

# **Administration of the Disaster Recovery Funding Arrangements**

National Emergency Management Agency

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Canberra ACT  
18 May 2023

Dear President  
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in the National Emergency Management Agency. The report is titled *Administration of the Disaster Recovery Funding Arrangements*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

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

Yours sincerely



Grant Hehir  
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**

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# Audit snapshot

## Auditor-General Report No.23 of 2022–23

### *Administration of the Disaster Recovery Funding Arrangements*



#### Why did we do this audit?

- ▶ The Australian Government paid \$3.1 billion to state and territory governments through the Disaster Recovery Funding Arrangements (DRFA) from 2018–19 to 2021–22.
- ▶ This audit provides the Parliament with assurance on the National Emergency Management Agency's (the agency) effectiveness in administering the DRFA.



#### What did we find?

- ▶ The agency's administration of the DRFA is largely effective.
- ▶ DRFA administration, including Australian Government assurance activities and claim processes, is largely appropriate.
- ▶ The agency does not have appropriate arrangements to monitor and report on its performance in administering the DRFA.



#### Key facts

- ▶ The DRFA is a ministerial determination made under the *Intergovernmental Agreement on Federal Financial Relations*.
- ▶ Through the DRFA, the Australian Government provides financial assistance for a proportion of state and territory governments' expenditure on disaster relief and recovery measures.



#### What did we recommend?

- ▶ Three recommendations are aimed at timeliness in DRFA assurance activities, internal performance monitoring and external reporting.

49

Disaster events resulting in activation of DRFA in 2021–22.

\$3.5bn

Estimated DRFA payments that will be made for disasters that occurred in 2021–22.

\$6.5bn

In DRFA payments projected to be made to the states from 2022–23 to 2025–26.

# Summary and recommendations

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## Background

1. The Australian Government provides financial assistance to state governments through the Disaster Recovery Funding Arrangements (DRFA).<sup>1</sup> This financial assistance is for expenditure on certain types of disaster relief and recovery measures. The *Disaster Recovery Funding Arrangements 2018* ministerial determination (DRFA determination) is made under the *Intergovernmental Agreement on Federal Financial Relations*.<sup>2</sup>
2. On 1 September 2022, the National Emergency Management Agency (NEMA) became the Australian Government entity responsible for administration of the DRFA. Between 1 July 2021 and 31 August 2022, the National Recovery and Resilience Agency (NRRA) was the Australian Government entity responsible for DRFA administration.<sup>3</sup> This report uses the term ‘agencies’ when referring to matters relevant to both the NRRA and NEMA.
3. The DRFA determination sets eligibility and other conditions for the Australian Government’s financial assistance related to state governments’ disaster recovery expenditure across four categories.<sup>4</sup>
  - Category A: Assistance to individuals to alleviate personal hardship or distress arising as a direct result of a disaster, such as emergency food and essential housing repairs.
  - Category B: Restoration of essential public assets and certain counter-disaster operations. This category also includes concessional loans, subsidies or grants to small businesses, primary producers, non-profit organisations and needy individuals.
  - Category C: Payments to severely affected communities, regions or sectors. This includes clean-up and recovery grants for small businesses and primary producers or the establishment of a Community Recovery Fund.
  - Category D: Exceptional circumstances assistance beyond categories A to C.
4. The Australian Government provided \$3.1 billion in DRFA payments to state and territory governments between 1 June 2018 and 30 June 2022.

## Rationale for undertaking the audit

5. The Australian Government estimates \$6.5 billion will be paid to state and territory governments through the DRFA from 2022–23 to 2025–26. This audit will provide assurance to Parliament on the effectiveness of the agencies’ administration of the DRFA. The audit was

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1 As defined in the DRFA determination, this audit uses ‘state’ to refer to all Australian states, the Australian Capital Territory, and the Northern Territory.

2 Minister for Law Enforcement and Cyber Security, *Disaster Recovery Funding Arrangements 2018*, 5 June 2018, available from <https://www.disasterassist.gov.au/disaster-arrangements/disaster-recovery-funding-arrangements> [accessed 22 February 2023].

For more information on the *Intergovernmental Agreement on Federal Financial Relations* see <https://federalfinancialrelations.gov.au/intergovernmental-agreement-federal-financial-relations> [accessed 22 February 2023].

3 NEMA was established on 1 September 2022 and the NRRA was abolished on 2 September 2022.

4 *Disaster Recovery Funding Arrangements 2018*, clause 2.1.1.

identified by the Joint Committee of Public Accounts and Audit as an audit priority of the Parliament.

### **Audit objective and criteria**

6. The objective of this audit was to examine the effectiveness of the agencies' administration of the Disaster Recovery Funding Arrangements.

7. To form a conclusion against the audit objective, the following high-level criteria were adopted:

- Do the agencies appropriately deliver Disaster Recovery Funding Arrangements administration activities?
- Do the agencies appropriately administer assurance activities and annual claim processes for the Disaster Recovery Funding Arrangements?
- Do the agencies appropriately monitor and report on the Disaster Recovery Funding Arrangements' performance?

### **Conclusion**

8. The agencies' administration of DRFA processes and assurance activities has been largely effective. Administration activities, including assurance and claim approvals, are consistent with the DRFA determination. The agencies have not effectively monitored or reported on DRFA performance.

9. The agencies' DRFA administrative activities for the activation of events and Category A and B measures, loans, time limit extensions and quarterly estimates reporting are consistent with the DRFA determination. While activation of Category C and D measures was consistent with the DRFA determination, procedures can be improved to better support NEMA's assessment of these requests against the DRFA determination.

10. The agencies' administration of DRFA assurance and annual claims processes is largely appropriate. While state assurance opinions were submitted as required, the NRRRA did not assess whether these opinions meet the DRFA determination's requirements. NEMA's assurance framework is consistent with the DRFA determination. Assurance activities informed the acquittal of state claims. NEMA does not have targets or reporting to ensure its DRFA assurance activities are completed in a timely manner.

11. The agencies did not have appropriate arrangements to monitor and report on their performance in administering the Disaster Recovery Funding Arrangements. NEMA does not monitor performance or report against the DRFA determination's principles. The NRRRA's 2021–22 performance measures did not appropriately incorporate DRFA activities or outcomes. Effective monitoring and reporting on the implementation of DRFA related reviews and recommendations does not occur as appropriate governance, planning and assurance arrangements for these activities were not established.

## Supporting findings

### Administration activities

12. The agencies established a framework for DRFA administration. NEMA documented delegations specifying the individuals or classes of officials authorised to exercise NEMA's functions, duties or powers under the DRFA determination. Prior to December 2022, the agencies applied the Department of Home Affairs DRFA delegations. Activities to develop a replacement DRFA information system commenced in 2022 (see paragraphs 2.5 to 2.13).

13. Activation of DRFA events and Category A and B measures was consistent with the DRFA determination. The NRRRA provided assessments of Category C and D requests from the states to the responsible Australian Government ministers. Procedures for assessing proposed Category C and D measures can be further developed to provide clear guidance on how NEMA assesses these requests against the DRFA determination's terms and conditions. The NRRRA did not have a documented procedure for administering requests for advance and pre-payments under the DRFA prior to May 2022 (see paragraphs 2.14 to 2.36).

14. The design of DRFA administration procedures for loans, allowable time limit extensions and the quarterly reporting process is consistent with the DRFA determination. The NRRRA implemented procedures for allowable time limit extensions and the quarterly reporting processes as designed (see paragraphs 2.37 to 2.47).

### Assurance and annual claims processes

15. NEMA has a process to confirm that states have submitted assurance reports with their annual claims. NEMA can improve its assessment of state assurance opinions to ensure the DRFA determination's requirements are met. In December 2022, NEMA updated its procedures to improve its use of state assurance activities to inform the Australian Government's annual risk-based assurance activities (see paragraphs 3.6 to 3.17).

16. NEMA has a Disaster Recovery Funding Assurance Framework which includes risk-based sampling and random sampling of submitted state claims for compliance with the DRFA determination. The assurance activities for one 'very high risk' claim were not conducted as specified by the assurance framework. NEMA does not have monitoring and reporting arrangements for the timeliness of the assurance process. (see paragraphs 3.18 to 3.54).

17. The identification of ineligible DRFA expenditure occurred through the assurance framework. The NRRRA's finalisation of each state claim included information from its assurance framework as the basis for acquitting the claim and supporting a recommendation the Treasury makes the payment to the state. In the NRRRA's fraud control framework, the DRFA assurance framework was identified as a fraud control. However the DRFA assurance framework is not designed to detect fraud (see paragraphs 3.55 to 3.73).

### Performance monitoring and reporting

18. Internal performance reporting presents information on active DRFA events, local government areas affected and categories of DRFA measures that are available. Performance against the DRFA determination's principles is not monitored (see paragraphs 4.4 to 4.13).

19. The agencies' Portfolio Budget Statements did not accurately describe the DRFA. The NRRRA's performance measures for 2021–22 did not include performance information on all aspects of DRFA administration. The NRRRA's 2021–22 performance measurement framework did not incorporate DRFA outcomes (see paragraphs 4.14 to 4.27).

20. Appropriate arrangements to monitor and report on the implementation of the DRFA review and related royal commission recommendations have not been established. The agencies' ability to successfully implement the DRFA review, and as a result the royal commission's DRFA-related recommendations, was limited by a lack of appropriate governance, planning and assurance arrangements (see paragraphs 4.28 to 4.37).

## Recommendations

### Recommendation no. 1 Paragraph 3.43

The National Emergency Management Agency:

- (a) establishes targets, monitoring and reporting for the time required to complete the assurance and acquittal processes; and
- (b) develops procedures for finalising claims when requested information is not provided in the timeframes established under the *Disaster Recovery Funding Arrangements 2018* ministerial determination.

**National Emergency Management Agency response:** *Agreed.*

### Recommendation no. 2 Paragraph 4.9

The National Emergency Management Agency establish monitoring and reporting arrangements that demonstrate performance against the Disaster Recovery Funding Arrangements' principles.

**National Emergency Management Agency response:** *Agreed.*

### Recommendation no. 3 Paragraph 4.23

The National Emergency Management Agency:

- (a) clearly and accurately presents Disaster Recovery Funding Arrangements related information in its Portfolio Budget Statements; and
- (b) develops an appropriate set of Disaster Recovery Funding Arrangements performance measures that cover the efficiency and effectiveness of the full range of the National Emergency Management Agency's Disaster Recovery Funding Arrangements activities.

**National Emergency Management Agency response:** *Agreed.*

## Summary of entity response

21. The proposed final report was provided to NEMA. The full response is included at Appendix 1. The summary response is presented below.

NEMA welcomes the findings of the ANAO Audit into the Administration of the Disaster Recovery Funding Arrangements (DRFA). NEMA notes that although the Auditor-General has made no adverse findings in relation to the way in the DRFA is administered, there are a number of areas identified for improvement. This includes three recommendations, all of which NEMA supports.

Since its establishment on 1 September 2022 (when NEMA took over from former Commonwealth agencies responsible for administration of the DRFA), NEMA has been implementing ongoing reform and improvements to processes, administration and monitoring of the DRFA. This includes a broad review of all programs under NEMA's remit, and NEMA's effectiveness in monitoring the implementation and effectiveness of those programs. This is in line with public expectations that the Commonwealth agency responsible for delivering support for communities impacted by disasters does so in a way that ensures the effective and appropriate use of taxpayer funds.

Some of the improvements in NEMA's administration of the DRFA since September 2022 were noted by the Auditor-General and have been highlighted in the Audit Report at Appendix 2. NEMA agrees there are further opportunities for improvement, and welcomes the opportunity to implement further reforms – including the recommendations from this Audit – to ensure DRFA administration and delivery delivers tangible results for Australians.

NEMA notes that a fundamental part of the effective, transparent and appropriate administration of the DRFA requires the cooperation of the states and territories. This cooperation is underpinned by a mutual endeavour between Commonwealth and jurisdictions to provide targeted, equitable and timely recovery support to Australians affected by natural disasters – no matter where they live. NEMA looks forward to working in close partnership with the jurisdictions to implementing ongoing improvements to the DRFA, including recommendations identified in this Audit.

22. At Appendix 2, there is a summary of improvements that were observed by the ANAO during the audit.

## Key messages from this audit for all Australian Government entities

23. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Australian Government entities.

### Performance and impact measurement

- Reliable and unbiased performance reporting requires performance measures of outputs, efficiency and effectiveness that are relevant to all key activities and purposes.



## **Audit findings**

# 1. Background

## Introduction

1.1 The Australian Government provides financial assistance to state governments through the Disaster Recovery Funding Arrangements (DRFA).<sup>5</sup> This financial assistance is for expenditure on certain types of disaster relief and recovery measures. The *Disaster Recovery Funding Arrangements 2018* ministerial determination (DRFA determination) is made under the *Intergovernmental Agreement on Federal Financial Relations*.<sup>6</sup>

1.2 On 1 September 2022, the National Emergency Management Agency (NEMA) became the Australian Government entity responsible for administration of the DRFA. Between 1 July 2021 and 31 August 2022, the National Recovery and Resilience Agency (NRRA) was the Australian Government entity responsible for DRFA administration. This report uses the term ‘agencies’ when referring to matters relevant to both the NRRA and NEMA.

## Disaster Recovery Funding Arrangements

1.3 The *Intergovernmental Agreement on Federal Financial Relations* provides the responsible Australian Government minister with the power to determine the terms and conditions of Australian Government disaster recovery payments to the states (see Table 1.1). The DRFA determination sets the terms and conditions of DRFA payments.

**Table 1.1: Framework enabling the Disaster Recovery Funding Arrangements**

Document	Relevance to the DRFA
<i>Federal Financial Relations Act 2009</i> (FFR Act)	<p>The FFR Act provides a standing appropriation for the Commonwealth to provide financial support for the delivery of services by the states. This includes national specific purpose payments, to be spent by the states on certain service delivery sectors.</p> <p>This act identifies the <i>Intergovernmental Agreement on Federal Financial Relations</i> as providing the overarching framework for financial transfers between the Commonwealth and the States and related collaboration on policy development and service delivery.</p>

5 As defined in the DRFA determination, this audit uses ‘state’ to refer to all Australian states, the Australian Capital Territory, and the Northern Territory.

6 Minister for Law Enforcement and Cyber Security, *Disaster Recovery Funding Arrangements 2018*, 5 June 2018, available from <https://www.disasterassist.gov.au/disaster-arrangements/disaster-recovery-funding-arrangements> [accessed 22 February 2023].

For more information on the *Intergovernmental Agreement on Federal Financial Relations* see <https://federalfinancialrelations.gov.au/intergovernmental-agreement-federal-financial-relations> [accessed 22 February 2023].

Document	Relevance to the DRFA
<i>Intergovernmental Agreement on Federal Financial Relations</i>	<p>This agreement implements a framework for Commonwealth, state and territory governments to collaborate on policy development and service delivery and to facilitate the implementation of economic and social reforms in areas of national importance. The agreement's Schedule D — Payment Arrangements establishes natural disaster relief and recovery arrangements as contingent national partnership payments under two clauses:</p> <ul style="list-style-type: none"> <li>• 'D42: The Commonwealth may provide financial assistance, usually in the form of partial reimbursement, to the States and Territories for eligible expenditure incurred in relation to a defined disaster.</li> <li>• D43: Payments will be made on the terms and conditions determined in 2011 Natural Disaster Relief and Recovery Arrangements Determination Terms and Conditions, as amended from time to time by the Commonwealth.'</li> </ul>
<i>Disaster Recovery Funding Arrangements 2018 ministerial determination</i>	<p>The DRFA determination is made under clauses D42 and D43. This determination establishes the 'terms and conditions applicable to payments by the Commonwealth to any State, the Australian Capital Territory or the Northern Territory, for the purpose of disaster relief and recovery...'<sup>a</sup></p>

Note a: *Disaster Recovery Funding Arrangements 2018*, page 3.

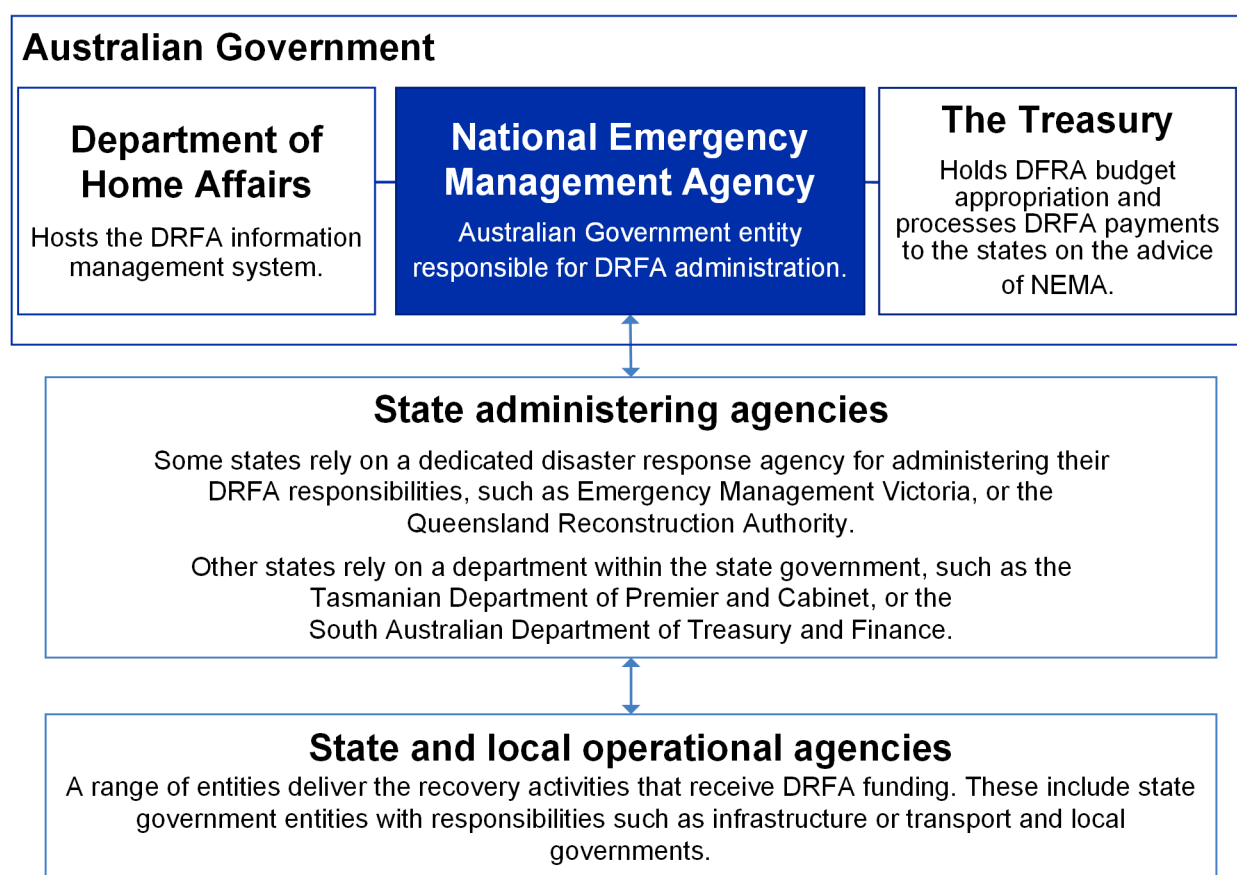
Source: Extracts from listed documents.

## Disaster Recovery Funding Arrangements government entities

1.4 DRFA related activities are undertaken by entities across all levels of Australian government (see Figure 1.1). The DRFA determination establishes that an Australian Government entity is responsible for administering the DRFA determination.<sup>7</sup> Each state government has a state administering agency with overall responsibility for that state's DRFA related activities. Disaster relief and recovery activities that are eligible for DRFA funding from the Australian Government are delivered by state administering agencies and state and local government operational entities.

<sup>7</sup> *Disaster Recovery Funding Arrangements 2018*, clause 1.1, page 5. The DRFA determination uses the term 'department'. The ANAO has interpreted all references to 'department' in the *Disaster Recovery Funding Arrangements 2018* as meaning the responsible Australian Government entity. Details on the Australian Government entities responsible for DRFA administration are provided in paragraphs 1.5 to 1.7.

**Figure 1.1: Government bodies involved in Disaster Recovery Funding Arrangements**



Source: ANAO figure.

### *Australian government entities responsible for Disaster Recovery Funding Arrangements*

1.5 Prior to 1 July 2021 the Australian Government entity responsible for DRFA administration was the Department of Home Affairs through its Emergency Management Australia division.

1.6 From 1 July 2021 to 31 August 2022 the Australian Government entity responsible for DRFA administration was the NRRRA.<sup>8</sup> The Australian Government set up the NRRRA in response to a recommendation from the 2020 Royal Commission into National Natural Disaster Arrangements. The NRRRA was an executive agency in the portfolio of the Prime Minister and Cabinet.

1.7 On 1 September 2022 NEMA was established and became the Australian Government entity responsible for DRFA administration. NEMA was created by combining the NRRRA and the Emergency Management Australia division of the Department of Home Affairs.<sup>9</sup> NEMA is an executive agency within the Home Affairs portfolio.<sup>10</sup> The head of the agency and the accountable

<sup>8</sup> The NRRRA was abolished on 2 September 2022.

<sup>9</sup> Minister for Home Affairs, *New agency to deliver support before, during and after disasters*, 31 August 2022, available from <https://minister.homeaffairs.gov.au/MurrayWatt/Pages/new-agency-deliver-support-disasters.aspx> [accessed 22 February 2023].

<sup>10</sup> Established under the *Public Service Act 1999* by order of the Governor-General on 18 August 2022.

authority for the purposes of the *Public Government and Accountability Act 2013* (PGPA Act) is the agency's Coordinator-General. NEMA's functions are:<sup>11</sup>

- to develop, lead and coordinate the Commonwealth's approach to emergency management, including the support of activities relating to preparedness, response, relief, recovery, reconstruction, risk reduction and resilience for all hazard emergencies and disasters;
- to provide national leadership and strategic coordination for emergencies and disaster preparedness, response, relief, recovery, reconstruction, risk reduction and resilience across all levels of government and sectors;
- to design, oversee and where relevant administer funding programs related to emergency and disaster preparedness, response, relief, recovery, reconstruction and resilience;
- to lead national implementation of the Commonwealth's international and national disaster risk reduction obligations;
- to undertake other relevant tasks as the responsible Minister for the entity may require from time to time.

1.8 The NRRRA's budgeted departmental and administered funding is presented in Table 1.2.

**Table 1.2: Budgeted funding for National Recovery and Resilience Agency**

Funding (\$ millions)	2021–22	2022–23	2023–24	2024–25
Departmental	63.9	59.3	40.3	39.1
Administered	17,757.2	329.9	289.6	198.2

Note: DRFA expenses are included in the Treasury's administered funding, not the agency's administered funding. See paragraph 1.9 and Table 1.3.

Source: NRRRA Departmental and Administered budgeted expenses shown in 2022–23 Prime Minister and Cabinet Portfolio Budget Statement Table 2.1.1: Budgeted expenses for Outcome 1.

Other relevant Australian Government entities

1.9 Budget appropriations for the Australian Government's national partnership payments made through the *Intergovernmental Agreement on Federal Financial Relations* are presented in the Department of the Treasury's (the Treasury) Portfolio Budget Statement. This includes DRFA payments. The Treasury processes national partnership payments to the states on the advice of the responsible Australian Government entity.<sup>12</sup>

1.10 Budgeted estimates for DRFA payments from 2021–22 to 2024–25 are presented in Table 1.3.

11 Commonwealth of Australia Gazette, *Order to Establish the National Emergency Management Agency as an Executive Agency*, 18 August 2022, paragraph (e).

12 The Treasury's national partnership payments to the states were examined in Auditor-General Report No.42 2017–18 *Effectiveness of Monitoring and Payment Arrangements under National Partnership Agreements*, available from <https://www.anao.gov.au/work/performance-audit/national-partnership-agreement-payments-state-and-territory-governments> [accessed 22 February 2023]. An overview of this Auditor-General's report is provided at paragraph 1.22.

**Table 1.3: Estimates for Disaster Recovery Funding Arrangements payments**

Estimated cash payments <sup>a</sup> (\$ millions)	2021–22	2022–23	2023–24	2024–25
Disaster Recovery Funding Arrangements	1,130.1 <sup>b</sup>	1,904.0 <sup>c</sup>	3,593.0 <sup>c</sup>	905.4 <sup>c</sup>

Note a: Estimated cash payments for the DRFA are when the Australian Government expects to make payments to the states for costs incurred in relation to past disasters.

Note b: Australian Government, Federal Financial Relations: Budget Paper No. 3: [March] 2022–23, Commonwealth of Australia, Canberra, 2022, page 91.

Note c: Australian Government, Federal Financial Relations: Budget Paper No. 3: October 2022–23, Commonwealth of Australia, Canberra, 2022, page 86.

Source: See table notes b and c.

1.11 The Department of Home Affairs operates the [disasterassist.gov.au](https://www.disasterassist.gov.au) website.<sup>13</sup> This website provides information on assistance available from Australian, state and local governments for declared natural disasters. Information includes how to access DRFA-funded assistance provided by state and local governments. The Department of Home Affairs also hosts the DRFA information management system used by the agencies for some DRFA administration activities.

### Disaster Recovery Funding Arrangements claims and payments

1.12 The Australian Government made \$3.1 billion in DRFA payments to state governments between 1 June 2018 and 30 June 2022.<sup>14</sup> At October 2022 the Australian Government expected to make \$6.4 billion in DRFA payments to the states between 2022–23 to 2025–26. This includes \$3.5 billion for disasters that occurred in 2021–22.

1.13 DRFA payments are made to state governments across four categories of measures.<sup>15</sup>

- Category A measures: Assistance to individuals to alleviate personal hardship or distress arising as a direct result of a disaster, such as emergency food and essential housing repairs.
- Category B measures: Restoration of essential public assets and certain counter-disaster operations. This category also includes concessional loans, subsidies or grants to small businesses, primary producers, non-profit organisations and needy individuals.
- Category C measures: Payments to severely affected communities, regions or sectors. This includes clean-up and recovery grants for small businesses and primary producers or the establishment of a Community Recovery Fund.
- Category D measures: Exceptional circumstances assistance beyond categories A to C.<sup>16</sup>

1.14 States do not require Australian Government approval before incurring expenditure related to Category A and B measures. Category C and D measures require activation approval by the

13 Department of Home Affairs, *Disaster Assist* [Internet], available from <https://www.disasterassist.gov.au> [accessed 22 February 2023].

14 DRFA and National Disaster Relief and Recovery Arrangements (NDRRA, the predecessor to DRFA) payments to the states on a cash basis as published in Australian Government's Final Budget Outcomes for 2018–19, 2019–20, 2020–21 and 2021–22.

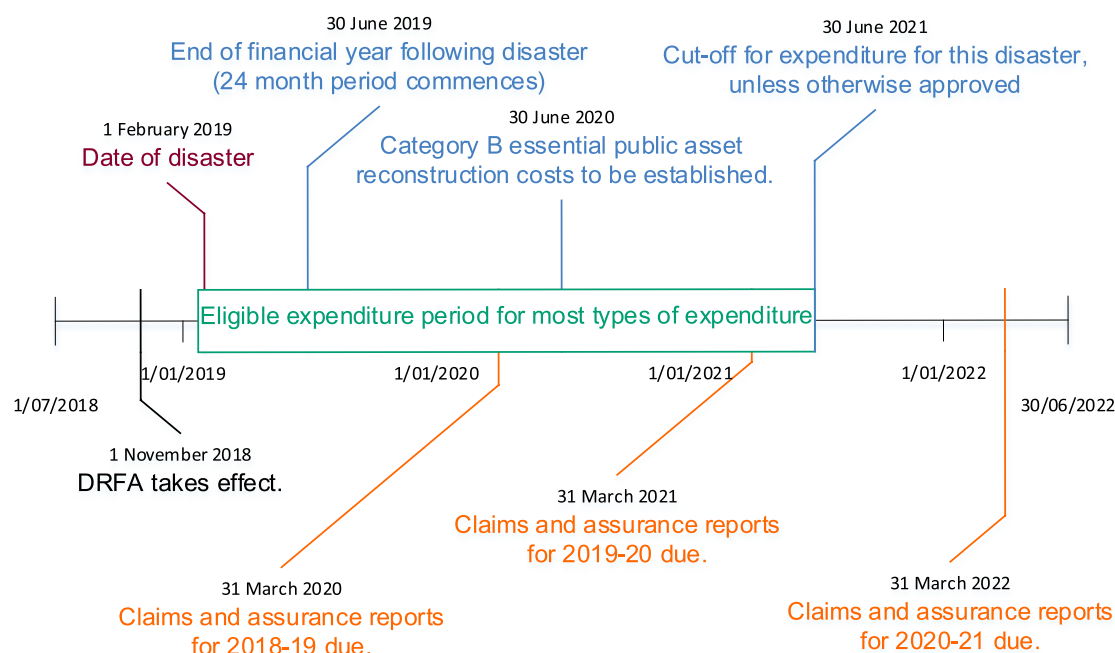
15 The DRFA determination defines an eligible measure as 'A relief or recovery assistance measure specified in these arrangements...'

16 *Disaster Recovery Funding Arrangements* 2018, clauses 4.2 to 4.5.

Prime Minister following recommendations made by the relevant Australian Government minister before states can incur expenditure.<sup>17</sup>

1.15 Figure 1.2 illustrates the periods states can incur DRFA expenditure for an example disaster and shows when state annual claims including expenditure related to that disaster are due to be submitted to the Australian Government.

**Figure 1.2: Timeline of DRFA milestones for an example disaster**



Source: ANAO figure based on the DRFA determination.

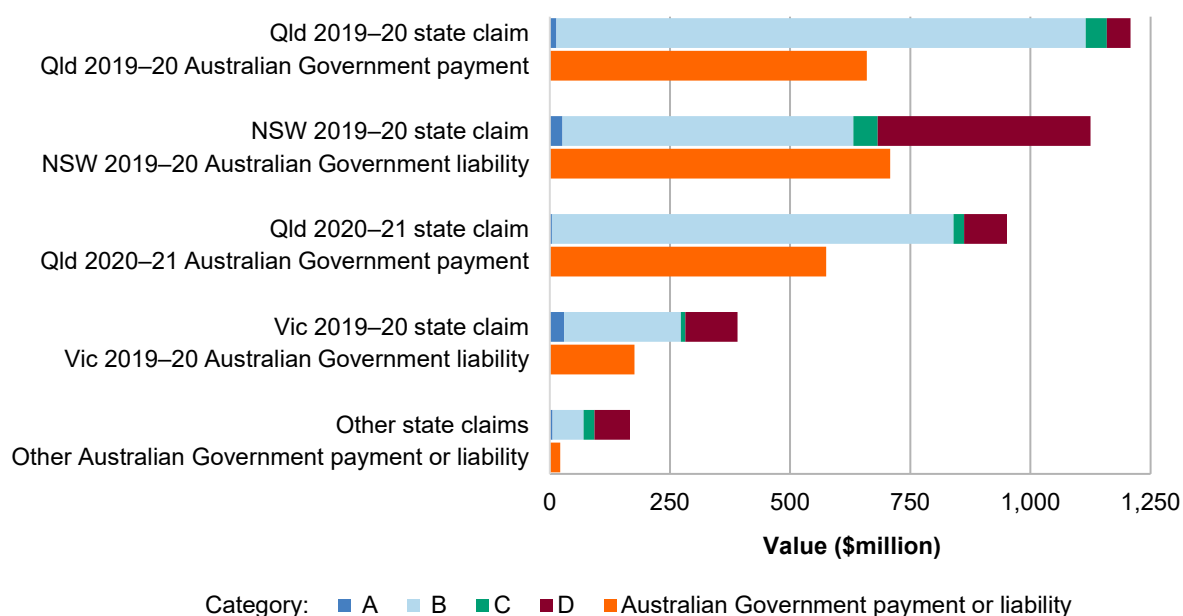
1.16 This audit focused on DRFA administrative activities in the 2021–22 financial year. DRFA administration activities undertaken by the agencies related to the 2021–22 financial year covers disasters or state expenditure which occurred in prior years. DRFA events and measures activated in 2021–22 are outlined in Appendix 3. An overview of annual DRFA claims from the states administered by the NRRRA in 2021–22 is provided in Appendix 6.

### *State claims from 2019–20 and 2020–21*

1.17 During 2021–22 the NRRRA's DRFA claims and assurance activities mainly related to state expenditure incurred in the 2019–20 and 2020–21 financial years. As shown in Figure 1.3, the 11 claims submitted to the NRRRA for these financial years included \$3.84 billion of state expenditure. At 30 September 2022, \$1.28 billion of Australian Government DRFA payments had been acquitted for eight of these claims. Three submitted claims with an estimated Australian Government payment of \$909 million were not yet acquitted at 30 September 2022.

<sup>17</sup> Disaster Recovery Funding Arrangements 2018, clauses 4.4.4 to 4.4.6 and 4.5.4 to 4.5.5.

**Figure 1.3: DRFA claims in audit scope by state, year, and expenditure category**



Note: 'Other' includes seven submitted claims: ACT 2019–20, ACT 2020–21, NT 2019–20, SA 2019–20, SA 2020–21, Tas 2019–20, and Tas 2020–21. Three state claims for these financial years were not yet submitted to the Australian Government. The Northern Territory did not claim any DRFA expenditure for 2020–21.

Source: ANAO analysis of payment decision briefs. Data current at 30 September 2022.

## Disaster Recovery Funding Arrangements processes and activities

1.18 For state expenditure to qualify for Australian Government funding through the DRFA, the responsible Australian Government entity must be notified of the relevant event, and a joint media release made to publicise the shared funding of recovery measures unless otherwise agreed.<sup>18</sup> Financial assistance under the DRFA usually involves partial payment of state expenditure and estimated reconstruction costs.<sup>19</sup> States submit an annual claim to the Australian Government for the DRFA related expenditure the state incurred in the previous financial year. Expenditure in a financial year will relate to recovery activities for eligible disasters that occurred across prior years.

1.19 Most payments are made through the annual claims process.<sup>20</sup> Each state's claim includes an audited financial statement of eligible expenditure for the prior financial year. The DRFA determination requires these statements to be audited by a state appointed auditor using specific Australian audit and assurance standards.<sup>21</sup>

1.20 The Australian Government then assesses the claim and makes payment on a proportion of the expenditure to the state. The agencies' administration of a DRFA-specific assurance framework is the primary activity for assessing the claims and informing the agencies' decision that the Australian Government will pay the state's claim.

18 *Disaster Recovery Funding Arrangements 2018*, clauses 5.1 and 5.2.

19 *Disaster Recovery Funding Arrangements 2018*, clause 2.1.1.

20 *Disaster Recovery Funding Arrangements 2018* clause 9.1.1 allows the Australian Government to make advance or pre-payments to the states in exceptional circumstances.

21 *Disaster Recovery Funding Arrangements 2018*, clause 10.

## Previous scrutiny

1.21 The DRFA replaced the Natural Disaster Relief and Recovery Arrangements (NDRRA) for eligible disasters from 1 November 2018.<sup>22</sup> Administration of the NDRRA was reviewed in Auditor-General Report No.34 2014–15 *Administration of the Natural Disaster Relief and Recovery Arrangements by Emergency Management Australia*.<sup>23</sup> This audit concluded that the NDRAA verification and assurance processes were not adequate and made two recommendations focused on improving administration and assurance.

1.22 Auditor-General Report No.42 2017–18 *Effectiveness of Monitoring and Payment Arrangements under National Partnership Agreements* reviewed 17 other National Partnership Agreements.<sup>24</sup> This audit found that while the *Intergovernmental Agreement on Federal Financial Relations* established strong frameworks for designing the monitoring and payment arrangements, implementation by portfolio agencies and states was mixed. The audit made two recommendations on progressing updates to the *Intergovernmental Agreement on Federal Financial Relations* and improving public reporting on outcomes.

1.23 Auditor-General Report No.46 2020–21 *Administration of the National Bushfire Recovery Agency* identified that the transition of DRFA administration to a new agency created monitoring and evaluation risks.<sup>25</sup> This audit made three recommendations, including that the Australian Government clarify roles and responsibilities and identify shared risks at the commencement of the NRRA.

1.24 The Royal Commission into National Natural Disaster Arrangements (royal commission) presented its final report in October 2020.<sup>26</sup> The royal commission made 80 recommendations for multiple levels of government. Eight recommendations are related to DRFA administration.

1.25 The Australian Government ‘supported’ implementing all eight DRFA related recommendations in its response to the royal commission’s final report.<sup>27</sup> In this response, the Australian Government identified a set of activities referred to as the DRFA review that would be used to implement these eight DRFA related royal commission recommendations.

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22 The *Natural Disaster Relief and Recovery Arrangements* ministerial determination applies to disasters prior to 1 November 2018.

23 Auditor-General Report No.34 2014–15 *Administration of the Natural Disaster Relief and Recovery Arrangements by Emergency Management Australia*, available from <https://www.anao.gov.au/work/performance-audit/administration-natural-disaster-relief-and-recovery-arrangements-emergency> [accessed 22 February 2023].

24 Auditor-General Report No.42 2017–18 *Effectiveness of Monitoring and Payment Arrangements under National Partnership Agreements*, available from <https://www.anao.gov.au/work/performance-audit/national-partnership-agreement-payments-state-and-territory-governments> [accessed 22 February 2023].

25 Auditor-General Report No.46 2020–21 *Administration of the National Bushfire Recovery Agency*, available from <https://www.anao.gov.au/work/performance-audit/administration-the-national-bushfire-recovery-agency> [accessed 22 February 2023].

26 Royal Commission into National Natural Disaster Arrangements, *Report*, available from <https://naturaldisaster.royalcommission.gov.au/publications/royal-commission-national-natural-disaster-arrangements-report> [accessed 22 February 2023].

27 Commonwealth of Australia, Department of the Prime Minister and Cabinet, *A national approach to national disasters* [Internet], available from <https://www.pmc.gov.au/resource-centre/pmc/national-approach-national-disasters> [accessed 22 February 2023].

1.26 In October 2020 the Senate Finance and Public Administration References Committee (the Senate committee) tabled its interim report into *Lessons to be learned in relation to the Australian bushfire season 2019–20*.<sup>28</sup> The Senate committee made 13 recommendations, one of which relates to the DRFA.<sup>29</sup> The Senate committee tabled its final report in December 2021.

1.27 The Australian Government responded to the Senate Committee's interim report on 6 May 2021. This response stated 'The DRFA review aligns with the committee's recommendation and recommendations made by the Royal Commission into National Natural Disaster Arrangements.'<sup>30</sup> At 30 September 2022 the Australian Government had not responded to the Senate committee's final report.

## Rationale for undertaking the audit

1.28 The Australian Government estimates \$6.5 billion will be paid to state and territory governments through the Disaster Recovery Funding Arrangements (DRFA) from 2022–23 to 2025–26. This audit will provide assurance to Parliament on the effectiveness of the agency's administration of the DRFA. The audit was identified by the Joint Committee of Public Accounts and Audit as an audit priority of the Parliament.

## Audit approach

### Audit objective, criteria and scope

1.29 The objective of the audit was to examine the effectiveness of the agencies' administration of the Disaster Recovery Funding Arrangements.

1.30 To form a conclusion against this objective, the following high-level audit criteria were adopted:

- Do the agencies appropriately deliver Disaster Recovery Funding Arrangements administration activities?
- Do the agencies appropriately administer Disaster Recovery Funding Arrangements assurance and annual claims processes?
- Do the agencies appropriately monitor and report on their performance in administering the Disaster Recovery Funding Arrangements?

1.31 The audit focused on the DRFA administration following the NRRRA's establishment on 1 July 2021. This includes the NRRRA's and NEMA's activities up to 30 September 2022. Some DRFA

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28 Senate Finance and Public Administration References Committee, *Interim report: Lessons to be learned in relation to the Australian bushfire season 2019-20* [Internet], available from [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Finance\\_and\\_Public\\_Administration/BushfireRecovery/Interim\\_Report](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Finance_and_Public_Administration/BushfireRecovery/Interim_Report) [accessed 22 February 2023].

29 Senate Finance and Public Administration References Committee, *Final report: Lessons to be learned in relation to the Australian bushfire season 2019-20* [Internet], available from [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Finance\\_and\\_Public\\_Administration/BushfireRecovery/Interim\\_Report](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Finance_and_Public_Administration/BushfireRecovery/Interim_Report) [accessed 22 February 2023].

30 Australian Government, *Australian Government response to the Finance and Public Administration References Committee report: Lessons to be learned in relation to the Australian bushfire season 2019-20* [Internet], available from [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Finance\\_and\\_Public\\_Administration/BushfireRecovery/Government\\_Response](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Finance_and_Public_Administration/BushfireRecovery/Government_Response) [accessed 22 February 2023].

related activities prior to 1 July 2021 were considered in the audit when these activities were relevant to the NRRRA's or NEMA's ongoing DRFA administration.

1.32 The audit scope did not include:

- examination of the National Disaster Risk Reduction Framework, the Emergency Response Fund and disaster recovery programs delivered through Services Australia or Australian Government grants hubs;
- disaster and emergency management initiatives administered by the Department of Home Affairs and other Australian Government entities;
- federal financial relations framework activities administered by other Australian Government entities, including the Treasury's payment process<sup>31</sup>;
- activities undertaken by the Department of the Prime Minister and Cabinet to support DRFA related decisions made by the Prime Minister;
- DRFA related procurement undertaken by state or local government;
- analysis of aspects of the DRFA related to terrorism, as no DRFA-eligible terrorism events occurred in the audit's timeframe; and
- directly auditing state and local government organisations or the Australian Government's external assurance provider.<sup>32</sup>

## Audit methodology

1.33 The audit methodology included:

- assessing the agencies' design and implementation of DRFA administrative activities;
- analysis of the agencies' records;
- meetings with NRRRA and NEMA officials and demonstrations of DRFA process; and
- considering contributions from state administrative agencies and members of the public.

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31 'Acquittal processes for payments to states' is listed as a potential topic on the ANAO's 2022–23 annual audit work program.

32 The agency's assurance and claims acquittal actions related to material provided from these organisations was assessed.

1.34 The ANAO received four contributions from the public and three contributions from state administration agencies. Public contributions outlined concerns with local government procurement and the quality of construction activities undertaken in Queensland between 2010 and 2017.<sup>33</sup> The National Disaster Relief and Recovery Arrangements (NDRAA) were in place at this time. As outlined in paragraph 1.21, the NDRAA was examined in Auditor-General Report No.34 2014–15. The Auditor-General also received correspondence from Senator Malcolm Roberts and the Chief Executive Officer of the Queensland Reconstruction Authority during the audit.<sup>34</sup>

1.35 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of approximately \$490,000.

1.36 The team members for this audit were Joshua Francis, Jake Farquharson, Jemimah Hamilton, Liza Tonkin, and Corinne Horton.

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33 These matters are examined in Appendix 4. A Senate Estimates Question on Notice response from the Department of Home Affairs on some of these matters is available from <https://www.aph.gov.au/api/qon/downloadestimatesquestions/EstimatesQuestion-Committeeld6-EstimatesRoundld10-Portfoliold20-QuestionNumber219>.

34 Correspondence to the Auditor-General regarding this audit can be viewed at:

- <https://www.anao.gov.au/work/request/disaster-recovery-funding-arrangements>
- <https://www.anao.gov.au/work/request/public-contributions-to-the-administration-the-disaster-recovery-funding-arrangements-performance>

## 2. Administration activities

### Areas examined

This chapter examines whether the National Recovery and Resilience Agency's (NRRRA) and National Emergency Management Agency's (NEMA, collectively the agencies) delivery of Disaster Recovery Funding Arrangements (DRFA) administration activities are consistent with the *Disaster Recovery Funding Arrangements 2018* ministerial determination (DRFA determination). DRFA administration activities examined in this chapter include event and measure activation, loans, time limit extensions and quarterly estimates reporting.

### Conclusion

The agencies' DRFA administrative activities for the activation of events and Category A and B measures, loans, time limit extensions and quarterly estimates reporting were consistent with the DRFA determination. While activation of Category C and D measures was consistent with the DRFA determination, procedures can be improved to better support NEMA's assessment of these requests against the DRFA determination.

### Areas for improvement

The ANAO has identified opportunities for improvement related to the activation of DRFA category C and D measures and DRFA related guidelines.

2.1 The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires accountable authorities to:

- govern the entity in a manner that promotes the proper use and management of public resources for which the authority is responsible; and
- establish and maintain systems relating to risk and control.

2.2 The *Disaster Recovery Funding Arrangements 2018* ministerial determination (DRFA determination) requires the Australian Government entity responsible for DRFA administration to:<sup>35</sup>

- process DRFA event notifications and activate events;
- determine DRFA eligibility for events and measures;
- complete concessional loan rate calculations and associated activities;
- make decisions on state requests for exemptions to DRFA clauses, including allowable time limit extensions for eligible expenditure and claim submissions;
- receive quarterly estimate reports from the states and submit this information into Australian Government budget reporting processes; and
- assess the states' claims for financial assistance, including assurance activities.<sup>36</sup>

2.3 This chapter examines if the agencies:

35 Paragraphs 1.5 to 1.7 provide an overview of Australian Government entities responsible for DRFA administration.

36 Assurance activities and claims processes are examined in Chapter 3.

- established an appropriate administrative framework that is consistent with the PGPA Act requirements and the DRFA determination's terms and conditions;
- activated and assessed the eligibility of events and measures in line with the DRFA determination; and
- completed DRFA loans, time limit extensions and quarterly estimate reporting activities in a manner consistent with the DRFA determination.

## Do the agencies have an appropriate Disaster Recovery Funding Arrangements administrative framework?

The agencies have a framework to guide the administration of the DRFA. In December 2022, NEMA documented delegations specifying the individuals or classes of officials authorised to exercise NEMA's functions, duties or powers under the DRFA determination. Prior to December 2022, the agencies applied the Department of Home Affairs DRFA delegations. Activities to develop a replacement DRFA information system commenced in 2022.

2.4 The agencies' framework for administering the DRFA determination includes their Accountable Authority Instructions (AAIs), an agreement with the Treasury and DRFA instructional material. DRFA administration is also supported by the DRFA information management system.

### Disaster Recovery Funding Arrangements administrative framework

2.5 The agencies' accountable authorities established Accountable Authority Instructions (AAIs).<sup>37</sup> These AAIs are similar to the model AAIs published by the Department of Finance.<sup>38</sup> The agencies' AAIs do not explicitly reference the *Intergovernmental Agreement on Federal Financial Relations* or the DRFA determination.<sup>39</sup> Instructions in the agencies' AAIs relevant to DRFA administration include: risk management; fraud control; approving commitments of relevant money; and entering into and administering arrangements.

2.6 There is an agreement with the Treasury related to DRFA administration. The agreement sets out responsibilities between the agencies and the Treasury in relation to DRFA budget estimates, accounting and payments. These responsibilities are summarised in Table 2.1.

37 *Public Governance, Performance and Accountability Act 2013*, section 20A. '[T]he accountable authority of an Australian Government entity may, by written instrument, give instructions to an official of the entity about any matter relating to the finance law.' The ANAO examined AAIs dated 1 September 2022, and earlier versions dated April 2020 and 5 May 2021.

38 The Department of Finance publishes a Resource Management Guide and model AAIs 'to help accountable authorities provide operational instructions to their officials.' This guidance:

- states that 'when issuing instructions an accountable authority should consider the entity's purposes, operations, operating environment and relevant policies of the Australian Government';
- outlines that the model AAIs cover core business topics, are not mandatory and can be changed to suit the needs of their entity; and
- identifies the need to consider including additional instructions beyond those presented in the model AAIs. This includes identifying the need for additional instructions when committing public resources through high-risk or high-cost arrangements.

39 The agencies' AAIs do include specific instructions on grants and procurements. Payments under the DRFA determination are not grants or procurements.

**Table 2.1: Division of DRFA responsibility between the Agency and Treasury**

Function	NRRA/NEMA responsibility <sup>a</sup>	Treasury responsibility <sup>b</sup>
Budget estimates	<ul style="list-style-type: none"> <li>Providing the consolidated DRFA estimates information from the states to Treasury and the Department of Finance as part of the Australian Government Budget process.</li> <li>A quality assurance process related to this information with the states.</li> </ul>	<ul style="list-style-type: none"> <li>Reviewing consolidated DRFA estimates information provided by the agency.</li> <li>Formulating the estimates of DRFA expenses and cash payments for the Australian Government Budget process.</li> </ul>
DRFA accounting	<ul style="list-style-type: none"> <li>Managing the relationship with the states to ensure that the timeframes for providing information into the Australian Government Budget process are met.</li> </ul>	<ul style="list-style-type: none"> <li>Accounting policy related to the DRFA provision and expenses.</li> <li>The calculation of the DRFA provision and expenses included in Treasury's financial statements.</li> </ul>
DRFA payments	<ul style="list-style-type: none"> <li>Obtaining assurance as to the eligibility of the state audited claim in line with the Disaster Recovery Funding Assurance Framework before recommending that any payments be made to the states</li> </ul>	<ul style="list-style-type: none"> <li>Making payments to the states upon receipt of required documentation from the agency.</li> </ul>

Note a: The agencies' administration of the estimates processes related to the Australian Government budget process and DRFA accounting is examined at paragraphs 2.44 to 2.47. The claims and assurance process supporting the agency's recommendation that payments be made to the states are examined in paragraphs 3.1 to 3.59.

Note b: The Treasury's activities related to the DRFA are not in scope of this audit. See paragraphs 1.9 and 1.32.

Source: ANAO summary of agency records.

2.7 An appropriate system of internal control includes documented delegations identifying individuals or classes of officials to whom functions, duties or powers are delegated.<sup>40</sup> The DRFA determination provides the responsible Australian Government entity with a range of functions, duties and powers including:

- requesting information from state agencies;
- making decisions on eligibility enquiries;
- assessing information to support claims;
- undertaking Australian Government assurance activities; and
- finalising the annual DRFA claims process.

2.8 In December 2022, NEMA's accountable authority approved a set of delegations for DRFA determination related functions, duties and powers. Between July 2021 and December 2022, the agencies applied the delegation arrangements established when DRFA administration was part of the Department of Home Affairs.

40 The *Acts Interpretation Act 1901* establishes a framework for delegating legislated functions, duties or powers. While the DRFA determination is not an Act covered by this framework, the delegation concepts from this framework can be applied as a standard of good practice.

See *Acts Interpretation Act 1901*, sections 34AA and 34AB and Australian Government Solicitor, *Legal briefing - Delegations, authorisations and the Carltona principle*, 16 June 2022, available at <https://www.ags.gov.au/publications/legal-briefing/lb-20220616#12> [accessed 22 February 2023].

2.9 The agencies have instructional material for DRFA administration including eight standard operating procedures and the DRFA assurance framework. These procedures contain limited guidance to support agency officials to make decisions against the requirements of the DRFA determination. Examples of procedures that can be improved by providing more detail to support decision-making against the DRFA determination are the procedures for:

- assessing category C and D measures and advance or pre-payments, further examined in paragraphs 2.22 to 2.27; and
- confirming state assurance activities met DRFA determination requirements, further examined in paragraphs 3.1 to 3.17.

2.10 In May 2022, the NRRRA updated its DRFA procedures to include a requirement for agency officials to use checklists to record when procedural steps were completed and provide links to related records. The checklists reviewed by the ANAO were not functioning as an effective control to demonstrate procedures were implemented.

### **Information systems supporting Disaster Recovery Funding Arrangements administration**

2.11 DRFA administration activities are partly processed through the DRFA information management system, introduced in 2015. The NRRRA advised this system was introduced to reduce risks associated with relying on spreadsheets for DRFA administration. This has not been achieved and NEMA continues to rely on spreadsheets to administer the DRFA.

2.12 The NRRRA identified that the information systems supporting DRFA administration are 'outdated' and rely on 'manual, labour-intensive processes that pose a high risk of human error.'

2.13 The NRRRA commenced activities to develop a replacement DRFA information management system in 2022. This included documenting the 'end to end' business processes for DRFA administration that could be supported by a replacement DRFA information management system.

### **Do the agencies activate and assess the eligibility of events and measures in line with Disaster Recovery Funding Arrangements requirements?**

Activation of DRFA events and Category A and B measures was consistent with the DRFA determination. The NRRRA provided assessments of Category C and D requests from the states to the responsible Australian Government ministers. Procedures for assessing proposed Category C and D measures can be further developed to provide clear guidance on how NEMA assesses these requests against the DRFA determination's terms and conditions. The NRRRA did not have a documented procedure for administering requests for advance and pre-payments under the DRFA prior to May 2022.

### **Event activation and eligibility**

2.14 The DRFA determination defines an eligible disaster as:<sup>41</sup>

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41 *Disaster Recovery Funding Arrangements 2018*, page 5 and page 9.

A natural disaster or terrorist act for which:

- a coordinated multi-agency response was required, and
- state expenditure exceeds the small disaster criterion [\$240,000].

2.15 When a natural disaster occurs and the state knows or expects that the disaster will be an eligible disaster, the DRFA determination requires the state to notify the responsible Australian Government entity within three months.<sup>42</sup> Once this notification occurs, the responsible Australian Government entity undertakes its process to activate the disaster as a DRFA event. The agencies have an event activation procedure that is consistent with DRFA requirements. The procedure includes:

- notifying the office of the responsible Australian Government minister;
- generating an Australian Government Reference Number<sup>43</sup>;
- updating the Disaster Assist website<sup>44</sup>; and
- issuing a joint media release.

2.16 A full list of activated disasters which occurred in 2021–22 is found in Appendix 3. The ANAO reviewed the NRRRA's records of activations for 12 of 49 events which occurred in 2021–22. These 12 events were selected to cover activations for all states and categories of DRFA measures.<sup>45</sup> The NRRRA completed the steps in its DRFA activation procedure that relate to DRFA requirements for these 12 events.

2.17 The DRFA determination does not require the responsible Australian Government entity to assess event eligibility when a state or territory advises of a DRFA event. The DRFA notification form requires states to affirm that the event is eligible by describing the multi-agency response required and confirming the state has 'taken appropriate steps to know, or expect, that the event will exceed the small disaster criterion.' All 12 activations reviewed included this information.

## Measure eligibility and activation

2.18 The Australian Government provides financial assistance through the DRFA for a proportion of the expenditure the states incur in delivering certain relief and recovery measures.<sup>46</sup> For a state government relief and recovery measure to be eligible for Australian Government funding the DRFA determination requires the measure:

- 'be carried out [by the state or a local government] to alleviate damage or distress arising as a direct result of an eligible disaster.'<sup>47</sup>

42 *Disaster Recovery Funding Arrangements 2018*, clause 5.1.1.

43 Australian Government Reference Number (AGRN) is the unique identification number assigned to each declared DRFA disaster. The AGRN is used to identify the each specific DRFA disaster publicly, including on <https://www.disasterassist.gov.au/>, and across Australian and state government agencies.

44 The Department of Home Affairs hosts <https://www.disasterassist.gov.au/>. This website provides information on assistance available from Australian, state and local governments for declared natural disasters. Information includes how to access DRFA-funded assistance.

45 The Australian Capital Territory did not activate the DRFA in the period reviewed by the audit.

46 The DRFA determination allows for advance payments of states' DRFA-eligible expenses. See paragraph 2.28.

47 *Disaster Recovery Funding Arrangements 2018*, clause 4.1.1.

- meets the purposes, forms and other requirements established through the four DRFA categories.
  - Category A measures are eight forms of emergency assistance states can provide to individuals. Eligibility requirements include the state incurring expenditure within 24 months of the eligible event and the types of costs that can be claimed.<sup>48</sup>
  - Category B measures include 12 forms of assistance including emergency works, essential public asset reconstruction<sup>49</sup>, freight and interest rate subsidies and concessional loans.<sup>50</sup> Each form of Category B assistance has specific eligibility requirements.
  - Category C measures are ‘community recovery package[s] that [are] intended to support a holistic approach to the recovery of regions, communities or sectors severely affected by an eligible disaster...’<sup>51</sup> Eligibility requirements include a time limit for states to incur expenditure, 50:50 cost sharing ratio, Prime Ministerial approval and maximum grant values.
  - Category D measures are acts of ‘relief or recovery carried out to alleviate distress or damage in circumstances which are, in the opinion of the Commonwealth, exceptional.’<sup>52</sup> Eligibility requirements include a time limit for states to incur expenditure, cost sharing and Prime Ministerial approval.<sup>53</sup>

2.19 The cost-sharing ratio between the Australian Government and states for Category A and B measures varies depending on the following factors:

- if the total expenditure within the claim across all four Categories does not exceed the first threshold<sup>54</sup>, then Category A is reimbursed at 50 per cent and there is no reimbursement for Category B;
- if the total expenditure within the claim across all four Categories exceeds the first threshold only, then the level of Commonwealth reimbursement for Category A and B expenditure will be up to 50 per cent; or
- if the total state expenditure across all four Categories exceeds the second threshold<sup>55</sup>, then the reimbursement for Category A and B expenditure will be up to 75 per cent.

48 *Disaster Recovery Funding Arrangements 2018*, clause 4.2 and Schedule A.

49 The *Disaster Recovery Funding Arrangements 2018* defines an essential public asset as:

An asset which must be a transport or public infrastructure asset of an eligible undertaking which, the state considers and the department agrees, is an integral part of a state’s infrastructure and normal functioning of a community.

50 *Disaster Recovery Funding Arrangements 2018*, clause 4.3.

51 *Disaster Recovery Funding Arrangements 2018*, clause 4.4.2.

52 *Disaster Recovery Funding Arrangements 2018*, clause 4.5.2.

53 *Disaster Recovery Funding Arrangements 2018*, clause 4.5.6:

The cost-sharing ratio between the Commonwealth and the state for each Category D measure is equal—50/50—or such other cost-sharing ratio determined by the Commonwealth that may be guided by advice provided by the state in its Category D assistance request.

54 This threshold is calculated as 0.225 per cent of the states total general government sector revenue and grants in the financial year two years prior to the relevant financial year, multiplied by 1.75. See *Disaster Recovery Funding Arrangements 2018*, clause 9.3.

55 This second threshold is the first threshold multiplied by 1.75. See *Disaster Recovery Funding Arrangements 2018*, clause 9.3.

### *Eligibility assessment of Category A and B measures*

2.20 The DRFA determination requires states to provide the responsible Australian Government entity with 'details of all eligible [category A and B] measures which may be made available during that financial year in response to an eligible disaster.'<sup>56</sup> The provision of this information occurred for the 2021–22 and 2022–23 financial years examined by this audit.

2.21 The agencies do not conduct eligibility assessments of this information. No feedback on the eligibility of these measures is provided to the states as part of this annual process.<sup>57</sup> The information gathered in this process does not link to the assurance activities or claims approval process.<sup>58</sup>

### *Eligibility assessment and activation of Category C and D measures*

2.22 The DRFA determination requires Category C and D measures to be:

- requested by a state in writing with information including the impact of the disaster and details of the proposed Category C or D measures<sup>59</sup>; and
- approved by the Prime Minister in writing.<sup>60</sup>

2.23 Prior to December 2022, the agencies assessed Category C and D DRFA requests with a procedure developed by the Department of Home Affairs in 2018 for assessing Category C and D NDRRA requests. The procedure introduced in December 2022 describes the information states are to provide to the agency when requesting Category C and D measures. This December 2022 procedure does not provide guidance on how NEMA officials are to prepare advice that Category C or D activation requests are consistent with the terms and conditions of the DRFA determination.

2.24 The ANAO examined the 11 Category C and D measure activations the NRRA completed in the 2021–22 financial year. For these 11 activations, the NRRA provided the responsible Australian Government minister with:

- the NRRA's assessment of the Category C and D requests from the states;
- recommendations as to whether the responsible Australian Government minister should support the request; and
- a recommendation that the responsible Australian Government minister provide the Prime Minister with the minister's views on the state's requests.

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56 *Disaster Recovery Funding Arrangements 2018*, clause 5.3.

57 As part of the event activation process described in paragraphs 2.15 to 2.17, the NRRA acknowledged to the state administering agencies the category A and B measures the states intend to make available.

58 Assurance activities assess the eligibility of sampled payments for DRFA Category A and B measures using other information sources. This occurs after the states have incurred the expenditure and submitted a claim for financial assistance. The claims and assurance processes are examined in paragraphs 3.1 to 3.59.

59 *Disaster Recovery Funding Arrangements 2018*, clauses 4.4.5 and 4.5.4.

60 *Disaster Recovery Funding Arrangements 2018*, clauses 4.4.4 and 4.5.5.

2.25 For the 11 Category C and D measure activations reviewed, the DRFA determination's requirements for the written requests by the states and approval by the Prime Minister were met.<sup>61</sup>

2.26 The Prime Minister approves the conditions and potential Australian Government contribution. Final approval of the amount to be paid to the states occurs through the assurance and annual claims processes examined in paragraphs 3.1 to 3.59.

#### Opportunity for improvement

2.27 The National Emergency Management Agency updates its procedures to include guidance on the application of the DRFA determination's terms and conditions when preparing advice to support decisions on Category C and D requests.

### Advance payment for event or pre-payments for measures

2.28 The DRFA determination allows the Australian Government to make DRFA advance or pre-payments to the states when the responsible Australian Government minister is satisfied that exceptional circumstances exist.<sup>62</sup> The agencies define pre-payments as being for a specific measure and advance payments as being for a specific DRFA event.<sup>63</sup> Australian Government funding provided as DRFA advance or pre-payments is then included in the state's annual audited DRFA claim due nine months after the end of the relevant financial year.<sup>64</sup>

2.29 The NRRRA developed a procedure for advance and pre-payments under the DRFA in May 2022.<sup>65</sup> This procedure describes two situations which lead to advance or pre-payments. These situations are when advance or pre-payments:

- are requested by a state and approved by the responsible Australian Government minister; or
- are approved by the Prime Minister as part of a Category C or D activation process described in paragraphs 2.22 to 2.27.

2.30 During the period of DRFA administration examined by this audit:

- No advance or pre-payments were requested by states. For advance or pre-payments requested by a state, NEMA's procedure requires the agency to provide the responsible Australian Government minister with an assessment of the request. This assessment is to include a recommendation from NEMA to the minister to agree or not agree to the advance or pre-payment through the DRFA.

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61 The agency's records of the Prime Minister's responses to state premiers or chief ministers outlining the category C or D measures approved by the Australian Government provided evidence DRFA determination clause 4.5.4 was met. The audit did not assess activities undertaken by the Department of the Prime Minister and Cabinet to support the Prime Minister's approval of the state's request. This was outside the scope of the agency's DRFA administration activities.

62 *Disaster Recovery Funding Arrangements 2018*, clause 9.1.1.

63 No advance payments were approved during the scope of the audit. An example of advance payments was the provision of DRFA funding to the states related to 2019–20 bushfires in advance of the states submitting their annual DRFA claims to the Australian Government.

64 *Disaster Recovery Funding Arrangements 2018*, clauses 10.3.3 and 10.3.5.

65 In April 2023, NEMA advised the ANAO that a 2018 Department of Home Affairs procedure for advance and pre-payments under the NDRAA was in use by the NRRRA prior to May 2022.

- Three DRFA pre-payments were made based on Prime Ministerial approval as part of a Category C or D activation. These three pre-payments were made in March, April and July 2022 and totalled \$8.47 million. The three pre-payments were delivered through the New South Wales government as 100 per cent Australian Government-funded DRFA Category D measures related to the NSW Severe Weather and Flooding event from 22 February 2022.<sup>66</sup> An overview of actions related to these three pre-payments is at Appendix 4.

## Eligibility enquiries for measures

2.31 The DRFA determination establishes an eligibility enquiry process for states to confirm with the responsible Australian Government entity whether a measure is eligible.<sup>67</sup> This includes a requirement to use an eligibility enquiry form.<sup>68</sup> The form captures details from the state of the proposed recovery measures and contains sections for the responsible Australian Government entity to document and authorise the eligibility advice provided to the state.

2.32 The NRRRA recorded 25 eligibility enquiries for 2021–22 in its eligibility enquiry register. Of the 25 enquiries, 18 were received without a state submitting an eligibility enquiry form. The NRRRA responded to four enquiries using the eligibility enquiry form the states submitted. The remaining enquiries and responses were provided via email.

2.33 The NRRRA's response times for these 25 eligibility enquiries ranged from zero to 114 days. The average response time was 32 days, with 16 enquiries resolved within 30 days. The agencies' performance in responding to eligibility enquiries is not monitored in internal or external reporting.<sup>69</sup>

## Disaster Recovery Funding Arrangements guidelines

2.34 The DRFA determination allows for schedules and guidelines to be created to provide additional information or guidance.<sup>70</sup> The DRFA determination is accompanied by five guideline documents<sup>71</sup>:

- Guideline 1: An essential public asset;
- Guideline 2: Counter Disaster Operations;
- Guideline 3: Category C assessment framework;
- Guideline 4: Insurance arrangements; and
- Guideline 5: Process for determining a terrorist act is an eligible disaster.

2.35 The guidelines were issued by the Department of Home Affairs on 8 June 2018. The guidelines have not been reviewed since publication. Implementing a review of the DRFA guidelines will support the alignment of public advice with NEMA's current DRFA administrative practices.

66 Australian Government Reference Number (ARGN) 1102.

67 *Disaster Recovery Funding Arrangements 2018*, clause 4.1.2.

68 Attachment E to the determination is the eligibility enquiry form.

69 The appropriateness of Disaster Recovery Funding Arrangements performance measures is examined in paragraphs 4.19 to 4.23.

70 *Disaster Recovery Funding Arrangements 2018*, clause 2.1.5.

71 Department of Home Affairs, *Disasterassist.gov.au — Disaster arrangements — Disaster Recovery Funding Arrangements 2018* [Internet], available from <https://www.disasterassist.gov.au/disaster-arrangements/disaster-recovery-funding-arrangements> [accessed 22 February 2023].

## Opportunity for improvement

2.36 The National Emergency Management Agency reviews the DRFA guidelines to ensure these guidelines are required and are consistent with current DRFA administrative practices.

## Does the agency appropriately administer other Disaster Recovery Funding Arrangements activities including loans, time limit extensions and quarterly estimate reporting?

The design of DRFA administration procedures for loans, allowable time limit extensions and the quarterly reporting process is consistent with the DRFA determination. The NRRRA implemented procedures for allowable time limit extensions and the quarterly reporting processes as designed.

### Administration of Disaster Recovery Funding Arrangements loans

2.37 The DRFA determination establishes:

- the capacity for the Australian Government to provide portions of assistance for certain measures as a loan to states;
- a formula for calculating the value of these loans;
- a definition of the associated Commonwealth concessional interest rate; and
- requirements for the responsible Australian Government entity to determine the interest rate at the start of each financial year and inform states of this rate.<sup>72</sup>

2.38 At 30 June 2022 there were 14 active DRFA loans, 12 to the Queensland Government and two to the New South Wales Government. The NRRRA processed loan re-payments of \$17.4 million in 2021–22. The balance of these loans was \$34.9 million at 30 June 2022.

2.39 The agencies have established procedures to calculate the Commonwealth concessional interest rate and invoice annual loan repayments by the states. Loan related procedures cover all requirements set under the DRFA determination. The ANAO tested whether the NRRRA completed its procedures for:

- calculating the annual Commonwealth concessional interest rate. This included examining the documentation of the 2021–22 and 2022–23 calculations and recalculating the concessional interest rate.<sup>73</sup>
- invoicing annual loan repayments. This included examining the NRRRA's records of issuing loan invoices to both states with outstanding loans in 2021–22.

2.40 The NRRRA completed these procedures and ANAO recalculations are consistent with the NRRRA's calculations.

2.41 A minor exception to the procedures was identified when reviewing the invoicing of annual loan repayments for 2021–22. The invoices to the states were issued before the notification letter

<sup>72</sup> *Disaster Recovery Funding Arrangements 2018*, clauses 9.3.2, 9.4, 9.5.

<sup>73</sup> The concessional interest rate is 50 per cent of the ten-year Treasury bond rate averaged from 1 April to 30 June for the preceding financial year. *Disaster Recovery Funding Arrangements 2018*, page 4.

finalising the process was signed by the NRRRA's decision-maker. This exception was not a breach of the DRFA determination. This is an example of the realisation of the risks associated with procedures that depend on manual transfer of information.<sup>74</sup>

### **Allowable time limit extensions for incurring Disaster Recovery Funding Arrangements expenditure**

2.42 The DRFA determination specifies timeframes in which states can incur expenditure for eligible measures.<sup>75</sup> These timeframes are referred to by the agencies as the allowable time limit. The NRRRA assessed and approved state requests for allowable time limit extensions.<sup>76</sup> The ANAO reviewed all 56 requests to extend the allowable time limit for expenditure recorded in the NRRRA's tracking spreadsheet for 2021–22. The NRRRA approved all 56 requests.

2.43 The allowable time limit extension procedures are consistent with the DRFA determination and were implemented as designed for the 56 requests reviewed. Through the allowable time limit extension process the NRRRA assessed requests from the states 'to determine whether the exceptional circumstances presented by the state are unforeseeable, unusual and unique beyond the control of the state or local governments' as required by the DRFA determination.

### **Quarterly reporting of state DRFA estimates into Australian Government budget process**

2.44 The DRFA determination requires states to submit quarterly reports to the responsible Australian Government entity. These reports are to detail state DRFA expenditure not yet submitted to the Australian Government and estimates of future state DRFA related expenditure.<sup>77</sup>

2.45 This quarterly reporting is part of the agreements between the agencies and the Treasury described in paragraph 2.6 and Table 2.1. This information is incorporated into the Australian Government budget process and is aligned with the associated timeframes. The four updates occur at: pre-Expenditure Review Committee (ERC); Budget; final budget outcome (FBO) and mid-year economic and fiscal outlook (MYEFO).<sup>78</sup>

2.46 The process for the quarterly estimates includes:

- planning the quarterly process, including establishing deadlines and creating files on the agency's record management system;
- collecting estimates from the states, including certification from an official in each state agency outlining:
  - to the best of their knowledge, estimated expenditure is accurate and consistent with the DRFA determination;
  - any uncertainties or known omissions in the estimates; and

74 The agency's identification of this risk is presented in paragraph 2.12.

75 *Disaster Recovery Funding Arrangements 2018*, clauses 4.2.1, 4.3.1, 4.4.1, 4.5.1.

76 *Disaster Recovery Funding Arrangements 2018*, clause 12.1.

77 *Disaster Recovery Funding Arrangements 2018*, clause 5.4.

78 For a summary of the federal Budget process, see: Department of Finance, *The Budget Process* [Internet], available from <https://www.finance.gov.au/government/federal-budget/budget-process> [accessed 22 February 2023].

- any fraud related to DRFA funded programs.
- compiling the estimates from the states for certification by the agencies' Chief Finance Officer; and
- submitting estimates with the agency's certification to the Treasury.

2.47 The ANAO reviewed the NRRRA's administration of the quarterly reporting process for the Final Budget Outcome 2021–22. This process incorporated state DRFA estimates at 31 May 2022. The NRRRA's submission of these quarterly reporting was consistent with the agreement with Treasury and the NRRRA's procedure as it provided:

- a signed letter from the NRRRA's Chief Finance Officer to the Treasury's Chief Finance Officer outlining the NRRRA had completed its quality assurance processes to support the following representations:
  - expenditure estimates, provided by the states and checked by the agency, reflect all known eligible events as at 31 May 2022;
  - correct DRFA rates and percentages have been applied in calculating the total consolidated estimated expenditure reimbursements; and
  - calculations in state and consolidated automated reports have been checked for accuracy.
- the Treasury with the estimated Australian Government cash payments to states and analysis of variations since the 2022–23 budget estimates; and
- information on budget pressures, uncertainties, known omissions and status of Australian Government assurance activities.

### 3. Assurance and annual claims processes

#### Areas examined

This chapter examines whether the National Recovery and Resilience Agency (NRRA) and the National Emergency Management Agency (NEMA, collectively the agencies) have appropriately administered the Disaster Recovery Funding Arrangements (DRFA) assurance and annual claims processes.

#### Conclusion

The agencies' administration of DRFA assurance and annual claims processes is largely appropriate. While state assurance opinions were submitted as required, the NRRA did not assess whether these opinions meet the *Disaster Recovery Funding Arrangements 2018* ministerial determination's (DRFA determination) requirements. NEMA's assurance framework is consistent with the DRFA determination. Assurance activities informed the acquittal of state claims. NEMA does not have targets or reporting to ensure its DRFA assurance activities are completed in a timely manner.

#### Areas for improvement

The ANAO made one recommendation aimed at establishing monitoring and procedures related to the timely completion of the assurance and claims processes.

The ANAO also identified opportunities for improvement across the assurance and annual claims process and fraud control framework.

3.1 Effective DRFA administration requires the agencies to ensure the DRFA determination's terms and conditions related to assurance and states' annual claims for financial assistance are met. Auditor-General Report No.34 2014–15 *Administration of the Natural Disaster Relief and Recovery Arrangements by Emergency Management Australia* identified disaster recovery funding assurance processes were not adequate.<sup>79</sup>

3.2 The DRFA determination's terms and conditions related to annual claims, assurance and ineligible expenditure include<sup>80</sup>:

- states must undertake specific assurance activities for the annual DRFA claims they submit to the Australian Government;
- the Australian Government may undertake assurance activities over state claims or systems; and
- the Australian Government must exclude any state expenditure from a state's claim that is inconsistent with the DRFA determination.

3.3 Table 3.1 provides an overview of the agencies' DRFA annual claim and assurance processes examined in this chapter.

79 Auditor-General Report No.34 2014–15 *Administration of the Natural Disaster Relief and Recovery Arrangements by Emergency Management Australia*, including Recommendation no. 2 and paragraphs 21, 2.14, 2.24, 3.8, 3.10, 3.32, 3.49, available from <https://www.anao.gov.au/work/performance-audit/administration-natural-disaster-relief-and-recovery-arrangements-emergency> [accessed 22 February 2023].

80 *Disaster Recovery Funding Arrangements 2018*, including clauses 9, 10 and 11.

**Table 3.1: Overview of Disaster Recovery Funding Arrangements annual claim and assurance processes**

Stage	Step <sup>a</sup>
Claim and state assurance submission	The agency opens the claims round and requests documents from states.
	The agency processes any extension requests.
	The agency receives and reviews documents from states.
Risk assessment	The agency determines a qualitative risk rating for the state's claim.
	The agency determines a quantitative risk rating based on the value of expenditure in the state's claim.
	The agency determines an overall risk rating for the state's claim based on qualitative and quantitative risk ratings.
Assurance activities	The specific assurance activities are determined based on the overall risk rating. The external assurance provider conducts the assurance activities approved by the agency. <sup>b</sup>
Claim acquittal	The agency evaluates the assurance findings, acquits the amount state expenditure eligible for Australian Government DRFA financial assistance and provides the Treasury with recommendations about DRFA payments to states. <sup>c</sup>

Note a: These steps are summarised from agency's Standard Operation Procedure 5 — Annual Claims Process and Disaster Recovery Funding Assurance Framework (May 2022 version).

Note b: The ANAO reviewed the agency's scoping of the external assurance provider's activities and agency's use of the external assurance provider's reporting in the acquittal process. The ANAO did not assess the activities undertaken by the external assurance provider.

Note c: The DRFA agreements between the agencies and the Treasury are described in paragraph 2.6 and Table 2.1.

Source: ANAO analysis of NRRRA and NEMA documents.

3.4 This audit assessed assurance and claim acquittal activities related to the 16 submitted and potential DRFA claims for state expenditure from 2019–20 and 2020–21.<sup>81</sup> The ANAO examined the assurance and acquittal activities related to these claims that the agencies undertook between 1 July 2021 and 30 September 2022.<sup>82</sup> The status of 16 submitted and potential state claims for DRFA expenditure from 2019–20 and 2020–21 at 30 September 2022 is summarised at Appendix 6.

3.5 The ANAO assessed the agencies' assurance activities and claims process by:

- comparing the assurance framework and claims procedure against requirements set in the DRFA determination; and
- examining if the assurance framework was applied to the acquittal processes for state DRFA claims from the 2019–20 and 2020–21 financial years.

81 Paragraphs 1.18 to 1.19 and Figure 1.2 provide an overview and timeline of DRFA processes and activities.

82 Paragraphs 1.5 and 1.7 provide an overview of Australian Government entities responsible for DRFA administration. The claim and assurance processes for Queensland's 2019–20 DRFA claim were completed by the Department of Home Affairs on 16 June 2021 prior to the National Recovery and Resilience Agency becoming responsible for the DRFA administration on 1 July 2022. This audit included the claim and assurance processes for Queensland's 2019–20 DRFA claim as the outcomes of these processes were an input into the agency's assurance activities for Queensland 2020–21. The review of the Queensland's 2019–20 claim process was based the records the agencies retained of these processes.

## Can the agencies demonstrate state assurance activities meet Disaster Recovery Funding Arrangements requirements?

NEMA has a process to confirm that states have submitted assurance reports with their annual claims. NEMA can improve its assessment of state assurance opinions to ensure the DRFA determination's requirements are met. In December 2022, NEMA updated its procedures to improve its use of state assurance activities to inform the Australian Government's annual risk-based assurance activities.

3.6 The DRFA determination lists two objectives of state assurance:

- provide the Australian Government with reasonable assurance that a state's claim is consistent with the terms and conditions of the DRFA determination; and
- inform the Australian Government's annual risk-based assurance activities.<sup>83</sup>

### Agency assessment of state assurance

3.7 The DRFA determination requires states' annual claims to include state assurance reports:

- Where a state's claim contains DRFA expenditure for Australian Government reimbursement, the state must provide an Australian Auditing Standard 800 (ASA 800) audit that provides reasonable assurance the claim is consistent with the terms and conditions of the DRFA determination.<sup>84</sup>
- Where a state's claim contains estimated reconstruction costs, the state must provide an Australian Standard on Assurance Engagements 3150 (ASAE 3150) audit into the state's controls over estimated reconstruction costs.<sup>85</sup>

3.8 For the 11 submitted claims reviewed by ANAO, all 11 claims included the required ASA 800 and ASAE 3150 assurance opinions.

3.9 The DRFA determination requires the states to engage the services of a 'state appointed auditor' to undertake the assurance activities.<sup>86</sup> State administering agencies provided reasonable assurance opinions from the state appointed auditors to the NEMA for all 11 submitted claims reviewed. State audit offices prepared assurance opinions for nine of the 11 submitted claims reviewed by the ANAO.<sup>87</sup>

<sup>83</sup> *Disaster Recovery Funding Arrangements 2018*, clause 10.1.1.

<sup>84</sup> *Disaster Recovery Funding Arrangements 2018*, clause 10.3.2.

The ASA 800 standard applies to Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks. *ASA 800*, available from <https://standards.auasb.gov.au/asa-800-sep-2021> [accessed 22 February 2023].

<sup>85</sup> *Disaster Recovery Funding Arrangements 2018*, clause 10.2.2. This is only applicable to Category B estimated reconstruction costs for reconstruction of essential public assets (clause 4.3.2.d).

The ASAE 3150 standard applies to Assurance Engagements on Controls. *ASAE 3150*, available from <https://standards.auasb.gov.au/asae-3150-jan-2015> [accessed 22 February 2023].

<sup>86</sup> State appointed auditor is defined as a 'state audit office or an independent auditor appointed by the state' and the DRFA determination does not set any other requirement. *Disaster Recovery Funding Arrangements 2018*, clause 10.1.2.

<sup>87</sup> New South Wales and South Australia appointed auditors that were not from their state audit offices.

3.10 The agencies have a step in their procedures to confirm states have included state appointed auditor assurance opinions with the claims. The NRRA documented that this step had been completed in a spreadsheet-based checklist.

3.11 The agencies' claims assessment procedure does not include guidance that supports the agencies' officials to assess if submitted assurance opinions meet DRFA requirements, including if an audit opinion includes an exclusion of scope.<sup>88</sup> Procedural guidance that would assist officials to determine if submitted assurance opinions meet DRFA requirements includes:

- confirming the state appointed auditor meets the DRFA's definition;
- assess if the assurance opinion follows the requirements of the relevant auditing or assurance standards, including if the state needed to submit an ASAE 3150 assurance opinion; and
- determine if any exclusions of scope or qualifications of opinion reduce or remove the reasonable assurance provided to the Australian Government.<sup>89</sup>

3.12 The NRRA had not retained evidence it reviewed and confirmed that the scope of state assurance is sufficient or that the NRRA had accounted for scope limitations in the Australian Government's DRFA assurance activities.<sup>90</sup>

3.13 Of the 11 submitted claims reviewed by the ANAO, one state appointed auditor's assurance opinion included an exclusion of scope. This assurance opinion included exclusions of scope related to three measures totalling \$279 million (24.8 per cent) of expenditure in the submitted claim. The exclusion of scope stated the state appointed auditor's assurance opinion work did not extend to providing assurance over the completeness and accuracy of the evidence provided to support applications for one of these measures and eligibility criteria for two other measures. At the completion of the ANAO's fieldwork, the assurance processes for this state's claim were ongoing.

#### Opportunity for improvement

3.14 The National Emergency Management Agency updates its claim assessment procedure to include guidance to assess if submitted assurance opinions meet the requirements of the DRFA determination. This guidance should include how to assess if any exclusions or qualifications impact on the reasonable assurance provided to the Australian Government.

88 These requirements are set out in *Disaster Recovery Funding Arrangements 2018*, section 10. This procedure is described in paragraph 3.3.

89 An exclusion of scope is presented in audit or assurance opinions when the procedures required to reach an assurance opinion cannot be completed. A qualification of opinion is presented when matters identified in the assurance process prevent an assurance opinion from being provided.

90 The interaction of state assurance activities and Australian Government DRFA assurance activities is further discussed in paragraphs 3.23 to 3.26.

## **Incorporation of state assurance into Australian Government's assurance activities**

3.15 The DRFA's second objective for state assurance activities is that these activities inform the Australian Government's annual risk-based assurance activities. The agencies implement these assurance activities through a Disaster Recovery Funding Assurance Framework (assurance framework).<sup>91</sup>

3.16 The assurance framework's process includes a qualitative risk assessment.<sup>92</sup> The agencies' instructions identify information sources that may inform the qualitative risk assessment. Prior to December 2022, state assurance activities were not one of the 13 information sources listed. The NRRRA also did not reference the state assurance opinions in the claims approval briefs that finalise the claims and assurance process.<sup>93</sup>

3.17 NEMA advised the ANAO that the assurance provider performed a review of each state's audit report during the Australian Government's assurance process. The ANAO was unable to confirm this occurs as:

- this is not an activity described in the assurance framework;
- there is no evidence of this review in the assurance reports provided for each state's claim; and
- no other record of this assessment could be identified in the agencies' records.

## **Have the agencies appropriately undertaken the Australian Government's Disaster Recovery Funding Arrangements assurance activities?**

NEMA has a Disaster Recovery Funding Assurance Framework which includes risk-based sampling and random sampling of submitted state claims for compliance with the DRFA determination. The assurance activities for one 'very high risk' claim were not conducted as specified by the assurance framework. NEMA does not have monitoring and reporting arrangements for the timeliness of the assurance process.

3.18 The DRFA determination outlines the Australian Government entity responsible for DRFA administration may undertake two types of assurance activities:

- risk-based sampling of submitted audited claims for compliance with the DRFA determination; and
- reviews of state disaster recovery funding arrangements management systems.<sup>94</sup>

3.19 The DRFA determination states the objectives of these Australian Government DRFA assurance activities are to provide:

91 The agency's implementation of the Disaster Recovery Funding Assurance Framework is examined in paragraphs 3.18 to 3.42.

92 See paragraph 3.3 for an overview of the claims and assurance processes.

93 These claim approval briefs are examined in paragraph 3.59.

94 *Disaster Recovery Funding Arrangements 2018*, clause 11.1.1.

- 'the Commonwealth with increased visibility of state relief and recovery processes, and changes to these processes over time'; and
- 'sufficient and appropriate assurance to the Commonwealth prior to payment of audited claims to states.'<sup>95</sup>

### **Risk-based sampling activities under the agency's assurance framework**

3.20 The agencies implement risk-based sampling of submitted state claims for compliance with the DRFA determination through a Disaster Recovery Funding Assurance Framework (assurance framework). The assurance framework's objectives are to:

- 'achieve an appropriate level of assurance that respective state claims are in accordance with the DRFA'; and
- 'assist the Agency in meeting its legislative obligations under the PGPA Act [*Public Governance, Performance and Accountability Act 2013*]'.<sup>96</sup>

3.21 The DRFA determination allows Australian Government assurance activities to be conducted by the responsible Australian Government entity or by a 'suitably qualified external provider' (external assurance provider).<sup>97</sup>

3.22 The assurance framework includes three stages: risk assessments; assurance activities; and assurance findings.

#### ***Risk assessments***

3.23 The three risk assessment steps involve:

- A qualitative risk assessment that considers if state's claim may not be consistent with the terms and conditions of the DRFA determination. The assurance framework states the assessment is based on 'the maturity of a state's policies/procedures, people and processes, adjusted for environment and situational factors as appropriate'. The framework sets out a method for this assessment, including the information sources to be considered by the agencies.
- A quantitative risk assessment based on the values of each category of expenditure claimed and the total value of Australian Government financial assistance. The assurance framework's quantitative risk assessment method identifies Category B expenditure as having the highest risk across the four categories of DRFA expenditure.<sup>98</sup>
- The overall risk rating for the claim is determined using a matrix that combines qualitative and quantitative risk rating. This matrix places a slightly higher weighting on the qualitative rating.

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<sup>95</sup> *Disaster Recovery Funding Arrangements 2018*, clause 11.2.1.

<sup>96</sup> National Recovery and Resilience Agency, Disaster Recovery Funding Assurance Framework, May 2022, paragraph 1.2.1. Paragraph 1.1.2 states 'The Framework supports the Commonwealth's compliance with the 'proper use' of monies requirements under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).'

<sup>97</sup> *Disaster Recovery Funding Arrangements 2018*, clause 11.1.3.

<sup>98</sup> The categories of DRFA expenditure are described in paragraphs 1.13 to 1.14 and 2.18.

3.24 The results of the risk assessments for the 16 state DRFA claims from the 2019–20 and 2020–21 financial years are presented in Table 3.2.

**Table 3.2: Assurance risk assessments for 2019–20 and 2020–21 DRFA claims**

State	Claim	Step 1: Qualitative risk	Step 2: Quantitative risk	Step 3: Overall risk
Qld	2019–20	Very Low	Very High	Medium
	2020–21	Very Low	Very High	Medium
NSW	2019–20	High	Very High	Very High
	2020–21	Medium	Very High	High <sup>c</sup>
Vic	2019–20	Low	Very High	High
	2020–21	Low	Medium <sup>b</sup>	Medium <sup>b,c</sup>
SA	2019–20	High	High	High
	2020–21	High	Medium	High
Tas	2019–20	Medium	Medium	Medium
	2020–21	Low	Medium	Low
WA	2019–20	Medium	High	High <sup>c</sup>
	2020–21	Medium	High	High <sup>c</sup>
ACT	2019–20	Medium	High	High
	2020–21	High	Low	Medium
NT	2019–20	Medium	Very Low	Low
	2020–21 <sup>a</sup>	High	-	-

Note a: The NRRRA did not complete this risk assessment as the Northern Territory advised the agency it would not submit a DRFA claim for 2020–21.

Note b: This preliminary qualitative assessment was incorrectly recorded in the NRRRA's spreadsheet as 'medium' when it should have been 'high' based on the assurance framework. The overall preliminary rating of 'medium' was correctly recorded.

Note c: These are the preliminary risk assessment for these four potential claims. As these claims were not yet submitted the agency's preliminary assessments were based on the states' quarterly estimates described in paragraphs 2.44 to 2.47, not the final claim amounts.

Source: NRRRA risk assessments.

3.25 The May 2022 version of the assurance framework specified 13 sources of information for the NRRRA to review in assessing qualitative risk. The qualitative risk assessments for the 11 claims reviewed show the NRRRA relied on three of the 13 potential information sources identified in the assurance framework:<sup>99</sup>

- prior years' Commonwealth assurance work;

99 The information sources that were not clearly identifiable in the majority of documented qualitative risk assessments reviewed were: eligibility queries raised by the states; extension of time and exemption requests; and outcomes reviews of state disaster recovery funding arrangements management systems. The information sources that were not clearly identifiable in any of the documented qualitative risk assessments reviewed were: ministerial correspondence between the Commonwealth and a state; the agency's checklist-based review of each claim's documentation when the claims are submitted; special circumstances; and publicly available information.

- the quarterly estimates process<sup>100</sup>; and
- interactions with the state administering agencies.

3.26 In December 2022, NEMA updated the assurance framework to include state assurance opinions as a source of information for qualitative risk assessments.<sup>101</sup>

### *Assurance activities*

3.27 The risk assessment determines the assurance activities to be completed (Table 3.3). The assurance framework's description of these assurance activities uses the DRFA determination's terms and conditions as the benchmark for evaluating each state's claim.

**Table 3.3: Risk based activities under the assurance framework**

Overall risk rating from step 3	All claims	Additional assurance activities
Very Low	<ul style="list-style-type: none"> <li>• NEMA/NEMA completes a claim assessment checklist; and</li> <li>• Enquiries and walkthroughs with state administering agency.</li> </ul>	None
Low		None
Medium		Risk based sampling
High		Risk based and random sampling
Very High		Full scope assurance engagement

Source: ANAO adaptation of Tables 7 and 8 of the Disaster Recovery Funding Assurance Framework, May 2022 version.

3.28 The NEMA maintained incomplete records concerning the activities required of all claims. While the agencies advised the ANAO that enquiries and walkthroughs were performed by the external assurance provider, the NEMA had not maintained complete records of these activities.

3.29 In 10 of the 11 claims reviewed by the ANAO, the NEMA and its external assurance provider established the scope of the additional assurance activities as described in the assurance framework. The other claim was assessed by the NEMA to be very high risk (NSW 2019–20). The NEMA provided this assessment to the external assurance provider to propose a scope of assurance work.

3.30 The assurance framework specifies that 'all claims rated as very high risk will be subject to a full scope assurance engagement' defined as either an audit of actual expenditure under ASA 800 or an assurance engagement under ASAE 3150.<sup>102</sup> For the 'very high risk' claim the NEMA and its external assurance provider agreed on a different methodology that did not apply an Australian auditing or assurance standard. The external assurance provider returned a scope of work which contained two alternative proposals: either an ASA 800 audit or a targeted fraud approach. The NEMA selected a variation on the targeted fraud approach which aligned with Standards Australia's AS 8001 Fraud and Corruption Control Standards. This assurance process for this claim was ongoing and the claim had not been acquitted when the ANAO finalised its audit work.

<sup>100</sup> See paragraphs 2.44 to 2.47.

<sup>101</sup> See paragraphs 3.15 to 3.17.

<sup>102</sup> Records related to the agencies' assurance framework, including assurance framework document, refer both ASA 800 and ASA 805 in relation to these activities. An explanation for this is not present in the documents, and so the ANAO has referred exclusively to ASA 800.

### *Reporting on assurance activities*

3.31 The external assurance provider presented a report to the NRRRA on the outcome of assurance activities for the eight finalised claims reviewed. For the eight finalised claims reviewed by the ANAO, the external assurance provider's reports to the NRRRA:

- provide the amount of ineligible expenditure identified in the sample of claim items reviewed by the external assurance provider;
- subtract this amount from the original amount claimed by the state, and from this conclude a maximum recommended payment for the claim; and
- communicate issues or improvements identified by the external assurance provider to the NRRRA.

3.32 The external assurance provider's reports present analysis of the tested samples.<sup>103</sup> These reports do not include an assurance conclusion that each claim is in accordance with the DRFA determination. The NRRRA made the conclusion that each claim was in accordance with the DRFA determination in the claim acquittal brief.<sup>104</sup>

### *Agency evaluation of assurance activities*

3.33 The assurance framework states the overall results of the DRFA assurance activities for each state's claim are to be evaluated by an internal review panel.<sup>105</sup> The internal review panel's terms of reference describes the panel's responsibilities as:

- reviewing the results of NRRRA's assurance activities; and
- finalising each claim's assurance process by recommending final claim acquittal values to the Senior Executive Service (SES) Band One officer responsible for DRFA administration.

3.34 The internal review panel did not evaluate the overall results of the NRRRA's DRFA assurance activities or play a role in finalising the assurance process for the eight acquitted state claims reviewed in this audit.

3.35 A claim acquittal brief was used in place of the internal review panel evaluation for the eight acquitted state claims reviewed by the ANAO. These briefs were from the Senior Executive Service (SES) Band One officer responsible for DRFA administration and approved by an SES Band Two or Three officer. Each brief described the assurance activities undertaken, presented final claim acquittal values and outlined the NRRRA's recommendation that the Treasury should make the DRFA payment to the state. Claim finalisation is examined further in paragraphs 3.56 to 3.60.

#### **Opportunity for improvement**

3.36 The National Emergency Management Agency ensures there is consistency between the documented and actual processes for finalising the assurance activities for each state's DRFA claim.

<sup>103</sup> See 3.57 and Table 3.4 for proportion of claim values sampled.

<sup>104</sup> The claim acquittal brief is examined in paragraphs 3.35 and 3.59 to 3.60.

<sup>105</sup> The panel's terms of reference identify the members as four managers from the agency's teams that administer the DRFA and one representative from the agency's governance team.

### *Timeliness of the Australian Government's risk based assurance process*

3.37 While the DRFA determination does not set an overall timeframe for completing the Australian Government assurance process, the DRFA determination sets timeframes for two parts of the Australian Government assurance process:

- states are to provide all requested information within one month; and
- the Australian Government's assurance activities are to be completed within three months, where the state provides all necessary documentation for each claim's assurance activities.<sup>106</sup>

3.38 NEMA's performance monitoring does not include a measure on the timeliness in completing the Australian Government's assurance activities, for either the specific deadlines provided by the DRFA determination or the overall process.<sup>107</sup>

3.39 The agencies receive fortnightly reports from the external assurance provider. Reports include time elapsed since information requests were provided to each state and current activities of the external assurance provider. Data presented in external assurance provider reports was not tracked by the NRRRA to assess whether the one- or three- month timeframes presented in the DRFA determination are likely to be met.

3.40 The ANAO calculated the total time between the date the state submitted a DRFA claim and the date the Australian Government assurance and approval of the claim was completed. The assurance and approval process for four of the eight acquitted claims exceeded nine months. At 30 September 2022 the assurance and claim approval processes were ongoing for three claims with 17 months, eight months and six months elapsed since these claims were submitted.<sup>108</sup>

3.41 If states do not provide requested information within one month, the DRFA determination allows the Australian Government to:

- withhold acquittal or payment of all or part of the claim;
- refuse to acquit or pay the claim in full; or
- remove the expenditure in question from the audited claim and pay the state based on the residual state expenditure.

3.42 NEMA's annual claims procedure and assurance framework do not document NEMA's approach to situations where states do not provide requested information within the one-month timeframe requirement set under the DRFA determination.<sup>109</sup>

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106 *Disaster Recovery Funding Arrangements 2018*, clause 11.4.1.

107 The agencies' DRFA related performance monitoring is examined in paragraphs 4.19 to 4.23.

108 The status of these claims is outlined in Appendix 6.

109 *Disaster Recovery Funding Arrangements 2018*, clause 11.5.

## Recommendation no. 1

3.43 The National Emergency Management Agency:

- (a) establishes targets, monitoring and reporting for the time required to complete the assurance and claim acquittal processes; and
- (b) develops procedures for finalising claims when requested information is not provided in the timeframes established under the *Disaster Recovery Funding Arrangements 2018* ministerial determination.

**National Emergency Management Agency response: Agreed.**

3.44 *NEMA notes that states and territories have an integral role to play in the timeliness and quality of the assurance and acquittal process in relation to DRFA claims. NEMA welcomes the opportunity to further review its assurance processes in response to this recommendation. Where appropriate, NEMA will implement targets and monitoring and reporting timeframes as performance measures, relevant to the assurance and acquittal of DRFA claims.*

3.45 *The COVID-19 pandemic combined with multiple and compounding natural disasters since 2020 has created significant pressure on state and territory agencies responsible for delivering and administering the DRFA. NEMA (and previously the NRRRA) provided jurisdictions some flexibility in timing to submit claims given the extenuating circumstances and pressures. However, NEMA agrees there is a need to ensure that states and territories finalise claims in a timely manner, consistent with the DRFA, to support the subsequent timely finalisation of claims at the Commonwealth level.*

3.46 *NEMA will develop clear procedures for finalising claims that include guidance on how a claim will be treated if the state or territory does not provide the required information in the timeframes established. NEMA will continue to work closely with states and territories to ensure alignment with any new procedures relevant to the completion of assurance activities over state and territory DRFA claims.*

### External assurance provider

3.47 The Australian Government entities responsible for DRFA administration have engaged PricewaterhouseCoopers (PwC) as the external assurance provider since the DRFA determination commenced in 2018.<sup>110</sup> PwC has provided other services to responsible Australian Government entities related to the development of the DRFA determination, the DRFA assurance framework, DRFA review activities and developing Category D measure guidelines.

3.48 In procedural documents, claim acquittals and representations to the ANAO, the agencies referred to the role of the external assurance provider as the 'independent auditor' performing 'collaborative assurance activities', and as undertaking 'independent assurance'.<sup>111</sup> Auditor

<sup>110</sup> *Disaster Recovery Funding Arrangements 2018*, clause 11.1.3.

<sup>111</sup> PwC did not make representation to the NRRRA that it was an independent auditor. The external assurance provider's reports did not include any declaration of independence and stated the work completed does 'not constitute an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements and accordingly no assurance is provided in this report'.

independence carries legally enforceable requirements which are reflected in auditing standards.<sup>112</sup> The activities performed by PwC are not performed under Australian auditing or assurance standards issued by the Auditing and Assurance Standards Board.<sup>113</sup> NEMA does not have a basis to use the term ‘independent’ when describing the external assurance provider or the assurance activities under the DRFA assurance framework.

#### Procurement of external assurance providers

3.49 Achieving value for money is the core rule of the Commonwealth Procurement Rules (CPRs).<sup>114</sup> Approaching multiple suppliers generates competitive tension, helps drive value for money, enables greater transparency and fairness, and is consistent with the intent of the CPRs.<sup>115</sup>

3.50 The last approach to market by the Australian Government for a DRFA external assurance provider occurred in the first half of 2021 before the NRRRA became responsible for DRFA administration. This tender process approached three providers on an accounting, audit and related professional services panel. One of the providers approached was PwC. PwC was the only provider to respond. This single response was assessed by a three-person evaluation panel and found to be the best value for money.

3.51 Requirements for assurance provider independence or assurance activities to be completed under an auditing or assurance standard were not included in the Australian Government’s most recent approach to market for the external assurance provider or resulting contract.<sup>116</sup> As a result, the agencies do not have a contractual basis to support the claim of independence in the Australian Government assurance process.

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112 *Corporations Act 2001*, Part 2M.4, Division 3 — Auditor Independence, available from [https://www.legislation.gov.au/Details/C2022C00270/Html/Volume\\_2#\\_Toc114656001](https://www.legislation.gov.au/Details/C2022C00270/Html/Volume_2#_Toc114656001) [accessed 22 February 2023].

Also see *APES 110 Code of Ethics for Professional Accountants*, available from <https://apesb.org.au/standards-guidance/apes-110-code-of-ethics/> [accessed 22 February 2023].

113 This is in line with the *Disaster Recovery Funding Arrangements 2018*, clause 11.1.2.

Auditing and assurance standards made by the Auditing and Assurance Standards Board establish requirements and responsibilities for auditors and assurance practitioners performing for engagements under those standards. See Auditing and Assurance Standards Board, *Standards & Guidance*, [internet] <https://auasb.gov.au/standards-guidance/auasb-standards/> [accessed 22 February 2023].

114 Department of Finance, *Commonwealth Procurement Rules*, Finance, Canberra, 2020, para. 4.4, available from <https://www.finance.gov.au/government/procurement/commonwealth-procurement-rules/value-money> [accessed 22 February 2023].

115 More detail presented in Auditor-General Report No.5 2022–23 *Digital Transformation Agency’s Procurement of ICT-Related Services*, p1.3 and 3.4, available from <https://www.anao.gov.au/work/performance-audit/digital-transformation-agency-procurement-ict-related-services> [accessed 22 February 2023].

116 This approach to market is described in paragraph 3.50.

### Opportunity for improvement

3.52 In relation to the use of external assurance providers, the National Emergency Management Agency:

- describes the activities of the external assurance providers with terminology that is consistent with the *Disaster Recovery Funding Arrangements 2018*, including not using the term ‘independent’; and
- when the arrangement with the current external assurance provider expires, ensure any future procurements maximise the number of potential service providers competing in these processes.

### Reviews of states’ disaster recovery funding arrangements management system

3.53 The second Australian Government assurance activity available through the DRFA determination is to undertake reviews of each state’s disaster recovery funding arrangements management system (state’s DRFA systems).<sup>117</sup> The Department of Home Affairs undertook reviews of states’ DRFA systems in 2020 and 2021 before the NRRRA became responsible for DRFA administration.

3.54 The DRFA assurance framework includes an activity for the Australian Government to gain assurance over the operating effectiveness of controls within a state’s Disaster Recovery Funding Arrangements Management System when estimated reconstruction costs are claimed by a state under category B. This Australian Government assurance activity was completed for all three acquitted 2019–20 or 2020–21 claims with category B estimated reconstruction costs.

### Do the agencies appropriately finalise the annual claims process and manage ineligible Disaster Recovery Funding Arrangements expenditure?

The identification of ineligible DRFA expenditure occurs through the DRFA assurance framework. The NRRRA’s finalisation of each state claim included information from its assurance framework as the basis for acquitting the claim and recommending the Treasury makes the payment to the state. In the fraud control framework, the DRFA assurance framework is identified as a fraud control. However the DRFA assurance framework is not designed to detect fraud.

117 *Disaster Recovery Funding Arrangements 2018*, clause 1.1.1, definition of *Disaster Recovery Funding Arrangements Management System*: ‘The processes and controls implemented by a state agency and third-party organisations (where applicable) in relation to an estimated reconstruction cost, as defined by these arrangements.’

## Disaster Recovery Funding Arrangements activities related to ineligible expenditure

3.55 The agencies are required to remove ineligible or unsubstantiated DRFA expenditure from state claims.<sup>118</sup> The assurance framework is the agencies' process for identifying ineligible DRFA expenditure submitted in a state's DRFA claim.

3.56 The removal of ineligible expenditure from a state's claim reduces the amount of the DRFA financial assistance paid to the state by the Australian Government. For the eight acquitted state claims for 2019–20 and 2020–21 expenditure, Table 3.4 presents:

- the amount of Australian Government financial assistance originally claimed by each state;
- the amount of Australian Government financial assistance acquitted after assurance and claim processes.

3.57 The removal of ineligible state expenditure in these eight approved claims from 2019–20 and 2020–21 reduced the total amount of Australian Government financial assistance paid to the states by \$6.2 million or 0.4 per cent for those years.

**Table 3.4: Reduction between claimed and actual DRFA payments in approved 2019–20 and 2020–21 state claims**

Claim	Percentage of claim value sampled by the NRRRA	DRFA payment claimed by state	DRFA payment acquitted by the NRRRA	Reduction between claimed and acquitted	Percentage reduction
NT 2019–20	0%	\$8,346	\$8,346	\$0	0.0%
Qld 2019–20	14.50%	\$774,613,028	\$769,353,852	\$5,259,176	0.7%
Tas 2019–20	14.90%	\$9,986,457	\$9,885,246	\$101,211	1.0%
SA 2019–20	4.07%	\$38,558,000	\$38,505,767	\$52,233	0.1%
ACT 2019–20	25.10%	\$2,362,261	\$2,072,376	\$289,885	12.3%
Tas 2020–21	0%	\$2,985,816	\$2,973,664	\$12,152	0.4%
Qld 2020–21	25.60%	\$580,620,597	\$580,166,799	\$453,798	0.1%
ACT 2020–21	56.30%	\$104,355	\$68,926	\$35,429	34.0%
<b>Total</b>	<b>–</b>	<b>\$1,409,238,860</b>	<b>\$1,403,034,976</b>	<b>\$6,203,884</b>	<b>0.4%</b>

Source: ANAO analysis of agency records.

3.58 At 30 September 2022, three state claims were still undergoing the assurance process. These claimed DRFA payments are shown in Table 3.5. The value of ineligible expenditure in these claims will not be identified until the assurance process is complete.

<sup>118</sup> *Disaster Recovery Funding Arrangements 2018*, clause 11.6.

**Table 3.5: DRFA payment claimed in not yet approved 2019–20 and 2020–21 state claims**

Claim	Percentage of claim value sampled by agency	DRFA payment claimed by state
NSW 2019–20	5.7%	\$708,031,524
Vic 2019–20	34.8% <sup>a</sup>	\$176,170,402
SA 2020–21	12.0%	\$24,737,974
<b>Total</b>	<b>–</b>	<b>\$908,939,900</b>

Note a: This percentage only reflects the targeted sampling component of the assurance activities. The random sampling component had not been selected when the ANAO completed fieldwork.

Source: ANAO analysis of agency records.

### Finalisation of the annual claims process

3.59 For each state claim reviewed in this audit, the NRRRA's finalisation of the claim:

- included information from its assurance framework as described in paragraphs 3.5 to 3.42; and
- was consistent with the NRRRA's agreement with the Treasury.<sup>119</sup>

3.60 The ANAO identified two statements used in the NRRRA's documentation finalising the eight acquitted claims that were not considered to be accurate (Table 3.6).

**Table 3.6: ANAO analysis of information presented to DRFA claim approver**

Approval brief statement	ANAO analysis
'You are the delegated decision-maker for the NRRRA in relation to annual state and territory DRFA claims and this falls within your financial delegation.'	At the time of completion of the approval briefs, the NRRRA had not established DRFA related delegations. See paragraphs 2.7 to 2.8.  The specific DRFA determination and PGPA Act powers being exercised when finalising the annual DRFA claims process reviewed were not identified in approval documents or the NRRRA's DRFA administrative framework.
'Eligible state expenditure against which the Commonwealth assistance has been calculated is accurate and in accordance with the principles, conditions and eligibility rules of the DRFA relevant to the expenditure that was incurred.'	The assurance framework does not provide a basis for an absolute conclusion that expenditure is 'in accordance with the principles, conditions and eligibility rules of the DRFA relevant to the expenditure that was incurred.' To make an absolute conclusion it is expected that all claimed expenditure would be reviewed by the NRRRA, rather than relying on assurance activities.  As the DRFA assurance activities are intended to provide 'appropriate assurance', and the agency has state appointed auditor conclusions providing 'reasonable assurance', these terms should be used instead of the absolute statement.

Source: ANAO analysis.

<sup>119</sup> The DRFA agreements between the agencies and the Treasury are described in paragraph 2.6 and Table 2.1.

## Opportunity for improvement

3.61 The National Emergency Management Agency ensures its acquittals of state claims accurately record:

- the decision-making powers being exercised; and
- the level of assurance informing decisions about states' claims.

## Fraud control framework

3.62 The agencies' fraud control framework consists of a fraud policy statement, a fraud and corruption control plan, a fraud risk register, and a fraud incident register.

### *DRFA-related content in the agency-wide fraud control framework*

3.63 The agencies' Fraud Policy Statement and Framework document has a whole-of-agency perspective and establishes the requirements, objectives, roles and responsibilities and governance arrangements for fraud and corruption control.

3.64 The agencies' Fraud Corruption and Control Plan 'identifies strategies the Agency will implement to manage its Agency-wide fraud risks and improve its fraud control maturity'. The plan describes 22 fraud prevention, detection and response activities the agency can implement.

3.65 This plan also provides an overview of the agencies' 'primary fraud risk exposures'. This included the 'misuse of Commonwealth provided DRFA payments' (Table 3.7).

**Table 3.7: DRFA related extract from Fraud Corruption and Control Plan**

Risk	Residual Risk Rating	Within Appetite	Additional Treatments
<b>Misuse of Commonwealth Provided DRFA Payments</b>  This is a shared risk as while the Agency has oversight responsibilities, most of the payments are delivered by other Commonwealth agencies or State partners	Low	Yes	Not applicable — note there are targeted additional assurance activities by the independent assurer.

Source: Direct extract from National Recovery and Resilience Agency Fraud and Corruption Control Plan 2021–2022 PDF page 4.

3.66 The Fraud Risk Register is a spreadsheet and is described by the NRRRA as a 'live' document. In the version reviewed by the ANAO, the residual risk for 'Misuse of Commonwealth Provided DRFA Payments' was medium, which was above the NRRRA's approved risk appetite.

3.67 While the Fraud Control Framework states the DRFA assurance framework is a fraud control, the DRFA assurance framework and the reports provided by the external assurance provider are not designed to identify fraud.

- The DRFA assurance framework states:  
  
Misstatements in relation to the state expenditure claimed may be the result of error or fraud... [Description of fraud]... The activities outlined within this Framework are designed primarily for the purposes of identifying errors in submitted claims as a result of the unintentional claiming of ineligible expenditure.

- Each external assurance provider's report on state DRFA claims includes this exclusion of scope in the 'Objective and Scope' section: 'Additionally, the procedures undertaken were not designed to assess the risk of, or detect, fraud within the Claim.'<sup>120</sup>

#### Opportunity for improvement

3.68 The National Emergency Management Agency ensures controls presented in the fraud control framework documents are accurately described, including identifying when a control has not been designed to detect fraud.

#### *DRFA-related content in the agency-wide fraud incident register*

3.69 The Fraud Incident Register is recorded in a spreadsheet. This register held 173 incidents from 2021–22 and 2022–23 at 1 September 2022.

3.70 The ANAO reviewed the 173 incidents recorded in the fraud incident register. Of these incidents, 167 were from members of the public making fraud allegations related to disaster payments and grants to the agencies. These allegations are generally vague and usually did not clearly identify the specific government program or agency the allegation relates to.

3.71 The specific agency activity or program the reported incident is related to is not recorded in the Fraud Incident Register. The ANAO's review assessed the broad type of disaster payment for all 173 incidents. The ANAO identified nine incidents of these 173 incidents that were related or possibly related to the DRFA.

3.72 The most common action taken by the NRRA was to refer each allegation to Services Australia and close the incident on the register.<sup>121</sup> While Services Australia is the Australian Government's delivery agency for some disaster payments, Services Australia has no role in DRFA administration. The NRRA referred:

- four of these potential DRFA related incidents to Services Australia; and
- five of these potential DRFA related incidents to another Australian Government agency or a state administering agency.

#### Opportunity for improvement

3.73 The National Emergency Management Agency ensures allegations of fraud that may be related to the Disaster Recovery Funding Arrangements are referred to the correct organisation.

<sup>120</sup> See paragraph 3.31 for more information on the external assurance provider's reports.

<sup>121</sup> The unstructured nature of data in the spreadsheets prevented the ANAO from producing an exact count of the actions.

## 4. Performance monitoring and reporting

### Areas examined

This chapter examines whether the National Recovery and Resilience Agency (NRRA) and the National Emergency Management Agency (NEMA, collectively the agencies) have appropriate arrangements to monitor and report on its performance in administering the Disaster Recovery Funding Arrangements (DRFA).

### Conclusion

The agencies do not have appropriate arrangements to monitor and report on its performance in administering the Disaster Recovery Funding Arrangements. NEMA does not monitor performance or report against the *Disaster Recovery Funding Arrangements 2018* ministerial determination's (DRFA determination) principles. The NRRA's 2021–22 performance measures did not appropriately incorporate DRFA activities or outcomes. Effective monitoring and reporting on the implementation of DRFA related reviews and recommendations did not occur as appropriate governance, planning and assurance arrangements for these activities were not established.

### Areas for improvement

The ANAO made two recommendations aimed at improving NEMA's DRFA related performance monitoring and reporting.

The ANAO also identified an opportunity to improve the planning, implementation and reporting for DRFA related reviews and recommendations.

4.1 The *Public Governance Performance and Accountability Act 2013* (PGPA Act) requires Commonwealth entities to: meet high standards of governance, performance and accountability; provide meaningful information to the Parliament and the public; use and manage public resources properly; and to work cooperatively with others to achieve common objectives.<sup>122</sup>

4.2 The DRFA determination's aim is 'to provide financial assistance to the states in certain circumstances. Usually the assistance is in the form of partial reimbursement of state expenditure and estimated reconstruction costs.'<sup>123</sup> Principles for assistance to the states under the DRFA determination include<sup>124</sup>:

- states are best placed to identify the type and level of assistance to make available following a natural disaster or a terrorist act;
- Australian Government assistance complements other state-based strategies, such as insurance and natural disaster mitigation planning and implementation;
- natural disaster mitigation, in partnership with the states, is an important principle to be advanced under the DRFA; and
- the financial exposure borne to taxpayers, by all levels of government, under the DRFA should be minimised.

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122 *Public Governance Performance and Accountability Act 2013*, section 5.

123 *Disaster Recovery Funding Arrangements 2018*, clause 2.1.1.

124 *Disaster Recovery Funding Arrangements 2018*, clause 3.

4.3 The ANAO examined whether the agencies appropriately:

- monitor performance against the DRFA's aims and principles;
- incorporate DRFA activities and outcomes into their Commonwealth Performance Framework planning, measurement and reporting; and
- report on the implementation of the DRFA review and related royal commission recommendations.

## Do the agencies monitor performance against the Disaster Recovery Funding Arrangement's aim and principles?

Internal performance reporting presents information on active DRFA events, local government areas affected and categories of DRFA measures that are available. Performance against the DRFA determination's principles is not monitored.

4.4 Spreadsheets are used to track information on DRFA administration including:

- eligibility enquiries;
- DRFA finances including claims from and payments to the states;
- Category B projects;
- Category C and D measures;
- loans and interest rates;
- time limit extensions; and
- assurance risk assessments for each state.

4.5 The information in these spreadsheets is entered by officials from sources including other spreadsheets or emails. These spreadsheets do not have identifiable version history or change controls. The manual and uncontrolled nature of these spreadsheets prevented the ANAO from assessing if the information presented in and reported from these spreadsheets is accurate and complete. The agencies recognised the risk of error associated with these practices and the need to improve information systems 'to support better tracking and reporting of disaster recovery expenditure'.<sup>125</sup>

4.6 Internal monitoring on DRFA activities is delivered through a report titled the Summary of Recovery Assistance Table (SORAT).<sup>126</sup> The SORAT report provides:

- an overview table that presents for each state the number of active DRFA events and measures; and
- for each active DRFA event, a table showing the categories of DRFA measures and local government areas that have been activated for that disaster.

4.7 The SORAT does not cover performance in achieving the DRFA determination's aim of providing financial assistance to the state governments disaster relief and recovery measures.<sup>127</sup>

<sup>125</sup> Information systems are examined at paragraphs 2.10 to 2.12.

<sup>126</sup> As an example of the information presented, the 1 July 2022 SORAT included one overview table and 49 event-specific tables.

<sup>127</sup> *Disaster Recovery Funding Arrangements 2018*, clause 2.1.1.

This report does not include any information on the value of financial assistance the Australian Government may provide for DRFA events or measures. The SORAT also does not report on the status of assurance and claims processes that are to be completed before the states can receive Australian Government DRFA funding.

4.8 The agencies do not monitor and report on performance against the DRFA determination's principles. The DRFA principles that are not monitored include:

- states are making available whatever assistance the state deems necessary regardless of whether it is eligible for reimbursement under the DRFA determination;
- DRFA measures are supported by other state-based strategies, are not operating as a disincentive for self-help and are designed to achieve an efficient allocation of resources;
- insurance arrangements that are cost effective for the state and the Australian Government are in place;
- those affected in the same way by the same eligible disaster are receiving the same assistance; and
- the financial exposure borne to taxpayers, by all levels of government, under the DRFA arrangements is minimised.<sup>128</sup>

## Recommendation no. 2

4.9 The National Emergency Management Agency establishes monitoring and reporting arrangements that demonstrate performance against the Disaster Recovery Funding Arrangement's principles.

**National Emergency Management Agency response:** *Agreed.*

4.10 *NEMA notes that Disaster Recovery Funding Arrangements principles are regularly referenced in the development of advice in relation to DRFA requests from jurisdictions. However, NEMA agrees that there is benefit in further development of documented internal processes to consider and report against the activation, monitoring and reporting of DRFA packages and programs.*

4.11 *Again, the role of the states and territories in this process will be critical, as jurisdictions are responsible for delivery of DRFA programs under the Arrangements. This is reflected in the agreement of the National Emergency Management Ministers' Meeting for jurisdictions to work with the Commonwealth to improve Disaster Recovery Funding Arrangements (DRFA) reporting, data sharing, monitoring and evaluation arrangements, as part of the DRFA Review.*

4.12 *A key objective of the DRFA Review is to: rationalise and consolidate reporting based on agreed data definitions; minimise ad hoc requests for data as much as is practical; and result in a reporting process that is streamlined and relevant.*

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<sup>128</sup> *Disaster Recovery Funding Arrangements 2018*, clause 3.

4.13 *More consistent and timely program reporting and evaluation arrangements will help governments, recovery practitioners and program administrators track recovery progress, identify emerging issues and community needs, and make improvements to existing recovery assistance measures and disaster funding programs. This work is being incorporated into a broader work program that NEMA is undertaking with states and territories to improve reporting and data sharing arrangements for all co-funded disaster programs.*

## Do the agencies' performance measurement frameworks appropriately incorporate Disaster Recovery Funding Arrangements activities and outcomes?

The agencies' Portfolio Budget Statements do not accurately describe the DRFA. Performance measures for 2021–22 reporting did not include performance information on all aspects of DRFA administration. The NRRRA's 2021–22 performance measurement framework did not incorporate DRFA outcomes.

### Accuracy of Disaster Recovery Funding Arrangements related information in Portfolio Budget Statements

#### *Inconsistency between PBS descriptions and DRFA determination's aim*

4.14 The 2021–22 and 2022–23 descriptions of DRFA activities in the agencies' Portfolio Budget Statement 'Program 1.2 – Australian Government Resilience, Preparedness and Disaster Risk Reduction Support' are not accurate when compared to the DRFA determination's aim.

- The DRFA determination's aim is:  
... to provide financial assistance to the states in certain circumstances. Usually the assistance is in the form of partial reimbursement of state expenditure and estimated reconstruction costs.<sup>129</sup>
- The 2021–22 and 2022–23 Portfolio Budget Statements program 1.2 descriptions state:  
The [agency] administers the Disaster Recovery Funding Arrangements to provide timely and targeted payments and support to individuals and families affected by major disasters throughout Australia.<sup>130</sup>

4.15 This inaccurate description of the DRFA in the Portfolio Budget Statements prevents the Parliament and the public from understanding the allocation of resources to outcomes. The inaccurate description also does not provide a sound basis for the DRFA related performance reporting.

<sup>129</sup> *Disaster Recovery Funding Arrangements 2018*, clause 2.1.1.

<sup>130</sup> Australian Government, Portfolio Budget Statements 2021–22: Budget Related Paper No. 1.11 — Prime Minister and Cabinet Portfolio, p. 265.

Australian Government, Portfolio Budget Statements 2022–23: Budget Related Paper No. 1.8 — Home Affairs Portfolio, p. 117.

### *Clear performance information across Australian Government entities*

4.16 Budget appropriations and related performance information for the Australian Government's national partnership payments to the states are presented in the Department of the Treasury's Portfolio Budget Statement (Treasury PBS).<sup>131</sup>

4.17 The Treasury's PBS provides performance information for the processing of these payments and outlines the linked programs from other Australian Government entities' PBSs. The performance information in Treasury's PBS includes linking to the agency's 'Program 1.2 – Australian Government Resilience, Preparedness and Disaster Risk Reduction Support.'<sup>132</sup>

4.18 The agencies' PBS program 1.2 information does not provide the corresponding linkage to program 1.9 in the Treasury PBS. The agencies' PBS does not provide the reader with a clear understanding of the source of the DRFA's appropriation and the related performance information available through the Treasury PBS.

### **Disaster Recovery Funding Arrangements performance measures**

4.19 The Commonwealth Performance Framework requires entities to report on their performance in achieving their purposes.<sup>133</sup> An entity's purposes, key activities and performance measures must be included in the entity's corporate plan.<sup>134</sup> The NRRRA's Corporate Plan 2021–22 (corporate plan 2021–22) included the NRRRA's purpose, three key activities and 19 performance measures.<sup>135</sup> One performance measure specifically referred to DRFA administration.

4.20 This was performance measure 2.1: 'Advice regarding domestic disaster assistance is provided to Government within the required timeframes'. The methodology listed in the corporate plan for measure 2.1 states that it will assess whether the NRRRA provides advice on DRFA Category C and D activations within 48 hours.

4.21 A single performance measure covering Category C and D activation does not provide:

- an appropriate range of performance information related to the agency's DRFA administration responsibilities; or
- performance information on the agency's efficiency in administering the DRFA or effectiveness in meeting the aims and principles of the DRFA determination.

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131 Australian Government, Portfolio Budget Statements 2022–23: Budget Related Paper No. 1.13 — Treasury Portfolio. Also see Program 1.9: National Partnership Payments to the States on pages 20, 25, 33.

The DRFA determination's payments are National Partnership Payments to the states, see paragraph 1.3 and Table 1.1.

132 *ibid.*, p. 20. See Program 1.9: National Partnership Payments to the States.

133 Department of Finance, *Commonwealth Performance Framework* [Internet], available from <https://www.finance.gov.au/government/managing-commonwealth-resources/planning-and-reporting/commonwealth-performance-framework> [accessed 22 February 2023].

134 PGPA Rule, subsection 16E(2) item 5.

135 National Recovery and Resilience Agency, *Corporate Plan 2021–22 to 2024–25*, [Internet], NRRRA, available from <https://nema.gov.au/sites/default/files/NRRRA%20Corporate%20Plan%202021%E2%80%932024%20to%202024%E2%80%932025%20UPDATE%20FEB%202022.pdf> [accessed 22 February 2023], page 16.

4.22 An appropriate set of DRFA performance measures is expected to cover the full range of DRFA activities. These activities include advice to the states, timeframes for activation, assurance and claims processes and efficiency measures of the DRFA activities.

### Recommendation no. 3

4.23 The National Emergency Management Agency:

- (a) clearly and accurately presents Disaster Recovery Funding Arrangements related information in its Portfolio Budget Statements; and
- (b) develops an appropriate set of Disaster Recovery Funding Arrangements performance measures that cover the efficiency and effectiveness of the full range of the National Emergency Management Agency's Disaster Recovery Funding Arrangements activities.

**National Emergency Management Agency response:** *Agreed.*

4.24 *As a newly formed agency (established on 1 September 2022 and after the period of this audit), NEMA is continuing to implement improvements to how it administers, delivers and monitors progress and performance of programs for which it is responsible. This includes NEMA's responsibility for administering the Disaster Recovery Funding Arrangements. NEMA welcomes this recommendation, which provides the opportunity to further develop improvements already underway since September 2022, including consideration of how NEMA will measure and report on performance and reflect this in the agency's first Corporate Plan and future Portfolio Budget Statements*

4.25 *NEMA will continue to review its full range of DRFA activities to ensure they remain consistent with the DRFA; are fit for purpose; and fulfil the agency's core purpose of supporting the recovery of Australians affected by disasters.*

4.26 *Where appropriate, NEMA will implement performance measures to cover the efficiency and effectiveness of these activities. NEMA notes however, that the inherent flexibility in the DRFA – particularly under Category D of the DRFA for 'extraordinary assistance' – means that sometimes the advice provided to the relevant minister will not fit neatly on a checklist or prescriptive internal procedures. Indeed, given that the Prime Minister is the ultimate decision maker on Category D support under the DRFA, which is designed to provide extraordinary recovery assistance, it would be contrary to the principles of the DRFA to confine advice or considerations to such a process.*

4.27 *NEMA will consider how it can put in place clear systems and processes to capture how we take into account all relevant factors when providing advice to the relevant minister on an extraordinary assistance request.*

## Do the agencies appropriately monitor and report on the implementation of the Disaster Recovery Funding Arrangements review and related royal commission recommendations?

Appropriate arrangements to monitor and report on the implementation of the DRFA review and related royal commission recommendations were not established. The agencies' ability to successfully implement the DRFA review, and as a result the royal commission's DRFA-related recommendations, was limited by a lack of appropriate governance, planning and assurance arrangements.

4.28 On 3 June 2020 the responsible Australian Government minister announced Australian emergency management ministers had agreed to a review of the DRFA (the DRFA review) examining:

... how each state applies the DRFA and whether the program should be adjusted to deliver more equitable, needs based, assistance for all Australians, regardless of where they live...

... whether any parts of the current arrangements can be streamlined so that governments can respond quicker and more effectively to community recovery needs...

... how DRFA funding can be better used to make damaged infrastructure more resilient through the rebuilding process...<sup>136</sup>

4.29 On 23 July 2020 the responsible Australian Government minister received advice on the DRFA review's implementation from the Department of Home Affairs and:

- Agreed 'in principle, DRFA grants, loans and subsidies under Categories A, B and C should be nationally consistent' and noted 'the Department of Home Affairs will develop options on how national consistency could be achieved (in both the short and longer term)'; and
- Agreed to 'replace the current Category C indicators with a new streamlined Category C activation process, which is based on the nationally agreed design principles' and noted that 'the Department [of Home Affairs] will develop a new streamlined activation process in consultation with the states'.

4.30 In October 2020 the Royal Commission into National Natural Disaster Arrangements (the royal commission) presented its final report.<sup>137</sup> The royal commission made eight recommendations related to DRFA administration. The Australian Government response to the royal commission 'supported' these eight recommendations and identified the DRFA review as the mechanism for implementing these recommendations.<sup>138</sup>

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136 Minister for Agriculture, Drought and Emergency Management, 'Emergency management ministers agree to review the national disaster recovery funding arrangements', media release, 3 June 2020, available from <https://minister.homeaffairs.gov.au/davidlittleproud/Pages/Emergency-management-ministers-agree-to-review-the-National-disaster-recovery-funding-arrangements.aspx> [accessed 22 February 2023].

137 Royal Commission into National Natural Disaster Arrangements, *Report*, available from <https://naturaldisaster.royalcommission.gov.au/publications/royal-commission-national-natural-disaster-arrangements-report> [accessed 22 February 2023].

138 Commonwealth of Australia, Department of the Prime Minister and Cabinet, *A national approach to national disasters* [Internet], available from <https://www.pmc.gov.au/resource-centre/pmc/national-approach-national-disasters> [accessed 22 February 2023], pages 30–32.

4.31 The Department of Home Affairs was responsible for the DRFA review between June 2020 and June 2021. During this time, the following DRFA review activities were undertaken:

- a comparison of the DRFA measures made available by each state;
- the commencement of streamlining the Category C and D activation process; and
- engagement with state administering agencies on developing templates to support state's requests for category C and D packages.

4.32 The National Recovery and Resilience Agency became responsible for implementing the DRFA review on 1 July 2021. The following DRFA review activities were undertaken by the NRRRA between 1 July 2021 and 31 August 2022.

- Continued to streamline the Category C and D activation process. The streamlined activation process was trialled 6 times.
- Finalised the development of three templates to support states requests Category C and D packages. These template Category C and D packages cover state development of recovery grants for primary producers; recovery grants for small business and non-profit organisations; and enhanced clean-up assistance packages.

4.33 Implementation plans and project schedules defining the deliverables, schedules, resources, risk management and assurance processes required to complete DRFA review deliverables were not developed. In the absence of implementation plans or project schedules for the DRFA review, three documents with updates provided to the responsible Australian Government Minister between May 2020 and February 2022 were reviewed by the ANAO to assess DRFA review implementation. These documents provided 12 updates across four DRFA review deliverables.

4.34 These documents illustrate there were not appropriate arrangements to monitor and report on the implementation of the DRFA review as:

- descriptions for each of the four deliverables were not consistently presented, with minor changes reducing or modifying the activities across the three documents;
- for the 12 updates, six did not include timeframes for completion of the deliverable; and
- of the six updates that included a timeframe, four timeframes were not met and two were partially met.

4.35 The agencies' websites present public reporting on implementation progress for royal commission recommendations monthly between February 2021 and June 2021.<sup>139</sup> No further updates on the status of the implementation of royal commission had been published on the agencies' websites.

4.36 In November 2022, NEMA set up a new internal disaster funding review taskforce. This taskforce's responsibilities include progressing DRFA and broader disaster funding review

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139 National Emergency Management Agency, *National Emergency Management Ministers' Meeting* [Internet], available from <https://nema.gov.au/about-us/governance-and-reporting/committees-and-councils/national-emergency-management-ministers-meeting> [accessed 22 February 2023]. The same information was available from NRRRA's website.

activities. In February 2023, the Australian Government announced a review into Australia's disaster funding arrangements, including the DRFA.<sup>140</sup>

#### Opportunity for improvement

4.37 The National Emergency Management Agency:

- develops implementation plans to support the delivery of reviews or recommendations. Effective implementation plans define the deliverables, schedules, resources, risk management and assurance processes required to complete an activity; and
- maintains up to date information on the implementation of the Disaster Recovery Funding Arrangements related royal commission recommendations and DRFA review on its website.



Grant Hehir  
Auditor-General

Canberra ACT  
18 May 2023

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140 Minister for Emergency Management, 'Independent review launched into disaster funding' media release, 1 February 2023, available from <https://minister.homeaffairs.gov.au/MurrayWatt/Pages/independent-review-disaster-funding.aspx> [accessed 22 February 2023].

## **Appendices**

## Appendix 1 Entity response



Australian Government  
National Emergency  
Management Agency

Coordinator-General

EC23-001181

Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Auditor-General,

Thank you for the opportunity to provide comment on the Australian National Audit Office's (ANAO) report on the *Administration of the Disaster Recovery Funding Arrangements (DRFA)*.

We welcome the audit findings that the National Emergency Management Agency's (NEMA) administration of the DRFA processes and assurance activities is largely effective.

The past several years have been incredibly challenging for all Australians. The COVID-19 pandemic has tested community resilience, and in a majority of the states and territories, compounding and ongoing natural disasters have exacerbated issues related to recovery. This has stretched resources and presented complex recovery challenges. Balancing community expectations for prompt, targeted effective relief measures and also reducing disaster risk underlines the need for a robust flexible approach to managing the DRFA and at the same time minimising the cost to the Australian tax payer.

We note the recommendations for improving the monitoring and reporting on the effectiveness of recovery funding measures under the DRFA and are committed to ensure implementation of the recommendations continue to deliver on the principles outlined in the DRFA.

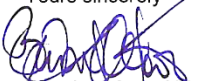
Whilst recognising the ANAO's overall conclusion that the administration of DRFA processes and assurance activities by the former National Recovery and Resilience Agency (NRRA) and the Department of Home Affairs was largely effective in the report. The newly established NEMA has already commenced work to implement better practice administration of the DRFA.

We note the ANAO report positively recognises the work undertaken by NEMA since its establishment in administering the activation of events with Category A and B measures, loans, time limit extensions, quarterly estimates reporting and activation of Category C and D measures. The insights and recommendations for improvements you have identified will support NEMA to effectively and efficiently manage its responsibilities in administering the DRFA which will in turn assist states and territories in supporting disaster affected communities to recover and build resilience.

In NEMA's response, we have underscored the importance of the role of the jurisdictions in delivering and administering the DRFA, noting that this was not the subject of your Audit. We look forward to working with my colleagues in the jurisdictions to deliver better recovery outcomes for Australians through the DRFA.

Finally, we would like to take this opportunity to thank your staff for the professional and collaborative way in which this audit was conducted.

Yours sincerely

  
Brendan Moon AM  
Coordinator-General

18 April 2023  
Enc: NEMA Response



Australian Government  
National Emergency Management Agency

121 Marcus Clarke Street, (PO Box 133) Canberra ACT 2601

## Appendix 2 Improvements observed by the ANAO

1. The existence of independent external audit, and the accompanying potential for scrutiny improves performance. Improvements in administrative and management practices usually occur: in anticipation of ANAO audit activity; during an audit engagement; as interim findings are made; and/or after the audit has been completed and formal findings are communicated.
2. The Joint Committee of Public Accounts and Audit (JCPAA) has encouraged the ANAO to consider ways in which the ANAO could capture and describe some of these impacts. The ANAO's 2022–23 Corporate Plan states that the ANAO's annual performance statements will provide a narrative that will consider, amongst other matters, analysis of key improvements made by entities during a performance audit process based on information included in tabled performance audit reports.
3. Performance audits involve close engagement between the ANAO and the audited entity as well as other stakeholders involved in the program or activity being audited. Throughout the audit engagement, the ANAO outlines to the entity the preliminary audit findings, conclusions and potential audit recommendations. This ensures that final recommendations are appropriately targeted and encourages entities to take early remedial action on any identified matters during the course of an audit. Remedial actions entities may take during the audit include:
  - strengthening governance arrangements;
  - introducing or revising policies, strategies, guidelines or administrative processes; and
  - initiating reviews or investigations.
4. In this context, the below actions were observed by the ANAO during the course of the audit. It is not clear whether these actions and/or the timing of these actions were planned in response to proposed or actual audit activity.
  - The agencies updated DRFA related policies and procedures over the course of the audit including:
    - establishing a set of delegations for DRFA determination related functions, duties and powers (see paragraph 2.8);
    - the creation of checklists to record when procedural steps were completed and provide links to related records (see paragraph 2.10);
    - the development of a new DRFA Category C and D activation procedure (see paragraph 2.23);
    - the development of a procedure for advance and pre-payments (see paragraph 2.29);
    - adding state assurance opinions as an information source to be assessed in the DRFA assurance framework's qualitative risk assessments (see paragraphs 3.16 and 3.26).
  - The agencies delivered activities related to the DRFA review, including trialling streamlined Category C and D activation processes and developing templates for Category C and D applications (see paragraphs 4.28 to 4.37).

## Appendix 3 Disaster Recovery Funding Arrangements activations in 2021–2022

**Table A.1: Events and categories activated under the Disaster Recovery Funding Arrangements in 2021–22.**

Event name	State	Categories activated	Date Commenced
NSW Storms and Floods	NSW	A B	16 July 2021
Severe Weather across the Lower South West Land Division	WA	B	20 July 2021
NSW Storms and Floods	NSW	A, B	30 July 2021
NSW Storms and Floods	NSW	A, B	22 August 2021
Eastern Victoria Floods	Vic	A, B	3 September 2021
Victorian Earthquake	Vic	B	22 September 2021
South East Victorian Storms	Vic	A, B	30 September 2021
Narrabri Storm and Tornado	NSW	A, B	30 September 2021
Armidale Storm	NSW	A, B	14 October 2021
South East Victorian Storms	Vic	B	15 October 2021
North East NSW Severe Weather	NSW	A, B, D	20 October 2021
Severe Weather Event Across NSW	NSW	A, B	23 October 2021
Statewide Storms	SA	A, B, C	28 October 2021
Victorian Storms	Vic	A, B, D	29 October 2021
Central Tasmania Flooding	Tas	B	October 2021
Central Australia Floods	NT	A, B	November 2021
NSW Severe Weather and Flooding	NSW	A, B, D	9 November 2021
Central, Southern and Western Queensland Heavy Rainfall and Flooding	Qld	A, B, C, D	10 November 2021
East Victorian Storms	Vic	A, B	12 November 2021
Baw Baw Storms	Vic	B	2 December 2021
Southern Tasmanian Storm	Tas	B	December 2021
Northern Beaches Severe Storm	NSW	A, B, D	19 December 2021
Central West Victorian Storms	Vic	A, B	5 January 2022
Southern NSW Storm and Floods	NSW	A, B, D	5 January 2022
Ex-Tropical Cyclone Seth	Qld	A, B, D	7 January 2022
Tropical Cyclone Tiffany	Qld	B	10 January 2022
Tropical Cyclone Tiffany	NT	B	12 January 2022
Lithgow Severe Storm	NSW	A, B, D	11 January 2022

Event name	State	Categories activated	Date Commenced
North-Eastern Victorian Floods and Storms	Vic	A, B	14 January 2022
Central Australia Floods	NT	B	15 January 2022
Western Queensland Low Pressure Trough	Qld	B	24 January 2022
Severe weather and flooding	SA	A, B	21 January 2022
Victorian Floods and Storms	Vic	A, B	26 January 2022
Tropical low and associated flooding in the Kimberley Region	WA	A, B	25 January 2022
Far North Queensland Low Pressure Trough	Qld	B	1 February 2022
Bridgetown Bushfire	WA	A, B	5 February 2022
Shackleton Complex Bushfires	WA	A, B	6 February 2022
Severe Thunderstorms and Flooding in the Pilbara Region	WA	A, B	7 February 2022
South East Queensland Rainfall and Flooding	Qld	A, B, D	22 February 2022
NSW floods	NSW	A, B, C, D	22 February 2022
Cape York Tropical Low and Rainfall	Qld	B	22 February 2022
Tropical Cyclone Anika	WA	A, B	26 February 2022
Broken Hill Severe Thunderstorm	NSW	A, B	15 March 2022
Flooding in the Midwest and Gascoyne Regions	WA	A, B	26 March 2022
Victorian Floods and Storms	Vic	A, B	2 April 2022
Storms and Flooding in the South Coastal District	WA	A, B	11 April 2022
Northern and Central Western Queensland Rainfall and Flooding	Qld	B	21 April 2022
Southern Queensland Flooding	Qld	A, B	6 May 2022
South East Victoria Storms	Vic	B	6 June 2022

Source: ANAO analysis of agency records.

## Appendix 4 Matters raised in the request for audit and public contributions

1. On 19 May 2021, Senator Malcolm Roberts requested the Auditor-General examine the administration of Natural Disaster Relief and Recovery Arrangements programs and funding.<sup>141</sup> Senator Roberts identified five Queensland local government councils for which he had ‘the most concern’. A related media article from the *Brisbane Times* was presented as part of Senator Roberts correspondence.

2. The Australian National Audit Office (ANAO) also received four contributions from members of the public raising similar matters to Senator Roberts’ 19 May 2021 correspondence. The matters raised in these contributions primarily related to local government procurement and quality of work undertaken with funding potentially provided by the Australian Government through the Natural Disaster Relief and Recovery Arrangements (NDRAA) that applied to disasters occurring prior to 1 November 2018.<sup>142</sup>

### Actions taken by responsible Australian Government entities in response to matters raised

3. In September 2018, the Australian Government entity responsible for the NDRRA referred some of these matters to the Australian Federal Police (AFP). The responsible Australian Government entity received information from the AFP related to the works associated with reconstruction of roads following a central Queensland heavy rainfall and flooding event in January 2015. The responsible Australian Government entity commissioned a review of these matters by its external assurance provider.<sup>143</sup> This review did not identify any ineligible expenditure claimed from the Australian Government for these matters under the NDRRA.

4. In March 2021, the responsible Australian Government entity referred the media article attached to Senator Roberts’ 19 May 2021 correspondence to the Queensland Reconstruction Authority (QRA). The QRA ‘strongly refute[d] the allegations stated in the article’ and provided the responsible Australian Government entity with information on the actions QRA had taken in response. QRA’s actions included:

- Recovering \$191,150 of NDRRA related funding from the Central Highland Regional Council in relation to a former council employee convicted of a \$219,780 fraud.

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141 Australian National Audit Office, *Request for Audit: Administration of Natural Disaster Relief and Recovery Arrangements programs and funding* [Internet], 16 June 2021, available from <http://www.anao.gov.au/work/request/administration-natural-disaster-relief-and-recovery-arrangements-programs-and-funding> [accessed 16 March 2023].

142 As described in paragraphs 1.12 to 1.20 and Figure 1.2 of this report:

- state and local government organisation do not require Australian Government approval to incur expenditure that those organisations may then submit to the Australian Government as part of a claim for DRFA category A or B funding; and
- before Australian Government DRFA funding is paid to the state government, the state auditing and Australian Government assurance and claims processes occur to demonstrate the payment of Australian Government funding is consistent with the DRFA determination.

As presented in Chapter 3 of this report, the National Emergency Management Agency’s administration of DRFA assurance and annual claims processes related to these payments is largely appropriate.

143 The review was partially released under the *Freedom of Information Act 1982* and is available from <https://www.homeaffairs.gov.au/foi/files/2020/fa-200200743-document-released.PDF>.

- The ANAO confirmed the QRA included an adjustment related to this matter in the 2019–20 DRFA claim submitted to the Australian Government.
- Supporting the Crime and Corruption Commission Queensland’s investigation into another matter raised in the article that resulted in a conviction and five-year jail sentence. The QRA states it did not include any expenditure related to this matter in NDRAA or DRFA claims to the Australian Government.

### **DRFA assurance activities related to the five councils identified in the request for audit**

5. All Queensland claims submitted to the Australian Government for disaster recovery funding from 2017–18 to 2020–21 included the required reasonable assurance opinions from Queensland Audit Office under *Auditing Standard ASA 800 Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* that the claims were consistent with the terms and conditions of the DRFA determination.<sup>144</sup>

6. Australian Government DRFA assurance activities for Queensland’s 2019–20 and 2020–21 DRFA claims sampled 11 items from four of the councils identified in the request for audit.<sup>145</sup> The Queensland Government did not claim Australian Government DRFA payments for the fifth council for 2019–20 or 2020–21.

7. The proportional claim value sampled for four councils was higher than the proportional value of the total state claim sampled (Table A.2). No DRFA determination issues were identified for these 11 claims.

**Table A.2: Australian Government DRFA assurance sampling related to four Queensland local government organisations**

Claim year	Total value of Queensland claim	% value of total Queensland claim sampled by NEMA	Total value from councils identified in request for audit	Value of claims from councils identified in request for audit	% value of councils identified in request for audit sampled by NEMA
2019–20	\$1.2 bil	14.5%	\$243 mil	\$73 mil	30%
2020–21	\$959 mil	25.6%	\$123 mil	\$45 mil	36%

Source: ANAO analysis of agency records.

144 The state government assurance required for DRFA claims is examined at paragraphs 3.6 to 3.17.

145 The Australian Government’s DRFA assurance activities are examined in paragraphs 3.18 to 3.52.

## Appendix 5 Activities related to pre-payments

**Table A.3: Summary of activities related to three DRFA pre-payments made in 2022**

Matter	Activity
DRFA clause 4.5.4: Category D measures must be requested by a state	<p>Norco's representation for assistance was made to the Federal Member for Page on 4 March 2022.</p> <p>The Prime Minister announced 'support for Norco in northern NSW on a bespoke business support package, in partnership with the NSW Government, to help restore operations of this key business and employer' on 9 March 2022.</p> <p>On 10 March 2022 the NSW Premier wrote to the Prime Minister, stating in the letter that 'I anticipate writing again shortly to seek a cost-sharing arrangement that addresses industry — including large employers such as Norco', along with other potential measures.</p> <p>On 14 March 2022 the Prime Minister wrote to the NSW Premier to confirm support for the \$2.847 million payment to Norco. The NSW Premier responded on 15 March 2022 and confirmed support for the payment.</p>
Legal advice	<p>The NRRRA received external constitutional risk advice for the first \$2.847 million payment on 12 March 2022. This advice identified a payment to Norco via the NSW government as low constitutional risk and the lowest constitutional risk of the options considered.</p> <p>This advice only considered constitutional risk and did not assess the payment against the terms and conditions of the DRFA determination.</p>
Australian Government policy approval	<p>Australian Government policy approval was granted for a fully Australian Government funded \$50 million business package through Category D of the DRFA on 16 March 2022. The record of this decision did not specifically reference payments to Norco.</p>
Advice to responsible Australian Government minister	<p>The NRRRA provided advice to the responsible Australian Government minister for the third Norco payment in July 2022. This briefing did not include a full assessment that the recommended payment was consistent with the terms and conditions of the DRFA determination.</p>
Probity advice	<p>The NRRRA sought probity advice from its internal legal area before recommending the third payment to the responsible minister. This advice identified there was a high risk that other affected entities would perceive the payments to Norco as biased, unfair and lacking impartiality. This advice outlined how this may be reduced to a medium probity risk by careful communication. The NRRRA included information from this probity advice in the July 2022 ministerial briefing recommending the third payment.</p>

Source: Agency and Australian Government records.

## Appendix 6 Status and timing of annual DRFA claims

**Table A.4: Status of state DRFA claims for 2019–20 and 2020–21 at 30 September 2022**

Status of claim	Number of claims
Assurance and claim processes complete	8
Australian Government assurance activities underway	3
Claim not yet submitted	4
No claim for financial year	1
<b>Total</b>	<b>16</b>

Source: ANAO analysis of agency documents.

**Table A.5: Claim submission dates and extensions 30 September 2022**

Claim	Claim round due date	Extensions and extended due date	Claim submitted	Claim approved
NT 2019–20	31 March 2021	–	18 January 2021	24 November 2021
Qld 2019–20	31 March 2021	–	31 March 2021	16 June 2021
NSW 2019–20	31 March 2021	One to 30 April 2021	30 April 2021	– <sup>a</sup>
Tas 2019–20	31 March 2021	Two to 30 June 2021	31 May 2021	27 April 2022
SA 2019–20	31 March 2021	One to 30 June 2021	1 June 2021	17 June 2022
ACT 2019–20	31 March 2021	One to 30 June 2021	28 June 2021	27 April 2022
Vic 2019–20	31 March 2021	Five to 31 January 2022	31 January 2022	– <sup>a</sup>
NT 2020–21	31 March 2022	–	14 March 2022	– <sup>b</sup>
Tas 2020–21	31 March 2022	–	30 March 2022	17 June 2022
Qld 2020–21	31 March 2022	–	31 March 2022	17 June 2022
SA 2020–21	31 March 2022	–	31 March 2022	– <sup>a</sup>
ACT 2020–21	31 March 2022	–	31 March 2022	26 July 2022
WA 2019–20	31 March 2021	Three to 31 December 2022	– <sup>c</sup>	– <sup>c</sup>
Vic 2020–21	31 March 2022	Three to 31 October 2022	– <sup>c</sup>	– <sup>c</sup>
NSW 2020–21	31 March 2022	Two to 31 December 2022	– <sup>c</sup>	– <sup>c</sup>
WA 2020–21	31 March 2022	One 31 March 2023	– <sup>c</sup>	– <sup>c</sup>

Note a: At the end of the timeframe for this audit's analysis, assurance activities were ongoing for the annual claims.

Note b: The Northern Territory advised the agency on 14 March 2022 that it would not be submitting a 2020–21 claim.

Note c: At the end of the timeframe for this audit's analysis, these claims had not been submitted.

Source: ANAO analysis of agency records.