Management of Bilateral Relations with Selected Countries

Department of Foreign Affairs and Trade

Canberra   ACT
13 August 2004

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Foreign Affairs and Trade in accordance with the authority contained in the *Auditor-General Act 1997*. 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 and the accompanying brochure. The report is titled *Management of Bilateral Relations with Selected Countries.*

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

Yours sincerely

P. J. Barrett
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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Abbreviations

ACIAR	Australian Centre for International Agricultural Research
ANAO	Australian National Audit Office
ANZAC	Australia New Zealand Army Corps
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
Austrade	Australian Trade Commission
AusAID	Australian Agency for International Development
BSE	Bovine Spongiform Encephalopathy
DAFF	Department of Agriculture, Fisheries and Forestry
DEST	Department of Education, Science and Training
DER	Divisional Evaluation Review
DFAT	Department of Foreign Affairs and Trade
DIMIA	Department of Immigration and Multicultural and Indigenous Affairs
DOFA	Department of Finance and Administration
DVA	Department of Veterans' Affairs
EEZ	Exclusive Economic Zone
HOM	Head of Mission
HOP	Head of (Consular) Post
ITR	Department of Industry, Tourism and Resources
JCPAA	Joint Committee of Public Accounts and Audit
JMC	Joint Ministerial Commission
MAC	Management Advisory Committee
PBS	Portfolio Budget Statements
PER	Post Evaluation Report
PM&C	Department of the Prime Minister and Cabinet
PPQs	Possible Parliamentary Questions

Glossary

Accreditation	The procedure by which a country requests the agreement of the receiving country for the posting of an Ambassador and gives its officers diplomatic rights and standing to conduct business in the receiving country.
Attached staff	Staff attached or appointed to work at an overseas post from an agency other than DFAT.
Australia (A)-based staff	Australia or A-based staff appointed to the post from DFAT head office in Canberra.
Bilateral relations	A relationship between two countries.
Consulate-General or Consulate	Posts generally located outside capital cities that are not formally involved in the work of government to government interaction, but provide services to Australians overseas such as issuing visas. Headed by Consul-General or Consul.
Doha Round	The Doha Round is the most recent of a series of trade rounds held, initially under the auspices of the General Agreement on Tariffs and Trade (GATT) and, more recently, the World Trade Organization.
Embassy	Term for the main representative office of one country in the capital city of another, headed by an Ambassador.
Group of Eight Countries	Group of major industrialised democracies that meets annually to deal with major economic and political issues facing their domestic societies and the international community as a whole.
Head of Mission	The most senior DFAT representative responsible for management of an Embassy or High Commission.
High Commission	The usual term for the main representative office of a Commonwealth country in the capital city of another Commonwealth country. It is headed by a High Commissioner and is equivalent in status to an Embassy.

Multilateral	In the context of this report, a relationship between several (three or more) countries.
Non-attached agency	An Australian Government Department that does not have staff attached to an overseas post.
Outcomes	The results, impacts or consequences of actions by the Commonwealth on the Australian community. Planned outcomes are the results or impacts that the Government wishes to achieve. Actual outcomes are the results or impacts actually achieved.
Outputs	The goods and services produced by agencies on behalf of government for external organisations or individuals. Outputs include goods and services produced for other areas of government external to the agency.
Parent division	The DFAT division responsible for managing particular bilateral relationships, for example, the North Asia Division is responsible for Australia's interests within the countries of North Asia such as Japan.
Post	Generic name given to Australian missions abroad.
Senior Executive	The DFAT Senior Executive comprises the Secretary and four Deputy Secretaries.
Whole-of-government	An approach to priority setting/policy development in which all relevant government agencies are consulted.

Summary and Recommendations

Summary

Background

1.   The 2003 White Paper, *Advancing the National Interest*, stated that the actions of nation states and their governments still have the greatest bearing on the world's security and economic environment. Australia depends on the strength of its bilateral relations around the world to advance its national interests.[1] This audit report focuses on bilateral relations.

2.   The Department of Foreign Affairs and Trade (DFAT) is responsible for Australia's external affairs, which includes the management of bilateral relations. DFAT's work is carried out by over 3300 staff in Canberra, in State and Territory offices and in the network of overseas posts. It has over 1900 Australia-based staff, of whom over a quarter work in overseas posts. In addition, about 1400 staff are employed from local communities to work in overseas posts. The head office in Canberra is the 'operational centre of the foreign policy making process'.[2] It has 11 divisions with policy responsibilities.

3.   DFAT is responsible for implementing the Government's foreign and trade policy decisions. Implementation largely occurs through overseas posts. These include, at the national level, Australian Embassies and High Commissions.[3] All overseas posts are expected to contribute to the protection and advancement of Australia's national interests, the provision of services to Australians overseas, and public diplomacy.

4.   DFAT has overall carriage of Australia's external relations but other agencies have primary responsibility for international negotiations on a range of issues.[4] They therefore have official interests that require the presence of their staff abroad, on a resident basis or on short-term visits. Attached agency staff at posts operate under the overall supervision and control of the Head of Mission, who is the senior representative of the Australian Government.

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[1]   DFAT, *Australia's Foreign and Trade Policy White Paper, Advancing the National Interest*, Commonwealth of Australia, Canberra, 2003, p.7.

[2]   A Gyngell, and M Wesley, *Making Australian Foreign Policy*, Cambridge University Press, Cambridge UK, 2003, p.60.

[3]   An Embassy is the usual term for the main representative office of one country in the capital city of another. A High Commission is the main representative office of a Commonwealth country in the capital city of another Commonwealth country.

[4]   Management Advisory Committee, *Connecting Government. Whole of Government Responses to Australia's Priority Challenges*, Commonwealth of Australia, Canberra, 2004, p.26.

This audit

5.   The objective of the audit was to assess DFAT's management of bilateral relations and to identify any scope for improvement. To this end, the audit used three bilateral relationships as case studies and examined whether DFAT:

- developed and articulated appropriate priorities for each bilateral relationship;
- established appropriate strategies for achieving bilateral priorities and arrangements to monitor progress in these respects; and
- measured and/or assessed its effectiveness in achieving bilateral priorities, and reported appropriately on progress achieved.

Key Findings

Planning—identifying and communicating key bilateral priorities (Chapter 2)

6.   The identification and pursuit of bilateral priorities takes place within a broad Government foreign and trade policy framework. DFAT has annual strategic planning and review processes, which *inter alia* identify those bilateral priorities to be pursued in the next year.

7.   The Post Evaluation Report (PER) results in the identification of key bilateral priorities for the year ahead for each overseas post. The Divisional Evaluation Review (DER) focuses on the overall strategic direction of the bilateral relationship. The ANAO found that key bilateral priorities are expressed in broad terms. This is because the PER and DER largely involve the fine-tuning of existing work programs. The priorities are complemented at the operational level by more detailed measures for individual issues, for example, specific objectives to be pursued in bilateral negotiations.

8.   The ANAO found that these processes work well in identifying and approving priorities, and that there are effective arrangements for consultation within the Department.

9.   Posts also consult with attached agency representatives in the formulation of key bilateral priorities. However, where priorities involve agencies that do not have attached representatives, the process for seeking their input was not set out. Practice varied for the posts examined, leading to the risk of gaps and omissions in coverage. Given the PER already involves seeking Australian Government agency feedback on post performance, this risk could be addressed by DFAT explicitly canvassing input for the identification of priorities.

10.   The ANAO found that the agreed PER and DER priorities were communicated in a reasonably timely manner to posts and divisions. Managers then use a variety of mechanisms for communicating priorities to relevant staff. In recognition of the sensitivity of key bilateral priorities, their circulation is restricted.

11.   DFAT does not require key bilateral priorities to be reflected in performance agreements. The ANAO found that the approach to including bilateral priorities, therefore, varied among the posts and divisions, ranging from full reflection of priorities in the agreements to their complete absence.

More consistent reflection of relevant bilateral priorities in performance agreements would provide a more systematic basis for assessing the contribution of individuals to their achievement and enhance management for results.

12. Particularly at a time when the international security environment is fluid and uncertain, DFAT regularly needs to contend with the unexpected. DFAT's risk management policy recognises that DFAT encounters and manages a variety of risks on a day-to-day basis, including in the international environment. The policy also properly emphasises that some occasions and issues require a more formal risk management approach, supported by a risk management toolkit. This approach is less systematic and transparent than is usually recognised as good risk management practice.

13. However, the identification of challenges was not based on a transparent process in which key risks to Australian interests in each bilateral relationship, and their treatments, were systematically identified.

14. DFAT advised the ANAO that a more formal risk management approach in the DER and PER processes would have resource implications. It also commented that formal risk management relating to foreign and trade policy issues should remain in the domain of policy work (cable reporting, advice to Ministers etc) and should not be attributed to the PER and DER processes. This is a management prerogative.

15. However, the PER and DER underpin policy advising. There would therefore seem to be merit in the better integration of risk management with the PER and DER, building on existing arrangements to provide greater structure and visibility. This could be achieved with little additional effort, in view of the work already undertaken by posts to identify emerging issues.

Implementation—strategies to achieve bilateral priorities (Chapter 3)

16. DFAT posts and divisions at head office are responsible for pursuing the implementation of bilateral priorities. Implementing foreign and trade policy essentially involves persuading another government to follow a certain course of action.[5] The ANAO found, for bilateral activities examined, that DFAT identified a strategy to implement each priority. For example, with

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[5]   A Gyngell and M Wesley, *Making Australian Foreign Policy*, op cit, p.60.

regard to a priority, which had been underway for some time, DFAT developed a series of strategies designed to bring the negotiations to a timely conclusion, consistent with Government requirements.

17. DFAT has arrangements that serve to support early warning of action being required. These include the focus of the annual PER process on identifying emerging issues and highlighting any issues of concern. Posts also monitor developments in their areas of responsibility for their likely impact on Australian interests. DFAT has developed work practices designed to enable it to cope with the challenges arising from a rapidly evolving international environment. For example, its 'working smarter' policy seeks to enable staff to redefine priorities as circumstances change and maintain a collective capacity to look ahead and deal pre-emptively with emerging problems. The departmental cable network underpins DFAT's response capability, with arrangements designed to facilitate the timely flow of information, including in a major national emergency.

18. The ANAO found, for unexpected developments examined, that DFAT Ministers were briefed appropriately and in a timely manner, using a range of the available mechanisms. DFAT also developed appropriate strategies to manage each of the developments examined in terms of effectiveness.

19. The ANAO found that, for the implementation of both planned bilateral priorities and unexpected developments, DFAT consulted, where appropriate, other Australian Government agencies and stakeholders in the formulation of a response. This included engaging in timely inter-departmental liaison with the relevant departments in Canberra and, where required, at overseas posts. DFAT's consultation was seen as effective by government agencies and industry groups consulted by the ANAO.

20. DFAT's communications system transmits tasking and reporting cables between the Department in Canberra, posts and other Australian Government agencies. Through this means, overseas posts prepare cable reports on developments that are relevant to Australian interests. The ANAO found that this reporting was informative, providing its audience in Canberra with a clear picture of progress with the implementation of key bilateral priorities and the management of unexpected developments.

21. There are formalised distribution arrangements for cables that include operational staff, the DFAT Senior Executive and Ministerial Offices. There are a number of ways by which, in Canberra and the overseas posts, monitoring

and review of progress with key priorities and response to unexpected developments occurs. DFAT implements other oversight mechanisms, on an as needed basis, in response to unexpected developments; and DFAT officers liaise with Ministerial Offices over issues judged to be of interest to them.

Assessing outcomes (Chapter 4)

22.   Fulfilling the requirement for a practical and informative performance information framework, in particular for indicators to measure/assess the effectiveness of contributions towards outcomes, is particularly difficult for DFAT. This is because much foreign policy is driven by events outside a foreign ministry's control.

23.   DFAT replaced the previous specific performance indicators with a reduced number of more 'timeless and generic' indicators. However, the ANAO found that the current indicators do not have some of the key characteristics of useful performance measures. These include being specific, that is, clear and concise, measurable, and, preferably timed for maximum impact.

24.   DFAT has also developed quantity, quality and price indicators for the relevant output. However, the ANAO found that DFAT has not established proper criteria to assess the quality of policy advice, nor for the third quality indicator on DFAT's 'capacity to assess, analyse and advise on responses to international developments'. Sound performance management seeks to support such indicators with the necessary means of assessing them, for the benefit of management and all stakeholders. In this case, the indicators could address, *inter alia*, the quality and timeliness of policy advice and, in the overseas context, the quality of an overseas post's network of contacts.

25.   The ANAO found that DFAT has appropriate mechanisms for the assessment of post and divisional performance. DFAT's annual strategic evaluation process involves, at the end of each financial year, posts and divisions making an overall evaluation of their performance against the background of the priorities set in the previous year's PER/DER process. These highlight notable achievements or setbacks, as well as providing comment on areas where, they assess, there is room for improvement. The performance reporting is succinct and factual, focusing on the role of the post or division in managing the issue in question and any outcomes achieved.

26. Client satisfaction is a criterion used by the DFAT Senior Executive in assessing post and divisional performance. This includes feedback from Ministers, policy and other divisions, and Heads of Mission/Heads of Post. DFAT also seeks comment on posts' performance from other Australian Government departments and agencies. Feedback for the three posts examined in this audit was consistently positive.

27. The DFAT Senior Executive is responsible for assessing post and divisional performance. The assessments have regard to the respective policy responsibilities of posts and divisions. The use of stakeholder feedback by the Senior Executive complements their own judgements.

28. DFAT reports on the effectiveness indicators for Output 1.1, Outcome 1. This includes identifying setbacks to the achievement of bilateral priorities. This reporting was descriptive, factually correct, and broadly consistent with reporting in the relevant PER.

29. DFAT also reports on quantity, quality and price indicators. The ANAO found that reporting against the third quality indicator, 'capacity to respond to international developments' was not particularly informative. The relevant commentary referred to the existence of reporting but did not identify which aspects of the report addressed the indicator. DFAT will give consideration to improving the clarity of reporting, including the possible use of cross-referencing.

Overall audit conclusion

30. The greater part of the day-to-day work of Australia's foreign and trade policy is bilateral advocacy—working to influence foreign governments to take decisions that suit Australia's, as well as their own, interests.[6] The ANAO concluded that overall DFAT has effective arrangements in place to manage Australia's bilateral relationships.

31. DFAT develops annually key bilateral priorities that are well informed, appropriately approved, and communicated to those responsible for their implementation in a reasonably timely manner. There are sound consultative processes for those Australian Government agencies with attached staff at posts to have input into the formulation of key priorities. However,

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[6] DFAT, *Australia's Foreign and Trade Policy White Paper, Advancing the National Interest*, Commonwealth of Australia, Canberra, 2003, p.7.

consultative processes are not well defined where agencies do not have attached staff. This could be addressed by expanding the scope of DFAT's existing consultations with agencies over post performance.

32. There is no requirement for the formal allocation of responsibility for bilateral priorities to staff through performance agreements. Doing so would provide a more systematic basis for assessing the contribution of individuals to the achievement of key bilateral priorities and enhance management for results.

33. The identification of challenges, likelihoods and consequences in the PER and DER is less systematic and transparent than is usually recognised as good practice. There is scope for DFAT to better integrate risk management in the PER and DER without involving significant additional resources.

34. Implementation of priorities by posts, and to some extent divisions, is supported by flexible strategies and engaging with other Australian Government agencies. Arrangements support early warning of action required and posts monitor developments for their likely impact on Australian interests. Responses to unexpected events examined were timely and appropriately scaled in terms of effectiveness.

35. DFAT engages in a timely manner with other Australian Government agencies in the implementation of bilateral priorities—both planned and in response to unexpected developments.

36. DFAT's performance information framework contains high-level measures for assessing effectiveness in achieving bilateral priorities that would benefit from strengthening, to provide greater clarity for internal management. DFAT has annual processes for measuring and reviewing the achievement of bilateral priorities. These involve reporting on achievements and setbacks and also drawing on feedback from internal and external stakeholders, which is positive overall. The achievements and setbacks identified in these processes were also reported in the relevant annual reports.

Recommendations and agency response

37. The ANAO has made two recommendations to the Department of Foreign Affairs and Trade aimed at enhancing risk management and the performance information framework. DFAT agreed to the two recommendations.

DFAT response

38. DFAT's full response to the audit is at Appendix 7. Its overall comment follows below.

39. The department welcomes the ANAO's conclusion that DFAT has effective arrangements in place to manage Australia's bilateral relationships. The ANAO finds that the department's strategic planning and review processes work well in identifying and approving priorities, and that there are effective arrangements for consultation within the department. The department also welcomes the ANAO's findings that DFAT has appropriate mechanisms for assessing post and divisional performance.

40. The department notes the report's strong endorsement of DFAT's processes for achieving priorities, including its findings that DFAT: identified strategies to implement each priority; had arrangements supporting early warning of action being required; developed work practices designed to enable it to cope with the challenges arising from a rapidly evolving international environment; and developed appropriate strategies to manage each of the unexpected developments examined.

41. The department accepts both recommendations in this report. The department is confident that its evaluation processes are rigorous and effective and that its policy-development work takes account of all pertinent factors, including risks. At the same time, it agrees that there is opportunity to build on existing arrangements. While the department appreciates the ANAO's positive comments on the quality of its performance reporting it agrees that it can be strengthened further.

Recommendations

Recommendation No.1 Para. 2.61	The ANAO recommends that DFAT enhance the integration of risk management in its strategic planning and review processes, particularly the PER and DER.
	DFAT response: Agreed.
Recommendation No.2 Para. 4.31	The ANAO recommends that DFAT strengthen the performance indicators for Outcome 1 and Output 1.1 to be, where applicable, specific, measurable, and preferably timed, for greater effectiveness.
	DFAT response: Agreed.

Audit Findings
and Conclusions

1. Introduction

This chapter provides an overview of the Department of Foreign Affairs and Trade's management of bilateral relations. It also outlines the purpose, scope and methodology of the audit and the structure of this report.

What are bilateral relations?

1.1   Governments pursue their foreign policy objectives in a variety of ways—they may have an interest in expanded bilateral or one-to-one relations with another government, and also seek to work with a bilateral partner in a regional or multilateral context. The 2003 White Paper, *Advancing the National Interest,* stated that the actions of nation states and their governments still have the greatest bearing on the world's security and economic environment. Australia depends on the strength of its bilateral relations around the world to advance its national interests.

> The greater part of the day-to-day work of Australia's foreign and trade policy is bilateral advocacy—working to influence foreign governments to take decisions that suit Australia's, as well as their own, interests.[7]

1.2   The nature of individual bilateral relationships varies. Figure 1.1 illustrates facets of Australia's relations with Japan, India and France, which were the three relationships examined in this audit.

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[7]   DFAT, *Australia's Foreign and Trade Policy White Paper, Advancing the National Interest*, Commonwealth of Australia, Canberra, 2003, p.7.

Figure 1.1

Key aspects of Australia's relations with Japan, India and France

Australia-Japan
The relationship with Japan is of 'fundamental importance' to Australia for political, strategic and economic reasons. Japan has long been Australia's largest export destination. There has been a dramatic growth in recent decades in Australia and Japan's familiarity with each other's society and culture, enabling the strengthening and deepening of a bilateral relationship founded on the convergence of complementary national interests.
Japan is the second largest economy in the world, accounting for 7.1 per cent of global gross domestic product. It is over ten times larger than the Australian economy.
In 2003, Australia's total exports of goods and services to Japan were valued at $22.9 billion and total imports of goods and services from Japan were valued at $18.2 billion. Japan continues to be a key source of foreign investment. As at 30 June 2003, Japan was the third largest source of foreign investment in Australia with total investments valued at $48 billion.
Australia-India
India has the 12th largest economy in the world. It has substantial conventional military forces, possesses nuclear weapons, and is one of the dominant powers in the region. India was a founding member of the Non-Aligned Movement; has been an active member of the United Nations and the Commonwealth; and has more recently sought to expand its cooperation with the Association of South East Asian Nations (ASEAN).
India is currently Australia's ninth largest merchandise export market and 15th largest merchandise trading partner. Currently, Australian investment in India is estimated at around $1 billion, covering manufacturing, telecommunications, hotels, minerals processing, food processing, oil and gas, and the automotive sector.
Indian investment in Australia continues to increase. Australia has over 156 000 people of Indian ethnicity. A large proportion of overseas students in Australia come from India. In 2003, 14 386 Indian students were enrolled in Australian educational facilities, a 27 per cent increase on the number of Indian students enrolled in 2002.
Australia-France
France has the fifth largest economy in the world and is an important market for Australia's goods and services. France is an increasingly important source of direct investment and technology in Australia. It has historically been influential in formulating European Union trade policy including agriculture. France is a permanent member of the United Nations Security Council and of the Group of Eight countries.[8] France is also a nuclear power. France has strong long-term interests in the Pacific.
The bilateral relationship is founded on historic contacts, shared values of democracy and human rights, substantial commercial links and cultural interests. France is the tenth largest investor in Australia and the 15th largest trading partner in goods and services. Australian exports to France in 2003 were valued at $1.4 billion and imports from France were valued at $4.4 billion.
Bilateral defence cooperation has expanded. This has included support for INTERFET[9] operations in East Timor; cooperation in the South Pacific and Southern Oceans; and for operations against illegal fishing. In 2002, the two Governments commemorated the bicentenary of the 1800-1804 scientific voyage of Nicolas Baudin to Australia.

Source: Compiled by the ANAO from DFAT website documentation

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[8]   Group of Eight countries—group of major industrialised democracies that meets annually to deal with major economic and political issues facing their domestic societies and the international community as a whole. Member countries include: France, the United States, Great Britain, Germany, Japan, Italy, Canada and Russia.

[9]   INTERFET—United Nations International Force in East Timor.

Department of Foreign Affairs and Trade (DFAT)

1.3   The Department of Foreign Affairs and Trade (DFAT) is responsible for Australia's external affairs, which includes the management of bilateral relations. The matters dealt with by DFAT are listed in Figure 1.2. There are two portfolio Ministers, responsible for foreign affairs and trade respectively. The Ministers are assisted in their duties by two Parliamentary Secretaries.

Figure 1.2

Matters dealt with by DFAT

External Affairs, including:

- relations and communications with overseas governments and United Nations agencies;

- treaties, including trade agreements;

- bilateral, regional and multilateral trade policy;

- international trade and commodity negotiations;

- market development, including market access;

- trade promotion;

- international development co-operation;

- diplomatic and consular missions;

- international security issues, including disarmament, arms control and nuclear non-proliferation;

- public diplomacy, including information and cultural programs;

- International expositions;

Provision to Australian citizens of secure travel identification;

Provision of consular services to Australian citizens abroad; and

Overseas property management, including acquisition, ownership and disposal of real property.

Source: Revised Administrative Arrangements Order, 24 June 2004

1.4   DFAT's roles and responsibilities are reflected in the four Outcomes of the Department that are published annually in the Portfolio Budget Statements (PBS). The conduct of foreign and trade policy falls within the scope of Output 1.1 of Outcome 1 (Table 1.1).

Table 1.1

Outcome 1 and Output 1.1

Outcome 1	Output 1.1
Australia's national interests protected and advanced through contributions to international security, national economic and trade performance and global cooperation	Protection and advocacy of Australia's international interests through the provision of policy advice to ministers and overseas diplomatic activity

Source: DFAT PBS 2004-05

1.5 DFAT's total appropriation for 2004–05 is $911 million, made up of $224 million in administered appropriations and $688 million in departmental appropriations. The 2004–05 PBS cost Output 1.1 at $326 million (this figure does not identify the costs associated with the management of bilateral relations, which are inseparable from the management of regional and multilateral policy interests).[10]

Departmental structure

1.6 The Department's work is carried out by over 3300 staff in Canberra, in State and Territory offices and in the network of overseas posts. It has over 1900 Australia-based staff, of whom over a quarter work in overseas posts. In addition, about 1400 staff are employed from local communities to work in overseas posts.

1.7 The head office in Canberra is the 'operational centre of the foreign policy making process'.[11] It has 11 divisions with policy responsibilities. Four of these are geographic divisions, with oversight of the work of the overseas posts in their regions. For example, the North Asia Division is the parent division for the overseas posts in Japan, the Republic of Korea and China.

1.8 DFAT is responsible for implementing the Government's foreign and trade policy decisions. Implementation largely occurs through the overseas posts. These include, at the national level, Australian Embassies and High Commissions.

1.9 All overseas posts are expected to contribute to the protection and advancement of Australia's national interests, the provision of services to Australians overseas, and public diplomacy.[12] Figure 1.3 illustrates Australian Government representation in Japan, India and France:

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[10] DFAT, *Portfolio Budget Statements 2004-05*, Commonwealth of Australia, Canberra, 2004, pp.24, 35.

[11] A Gyngell, and M Wesley, *Making Australian Foreign Policy*, op cit, p.60.

[12] Austrade also manages a smaller network of overseas posts, which focus on trade and investment matters, and also handle consular (and sometimes immigration/visa) issues.

Figure 1.3

Australian Government representation in Japan, India and France

Japan
The Australian Government is represented in Japan by the Australian Embassy in Tokyo, Austrade Consulates-General in Osaka and Fukuoka City, and Consulates in Sapporo, Sendai and Nagoya.
India
The Australian Government is represented in India by the Australian High Commission in New Delhi and the Australian Consulate-General in Mumbai. Austrade also operates six offices in India. The High Commission has non-resident accreditation responsibilities to Bhutan.
France
The Australian Government is represented in France by the Australian Embassy in Paris. There is also a Consulate-General in Noumea. The Embassy has non-resident accreditation responsibilities to Algeria, Morocco, Mauritania and Monaco.

Source: DFAT

1.10   There were 191 member states of the United Nations (UN) at the time of this audit. Australia has more than 80 overseas posts (Figure 1.4), and so does not have resident diplomatic representation in all countries. Many of Australia's diplomatic missions therefore have non-resident accreditations. For example, the High Commission in New Delhi has a non-resident accreditation to Bhutan.

Figure 1.4

The Global Distribution of Australia's Overseas Posts

Source: DFAT

Key: The light blue dots represent DFAT posts. The dark blue dots represent Austrade posts.
            The lines connect the DFAT head office in Canberra with the three posts audited.

Overseas interests of other Australian Government agencies

1.11 DFAT has overall carriage of Australia's external relations but other agencies have primary responsibility for international negotiations on a range of issues.[13] They therefore have official interests that may require the presence of their staff abroad, on a resident basis or on short-term visits. For example, the Department of Agriculture, Fisheries and Forestry (DAFF) has departmental staff serving in a technical capacity in Washington, Brussels, Tokyo, Seoul and Beijing, and in a policy capacity at the Australian mission to the Organisation for Economic Co-operation and Development in Paris.[14] DAFF also seconds officers to serve in a policy capacity in Washington, Brussels, Tokyo and Rome.[15]

1.12 Some overseas posts have attached agency staff from several other agencies. For example, New Delhi has staff from:

- the Australian Agency for International Development (AusAID);

- the Australian Trade Commission (Austrade);

- the Australian Centre for International Agricultural Research (ACIAR);[16]

- the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA);

- the Department of Defence; and

- the Department of Education, Science and Training (DEST).

1.13 The overseas posts may also undertake work for other Australian Government agencies that do not have attached agency staff. For example, the Embassy in Paris has priority activities that involve departments without representation at the post. These include:

- the Department of Environment and Heritage's Australian Antarctic Division;

- the Australian Tourist Commission (ATC);

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[13] Management Advisory Committee, *Connecting Government*, op cit, p.26.

[14] The Organisation for Economic Co-operation and Development (OECD) has 30 member countries sharing a commitment to democratic government and the market economy. Best known for its publications and its statistics, its work covers economic and social issues from macroeconomics, to trade, education, development and science and innovation.

[15] DAFF, *Annual Report 2002–03*, Commonwealth of Australia, Canberra, 2003, p.108.

[16] AusAID, Austrade and ACIAR are within the Foreign Affairs and Trade portfolio.

- the Department of Communications, Information Technology and the Arts (DCITA); and

- the Department of Veterans' Affairs (DVA).

1.14 Overseas posts have whole-of-government responsibilities that reflect these wider interests. Attached agency staff at posts operate under the overall supervision and control of the Head of Mission, who is the senior representative of the Australian Government.

2003 White Paper on Australia's Foreign and Trade Policy

1.15 In February 2003, the Government published a White Paper, *Advancing the National Interest. Australia's Foreign and Trade Policy White Paper,* that set out 'an integrated mosaic' of challenges and strategies for Australian foreign and trade policy in the years ahead.[17] The purpose of the White Paper was to provide a comprehensive assessment of Australia's place in the world and to articulate the Government's strategies to protect and promote the prosperity of Australia and its people.[18]

1.16 Key themes discussed in the White Paper include the challenges facing Australia in an uncertain world and the nature of Australia's response to these. The Paper stated that the strategies Australia pursues to advance the national interest must be bilateral, regional and, increasingly, global.[19]

1.17 In December 2003, the Foreign Affairs, Defence and Trade References Committee tabled the report of its Inquiry into the White Paper.[20] The aim of this report was to provide an overview of the White Paper's major themes and identify areas of discussion and debate arising from it.[21] The report made four recommendations including that DFAT prepare an annual Foreign Policy Outlook Statement for tabling in Parliament. This would contain a succinct account of issues arising in the preceding twelve months and any adjustments

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[17] DFAT, *Advancing the National Interest,* op cit, Overview.

[18] DFAT, *Advancing the National Interest*, ibid, Foreword.

[19] DFAT, *Advancing the National Interest*, ibid, p.iv.

[20] Senate Foreign Affairs, Defence and Trade References Committee, *The (not quite) White Paper Australia's foreign affairs and trade policy, Advancing the National Interest*, Commonwealth of Australia, Canberra, 2003.

[21] Senate Foreign Affairs, Defence and Trade References Committee, ibid, Chapter 1.

to policy arising from them.[22] The Government's response to the report did not accept any of the three recommendations directed at DFAT.[23]

The audit

Audit objective and criteria

1.18 The objective of the audit was to assess DFAT's management of bilateral relations and to identify any scope for improvement. To this end, the audit examined whether DFAT had:

- developed and articulated appropriate priorities for each bilateral relationship;

- established appropriate strategies for achieving bilateral priorities and arrangements to monitor progress in these respects; and

- measured and/or assessed its effectiveness in achieving bilateral priorities, and reported appropriately on progress achieved.

1.19 The audit criteria were derived from research into the policy operations of DFAT and other ministries of foreign affairs and trade, against which DFAT benchmarks aspects of its operation. The ANAO also drew on recent ANAO reports and better practice guides—on *inter alia* developing policy advice,[24] risk management[25] and performance planning and reporting.[26] Appendix 1 provides the high-level audit criteria.

Audit methodology

1.20 Audit fieldwork was undertaken in DFAT. The ANAO interviewed DFAT officers and examined relevant files and documentation. Three countries were used as case studies to examine management of bilateral relations. They

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[22]   Senate Foreign Affairs, Defence and Trade References Committee, ibid, p.x.

[23]   *Government Response to the Senate Foreign Affairs, Defence and Trade References Committee Report—The (not quite) White Paper. Australia's foreign affairs and trade policy, Advancing the National Interest*, Commonwealth of Australia, Canberra, 2004.

[24]   ANAO*, Audit Report 21 2001–02, Developing Policy Advice*, Commonwealth of Australia, Canberra, 2002.

[25]   ANAO, *Audit Report 3 2002–03, Management of Risk and Insurance*, Commonwealth of Australia, Canberra, 2003.

[26]   ANAO, *Audit Report 18 2001–02, Performance Information in Portfolio Budget Statements*, Commonwealth of Australia, Canberra, 2001; ANAO, *Audit Report 11 2003–04, Annual Performance Reporting*, Commonwealth of Australia, Canberra, 2003; ANAO and Department of Finance and Administration, *Better Practice in Annual Performance Reporting*, Commonwealth of Australia, Canberra, 2004.

were Japan, France and India. These three relationships were chosen for their materiality and to achieve a spread across the Department's foreign and trade policy activities.

1.21 Consultations were also held with other Australian Government agencies and industry stakeholders (Appendix 2). The ANAO utilised a questionnaire for the three overseas posts to gain an understanding of their operation.

1.22 During the audit the ANAO also received assistance from consultants, as follows:

- Mr Robert Cotton, a former senior officer of the Department of Foreign Affairs and Trade, with a background in management and experience overseas as a Head of Mission; and

- Mr Richard Starr, a former senior officer of the Department of Foreign Affairs and Trade with relevant bureaucratic experience, including as a Head of Mission.

1.23 The audit was conducted in accordance with ANAO standards. The cost of the audit to report tabling was $423 000.

1.24 The structure of this report is set out in Figure 1.5.

Figure 1.5

Report Structure
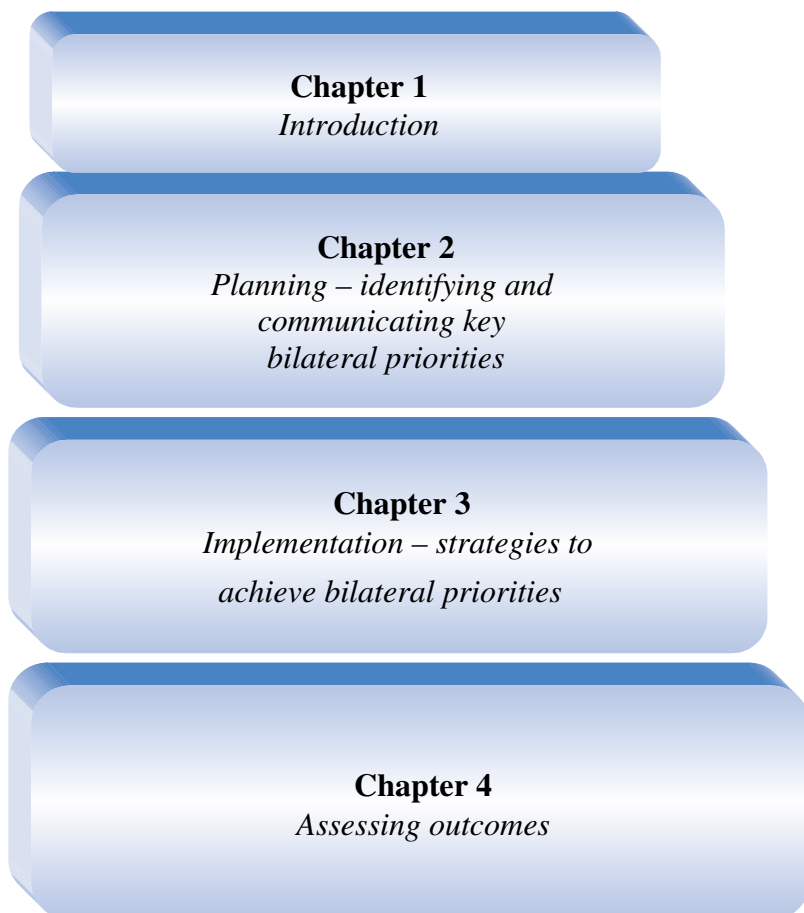
> **Chapter 1**
> *Introduction*

> **Chapter 2**
> *Planning – identifying and
> communicating key
> bilateral priorities*

> **Chapter 3**
> *Implementation – strategies to
> achieve bilateral priorities*

> **Chapter 4**
> *Assessing outcomes*

2. Planning—Identifying and Communicating Key Bilateral Priorities

This chapter examines the arrangements for identifying and communicating key bilateral priorities, and identifying risks associated with their pursuit.

Introduction

2.1   As noted recently by the Government:

> In a complex and fluid world, with an enormous and growing international agenda, [Australia] must be pragmatic and clear-sighted about which relationships, which issues and which multilateral activities are most likely to advance the national interest.[27]

2.2   This requires effective arrangements to develop key objectives—*priorities*—for each bilateral relationship and to communicate those objectives to staff involved in their pursuit.

2.3   The identification of priorities is also fundamental to the effective operation of accountability mechanisms and to reporting to the Parliament on performance.

Strategic policy and planning frameworks

2.4   The identification and pursuit of bilateral priorities takes place within a broad Government foreign and trade policy framework. This framework is set through a range of mechanisms, including:

- Government foreign policy and trade papers[28]; and

- Prime Ministerial and Ministerial speeches and press releases.

2.5   DFAT's *Corporate Plan for 2000–2002* identified high-level corporate goals and strategies to achieve the Government's objective of advancing the national interest.[29] Corporate goals and strategies are operationalised through a series of annual strategic planning processes that, among other things, identify priorities for the year ahead and review the achievements of the past year.

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[27]   DFAT, *Advancing the National Interest*, op cit, p.7.

[28]   Recent key Government policy papers include *Trade 2003* and *Australia's Foreign and Trade Policy White Papers, Advancing the National Interest* (2003) and *In the National Interest* (1997).

[29]   At the time of fieldwork, DFAT was revising its Corporate Plan.

2.6 This chapter examines the planning processes that facilitate DFAT's pursuit of bilateral priorities. In particular, it assesses whether DFAT:

- has effective processes for identifying key bilateral priorities;

- communicates those priorities to staff involved in their pursuit;

- allocates priorities to individuals; and

- identifies risks to the achievement of bilateral priorities.

Identifying bilateral priorities

Annual strategic planning and review processes

2.7 As reflected in the recent White Paper, judgements about priorities in bilateral relations are crucial. Not all bilateral relations are equally important for Australia and not all regional associations or multilateral activities will enhance the prosperity and security of Australians.[30]

2.8 DFAT has annual strategic planning and review processes to review the achievement of bilateral priorities in the past year[31] and identify those to be pursued in the next year. These are the Post Evaluation Report (PER) and Divisional Evaluation Review (DER),[32] each of which is facilitated by the Executive, Planning and Evaluation Branch. The PER and DER are designed to support DFAT's performance information framework (paragraph 4.2 onwards) by linking the objectives of posts and divisions to government and corporate objectives.

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[30] DFAT, 2003, *Advancing the National Interest*, op. cit, p.7.

[31] DFAT's processes for reviewing the achievement of bilateral priorities are examined in Chapter 4.

[32] There are related processes for State and Territory offices. However, as State and Territory offices are not directly involved in the pursuit of bilateral priorities, they are not covered by this report.

2.9   Those parts of the process that contribute to the formulation of post and divisional priorities are outlined in Figure 2.1.

Figure 2.1

Key priority— setting features of the PER and DER

Feature:	Post Evaluation Report (PER)	Divisional Evaluation Review (DER)
Focus:	• Posts identify their key priorities for the year ahead in a PER cable.	• Divisions identify their key priorities for the year ahead.
Consultation:	• Posts prepare the PER cable in consultation with their parent divisions. • Posts consult attached agency representatives. No other agency input sought formally.	• The DER is internally focused and does not involve formal consultation.
Assessment:	• The PER cable is considered by the Senior Executive. • The Secretary then cables approved key bilateral priorities for the year ahead to each Head of Mission.	• The Senior Executive meets with each division head to consider proposed priorities. • The Secretary then writes to each division head to advise approved key priorities.

Source: ANAO analysis

2.10   The PER results in the identification of key bilateral priorities for the year ahead for each overseas post. For example, some selected bilateral priorities for 2002–03 defined in the PER are outlined below (Figure 2.2):

Figure 2.2

Key bilateral priorities articulated for 2002–03 in the PER

'The post will play a key role in the management of a second [bilateral] conference in November, which will be an opportunity to advance Australia's interests in some areas; and

'[subsequent to the outbreak of Bovine Spongiform Encephalopathy (BSE) in cattle in the country] the post will need to continue to work with the beef industry given the real threat to the industry posed by the disease in [the country] and the magnitude of Australian interests there.'

'A priority will be to schedule a visit by [the Australian Minister] for [a bilateral ministerial meeting], which will be a focus for advancing Australia's trade and investment interests and trade policy objectives …'

'Advancement of Australia's interests through strengthened dialogue and cooperation with [the country] on global and regional issues, including … cooperation against illegal fishing in …'

Source: DFAT

2.11 The high-level priorities that emerge from the DER process reflect the parent division's[33] focus on the overall strategic direction of the bilateral relationship (Figure 2.3).

Figure 2.3

Priorities articulated for 2002–03 in the DER

'We have achieved a conspicuous shift forward in the quality of our engagement with [a multilateral organisation]. The recent … Consultations were very good. There is more work to be done, but our broader engagement across a wide policy agenda—including [a wide range of] issues—has improved in both substance and tone. …While we need to maintain a robust approach on [certain] issues, the [member countries] now have a very favourable impression at Ministerial and senior officials' level of the quality of our engagement and professionalism.'

Source: DFAT

2.12 As Figures 2.2 and 2.3 indicate, key bilateral priorities are expressed in broad terms. This is because the DER and PER processes largely involve the fine-tuning of existing post and divisional work programs. The priorities are complemented, at the operational level, by more detailed measures for individual issues that could include specific objectives to be pursued in bilateral negotiations, a strategy to be implemented, or a timeframe to be met.

2.13 For example, one post had a PER priority on an issue which was set in a context of the ongoing work of the Embassy, in conjunction with an Australian industry group, to promote Australian product in the country through a program of industry visits.

2.14 Although another post's PER priority on bilateral cooperation on illegal fishing in an area adjacent to Australia was particularly broadly expressed (Figure 2.2), at the operational level, the post and divisions in head office were working to conclude, in a timely manner, negotiations on a bilateral agreement establishing cooperative means to monitor and manage the illegal activity. DFAT defined objectives for the content of the agreement, which it pursued during these negotiations. The two parties also agreed to pursue some issues not addressed in the agreement in a separate negotiation.

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[33] Each post reports back to a parent division in the departmental head office. The parent division for the post in Japan is the North Asia Division.

Consultation within DFAT

2.15 The pursuit of bilateral priorities frequently involves input from several head office divisions and the relevant overseas post. For example, the negotiation of the bilateral cooperation agreement, as mentioned above, involved the relevant post and two divisions responsible, respectively, for the bilateral relationship and international legal matters.

2.16 DFAT has administrative instructions for the PER and DER, which set out guidance for consultation. The instructions for the PER require parent divisions and posts to consult closely and agree priorities in advance of consideration by the Senior Executive. The ANAO found that these arrangements were effective, with consultation occurring for the priorities examined.

External consultation

2.17 Appropriate consultation with other Australian Government agencies enables the agencies to provide input to the identification and pursuit of priorities that fall within their portfolio responsibilities. Such consultation facilitates a whole-of-government approach and helps avoid duplication of effort. This is particularly relevant as globalisation has increased the extent to which other agencies are engaged in international policy formulation.[34]

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[34] A Gyngell and M Wesley, *Making Australian Foreign Policy*, op cit, p.77.

2.18   For example, the priorities identified by one post in the 2002–03 PER for the year ahead, covered a range of issues of interest to other agencies (see Figure 2.4).

Bilateral priorities with a whole-of-government focus—an overseas post 2002–2003 PER

Identified priorities (extract)	Interested agencies include
'Dialogue, advocacy and cooperation on global and regional issues, including … cooperation against terrorism and against illegal fishing … illegal immigration, arms control, Antarctica, and climate change, including through the G8.'	• Attorney-General's Department. • Department of Agriculture, Fisheries and Forestry. • Department of Immigration and Multicultural and Indigenous Affairs. • Department of the Environment and Heritage.
'Advancement, through strategic advocacy in […] of Australian trade policy interests in the WTO particularly in relation to the Doha round,[35] and on agriculture.'	• Department of Agriculture, Fisheries and Forestry.
'Further strengthening Australia's defence links, including through the promotion of dialogue on strategic and security issues, and defence procurement.'	• Department of Defence.

Source: DFAT

2.19   In accordance with longstanding administrative arrangements, DFAT is responsible for external affairs and for ensuring a coherent and consistent whole-of-government[36] approach to the conduct of Australia's international relations.

Consultation by posts with attached agencies

2.20   Overseas posts have whole-of-government responsibilities, which require the Head of Mission and attached agency representatives to keep each other informed of relevant policy developments.

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[35]   The Doha Round is the most recent of a series of trade rounds held, initially under the auspices of the General Agreement on Tariffs and Trade (GATT) and, more recently, the World Trade Organization (WTO). The 2001 Ministerial Conference in Doha set out tasks, including negotiations, for a wide range of issues concerning developing countries. These new negotiations are called the Doha Development Round.

[36]   The recent Management Advisory Committee report, *Connecting Government*, has defined 'whole-of-government' as denoting public service agencies working across portfolio boundaries to denote a shared goal and an integrated government response to particular issues. Management Advisory Committee, *Connecting Government*, op cit, p.1.

2.21   DFAT instructions for the identification of priorities require posts to include the work of attached agencies, where such work is particularly salient to the post's overall objectives. The ANAO found that DFAT officers at the posts examined developed priorities in consultation with attached agency representatives.

Consultation with non-attached agencies

2.22   Where priorities involve agencies that do not have attached representatives, the process for seeking input into the formulation of key bilateral priorities in the PER is not set out in departmental guidance material. The ANAO found that practice varied. For example, one post communicated directly with the agency concerned in Canberra. Another advised that the views of non-attached departments were sought (where applicable through their representatives in London).

2.23   However, another post stated that any consultation with non-attached agencies would be undertaken through a division at head office in Canberra. The relevant parent division advised that it did not actually undertake such consultations.

2.24   DFAT's head office does not formally seek the views of non-attached agencies into the formulation of post key bilateral priorities. As part of the annual PER process, the head office writes to other agencies that work closely with the posts, to obtain their feedback on the posts' performance.

2.25   The ANAO found that some agencies also took the opportunity, through this process, to provide comment on their expected future requirements of overseas posts. For example:

- for one post in the 2002–03 PER, three agencies identified their future requirements of the post; and

- the Department of Agriculture, Fisheries and Forestry advised DFAT of its future priorities, which affect a wide range of overseas posts, reflecting its extensive external policy interests. However, this is not common practice for other agencies.

2.26   In addition, oral comment on future priorities may be received from agencies on those occasions where, as part of the feedback process, direct consultation with a member of the DFAT Senior Executive occurs. The ANAO found that such input was received from three agencies for the 2002–03 PER.

2.27   The current approach to seeking input on key bilateral priorities from non-attached agencies is not structured, leading to the risk of gaps and omissions in coverage. Given that the PER already involves DFAT seeking

Australian Government agency feedback on post performance, this could be addressed by DFAT explicitly canvassing non-attached agency input for the identification of priorities.

2.28 Such consultation would be consistent with the view expressed in the recent Management Advisory Committee (MAC) report, *Connecting Government*, that building a stronger culture of consultation on international activities is important, given the increasing linkages between international issues and domestic policy matters.[37]

2.29 Timely receipt of any input would enable relevant posts and divisions to take it into account in the finalisation of their priorities.[38] It would also have the benefit of forewarning posts of potential agency requests for assistance during the course of the year.

2.30 DFAT has commented that the formalisation of the consultation arrangements might impose a burden on other agencies. However, the ANAO considers that this risk could be readily managed. For example, by explaining to agencies that their input is only required where it has not already been provided through other channels.

Approval of priorities

2.31 The involvement of senior DFAT officials in the selection and approval of priorities ensures that the final list is appropriately informed and approved.

2.32 The ANAO found that the consideration and approval process involves appropriate senior officials. In particular, Heads of Mission and division heads are responsible for proposing priorities for the year ahead. The Secretary, in consultation with other members of the Senior Executive,[39] formally considers and approves the proposed priorities after meeting with the relevant division head. The Minister is not directly involved in either process, although the Senior Executive and divisions have regular contact with Ministers and their offices in the context of developing policy proposals and options.[40]

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[37]   Management Advisory Committee, *Connecting Government*, ibid, p.26.

[38]   In 2003, agency feedback was requested by DFAT by letter of 15 April, for response by 8 May. To enable agency priorities identified through this response to be considered by posts in the preparation of the PER cable (in 2003, due 9 May), it would be necessary to bring the feedback process forward.

[39]   The Senior Executive comprises the Secretary and four Deputy Secretaries.

[40]   Ministerial feedback to DFAT is discussed in Chapter 4.

Communication of key bilateral priorities to staff

2.33 The communication of agreed priorities, in a timely fashion, facilitates a clear and common understanding of those priorities among staff involved in their pursuit.

Communication of priorities to senior management

2.34 Following consideration of the post's PER report, the Secretary cables the Head of Mission setting out the post's priorities for the coming year.[41] For example, for one country examined, the Secretary concluded that the priorities identified by the post for 2003–04 were well targeted and appropriate. The Secretary also commented on priorities, for example, noting those requiring the post's close attention.

2.35 These cables were sent simultaneously to all posts. For the 2002–03 round, this occurred in a reasonably timely manner, some three weeks after the PER meetings. Timeliness is important as the Head of Mission is not present for the PER discussion.

2.36 Similarly, following consideration of the division's DER report, the Secretary sent a minute to each division head, formally recording the Senior Executive's discussion. In particular, this minute commented on key successes, setbacks and future priorities for the division. In 2003, these minutes were signed about five weeks after the DER meetings. Timing is not so critical in the case of the DER, as the division head participates in the Senior Executive discussion.

Communication of priorities to operational staff

2.37 Senior management in divisions and overseas posts are responsible for communicating priorities to relevant staff. In recognition of the sensitivity of key bilateral priorities, their circulation is restricted. The ANAO found that divisional and post managers use a variety of mechanisms for communicating priorities to staff – see examples at Table 2.1.[42]

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[41] This cable also conveys the Senior Executive's assessment of the post's performance.

[42] Arrangements for reflecting bilateral priorities in individual performance agreements are examined in Chapter 4.

Table 2.1

Examples of mechanisms used to communicate priorities

Mechanisms
At one post, the Secretary's cable response is communicated promptly to all Australia (A)-based staff[43] at the post both by circulation of the cable and at an A-based meeting.
In Canberra, division heads are encouraged to draw on the Secretary's minute when briefing staff on the DER discussion. The circulation of the minute is limited to staff at director level and above. Divisional and branch meetings are the usual means for discussion of DER outcomes.

Source: ANAO analysis of DFAT documents

Allocation of priorities to individuals

2.38   The formal allocation of responsibilities to staff for particular bilateral priorities helps avoid duplication of effort, and reduces the likelihood of priorities slipping between the cracks. The formal recording of these staff responsibilities also assists accountability when staff members are assessed on their individual performance.

2.39   A first step in allocating priorities to individuals is the translation of bilateral priorities into planning documents used by work units. In this regard, the ANAO found that individual officers were allocated policy responsibilities in divisions and overseas posts. For example, in one post examined, the Political/Economic Section used a duty list, to identify the policy responsibilities of each officer, for example, responsibility for the environment.

2.40   Performance agreements are prepared in DFAT, on a financial year basis. The templates require the inclusion of standard (generic) objectives such as 'contribute to effective teamwork… and develop policy advice and implement policy effectively…' and performance indicators. The templates do not require key bilateral priorities to be reflected in the agreements. However, they do note that some job-specific objectives may also be included.

2.41   The ANAO viewed a selection of performance agreements in Canberra and overseas posts and found that the approach to including bilateral priorities varied, viz:

- in one division relevant bilateral priorities were cascaded through agreements. However, the performance indicators were often broadly expressed—for example, 'contribution to handling fisheries and whaling issues with the relevant country'—and without any measure of success or specificity as to what is expected to be achieved;

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43   Australia or A-based staff are appointed to the post from the departmental head office in Canberra.

- on the other hand, a typical performance agreement for an Executive Officer in another division did not reflect the division's priorities for 2003–04. Indeed, with minor amendment the agreement could have been used for any geographic division; and

- performance agreements for the Political/Economic Section of one post generally did not reflect that post's 2003–04 PER priorities.

2.42 Performance agreements examined by the ANAO complied with the DFAT template requirements. However, performance management systems work more effectively when staff can see a clear link between their work and the goals of their organisation.[44] More consistent reflection of relevant bilateral priorities, and appropriate performance indicators in performance agreements, would provide a more systematic basis for assessing the contribution of individuals to their achievement and enhance management for results.

Identifying bilateral priority risks

Introduction

2.43 Particularly at a time when the international security environment is fluid and uncertain, foreign policy advisers regularly need to contend with the unexpected. This might involve a crisis such as the India-Pakistan tensions of May 2002, which raised the possibility of a nuclear conflict between India and Pakistan and prompted the evacuation of families from the overseas posts in New Delhi and Islamabad.

2.44 This highly uncertain environment requires the effective management of risk. This is particularly so for DFAT's PER and DER processes, which are the mechanisms for annual bilateral priority setting. Risk management is recognised as an integral part of good management practice and a key element of good corporate governance.[45]

Risk management policy and toolkit

2.45 DFAT has recognised the importance of a risk management approach in the Department's policy operations. DFAT's risk management policy, which was promulgated in March 2000, recognised that DFAT encounters and

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[44] Management Advisory Committee, *Performance Management in the Australian Public Service. A Strategic Framework*, Commonwealth of Australia, Canberra, 2001, pp.36–37.

[45] Risk management is the term applied to a logical and systematic method of establishing the risk context, identifying, analysing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process in a way that will enable organisations to minimise losses and maximise opportunities.

manages a variety of risks on a day-to-day basis, including in the international environment.

2.46 The policy also properly emphasises that some occasions and issues require a more formal risk management approach, such as when formulating policy advice or when taking decisions on the management of large-scale and complex projects. To assist in this regard, a risk management toolkit accompanied the policy release. It identified a framework for managing risk on occasions when a more formal risk management approach was required.

2.47 Staff were advised that:

> The Toolkit should be suitable for use by divisions, posts and state/territory offices in annual operational planning processes, particularly the DER, PER and OER exercises.

2.48 The policy also set out an expectation that risk management processes would be documented and that DFAT's risk management performance must be able to withstand external scrutiny for accountability purposes.

Identification of bilateral risks in the PER and DER processes

2.49 DFAT emphasises being able to anticipate, rather than react to, events. For example, in the annual PER process, posts are asked to identify emerging issues and highlight any issues of concern that may affect the pursuit of Australia's interests.

2.50 This was reflected in this audit in the 2002–03 PER cables. Two of the three posts identified challenges to the achievement of priorities. These posts also advocated some high-level policy approaches to respond to the challenges. Figure 2.5 outlines an example.

Figure 2.5

Example of a challenge and approach advocated in 2002–03 PER

Challenge	Approach advocated
'Agriculture and fisheries are two areas where Australian and [the country's] interests clash. Despite increased pressure for reform, significant change in these sectors is not likely soon. This will continue to constrain our ability to advance Australia's trade liberalisation interests.'	'Friction over management of [fisheries] policy needs to be managed so as not to contaminate our broader interests.'

Source: DFAT

2.51 However, the ANAO found that this approach was not consistently applied. The PER cable for one of the posts examined referred to bilateral differences that had occurred with regard to the current international agenda, notably, long-term differences over agriculture and a more recent difference in

relation to a contentious international issue. The cable also recognised the need to be realistic with regard to agriculture, and the prospects for exercising influence in shaping the country's policy. However, there was otherwise limited discussion of emerging challenges and how they might be addressed.

2.52 DFAT advised that systematic and rigorous risk management approaches underlie the PER and DER. DFAT also advised that, in the drafting and preparation of cables, risks are intrinsically assessed and responses developed.

2.53 However, the identification of challenges in the PER and DER was not based on a transparent process in which key risks to Australian interests in each bilateral relationship were systematically analysed and their treatments identified. DFAT's instructions to posts for the preparation of their PER cables did not refer to risk management. DFAT advised that it had not mandated the use of documented risk management approaches in the PER and DER. For example, the ANAO found that:

- one post advised that there was no single formal analysis done in the course of preparing the PER cable. Risk analysis and the development of strategies to manage risks were mainstreamed into day-to-day management processes, and adjusted throughout the year in response to developments locally, in Australia and in the international environment; and

- another post stated that the formal checklist in the DFAT Risk Management Toolkit had not been used to identify risk in the development of the post's PER objectives. Calculations about the prospects for success of the implementation of a particular policy/activity were done more informally as a part of the continuing analysis of external circumstances that impacted on the achievement of the PER objectives.

2.54 The ANAO found a similar approach to risk management in the DER process.

Enhancing risk management in the PER and DER

2.55 The ANAO recognises that the fluidity of international relations has an impact on DFAT's approach to risk management. However, DFAT's current approach means that risk management for strategic planning and evaluation processes is less systematic and transparent than is usually recognised as good risk management practice. Good practice seeks to establish a framework that identifies, at regular (annual) intervals and also treats, risks that might otherwise be overlooked in responding to day-to-day imperatives.

2.56   The ANAO's findings are similar to the findings of a review by DFAT's internal audit in 2001, that there was 'no formal connection between the application of risk management strategies and other institutional evaluation mechanisms, such as the DER/PER and individual performance appraisals.'

2.57   The review also found a number of other weaknesses in DFAT's risk management approach, which included the following:

- staff awareness of risk management had improved only marginally since the policy and toolkit were promulgated; and

- staff still tended to manage risk intuitively rather than in any systematic and well documented way.

2.58   In considering the review findings, the DFAT Audit Committee agreed that the profile of risk management needed to be raised for the concept to become entrenched in DFAT culture.[46] The Committee also agreed that the 12 recommendations of the review be implemented, where practical.   One medium-term recommendation involved the integration of risk management into planning and review mechanisms such as the PER/DER.[47]

2.59   DFAT advised the ANAO that a more formal risk management approach in the DER and PER processes would have major resource implications. It also commented that formal risk management relating to foreign and trade policy issues should remain in the domain of policy work (cable reporting, advice to Ministers etc) and should not be attributed to the PER and DER processes. This is management prerogative.

2.60   However, the PER and DER processes do underpin policy advising. As noted by the DFAT Audit Committee, there would therefore seem to be merit in the better integration of risk management with the PER and DER. The ANAO considers that there is opportunity to build on existing arrangements to provide greater structure and visibility. Such arrangements should require little in additional resources, in view of the work already undertaken by posts to identify emerging issues. However, they would provide greater assurance that priority risks and their treatments were adequately considered at the time the priorities were identified.

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[46]   The DFAT Audit Committee considered the review findings at its meeting of 12 December 2001.

[47]   The Audit Committee subsequently noted (in August 2002) that, while progress had been made in implementing the recommendations, risk management was still not adequately formalised within DFAT.

Recommendation No.1

2.61 The ANAO recommends that DFAT enhance the integration of risk management in its strategic planning and review processes, particularly the PER and DER.

DFAT response

2.62 Agreed.

- The ANAO examined some of the department's detailed annual internal evaluation mechanisms. The department is confident that its evaluation processes are rigorous and effective and that its policy-development work takes account of all pertinent factors, including risks. At the same time, the department accepts the ANAO's observation that there is opportunity to build on existing arrangements. The department will seek to implement this recommendation in a way that does not impose a major resource burden on posts.

3.   Implementation—Strategies to Achieve Bilateral Priorities

This chapter examines DFAT's arrangements for implementing planned initiatives and managing unexpected developments.

Introduction

3.1   Once decisions on key bilateral priorities are made for the year ahead, DFAT posts and divisions at head office are responsible for pursuing the priorities identified. There is also a requirement for posts and divisions to manage the response to any unexpected developments overseas that may affect Australian interests.

3.2   When, as is usually the case, the priority involves action by overseas posts, the lead division prepares a tasking cable to the relevant posts, consulting other Australian Government agencies where appropriate. The cable conveys the terms of the policy decision and instructions on the course of action to be taken. Posts then report on progress, if necessary seeking further guidance and/or providing ongoing reporting. Figure 3.1 summarises the process.

3.3   This chapter assesses DFAT's management of these processes, in particular:

- strategies for achieving priorities;

- responding to unexpected developments;

- addressing whole-of-government issues; and

- monitoring of progress with priorities.

Figure 3.1

The implementation of foreign and trade policy
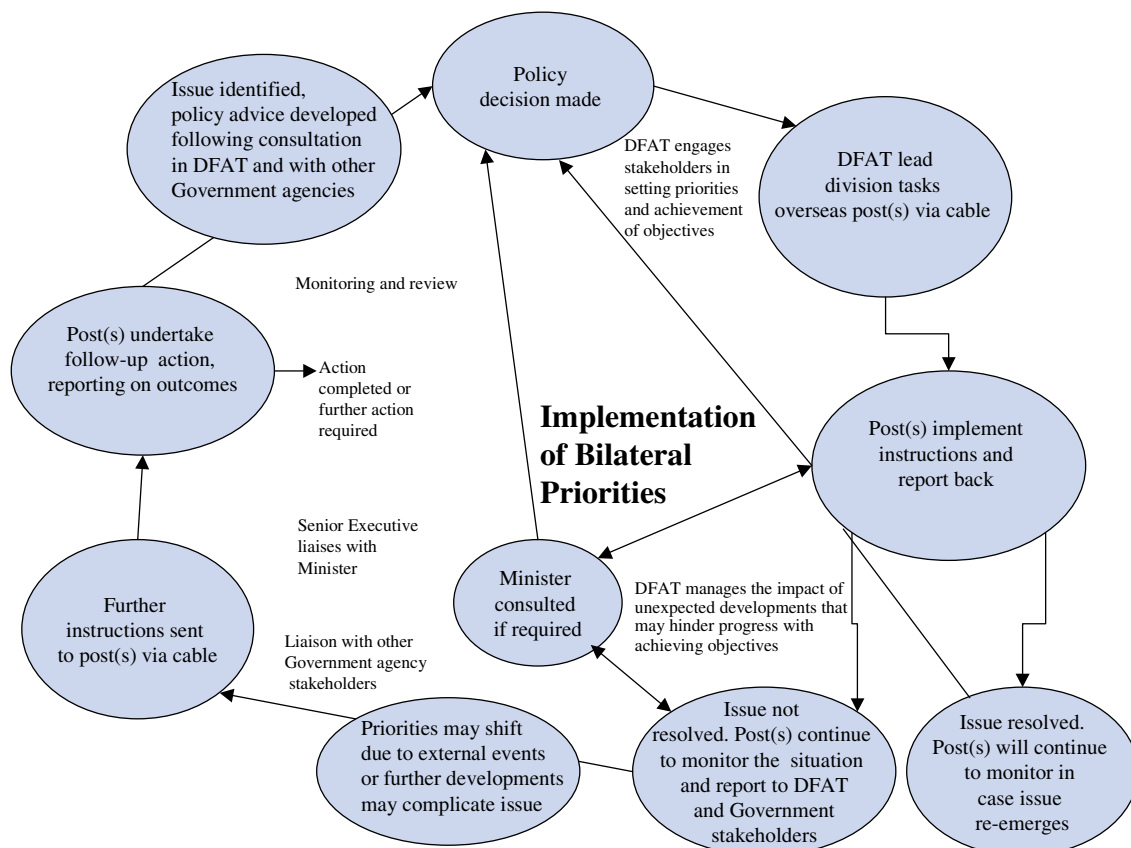
Source: ANAO analysis

Strategies to achieve priorities

Introduction

3.4   As Allan Gyngell and Michael Wesley have stated in their recent book, *Making Australian Foreign Policy*, quoted earlier, implementing foreign and trade policy essentially involves persuading another government to follow a certain course of action.[48] This occurs in a fluid and challenging international environment.

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[48]   A Gyngell and M Wesley, *Making Australian Foreign Policy*, op cit, p.60.

3.5   This audit focused on the implementation of three key bilateral priorities, as summarised in Figure 3.2.

Figure 3.2

Three bilateral priorities

<table>
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Bilateral Conference

The Australian Prime Minister and his counterpart from another country agreed to convene jointly a bilateral conference. It aimed to:

- provide a forward agenda for the relevant bilateral relationship;
- establish new, and build on existing, relationships that would advance bilateral cooperation; and
- publicise the importance, depth and vitality of the relationship.

The conference was held in Sydney two years later. At its conclusion, the two Co-Chairs released a joint statement. This underlined the unique nature of the partnership, but stated a need to find new ways to maintain its vigour. It suggested some ideas for future action in strategic and political relations, trade/economic relations, and cultural, social, scientific and technological relations.

The statement recommended *inter alia* that an agreement be considered as one way of working towards closer bilateral and regional economic integration.

This first conference was followed by a second, held the next year.

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Joint Ministerial Commission

In 1989, the then Prime Minister received during an overseas visit an initial proposal for the establishment of a Joint Ministerial Commission (JMC). In recognition of the need to give impetus and direction to the bilateral relationship, both governments considered more intensive Ministerial contacts on a regular basis were desirable. The other country proposed that annual talks be held, initially with an economic focus, as a vehicle for identifying and developing new projects, and addressing emerging issues rather than simply reviewing developments.

Shortly after, the respective Foreign Ministers agreed to establish the Commission. Eight meetings have been held. The latest Ministerial meeting was followed, several months later, by an officials' meeting that was conducted as an inter-sessional stock-take to review progress on the main trade and investment issues and underline the commitment of both sides to taking issues forward in a consistent manner between JMCs.

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Negotiation of a Bilateral Maritime Agreement

Over the past decade, illegal fishing in the Southern Ocean has increased. Foreign fishing vessels have been targeting Patagonian Toothfish in Australia's Exclusive Economic Zone (EEZ) around Heard island and the McDonald islands. Australia's EEZ is adjacent to that of another country and a treaty was negotiated to provide a framework for cooperative surveillance and research activity.

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Source: DFAT

Strategies to implement policy

3.6   The bilateral conference and the meeting of the Joint Ministerial Council (JMC) were high-profile bilateral activities. The ANAO found that, in each case, DFAT identified a strategy to implement the priority. This involved *inter alia*:

- establishing high-level steering consultations to discuss broad approaches to the conference;

- a two-stage process with regard to the JMC, involving detailed official-level discussion prior to the ministerial meeting, which addressed the strategic direction of the bilateral and multi-lateral trade and investment relationship;

- ongoing liaison with the bilateral partner in each case; and

- engagement by DFAT with key domestic stakeholders. These included Australian Government agencies and business representatives.

3.7 The post also acted promptly to manage the risk to the JMC meeting when a change of the Minister from the other government occurred a few weeks before the meeting.

3.8 The ANAO also examined the final stages of the negotiation of the bilateral agreement on maritime cooperation. The Government sought expeditious conclusion to the negotiations, which had been underway for some time. The ANAO found DFAT developed a series of strategies designed to bring the negotiations to a timely conclusion. These included:

- giving consideration at different stages of the negotiations to whether involving the Head of Mission, and subsequently, Australian Ministers, would expedite the negotiating process; and

- proposing direct discussions between the two delegations as the best means of resolving outstanding matters within Australia's preferred time frame.[49]

3.9 Further information about the strategies used by DFAT is available at Appendix 3.

Responding to unexpected developments

Introduction

3.10 DFAT has observed that:

> One of the features of international relations these days is that you tend to be a little bit more reactive to developments outside of your control. In that sense,

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[49] The relevant post had been the channel of communication with the relevant authorities, implementing instructions from the department's head office in Canberra.

the urgent can often crowd out what we may have pre-planned, but that is part of the business we are all in.[50]

3.11 The scale of such events may be considerable - for example, the terrorist attacks of 11 September 2001 and the Bali bombing of 12 October 2002. There are also smaller-scale unexpected developments that have the potential to affect Australian interests in a bilateral relationship and that require a fast policy response to manage this risk.

3.12 In such circumstances, an appropriately timed and scaled response to protect Australian interests is required.[51] The ANAO, accordingly, assessed whether DFAT:

- has developed mechanisms to facilitate an effective response; and

- assesses and develops an effective response to unexpected developments.

Mechanisms to facilitate an effective response to the unexpected

3.13 A number of DFAT arrangements discussed elsewhere in this report (paragraph 2.49) also serve to support early warning. For example:

- the annual PER process has a focus on identifying emerging issues and highlighting any issues of concern that may affect the pursuit of Australia's interests; and

- overseas posts monitor developments in their areas of responsibility for their likely impact on Australian interests. When a change of government occurs in a country to which a post is accredited, the post provides analysis of the policies and attitudes of the new government, for their impact on Australian interests.

3.14 DFAT has developed a number of work practices designed to enable it to cope with the challenges arising from a rapidly evolving international environment. In June 2000, the Secretary promulgated a 'working smarter' policy to assist the Department develop efficient work practices, lift productivity and encourage staff to maintain a healthy work/life balance.[52] The policy seeks to enable staff to redefine priorities as circumstances change and

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[50] Evidence provided by DFAT Deputy Secretary to the Joint Standing Committee on Foreign Affairs, Defence and Trade, 3 February 2003, Review of Annual Reports 2001–02 www.aph.gov.au/hansard/joint/commttee/j.6104/pdf [27 May 2004].

[51] DFAT, *Annual Report 2002–03*, op cit, p.94.

[52] DFAT, *Annual Report 2002–03*, op cit, p.198.

maintain a collective capacity to look ahead and deal pre-emptively with emerging problems. One of the goals of this initiative was to develop 'surge capacity' when the need arose. At the organisational level, the policy also helps facilitate the formation of task forces within DFAT or DFAT-led interdepartmental committees to handle crises.

3.15   Underpinning DFAT's response capability is the departmental cable network, the formal messaging system between posts, State Offices and the departmental head office in Canberra. The timely flow of information is facilitated, in part, through the use of precedence settings that determine how a cable will be handled and the time frame within which it should reach its recipients. DFAT guidance stated that, in most cases, the lowest precedence, 'Routine', would be sufficient to ensure timely delivery of cables.[53] The most urgent setting requires cables to be 'delivered as quickly as physically possible' in national emergencies, and in life and death situations.

3.16   The ANAO found that DFAT's recruitment and training approach also has a focus on the need for staff capable of working in a demanding and unpredictable environment. For example, one of the key attributes sought by DFAT when recruiting staff is 'personal and corporate flexibility, versatility and adaptability'. Graduate training focuses on developing adaptable staff with on-the-job training across a variety of geographic, trade, multilateral and functional divisions.[54]

Managing the policy response to the unexpected

3.17   The ANAO examined DFAT's management of an unexpected development for each of the three bilateral relationships chosen for audit examination.[55]

Briefing Ministers

3.18   Government policy is the responsibility of Ministers, with Cabinet as the focal point of the decision-making process. Departments and agencies

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[53]   This setting is handled after all other precedences. Delivery should be within the next working day after despatch.

[54]   DFAT has developed a contingency planning, crisis management and evacuation manual, which aims to ensure the timely and efficient deployment of the Department's resources in response to a crisis or threat of crisis overseas. The manual provides guidance on preparing a post's contingency plan; general guidance on responding to crises; responding to specific crisis scenarios; mass evacuation of Australian nationals; and post emergency closure procedures.

[55]   The discussion at this point focuses on the initial response. There is discussion of the ongoing response for longer-running issues later in this chapter under Monitoring.

provide policy advice as an output to Ministers, to help ensure that government decisions are appropriately supported and informed.[56]

3.19 DFAT utilises a range of mechanisms for briefing the Ministers. These include:

- ministerial submissions prepared when DFAT seeks a decision on or endorsement of a line of policy. These may also be drafted for information purposes although cables are often used in this manner; and

- Possible Parliamentary Questions (PPQs), prepared when definitive public statements on the status of an issue or the implications of a particular event are required. [57]

3.20 The ANAO found that the Ministers were briefed appropriately and in a timely manner, for each of the issues examined. For example:

- a PPQ was prepared on a Monday, following confirmation of BSE overseas over the weekend. DFAT drafted a ministerial submission for information purposes three days later. (Ministers had previously received, and responded to, the post's reporting cables);

- following an urgent request from a post for guidance in relation to a developing war graves issue, DFAT sought and obtained policy guidance the same day. DFAT advised the post of the Minister's decision the following day; and

- during regional tensions in South Asia, DFAT provided Ministers with PPQs, media and talking-points, and for three weeks a daily situation report. DFAT did not need to develop formal policy advice, as the diplomatic action taken was within the scope of existing policy.

Strategies to manage the unexpected

3.21 The ANAO found that DFAT developed a strategy to manage each of the issues examined. Responses to unexpected events examined were timely and appropriately scaled in terms of effectiveness. For example, when the first case of BSE was confirmed in cattle in a bilateral partner, the relevant post convened a meeting of Australian government and industry stakeholders. The

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[56] ANAO, *Audit Report 21 2001–02, Developing Policy Advice*, op cit, p.11.

[57] Once approved they may be used as media talking points by Ministers' offices, or departmental spokespersons, or by senior departmental officials as briefing material in other forums, such as Senate Estimates hearings.

meeting articulated a strategy designed to manage the key risks to Australian interests and keep departments in Canberra informed of developments. The strategy formed the basis for subsequent cabled reporting from the post.

3.22 The war graves issue was also managed effectively by the relevant post, which developed a flexible strategy to follow up its initial representations. During the following weeks, the post identified, and followed through on, a series of opportunities to pursue the matter at senior levels of the Government in question. These included high-level visits by Australian Ministers.[58]

Whole-of-government issues

Implementing key bilateral priorities

3.23 The ANAO found that, for the issues involving the planned implementation of key bilateral priorities, DFAT consulted, where appropriate, other relevant Australian Government agencies and stakeholders in the formulation of a whole-of-government response. For example:

- arrangements for the Joint Ministerial Commission (Figure 3.2) included an Austrade-managed business delegation to accompany the Minister and build linkages between the two countries' business communities in sectors of the economy being targeted for trade promotion. Other Australian Government agencies were also consulted in preparation for the Ministerial meeting and the follow-up inter-sessional meeting; and

- DFAT approached Australian Government agencies almost a year before the planned bilateral conference, to seek their assistance in developing 'tangible outcomes' to be announced at the conference. DFAT's post-conference follow-up also involved inviting agencies to participate in follow-up activities focusing respectively on economic, political/strategic, trade/economic, science and technology and social/cultural issues.

3.24 DFAT's consultation and liaison practices were seen as effective by other government agencies and industry groups consulted by the ANAO. For example, the Department of Education, Science and Training (DEST) was involved in two of the issues examined during the audit. DEST advised that it had a 'healthy cooperative' relationship with DFAT, which included regular consultations and opportunity for both agencies to work closely and achieve results in these issues.

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[58] Following further developments, the post reported that the matter was unlikely to be re-opened for some time to come.

3.25   The Department of the Prime Minister and Cabinet (PM&C) also advised that it was fully satisfied with the range of mechanisms in place for whole-of-government coordination of policy matters in the DFAT portfolio.

3.26   Overall, the ANAO concluded that DFAT engages in a timely manner with other Australian Government agencies in the implementation of planned bilateral priorities.

Managing the unexpected

3.27   Each of the unexpected developments examined involved other Australian Government agencies. As Appendix 5 indicates, the ANAO found that DFAT addressed whole-of-government issues, engaging in timely inter-departmental liaison with the relevant departments in Canberra and, where required, at posts. DFAT also included Australian Government agencies in the cabled communications.[59] For example, for the war graves issue, DFAT consulted with the Department of Veterans' Affairs (DVA) in drafting the tasking cable and a joint Ministerial press release. Relevant cables were copied to DVA.

3.28   Management of the BSE issue required inter-agency liaison at the relevant post and in Canberra. The ANAO found that the Department of Agriculture, Forestry and Fisheries (DAFF) was included on distribution of cables, and supplementary email traffic between the post and DFAT. There was ongoing consultation and formulation of the Embassy's response strategy, involving staff from DFAT, DAFF, Austrade and industry representation.

3.29   Other agencies advised that liaison with DFAT had been effective and proactive.

Use of cable for communications around the DFAT network

3.30   DFAT is responsible for the communications system used to transmit the tasking and reporting cables that flow between the Department in Canberra, the posts and other Australian Government agencies. Effective operation of whole-of-government arrangements relies, in part, on the timely distribution of these cabled communications to other agencies, to support their decision-making.

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[59]   There are high-level coordination arrangements within the Commonwealth, which were outside the scope of the audit. PM&C is responsible for the Secretaries Committee on National Security (SCNS), a decision-making body that supports the National Security Committee (NSC) of Cabinet. There is also the Strategic Policy Coordination Group, which involves senior officials from DFAT, Defence, and PM&C, and is not a decision-making body.

3.31 DFAT requires cables, rather than email, to be used for all tasking, policy guidance and reporting transmitted between Australian Government agencies and the posts. Unlike emails, cables have prescribed distribution arrangements designed to facilitate effective oversight of issues. DFAT internal guidance on the proper use of cables has stated that, on occasions, when email has been used, managers at either end of the loop have found they are not aware of tasking and advice that has been transmitted between other staff-members. [60]

3.32 However, the arrangements for the distribution of cables have not always facilitated timely communication. When agencies that are not linked to the DFAT communications network have needed to communicate with an overseas post, they have had to deliver the hard copy of the proposed cable to DFAT and also arrange to collect the cabled response. [61] Email messages on the other hand can be exchanged directly between an agency and its contact at the overseas post. Some agencies informed the ANAO, during stakeholder consultations, that they had used emails for official communications with posts because these were transmitted more quickly than the cables.

3.33 Partly because of the requirement for posts to be tasked by cable, rather than email, DFAT is currently amending these communication arrangements. It is working to cease distribution of hard copy cables in the future. Meanwhile it plans to introduce cost-recovery mechanisms for hard copy.

3.34 To assist the transition from hard copy distribution, DFAT has developed three electronic options for Australian Government agencies to have access to DFAT's secure telecommunications and information network (SATIN) for classified and unclassified cables and email. These options are provided by DFAT on a cost-recovery basis. Agencies that use these options will have timely access to send and receive cable traffic. They are designed to enable agencies to choose a means of communicating with DFAT based on their infrastructure and the level of access required.

3.35 At the time of audit, several Australian Government agencies were addressing the question of their access to the communications network.

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[60] Email may be used for the transmission of documents and drafts, for forwarding official correspondence between individuals and for more informal work-related communications between officers.

[61] In the case of an important cable, the originator would often include a request for distribution to be 'ensured' to the relevant agencie(s).

Monitoring

Introduction

3.36 Overseas posts prepare cable reports on developments in their countries of accreditation that are relevant to Australian interests. The reporting is expected to be selective and focused sharply on issues where DFAT can expect to make a difference in protecting and advancing Australian interests, or where there is an identified need for analysis and reporting.

Reporting on progress

3.37 Overseas posts report on progress with bilateral priorities, as required, and in response to a specific request ('tasking') from Canberra. They are expected to use their judgement to determine when reporting is required. This reporting is handled on an issue-by-issue basis; it involves the post in preparing cabled reporting on issues that arise in relation to the implementation of key bilateral priorities or the management of unexpected developments.

3.38 For example, in the first four months following the discovery of the first case of BSE in a bilateral partner, the post provided ongoing reporting on progress with implementation of its strategy (paragraph 3.21) to manage the implications of the disease for Australia's interests. The reporting addressed:

- technical matters, such as the discovery of further cases of BSE;

- the impact of the discovery of BSE on consumer demand in this country for beef;

- the views of other relevant diplomatic missions accredited to this country;

- media commentary on the response of the host country to the discovery of BSE; and

- actions taken in the country to promote Australia's BSE-free status and approaches adopted by other beef exporters.

3.39 The ANAO found that the reporting provided by posts on the issues examined was informative, providing its audience in Canberra with a clear picture of progress with the implementation of key bilateral priorities and the management of unexpected developments. Posts were also attentive to any developments that might affect Australian interests.

Oversight by senior management

3.40 Overseas posts produced over 84 000 reporting cables in 2002–03.[62] There are formalised distribution arrangements for cables. With some exceptions, the cabled communications between the posts and divisions are directed to the operational staff with responsibility for the issue in question. There is also a requirement for most cables to be distributed to the DFAT Senior Executive, the DFAT Ministerial Offices, and other Australian Government agencies with a policy interest in the subject-matter of the cable.[63]

3.41 There are a number of ways by which monitoring and review of progress with key priorities and response to unexpected developments occurs. In Canberra:

- the DFAT Ministers meet regularly with the DFAT Senior Executive to discuss policy-related issues;

- the Secretary's office has a staff-member responsible *inter alia* for prioritising incoming DFAT reports and conveying the Secretary's directives to DFAT staff; and

- there are weekly meetings of the DFAT Senior Executive and Division Heads,[64] which are the principal means of reviewing and communicating changing policy priorities. A summary record is kept of the subjects discussed at Division Heads, which are then considered for inclusion in a weekly policy information report cable to senior DFAT staff at posts and also communicated to operational staff through intra-divisional meetings.

3.42 There are comparable arrangements in the overseas posts, which reflect their whole-of-government responsibilities. For example, one post convenes regular meetings that include representatives of attached agencies and other Australian Government agency representatives in the country. These include monthly meetings of the post's Trade and Economic Policy Group, and weekly meetings of staff working on political and military issues and the Public Diplomacy group.

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[62] DFAT, *Annual Report 2002–03*, Commonwealth of Australia, Canberra, 2003, p.95.

[63] The cabled reporting is frequently supplemented by email and telephone contact between posts and divisions on issues arising in the implementation of key bilateral priorities.

[64] Two key meetings take place each week. The first, on Monday morning, is a meeting of the Senior Executive (Secretary and four Deputy Secretaries) focusing mainly on administrative matters. The second is a meeting of the Senior Executive and Division Heads to consider and communicate key policy issues for the week. Members of the Senior Executive also become involved in issues at other times.

3.43   DFAT also implements other oversight mechanisms, on an as needed basis, in response to unexpected developments. For example, during South Asian regional tensions, it prepared a daily situation report for Ministers and the Senior Executive for three weeks.

3.44   The ANAO also found that DFAT officers liaise with Ministerial Offices over issues judged to be of interest to them. For example, as the BSE issue developed, DFAT drew to the attention of ministerial staff successive reporting cables from the post. Such contact also occurred during the war graves issue.

3.45   The ANAO concluded that DFAT has mechanisms for reporting progress to senior managers and the arrangements in place facilitate oversight by the Senior Executive and Ministers.

4. Assessing Outcomes

This chapter examines DFAT's systems for determining whether it has achieved the Government's bilateral priorities and whether outcomes have been appropriately reported.

Introduction

4.1　Performance information is a critical tool for public sector management and its accountability to stakeholders.[65] It can be used for both internal management purposes and as the basis for accountability reporting to stakeholders about performance and the achievement of outcomes. The performance of the Australian Public Service (APS), particularly its effectiveness, is now subject to increased levels of scrutiny.

DFAT performance information framework

4.2　A practical and informative performance information framework is an integral element of the outcomes and outputs budget framework. The Joint Committee of Public Accounts and Audit (JCPAA) has emphasised the importance of such frameworks.[66] Finance guidance states that the performance indicators should reflect the:

- effectiveness of contributions to outcomes;

- price, quality and quantity of outputs; and

- desired characteristics of relevant administered items.

4.3　However, fulfilling these requirements, in particular for indicators to measure/assess the effectiveness of contributions towards outcomes, is particularly difficult for DFAT. This is because much foreign policy is driven by events outside DFAT's control:

> Measuring the impact of a foreign ministry's interventions is made particularly difficult by the complexities of the international environment. An agency with regulatory authority in the domestic environment has the ability to enforce compliance by citizens. A foreign ministry has no such ability in the international arena, and is dealing with other sovereign actors while also taking account of their objectives.[67]

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[65]　ANAO, *Performance Information Principles Better Practice Guide*, Commonwealth of Australia, Canberra, 2002, p.iii.

[66]　JCPAA, *Report 388—Review of the Accrual Budget Documentation*, Commonwealth of Australia, Canberra, 2002, p.51.

[67]　New Zealand Ministry of Foreign Affairs and Trade, *Statement of Intent Incorporating the Departmental Forecast Report,* Wellington, 2003, p.42. www.mfat.govt.nz [26 May 2004]

4.4   DFAT's performance information framework was established in 2001, following a review of previous performance management arrangements. The review concluded that the previous framework was inflexible, with performance indicators that were too specific. The indicators were therefore liable to be overtaken by events or require modification as a result of decisions beyond Australia's control.

4.5   Accordingly, DFAT established a reduced number of effectiveness indicators. It advised that these were more 'timeless and generic', and that they provide work units with a common basis for measuring performance.

Outcomes and outputs

4.6   The relevant DFAT outcome statement is at Figure 4.1. This meets the requirement for outcome statements to define the impact expected from the work undertaken by the agency and the administered items that it manages. It also provides the Parliament and other stakeholders with a clear statement of broad goals.[68]

4.7   The ANAO also found that there was a clear link between Outcome 1 and the effectiveness indicators for the relevant output (Table 4.1). The effectiveness indicators addressed the three key areas of DFAT's foreign and trade policy work—the promotion of national security, national economic and trade performance, and global cooperation.

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[68]   ANAO, *Audit Report No.18 2001–02 Performance Information in Portfolio Budget Statements*, Commonwealth of Australia, Canberra, 2001, p.33.

Table 4.1

Effectiveness indicators for Output 1.1 of Outcome 1

DFAT Outcome 1:	Australia's national interests protected and advanced through contributions to international security, national economic and trade performance and global cooperation.
Outcome 1: Effectiveness indicators	
Enhancement of Australia's security	• Contribution to national, regional and international efforts to promote a more stable regional and global security environment. • Strengthened and/or well-maintained security links with our allies; strengthened and/or well-maintained security-related dialogue and cooperation with other countries both bilaterally and in regional forums. • Contribution to combating international terrorism and to the development and implementation of international arms control agreements to counter the spread of weapons of mass destruction.
Contribution to national prosperity	• Improved access to overseas markets for Australian exports and investment pursued through bilateral regional and multilateral means. • Contribution to efforts to maintain and strengthen the multilateral trading system and effective use of the WTO to protect and pursue Australia's trade interests. • Effective participation in APEC[69] and other regional forums to build support for freer trade, make practical improvements in the business environment and encourage economic reform in the Asia-Pacific region.
Contribution to strengthening global cooperation in ways that advance Australia's interests	• Effective participation in multilateral organisations such as the United Nations and the Organisation of Economic Co-operation and Development and in related multilateral and regional cooperation mechanisms. • Promotion of outcomes to international deliberations on global environmental issues consistent with Australian policy positions. • Contribution to the development of a strong international legal framework. • Encouragement of wider international application of universal human rights standards, democratic principles and good governance.

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[69] Asia-Pacific Economic Cooperation.

Outcome 1: Output 1.1 and its sub-outputs	
Output 1.1: Protection and advocacy of Australia's international interests through the provision of policy advice to ministers and overseas diplomatic activity	*Sub-outputs:* 1.1.1: North Asia. 1.1.2: South and South-East Asia. 1.1.3: Americas and Europe. 1.1.4: South Pacific, Middle East and Africa. 1.1.5: Bilateral, Regional and Multilateral Trade Negotiations. 1.1.6: Trade development/policy coordination and APEC. 1.1.7: International Organisations, legal and environment. 1.1.8: Security, nuclear, disarmament and non-proliferation.

Source: DFAT

4.8 As Table 4.1 indicates, the relevant Output is 1.1: 'Protection and advocacy of Australia's international interests through the provision of policy advice to ministers and overseas diplomatic activity'. This reflects the policy advising responsibilities of the divisions of head office and the work of the overseas posts.

4.9 Consistent with the requirements of the Department of Finance and Administration, DFAT has also developed quantity and quality and price indicators for its outputs.[70] The ANAO found that:

- the quantity indicators for Output 1.1 address such matters as the number of units of policy advice delivered, the numbers of representations made and the numbers of reporting cables produced by the diplomatic missions;[71] and

- prices are established at the output level. Output 1.1 was priced at $305.782 m in the 2004-05 PBS.[72]

4.10 DFAT's effectiveness indicators and quality measures are considered further below.

Effectiveness indicators

4.11 As Table 4.1 indicates, DFAT's revised effectiveness indicators are expressed at a high level. For example, they contain broad statements of objectives such as 'improved access to overseas markets for Australian exports'. In this sense, they are more in the nature of intermediate outcomes.

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[70] ANAO, *Performance Information in Portfolio Budget Statements Better Practice Guide*, op cit, p.21.

[71] DFAT, *Portfolio Budget Statements 2004–05*, Commonwealth of Australia, Canberra, 2004, p.46.

[72] DFAT, *Portfolio Budget Statements 2004–05*, ibid, p.46.

That is, partial outcomes to be achieved within a shorter time frame than the overall outcome.[73]

4.12   The language in the indicators seeks to avoid identifying targets beyond DFAT's capacity to achieve. For example, the use of the term 'contribution' reflects the fact that Australia is frequently involved in wider efforts to achieve outcomes, such as a more stable security environment.

4.13   However, the high-level approach means that the indicators do not have some of the key characteristics of useful performance measures. These include being specific, that is, clear and concise, measurable, and preferably timed.[74] For example, there are limitations in terms of:

- what is meant by terms such as 'improved', 'promote', 'improved access to overseas markets for Australian exports'; and

- explanation of the measures that will be used to determine how security links with allies had been strengthened and/or well maintained.

4.14   Also, several of the effectiveness indicators in Table 4.1 relate to effort, rather than the outcome to be achieved. This reflects the fact that some efforts, for example, 'to promote a more stable regional and global security environment' will be ongoing. However, such indicators could be more useful if they also indicated some of the interim outcomes that DFAT seeks to achieve.

4.15   For example, if DFAT has a key bilateral priority that involves negotiating an agreement with a country on security cooperation, the objective is likely to be a completed agreement on terms acceptable to the Australian Government. A timeframe of two or three years might be anticipated to complete the agreement. It is possible to identify a series of intermediate indicators to be achieved during this timeframe. These could include, for example: the key players in the country are identified, with a strategy to engage them; the bilateral partner holds initial discussions on a possible agreement; an initial draft text is developed for consideration etc.

4.16   Such intermediate indicators can help DFAT to determine whether it is on track to meet its overall objective. If a particular indicator is not being met, it provides a prompt for consideration of the course of action being followed and possible alternatives.

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[73]   ANAO, *Performance Information in the Portfolio Budget Statements*, op cit, p.9.

[74]   ANAO and DOFA, *Better Practice Guide Annual Performance Reporting*, op cit, p.13.

4.17 In terms of public reporting, there could be a reference to the overall objective of a bilateral agreement in the performance information framework, suitably edited so as not to compromise Ministerial prerogative. More detailed intermediate indicators could be for internal use.

4.18 As the framework for public reporting, the revised performance information framework does not contain the more detailed priorities (or indicators) for individual bilateral relationships that are developed, for internal management purposes, in the Department's strategic planning and evaluation processes.

4.19 DFAT has advised that this is partly because it is Ministerial prerogative whether to place confidential priorities in the public domain. It also considers that risk may be incurred by placing some sensitive priorities in the public domain. The ANAO recognises these as important considerations that limit the public availability of some performance information. Any enhancements to the framework would have to have regard to them. However, they do not preclude some strengthening in the areas described above.

Quality indicators

4.20 The quality of an output is directly related to its capacity to contribute to an outcome. Better practice quality indicators relate to tangible objective criteria such as timeliness, coverage, accuracy and conformity to specifications. Less tangible criteria such as client satisfaction, peer review and public perception, can also be used, providing there is a sound methodology for collecting the information.[75]

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[75] ANAO, *Performance Information in Portfolio Budget Statements*, ibid, p.21.

4.21 The 2004–05 performance information framework has three quality indicators for Output 1.1 (Table 4.2).

Table 4.2

Quality indicators for Output 1.1

Output 1.1: Quality indicators
• Satisfaction of portfolio ministers with the Department's policy advice, analysis, speeches and briefings, including the Department's contribution to the development of policies of other Commonwealth agencies which have an international dimension.
• Satisfaction of portfolio ministers with the protection and advancement of Australia's international interests, including the conduct and timeliness of bilateral and multilateral negotiations, effective advocacy and representations, post reporting and the organisation of official programs.
• Strong capacity to assess, analyse and advise on responses to international developments.

Source: DFAT

4.22 Two of these address the satisfaction of portfolio Ministers. Such indicators are best supported by a system for obtaining Ministerial feedback on performance measures for policy advice that *inter alia* has explicit criteria for the quality of advice and that captures feedback across the range of policy advice provided.[76]

4.23 DFAT has not established proper criteria to assess the quality of policy advice. The offices of the two portfolio Ministers advised the ANAO that each Minister provides feedback on departmental policy performance through a variety of mechanisms. These arrangements operate to their satisfaction.

4.24 The third quality indicator, 'Strong capacity to assess, analyse and advise on responses to international developments', has no supporting measures. DFAT has advised that this indicator is not intended to be read in isolation from the two other quality indicators. This relationship could be clarified as, otherwise, the indicator is of limited value considered in isolation.

4.25 Sound performance management also seeks to support such indicators with the necessary means of assessing them, for the benefit of management and all other stakeholders. In this case, the indicators could address, *inter alia*, the quality and timeliness of policy advice and, in the overseas context, the quality of an overseas post's network of contacts. This latter is a criterion that the DFAT Senior Executive already uses informally in the PER context for its assessments of the performance of posts.

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[76]   ANAO, *Performance Information in Portfolio Budget Statements*, ibid, p.23.

4.26 Overall, the ANAO concluded that whilst the elements of a sound performance information framework are broadly in place, the indicators used have limitations with respect to their clarity, specificity, and measurability.

4.27 The ANAO recognises the challenge involved in developing measures in this area. DFAT's decision to reform the previous performance information framework was influenced by lessons learned from the use of more specific indicators.

4.28 However, agencies often face a changing operating environment that makes reporting a consistent view of performance a challenge. In these circumstances, sound performance management practice and accountability for performance requires agencies to explain and/or map why and where those changes have occurred.[77]

4.29 The JCPAA has also acknowledged that agencies falling short of their targets have not necessarily failed.[78] For example, circumstances beyond agency control may have changed, or the target may subsequently have been found to be unreasonable. In these circumstances, the annual report provides 'ample opportunity' for agencies to discuss their performance against their targets and why they have experienced variations.[79]

4.30 There is a considerable amount of data captured by DFAT, particularly in the cable traffic, about progress in policy performance. Measures of greater specificity, particularly in the effectiveness indicators, would strengthen the focus and provide greater clarity for internal management purposes.

Recommendation No.2

4.31 The ANAO recommends that DFAT strengthen the performance indicators for Outcome 1 and Output 1.1 to be, where applicable, specific, measurable, and preferably timed, for greater effectiveness.

DFAT response

4.32 Agreed.

- DFAT sets high standards in the quality of the material it puts in the public arena, including its performance reporting. The department notes the ANAO's acknowledgement that it is particularly difficult for DFAT to be more specific in its indicators to measure and assess the

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[77] ANAO, *Audit Report 11 2003–03 Annual Performance Reporting*, op cit, p.52.

[78] JCPAA, *Review of the Accrual Budget Information*, op cit, p.54.

[79] JCPAA, *Review of the Accrual Budget Information,* ibid, p.54.

effectiveness of contributions towards outcomes because much foreign and trade policy is driven by events outside the department's control. While the department appreciates the ANAO's positive comments on the quality of its performance reporting it agrees that it can be strengthened further.

Reporting on priorities and outcomes by other foreign ministries

4.33 The ANAO observed that the practice of some other foreign ministries provides an indication of ways in which performance information can be addressed in this complex operating environment.

4.34 For example, the United States Department of State prepares an annual performance plan specifying the performance outcomes that it aims to accomplish, along with how it will accomplish and verify the results. It later reports against the plan in an annual Performance and Accountability Report, containing performance and financial information. This is submitted to the President, Congress and the public.

4.35 The context for this is the Government Performance and Results Act of 1993,[80] which is much more specific and prescriptive than that for Australian Government agencies. The specific approaches are therefore unlikely to be appropriate for DFAT. Nevertheless, they are illustrative of the way in which greater specificity is possible in performance information (see Table 4.3).

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[80] The legislation requires agencies to complete three plans: strategic plans that provide the framework for the subsequent plans; an annual performance plan that must include the performance goals and indicators for the year; and a performance report that is required to review the success of achieving the previous year's performance goals, evaluate the performance plan for the current year in the light of the previous year's successes or failures, explain any failures to meet goals and include summaries of program evaluations completed during the preceding year.

Table 4.3

US Department of State: Strategic Goal Performance Analysis

Sub-section	Purpose
Public Benefit	A concise narrative describing how pursuit of the goal benefits America and the world.
Selected Performance Trends	Graphs that show key performance trends specific to each goal.
Strategic Context	A table depicting the various components (programs, lead bureaus, and external partners), which contribute to accomplishment of a given goal.
Performance Summary	A graphic summary of results achieve for a goal showing both the current and previous year's results.
Resources Invested	A summary of resources (dollars and people) devoted to pursuit of the goal for the current and previous reporting period. The results chart and resource investment are shown on a single page so as to provide the reader with a concise snapshot of performance and resources as related to a given strategic goal.
Illustrative Example	An example of a key Fiscal Year 2003 achievement that is typical of the Department's work in support of the goal.
Performance Results	Results history/trend together with the current rating and short impact statement pertaining to each of the Fiscal Year 2003 results achieved.
Program Evaluations and PART Reviews[81]	Summaries of evaluations and reviews conducted on the programs critical to activities related to a given strategic goal.

Source: US Department of State *FY 2003 Performance and Accountability Report* Washington DC, 2004 www.state.gov [30 April 2004]

4.36   Appendix 6 contains further information about the performance methodology used in this planning and reporting framework, including an extract from the U. S. Department of State Fiscal Year 2003 Report containing a performance summary for one initiative within Strategic Goal 1—Regional Stability.

Assessing the achievement of bilateral priorities

4.37   DFAT's annual strategic evaluation processes involve reviews of the performance of overseas posts and divisions, at the end of each financial year.

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[81]   PART refers to a Program Assessment Rating Tool developed by the US Office of Management of the Budget.

4.38 The key elements of the performance assessment aspect of the Post Evaluation Report (PER) and Divisional Evaluation Review (DER) processes are outlined in Figure 4.1.[82]

Figure 4.1

Key performance assessment features of the PER and DER

Feature:	Post Evaluation Report (PER)	Divisional Evaluation Review (DER)
Focus:	• An overall evaluation of performance against priorities. • Identify setbacks and areas for improvement.	• A summary of main achievements. • Identify setbacks and areas for improvement.
Consultation:	• Posts prepare the PER cable in consultation with their parent divisions. • Non-parent divisions comment on the performance of posts. • Parent divisions provide a short written assessment of each post's performance to the Senior Executive, drawing on internal consultations. • Feedback is sought from other agencies on achievement of objectives.	• Head of Mission comment on division and Branch performance is used in DER (and also performance appraisals). • The DER is internally focused and does not involve formal consultation.
Assessment:	• The PER cable is considered by the Senior Executive. • The Secretary cables the Senior Executive's assessment of the post's performance during the previous year to the Head of Mission.	• The Senior Executive meets with each division head to discuss the division's performance. • The Secretary then writes to each division head to advise the Senior Executive's assessment of divisional performance during the previous year.

Source: DFAT

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[82] Each of these processes also involves the articulation of future key bilateral priorities, which is examined in Chapter 2—*Planning*.

Performance reporting from posts and divisions

4.39   Overseas posts and divisions are required to provide a brief report in which they:

• make an overall evaluation of their performance against the background of the priorities set in the previous year's PER/DER process; and

• highlight notable achievements or setbacks, as well as providing comment on areas where, they assess, there is room for improvement.

4.40   There is no requirement to report against *all* previously agreed priorities. DFAT advised that this is because some priorities may have been overtaken by evolving international events. Posts and divisions are therefore required to address issues of ongoing relevance, and not issues where little of substance is to be gained in the context of limited space and the relative importance of the issues.

4.41   The ANAO recognises that many priorities may become redundant or are not fully progressed. However, changing circumstances do not invalidate accepted principles of sound performance management and reporting which involve assessments against all key priorities, not just some of them. This principle provides accountability and assurance that priorities have been addressed. Reporting does not need to be excessive, but rather fit for the purpose. It may be enough, in some cases, to state that the priority has been overtaken by events.

4.42   In the same vein, clarity of performance reporting would be aided if posts and divisions were required to list the priorities from the previous PER or DER cycle against which they are reporting.

4.43   The ANAO found that cables from the posts examined did contain several pages of detailed analysis of Australia's relationship with respective bilateral partners. There is less discussion of individual bilateral relationships in the DER reporting, as these reports have a more strategic focus. However, divisions do report on their involvement in some issues.

4.44   The ANAO found that this performance reporting is succinct and factual, focusing on the role of the post or division in managing the issue in question and any outcomes achieved. The performance reporting from posts also, in some cases, draws on stakeholder comment (see Table 4.4 which contains extracts from recent reporting).

Table 4.4

Post and division performance reporting in 2002–03

PER Reports	One post reported stakeholder comment that the 'post provided top quality reporting and support [on a range of matters], as well as in the negotiation of [a] draft treaty on maritime cooperation and broader issues concerning illegal fishing.' Another reported that 'the post contributed to enhancing the bilateral dialogue including through its input and support for [a major ministerial forum]… As well as adding impetus to the trade relationship, the [forum] enabled [the Minister] to make contact with the [relevant Minister of the other Government] early in his tenure, including on the WTO agenda.'
DER Reports	'[the division] organised Australia's participation in the [second bilateral] Conference and then coordinated other agencies in implementation of [its] wide-ranging recommendations.' 'We maintained the momentum on relations with [the country]. We contributed to preparations for the strategic dialogue with [the country], resulting in a new agreed framework for bilateral discussions.'

Source: DFAT

4.45   The ANAO also found that posts examined properly identified setbacks that occurred in their PER reporting. Table 4.5 provides extracts from reporting on setbacks that occurred for issues examined during the audit.

Table 4.5

Reporting on setbacks in the PER

PER report from one post
'Australian beef exports remain 50 per cent below comparable levels for the previous year despite overall demand for beef being only 20 per cent down … We have emphasised to [industry representatives] our willingness to provide whatever assistance we can for further promotions. One of the main reasons for the slow recovery of Australian beef exports is Australia's inability to meet [the country's] demand for specific cuts of meat … In the current uncertain environment, wholesalers are reluctant to purchase cuts for which there is no specific demand. Our main competitor … is able to meet this demand and has taken market share from Australia.'
PER report from another post
'The high tensions between [two countries] set back a number of plans including visits to [one of the countries] and slowed activity for several months. Most concerning was the delayed visit for the assessment team for … mango imports, which finally occurred in April.'

Source: DFAT

4.46   The ANAO found that divisions also report setbacks to the achievement of priorities. For example, the North Asia Division reported setbacks in bilateral negotiations with countries in its region of responsibility.

Stakeholder comment on performance

4.47 Client satisfaction is a criterion used by the DFAT Senior Executive in assessing post and divisional performance. This includes feedback from:

- Ministers, who provide feedback on policy performance throughout the year;

- divisions, collected during the PER. The focus is on posts whose performance is considered significantly above or below the standard expected. In the 2002–03 round, this feedback was positive for the three posts examined by ANAO; and

- Heads of Mission/Heads of Post on the quality of divisional liaison with posts. This is primarily used for performance appraisal purposes but also has relevance for the DER and the PER. This feedback was positive in the 2002–03 round.

4.48 DFAT Senior Executive also seeks comment on posts' performance from other Australian Government departments and agencies. The consultation is undertaken at Deputy Secretary level and focuses on those posts that agencies consider to be performing significantly above or below the standard expected.

4.49 Feedback for the three posts examined in this audit was consistently positive, in the 2002–03 PER. For example, the Department of Agriculture, Fisheries and Forestry rated two of the three posts as 'excellent' and the other 'very good.'

Senior Executive assessments

4.50 The DFAT Senior Executive is responsible for assessing post and divisional performance. In the PER, the assessment has regard to:

- quality and timeliness of post reporting; support for high-level visits; and the effectiveness of post advocacy; and

- quality of post contacts and access. For example, one post was able to place an opinion-piece by the Australian Minister for Trade on the front page of a major national newspaper in its country of accreditation.

4.51 For the DER, the Senior Executive assessments reflect the divisions' policy advising responsibilities. Table 4.6 contains examples from assessments for a post and division from the 2002–03 rounds.

Table 4.6

Senior Executive Assessments in the PER and DER

PER
'The post performed strongly over the past year, accelerating the momentum and deepening the substance of the bilateral relationship with [the country].
The post's well-targeted advocacy was effective in enhancing [the country's] understanding of and responsiveness to Australia's key political, strategic, security and multilateral objectives. Securing [the country's] agreement to a MOU on … was a significant achievement. The post is to be commended for its high quality and timely reporting on political and strategic issues …
The post's energetic promotion of Australia's trade and investment interests in [the country] is commended. Its advocacy at senior level of government in support of a range of market-access issues was very effective. The post provided strong support to a number of bilateral economic forums. A range of other departments commented positively on post's support for their trade and investment interests.
The post's management of the visit by [the Minister] for the [bilateral forum] and of other ministerial and official visits was highly professional.'

DER
'[the division] had a year of impressive achievements, in no small part due to your strong leadership. You and your divisional colleagues are to be congratulated for your dynamic and creative work in securing positive outcomes across the range of the division's responsibilities. It was notable that the division gave consistently strong service to both Ministers and was particularly effective in linking with the work of the multilateral divisions….
We need to make the most of the strengthening affinities we have with [the country]. The [bilateral agreement], while short of our ambitions, was a credible and professional result. Given [the country's] caution … the division and …team could not have done any better. You will need to be creative in your approach to the bilateral relationship. You should take full advantage of high-level visits to [the country] to further our various agendas.'

Source: DFAT

4.52   Overall, the ANAO concluded that the DFAT mechanisms assess post and divisional performance. The performance reporting is factual and addresses setbacks that have occurred to the achievement of bilateral priorities. The use of stakeholder feedback by the Senior Executive complements their own judgements.

Reporting bilateral outcomes

Introduction

4.53   The foundation for agency accountability and transparency is performance information, with results being reported in annual reports.[83]

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[83]   ANAO, *Performance Information in Portfolio Budget Statements*, op cit, p.1.

Reporting bilateral performance in the annual report

4.54   Annual reports are a key accountability mechanism to the Parliament and also serve to inform other stakeholders and the general public. Annual reports are expected to provide sufficient information for the Parliament to make an informed judgment on departmental performance[84] and are thus a key accountability document.

Reporting against effectiveness indicators

4.55   The ANAO found that DFAT reports on the effectiveness indicators described in Table 4.1.[85] The reporting occurs at the sub-output level. For example, sub-output 1.1.1 covers the work of the North Asia Division and its overseas posts. The reporting in the 2002–03 annual report for North Asia provides an account of the key areas of focus over the previous year in the Australia/Japan relationship, as follows:

- high-level visits;

- expansion of dialogue and cooperation on security and defence;

- negotiation of a trade and economic framework agreement;[86]

- DFAT's work, in conjunction with other agencies, to protect and promote Australia's agriculture exports; and

- the outcomes of the second conference on the bilateral relationship, held in November 2002.[87]

4.56   The ANAO found that DFAT also identified setbacks to the achievement of bilateral priorities. The reporting was descriptive, factually correct, and broadly consistent with reporting in the relevant PER.

Quantity, quality and price indicators

4.57   DFAT reports on quantity, quality and price indicators for such matters as the number of units of policy advice delivered, consultations conducted,

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[84]   Department of the Prime Minister and Cabinet, 2003, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, Canberra, p.3. www.pmc.gov.au/publications.cfm [17 July 2003].

[85]   The Senate Foreign Affairs, Defence and Trade Legislation Committee is responsible for examining annual reports of departments and agencies within the Foreign Affairs and Trade and Defence portfolios and is required to prepare an annual report on this subject. The Committee has assessed the two most recent DFAT annual reports as complying with the Annual Reporting Requirements.

[86]   There is additional information on the Trade and Economic Framework agreement under sub-output 1.1.5: Bilateral, Regional and Multilateral Trade Negotiations.

[87]   DFAT, *Annual Report 2002–03*, op cit, pp.28–29.

and the numbers of occasions on which DFAT has contributed to the development of policies by other Australian Government agencies.[88]

4.58 The reporting also addresses Ministerial satisfaction with DFAT performance. For example, DFAT drew on feedback received from Ministers to report on Ministerial satisfaction in the 2002-03 annual report, as follows:

> Ministers expressed general satisfaction with the level, intensity, diversity, alacrity and effectiveness of the department's policy work.[89]

4.59 However, the ANAO found that reporting against the third quality indicator, 'capacity to respond to international developments' was not particularly informative.

Figure 4.2

Reporting on capacity to respond to international developments

'The reporting against effectiveness indicators earlier in this report provides instances of appropriately timed and scaled responses to international events with significant consequences for Australia.'[90]

Source: DFAT

4.60 The relevant commentary in the annual report is at Figure 4.2. It referred to the existence of such reporting elsewhere but did not identify which aspects of the report addressed the indicator. Some of this information is identifiable in the 2002-03 annual report, for example, the reporting on the response to the Bali bombing.[91] But others are not readily identifiable. DFAT could improve the clarity of such references and reporting.

4.61 DFAT advised that consideration will be given to improving the clarity of reporting, including the possible use of cross-referencing.

Canberra   ACT

13 August 2004

P. J. Barrett

Auditor-General

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[88]   DFAT, *Annual Report 2002–03*, ibid, p.95.

[89]   DFAT, *Annual Report 2002–03*, ibid, p.93.

[90]   The reporting against the indicator also referred to DFAT's efforts to maintain surge capacity to react to the unexpected events as distinct from the cultivation of corporate strength in predicting, anticipating and shaping developments.

[91]   DFAT, *Annual Report 2002–03*, ibid, pp.37, 126–7.

Appendices

Appendix 1: Audit objectives and criteria

The overall objective of the audit is to assess DFAT's management of bilateral relations (with three countries) and to identify any scope for improvement.

There are three key audit areas:

Planning

Has DFAT developed and articulated appropriate priorities for each bilateral relationship?

a) has DFAT developed key priorities for each bilateral relationship that are well-informed, appropriately approved, have both a short and/or longer-term focus, and a whole of government perspective?

b) are priorities for each bilateral relationship clearly articulated within DFAT to relevant staff, and in a timely manner?

c) does DFAT have strategies to manage risks associated with its management of bilateral priorities?

Implementation

Has DFAT established appropriate strategies for achieving bilateral priorities and arrangements to monitor progress in these respects?

a) has the post (and geographic division if appropriate) developed implementation strategies to achieve the bilateral priorities?

b) has DFAT established arrangements to monitor and report on the progressive implementation of its strategies?

c) has DFAT regularly monitored and reviewed risks during the course of the year?

d) has DFAT assessed and developed an appropriate response to unexpected developments?

Assessing outcomes

Has DFAT measured and/or assessed its effectiveness in achieving bilateral priorities, and reported appropriately on progress achieved?

a) has DFAT put in place arrangements to measure and assess its effectiveness in implementing bilateral priorities?

b) does DFAT appropriately report its bilateral performance to stakeholders (Ministers, Parliament, public and other agencies)?

Appendix 2: Stakeholder consultations

The following Australian Government Agencies were consulted during the audit:

Department of Agriculture, Forestry and Fisheries

Department of Defence

The Australian Trade Commission (Austrade)

Department of Education, Science and Training

Department of Veterans' Affairs

Department of Industry, Tourism and Resources

Department of the Prime Minister and Cabinet

Other stakeholders consulted include:

The Cattle Council of Australia

Australia Japan Business Cooperation Committee

Appendix 3: DFAT strategies to achieve key bilateral priorities

Bilateral Conference, Sydney	✓ DFAT developed a series of high-level consultations to discuss broad approaches to the conference; ✓ DFAT engaged in ongoing consultation with the other Government over the conference objectives, agenda and participation; ✓ DFAT involved the relevant bilateral foundation as an active participant; ✓ DFAT sought to engage Australian Government agencies in the conference preparations; ✓ Following the conference, DFAT established a Review Committee with the primary role of monitoring, evaluating and helping to prioritise follow-up activity; and ✓ DFAT prepared and implemented a strategy to manage the follow-up activities.
Joint Ministerial Commission meeting	✓ DFAT outlined and pursued a two-stage process for the ministerial meeting that aimed to move beyond past models to involve detailed official-level discussion, in advance of ministerial-level discussion addressing the strategic direction of the bilateral and multilateral trade and investment relationship; ✓ DFAT sought to manage the business dimension through oversight of the scheduling arrangements for a meeting of a bilateral business council and inviting senior business representatives to accompany the Minister on the visit. DFAT's head office and the post oversaw arrangements for the business program; ✓ when a change of the relevant minister occurred, the post acted to ensure that this did not affect the timing of the meeting; and ✓ following the meeting, DFAT managed the required follow-up activities, which included an inter-sessional meeting to review/progress issues between JMC meetings and ensure consistency of approach between the two partners. The delegation reported that the inter-sessional facilitated progress in some key areas and maintained the momentum of the dialogue.

Bilateral treaty on maritime cooperation	Negotiations began in 1996. Six years later, the Minister for Foreign Affairs indicated a wish for the negotiations to be completed quickly. In response: ✓ DFAT considered the appropriate level at which the matter should be pursued, initially considering whether the Head of Mission should be involved in the negotiating process. Subsequently, the possibility of involving Australian Ministers was raised, in order to expedite the negotiations; ✓ when the other Government produced a new text, DFAT and other Australian Government agencies compared this with their own preferred text, and identified some outstanding issues. DFAT identified a face-to-face meeting of the two delegations in the other country as the preferred means of resolving matters quickly and pursued this objective; and ✓ DFAT identified a preferred timeframe for completing negotiations, through direct discussion, so that the text could be signed at a multilateral meeting in Australia, later that year. In the event, the negotiations were substantially completed in the margins of this meeting. The two Governments had then to exchange texts and complete their respective domestic procedures before identifying a suitable opportunity for the agreement to be signed. The agreement was later signed at Ministerial level in Canberra.

Source: Information provided by DFAT

Key: ✓   **achieved**

Appendix 4: Managing the response to unexpected developments

Issue	Briefing the Minister	Strategy identified & implemented
Australian war graves	✓Parent division sought and obtained Ministerial decision on day that cable from post seeking guidance was received. Ministerial offices received the cable traffic.	✓The parent division tasked the post on following day. The post was provided with media guidance. The post reported by cable two days later that these instructions had been implemented. ✓Subsequently, the post sought opportunities to pursue the matter at senior levels of the relevant Government, through approaches to ministerial offices, during high-level visits, and at the Anzac Day ceremony for that year.
BSE	✓Ministerial offices received the post's reporting cables; ✓Parent division drafted first PPQ Monday following confirmation of disease over the weekend; ✓Ministers formally briefed three days later & subsequently.	✓The post and industry agreed on strategy to manage risk to Australian beef exports & keep Canberra informed. The post advised Canberra of the elements of the strategy by cable following the meeting.
Regional tensions	✓DFAT Ministers were informed of developments from the outset through the cable traffic. For three weeks Ministers also received daily situation reports covering current developments & consular aspects of the issue. Ministers also provided with PPQs, media & talking-points.	✓Parent division managed the Australian diplomatic response, which involved making representations in both capitals, joining wider international efforts to urge restraint by both parties. The division drew on reporting from the relevant posts. Its action involved ongoing monitoring of the situation, & preparation of the daily sitrep (and other policy advice).

Source: Information provided by DFAT

Appendix 5: Operation of whole-of-government arrangements

Issue	Australian Government agency involvement
Australian war graves	✔ DVA consulted in drafting of tasking cable and joint Ministerial press release. DFAT identified need to 'calibrate' any comment with DVA. Cables copied to DVA (not represented at the post).
BSE	✔ DAFF in Canberra was included on distribution of cables, supplementary email traffic between post and DFAT also copied to DAFF staff. Ongoing consultation over content of ministerial submissions, press releases, and briefing for Parliament; and ✔ Formulation of the post's response strategy involved staff from DFAT, DAFF, Austrade and also industry. A key outcome of the meeting 'was the recognition that all material concerning Australia's interest in this matter in [the country], and Australia's response to the uncertainty in the [relevant] meat market, is coordinated between [Australian industry representatives in the country], Austrade and [post].'
Negotiation of bilateral Maritime Treaty	✔ A high-level inter-departmental policy group was formed in Canberra, in part to formulate a whole-of-government strategy aimed at illegal, unreported and unregulated fishing; and ✔ In the period examined, cables were copied to Australian Government agency stakeholders & relevant Ministerial offices.
Regional tensions	✔ DFAT promptly initiated inter-agency mechanisms to discuss the developing situation and establish arrangements to facilitate a daily situation report; and ✔ Cable traffic copied to key policy departments and attached agencies.
Joint Ministerial Commission meeting, & inter-sessional meeting.	✔ Austrade managed a business delegation to accompany Minister for Trade on the mission, with a view to building linkages between the two business communities in sectors of the economy being targeted for trade promotion; ✔Cable traffic copied to Australian Government agency stakeholders. Briefing request circulated to Australian Government agency stakeholders; ✔ Follow-up to JMC involved Australian Government agency stakeholders; and ✔ Australian Government agency stakeholders consulted (briefing sought) in preparation for informal inter-sessional meeting to review issues on the main trade and investment issues identified for further action at the previous meeting.

Source: Information from DFAT and some other related Australian Government stakeholders

Appendix 6: Example of performance report by US Department of State

The US Department of State's performance planning methodology (published in the most recent Fiscal Year 2005 Performance Summary but also used previously) has six components as follows:

- *strategic objectives*—high level broad categories of action through which the Department will achieve its strategies and performance goals;

- *strategic goals*—long-term goals as detailed in the Department's strategic plan;[92]

- *performance goals*—desired outcomes the Department is planning to achieve in order to attain strategic goals (there are 38 performance goals);

- *initiatives/programs*—specific functional or policy areas;

- *performance* indicators—values or characteristics that the Department utilises to measure progress towards performance goals. These are drawn from bureau and mission performance plans; and

- *performance targets*—the expression of desired performance levels or specific desired results for a given fiscal year. Achievement of targets defines success. Where possible, targets are expressed in quantifiable terms.[93]

Below is an extract from the FY 2003 Report containing a Performance Summary for one initiative Strategic Goal 1—Regional Stability.

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[92] *The Department of State and Agency for International Development (USAID) Strategic Plan for Fiscal Years 2004 to 2009* sets out the Secretary of State's directions and priorities for both organisations in this period.

[93] US Department of State, *The Department of State Fiscal Year 2005 Performance Summary (The Plan)*, Washington DC, 2004, www.state.gov [4 May 2004]

US Department of State: Performance Summary: Strategic Objective 1 – Achieve Peace and Security		
Strategic Goal 1 - Regional Stability Avert and resolve local and regional conflicts to preserve peace and minimise harm to the national interests of the United States		
Performance Goal 1 Close, strong, and effective US ties with allies, friends, partners and regional organisations **Initiative/Program 1** An enhanced and expanded Euro-Atlantic partnership **Performance Indicator 3** Implementation of Adapted Conventional Forces in Europe (CFE) Treaty[94]		
FY Results History **FY 2003 Data**	**2000**	1. CFE adaptation negotiations continued. 2. Adapted Treaty and Final Act signed at Istanbul.
	2001	1. Second Review Conference of CFE Treaty successfully concluded and advanced US and NATO interests. 2. NATO remained firm in demanding Russian compliance with Istanbul commitments. 3. Russia made initial progress towards implementing Istanbul commitments.
	2002	1. Russia fulfilled its Istanbul commitment on the flank issue, reduced its flank equipment to Adapted Treaty levels, and discharged its Istanbul commitments for CFE equipment in Georgia and Moldova. 2. Russia needs to reach agreement with Georgia on remaining issues regarding Gudauta base and its future use, and the duration of Russian presence in Batumi and Alkhalkalai. Russia also needs to complete the removal and destruction of munitions and small arms in Moldova. 3. Conditions for US ratification of Adapted CFE Treaty have not yet been met.
	2003 Results	1. The situation in Moldova, which has been improving earlier in 2003, then stalled at mid-year, is now again proceeding towards resolution; however, the trains moving ammunition and equipment out of Moldova are running only on a modest schedule. 2. It is clear that Russia will not meet the December 31 2003 deadline to withdraw forces from Moldova. 3. Progress on Georgia has been stalled for most of 2003 though there are now indications that Georgia and Russia will meet soon to resume discussions on implementing the commitment regarding Georgia. 4. Russia remains in compliance with Adapted CFE Treaty Flank Limits.

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[94] The Treaty on Conventional Armed Forces in Europe (or CFE Treaty) was signed in Paris on November 19, 1990, by the 22 members of NATO and the former Warsaw Pact. It is an arms control agreement that established parity in major conventional forces/armaments between East and West from the Atlantic to the Urals. Parties signed the Adaptation CFE Agreement at the Istanbul OSCE Summit on 19 November 1999, to amend the CFE Treaty to take account of the evolving European geo-strategic environment.

	Target	Russia fulfils all Istanbul commitments (troop withdrawal from Georgia and Moldova) allowing for US ratification and entry into force of the Adapted CFE Treaty.
	Rating	Significantly below target.
	Impact	The continued inability to begin the process of achieving entry into force of the Adapted CFE Treaty will undercut the level of confidence and predictability achieved by the current CFE Treaty.
	Other Issues	**Reasons for performance shortfalls** – Russia has not made the difficult political decisions necessary to fulfil its commitments regarding Georgia and Moldova. **Steps taken to improve performance** – the US will increase the level of pressure on Russia by making this a topic for senior exchanges.

Source: US Department of State *FY 2003 Performance and Accountability Report*, Washington DC, 2004
www.state.gov [30 April 2004]

Appendix 7: Formal letter of response from DFAT

The following is the full text of DFAT's response to the audit report.

20 July 2004

Mr Alan Greenslade
Executive Director
Performance Audit Services Group
Australian National Audit Office
Centenary House
19 National Circuit
BARTON ACT 2600

Dear Mr Greenslade

I refer to your letter of 23 June 2004 inviting comments on the ANAO's proposed audit report on DFAT's management of Bilateral Relations with Selected Countries. I note your advice that the department's comments will be included in full in the final audit report.

The department welcomes the ANAO's conclusion that overall DFAT has effective arrangements in place to manage Australia's bilateral relationships. The ANAO finds that the department's strategic planning and review processes work well in identifying and approving priorities, and that there are effective arrangements for consultation within the department. The department also welcomes the ANAO's findings that DFAT has appropriate mechanisms for the assessment of post and divisional performance.

The department notes the report's strong endorsement of DFAT's processes for achieving priorities, including the following ANAO findings: for bilateral activities examined, DFAT identified a strategy to implement each priority; DFAT has arrangements that serve to support early warning of action being required and has developed work practices designed to enable it to cope with the challenges arising from a rapidly evolving international environment; for unexpected developments examined, DFAT Ministers were briefed appropriately and in a timely manner, using a range of the available

mechanisms; DFAT developed appropriate strategies to manage each of the developments examined; for the implementation of both planned bilateral priorities and unexpected developments, DFAT consulted, where appropriate, other Australian Government agencies and stakeholders in the formulation of a response; DFAT's consultation was seen as effective by government agencies and industry groups consulted by the ANAO; and reporting from posts was informative, providing its audience in Canberra with a clear picture of progress with the implementation of key bilateral priorities and the management of unexpected developments.

The department's response to the two recommendations is as follows.

Recommendation 1: Agreed. The ANAO examined some of the department's detailed annual internal evaluation mechanisms. The department is confident that its evaluation processes are rigorous and effective and that its policy-development work takes account of all pertinent factors, including risks. At the same time, the department accepts the ANAO's observation that there is opportunity to build on existing arrangements. The department will seek to implement this recommendation in a way that does not impose a major resource burden on posts.

Recommendation 2: Agreed. DFAT sets high standards in the quality of the material it puts in the public arena, including its performance reporting. The department notes the ANAO's acknowledgement that it is particularly difficult for DFAT to be more specific in its indicators to measure and assess the effectiveness of contributions towards outcomes because much foreign and trade policy is driven by events outside the department's control. While the department appreciates the ANAO's positive comments on the quality of its performance reporting it agrees that it can be strengthened further.

I should like to take this opportunity to express my appreciation for the constructive approach taken by the ANAO in this performance audit.

Yours sincerely

Ashton Calvert

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