

The Auditor-General
Audit Report No.1 2008–09
Performance Audit

Employment and Management of Locally Engaged Staff

Department of Foreign Affairs and Trade

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of Australia 2008

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Canberra ACT
5 August 2008

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 *Employment and Management of Locally Engaged Staff*.

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

Yours sincerely

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

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Abbreviations

A-based staff	Australia-based staff
ANAO	Australian National Audit Office
APS	Australian Public Service
BPG	Better Practice Guide
COC	Code of Conduct
COS	Conditions of Service
DFAT	Department of Foreign Affairs and Trade
HOM/HOP	Head of Mission / Head of (Consular) Post
HRMIS	Human Resource Management Information System
LES	Locally engaged staff
OSP	Overseas Staff Profile
PER	Post Evaluation Report
PLV	Post Liaison Visit
SAC	Selection Advisory Committee
SAO	Senior Administrative Officer
USFSN	United States Foreign Service National

Summary and Recommendations

Summary

Introduction

1. The Department of Foreign Affairs and Trade (DFAT) is responsible for implementing the Australian Government's foreign and trade policy objectives. It does this through its head office in Canberra, its State and Territory offices and its network of 91 overseas diplomatic posts.¹
2. Some 548 Australia-based (A-based)² DFAT staff work in the overseas posts, with 1491 locally engaged staff (LES) supporting and facilitating their work. Overall, LES comprise 41 per cent of total DFAT staff and 73 per cent of DFAT's overseas staff.
3. LES have long been recognised as playing an important role in the day-to-day work of Australia's diplomatic posts. Their knowledge of the local culture, language and physical environment, and their local contacts and corporate memory of events through a succession of A-based staff rotations, enhances the capacity of the posts to achieve Australia's overseas objectives.
4. With pressures to reduce the cost of overseas representation, the roles and levels of responsibilities given to LES have expanded since the 1990s. LES now undertake a wide range of duties—from drivers to accountants. Many are tertiary qualified and perform high-level functions, such as providing consular services to Australians travelling overseas.
5. While LES generally cost less to employ than A-based staff, there is a limit to the tasks that they can perform. Duties requiring first-hand and extensive experience of Australia, and those involving government-to-government representations, need to be undertaken by accredited (A-based) Australian Government representatives.
6. DFAT seeks to provide remuneration, conditions of service, and a working environment that enables its overseas posts to attract and retain high quality LES. In this regard, its policy is to be a competitive and fair employer, requiring all LES conditions of service to meet or exceed local labour laws.

¹ Post is a generic name given to Australian missions abroad. Missions include embassies, high commissions, consulates and multilateral missions.

² A-based staff are appointed to the mission from the departmental head office in Canberra.

7. The contribution LES make to the achievement of Australia's overseas objectives underlines the importance of providing effective management. This includes recruiting staff with the necessary skills and capabilities, training those staff to perform the tasks required, and managing those staff on a day-to-day basis for effective performance.

The audit

8. The objective of the audit was to assess the effectiveness of DFAT's employment and management of its LES at Australia's overseas missions. In particular, the audit examined arrangements for: planning and risk management; guidance and training; recruitment, engagement and employment of LES; and performance management.

9. The audit fieldwork was undertaken at DFAT in Canberra and at four selected overseas posts: New Delhi, Bangkok, Cairo and Stockholm.

10. The audit focused on LES employed by DFAT. It did not examine LES being managed by other Australian Government agencies operating at the posts (attached agencies) and local staff employed in a domestic capacity by the Heads of Mission and other senior A-based staff.

Overall audit conclusion

11. The management of LES by DFAT is a complex undertaking involving the employment of some 1491 people from culturally diverse backgrounds in 91 operationally distinct posts around the world. The effective management of these LES requires sound departmental policy and procedural guidance to facilitate a planned and consistent approach across posts, but with sufficient flexibility to accommodate cultural sensitivities and to enable posts to comply with local labour laws.

12. The ANAO concluded that, overall, DFAT effectively employs and manages its LES. DFAT undertook a major review of LES management in 2000 which resulted in fundamental changes to improve the way LES are managed. In addition, DFAT provides helpful LES policy and administrative guidance to posts; posts are focused on developing and training LES; post conditions of service are adequately documented and salaries regularly reviewed; recruitment and selection processes are generally sound; and performance management systems are in place.

13. Notwithstanding this overall conclusion, the ANAO identified a number of improvements that would strengthen the employment and

management of LES. These include: strengthening LES review and oversight arrangements; developing standard LES training material for posts; facilitating a more consistent approach by posts to LES health checks; and monitoring outcomes from LES performance appraisal rounds.

Key findings

Planning and risk management (Chapter 2)

14. DFAT undertook a major review of LES management in 2000—the first wide-ranging review for more than 15 years—which resulted in fundamental changes to improve the way LES are managed. Changes included devolving greater responsibility for managing LES and setting conditions of service to Heads of Mission; increasing the use of fixed-term contracts; and introducing performance management arrangements.

15. While DFAT has reviewed various aspects of LES management since that time and monitors LES issues reported by posts, more systematic monitoring and the periodic evaluation of LES workforce initiatives would help DFAT assess the scope for enhancing the arrangements relating to the employment and management of LES.

16. Effective planning processes rely on an agency's ability to access accurate and timely information about the demographic characteristics, skills, capabilities and qualifications of its staff. DFAT collects demographic information on its LES workforce through a live database known as the Overseas Staff Profile. However, the ANAO found a range of errors in the database which undermines its usefulness for planning purposes and as a reporting and monitoring tool. DFAT advised that this issue will be resolved in 2008–09.

17. DFAT also has a range of risk management plans that identify and treat common risks across the department and its network of overseas posts, including those relating to the employment of LES. These agency-wide plans and related control processes are well-established and represent a sound and logical approach to identifying and systematically managing common LES-related risks across posts. The plans were well-understood by the posts visited.

Guidance and training (Chapter 3)

18. The key formal DFAT guidance document is the LES Better Practice Guide (BPG). While the BPG is well written and easy to understand, the ANAO identified a number of areas where additional specific guidance would be beneficial. There is also a need to more clearly identify the BPG's mandatory elements so that posts do not overlook important processes or minimum requirements. DFAT advised that it will do this in 2008.

19. DFAT provides ongoing support to posts via a Helpdesk arrangement, which provides timely and useful advice to posts. There would be benefit in monitoring the number and the nature of enquiries to help identify and authoritatively brief the Senior Executive on any emerging management issues. DFAT has agreed to provide the Senior Executive with statistics on LES management issues on an annual or biannual basis, and brief it on any emerging management issues or trends.

20. All posts visited by the ANAO provided new starters with security briefings and information on the post's conditions of service and code of conduct. However, inadequate briefings were provided on: the role and structure of DFAT; the operation and function of the post; performance management arrangements; probationary arrangements; training and career development opportunities; and financial and fraud awareness issues. Clear guidance to posts on the need to adequately brief new LES in these areas is warranted. DFAT advised that it will remind posts of the importance of providing oral briefing on these issues for new starters.

21. Much of the training that should be delivered to LES is common across posts. It would be simpler and more efficient for the training material to be prepared and maintained centrally. Given that DFAT has intended to provide this type of training assistance, including via electronic-training modules, since at least 2004, active management of the project—which DFAT advise is occurring—will help ensure a timely outcome.

22. Posts facilitate ongoing training through LES participation in local and regional training, regional management conferences, and leadership and development training in Australia. Participation in these activities is keenly sought and well regarded by both post management and LES attendees.

23. There would be merit in DFAT reminding posts that the performance appraisal context provides a good opportunity for regularly identifying,

discussing and documenting LES training needs. DFAT has indicated that it will remind posts of this opportunity.

Recruiting and engaging LES (Chapter 4)

24. All four posts visited considered that they had high quality LES and generally reported that it is not difficult to attract and retain such staff.

25. While most LES vacancies at the posts visited were externally advertised, one post was concerned about receiving too many applications and instead filled some jobs by selecting from a group of unsolicited general expressions of interest that it maintained, or through word of mouth. It would be timely for DFAT to remind posts of its better practice requirement to advertise jobs. DFAT has agreed to do this, while noting that the instance identified is likely to be unusual.

26. The selection arrangements at the posts visited were generally sound. However, two recruitment processes at one post did not use selection criteria. Drawing the attention of posts to the importance of selection criteria underpinning all selection processes would help strengthen these arrangements. DFAT advised that it will remind posts of its requirement to use selection criteria.

27. DFAT expects posts to undertake pre-employment medical examinations/health checks of LES appointees, but only two of the four posts did so. The provision of advice to posts on the minimum requirements for health checks, and requiring all posts to review current practices against those requirements, should facilitate a more consistent approach by posts to this important issue. DFAT advised that it will direct posts to review local practice to ensure mandatory health checks are undertaken where allowable under local law, and will amend its LES BPG to reflect this requirement.

28. Since 2001 DFAT has required all new LES to be engaged—where feasible under local labour laws—on fixed-term contracts. However, the ANAO found that one post continued to engage DFAT LES on a permanent basis, although a large attached agency employed its new LES on contract. There would be merit in DFAT Canberra clarifying the circumstances in which posts can exercise discretion over the use of fixed-term contracts. DFAT has indicated that it will remind posts to use fixed-term contracts wherever local labour laws allow.

29. DFAT requires LES conditions of service to be competitive in the local labour market and meet or exceed local labour law requirements. A

requirement for annual reviews is not observed in practice and there is no common understanding of how frequently reviews should take place. Providing guidance to posts on the frequency of reviews, and regularly monitoring the currency of post conditions of service, would help strengthen the review process.

30. The task of reviewing LES salaries can be burdensome on posts, with the review effort varying substantially from post to post and year to year reflecting, in part, the resources and internal expertise available to the post at the time. It would be timely, noting that responsibility for LES salaries has been devolved to posts since 2001, for DFAT to review the effectiveness of the arrangements, particularly for larger posts where the associated workload can be significant. It would be beneficial if an outcome of this review is the development of additional guidance for posts on how to go about the task. DFAT advised that it will conduct a review and provide additional guidance to posts.

Managing LES for effective performance (Chapter 5)

31. All four posts visited had established their own probationary arrangements for new staff. However, the arrangements would be strengthened by requiring all posts to clearly set out the factors to be taken into account during the probationary period, and briefly record the feedback provided to LES. DFAT advised that it will remind posts of the importance of providing feedback to LES.

32. All posts visited had established compulsory performance management arrangements for LES. Three posts rate a significant proportion of LES—that is, 62 per cent, 39 per cent and 33 per cent—at the top rating. This contrasts with DFAT's system for its A-based staff, where the highest rating—Outstanding—is limited to the top 10 per cent of staff. Over-rating LES performance has the potential to reduce the incentive for LES to perform beyond the level for which they are normally paid.

33. Given that LES performance management systems have been in place for at least five years and LES appear to be generally comfortable with the process, it would be timely for DFAT to monitor the spread of post ratings. Depending on the findings, the introduction of targets at the larger posts, similar in principle to the ones used for A-based staff, should also be considered.

34. During the audit the ANAO suggested that DFAT enhance accountability and transparency by requiring posts to formally brief their Heads of Mission on the outcomes of annual LES performance appraisals. DFAT advised that it will issue instructions requiring Heads of Mission to be consulted in determining ratings and to formally approve the payment of bonuses/increments.

35. The ANAO found that consultative arrangements with LES had been established at each post visited. However, the arrangements varied in form and effectiveness. This is an area that warrants more active and ongoing monitoring by DFAT. This could be undertaken as part of a regular LES staff attitude survey. DFAT has indicated that it will remind posts of the importance of good consultative arrangements with LES. It also advised that staff satisfaction surveys of A-based or LES would require additional resources.

Recommendations and DFAT's response

36. The ANAO made four recommendations aimed at improving the arrangements for the employment and management of LES. DFAT agreed or agreed with qualification to all four recommendations.

37. DFAT's full response to the audit is at Appendix 1. Its summary response is as follows:

DFAT welcomes the performance audit as a comprehensive and detailed review of the employment and management of locally engaged staff. DFAT welcomes in particular the findings of the report which acknowledge that, overall, DFAT effectively employs and manages its locally engaged staff in a complex and diverse overseas operating environment. It is encouraging that the ANAO concludes that DFAT provides sound policy and guidelines which allow flexibility to accommodate the differences in labour law, local economic conditions, currencies, work/performance norms and cultural/religious environments. DFAT also appreciates the ANAO conclusion that it is not necessary for each post to develop a formal LES workforce plan, given that about half of Australia's overseas posts have ten or fewer DFAT locally engaged staff and most posts have no difficulty in recruiting and retaining staff. DFAT agrees, with some qualifications, with the recommendations and suggested improvements in the report.

Recommendations

Recommendation No.1

Para 2.28

Planning

The ANAO recommends that DFAT strengthen its monitoring and oversight of the employment and management of LES by:

- regularly reporting to the Senior Executive on key LES indicators and emerging issues; and
- undertaking periodic and systematic reviews of LES employment and management policies and practices.

DFAT response: *Agreed.*

Recommendation No.2

Para 3.38

Training

The ANAO recommends that DFAT actively pursue the development of a standard training package for posts to assist in developing and maintaining LES skills and knowledge.

DFAT response: *Agreed.*

Recommendation No.3

Para 4.27

Recruitment

The ANAO recommends that DFAT facilitate a more consistent approach to LES health checks by providing advice to posts on its minimum requirements.

DFAT response: *Agreed.*

**Recommendation
No.4****Para 5.33****Performance
Management**

The ANAO recommends that DFAT strengthen the effectiveness of LES performance management arrangements by:

- monitoring the outcomes of LES performance rounds; and
- considering the introduction of targets for the top one or two rating levels for the larger posts, similar in principle to the ones used for A-based staff.

DFAT response: *Agreed, with qualification.*

Audit Findings and Conclusions

1. Introduction

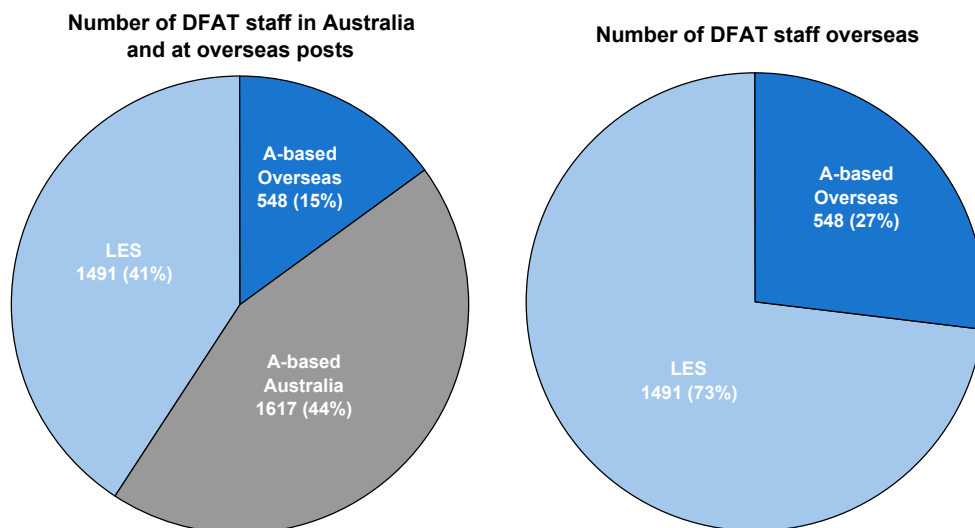
This chapter provides an overview of the Department of Foreign Affairs and Trade's arrangements for employing and managing locally engaged staff at Australia's overseas diplomatic missions. It also outlines the audit approach.

1.1 The Department of Foreign Affairs and Trade (DFAT) is responsible for implementing the Australian Government's foreign and trade policy objectives. It does this through its head office in Canberra, its State and Territory offices and its network of 91 overseas diplomatic posts.³ These posts contribute to the protection and advancement of Australia's national interests, provide consular and passport services to Australians overseas, and undertake public diplomacy activities.

1.2 Some 548 Australia-based (A-based)⁴ DFAT staff work in the overseas posts, with 1491 locally engaged staff (LES) supporting and facilitating their work.⁵ Overall, LES comprise 41 per cent of total DFAT staff and 73 per cent of DFAT's overseas staff (see Figure 1.1).

Figure 1.1

Numbers of DFAT staff in Australia and abroad



Source: DFAT Annual Report 2006–07.

³ Post is a generic name given to Australian missions abroad. Missions include embassies, high commissions, consulates and multilateral missions.

⁴ A-based staff are appointed to the mission from the departmental head office in Canberra.

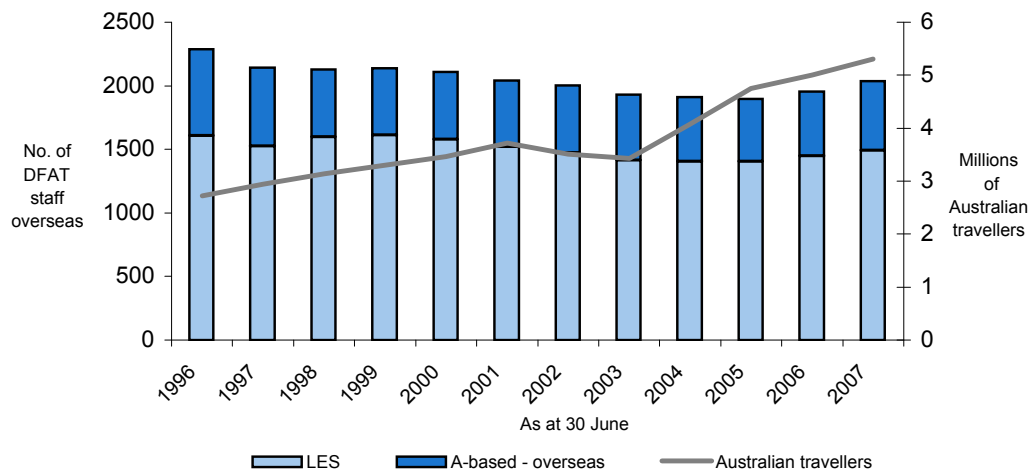
⁵ In addition, a range of other Australian Government agencies (attached agencies) have official interests that require their presence abroad. They, in turn, are supported by LES.

LES play an important role in achieving Australia’s overseas objectives

1.3 LES have long been recognised as playing an important role in the day-to-day work of Australia’s diplomatic posts. Their knowledge of the local culture, language and physical environment, and their local contacts and corporate memory of events through a succession of A-based staff rotations, enhances the capacity of the posts to achieve Australia’s overseas objectives.

1.4 With pressures to reduce the cost of overseas representation, the roles and levels of responsibilities given to LES have expanded since the 1990s. Indeed, while the numbers of both overseas A-based and LES have declined over the last 12 years (by 19 per cent and 7 per cent, respectively), the number of LES, as a proportion of total staff overseas, has increased. Moreover, the decline in overall staff numbers—and increased reliance on LES—has occurred over a period of increasing workload for DFAT and its posts. A substantial component of this workload involves providing consular and passport services to Australian travellers, whose numbers have increased significantly over the last 10 years (see Figure 1.2).

Figure 1.2
Numbers of DFAT overseas staff and Australian overseas travellers



Source: DFAT Annual Reports (1995–96 to 2006–07) and Australian Bureau of Statistics data.

1.5 In addition to providing consular and passport services to Australian travellers, LES perform a wide range of routine and complex functions at Australia’s overseas posts—from drivers, gardeners and executive assistants,

to research officers, procurement and property managers and accountants. Many are tertiary qualified and perform high-level functions such as undertaking public diplomacy activities (for example, as public relations officers and event managers) and managing post human resource functions.

1.6 While LES generally cost less to employ than A-based staff,⁶ there is a limit to the tasks that they can perform. Duties requiring first-hand and extensive experience of Australia, and those involving government-to-government representations, or advocating Australian policy, need to be undertaken by accredited (A-based) Australian Government representatives. In addition, except where LES are Australian nationals, they cannot be granted a national security clearance which is a prerequisite for performing some duties at posts.

1.7 DFAT establishes the staffing requirements—both A-based and LES—for each new mission on its merits. That is, it does not use a formula to calculate the overall staffing numbers, or the numbers of A-based and LES required. Instead, DFAT advises that it takes into account the character of the bilateral relationship and, in particular, the interests and risks that it is seeking to manage. Other factors include the services to be provided to members of the public and to attached agencies that will operate from the post. The number of LES employed by the post also reflects the nature of the local labour market, in particular, local staff capabilities and productivity.

LES employment and management

1.8 While DFAT LES are employed under Section 74 of the *Public Service Act 1999*, they are not Australian Public Service employees under that Act.

1.9 The Secretary of the Department of Foreign Affairs and Trade has delegated his powers under Section 74 to employ LES to the Heads of Mission (HOMs). However some powers, for example, the power to terminate LES on the grounds of misconduct or unsatisfactory performance, have been retained by DFAT Canberra.

1.10 DFAT seeks to provide remuneration, conditions of service (COS), and a working environment that enables its overseas posts to attract and retain

⁶ While representing some 73 per cent of total overseas staff, LES salaries account for some 31 per cent of total overseas salary expenditure in 2006–07. DFAT estimates that the average annual cost of deploying an A-based staff member to a post is about \$352 000 compared with the average salary cost of employing an LES member of about \$29 400.

high quality LES. In this regard, its policy is to be a competitive and fair employer, requiring all COS to meet or exceed local labour laws.

1.11 The contribution LES make to the achievement of Australia's overseas objectives underlines the importance of providing effective management. This includes recruiting staff with the necessary skills and capabilities, training those staff to perform the tasks required, and managing those staff on a day-to-day basis for effective performance. It also means ensuring that post managers have access to up-to-date and useful better practice guidance on employing and managing LES.

Audit approach

Audit objective

1.12 The objective of the audit was to assess the effectiveness of DFAT's employment and management of its LES at Australia's overseas missions. In particular, the audit examined whether:

- sound planning and risk management underpins the employment of LES;
- adequate guidance and training arrangements facilitate the management and development of LES;
- LES recruitment, engagement and employment processes are sound; and
- LES are being managed for effective performance.

1.13 The audit focused on LES engaged by DFAT. A range of other Australian Government agencies operates at overseas missions and manage their own LES. The audit excluded those LES, and also local staff employed by the HOMs and other senior A-based staff, to perform domestic duties such as cooking, cleaning and housekeeping. While missions facilitate some aspects of these arrangements, domestic staff are regarded as private employees rather than LES.

Audit methodology

1.14 The audit involved the examination of policies and procedures developed by DFAT Canberra and their implementation by posts. While the latter necessarily involved some detailed examination and reporting of

practices at individual posts, the findings generally have wider applicability across the network of posts.

1.15 Audit fieldwork was undertaken at DFAT in Canberra and at a selection of four overseas posts of varying sizes and location (see Table 1.1).

Table 1.1

Posts at which the ANAO undertook fieldwork

Post	Number of DFAT LES at the post
New Delhi	48
Bangkok	38
Cairo	21
Stockholm	8

Source: DFAT (staff numbers as at October 2007).

1.16 The ANAO interviewed relevant A-based officers at DFAT in Canberra and at each of the posts visited, and reviewed relevant files and documentation. The ANAO also interviewed a cross-section of DFAT LES at each post visited, and consulted with the key attached agencies at three of the posts visited to gain their perspective on DFAT's management of LES.

1.17 During the audit the ANAO also received assistance from consultant Robert Cotton, a former senior officer of DFAT, with a background in management and experience overseas as a Head of Mission.

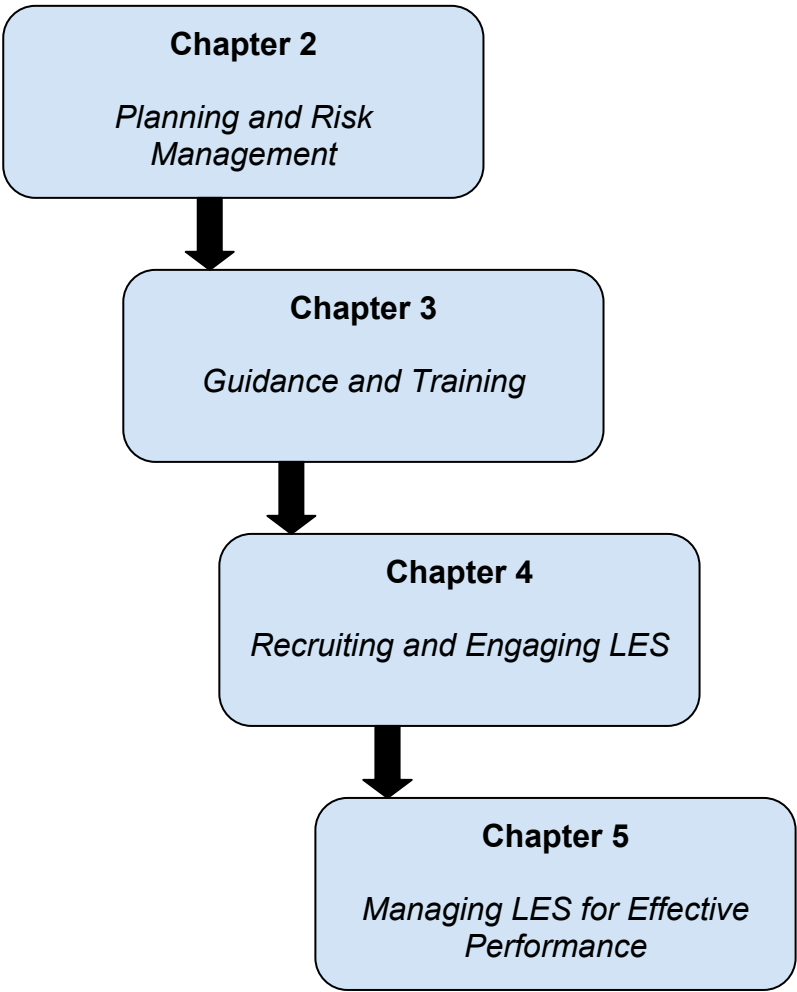
1.18 The audit was conducted in accordance with ANAO standards. The cost of the audit to report tabling was \$420 000.

Report structure

1.19 The audit findings are reported in the following chapters, as illustrated in Figure 1.3.

Figure 1.3

Structure of the remainder of the report



2. Planning and Risk Management

This chapter discusses planning arrangements for locally engaged staff (LES) and the arrangements for collecting demographic information on LES. It also examines the risk management arrangements underpinning DFAT's employment of LES.

Planning arrangements

Introduction

2.1 Workforce planning is a continuous process of shaping the workforce to ensure that it is capable of delivering organisational outcomes now and in the future. Essentially it is about ensuring that an organisation has the *right people in the right place at the right time*.⁷

LES planning across DFAT

2.2 DFAT's formal Workforce Planning Strategy was developed in 2006 and was under review at the time of the audit. Essentially, the 2006 Strategy involves a series of processes to: identify DFAT's short to medium term workforce requirements (demand); assess its current workforce (supply); identify any potential or actual gaps between demand and supply (risks); and address them (for example, through recruitment and training activities). The ANAO has not undertaken a detailed examination of the Strategy because it does not cover LES.

2.3 DFAT advised that because of the complexity of the overseas operating environment it relies on a number of planning and reporting processes that allow it to assess workforce requirements, identify potential gaps and address them (some of these processes are outlined in paragraph 2.20 below). In addition, DFAT advised that, because it is a policy department, its staffing resources remain relatively static over time.

2.4 The ANAO considers that it would not be realistic or necessary for DFAT Canberra to monitor, maintain and report on LES workforce-related information on a post by post basis, for example, information on LES classifications or local labour market pressures. However, with LES comprising some 41 per cent of DFAT's total workforce, there are opportunities for DFAT

⁷ ANAO Better Practice Guide—*Planning for the Workforce of the Future—a better practice guide for managers*, March 2001, Canberra, p. 1.

to more closely integrate its LES planning, review and reporting activities with its A-based Strategy and processes.

2.5 To this end, the ANAO has made a number of suggestions for improving LES planning processes at posts (see next section) and for strengthening DFAT’s monitoring and oversight of the employment and management of LES (further below).

LES planning at posts

2.6 Since 2000, DFAT has devolved greater authority and responsibility for the management of LES to individual posts. DFAT advised that any specific planning in relation to LES is the responsibility of the posts. However, the ANAO found that none of the posts it visited undertook formal LES planning. Posts advised that any such planning would be reactive and ad hoc in nature. DFAT Canberra advised that some planning is, by nature, ad hoc. For example, filling staff gaps due to unexpected absences or reviewing the need to replace a staff member who retires or resigns.

2.7 The ANAO considers that it would not be necessary for each post to develop a formal LES workforce plan, particularly given the small numbers of LES at some posts (about half of Australia’s overseas posts have 10 or fewer DFAT LES), and given that the posts visited did not find it difficult to recruit and retain LES. However, in this Report the ANAO has identified a number of opportunities to improve LES planning processes at posts which should facilitate a more systematic and formal approach in this area (see Table 2.1).

Table 2.1

Opportunities to improve existing LES planning processes at posts

Existing process	Opportunities for improvement
Collecting demographic and skills information on LES.	Reducing inaccuracies in the demographic information collected on LES (Chapter 2). Recording LES attributes such as skills, training and qualifications, particularly at the larger posts (Chapter 2).
Identifying LES training needs.	Identifying and sharing better practice to facilitate the systematic identification of LES training needs by posts (Chapter 3).
Recruiting new LES.	Strengthening recruitment arrangements at posts (Chapter 4).
Reviewing LES salaries.	Developing additional guidance to assist posts’ salary reviews (Chapter 4).

Source: ANAO analysis.

2000 LES Management Review

2.8 The ANAO examined DFAT's arrangements for developing and reviewing policies and practices relating to the employment and management of LES.

2.9 The last major management review of the way DFAT employs and manages its LES was undertaken in 2000. The 2000 LES Management Review was the first wide-ranging review of LES management for more than 15 years. Its objective was to achieve a more professional and efficient LES workforce.

2.10 The catalyst for the Review was the passage of the *Public Service Act 1999*, which increased each chief executive officer's authority and flexibility over employment issues. In DFAT's case, LES were no longer Australian Public Service employees, but employed by the Secretary of the Department. Another key driver for the Review was the need to reassess the appropriateness of each post's LES establishment and funding base which had been set in 1991.

2.11 The ANAO examined the Review's methodology and outcomes and found that it was reasonably comprehensive and thorough in its approach. In particular, the Review:

- was formally constituted, with detailed terms of reference, and with senior level approval and ongoing involvement;
- involved wide consultation, including with attached agencies and DFAT A-based staff and LES and visits to 13 posts;
- examined key issues including: the role of the LES; the LES classification system; fixed-term contracts and COS; LES numbers by post vis-à-vis A-based numbers; and LES demographics; and
- developed a range of recommendations, which were, in the main, agreed to by the DFAT Senior Executive.⁸

2.12 The Review resulted in fundamental changes to improve the way LES were managed. These changes, some of which are examined in the other chapters, include:

- devolving greater responsibility to HOMs to set LES COS;
- increasing the use of fixed-term contracts for new LES;

⁸ The Senior Executive comprises the Secretary and five Deputy Secretaries.

- introducing performance management arrangements for all LES, including upwards appraisal, to improve efficiency; and
- reviewing LES management guidance.

Reviewing and monitoring progress since the 2000 Review

2.13 Since the 2000 Review, a number of aspects of LES management have been reviewed, including: performance management (2004–2005); post compliance with local taxation and social security laws (2006–2007); changes to LES establishment since 2001 (2007); and currency of post COS (2007).

2.14 While these reviews have focused on a number of key aspects of the employment and management of LES, the approach has been ad hoc in nature rather than systematic,⁹ with some reviews responding to issues that emerged at one or more posts. In particular, the reviews have not been underpinned by an overarching plan to periodically examine specific aspects of LES management, and DFAT has advised that it has no plan to undertake another comprehensive, formal across-the-board review.

2.15 The risk with DFAT's current approach is that some issues may not be identified or reviewed until after they become problematic. For example, Chapter 5 identifies some apparent weaknesses in the effectiveness of the performance management schemes at three of the four posts visited, which suggests that one of the key intended outcomes of the 2000 Review may be at risk.

2.16 A more systematic approach would involve reviewing all key aspects of the employment and management of LES at regular, say three to five yearly, intervals. The establishment of a regular review framework and methodology would facilitate the timely identification and remediation of potential weaknesses. Non-urgent issues that arise in the intervening period could be logged for consideration in the next review.

2.17 Suggested areas for focus include an assessment of: progress with past review recommendations; post establishments and profiles; retention rates (particularly in those countries where increased labour mobility is impacting); adequacy of training; LES staff satisfaction; effectiveness of performance management; and progress in the use of fixed-term contracts.

⁹ For workforce planning to be effective, it should be undertaken in a systematic fashion. That is, it should be methodical and follow a plan.

Ongoing reporting to the Senior Executive on LES developments

2.18 As part of its Workforce Planning Strategy, DFAT prepares a quarterly report to its Senior Executive on A-based staffing. These quarterly reports provide a snapshot of trends in A-based staffing numbers and costs, separations and recruitment. Notwithstanding the key role played by LES, there is no equivalent report on trends and developments in relation to LES.

2.19 In this regard, DFAT notes that overall LES numbers are stable, having increased by 26 since 2001 and that there are no trends and developments to monitor, with issues being post-specific. The ANAO notes, however, that within the period 2001 to 2007 overall LES numbers have fluctuated (for example, increasing by 122 staff—9 per cent—between 2005 and 2007) and that LES numbers at some posts have also changed significantly. In addition, overall numbers may not tell the full story, with increases in some areas such as consular services being offset by outsourcing of services in other areas.

2.20 DFAT also notes that a range of formal reporting processes provides opportunities for DFAT Canberra to monitor post LES profiles. These include: post reporting on issues and risks through the annual Post Evaluation Report (PER);¹⁰ post reporting on consular and passport statistics; Post Liaison Visits (PLVs);¹¹ post bids for additional staffing resources through annual Budget Allocation Reviews; and post reporting on significant LES issues by cable.¹²

2.21 While recognising these reporting processes do provide opportunities for monitoring post LES profiles, they are not systematic in terms of coverage or frequency of review. For example: LES issues were briefly mentioned in about 20 per cent of 2007 post PERs; about 10 per cent of posts are visited by a PLV team each year; and cables tend to be ad hoc in nature.

2.22 More systematic monitoring and the periodic evaluation of its LES workforce initiatives would help DFAT assess whether the desired outcome is being achieved. Reporting regularly to the Senior Executive on the outcome of

¹⁰ DFAT undertakes an annual evaluation of the performance of its posts. This involves posts preparing a report (the PER) on their performance over the previous 12 months. DFAT assesses posts' contributions to policy outcomes and the quality of post management. The PER identifies LES numbers, although not changes in numbers from year to year.

¹¹ Each year a small team of DFAT staff, usually led by a Deputy Secretary, visits a small number of posts to assess their performance. LES issues are normally examined by the team.

¹² DFAT requires posts to report significant issues relating to LES—for example, proposed LES terminations—by cable. The DFAT Senior Executive is copied in on these cables.

this monitoring should facilitate timely adjustment to initiatives, if necessary.¹³ DFAT considers that reporting on an annual basis would be appropriate.

2.23 Reporting might briefly cover, for example:

- changes in LES numbers, including ratios between LES and A-based by, and across, posts, and any changes in key LES attributes such as qualifications and age profile;
- the number and nature of Helpdesk enquiries, including any emerging LES management issues or trends (discussed in Chapter 3);
- progress in moving staff to fixed-term contracts;
- information on LES terminations—numbers and reasons (discussed in Chapter 3); and
- the outcomes of LES performance management rounds (discussed in Chapter 5).

Comparing policies and practices against other foreign ministries

2.24 Regularly comparing DFAT's policies and practices for employing and managing LES against those of other foreign ministries can help identify overseas trends and initiatives that may have application in Australia's overseas network.

2.25 The ANAO notes in this regard that the 2000 Review involved consultations with representatives of the United States, British, New Zealand and Canadian foreign services. In addition, posts routinely collect and share comparative information with 'marker missions'¹⁴ in the context of their LES COS and salary reviews (discussed in Chapter 4), and some ad hoc contact has taken place at head office level.

2.26 However, there is no routine arrangement for DFAT Canberra to compare its LES practices and policies to those of other foreign ministries. Such an arrangement might be used, for example, to compare LES/home-based staffing ratios, and to identify better practice approaches in reviewing LES

¹³ Successful organisations will monitor and report on the implementation of workforce initiatives and periodically evaluate whether the desired outcome is being achieved. This enables managers to track the progress made; determine whether workforce issues are being successfully addressed; and help manage the impact of any unforeseen developments. If the strategy is not achieving the desired outcome, or is not progressing as planned, the agency should revisit its approach (ANAO Better Practice Guide—*Planning for the Workforce of the Future—a better practice guide for managers*, March 2001, Canberra, p. 41).

¹⁴ Generally the diplomatic posts of the United States, the United Kingdom, Canada and New Zealand.

salaries. Such comparisons may help strengthen Australia's approach to its management of LES and would form part of the regular LES reviews proposed above.

Conclusion—Planning arrangements

2.27 DFAT undertook a major review of LES management in 2000 which resulted in fundamental changes to improve the way LES were managed. While various aspects of LES management have been reviewed since that time, more systematic monitoring and the periodic evaluation of LES workforce initiatives would help DFAT assess the scope for enhancing the arrangements relating to the employment and management of LES.

Recommendation No.1

2.28 The ANAO recommends that DFAT strengthen its monitoring and oversight of the employment and management of LES by:

- regularly reporting to the Senior Executive on key LES indicators and emerging issues; and
- undertaking periodic and systematic reviews of LES employment and management policies and practices.

DFAT response

2.29 Agreed. Migration of LES data from the Overseas Staff Profile (OSP) to the upgraded DFAT PeopleSoft system is expected to provide the facility to deliver improved reporting through 2008–09.

2.30 DFAT agrees that there is value in conducting periodic and systematic reviews of LES employment and management practices. As acknowledged by the ANAO, the passage of the Public Service Act in 1999 changed the legal status of LES and necessitated a major review of LES employment and management practices. The Review took over two years to complete and implement. It changed fundamentally many aspects of LES employment, the most complex being the alignment of each post's conditions of service with local labour law. In addition, the Review introduced other concepts such as APS-style performance management systems that needed to be adapted to local labour laws and cultural practices. It has taken several years to bed down these changes globally and for some staff to accept the new management practices. Given the time (three to five years) and resource effort required to conduct a global review and implement changes across an operationally

distinct network of posts, DFAT believes that every ten years is about the right time-frame for a full-scale review of LES management, unless an emerging issue necessitates an earlier review.

2.31 DFAT will continue to conduct periodic reviews of certain aspects of LES management in response to emerging issues and trends, as it has done recently, eg, the review of compliance with local taxation and social security laws in 2006–2007.

Collecting and managing information on the LES workforce

Introduction

2.32 Effective planning processes rely on an agency's ability to access accurate and timely information about the demographic characteristics, skills, capabilities and qualifications of its staff.¹⁵

2.33 The ANAO examined the arrangements that DFAT has in place for collecting and maintaining information on its LES workforce.

Recording demographic information in the Overseas Staff Profile

2.34 DFAT collects demographic information on its LES workforce through a live database known as the Overseas Staff Profile (OSP), which is updated regularly by posts.¹⁶

2.35 DFAT uses the OSP data for a range of purposes including: invoicing attached agencies for services provided by posts under Service Level Agreements; reporting on staffing levels in its Annual Report; and preparing briefings for PLVs, Senate Estimates Hearings, and the Senior Executive.

2.36 The ANAO reviewed the OSP and found that it had a number of strengths and weaknesses (see Figure 2.1).

¹⁵ Management Advisory Committee Report—*Managing and Sustaining the APS Workforce*, 2005.

¹⁶ The OSP records information on all staff currently working at overseas posts including: DFAT and attached agency staff; and attached and unattached A-based and LES.

Figure 2.1

Key findings on DFAT's Overseas Staff Profile

- Staff profiles are current because posts generally update them progressively, with Senior Administrative Officers (SAOs) required to sign off monthly that they are up-to-date.
- The OSP system is generally recognised as being 'slow and clunky'. For example, it is slow in generating reports, and reports do not align well to departmental requirements.
- There are inaccuracies in the OSP database information (discussed below).
- While the OSP records basic information on both A-based and LES staff, it does not record information on skills, capabilities or qualifications (discussed further below).

Source: ANAO analysis.

Accuracy of information in the OSP

2.37 Posts are required to update staff profiles as changes occur to ensure that records are accurate and current at all times. The LES Better Practice Guide (BPG) reminds posts that, given the important use of the OSP data, it is 'vital' that records be accurate.

2.38 However, the ANAO reviewed the information recorded in the OSP for the four posts visited and found a range of errors, including:

- incorrect recording of *employment status* against LES. Posts are required to identify LES as *ongoing permanent*, *ongoing contract* and *non-ongoing*. However, two of the four posts visited had incorrectly recorded, or failed to update, the employment status of some LES;¹⁷
- use of incorrect or out-of-date *position titles* at one of the four posts visited;
- use of a national security classification instead of a work level *classification* at one of the four posts visited; and
- incorrect recording of LES *birth dates* at two of the four posts visited.

2.39 In addition, the ANAO noted that DFAT had itself identified inaccuracies with the recording of LES numbers (including full-time equivalents) across a number of posts.

2.40 Inaccuracies and inconsistencies in inputting and updating data undermine the usefulness of the OSP for planning purposes and as a reporting and monitoring tool. While some of these errors may be reduced by better training and by reviewing and reissuing OSP guidance for posts, others appear

¹⁷ The posts were responsive when the errors were brought to their attention during the ANAO visit.

to be inherent to the system. In this regard, the ANAO notes that the database accuracy problems have been recognised by DFAT since at least 2003.

2.41 DFAT advised the ANAO that it recognises that the OSP is no longer satisfactory and that it intends to move all LES data that is currently in the OSP to PeopleSoft—its A-based staff human resource management information system (HRMIS)—from 1 July 2008, when PeopleSoft is upgraded.¹⁸ DFAT advised that this will enable enhanced recording and reporting functionality in respect of LES; and is developing a strategy to minimise the input of errors.

Recording information on LES skills and capabilities

2.42 The OSP records basic information on staff demographics for both A-based and LES at posts. It does not record information on individuals' skills, capabilities or qualifications, which would be of use in assisting incoming SAOs at larger posts to better understand the workforce.

2.43 In addition to the OSP, each DFAT post operates two separate HRMIS systems—one for A-based staff and one for LES. These systems are used to calculate and pay salaries, and record leave entitlements. The A-based staff system—PeopleSoft—is common across all posts and provides some capacity to record information on A-based staff qualifications and training.

2.44 While the A-based staff system is common across posts, individual posts also use a variety of HRMIS systems for LES salary and other human resource purposes which creates inefficiencies at posts.¹⁹ A uniform HRMIS would facilitate the inclusion of a module to record information on staff skills, capabilities and qualifications.

2.45 DFAT advised that it examined the possibility of introducing a global LES HRMIS system, including payroll functionality, in 2005 and 2006 but had not proceeded because of the cost and complexity. Instead, it has pursued the use of PeopleSoft to replace OSP (noted in paragraph 2.41 above) and advised of its intention to pilot an extension of the PeopleSoft system to cover LES at one post, initially for leave, training and skills purposes, and subsequently for payroll purposes.

¹⁸ DFAT advised that an additional field is to be included in PeopleSoft to provide a unique identifier for each LES member.

¹⁹ The ANAO has not undertaken a detailed analysis of the benefits of the introduction of a global HRMIS for LES but considers that these are likely to include: simplified user training; increased system familiarity; the ability to centrally provide guidance, maintenance and upgrades; consistent interface with other systems; and commonality of security management issues.

2.46 The ANAO supports the pilot and considers that, if successful, DFAT should assess the cost-benefit of extending the system to other posts, particularly those with large numbers of LES.

Risk management

Introduction

2.47 The effective management of risk is important for DFAT because it operates in a fluid international environment, processes a large volume of information that needs protection and maintains an extensive network of overseas posts. Overseas security risks are greater than those in Australia, requiring specialised security measures.

2.48 Against this background, the ANAO examined the risks associated with employing and managing LES. In particular, it examined:

- DFAT's strategic approach to managing LES-related risks; and
- the posts' approaches to managing LES-related risks.

DFAT's strategic approach to managing LES risks

2.49 DFAT Canberra has developed a range of risk management plans that seek to identify and treat common risks across the department and its network of overseas posts. Key plans are briefly discussed in Table 2.2.

Table 2.2

Key DFAT risk management plans

Plan	Approach
Risk Management Policy and Register	The policy sets out DFAT's objectives and approach to risk management. The Register systematically identifies and categorises risks, for example: HR risks, and risks associated with consular and passport management. The Register identifies the nature of the risk, key sources, treatments, risk rating and the area responsible for its treatment.
Fraud Control Plan	Provides an overview of fraud control in DFAT. Systematically identifies and categorises risks, for example: accounts payable, asset management. Identifies nature of risks, treatments (and related controls), ratings and the area responsible for the treatment.
Security Plan	DFAT's Security Instructions form its security plan; the plan identifies security risks and treatments, including those relating to well-recognised LES-related security risks.

Source: DFAT papers and ANAO analysis.

2.50 The ANAO notes that the first two documents, the Risk Management Policy and Register and the Fraud Control Plan, generally do not separately identify LES-related risks. That is, they are driven by the *nature of the risk* rather than the specific *source of the risk*. For example, a risk identified in the Fraud Control Plan is the *theft of assets or portable and attractive items*. The Plan identifies risk treatments but appropriately does not seek to differentiate the risk of theft by A-based staff from that of LES. That is, the risk treatments—for example, fraud awareness and ethics training—apply to all staff. The ANAO supports this approach.

Posts' approaches to managing LES risks

2.51 Posts rely on the agency-wide plans and treatments identified above in Table 2.2 to manage LES-related risks. The ANAO found that these agency-wide plans and related control processes are well-established and were well-understood by the posts visited. Posts considered that the plans appropriately identify and adequately treat LES-related risks.

2.52 For example, posts rely on the DFAT-wide processes and associated controls for issuing passports and paying accounts. Posts considered that the checks that have been built into these processes adequately cover fraud risks from either LES or A-based staff.

2.53 The ANAO concluded that DFAT's agency-wide approach to risk management is a sound and logical approach to identifying and systematically managing common LES-related risks across posts.

Common LES-related risks identified by the posts visited

2.54 The ANAO asked the posts it visited to identify key LES-related risks relevant to the post. Common risks identified, together with ANAO comments on the management of the risks, are set out in Table 2.3.

Table 2.3**Common risks identified by posts visited**

Risk	ANAO comment on management of the risk
Ensuring LES have the right skills and motivation, and remain productive.	These risks are managed through merit-based selection processes (discussed in Chapter 4); induction and ongoing training (discussed in Chapter 3); and performance management (discussed in Chapter 5).
Ensuring LES understand DFAT values, for example, regarding the acceptance of gifts and benefits.	These risks are largely managed by the provision, and LES sign-off, of posts' Codes of Conduct. (Codes of Conduct are discussed in Chapter 4.)
Unauthorised disclosure of official information to foreign governments.	DFAT has well-established, network-wide procedures set out in its Security Instructions for controlling the physical and electronic access of LES to information. The ANAO observed these procedures in action during its post visits. (Arrangements for providing security briefings to new LES are discussed in Chapter 3.)
Over-dependence on LES.	This risk has been identified in internal audits, and as a result, the Secretary of the Department wrote to HOMs in 2007 reminding them of the significant risk of placing too much unchecked responsibility on senior LES.
Fraud risks, including purchasing and procurement risks.	Fraud risks are identified in the Fraud Control Plan, and procedures are in place to investigate incidents. DFAT's Security Instructions identify the need to provide fraud awareness training for all employees, particularly new starters (discussed in Chapter 3).

Source: Post interviews and ANAO analysis.

2.55 The ANAO concluded that DFAT has adequately identified these risks in various risk management plans and processes. However, the extent to which some of these processes meet their objectives is variable (discussed in Chapters 3, 4 and 5).

3. Guidance and Training

This chapter examines the guidance and training arrangements underpinning DFAT's employment and management of LES.

Guidance

Introduction

3.1 The contribution LES make to achieving Australia's overseas objectives underlines the importance of consistent, systematic and structured management.²⁰ Ideally, LES management would be facilitated by providing posts with clear, up-to-date, relevant and user-friendly guidance and by providing timely and helpful responses to specific post queries or requests for assistance.

LES Better Practice Guide (BPG) and Administrative Circulars

3.2 The key formal DFAT guidance material provided to posts is the BPG and LES-related Administrative Circulars. The BPG is an evolving reference document which is supplemented from time to time with Administrative Circulars. The latter provide ad hoc policy advice and guidance on a range of issues affecting posts, including the management and employment of LES. The BPG and relevant Administrative Circulars are intended to be read in conjunction with one another, although the latter tend to be more prescriptive in nature.

3.3 The ANAO reviewed the BPG and found that it had a number of strengths. In particular, it was revised in 2007 to take into account changes in overseas operating environments, and was therefore up-to-date at the time of the audit. The BPG covers key issues of relevance to posts in the day-to-day management of LES, including guidance on: training; the legal framework for employing LES; recruiting and selecting LES; and managing LES for effective performance.

3.4 The BPG is well written and easy to understand, and provides helpful links to other reference material such as Administrative Circulars, the Prime Minister's directions on the management of overseas posts,²¹ and DFAT's

²⁰ To the extent permitted by local labour laws.

²¹ Prime Minister's Directive—*Guidelines for the Management of the Australian Government Presence Overseas*, February 2007.

Security Instructions. It also provides a number of useful templates to assist posts in managing LES, such as a Selection Advisory Committee (SAC) report and a recruitment and selection checklist.

3.5 Three of the four posts visited considered the BPG to be a useful and practical reference document. The fourth post did not use the BPG, instead relying on Administrative Circulars for guidance and instruction.

3.6 Notwithstanding the general usefulness of the BPG, the ANAO has identified a number of areas in this Report where additional specific guidance would be beneficial, for example: the provision of guidance on the frequency of conditions of service (COS) reviews and the development of a better practice methodology for reviewing LES salaries (both discussed in Chapter 4).

Identifying the mandatory elements of the LES BPG

3.7 Mandatory requirements relating to managing LES are often not clearly identified or highlighted in the BPG, which creates a risk that posts will overlook an important process or minimum requirement. For example it is not clear whether:

- induction training for new starters is mandatory (discussed in paragraph 3.23); and
- pre-employment medical checks are mandatory (discussed in paragraph 4.22).

3.8 While the posts visited generally considered that they were clear on key requirements, the ANAO suggested to DFAT that it clearly highlight the mandatory aspects of the BPG. Among other things this would help new A-based and LES staff to more quickly understand DFAT's minimum requirements.

3.9 DFAT Canberra advised the ANAO that it will convert the BPG into a manual in 2008, which will clearly identify the mandatory aspects. The ANAO supports this approach.

Helpdesk

3.10 In addition to the BPG and Administrative Circulars, DFAT Canberra provides ongoing support to posts on LES-related issues via a Helpdesk arrangement. The Helpdesk responds to routine email and telephone enquiries, such as changes to the Overseas Staff Profile (OSP), and to more complex enquiries, such as advice on proposed LES terminations, which must

be communicated to DFAT Canberra via the DFAT cable system.²² The Helpdesk is available to SAOs and LES at posts.

3.11 The ANAO reviewed relevant DFAT Canberra files and found the Helpdesk to be responsive to post requests. It provides helpful information, in a timely manner. This finding was confirmed by the posts visited.

Monitoring Helpdesk enquiries

3.12 The ANAO sought information from DFAT on the number and nature of Helpdesk enquiries from posts to help identify any emerging LES management issues. DFAT advised that while it did not collect statistics in this regard, it agreed to do so over a three month period.

3.13 From the statistics collected, the ANAO noted that the number of requests over the period varied significantly from month to month (see Appendix 2: *Number of Helpdesk Enquiries 16—October to 31 December 2007*). The ANAO also noted from the statistics collected, and from its own review of DFAT files, that enquiries were concentrated in a number of key areas such as COS and the OSP.

3.14 While it is not possible to draw conclusions from this data due to the short timeframe covered, the ANAO considers that continued monitoring of the number and the nature of enquiries on an ongoing basis would help to identify any emerging management issues that may require a common solution.

3.15 DFAT advised that it will monitor the number and nature of enquiries to the Helpdesk and brief the Senior Executive on any emerging issues or trends. It also advised that it will work more closely with posts to ensure that the Helpdesk is used for its intended purpose of facilitating routine enquiries, with the cable system used to report issues of significance or those that might require wider distribution.

LES terminations

3.16 The delegation for terminating LES employment is held by DFAT Canberra. Posts must therefore approach DFAT Canberra and seek its approval before a termination can take place.

²² The DFAT cable system enables formal and secure communications between Canberra and the posts. Cables are generally widely distributed within DFAT, including to the Senior Executive, and to other Australian Government agencies as required.

3.17 The ANAO sought to identify the number and nature of LES terminations. However, DFAT was unable to readily provide this information as it is not routinely collated. Instead, the information is held on post files maintained by DFAT in Canberra.²³

3.18 While DFAT advised the ANAO that the number of terminations is not high, the ANAO considers that collating information on their incidence and nature would assist in briefing the Senior Executive on any emerging trends.

LES training

Introduction

3.19 An integral part of workforce planning is developing and implementing policies and practices to enhance the effectiveness of the workforce. Among other things, this involves providing the right training and development opportunities at the right time.

3.20 The ANAO reviewed DFAT's training arrangements for LES, including whether:

- LES have access to induction training;
- LES have access to ongoing training;
- LES capabilities and training needs are identified; and
- DFAT monitors training undertaken.

Induction training for LES

3.21 The LES BPG notes that induction training provides an important opportunity to provide new LES with general information on how the post and the department works, and the services that are available to them.²⁴

3.22 The ANAO examined DFAT's induction training for LES. In particular:

- the requirements for posts to provide induction training; and
- the induction training arrangements at the posts visited.

²³ Where a termination becomes the subject of litigation, it is reported to the Senior Executive as part of a quarterly litigation report.

²⁴ The LES BPG advises post management that induction training should: equip LES with the basic skills required to commence work; and send new LES key messages about DFAT, its role and priorities, its culture and management's expectations of staff.

DFAT's requirements for posts to provide LES induction training

3.23 Posts are 'encouraged' to develop formal induction processes to enable new LES to quickly gain a good appreciation of the post's functions and objectives and their individual role in the post.²⁵ However, the BPG is not prescriptive in this regard; that is, there is no mandatory requirement for formal induction training to be provided. However, the BPG does specify that new recruits should be provided with information on a range of topics, including:

- the role and structure of the post;
- security awareness;
- conduct and ethics, including the LES Code of Conduct (COC);
- conditions of service, including salary reviews, and performance management; and
- training opportunities and career development.

Induction training at the posts visited

3.24 The posts visited had developed different approaches to briefing newly arrived LES (see Table 3.1). In part, the approach reflected the number of LES employed by the post.

Table 3.1

Induction training provided to LES at posts visited

Post	Number of LES	Format of induction training	LES induction package
New Delhi	48	Brief overview from human resources section on arrival, with a formal induction program run every six months.	✓
Bangkok	38	Brief overview from human resources section on arrival.	✓
Cairo	21	One-on-one introduction with human resources manager on arrival.	x
Stockholm	8	One-on-one introduction with SAO on arrival.	x

Source: File reviews and interviews at posts.

²⁵ The LES BPG advises that the induction process could include a formal course (depending on the number of LES employed by the post), written information in the form of a handbook and on-the-job training.

3.25 While New Delhi provides structured induction training for its LES, the ANAO notes that its six-monthly frequency means that it is not provided to some new starters during their early stages of employment.

3.26 All of the four posts visited provide new starters with basic security briefings (discussed below) and the LES COS and COC documents (discussed in Chapter 4.) However, only one post, New Delhi, provided written material to new starters on the role and structure of DFAT and the operation and function of the post.

3.27 In addition, some posts do not adequately brief new starters on performance management arrangements, probationary arrangements and training and career development issues, notwithstanding that written material on at least some of these issues is provided.²⁶

3.28 Discussions with LES and attached agencies at these posts substantiated this finding. Some LES advised the ANAO that they had undertaken their own research in order to gain a basic understanding of DFAT's role. A large attached agency at two posts considered DFAT's induction training to be inadequate. Consequently, at both posts the agency had developed its own background material on the Australian Government as well as more specific information on its own agency.

3.29 All overseas employees, both A-based and LES, must comply with the Chief Executive Instructions and relevant financial and administrative policies and procedures of their respective agencies in the performance of their duties. Therefore it would be reasonable to expect that all new staff be provided with some basic financial and fraud awareness training. The ANAO found that posts generally do not provide such training to LES. This increases the risk of improper use of Commonwealth resources. Clear guidance to posts on the need for training in these areas would be desirable.

Security briefings for LES

3.30 DFAT, in consultation with relevant agencies, is responsible for the security policy and procedures that apply at its overseas diplomatic and consular posts.

²⁶ Chapter 5 notes that post COS documents contain adequate information on performance management systems. That chapter also notes that basic information on probationary arrangements is provided to new staff, either in the letter of offer or the attached COS. However, the ANAO identified weaknesses in this area.

3.31 All new LES at the posts visited receive a basic security briefing on general security issues such as the use of passes and non-disclosure of information. In addition, three of the four posts visited have a limited number of LES positions that are designated security assessment positions that need to be filled by Australian nationals (because they can be security cleared). These staff received a detailed security brief and completed a mandatory security awareness training course within three months of commencement, in accordance with the requirements of the DFAT Security Instructions.

Preparation of standard training material by DFAT Canberra

3.32 Much of the induction material that posts should deliver is common across posts, for example: background information on Australia and DFAT; the role of overseas posts; and fraud and financial management. It would be simpler and more efficient for this material to be prepared and maintained centrally. Posts could download the material and amend it to suit their circumstances, supplementing it as required with post-specific material. This approach would be particularly useful for smaller posts which are unlikely to have the resources to develop their own material and keep it up-to-date. Posts visited were generally supportive of such an approach.

3.33 There is a recognised risk that new starters will not fully comprehend the range of information that might be provided to them during induction training. It is therefore important that key training—for example, fraud, and conduct and ethics training—is repeated at appropriate intervals. This refresher training could be efficiently provided via self-paced electronic-training (e-training) modules that LES are required to complete, but at a time convenient to them and the post.²⁷

3.34 The ANAO notes in this regard that DFAT has intended to provide further training assistance to posts, including via e-training modules, since at least 2004:

- strategies for strengthening LES induction training were identified and approved within DFAT in 2004;²⁸

²⁷ The ANAO notes that the APS Commission released an APS e-induction program in 2007, which is designed to equip new APS starters with a broad understanding of the Australian Government and the basic roles and responsibilities of employees.

²⁸ Administrative Circular P0558 of 20 April 2004 identified induction training for LES as a key area of focus. Materials to assist posts were to be developed, covering a range of issues such as COC and ethics, the role of DFAT, and human resource management.

- a pilot e-training (self-paced) induction package was developed in 2005, which included training modules in key areas.²⁹ However, the pilot was not rolled out to posts (DFAT was unable to advise why this did not occur); and
- a 2007 training review identified the need to develop e-training modules for LES on a range of relevant issues.³⁰

3.35 The ANAO considers that the development of e-training modules for both induction and refresher training purposes has the potential to significantly strengthen the training currently available to LES at posts. Ideally, the material should be available for download and delivery by the post during the induction phase, and for ongoing e-training (self-paced) learning by LES.

3.36 DFAT advised that while e-training can be expensive to develop and keep up-to-date, it is developing a range of courses that will be made available to posts electronically through an Enterprise Learning Module in PeopleSoft. It advised that posts will be able to select relevant elements of courses produced by DFAT in Canberra to form the core of induction and refresher training. For example, LES will be able to access a number of proposed modules that will form part of a finance training course.

3.37 The ANAO concluded that the material that DFAT is proposing to develop, and the proposed delivery method, has considerable potential to strengthen the training currently available to LES at posts. However, given the slippage that has occurred in the past in developing such material, active management of the project—which DFAT advise is occurring—will help ensure a timely outcome.

Recommendation No.2

3.38 The ANAO recommends that DFAT actively pursue the development of a standard training package for posts to assist in developing and maintaining LES skills and knowledge.

²⁹ These areas included: an overview of the department, COC, and financial and records management.

³⁰ The 2007 Training Review recommended that DFAT: develop an e-training module for LES, providing information on Australia, the department, its structure, objectives and values; and develop e-training modules for LES on conduct and ethics, financial management, records management and other practical courses in appropriate DFAT corporate skills.

DFAT response

3.39 Agreed. The technology to deliver courses for staff overseas (A-based and LES) will be available on-line shortly and a range of training courses, including induction templates, will be made available to staff overseas.

Ongoing training for LES

Introduction

3.40 DFAT acknowledges that access to appropriate training has a direct impact on organisational performance and personal development. It considers training to be core business for the department and its staff, with all staff, especially managers, having a responsibility to make training a priority.

3.41 Posts generally facilitate ongoing training through LES participation in local and regional training activities. Key activities involve:

- regional training;
- regional and SAO management conferences; and
- leadership and development training.

Regional training

3.42 DFAT Canberra initiates regular regional training courses for LES in a range of key areas including consular, passports, local area network administration and the financial information management system. Courses are normally held in a central location—for example, London—with relevant staff from satellite posts attending as required.

3.43 Regional training is keenly sought by both post management and LES and is well regarded by LES attendees interviewed by the ANAO. In particular, LES highly valued the opportunity regional training provided to develop their technical skills as well as the opportunity for networking and sharing information with staff performing the same function in the region.

3.44 Some posts commented that they would like training to be provided more frequently, because it is not possible to send the main occupant and his/her backup to the same course.³¹ This can result in some LES waiting two years or more to attend training. While posts sometimes send LES to other regions and to DFAT in Canberra to undertake the training, they are generally

³¹ DFAT advised that it expects staff attending regional training to share information with colleagues on return to post, either through programmed presentations or through day-to-day processes.

reluctant to do so because of the cost. This creates a risk that staff will not be adequately trained to deal with matters that emerge in the interim. This reinforces the benefit of larger posts actively monitoring staff capabilities (discussed at paragraphs 3.59 to 3.62).

Regional and SAO Management Conferences

3.45 Regional Management Conferences are formally initiated by DFAT Canberra and attended by both A-based and LES; they generally occur every two and a half to three years. They provide an opportunity for training in a range of areas, including leadership and management, financial, property, consular and passports. They also provide an opportunity for post staff to discuss regional management issues with senior departmental officers attending from DFAT Canberra.

3.46 Regional Management Conferences are well regarded by both A-based and LES attendees. Posts visited reported them to be useful for networking and information sharing.

3.47 SAO conferences are initiated by regional SAOs and (where held) are usually held annually. Although attendance at these meetings is restricted to SAOs, they generally cover LES management issues. SAO conferences are well regarded by attendees as a useful networking and information sharing forum. Posts reported, in particular, their appreciation of the attendance of well-qualified departmental representatives from DFAT Canberra. The ANAO found that DFAT Canberra is focused on following up issues raised by attendees.

LES Leadership and Development Program

3.48 DFAT runs a two-week LES Leadership and Development Program in Australia each year with about 20 LES from across the posts attending.³² The Leadership Program is targeted at high-performing DFAT LES, particularly those having, or with the potential to undertake, management and leadership roles and who can reasonably be expected to make a valuable contribution in the workplace.³³

3.49 The Leadership Program is designed to: promote an understanding of DFAT and the structure, operations and broad policy objectives of the

³² In 2007, DFAT ran two Leadership and Development Programs in Australia.

³³ The Leadership and Development Program is not considered to be a 'reward' program or a job-specific skills acquisition exercise, but rather recognises the important contribution of LES to the effective operation of posts.

Australian Government and the importance of DFAT's role in advancing those objectives overseas; provide familiarity with Australian industry, society and public sector governance; and enhance participants' leadership and management skills.

3.50 The Leadership Program is well regarded by both post management and LES attendees. In particular, LES attendees considered the program provided them with good networking opportunities and an opportunity to build knowledge of the department's structure and objectives. The ANAO concluded that the Program provides a valuable training opportunity for high-performing LES.

Identifying LES capabilities and training needs

3.51 Identifying the skills and capabilities of existing staff members can assist an agency determine whether its current workforce is able to meet its business objectives at the expected performance levels.³⁴ The information can also be used to identify training needs to meet skills and capability gaps.

3.52 The ANAO reviewed DFAT's arrangements in identifying training needs. In particular it examined arrangements for identifying LES:

- training needs in the performance appraisal context; and
- capabilities and associated training needs.

Identifying training needs in the performance appraisal context

3.53 LES supervisors are required to identify LES training and professional development needs as part of the performance appraisal process. DFAT's expectation is that training needs will be documented in annual training and development plans for individual staff members.

3.54 The ANAO found, however, that three of the four posts fell short of DFAT's requirements in this regard (see Table 3.2).

³⁴ ANAO Better Practice Guide—*Planning for the Workforce of the Future—a better practice guide for managers*, March 2001, Canberra.

Table 3.2**Post approaches to identifying LES training needs**

Post	Approach	ANAO comment
New Delhi	The performance appraisal template includes a one-page Staff Development Section which identifies a range of training courses that can be selected.	The Staff Development Section is not routinely completed or signed off. However, LES interviewed by the ANAO advised that training needs are discussed in the performance management context but that these needs are not always formally recorded.
Bangkok	The performance appraisal template has a short section on Personal Development.	While this section is completed, training needs are not consistently identified. LES confirmed that although training needs are generally discussed in the performance management context, training needs are not formally recorded.
Cairo	The performance appraisal template has a half-page Staff Development and Training section.	The Section is not completed, although training needs are identified outside the performance management process (see below). LES confirmed that training needs are not generally discussed in the performance management context.
Stockholm	The performance appraisal template has a one-page Training and Development section.	The section is routinely completed and signed off by the LES and supervisor.

Source: ANAO analysis.

3.55 The ANAO concluded that there would be benefit in DFAT reminding posts that the performance appraisal context provides a good opportunity for regularly identifying, discussing and documenting LES training needs. DFAT has indicated that it will remind posts of this opportunity.

Cairo approach

3.56 Although Cairo does not directly link training to performance appraisals, it does have a simple but systematic approach to identifying and monitoring LES training needs (see Figure 3.1).

Figure 3.1

Case study: Identifying and monitoring LES training needs at Cairo post

- The Office Manager identifies the training needs of each LES in discussion with them at the beginning of the financial year, and after the LES training budget has been set.
- This information is entered into a spreadsheet, by LES and by course, for both post-organised training and regional training.
- A list of available training courses, both locally and regionally, is also prepared. This identifies the provider, the target group and the performance indicator (usually a certificate issued at the end of the training).
- A list of courses attended by LES for each of the last three financial years is also maintained.
- The post advised that these documents are provided to the SAO for review and (informal) approval of the proposed training.

Source: Cairo file reviews and interviews.

3.57 The strength of this approach is that it enables the SAO to review LES training needs against recent training undertaken, and facilitates the prioritisation of training in the context of the post training budget. In particular, it centrally records past training undertaken by LES which would help SAOs (particularly incoming SAOs) understand the capabilities of the workforce.³⁵

3.58 Its weakness is that the identification of training needs is not linked to the performance appraisal process, which should systematically assess a person's achievements against their performance objectives.

Identifying LES capabilities and training needs

3.59 Developing a strategy to identify workforce capabilities can assist organisations determine whether the current workforce has the necessary skills and training to meet their business objectives.

3.60 A formal strategy might involve the systematic identification of position capabilities/requirements; the identification of any skill gaps of occupants; and the design, prioritisation and delivery of appropriate and timely training programs to overcome any shortfalls in skills or capabilities.

3.61 Posts are not required by DFAT to develop a formal, documented LES training strategy although one post, Bangkok, advised of its intention to develop such a strategy.

³⁵ Monitoring the type of training undertaken by LES can help managers understand the skills and capabilities of their staff. DFAT advised that the new Enterprise Learning Module of PeopleSoft will have the capacity to record LES training history, at least for those courses delivered through the Module.

3.62 There would be merit in DFAT reviewing the Bangkok strategy to determine whether it might constitute a better practice approach for larger posts.

Monitoring LES training days

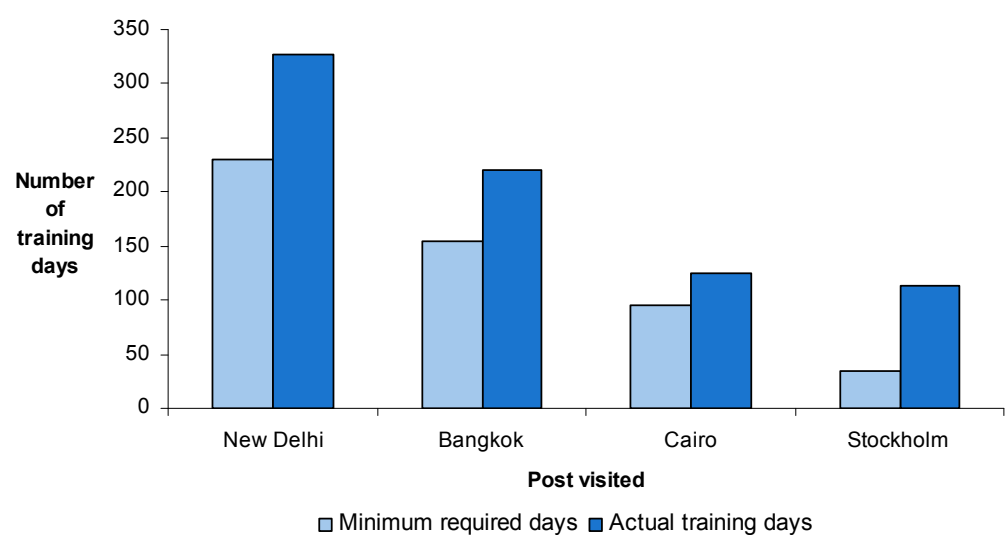
3.63 DFAT has a Training and Development Strategy to guide its approach to training.³⁶ While the Strategy is primarily focused on A-based needs, it does provide advice to posts on the management of LES training. In particular, it requires posts to enable LES to undertake at least five days training a year.

Monitoring training achievements against the five-day target

3.64 Posts are required to report to DFAT Canberra each year on their achievement against the five-day training target. In 2006–07, 83 per cent reported that they had reached or exceeded the LES target. All four posts visited reported that they had exceeded the target (see Figure 3.2).

Figure 3.2

LES training days for 2006–07 reported by the four posts visited



Source: DFAT training and development reporting for 2006–07.

³⁶ The Strategy was developed in 1999 and reviewed in 2007.

3.65 DFAT reports its overall training day achievement against the five-day target in its Annual Report for both LES and A-based staff.³⁷ DFAT advised that the information is also used for other purposes, including by the Senior Executive in its annual review of individual post performance, and to brief Post Liaison Visit (PLV) teams.³⁸

3.66 The ANAO concluded that DFAT Canberra has put in place effective arrangements to monitor the amount of LES training undertaken.

³⁷ DFAT reported in its 2006–07 Annual Report that the average number of training days per employee was 10, compared to the minimum amount of five days a year required under its Training and Development Strategy.

³⁸ The PLV team normally examines the adequacy of the post's training arrangements.

4. Recruiting and Engaging LES

This chapter discusses the arrangements at posts for recruiting and engaging LES. It also examines the arrangements for ensuring that LES conditions of service remain appropriate for the local employment market.

Introduction

LES career structure at posts

4.1 Attracting and retaining good staff is important for the effective delivery of outcomes. All four posts visited considered that they had high quality LES and generally reported that it is not difficult to attract and retain them.

4.2 LES at those posts considered that the relatively small size of the post compared with other potential employers and low staff turnover meant that career opportunities were limited. This was particularly the case at the smaller and medium sized posts. However, LES accepted this as unavoidable; the downside to what was otherwise considered to be attractive employment.

4.3 This situation underlines the importance of posts having effective LES performance management systems that appropriately reward good performance (see Chapter 5) and LES being able to access suitable training opportunities to develop and broaden their skills (see Chapter 3).

Engagement powers

4.4 The Secretary of the Department of Foreign Affairs and Trade has delegated his powers under Section 74 of the *Public Service Act 1999* to employ LES to the HOMs. Because of the high number of LES engagements that can take place at Category 1 posts³⁹ and the requirement for the delegate to individually sign each employment contract, the HOM may in turn delegate this power to the Senior Administrative Officer (SAO), and with effect from February 2008, to certain other senior officers.⁴⁰

³⁹ DFAT categorises posts from 1 to 5 based on the range of functions posts perform. Category 1 posts are expected to perform the full range of functions of a diplomatic mission to a high degree on a daily basis. They are normally headed by a Senior Executive Service Band 2 level or above, and have at least eight A-based staff.

⁴⁰ Since February 2008 HOMs at Category 1 posts have been able to delegate their engagement power to Executive Level 2 officers occupying corporate/functional positions, where the SAO is a Senior Executive Service Officer.

4.5 At the two Category 1 posts visited, the HOMs had delegated their engagement powers to the SAOs, with the posts holding a current formal delegation authority on file.

Recruiting and selecting LES

4.6 A key element of workforce planning is recruiting and selecting staff with the right skills and attributes for the organisation.

4.7 The ANAO reviewed a number of key aspects of the recruitment and selection of LES at the posts visited. In particular, the ANAO reviewed whether posts:

- are given adequate guidance on recruiting and selecting LES;
- assess the need to fill vacant positions;
- advertise LES vacancies;
- follow fair and transparent selection processes;
- undertake police and medical checks on new LES; and
- formalise offers of employment and employment contracts.

Guidance for posts

4.8 DFAT's BPG provides guidance to posts on recruiting and selecting LES. Importantly, and consistent with Australian Public Service (APS) principles, it emphasises the need to fill vacancies via competitive, merit-based selection processes. Advice is provided on: defining the job requirements; advertising the vacancies; and undertaking interview and selection processes. A useful recruitment and selection checklist, and a Selection Advisory Committee (SAC) report template, is also provided for posts.

4.9 Notwithstanding the generally useful advice provided, the ANAO identified a number of aspects requiring clarification and strengthening. These are discussed further below.

Assessing the need to fill vacancies

4.10 Consistent with APS better practice, DFAT expects posts to critically assess the ongoing need for a vacant position, including the level at which it should be filled. DFAT advised that posts do make this assessment although it is not a requirement that it be documented. It advised that in smaller posts the assessment is not difficult to make.

4.11 Each of the posts visited advised the ANAO that it did review the need to fill vacancies, although the ANAO found that only one post—New Delhi—routinely documented the assessment. Making it a requirement for posts to make a brief formal record of the assessment would provide greater management assurance that the need to fill a vacancy has been appropriately considered. The risk of not routinely undertaking formal, critical assessments is that opportunities to achieve efficiencies may be lost. This is particularly important when post and departmental budgets are tight.

Advertising vacant positions

4.12 Better practice suggests that advertising vacancies externally facilitates open and competitive selection processes.⁴¹ Most LES vacancies at the posts visited were externally advertised, with posts employing different approaches depending on the actual job and the local labour market. For example, some posts advertised clerical jobs in English language newspapers, while advertising for drivers and gardeners more widely in local language newspapers. One post advised that it normally did not advertise in newspapers (to avoid thousands of applications) but did advertise on the post website. The various approaches appeared reasonable in the circumstances.

4.13 All posts advertised jobs internally. At three of the four posts jobs were also advertised on the post website. However, one post was concerned about receiving too many applications and instead advertised some jobs directly in the press, others via an employment agency, and others not at all. In the latter case, the post advised that some attached agency jobs are filled by selecting from a group of unsolicited general expressions of interest that it maintains, or through word of mouth.

4.14 The ANAO considers that the latter approach falls short of better practice (to advertise jobs externally) and is inconsistent with DFAT's guidance. DFAT advised that such an approach would be unusual and agreed that it would not meet better practice. DFAT advised that it will remind posts of its better practice requirement to advertise jobs.

Selection processes

4.15 DFAT considers it better practice for SACs to comprise three members. This process was generally observed at three of the four posts visited. One

⁴¹ DFAT expects that a limited number of LES positions, such as designated security assessment positions, need to be filled by Australian nationals, who can be granted security clearances. Posts may consider internal or limited advertising for these positions.

post—Stockholm—routinely used a two-person SAC, reflecting its small size. This appeared reasonable in the circumstances.

4.16 The ANAO examined selection processes that had taken place during 2006 and 2007 at the four posts visited. Key findings are set out in Figure 4.1.

Figure 4.1

Key findings on recent post selection processes

- Applications were generally shortlisted (albeit with variable quality of documentation supporting the decision).
- A standard set of interview questions was used by the SAC.
- SAC reports had been prepared for all processes and signed by members of the SAC.
- The delegate (see paragraph 4.4) had appropriately approved the SAC recommendation (and was not a member of the SAC).

Areas for improvement

- Selection criteria had not been used for the two recruitment processes reviewed at one post. Therefore, there was no comparative assessment of interviewed applicants against selection criteria.
- Referee comments were generally documented, with the exception of two processes at two posts.

Source: ANAO analysis.

4.17 Overall, the ANAO concluded that the selection arrangements at the posts visited were generally sound, with jobs generally advertised, SACs formed, and recommendations approved by the delegate. However, drawing the attention of posts to the importance of selection criteria underpinning all selection processes would help strengthen the arrangements. DFAT advised it will remind posts of its requirements in this regard. The ANAO notes that DFAT reminded posts in September 2007 about the need to obtain references and to document those obtained orally.

Selecting spouses and dependants

4.18 Spouses and dependants of A-based staff are free to apply for LES vacancies, but must compete with other applicants in merit-based selection processes. The ANAO notes that DFAT has, in the past, identified cases where spouses have been appointed without proper processes, so it examined this issue at the posts it visited.

4.19 The ANAO did not find any incidences of improper selection processes at the posts visited. It did note, however, one case where an SAO had signed his spouse's employment contract, although he had played no part in the selection process itself. The ANAO considers it would have been better practice for the HOM to have signed the contract in this case.

Police and medical checks

4.20 DFAT expects new LES appointees to be subject to police and medical checks.

4.21 The requirement for posts to undertake police checks is clearly set out in the DFAT Security Instructions. The ANAO found that all four posts visited required police checks to be undertaken in respect of new LES. At three of those posts, police checks were appropriately filed on LES personnel files. At one post, however, there was no evidence that a check had been sought and/or received in two out of the six files examined. This undermines the assurance that persons of appropriate character have been employed.

4.22 DFAT's expectation that posts undertake pre-employment medical examinations/health checks is mentioned in the LES BPG, but the rationale for the checks and circumstances in which they should be undertaken is not clearly set out. For example, it is not clear whether the checks are mandatory (subject to any local labour law considerations) or which aspects of an employee's health should be examined. There is a risk that an overlooked medical check could have significant consequences, for example, should the carrier of an infectious disease be engaged at a large post. DFAT advised that it will amend the LES BPG to reflect the requirement for mandatory health checks where allowable under local law.

4.23 Only two of the four posts—New Delhi and Bangkok—require new LES to undertake medical checks on commencement. At these posts it is made clear to staff that both appointment and continued employment is subject to satisfactory medical checks. However, it is not clearly set out what would constitute a satisfactory (or unsatisfactory) check.

4.24 At Cairo, the requirement to undertake medical checks both on appointment and on an ongoing basis is set out in the COS, but the post advised that checks on appointment were discontinued many years ago (although biennial medical checks continue to be provided for the benefit of staff).

4.25 At Stockholm, medical checks are not undertaken. The post commented that it is not normal Swedish practice, but it is not clear whether checks are actually prevented by local labour laws.

4.26 The ANAO concluded that DFAT should facilitate a more consistent approach by posts to this important issue by providing them with advice about

the need for and nature of health checks, and by requiring all posts to review current practices against those requirements. This advice should identify:

- whether appointment and ongoing employment is conditional on satisfactory checks (where permitted by local labour laws);
- that medical examinations must be undertaken by a qualified medical practitioner engaged by the post;
- the nature and extent of the checks required, and what constitutes satisfactory and unsatisfactory results; and
- the procedures posts are to follow in the event of an unsatisfactory result.

Recommendation No.3

4.27 The ANAO recommends that DFAT facilitate a more consistent approach to LES health checks by providing advice to posts on its minimum requirements.

DFAT response

4.28 Agreed. DFAT will direct posts to review local practice with a view to ensuring mandatory health checks where allowable under local law.

Letters of offer and appointment

4.29 DFAT's guidance for posts concerning the engagement of LES involves sending both letters of offer and, subsequently, letters of appointment to successful candidates. There is scope for streamlining the guidance to avoid repeating some steps such as obtaining a recruit's sign-off on the COS document.

4.30 In practice, posts have developed their own approaches to formally offering positions to, and subsequently appointing, successful candidates. The LES BPG is not followed methodically by any of the posts visited. For example, posts are required to provide a letter of appointment to the recruit on the first day of duty or earlier, signed by the delegate. However, the ANAO found that:

- one post did not prepare formal letters of appointment;
- of the three posts that did, all did so at the successful completion of the probation period rather than on the first day of duty or earlier; and
- at only one of those three posts did the delegate sign the letter of appointment.

4.31 Notwithstanding the variety of approaches used by the posts, the ANAO examined whether the BPG's key elements were being observed by the posts visited. That is whether:

- formal written advice setting out the offer is sent to the recruit;
- the COS and COC documents are provided to, and signed off by, the recruit; and
- the employment contract/agreement or letter of offer is signed by both the recruit and the delegate.

4.32 Key findings are set out in Figure 4.2.

Figure 4.2

Key findings on post offer and appointment practices

- All posts made a formal offer to the successful candidate by letter or email (with some letters confirming earlier oral advice).
 - However, two posts failed to routinely qualify the letters by noting that the offer was subject to a probationary period, and/or police and medical checks.
- COS and COC documents were provided to recruits and those recruits had generally signed off that they had read them.
 - At one post recruits did not sign off that they had read the COS, but did sign an employment agreement setting out the main elements of the COS.
 - At another post recruits for one attached agency signed both DFAT's and the attached agency's COC documents.
- The delegate at three posts appropriately signed the employment contract/agreement.
 - The fourth post relied on a letter of offer countersigned by the recruit. The ANAO found, however, one case where the delegate had signed neither the letter of offer nor the letter of appointment.

Source: ANAO analysis.

4.33 The ANAO concluded that the four posts generally observed the key elements of the LES BPG as set out in paragraph 4.31 above. However, there would be benefit in DFAT reviewing its guidance to streamline the requirements and clearly identify mandatory elements. In addition, there would be merit in DFAT reminding posts:

- to qualify letters of offer by noting that they are subject to probationary periods, and police and medical checks;⁴² and
- for the delegate to sign all employment agreements.

⁴² There is a risk that failing to appropriately qualify the letter could impede termination should this become necessary.

Employing LES on fixed-term contracts

4.34 Prior to 2000 almost all DFAT LES were employed as permanent full-time or part-time employees. Following the 2000 LES Management Review, DFAT decided that ‘all *new* LES should be engaged—where feasible under local labour laws—on fixed-term contracts of a length appropriate to the position being filled.’⁴³ DFAT did not seek to move permanent employees onto fixed-term contracts unless acceptable to individual LES. The requirement to engage new LES on contract is clearly set out in subsequent Administrative Circulars and the current LES BPG.

4.35 Employing new LES on fixed-term contract offers some advantages over ongoing contracts of employment. These include the ability to respond more quickly to changing work priorities, and the ability to more easily terminate non-performing or redundant staff.

4.36 The ANAO examined the progress made by the posts visited in implementing fixed-term contracts for new LES. It found:

- New Delhi and Bangkok—two large posts in terms of LES numbers—employ new LES on contract. Post management reported the arrangements to be working well, with added flexibility, and with good quality staff being recruited.
- Stockholm—a small post—advised that local labour laws did not permit staff to be engaged on fixed-term contracts, with staff engaged for more than 12 months deemed to be permanent employees.⁴⁴
- Cairo—a medium sized post—used two different approaches. A large attached agency engaged all new staff on contract, reflecting its need to be flexible to meet changing workloads; however, DFAT engaged its staff on a permanent basis as it was concerned that contracts would prevent it from attracting and retaining quality LES, and that staff morale and performance might be affected.

4.37 There would be merit in DFAT Canberra clarifying the circumstances in which posts can exercise discretion over the use of fixed-term contracts. DFAT has indicated that it will remind posts to use fixed-term contracts wherever local labour laws allow.

⁴³ DFAT Administrative Circular P0306 of 21 December 2000—*LES Management Review: Major Outcomes and Timeframe for Implementation*.

⁴⁴ In some countries, local labour laws either prevent the use of fixed-term contracts or provide that renewal of a contract deems employment to be permanent.

Conditions of service

4.38 DFAT requires post LES COS to be competitive in the local labour market and meet or exceed local labour law requirements.

Documenting (and translating) LES conditions of service

4.39 DFAT requires each post to codify its COS in a contract and/or post-specific LES handbook. It is also good practice to translate key documents such as the COS and COC into the local language, particularly where some LES do not have strong written English.

4.40 Each of the posts visited documented the LES COS. However, of the three posts where translation is relevant, only one translated both COS and COC documents. The other two posts translated other documents—such as emergency instructions—but expected supervisors to explain relevant COS and/or COC issues to staff as required. Both posts were receptive to the suggestion that key documents be translated in the future.

Reviewing post conditions of service

Frequency

4.41 Regularly reviewing COS helps ensure that they remain competitive and continue to reflect local labour laws. A requirement for annual reviews was specified in a 2004 Administrative Circular⁴⁵ but the ANAO found that this is not observed in practice and that there is no common understanding of how frequently reviews should take place:

- DFAT Canberra advised the ANAO that, while the need to review COS will vary from post to post, it expects posts to monitor changes to local labour laws and satisfy themselves at least annually that COS remain current and compliant with local laws. It also expects posts to conduct formal reviews at least every three to four years if not sooner;
- the BPG is silent on the frequency of review; and
- posts had varying views ranging from annually, to five yearly, to as the need arises.

4.42 Table 4.1 shows the status of post COS documents at the time of the ANAO visit.

⁴⁵ DFAT Administrative Circular P0558 of 20 April 2004—*LES Management Reform: Next Steps*.

Table 4.1**Status of COS documents at posts visited**

Post	Last comprehensive update	ANAO Comment
New Delhi	2002	Rather than undertaking periodic comprehensive reviews, issues raised by LES are considered on a case-by-case basis, with the COS amended as required.
Bangkok	July 2003	The COS (dated July 2003 to June 2007) was being reviewed at the time of the ANAO visit.
Cairo	April 2002	The COS was being reviewed at the time of the ANAO visit. However, the review has been ongoing since 2004. The ANAO notes that a PLV visit to Cairo in May 2004 recommended that the COS should be updated as a 'priority', that is, 'within the next six months'.
Stockholm	Nov 2007	The COS had just been updated (from the May 2002 version) at the time of the ANAO visit.

Source: ANAO analysis.

4.43 DFAT does not routinely check on the currency of post COS. However, it did review this aspect in June 2007 as a one-off exercise. It found that about one quarter of posts' COS were more than four years old, but with most of those in the process of being reviewed.

4.44 Providing guidance to posts on the frequency of reviews, and regularly monitoring the currency of post COS, would help strengthen the review process. The outcomes of that monitoring should be briefly reported to the Senior Executive as part of the regular reporting arrangements discussed in Chapter 2. DFAT agreed that it would be useful to reissue advice on the frequency of post reviews.

Review process and consultation with LES

4.45 As illustrated by Table 4.1 above, posts adopt different approaches to updating COS—some undertake comprehensive reviews and others review particular provisions in response to issues raised by LES. Regardless of the approach, DFAT requires LES to be consulted.

4.46 The ANAO found that formal consultation with the LES normally takes place through the LES consultative committee. At three posts the COS reviews and associated consultation appeared to be working well. At the fourth post, the COS was out-of-date and there was a lack of common understanding between LES and post management about how to progress some long outstanding matters. Monitoring the currency of post COS, as noted in

paragraph 4.44 above, would help DFAT Canberra to identify when assistance is needed.

Consultation with attached agencies

4.47 DFAT also requires posts to consult with attached agencies on proposed changes to COS. The ANAO found that attached agencies at posts had been consulted on recent COS issues.

Ensuring COS comply with local labour laws

4.48 DFAT emphasises the need for posts to ensure that COS comply with local labour laws by obtaining written legal advice on proposed changes.

4.49 The ANAO reviewed compliance at the four posts visited. All posts had a good understanding of the requirement to obtain legal advice, and had access to labour laws in English. At three of the posts the ANAO was able to verify that written legal advice had been obtained on proposed changes to the COS. At the fourth, the post was unable to locate relevant papers but advised that legal advice had been obtained in the past electronically. It also advised that it was dissatisfied with previous advice and intended to change lawyers.

4.50 There would be benefit in reminding posts of the need for legal advice to be documented and readily accessible.

4.51 DFAT Canberra does not routinely review post compliance with local labour laws, but during 2006 and 2007 did review various aspects relating to social security and tax obligations. It reported to the Senior Executive that the majority of posts were compliant. There would be merit in implementing a regular review of post compliance, and reporting the results to the Senior Executive. Such a review might, for example, involve the need for posts to obtain written legal advice annually that the COS remains compliant with local labour law.

Reviewing LES salaries

4.52 An important aspect of post COS that requires regular review is the LES salary structure. Since July 2001—when DFAT removed the link between LES salary movements and the United States Foreign Service National (USFSN) pay scales—posts have been responsible for setting LES salaries. DFAT requires salaries to reflect a competitive market rate for comparable work in the local labour market. In reviewing LES salaries, posts are expected to take into account movements in local salaries (for example by comparison

with other diplomatic missions), the post's capacity to pay, and retention rates for existing staff.

4.53 While the LES BPG is silent on the frequency of review, DFAT advised the ANAO that it expects posts to satisfy themselves annually that LES salaries remain competitive and appropriate. However, it does not monitor whether such reviews take place.

4.54 DFAT does, however, examine LES salary issues as part of its PLV program.⁴⁶ The ANAO notes that visits in recent years have identified concerns in relation to the frequency of LES salary reviews. This is an area that warrants clearer advice and more active monitoring by DFAT Canberra. DFAT advised that it will reissue advice to posts on the frequency of LES salary reviews.

4.55 The ANAO examined the arrangements for salary reviews at the four posts visited (see Table 4.2).

Table 4.2

Post approaches to LES salary reviews

Post	Approach
New Delhi	LES salaries are reviewed annually in-house. This involves the post collecting comparative salary data from marker missions. Based on this comparison, the post determines the salary increase that can be justified, and then the amount it can afford. Attached agencies are consulted and once agreement is reached an offer is put to the LES consultative committee.
Bangkok	Major comprehensive reviews of LES salaries were undertaken in 2003 and 2007 (with salary adjustments also taking place in 2005 and 2006). The 2007 review involved a private sector company benchmarking LES functions and salaries against other employers. The post also collected comparative salary and COS data from marker missions. Attached agencies and LES were consulted. The review formed the basis of the new COS (2007 to 2010).
Cairo	LES salaries are reviewed annually in-house. The post advised that increases are based on comparative data collected from marker missions. (The post was unable to locate relevant papers.)
Stockholm	LES salaries are reviewed biennially in-house. The post reviews salaries against comparative data collected from marker missions and salaries paid by other employers in Sweden.

Source: ANAO review of post files and interviews.

⁴⁶ PLV teams normally consult LES during their visits.

4.56 The effort posts put into salary reviews varies substantially from post to post and year to year reflecting, in part, the resources and internal expertise available to the post at the time. Two SAOs favoured a return to the pre-2001 USFSN link, which they saw as simpler to administer. One post, which had recently completed a substantial review, considered that additional guidance on how to conduct salary (and broader COS) reviews would be helpful for posts. In its recent salary review it used guidance issued by the New Zealand Ministry of Foreign Affairs and Trade to its posts.

4.57 While the posts saw advantages in involving consultants—and noted that some marker missions and attached agencies did so routinely—generally they did not do so because of the cost. However, advantages include:

- access to expertise and comparative salary data that posts could not readily acquire; and
- a degree of impartiality and objectivity, which would facilitate acceptance of the outcome by LES. (The corollary to this is that some LES considered that there can be a lack of accountability of post management in approving salary increases. For example, some LES noted that they are not given access to marker mission comparative data because it is confidential.)

4.58 DFAT Canberra advised the ANAO that about 30 posts in the developing world are, or will be, participating in a salary survey of employers conducted by an international consulting firm.⁴⁷ Participation in the surveys includes free access to survey results. DFAT Canberra advised that its initial view is that the survey results provide an additional useful source of information that these posts can use in reviewing their own salaries.

Approving salary increases

4.59 The power to set COS for LES—including salary increases—has been delegated to HOMs.⁴⁸ HOMs are unable to delegate this power. The ANAO found, however, that previous annual salary increases for LES at one post had been authorised by the SAO, without formal approval being sought from the HOM. It would be beneficial for DFAT to remind posts of its requirements in this regard.

⁴⁷ Participation of posts in the survey is voluntary. DFAT advised that 18 posts participated in 2007, and an additional 11 are expected to participate in 2008.

⁴⁸ HOMs may approve changes involving low cost and/or low legal risk. Salary increases are low risk where the post can fund the increases within its existing budget, and all attached agencies agree.

Reviewing LES salaries—conclusion

4.60 The ANAO concluded that it would be timely, noting that responsibility for LES salaries has been devolved to posts since 2001, for DFAT Canberra to review the effectiveness of the arrangements, particularly for larger posts where the associated workload can be significant.

4.61 It would be beneficial if an outcome of this review is the development of additional guidance for posts on how to go about the task.⁴⁹ DFAT advised that it will conduct a review and provide additional guidance to posts. The ANAO considers that the guidance could identify and share better practice methodology currently used by some posts, for example, the approach used by Bangkok in its 2007 review.

⁴⁹ This might involve, for example, providing guidance on identifying and benchmarking salaries against comparable organisations other than marker missions, and posts participation in and use of data from international consulting firm surveys.

5. Managing LES for Effective Performance

This chapter discusses the arrangements at posts for managing LES for effective performance. It also examines the arrangements posts use for consulting with LES.

Introduction

5.1 Managing LES for effective performance is critical to the achievement of a post's objectives. It requires a structured approach to identifying a person's work objectives, and assessing his/her performance against those objectives. It commences with the post's probationary arrangements for new staff, and continues through the post's annual performance assessment process.

Documenting LES duties

5.2 Posts are expected to maintain duty statements/job descriptions for LES positions. These documents are important when advertising vacancies, and should underpin the performance objectives that are set out in LES performance agreements.

5.3 All four posts visited had documented duty statements/job descriptions for LES positions. The posts reviewed these from time to time, for example, when advertising vacancies or reviewing classifications or salaries.

5.4 LES interviewed by the ANAO understood their duties and considered that their duty statements and/or performance agreements accurately reflected their job responsibilities. LES reported that adjustments to their duties normally occurred in the context of their performance discussion.

Probationary arrangements for new staff

5.5 Probation is an important management tool for ensuring a person is suitable for a job.⁵⁰ Subject to local labour laws, DFAT requires ongoing employment at posts to be subject to the satisfactory completion of a probationary period.

⁵⁰ Australian Public Service Commission, *Probation*, August 2003.

5.6 All four posts visited had established probationary arrangements for new staff with periods varying between three and six months. Each post provided basic information to new LES on the probationary arrangements—essentially concerning the length of the probationary period—either in the letter of offer, or in the attached COS.⁵¹ In addition, each post formally wrote to the probationer at the end of the period advising of the successful completion of the probationary period.

5.7 However, the ANAO found that the posts generally fell short of better practice in two important areas:

- only one post provided basic information to new recruits on the factors to be taken into consideration during the probationary period;⁵² and
- none of the posts documented the feedback provided to LES during the probationary period. It is better practice to make a brief record once or twice during the probationary period, and for the outcome of the probation to be formally reported to the HOM or delegate.

5.8 There is a risk that the failure to adequately observe better practice could impede remedial action or termination where performance continues to be unsatisfactory. The ANAO concluded that probationary arrangements would be strengthened by requiring all posts to clearly set out the factors to be taken into account during the probationary period, and briefly record the feedback provided to LES. DFAT advised that it will remind posts of the importance of providing feedback to LES.

Managing performance

Background

5.9 Effective performance management is recognised as an important tool to assist APS agencies improve their organisational capability and help deliver high quality policy advice and program administration.⁵³ To this end, APS agencies are required to put in place effective, fair and open performance management systems for all employees.⁵⁴

⁵¹ DFAT expects posts to qualify their letters of offer by noting that offers are subject to probationary periods. As noted at Figure 4.2, the ANAO found that this did not routinely happen at all posts visited.

⁵² New Delhi identified efficiency, conduct, diligence and attendance as being factors to be taken into account during the probationary period.

⁵³ Australian Public Service Commission, *Performance Management*, June 2002 (p. vii).

⁵⁴ Australian Public Service Commission, *Performance Management*, June 2002 (p. 2).

5.10 DFAT introduced a performance management system for A-based staff in 1998. Although LES are not APS employees, DFAT's 2000 LES Management Review recommended that posts establish similar systems for LES where they had not already done so. General guidance for posts in this regard was issued by an Administrative Circular in April 2001; the arrangements were reviewed in mid-2004; and revised guidance issued in November 2005. DFAT advised that post arrangements have not been monitored or reviewed since 2004.

5.11 Subject to the general guidance provided in 2005, DFAT requires posts to establish and administer their own performance management systems for LES. While it does not specify the shape or form of LES systems, it does require them to be based broadly on the principles underlying the A-based system, taking into account any cultural sensitivities. These principles are consistent with broader APS guidance for performance management schemes in the APS.

Performance management arrangements at the posts visited

5.12 The ANAO examined the LES performance management arrangements at the four posts visited. In particular, it examined whether:

- the systems are adequately documented;
- LES participation is compulsory;
- LES understand and accept the arrangements;
- formal feedback is being provided to LES;
- procedures are in place for managing underperforming LES; and
- salary advancement is linked to achieving satisfactory performance.

Documentation of post systems

5.13 To facilitate staff understanding of the arrangements, DFAT requires that they be detailed in the post's COS document. The ANAO examined post compliance and found that, while post documentation varied in quality and quantity, most key elements (see Figure 5.1) were adequately covered by the four posts.

Figure 5.1

Key elements of guidance covered by post documentation

- Preparing a performance agreement.
- Identifying training and development needs (although the execution of this was lacking at some posts—see Chapter 3).
- The need to provide regular feedback between staff and supervisors.
- Dates for formal mid-term and end-of-cycle reviews.
- Definitions of performance ratings and performance standards.
- The links between these standards and financial and other beneficial rewards.
- Procedures for dealing with underperformance (the adequacy of these procedures is discussed in paragraph 5.20 below).

Source: ANAO analysis.

LES participation

5.14 LES participation in performance management was compulsory at each post visited. Most LES interviewed by the ANAO advised that they had current performance agreements in place which they had discussed with their supervisor, and which they considered accurately reflected their duties.

5.15 The ANAO examined a range of performance agreements at the four posts and found that all posts identified performance objectives and performance indicators. Three posts usefully weighted the objectives/indicators, effectively prioritising them in order of importance of the task.

LES understanding and acceptance of performance management

5.16 LES at three posts generally reported a good understanding of the performance management systems and were reasonably comfortable with them. However, the ANAO found that the majority of LES interviewed at the fourth post reported the opposite, and were commonly concerned about a lack of training on the performance management system.⁵⁵

5.17 The ANAO notes in this regard that this post was aware of weaknesses and inconsistencies with its system, and advised of plans to review it to improve effectiveness.

Feedback to LES

5.18 Formal feedback both mid- and end-cycle is important to effective performance management. The ANAO found that feedback was being provided to LES at each of the posts visited. Staff at three posts generally

⁵⁵ Such training should be a component of post induction training, which is discussed in Chapter 3.

reported that the feedback was useful, while staff at the fourth post reported it less useful.

Procedures for managing underperforming LES

5.19 DFAT requires posts to clearly document procedures for managing underperforming LES.

5.20 The procedures at three of the four posts reflected those used for managing under-performing A-based staff.⁵⁶ However, at one post the procedures for LES lacked sufficient detail on required processes and were narrowly focused on misconduct.

5.21 Given the importance of following correct procedure, particularly if termination is being contemplated, there would be benefit in posts reviewing the adequacy of their LES procedures against those for A-based staff.

Salary advancement linked to satisfactory performance

5.22 A fundamental DFAT requirement is that rewards must be performance related and not automatic incremental advances. Rewards may consist of performance bonuses, paypoint movements, or a combination of both.

5.23 Each of the four posts complied, at least in principle, with DFAT's policy of not providing salary advancement unless the required performance ratings are achieved.⁵⁷ However, the ANAO found that some posts rated the majority of LES at the highest two levels, which has the capacity to undermine this principle in practice. This is examined in more detail below.

Performance rating scales and ratings outcomes

5.24 The ANAO examined the LES performance rating scales used by each post visited and compared them to the five-point scale used for all A-based staff. The ANAO also identified the distribution of ratings for the most recent performance management cycle.⁵⁸ The results are set out in Figure 5.2.

⁵⁶ This involves a step by step approach including: informal counselling; escalation to formal counselling if no improvement; the development of an agreement on improving performance; and subsequent arrangements for formal review and documentation of progress.

⁵⁷ Stockholm's performance management system provides only for bonus payments. Salary advancement cannot be obtained through the system.

⁵⁸ New Delhi, Bangkok and A-based operate on a financial year basis; Cairo operates on a calendar year; Stockholm operates April to March.

Figure 5.2

Rating scales and ratings for the most recent performance cycle

System	Ratings attracting performance pay			Ratings not attracting pay	
	% achieving each rating ⁽¹⁾			% achieving each rating ⁽¹⁾	
A-based	Outstanding 10.0	Superior 25.1	Fully Effective 61.6	Effective 2.8	Unsatisfactory 0.2
LES Post 1		Very Good 61.7	Good 36.2	Satisfactory 2.1	Unsatisfactory 0
LES Post 2	Superior 38.9	Fully Effective 50	Effective 8.3	Satisfactory 2.8	Unsatisfactory 0
LES Post 3	Superior 33.3	Highly Effective 61.1	Effective 5.6	Unsatisfactory 0	
LES Post 4 ⁽²⁾			Superior 88	Fully Effective 12	Unsatisfactory 0

Notes: (1) Percentages may not add to 100 due to rounding.

(2) Post 4's performance management system is not directly comparable to the other posts visited. Post 4's LES are rated against individual objectives, with staff needing to achieve a rating of *Superior* against at least one objective to qualify for some performance pay. Hence, while 88 per cent LES received a rating of *Superior* against at least one objective, the actual bonus paid to those staff would vary substantially depending on how many objectives attracted that rating.

Source: ANAO analysis.

Rating scales and definitions

5.25 Figure 5.2 shows that each post has developed its own ratings scale, some of which differed substantially from the A-based scale.

5.26 In addition, posts have developed their own ratings definitions. For example, the rating *Fully Effective*, which is used by the A-based scheme and two of the posts, is differently defined by each (see Appendix 3). Although the descriptions are similar, a rating of *Fully Effective* at Post 4 does not attract performance pay, while such a rating for LES at Post 2 and for A-based more generally attracts a three per cent bonus or contributes to salary advancement.

5.27 The reasons for the different rating scales and definitions are unclear, but they probably reflect historical reasons, including A-based, LES and attached agency preferences at the time the systems were designed. The ANAO did not find a link between the scale chosen and cultural sensitivities at the posts visited.

5.28 The use of a standard rating system across posts—involving the same number and definitions of ratings—would facilitate understanding and the administration of the various schemes, particularly by A-based staff moving between posts. It would also facilitate central monitoring by DFAT Canberra. There would be merit in more closely attuning post systems to the A-based system over the medium to longer term as post LES systems are progressively reviewed, unless good reasons exist for not doing so.

Ratings outcomes

5.29 Figure 5.2 indicates that three posts rate a significant percentage of LES at the top rating. This contrasts with DFAT's approach to A-based staff where the highest rating—*Outstanding*—is limited to the top 10 per cent of staff and the next highest—*Superior*—is limited to the next 25 per cent.⁵⁹

5.30 Post 2 has been aware that its performance management system is not working as intended since the outcome of its 2004–05 performance management round, and intends to review it to improve effectiveness. Post 1 was considering increasing its spread of ratings by adding another level (*Outstanding*), which would attract a larger performance bonus.

5.31 Over-rating LES performance has the potential to undermine the effectiveness of post schemes by reducing the incentive for LES to perform beyond the level for which they are normally paid. Over-rating also runs the risk of reverting to virtually automatic annual increments, with potential impacts on post budgets. The corollary is that LES who are genuinely outstanding or superior should, on equity grounds, be differentially rewarded for their effort.

5.32 Given that LES performance management systems have been in place for at least five years and LES appear to be generally comfortable with the process, it would be timely for DFAT to monitor the spread of post ratings and remind posts of the need to ensure that systems are achieving their intended strategic management purpose. Depending on the findings, the introduction of targets at the larger posts, similar in principle to the ones used for A-based staff, should also be considered.⁶⁰

⁵⁹ DFAT advises that the rationale for the limits is to better identify high performers and appropriately reward them on a comparative basis.

⁶⁰ Targets would be impractical at posts with small numbers of LES.

Recommendation No.4

5.33 The ANAO recommends that DFAT strengthen the effectiveness of LES performance management arrangements by:

- monitoring the outcomes of LES performance rounds; and
- considering the introduction of targets for the top one or two rating levels for the larger posts, similar in principle to the ones used for A-based staff.

DFAT response

5.34 Agreed, with qualification. DFAT will review the success of the introduction of APS-style performance management systems globally and, where possible, align these more closely with the system in place for A-based staff, including targets for the higher rating levels. The review will include investigating the feasibility of centrally monitoring performance assessment outcomes subject to the possibility of using the upgraded PeopleSoft system to capture and monitor LES performance data electronically.⁶¹

Briefing the HOM on ratings outcomes

5.35 There is no requirement for the Senior Administrative Officer (SAO) at a post to brief the HOM on the outcomes of LES rating rounds. However, DFAT Canberra advised that formally briefing the HOM would be good practice.

5.36 The ANAO found variable approaches in this regard at the four posts visited. Only one post—Stockholm—formally sought the approval of the HOM for the payment of bonuses. At Bangkok approval was formally sought in 2005, but not since. At the other two posts, a brief was not provided, nor was formal approval sought.

5.37 During the audit the ANAO suggested that DFAT enhance accountability and transparency by requiring SAOs to formally brief HOMs on the outcomes of annual LES performance appraisals. DFAT advised that it will issue instructions requiring Heads of Mission to be consulted in determining ratings and to formally approve the payment of bonuses/increments.

⁶¹ Includes supplementary information provided by DFAT in addition to its initial response which is shown at Appendix 1.

Upwards appraisal

5.38 At the time of the 2000 LES Management Review, posts generally considered that LES would be uncomfortable assessing their supervisor's performance, in some cases because it was culturally unacceptable. Nevertheless, DFAT considered that upwards appraisal would be a useful component of performance management and since 2001, has encouraged LES to provide feedback to both LES and A-based supervisors.

5.39 The ANAO found upwards appraisal of LES and A-based supervisors to be a feature of the performance management systems at each posts visited. LES at three posts reported that the arrangements were working well, and that they had become reasonably comfortable with providing feedback. However, at one post, LES believed that their comments on A-based staff had been 'softened' and, as a result, were inaccurate.

5.40 For performance appraisal arrangements to be effective, and to retain staff confidence, communication needs to be open and honest. Reminding posts of DFAT's requirements in this area would help strengthen these arrangements.

Non monetary rewards

5.41 LES at two of the posts visited suggested to the ANAO that they highly valued public recognition of a job well done. This might involve, for example, the presentation of a certificate or award by the HOM at a staff meeting to recognise an outstanding contribution to the post's work. In some cultures peer recognition may be preferred to a cash reward.

5.42 The ANAO notes that DFAT's LES BPG does provide for citations or certificates to be awarded in recognition of outstanding LES contributions and for long service. There would be merit in DFAT Canberra encouraging posts to use this option where appropriate. At the larger posts, the presentation of citations could take place annually, for example, on Australia Day. Such awards may be particularly useful where there are limited promotion opportunities at posts and/or where LES have reached the top of their salary band.

Consulting with LES at posts

5.43 DFAT recognises the importance of good communication and consultation between post management and LES. Each post is expected to have a formal structure, such as a post consultative committee, through which LES

can channel views and enquiries and receive information from post management. Participation is expected to vary from all A-based staff and LES at smaller posts, to a representative group of LES and the SAO and HOM (or their representatives) at larger posts.

5.44 The ANAO found that consultative arrangements had been established at each post visited (see Figure 5.3).

Figure 5.3

Outline of LES consultative arrangements at the posts visited

- **New Delhi** is considered by post management and LES to have an active and effective LES consultative committee, which meets quarterly. The committee is chaired by an LES member and meets separately with the SAO as required.
- **Bangkok** has formal monthly committee meetings, co-chaired by the Deputy HOM and an LES member. LES advised that their interest in the committee's activities varies depending on the issue being discussed and competing tasks. Effective committee functioning is variable, and is generally reliant on proactive A-based involvement (LES generally considered A-based attendance important).⁶²
- **Cairo** has ad hoc committee meetings, chaired by an LES member. The committee also meets separately with the SAO. The committee is generally considered to be ineffective. In addition, the HOM holds well-regarded monthly briefings for LES on current issues. While issues can be raised by LES, it is unusual for them to do so.
- **Stockholm** LES hold informal ad hoc meetings, for example, when the COS is under review. Stockholm is a small post and LES considered these arrangements to be effective. In addition, the HOM holds an all-staff meeting once a month where LES raise issues as required.

Source: ANAO interviews and analysis.

5.45 The committees varied in form and effectiveness. The ANAO found that relevant factors included post size, cultural issues (for example, staff not being prepared to speak up in staff forums) and the degree of A-based involvement. Cairo, in particular, requires more proactive A-based involvement (the discussion of COS reviews in Cairo in Chapter 4 is relevant in this regard).

5.46 DFAT reviews the effectiveness of consultative arrangements with LES as part of its annual PLV program. The ANAO notes that visits over recent years have identified weaknesses at a range of posts, generally involving a need to improve communications and establish consultative committees.

5.47 Notwithstanding the PLV visits, DFAT Canberra does not routinely monitor the establishment and effectiveness of LES consultation arrangements

⁶² This contrasts to the findings of a PLV to Bangkok in December 2005 which recommended that the composition of the LES committee be changed to include only LES. This was to enable LES to have their own forum for discussion of issues before engaging with post management.

at posts. The ANAO concluded this is an area that warrants more active and ongoing monitoring by DFAT Canberra. This could be undertaken as part of a regular LES staff attitude survey—discussed below. DFAT has indicated that it will remind posts of the importance of good consultative arrangements with LES.

Surveying staff

5.48 Many organisations, including APS agencies, undertake periodic staff surveys as part of workforce planning. Surveys can provide valuable information to management about employees' views on the workplace, and can help identify opportunities for improving an employer's performance.

5.49 With regard to LES, a voluntary survey might, for example, electronically collect information on a range of relevant issues which could assist DFAT to identify posts that would benefit from a PLV visit, and identify common issues across posts which would benefit from greater guidance or attention (see Figure 5.4).

Figure 5.4

Potential areas of coverage for an LES survey

<ul style="list-style-type: none"> ▪ Overall staff satisfaction at work. ▪ Staff loyalty. ▪ Performance management and recognition. ▪ Staff knowledge and understanding of DFAT and Australia. ▪ Staff knowledge of the post's COC and whether LES observe appropriate values and behaviours being exhibited at the post. ▪ Working arrangements, and COS. 	<ul style="list-style-type: none"> ▪ Staff satisfaction with access to learning and development opportunities, and the overall effectiveness of learning and development received in the last year or two. ▪ Supervisor's performance. ▪ Post culture and leadership. ▪ The post's performance. ▪ Effectiveness of internal communication. ▪ Bullying and harassment.
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Source: ANAO analysis.

5.50 Posts visited confirmed that they did not undertake staff surveys. However, the ANAO did find support for a survey from SAOs at two of the posts visited, and among LES at the two larger posts visited.⁶³ DFAT Canberra advised that it does not undertake staff satisfaction surveys of A-based or LES and notes that such surveys would require additional resources.

⁶³ The issue was not raised with LES at the two smaller posts.

5.51 The ANAO notes that the largest attached agency at three of the four posts visited recently undertook an employee opinion survey covering both A-based and LES staff.

5.52 The ANAO concluded that DFAT should consider the cost/benefit of undertaking a regular (for example, biennial) LES-wide survey to help identify common issues or concerns, subject to the availability of resources. This would better inform the Senior Executive of those issues, help target PLVs, and identify any areas where guidance needs to be strengthened. It may be possible to share the cost of such a survey with attached agencies.



Ian McPhee
Auditor-General

Canberra ACT
5 August 2008

Appendices

Appendix 1: Formal Letter of Response from DFAT



Australian Government
Department of Foreign Affairs and Trade

Acting Secretary

Telephone: 02 6261 2472
Facsimile: 02 6273 2081

File Number: 08/002844
9 July 2008

Mr Peter White
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 706
CANBERRA ACT 2601

Dear Mr White,

I refer to your letter of 13 June 2008 to the Secretary, Michael L'Estrange, conveying the proposed report on the ANAO's completed performance audit of the Employment and Management of Locally Engaged Staff. I note your advice that DFAT's comments will be included in the report.

DFAT welcomes the performance audit as a comprehensive and detailed review of the employment and management of locally engaged staff. I welcome in particular the findings of the report which acknowledge that, overall, DFAT effectively employs and manages its locally engaged staff in a complex and diverse overseas operating environment. It is encouraging that the ANAO concludes that DFAT provides sound policy and guidelines which allow flexibility to accommodate the differences in labour law, local economic conditions, currencies, work/performance norms and cultural/religious environments. DFAT also appreciates the ANAO conclusion that it is not necessary for each post to develop a formal LES workforce plan, given that about half of Australia's overseas posts have ten or fewer DFAT locally engaged staff and most posts have no difficulty in recruiting and retaining staff. DFAT agrees, with some qualifications, with the recommendations and the suggested improvements in the report.

DFAT's response to the four recommendations is as follows:

Recommendation 1: Agreed. Migration of LES data from the Overseas Staff Profile (OSP) to the upgraded DFAT Peoplesoft system is expected to provide the facility to deliver improved reporting through 2008-09.

DFAT agrees that there is value in conducting periodic and systematic reviews of LES employment and management practices. As acknowledged by the ANAO, the passage of the Public Service Act in 1999 changed the legal status of LES and necessitated a major review of LES employment and management practices. The Review took over two years to complete and implement. It changed fundamentally many aspects of LES employment, the most complex being the alignment of each post's conditions of service with local labour law. In addition, the Review introduced other concepts such as APS-style performance management systems that needed to be adapted to local labour laws and cultural practices. It has taken several years to bed down these changes globally and for some staff to accept the new management practices. Given the time (three to five years) and resource effort required to conduct a global review and implement changes across an operationally distinct network of posts, DFAT believes that every ten years is about the right time-frame for a full-scale review of LES management, unless an emerging issue necessitates an earlier review.

DFAT will continue to conduct periodic reviews of certain aspects of LES management in response to emerging issues and trends, as it has done recently, e.g. the review of compliance with local taxation and social security laws in 2006-2007.

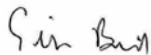
Recommendation 2: Agreed. The technology to deliver courses for staff overseas (A-based and LES) will be available on-line shortly and a range of training courses, including induction templates, will be made available to staff overseas.

Recommendation 3: Agreed. DFAT will direct posts to review local practice with a view to ensuring mandatory health checks where allowable under local law.

Recommendation 4: Agreed, with qualification. It is timely to review the success of the introduction of APS-style performance management systems globally and, where possible, to align these more closely with the system in place for A-based staff

I would like express my appreciation for the constructive approach taken by the ANAO throughout this performance audit.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Gillian Bird'.

Gillian Bird

Appendix 2: Helpdesk Enquiries

Number of Helpdesk Enquiries—16 October to 31 December 2007

Month (2007)	Mode of enquiry ⁽¹⁾	
	Email or telephone	Cable system
October (16-31)	26	53
November	116	68
December	42	37
Total	184	158
Average per week	17	14

Note: (1) Routine enquiries are made via email or telephone. DFAT requires more complex enquiries to be sent via the DFAT cable system.

Source: DFAT survey results.

Types of Helpdesk Enquiries—16 October to 31 December 2007

Category	Mode of enquiry	
	Number of email or telephone queries	Cable system
LES COS and Salary	75	40
Terminations	4	11
Legal	8	49
LES BPG guidance	4	0
Performance management	0	6
OSP	42	0
Conduct and Ethics / Investigations	5	4
Other ⁽¹⁾	46	48

Note: (1) Insufficient information was readily available to allocate these enquiries to categories.

Source: ANAO analysis of DFAT survey results.

Appendix 3: Post Performance Management Systems—Definitions of *Fully Effective*

The rating *Fully Effective* is used by two of the four posts visited by the ANAO as well as the A-based system. It is variously defined as follows:

- A-based—The employee has met consistently to a high standard the performance indicators in the performance agreement.
- LES Post 2—Meets all job requirements and exceeds some. Employee meets the requirement of the performance agreement and demonstrates a consistently good performance and on occasions has exceeded requirements.
- LES Post 4—Consistently demonstrated good performance which met all or most agreed job requirements and accepted work standards. Performance was reliable and maintained with minimum supervision. May have exceeded or fallen short of expectations in some aspects of performance, but overall performance made a valuable contribution to meeting objectives of work team and the broader Embassy objectives.

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