policy and standards for procurement and any obligations imposed on Victoria by the Commonwealth Government under the terms of

funding. The overall rating a project receives will determine whether or not a project is deemed to be value for money. The factors relevant to each of these criteria are:

Time:

- Project commencement date versus estimated project commencement date.
- Date of practical completion versus estimated date of completion.

Cost:

- Actual total outturn cost versus benchmark costs.
- Adjustments will be made to take account of cost premiums which are legitimately incurred and/or are unavoidable.

Quality:

- Whether the construction is fit for purpose.
- Whether the design matches current engineering or other relevant standards in operation in Victoria.
- Whether the project has been completed in accordance with the scope outlined in the original submission documents.

Local Engagement:

- Opportunities for local industry participation.
- Opportunities for indigenous and apprentice labour.
- Opportunities for local community consultation.

Reporting and resolution of issues

17. To assist with responding to any inquiries about projects, the SOCG Secretariat (DPI) will be the contact point for all of the projects.
18. The SOCG, via the SOCG Secretariat, will be provided with a progress report at the conclusion of each tier of the assessment process. Where a project is deemed to require progression to a next tier review, Victoria will be consulted via the SOCG Secretariat.
19. Where an issue is identified through the review process, the Inspectorate will work with the SOCG to resolve matters quickly.
20. If the Inspectorate believes value for money may not have been achieved in relation to a particular project, the Inspectorate will hold

discussions with the SOCG to attempt to seek resolution prior to making a final conclusion.

21. The Inspectorate may make a determination that a project does not represent value for money. A copy of the Inspectorate's report will be provided to the SOCG Secretariat prior to submission to the Victorian Deputy Premier and Commonwealth Minister for Regional Australia for decision as to the implications of such a determination. If the Ministers cannot reach agreement, the issues will be referred to the Premier and Prime Minister.
22. The Inspectorate will report to the Prime Minister on the outcome of assessments of reconstruction projects for value for money.

Appendix 5: Inspectorate Three Tier Project Review Process

1. Conducting project reviews is a primary component of the strategy adopted by the Inspectorate and the Taskforce for providing assurance that value for money is being achieved in recovery and reconstruction expenditure in Queensland and Victoria. Other elements of the strategy include more generalised reviews of contractual, procurement and project management frameworks and investigation of complaints made to the Inspectorate.
2. The overall importance of independently reviewing a selection of the actual recovery and reconstruction projects was well recognised early on, including as one of the key lessons learned from the Building the Education Revolution Taskforce.⁹⁸ The main benefit of reviewing individual projects is the insight (and evidence-based assurance) it can provide into how well the collective NDRRA requirements, contracting and procurement frameworks and other associated policies and procedures are actually being applied by LGAs and SDAs across the reconstruction period.

Three tier project review process

3. The key mechanism underpinning the Inspectorate's assessment of whether or not reconstruction expenditure is delivering value for money is the three tier review process. The methodology for conducting project reviews was developed by the Taskforce in mid-2011 and endorsed by the Inspectorate on 26 July 2011. Pilot testing was conducted on two Queensland reconstruction projects in August 2011 and some refinements were made based on this experience. The weightings applied to the various assessment criteria were amended and approved by the Inspectorate on 30 August 2011. Reviews of the first three Queensland projects commenced in early September 2011. An expert evaluation of the Inspectorate's project review procedures was subsequently undertaken in December 2011.⁹⁹

⁹⁸ Building the Education Revolution Implementation Taskforce: Interim Report, August 2010; First Report, December 2010; and Final Report, July 2011.

⁹⁹ The consultant's report was issued as a draft, has not been finalised and has not been published.

4. It has been the Inspectorate's intention that Victorian reconstruction projects would be subject to essentially the same review process as Queensland projects.
5. In relation to Queensland projects, the Inspectorate's three tier review process is applied to projects only after QRA has completed its own value for money assessment and advised the applicant that their project has been approved.¹⁰⁰

¹⁰⁰ Except for projects subject to QRA's two-phase approvals process, which mainly applies to Queensland Department of Transport and Main Roads reconstruction projects.

Three tier review process

Tier one: desktop review

Where a project has been selected for a tier one review, the project analysis may include:

- comparison of projects against benchmarks (calculated using industry standards and other similar projects);
- examination of the project file provided by the state reconstruction authority;
- comparison of estimated and actual expenditure (where projects have commenced); and
- stakeholder surveys.¹⁰¹

In instances where it is unclear or unlikely that a project will achieve value for money, it will be transitioned to the next tier. Some projects will progress to tier two and tier three even where they have been assessed as value for money at tier one.

Tier two: secondary review

Projects that progress to a tier two review will be the subject of a comprehensive review by external experts. Tier two analysis may include:

- an expert cost opinion;
- a site visit, which may incorporate meetings with delivery agents and funding recipients; and
- examination of all key documentation including project plans and tender documents;

Tier three: Inspectorate on-site review

Approximately three to five projects per quarter will be subject to an on-site review by the Inspectorate members. Tier three analysis may include:

- site visits by the Inspectorate;
- meetings between the Inspectorate and relevant stakeholders; and
- discussions with the state reconstruction bodies.

In instances where a project does not achieve value for money, the process agreed with EMA for non-value for money projects will be triggered.

Source: ANAO analysis of Taskforce documentation.

¹⁰¹ At the time of the audit fieldwork, no stakeholder surveys had been conducted on any reconstruction projects in Queensland or Victoria.

Assessment criteria

6. The Taskforce's project review process broadly involves reviewing the selected projects against four main criteria:
 - quality (scored out of 6):
 - whether the construction is fit for purpose;
 - whether the design matches current engineering or other relevant standards; and
 - whether the project has been completed in accordance with the scope outlined in the original submission documents.
 - cost (scored out of 10):
 - planned cost versus benchmark costs; and
 - planned cost compared to actual total outturn cost.
 - time (scored out of 2):
 - Suitability of the project timeframe;
 - project commencement date versus estimated project commencement date; and
 - date of practical completion versus estimated date of practical completion.
 - local engagement (scored out of 2):
 - opportunities for local industry participation;
 - opportunities for indigenous and apprentice labour; and
 - opportunities for local community consultation.
7. In relation to tier one reviews, the Inspectorate has endorsed a pass mark of 65 per cent. Projects scoring between 55 and 65 per cent receive a 'marginal' value for money rating. A 'fail' rating (below 55 per cent)

will cause the project to progress to the next tier of review.¹⁰² If a project receives a score of zero for either the 'cost' or 'quality' criteria, that project will be deemed not to be value for money and will automatically receive a 'fail' rating.¹⁰³

8. The Taskforce produces internal reports for the Inspectorate at the completion of each tier.¹⁰⁴ Where a project has been determined to represent, or be likely to represent value for money¹⁰⁵, the results are reported to the Prime Minister. One-page summaries for 14 and 11 Queensland project reports were included in the Inspectorate's fourth and fifth reports respectively.¹⁰⁶

¹⁰² However, the Taskforce's Draft Value for Money (VfM) Assessment Procedures Manual states that project scores of 'less than 65 per cent fail the VfM assessment and are referred to a Tier 2 VfM assessment'. The Procedures Manual was drafted during the latter half of 2011 and has not been submitted for approval by the head of the Taskforce and subsequent endorsement by the Inspectorate. It contains a number of inconsistencies with current Taskforce practices and Inspectorate decisions or approvals. The Taskforce advised the ANAO in December 2012 that the manual is being updated.

¹⁰³ To date no Queensland projects have received a score of zero for cost or quality.

¹⁰⁴ In addition to these Tier review reports, in June 2011, the Inspectorate was advised that a 'lessons learnt' report would be issued by the Taskforce each quarter as part of the endorsed value for money review process. However, this did not occur.

¹⁰⁵ For example, in many cases the Taskforce's assessment is based on costing estimates as the project has not started, has not gone to tender or is underway at the time of the tier one assessment and actual costs are not yet known. A project may be deemed to be likely to represent value for money based on the project submission, assuming that the scope of works and actual costs do not change during the implementation phase.

¹⁰⁶ There were 14 and 8 tier one reviews respectively, plus three tier two reviews (all in the fifth report).

Index

A

Advance payments, 26, 28, 63
AGD. *See* Attorney-General's
Department
Attorney-General's Department, 15,
22, 33, 35, 43, 87
Australian Government
Reconstruction Inspectorate, 10,
14, 27, 45, 68–69, 72–76, 78–79,
82–83, 85–87, 89

C

Category. *See* NDRRA Category
Charlton Hospital, 20, 53, 55–56, 60,
67, 83
CMA. *See* Cumulative Monetary
Amount
Contractual frameworks, 11, 18, 21,
28, 31, 42–43, 68, 86
Cumulative Monetary Amount, 46

D

Department of Finance and
Deregulation, 22, 33, 85, 87
Department of Infrastructure and
Transport, 22, 35, 37, 43, 87
Department of Primary Industries,
89
Department of Primary Industries
(Victoria), 82
Department of Regional Australia,
11, 28, 38, 68, 80, 86–87
Department of the Prime Minister
and Cabinet, 15, 22, 73, 87

Department of the Treasury, 33, 35,
87

Department of Transport and Main
Roads, 58

DIT. *See* Department of
Infrastructure and Transport

DPI. *See* Department of Primary
Industries

E

Emergency Management Australia,
15, 33, 35, 43, 61, 75, 80

G

Gannawarra Shire Council, 59
Gladstone Regional Council, 59

H

Hepburn Shire Council, 59
Hindmarsh Shire Council, 59

L

LGA. *See* Local Government
Authority
Local Government, 11, 23
Local Government Authority, 27,
47, 58–59, 94

N

National Disaster Recovery
Taskforce, 11, 14, 28, 60, 73, 77,
83, 87
National Partnership Agreement,
10, 27, 51, 56, 60, 68–69, 72, 76, 83,
86–87, 89

Natural Disaster Relief and
Recovery Arrangements, 10, 13,
26, 38, 43, 72, 77, 83, 90

NDRRA. *See* Natural Disaster
Relief and Recovery
Arrangements

NDRRA Category, 26, 55, 87, 90

NPA. *See* National Partnership
Agreement

P

Prime Minister, 10, 13–15, 19–20, 27,
31, 33, 36, 41, 46–50, 52, 54, 62,
66–67, 72, 85, 90, 93, 98

Project management, 11, 18, 21, 28,
31, 42–43, 62, 68, 86, 94

Q

QRA. *See* Queensland
Reconstruction Authority

Queensland Reconstruction
Authority, 10, 17, 22, 29, 34, 85

S

Sampling methodology, 45–47,
50–51

Senior Officials Coordination
Group (Victoria), 33–34, 39–42,
49–50, 53, 57, 89–90, 92

Somerset Regional Council, 59

State Auditor-General, 36, 83

State Departments and Agencies,
47, 59, 94

T

Terms of Reference, 13, 18, 28, 31,
33, 36, 42–43, 46, 62–63

V

Value for money, 10–11, 13–14,
16–17, 19–21, 23, 27–28, 30, 33–34,
36, 40–41, 43–48, 51–52, 54, 56–57,
60–62, 64–65, 67–69, 72–73, 85–86,
89–91, 93–95, 97–98

Value for Money, 76

VicRoads, 58

Victorian Secretaries' Flood
Recovery Group, 30

Series Titles

ANAO Audit Report No.1 2012–13

Administration of the Renewable Energy Demonstration Program

Department of Resources, Energy and Tourism

ANAO Audit Report No.2 2012–13

Administration of the Regional Backbone Blackspots Program

Department of Broadband, Communications and the Digital Economy

ANAO Audit Report No.3 2012–13

The Design and Conduct of the First Application Round for the Regional Development Australia Fund

Department of Regional Australia, Local Government, Arts and Sport

ANAO Audit Report No.4 2012–13

Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2011 Compliance)

Across Agencies

ANAO Audit Report No.5 2012–13

Management of Australia's Air Combat Capability—F/A-18 Hornet and Super Hornet Fleet Upgrades and Sustainment

Department of Defence

Defence Materiel Organisation

ANAO Audit Report No.6 2012–13

Management of Australia's Air Combat Capability—F-35A Joint Strike Fighter Acquisition

Department of Defence

Defence Materiel Organisation

ANAO Audit Report No.7 2012–13

Improving Access to Child Care—the Community Support Program

Department of Education, Employment and Workplace Relations

ANAO Audit Report No.8 2012–13

Australian Government Coordination Arrangements for Indigenous Programs

Department of Families, Housing, Community Services and Indigenous Affairs

ANAO Audit Report No.9 2012–13

Delivery of Bereavement and Family Support Services through the Defence

Community Organisation

Department of Defence

Department of Veterans' Affairs

ANAO Audit Report No.10 2012–13

Managing Aged Care Complaints

Department of Health and Ageing

ANAO Audit Report No.11 2012–13

Establishment, Implementation and Administration of the Quarantined Heritage

Component of the Local Jobs Stream of the Jobs Fund

Department of Sustainability, Environment, Water, Population and

Communities

ANAO Audit Report No.12 2012–13

Administration of Commonwealth Responsibilities under the National Partnership

Agreement on Preventive Health

Australian National Preventive Health Agency

Department of Health and Ageing

ANAO Audit Report No.13 2012–13

The Provision of Policing Services to the Australian Capital Territory

Australian Federal Police

ANAO Audit Report No.14 2012–13

Delivery of Workplace Relations Services by the Office of the Fair Work Ombudsman

Education, Employment and Workplace Relations

Office of the Fair Work Ombudsman

ANAO Audit Report No.15 2012–13

2011–12 Major Projects Report

Defence Materiel Organisation

ANAO Audit Report No.16 2012–13

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2011

Across Agencies

ANAO Audit Report No.17 2012–13

Design and Implementation of the Energy Efficiency Information Grants Program

Department of Climate Change and Energy Efficiency

ANAO Audit Report No.18 2012–13

Family Support Program: Communities for Children

Department of Families, Housing, Community Services and Indigenous Affairs

ANAO Audit Report No.19 2012–13

Administration of New Income Management in the Northern Territory

Department of Human Services

ANAO Audit Report No.20 2012–13

Administration of the Domestic Fishing Compliance Program

Australian Fisheries Management Authority

ANAO Audit Report No.21 2012-13

Individual Management Services Provided to People in Immigration Detention

Department of Immigration and Citizenship

ANAO Audit Report No.22 2012-13

Administration of the Tasmanian Forests Intergovernmental Contractors Voluntary Exit Grants Program

Department of Agriculture, Fisheries and Forestry

Current Better Practice Guides

The following Better Practice Guides are available on the ANAO website.

Public Sector Internal Audit	Sep 2012
Public Sector Environmental Management	Apr 2012
Developing and Managing Contracts – Getting the right outcome, achieving value for money	Feb 2012
Public Sector Audit Committees	Aug 2011
Human Resource Information Systems – Risks and Controls	Mar 2011
Fraud Control in Australian Government Entities	Mar 2011
Strategic and Operational Management of Assets by Public Sector Entities – Delivering agreed outcomes through an efficient and optimal asset base	Sept 2010
Implementing Better Practice Grants Administration	Jun 2010
Planning and Approving Projects – an Executive Perspective	Jun 2010
Innovation in the Public Sector – Enabling Better Performance, Driving New Directions	Dec 2009
Preparation of Financial Statements by Public Sector Entities	Jun 2009
SAP ECC 6.0 – Security and Control	Jun 2009
Business Continuity Management – Building resilience in public sector entities	Jun 2009
Developing and Managing Internal Budgets	Jun 2008
Agency Management of Parliamentary Workflow	May 2008
Fairness and Transparency in Purchasing Decisions – Probity in Australian Government Procurement	Aug 2007
Administering Regulation	Mar 2007
Implementation of Program and Policy Initiatives – Making implementation matter	Oct 2006