

Indigenous Business Australia's Business Support and Investment Activities

Indigenous Business Australia

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Canberra ACT

7 May 2021

Dear Mr President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in Indigenous Business Australia. The report is titled *Indigenous Business Australia's Business Support and Investment Activities*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

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

Yours sincerely



Grant Hehir
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Audit snapshot

Auditor-General Report No.36 2020–21

Indigenous Business Australia's Business Support and Investment Activities



Why did we do this audit?

- ▶ Indigenous Business Australia's (IBA's) vision is for a nation in which Aboriginal and Torres Strait Islander people are economically independent and an integral part of the Australian economy.
- ▶ This audit provides assurance to Parliament about the effectiveness and efficiency of IBA's business support and investment activities.



What did we find?

- ▶ IBA's management of its business support and investment activities is partially effective, and it measures investment activity efficiency but not business support activity efficiency.
- ▶ IBA governance arrangements are effective except for its identification and management of conflicts of interest.
- ▶ IBA's management of business support activities is partially effective and IBA does not currently measure the efficiency of those activities.
- ▶ IBA's management of investment activities is effective and it has recently established an appropriate measure of its investment activity efficiency.
- ▶ IBA's performance measurement and monitoring of business support and investment activities is partially effective.



Key facts

- ▶ IBA business support and investment activities have been in operation since 2005 and 1990 respectively.
- ▶ Business support activities provide Indigenous Australians with finance products and non-financial support to help start, acquire or grow a business.
- ▶ Investment activities include direct management of businesses and investments with partners and providing managed investment options for Indigenous investors.
- ▶ In 2020–21, IBA's budgeted net resourcing is \$448.8 million, of which \$176.4 million is received from the Australian Government.



What did we recommend?

- ▶ The Auditor-General made four recommendations to IBA on conflicts of interest identification and management, business support activity administration, and performance management and monitoring.
- ▶ IBA agreed to all four recommendations.

~\$60 million

Business finance activities allocated to eligible customers in 2019–20.

\$431 million

Value of IBA's investment portfolio on 30 June 2020, \$256 million of which was IBA's share.

5.93%

Five year average annual return for Indigenous co-investors of IBA funds on 30 June 2020.

Summary and recommendations

Background

1. Indigenous Business Australia (IBA) has been responsible for activities that are intended to support Indigenous-led businesses since 2005, and Indigenous investment and capital growth since 1990. IBA has a single government outcome of improved wealth acquisition to support economic independence of Aboriginal and Torres Strait Islander peoples.
2. IBA has delivered business support activities under the Indigenous Advancement Strategy since 2016. Business support activities include the provision of financial and non-financial support to help Indigenous business owners and entrepreneurs to start, acquire or grow a business. Between 2017–18 and 2019–20, IBA reported delivering \$159.4 million in business loans and financial support and 4517 business capability support services. In May 2020, in response to the impacts on business of the COVID-19 pandemic, IBA also received \$18 million in additional funds to deliver a COVID-19 Relief Package.
3. Investment and asset management by IBA can be broadly categorised as being funds management, direct investments or capability development. IBA investment activities are intended to generate financial returns, as well as employment, training and supply chain benefits for Indigenous Australians. In June 2020, IBA's investment portfolio value was \$431 million.
4. The IBA Board is the accountable authority responsible for oversight of business support and investment activities. IBA's nine member Board has three committees that assist it to fulfil its responsibilities: Audit, Risk and Performance; Remuneration and Nomination; and Finance, Investment and Products. IBA Asset Management Pty Ltd (IBAAM), a wholly-owned subsidiary of IBA that is responsible for managing investment funds where IBA has primary holdings, reports to the Finance, Investment and Products committee.

Rationale for undertaking the audit

5. IBA was established to advance the commercial and economic interests, self-sufficiency and economic independence of Aboriginal and Torres Strait Islander peoples. This audit provides assurance to Parliament about the extent to which IBA is meeting its purpose by assessing the effectiveness and efficiency of its business support and investment activities.

Audit objective and criteria

6. The audit objective was to assess the effectiveness and efficiency of IBA's management of its business support and investment activities. To form a conclusion against the audit objective, the ANAO adopted the following high level audit criteria:
 - Are IBA's governance arrangements effective?
 - Is IBA's management of business support activities effective and does IBA measure its efficiency?
 - Is IBA's management of investment activities effective and does IBA measure its efficiency?
 - Does IBA effectively measure and monitor performance?

Conclusion

7. IBA's management of its business support and investment activities is partially effective, and it measures investment activity efficiency but not business support activity efficiency.

8. IBA governance arrangements are effective except for its identification and management of conflicts of interest. Clear governance roles, responsibilities and coordinating structures have been established for IBA and IBAAM and members of oversight bodies are appropriately experienced. Procedures to identify and manage probity matters and identify and assess key risks have been established. In two cases there were weaknesses in the identification and management of Board-level conflicts of interest.

9. IBA's management of business support activities is partially effective. In a number of cases IBA's administration of business support activities was inconsistent with procedural guidance and record keeping was not sound. IBA's methodologies for 11 of 16 grant agreement KPIs were appropriate, but IBA could not provide verifiable reporting against eight of 16 grant agreement KPIs due to data quality issues. IBA does not currently measure the efficiency of its business support activities.

10. IBA's management of investment activities is effective and it has recently established an appropriate measure of investment efficiency that shows it improving over time. Investment activities and decisions are aligned with parliamentary and government expectations and IBA has implemented effective arrangements to administer those activities. Investment activities improve opportunities for employment and wealth growth, and include effective co-investor engagement arrangements.

11. IBA's performance measurement and monitoring of business support and investment activities is partially effective. IBA has established an appropriate performance framework, however its 2019–20 performance measures are partially appropriate as they are relevant and mostly reliable, but are not fully adequate. IBA's performance reporting is timely, and accurate for investment activities. However, performance reporting for some business support activity is not accurate due to inaccurate or incomplete supporting data. IBA has established processes to inform continuous improvement, although not all processes have been implemented.

Supporting findings

Governance

12. Clear governance roles, responsibilities and coordinating structures have been established for IBA and IBAAM oversight bodies with accountability for business support and investment activities.

13. Members of business support and investment activity oversight bodies are appropriately experienced, consistent with IBA requirements under the Act, IBA Board and committee charters and the IBAAM Compliance Manual.

14. Procedures to identify and manage probity matters and identify and assess key risks have been established. In two cases there were weaknesses in the identification and management of Board-level conflicts of interest. IBA recently implemented changes to improve its identification and management of conflicts of interest, which will need to be effectively implemented.

Business support activities

15. The purpose of IBA's business support activities is clearly defined in the *Aboriginal and Torres Strait Islander Act 2005* and Statement of Expectations and the purpose outlined in its funding agreement is aligned with parliamentary and government expectations. The methodology for measuring performance against the funding agreement KPI related to early stage and pre-bank customers is not appropriate and IBA could not provide complete and accurate data to support reporting on this KPI.

16. IBA has established appropriate policies and procedures to administer its business support activities but arrangements have not been effectively implemented. In many cases, transactions have not been administered consistently with procedures and record keeping is not sound. IBA's methodologies for 11 of 16 grant agreement KPIs were appropriate, but IBA could not provide verifiable reporting against eight of 16 grant agreement KPIs due to data quality issues. IBA has effective arrangements in place to engage with existing and new customers.

17. IBA has not measured whether its business support activities are being undertaken efficiently. IBA's 2020–21 Corporate Plan and Portfolio Budget Statements state that an efficiency measure is to be piloted and a target will be developed.

Investment activities

18. The purpose of IBA's investment activities is clearly defined and aligns with parliamentary and government expectations. Investment activities and decisions are also aligned with government expectations.

19. IBA has established and implemented effective arrangements to administer its investment activities. IBA administered its investment activities in a manner that was consistent with its policies and procedures, created Indigenous employment opportunities and wealth, and was enabled by effective engagement with co-investors.

20. IBA has recently established an appropriate measure of investment efficiency that shows that it has improved over time.

Performance measurement and monitoring

21. IBA has established an appropriate performance framework that includes a strategy, procedures and ways of monitoring performance. IBA's 2019–20 performance measures for business support and investment activities are not fully appropriate because they are relevant mostly reliable, but are not fully adequate. IBA monitors performance on a quarterly and annual basis. However, performance trends and the reasons for them are not reported publicly.

22. IBA's performance reporting is accurate for investment activities and timely for business support and investment activities. Performance reporting for some business support activities is not accurate due to inaccurate or incomplete supporting data.

23. IBA has established largely effective processes to inform continuous improvement of business support and investment activities. Complaints, reviews and quality assurance activity findings inform continuous improvement processes, although investment quality assurance activities had been planned but not completed. IBA has not evaluated its business support or investment activities.

Recommendations

Recommendation no. 1
Paragraph 2.35 IBA apply and comply with its updated policies and processes to identify and manage potential and actual conflicts at all levels and document actions taken.

Indigenous Business Australia response: *Agreed.*

Recommendation no. 2
Paragraph 3.9 IBA ensure that it has complete and accurate customer data and an appropriate methodology for calculating the extent to which future business support activities focusses on pre-bank and early stage customers to enable reliable reporting to Parliament and the National Indigenous Australians Agency.

Indigenous Business Australia response: *Agreed.*

Recommendation no. 3
Paragraph 3.25 IBA ensure that its documentation of business loans, leases and external business services transactions is complete and complies with record-keeping requirements, as set out in legislation, funding agreements and internal procedures.

Indigenous Business Australia response: *Agreed.*

Recommendation no. 4
Paragraph 5.22 To improve business support and investment activity performance reporting, IBA:

- ensure that performance measures in its corporate plan are appropriate, including that they are reliable and adequate;
- publicly report performance result trends and the reason for any changes over time; and
- improve the quality of methods and data used for performance reporting to ensure that results are accurate and can be independently replicated.

Indigenous Business Australia response: *Agreed.*

Summary of entity response

24. IBA's summary response to the report is provided below and its full response is at Appendix 1.

IBA welcomes the ANAO's positive findings in relation to the effectiveness of IBA's governance arrangements and its investment activities.

IBA has agreed with all recommendations and has already implemented a number of these.

Considering the positive findings detailed in the report, IBA is of the view that a number of the audit findings are unduly critical, given the weight of objective evidence.

Nevertheless, the performance audit process has been useful for IBA in driving improvements in a range of areas, including records management and conflicts identification. The audit has also

confirmed that projects that were already in train, such as implementation of a new core banking solution and data warehouse, will deliver significant benefit to IBA and its customers.

IBA has valued the ANAO performance audit process and will ensure that its continuous improvement approach continues to be adopted going forward, consistent with the ANAO's recommendations.

Key messages from this audit for all Australian Government entities

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

Governance and risk management

- Transacting with related parties can increase financial and non-financial risks, including risks associated with financial misstatement, fraud (including the perception of fraud) and reputational risk. Procurements involving companies owned or controlled by Board directors or key management personnel of an entity should be managed proactively and transparently so as to reduce the likelihood of risks being realised. This includes documenting all steps taken to manage potential or actual conflicts of interest and clearly documenting the rationale for approving transactions where Board Directors or key management personnel may obtain a financial benefit from a procurement.

Performance and impact measurement

- When developing a framework to manage policy and program implementation, entities should ensure that this includes the development of procedural guidance for all key implementation stages, adequate administration and oversight arrangements and appropriate quality assurance to provide assurance that program delivery is consistent, legally valid and contributes to the desired policy outcomes.

Records management

- Effective records management and accountability arrangements are integral to robust and successful corporate governance and public administration. Accordingly, entities need to document the outcomes of governance processes, particularly that of the Board that are related to the adherence to legal and policy requirements and execution of primary responsibilities of the organisation.

Audit findings

1. Background

Introduction

1.1 Indigenous Business Australia (IBA) is a corporate Commonwealth entity established under the *Aboriginal and Torres Strait Islander Act 2005* (the Act). IBA's purpose is to:

- assist and enhance Aboriginal and Torres Strait Islander self-management and economic self-sufficiency; and
- advance the commercial and economic interests of Aboriginal and Torres Strait Islanders by accumulating and using a substantial capital asset for the benefit of the Aboriginal and Torres Strait Islander peoples.¹

1.2 IBA's outcome is '[i]mproved wealth acquisition to support the economic independence of Aboriginal and Torres Strait Islander peoples through commercial enterprise, asset acquisition, construction and access to concessional home and business loans'.² Two of IBA's three objectives to achieve this outcome are to:

- support Aboriginal and Torres Strait Islander people to start and grow a business that supports income, employment and economic independence; and
- support Aboriginal and Torres Strait Islander organisations to invest, grow their capital and build commercial capability.³

1.3 IBA has a decentralised workforce of approximately 200 with a head office in Canberra and 14 offices around Australia. In 2020–21, IBA's budgeted resourcing is a combination of \$176.4 million in government appropriation and approximately \$272.5 million from internal revenue and cash reserves. In its 2019–20 annual report, IBA reported providing \$59.9 million in business finance activities, including \$7 million approved under the COVID-19 Business Relief Package. On 30 June 2020, IBA's investment portfolio was valued at \$431 million, \$256 million of which was IBA's share (59 per cent) and \$169 million (39 per cent) was held by 65 Aboriginal and Torres Strait Islander investors.⁴

1.4 The governing body of a corporate Commonwealth entity, in IBA's case the IBA Board, is the accountable authority for the entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), with responsibility for 'promoting proper use and management of public resources, achievement of purpose and financial sustainability' for the entity.⁵ IBA's nine member Board has three committees that assist it to fulfil its responsibilities: Audit, Risk and Performance; Remuneration and Nomination; and Finance, Investment and Products. IBA Asset Management Pty Ltd (IBAAM), a wholly-owned subsidiary of IBA that is responsible for managing investment funds

1 Section 146 of the Act.

2 Commonwealth of Australia, *Prime Minister and Cabinet Portfolio Budget Statements 2020–21*, p. 152.

3 Commonwealth of Australia, *Prime Minister and Cabinet Portfolio Budget Statements 2020–21*, p. 147.

4 The remaining \$5.6 million (two per cent) is the value of non-Indigenous portfolio ownership.

5 The IBA Board members are officials and subject to the general duties of officials under sections 25 to 29 of the PGPA Act. Sections 15 to 19 of the PGPA Act impose additional duties on accountable authorities in relation to governing the Commonwealth entity for which they are responsible.

where IBA has primary holdings, and provides reports to the Finance, Investment and Products committee

Business support activities

1.5 IBA commenced delivery of business support activities in 2005 when responsibility for it was transferred from the Aboriginal and Torres Strait Islander Commission. At the time these activities consisted of providing Indigenous-led businesses with business support services and business finance. In 2016, appropriation for business support activities was included in the newly established Indigenous Advancement Strategy (IAS) and allocated to IBA via a funding agreement.⁶ Through the IAS, the Australian Government funds and delivers a range of programs specifically for Indigenous Australians. IBA receives funding for its business support activities as part of the IAS Jobs, Land and Economy program.

1.6 The current funding agreement sets out a mix of standardised IAS grant key performance indicators (KPIs) as well as project specific KPIs negotiated between IBA and the Department of the Prime Minister and Cabinet.⁷ The current funding arrangements were approved in November 2018, with the approval stating that the proposal is a grant as defined in the *Commonwealth Grants Rules and Guidelines*. Ten types of activities are covered under existing business support funding arrangements (summarised in Table 1.1).

Table 1.1: IBA business support activities

Activity type	Summary description
Start-up finance	A grant and loan package to assist a new business to get started
Business loans	A loan for the purchase of an existing business or to assist with working capital, equipment and asset purchases
Performance bonds	A bond issued to one party as security against the failure of the other party to meet obligations specified in a contract
Invoice financing	Working capital to enable a business to finance the usual costs of delivery, such as wages, inventory, raw materials and transport costs
Procurement loans	A short-term loan to support a business to fulfil awarded contracts before receiving payment
External business support	IBA procured consulting services providing tailored business support
Internal business support	Advice and support provided by IBA to customers
Partnerships	A mutually beneficial agreement between IBA and another entity for the purposes of a shared outcome
Business workshops	Workshops covering a range of business topics including bookkeeping, marketing, strategy and Information Technology
Finance and operating leases	A lease for new or used plant, equipment, machinery and vehicles

⁶ The first funding agreement for business support activities was called the Business Development Assistance Program, which then changed to the Business Solutions Program. These activities are referred to in this report as 'business support activities'.

⁷ The IAS is now administered by the National Indigenous Australians Agency (NIAA).

Activity type	Summary description
Strong women, strong business platforms	A forum for connecting Aboriginal and Torres Strait Islander women in business

Source: ANAO analysis of IBA documentation.

1.7 Business support activity customers are required to meet a range of eligibility criteria including eligibility criteria relating to Indigenous ownership of the business.

1.8 In its annual reports, IBA reported delivering \$159.4 million in business finance in the three years from 2017–18 to 2019–20, with more than 60 per cent of grant funding provided to businesses in regional and remote Australia. IBA also reported to NIAA that it delivered 4517 business capability support services, with the majority (60 per cent) provided to regional and remote customers.⁸

1.9 In May 2020, in response to the impacts on business of the COVID-19 pandemic, IBA received \$18 million in new funds under a separate agreement with NIAA to deliver a COVID-19 Relief Package. The purpose of the package is to fund IBA to deliver rapid business assessments, business support services, loans and grants to eligible Indigenous businesses (being new and existing IBA customers) from 9 April 2020 to 30 June 2021. By 31 December 2020, IBA had allocated \$16.5 million to COVID-19 Relief Package customers.

Investment activities

1.10 IBA's Investment and Asset Management program commenced in 1990. Under the program, IBA provides Indigenous investors with access to direct and managed investment options with the view to generating a commercial return, as well as a social and economic impact for Aboriginal and Torres Strait Islander people including via capability development, employment, training and procurement. Current IBA investment activities can be categorised under one of three headings:

- Funds management — funds established to provide access to managed investments for investors who identify as being Aboriginal and/or Torres Strait Islander and meet other eligibility requirements;
- Direct investments — joint ventures between IBA and organisations in operating businesses in a range of sectors to generate financial returns, employment, training and/or supply chain benefits for Indigenous Australians; or
- Capability development — engagement with potential or existing co-investors with the intention of improving their investment and business acumen through provision of advice or hosting workshops.

1.11 As at 30 June 2020, IBA had 22 actively trading subsidiaries associated with IBA's direct investments. IBAAM is a further IBA subsidiary established to provide management oversight of IBA investment funds. IBAAM has a separate board to that of IBA, which is advised by an investment advisor that assists it to implement the investment strategy that is set by the IBA Board.

⁸ IBA includes internal support, external support, partnerships (across the three years) and Strong Women Strong Business numbers (website and platform, 2019–20 only) in the 4517 services.

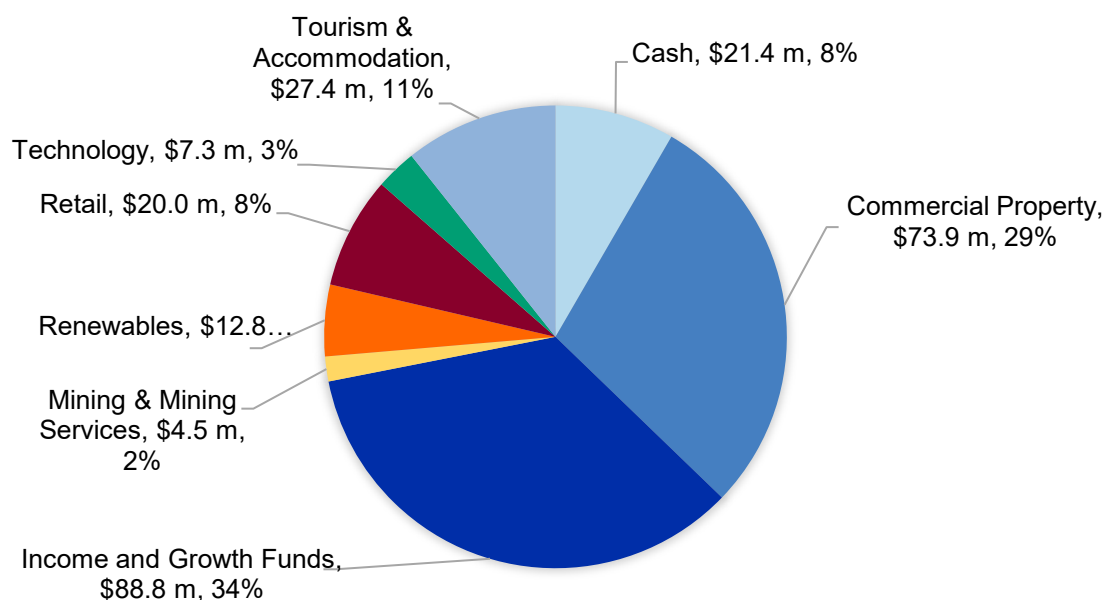
1.12 Funds management includes IBA investment in and management of two fund types, the Indigenous Real Estate Investment Trust (I-REIT) and Indigenous Prosperity Funds (IPF), which have been operating since 2013 and 2015 respectively. The funds have an eligibility requirement that its co-investors are a recognised Indigenous-led organisation. The I-REIT is an Australian, unlisted unit trust investing primarily in a portfolio of Australian office, industrial and retail property assets. The IPF is a managed, long-term, diversified investment that includes exposure to Australian and international shares, bonds, property and cash, and consists of two funds that gives investors a choice of different risk profiles and return objectives:

- Growth Fund — with an emphasis on growth assets such as Australian and international shares; and
- Income Fund — with an emphasis on defensive assets such as bonds and debt securities.⁹

1.13 Through direct investments, IBA and Indigenous organisations or individuals invest in operating businesses in a range of sectors, including tourism and hospitality, retail, industrial (manufacturing, mining services and primary industries) and renewables. IBA co-invests with organisations with the aim of generating financial returns, as well as employment, training and supply chain benefits for Indigenous Australians.

1.14 Figure 1.1 shows an industry sector breakdown of IBA holdings in its investment portfolio as at 30 June 2020.

Figure 1.1: Total IBA share of investment portfolio by industry sector, as at 30 June 2020



Source: ANAO analysis of IBA data.

1.15 In June 2020, IBA reported to its Board that its total direct investment and funds (including commercial property) were valued at \$102 million and \$316 million and had 25 and 45 per cent co-investment by Indigenous individuals or Indigenous-led organisations respectively. While IBA is

9 A cash fund also operated until July 2020 and had an emphasis on capital preservation.

expected to seek financial returns from its investment activity, direct investments are also entered into with non-Indigenous co-investors when there is a clear social impact for Indigenous people, such as via employment opportunities in the construction or operation of an asset.

Previous reviews

1.16 Auditor-General Report No.11 of 2015–16 *Indigenous Home Ownership Program* examined IBA's provision of housing loans to Indigenous Australians and, among other findings, concluded that its management of the program had been inefficient and that lending did not fully align with the program objective for which it is funded. The audit noted a number of weaknesses in IBA's program management and made recommendations, which were agreed to by IBA, aimed at:

- aligning program activities with outcomes;
- making service delivery more responsive to the needs of IBA customers and increasing the efficiency and effectiveness of its business practices; and
- improving program performance measurement and reporting.¹⁰

Rationale for undertaking the audit

1.17 IBA was established to advance the commercial and economic interests, self-sufficiency and economic independence of Aboriginal and Torres Strait Islander peoples. This audit provides assurance to Parliament about the extent to which IBA is meeting its purpose by assessing the effectiveness and efficiency of its business support and investment activities.

Audit approach

Audit objective and criteria

1.18 The audit objective was to assess the effectiveness and efficiency of IBA's management of its business support and investment activities.

1.19 To form a conclusion against the audit objective, the ANAO adopted the following high level criteria:

- Are IBA's governance arrangements effective?
- Is IBA's management of business support activities effective and does IBA measure its efficiency?
- Is IBA's management of investment activities effective and does IBA measure its efficiency?
- Does IBA effectively measure and monitor performance?

10 Auditor-General Report No.11 2015–16 [Indigenous Home Ownership Program](#) included a fourth recommendation (Recommendation No. 2) to the Australian Government to assess whether a government-run loan program is the most efficient mechanism to support Indigenous home ownership outcomes. IBA noted this recommendation.

Audit methodology

1.20 The audit methodology comprised:

- collecting and analysing IBA documentation and data, including;
 - analysing a sample of 60 business support records approved between April 2019 and May 2020; and
 - analysing a sample of 14 records of investments with decisions approved since November 2018;
- assessing how IBA measures its efficiency: identification of relevant performance measures; analysis of IBA data; identification and analysis against suitable internal and external comparators; and analysis of operational processes used to transform relevant inputs to outputs; and
- interviewing relevant IBA personnel, Board and committee members, and government and non-government stakeholders.

1.21 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of \$563,660.

1.22 The team members for this audit were Glen Ewers, Michael Commens, Clarina Harding and Deborah Jackson.

2. Governance

Areas examined

This chapter examines the effectiveness of Indigenous Business Australia (IBA) governance arrangements.

Conclusion

IBA governance arrangements are effective except for its identification and management of conflicts of interest. Clear governance roles, responsibilities and coordinating structures have been established for IBA and IBA Asset Management Pty Ltd (IBAAM) and members of oversight bodies are appropriately experienced. Procedures to identify and manage probity matters and identify and assess key risks have been established. In two cases there were weaknesses in the identification and management of Board-level conflicts of interest.

Areas for improvement

The ANAO made one recommendation aimed at improving conflict of interest identification and management and one suggestion to review and update IBAAM governance documentation.

2.1 Governance involves the systems and processes in place that shape, enable and oversee the management of an organisation. Under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), an accountable authority of a Commonwealth entity must govern the entity in a way that promotes the: proper use and management of public resources for which the authority is responsible; achievement of the purposes of the entity; and financial sustainability of the entity.¹¹

2.2 The interplay of ‘hard’ and ‘soft’ attributes of governance¹² — and the criticality of board and organisational culture to entity performance, values and conduct — have been central themes in notable Australian inquiries into organisational misconduct.¹³ Auditor-General reports have made findings consistent with those in these inquiries.¹⁴

2.3 To assess whether IBA’s governance arrangements were effective, the ANAO examined:

- relevant roles, responsibilities and coordinating structures designed to provide oversight of IBA’s activities;
- the experience of oversight body members; and
- arrangements to manage conflicts of interest, probity and risk.

11 Subsection 15(1) of the PGPA Act.

12 ‘Hard’ attributes include board composition, appointment processes and independence, whereas ‘soft’ attributes include the Chair/Chief Executive Officer relationship, board behaviours and board culture.

13 See, for example: the 2003 Royal Commission into the failure of HIH Insurance; the 2018 APRA Prudential Inquiry into the Commonwealth Bank of Australia (CBA); the 2019 Royal Commission into the financial services industry; and the Crown Casino Inquiry under section 143 of the *Casino Control Act 1992* (NSW).

14 See [Audit Insights on Board Governance](#).

Have clear governance roles, responsibilities and coordinating structures been established?

Clear governance roles, responsibilities and coordinating structures have been established for IBA and IBAAM oversight bodies with accountability for business support and investment activities.

2.4 The instruments summarised in Table 2.1 set out governance requirements that apply to IBA's governance of its business support and investment activities, which IBA and IBA Asset Management Pty Ltd's (IBAAM's) Board and employees are required to follow in the execution of their functions.

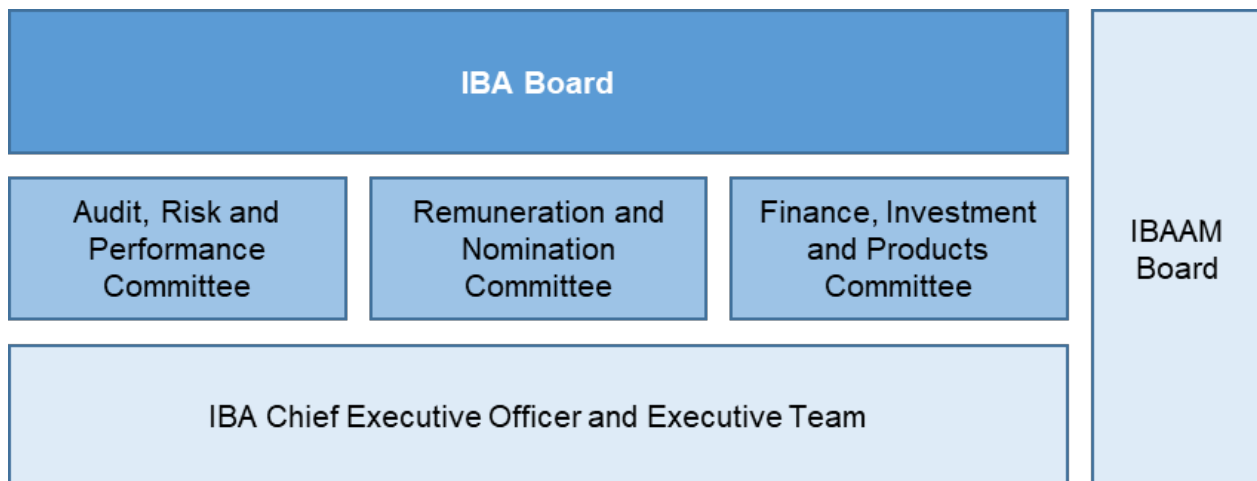
Table 2.1: IBA and IBAAM governance instruments

Instrument	Summary description
<i>Aboriginal and Torres Strait Islander Act 2005</i> (the Act)	Part 4 sets out IBA's powers, functions, administrative and operational arrangements, constitution and appointment of the Board, and certain operations of the meetings of the Board. IBA's accountable authority is the IBA Board, which is appointed by the Minister for Indigenous Australians.
IBA Statement of Intent	Lists accountability and reporting practices of IBA, including that it will 'comply with all relevant legislation and continue to maintain high standards of corporate governance appropriate to IBA and guided by relevant best practice guides' (last updated in January 2015).
IBA Board Governance Charter (Board Charter)	Sets out the corporate governance responsibilities of the IBA Board, and the roles and functions of Board Committees (last updated in November 2020).
IBAAM Charter	Sets out the role of the Board and its membership, meeting proceedings and how the Board will be reviewed (last updated in 2015).
IBAAM Constitution	Specifies conditions of IBAAM roles and membership and how the body will operate (last updated in September 2020).
IBAAM Statement of Expectations	Establishes IBAAM responsibilities to IBA and outlines the legal framework within which IBAAM is to operate (last updated in April 2016).
IBAAM Compliance Manual	Assists IBAAM to conduct its financial services business activities in a manner that is consistent with the relevant Financial Services Laws (last updated in February 2020).

Source: ANAO analysis of IBA documentation.

2.5 The instruments listed in Table 2.1 establish the governance roles of IBA's Board and its three committees, and the IBAAM Board. Figure 2.1 illustrates the organisational structure of IBA's governance arrangements.

Figure 2.1: IBA governance bodies



Source: ANAO.

IBA Board

2.6 A Board Charter can support members (Directors) by providing a single reference point that clearly sets out the functions, powers and membership of the Board, as well as roles, responsibilities and accountabilities, consistent with relevant legislative requirements. IBA has established a Board Charter that clearly outlines key responsibilities of the IBA Board, including that it:

- establishes and monitors the corporate governance framework for IBA;
- articulates, guides and models IBA's values and shapes its corporate culture;
- sets the strategic direction for IBA;
- sets key corporate policies;
- monitors IBA's financial and non-financial performance;
- monitors and reports to the responsible Minister and Minister for Finance as required;
- establishes and maintains appropriate systems of risk oversight and management; and
- approves transactions above the Chief Executive Officer's (CEO's) delegation.

2.7 In November 2020, the Board approved an updated version of its Charter that included amendments to its committee composition and conflict of interest management processes.

2.8 The IBA Board Charter outlines the key administrative requirements for each Board meeting, including requirements to establish an agenda, develop and distribute papers, and to record and confirm minutes documenting actions and decisions. A review of Board documentation from July 2018 to November 2020 showed that agendas were developed for all meetings and papers were provided to Directors for almost all agenda items in accordance with the charter (material exceptions are discussed in paragraphs 2.29 to 2.34).

2.9 Minutes indicate that the Board fulfilled its responsibilities and clearly recorded the outcome of discussions and proposed resolutions, documenting whether resolutions were

discussed, noted or approved.¹⁵ Minutes also documented: periodic performance reporting for business support and investment activities; corporate plan and portfolio budget statements approvals; investment decisions; and IBA administration.

Audit, Risk and Performance Committee

2.10 An audit committee charter should reflect the desired culture and set out the committee's roles and responsibilities, authority, composition, membership requirements, structure and processes. The Audit, Risk and Performance Committee (ARPC) Charter outlines the committee's responsibilities, including to:

- review and provide advice on:
 - IBA's performance and financial reporting, including compliance with requirements of the PGPA Act, PGPA Rules and Accounting Standards;
 - IBA's risk oversight and risk management, including its enterprise risk framework and fraud control arrangements;
 - the appropriateness of internal controls, legislative and policy compliance, security compliance and internal audit coverage;
 - the appropriateness of subsidiary oversight and group corporate governance arrangements; and
- satisfy itself that IBA has appropriate mechanisms for reviewing relevant external reports (including parliamentary committee reports), external reviews and evaluations of IBA and, where appropriate, implementing any recommendations.

2.11 The ARPC Charter also states that the committee will:

- consist of at least three Directors (including the Committee Chair) and up to two external members may also be appointed;
- meet at least four times a year, with at least half of committee members required to be present for a quorum; and
- establish an annual work plan and meeting schedule.

2.12 In August 2019 one of the three IBA Directors resigned from the IBA Board. Following the resignation the IBA Board passed a resolution to waive membership requirements for its audit and risk committee until such time as a new Board member had been appointed by the Minister and the appropriate composition of the Committee could be considered by the Board. Between August 2019 and July 2020 the committee held four meetings and meeting minutes indicate that the ARPC fulfilled its responsibilities during this time and that the committee: endorsed IBA's risk management framework, fraud control plan and fraud risk register; discussed periodic performance

15 In accordance with Section 44(5) of the PGPA Act, where a subsidiary is required to prepare financial statements, the IBA Board as the accountable authority must provide the Minister for Indigenous Australians with a copy of the subsidiary financial statements and the auditor's report on those statements. The ANAO's annual report to Parliament, usually tabled in December, relating to the audit of financial statement for the previous year regularly reports that subsidiaries of IBA have not had financial audits issued. This indicates that they could not have been provided to the Minister at that time.

reporting and risk tolerance updates; and endorsed for Board approval IBA's Corporate Plan and annual financial statements.

Remuneration and Nomination Committee

2.13 The Remuneration and Nomination Committee (RANC) Charter outlines the key responsibilities of the committee, including reviewing and providing advice to the IBA Board on: the CEO recruitment process; an annual performance review of the CEO; and current or expected Board vacancies. The RANC Charter also outlines that the committee will comprise the IBA Chair and two Directors, and that the committee will meet at least once a year.

2.14 Records show that the RANC met nine times between July 2019 and October 2020 and fulfilled its charter responsibilities. The RANC discussed and provided recommendations to the IBA Board on the CEO's performance, IBA Board and committee vacancies and executive recruitment.

Finance, Investment and Products Committee

2.15 IBA has established a Finance, Investment and Products Committee (FIPC) to assist the IBA Board by providing advice on the performance and composition of investment and lending portfolios, and to review and provide advice about significant new business opportunities, products, investments or other financial transactions. The FIPC Charter also outlines administrative requirements for the FIPC including that it provides regular written updates to the IBA Board and an annual report to the IBA Board by 31 December each year. The FIPC is required to meet at least four times a year, develop an annual work plan and document deliberations and decisions in minutes.

2.16 Records show that the FIPC met eight times between July 2019 and November 2020 and met its charter responsibilities. The FIPC discussed: housing, investment and business support activity updates, endorsed investment decisions before they were submitted for Board consideration, tracked IBA's financial position, and the committee Chair provided an annual report on investment activity to the IBA Board.

IBAAM

2.17 The IBAAM Board adopted a Charter in 2014 and last updated it in 2015. IBAAM governance arrangements are also outlined in a Constitution, Compliance Manual and a Statement of Expectations issued by IBA. While the IBA Board sets the investment strategy, the IBAAM Charter and Constitution outline how the IBAAM Board should operate in accordance with the strategy, including outlining its functions, powers and membership; roles, responsibilities and expectations of members and management; role and responsibilities of the chairperson; procedures for conducting meetings; and processes for reviewing IBAAM Board performance. IBAAM has not complied with the requirement to review its Charter at least every two years.

2.18 The IBAAM Statement of Expectations outlines corporate governance principles to which it is expected to adhere 'to the extent reasonably practicable'. The Statement of Expectations also includes requirements to conduct annual meetings and report to the FIPC, and outlines how IBAAM communicates with IBA officials. The Statement of Expectations includes an outdated list of IBA personnel and liaison points.

2.19 The IBAAM Compliance Manual:

- identifies and maps out the relevant legal obligations for IBAAM and its representatives to enable them to take into account, and be consistent with, these requirements to avoid breaching the regulatory requirements;
- facilitates continuous improvement and sets standards of performance through the documentation and updating of procedures;
- sets out the major risks of not complying with the processes and the potential impact on IBAAM; and
- facilitates compliance by clearly setting out the key processes and responsibilities of employees to enable IBAAM to comply with ongoing requirements under the Financial Services Laws.¹⁶

2.20 IBAAM met eight times between February 2019 and August 2020 and met its charter responsibilities. To ensure that IBAAM effectively communicates with IBA and continuously improves its governance arrangements, IBA should update its IBAAM Statement of Expectations and review its charter in accordance with the requirement that this occur every two years. In January 2021, IBA advised the ANAO that the IBAAM Board will review its Charter and IBA will issue an updated statement of expectations to IBAAM in early 2021.

2.21 In summary, IBA Board and committee papers demonstrate that governance arrangements are effectively applied in practice. IBA and IBAAM apply the directions set out in IBA Board and committee approved corporate documentation and internal policies.

Are members of oversight bodies appropriately experienced?

Members of business support and investment activity oversight bodies are appropriately experienced, consistent with IBA requirements under the Act, IBA Board and committee charters and the IBAAM Compliance Manual.

2.22 To assess the experience of members of oversight bodies, the ANAO reviewed IBA and IBAAM Board Directors' experience, as outlined in their biographies, against requirements in the Act, IBA Board Charter and IBAAM Compliance Manual.

2.23 Section 157 of the Act outlines IBA Board of Director requirements, including that:

- the IBA Chairperson and at least four other IBA Directors are to be Aboriginal persons or Torres Strait Islanders; and
- each IBA Director is to be a person who the Minister is satisfied has experience in industry, commerce or finance; or Aboriginal or Torres Strait Islander community life or enterprises.

2.24 The IBA Board has nine members including the Chair, six of whom are of Aboriginal descent. The nine Directors have relevant skills and experience in industry and finance, including three

16 The manual defines Financial Services Laws as referring to: the *Australian Securities and Investments Commission Act 2001* (Cth); *Corporations Act 2001* (Cth); and 'any other Commonwealth, State or Territory legislation that covers conduct relating to the provision of financial services (whether or not it also covers conduct not relating to the provision of financial services) but only in so far as it covers conduct relating to the provision of financial services.'

Directors who also have experience in Aboriginal community life and enterprises. Directors have been appointed consistent with requirements set out in the Act. For example, in July 2020 the IBA Chair provided appropriate advice to the Minister for Indigenous Australians on pending Board vacancies, including recommendations to fill a vacancy on the Board. Advice to the Minister included nominations with summaries of the nominees' qualifications and experience and copies of their curricula vitae. On 16 September 2020, the Minister appointed one of the nominees as a Director. Current Directors were appointed through a similar process of nomination and Ministerial appointment.

2.25 The charters of the three Board committees specify experience requirements to ensure that members can contribute to the committee and its function on behalf of the Board. All committee members have appropriate skills, qualifications and experience consistent with the requirements of each committee charter. For example, the ARPC includes members with knowledge of accounting and accounting standards, as required under its charter.

2.26 The IBAAM Compliance Manual specifies minimum competency standards for IBAAM Board members and entities engaged to provide financial services. The Director Deed outlines skills and experience requirements of a Board position and is consistent with what is outlined in the Compliance Manual. Each current IBAAM Board member has signed a Director Deed. All nine members of the IBAAM Board between February 2018 and August 2020 had relevant skills and experience as company directors.

Are conflicts of interest, probity matters and key risks identified and managed appropriately?

Procedures to identify and manage probity matters and identify and assess key risks have been established. In two cases there were weaknesses in the identification and management of Board-level conflicts of interest. IBA recently implemented changes to improve its identification and management of conflicts of interest, which will need to be effectively implemented.

2.27 Sections 15 to 19 of the PGPA Act impose duties on accountable authorities in relation to governing the corporate Commonwealth entity for which they are responsible. As the accountable authority, members of Commonwealth governing boards are also officials, and are subject to the general duties of officials under sections 25 to 29 of the PGPA Act.

2.28 Acting in accordance with Board obligations and keeping sufficient evidence of related processes and outcomes is fundamental to effective governance, accountability and transparency.

Conflicts of interest

2.29 The IBA Board Charter requires members to complete an annual declaration of interests that includes requirements to disclose related parties and related party transactions for financial reporting compliance. The IBA Board Charter also requires that any time an interest or another duty of a Director (for example, duties under another directorship) could, or could be perceived to, influence their decision making on IBA matters, then the competing interest or duty must be disclosed to the Board and steps should be taken to manage the conflict. The IBA Board Charter sets out examples of the types of issues the IBA Board should consider when approving related party transactions, including:

- the level of direct or indirect personal financial or other benefit the related party may receive;
- the potential benefit to IBA;
- any actual, potential or perceived conflicts of interests in relation to the transaction;
- third party perceptions of the transaction and reputational issues;
- alternative transactions available to IBA;
- the effect of the transaction on other customers and stakeholders of IBA; and
- the alignment of the transaction with the purpose and values of IBA.

2.30 IBA maintains a conflict of interest and gift register for IBA staff and a separate register of interests for Directors. Staff involved in assessing customer applications and procurement tenders did not have access to the register of Director interests, limiting IBA's identification and management of conflicts declared by Directors. In January 2021, IBA developed and implemented a searchable conflict of interest tool, which IBA staff are required to use to identify declared conflicts prior to commencing new applications for business support services, investments, procurements and recruitment activities.

2.31 The ANAO reviewed declarations for 2017–18, 2018–19 and 2019–20 and found that IBA Directors and staff completed declarations as required. In two cases there were weaknesses in the identification and management of Board-level conflicts of interest, as described in case studies 1 and 2 below.

2.32 IBA Board agendas and minutes reviewed by the ANAO from July 2018 to November 2020 included conflicts of interest and related party disclosures as standing agenda items. Board papers also included lists of declared interests for all Directors and meeting minutes document updates on conflicts of interest and related parties disclosed at each Board meeting.

2.33 Australian Accounting Standard AASB124 (AASB124) requires the disclosure of related party transactions and the reporting of such transactions in an entity's annual financial statements. In September 2020, the IBA Board approved IBA's 2019–20 financial statements, which omitted the transactions discussed in case studies 1 and 2. Following discussions with the ANAO, IBA withdrew and then amended its signed financial statements to include the disclosure of these transactions.

Case study 1.

IBA issued a targeted procurement request for office furniture and associated items for its Perth office in September 2019.

The request for quote stated that the firm must include in its quote details of any circumstances that constitute or may constitute an actual or potential conflict of interest. None of the tenderers disclosed a conflict of interest.

The procurement business case recommended that IBA use multiple Indigenous businesses to complete the office fit out. In line with the business case, the procurement panel recommended splitting the procurement between two of the four companies that provided tenders. The delegate did not accept the recommendation of the procurement panel and did not document the rationale for selecting the successful company. The successful company provided the lowest priced tender.

The Director had previously disclosed an interest in the company using its registered business name; the quote was submitted using the company's trading name. In February 2020 the delegate signed the procurement contract with the company. In March 2020 the Director verbally briefed the Board that they had an interest in the successful tenderer (the Board Director and an immediate family member hold 51 per cent of the shares in the company). Board minutes documented that it considered some of the factors relevant to entering into a related party transaction that were listed in its Charter (see paragraph 2.29). The minutes did not document that it had considered other factors in its Charter such as the level of direct or indirect personal financial or other benefit the related party may receive, the potential benefit to IBA or alternative transactions available to IBA. The Board noted that it was comfortable with the Director staying in the meeting for the discussion.

Case study 2.

A representative of an entity in which a Director of the IBA Board had declared a conflict of interest contacted IBA to request a \$500,000 business loan to upgrade its facilities. An application form was not submitted in accordance with IBA loan procedures. Information to support the request was obtained via emails between IBA and the related party entity.

An IBA delegate approved a \$1.2 million grant and loan package that included an \$80,000 grant provided under the COVID-19 Relief Package. The entity did not submit an expression of interest and IBA did not undertake a business impact assessment, which is inconsistent with COVID-19 Relief Package procedures.

The IBA Board considered the related party transactions. Board minutes document some of the factors relevant to entering into a related party transaction that were listed in its Charter (see paragraph 2.29). The minutes did not document that it had considered other factors in its Charter such as third party perceptions of the transaction and reputational issues, alternative transactions available to IBA or the alignment of the transaction with the purpose and values of IBA. The Director was not present for the meeting and did not vote on the resolution to approve the transaction.

On 16 September 2020 the IBA Director executed the loan and grant agreements in their capacity as Chair of the Board of the related entity. The Director declared the interests to the Board upon their appointment and in 2018–19. In October 2020, when completing their 2019–20 annual related party disclosure form, the Director did not declare the executed transactions or entity as a related party interest.

2.34 In November 2020, the IBA Board approved amendments to its Charter that require board papers to be provided in relation to conflict of interest matters and related party transactions. The IBA Board also approved a Related Party Transaction Compliance Program that is intended to improve reporting of related party transactions across IBA. The Board also plans to introduce mandatory conflict checks prior to the transaction approval stage.

Recommendation no. 1

2.35 IBA apply and comply with its updated policies and processes to identify and manage potential and actual conflicts at all levels and document actions taken.

Indigenous Business Australia response: *Agreed.*

2.36 *IBA has implemented a range of initiatives to continue to strengthen its conflicts management framework and processes. These improvements included seeking external expert advice, updating policies and advice, and establishing a conflicts management database. These improvements were designed during the audit fieldwork stage and implemented prior to the issue of the Audit Report. IBA will continue to apply and comply with its updated policies and processes.*

Probity arrangements

2.37 The PGPA Act places an obligation on Australian Government entities to ensure that probity principles and procedural fairness are maintained when carrying out that entity's activities.¹⁷ For its most recent high value procurement, IBA established a probity plan, appointed an advisor, developed probity registers and completed an evaluation. The evaluation found that IBA had acted in accordance legislative and internal policy requirements.

Risk management

2.38 The Commonwealth Risk Management Policy requires the accountable authority to endorse an entity's risk management policy and framework. As a corporate commonwealth entity, IBA is not required to comply with the Commonwealth Risk Management Policy, however IBA's framework states that to support its obligations under section 16 of the PGPA Act, IBA has aligned its framework with the Commonwealth Risk Management Policy and Australian Standard AS ISO 31000:2018. A revised risk management framework was endorsed by the Board in March 2020. During the same meeting, the Board also noted a revised strategic risk register.

2.39 Maintaining a strategic focus on risk can assist a Board to ensure its risk management framework is appropriate and the entity is operating within its risk appetite. The IBA Board receives updates on financial and non-financial risks as well as detailed reporting on how IBA is tracking against its risk tolerance settings. Risk tolerances that are set and tracked at Board level are used by IBA to assess the risk associated with decisions and a register of portfolio risks are submitted to the ARPC twice a year. IBAAM also monitors fund-specific risks in a register that is reported to each IBAAM Board meeting and the ARPC on a quarterly basis.

17 Under paragraph 15(1)(a) of the PGPA Act, the accountable authority of a Commonwealth entity must govern that entity in a way that promotes the proper use of Commonwealth resources for which the authority is responsible. 'Proper' is defined in the PGPA Act as meaning 'efficient, effective, economical and ethical' when used in relation to the use or management of public resources.

2.40 The Board also monitors emerging risks. For example, at the Board meeting held in March 2020, a comprehensive report on the impacts of the COVID-19 pandemic was presented and discussed, noting the establishment of a crisis response team within IBA to address COVID-19 related issues. Other emerging risks considered at Board level and managed within IBA include:

- exposure to climate change risk on operations, with an assessment completed and implementation plan approved to manage the risks identified in the assessment;
- cyber-threats that could cause data or financial loss, disruption or reputational damage to IBA, which is being mitigated by IBA by: procuring IT support services that includes cyber security and monitoring; and investing in a program of systems upgrades that include addressing operational and cyber risks; and
- market or economic risk, which is mitigated by reviewing tolerances and decisions against market analysis presented to the Board, considering market risks and sector conditions as part of due diligence of all investment decisions, and establishing governance arrangements with responsibility for assessing emerging risks and developing responses if they are realised.

3. Business support activities

Areas examined

This chapter examines the effectiveness of Indigenous Business Australia's (IBA's) management of business support activities and if IBA measures the efficiency of those activities.

Conclusion

IBA's management of business support activities is partially effective. In a number of cases IBA's administration of business support activities was inconsistent with procedural guidance and record keeping was not sound. IBA's methodologies for 11 of 16 grant agreement KPIs were appropriate, but IBA could not provide verifiable reporting against eight of 16 grant agreement KPIs due to data quality issues. IBA does not currently measure the efficiency of its business support activities.

Areas for improvement

The ANAO made two recommendations aimed at having accurate and complete data and methods to determine the alignment of business support activities with funding agreement requirements and improving transaction record keeping.

3.1 Misalignment between the stated purpose and administration of related activities can undermine the efficient and effective achievement of outcomes. To form a conclusion about IBA's management of business support activities, the ANAO examined whether:

- business support activities are aligned with government expectations and funding agreement requirements;
- arrangements established and implemented to administer business support activities are effective; and
- IBA measures the efficiency of its business support activities.

Are business support activities aligned with parliamentary and government expectations and funding agreement requirements?

The purpose of IBA's business support activities is clearly defined in the Act and Statement of Expectations and the purpose outlined in its funding agreement is aligned with parliamentary and government expectations. The methodology for measuring performance against the funding agreement key performance indicator (KPI) related to early stage and pre-bank customers is not appropriate and IBA could not provide complete and accurate data to support reporting on this KPI.

3.2 IBA's corporate documentation, activities and decisions that relate to business support activities should align with the legal and government policy framework within which it operates. This framework is set out in the *Aboriginal and Torres Strait Islander Act 2005* (the Act), Prime Minister and Cabinet Portfolio Budget Statements (PBS) for IBA and IBA's agreements with the National Indigenous Australians Agency (NIAA) under the Indigenous Advancement Strategy (IAS). The ANAO reviewed the extent to which IBA's business support activities aligned with parliamentary and government expectations and funding agreement requirements.

3.3 IBA's purpose, as set out in the Act, is to:

- assist and enhance Aboriginal and Torres Strait Islander self-management and economic self-sufficiency; and
- advance the commercial and economic interests of Aboriginal and Torres Strait Islander people by accumulating and using a substantial capital asset for the benefit of Aboriginal and Torres Strait Islander peoples.¹⁸

3.4 The purpose of IBA's business support activities are clearly defined in the IAS agreement for business support activities and aligns with IBA's purpose as set out in the Act and other key documents, including the PBS, the Australian Government Statement of Expectations for IBA and IBA's 2020–21 Corporate Plan (shown in Table 3.1).

Table 3.1: Alignment between IBA's business support activity purpose and government expectations

<p>2020–21 PBS</p> <p>Outcome 1 Improved wealth acquisition to support the economic independence of Aboriginal and Torres Strait Islander peoples through commercial enterprise, asset acquisition and access to concessional business and home finance.</p>	<p>Australian Government Statement of Expectations for IBA include that it:</p> <ul style="list-style-type: none"> • is expected to have a particular focus on improving economic outcomes for Aboriginal and Torres Strait Islander people; and • will work with the Australian Government to improve Indigenous economic development and employment.
<p>PBS Program 1.1 Indigenous Economic Participation and Wealth Creation</p> <p>3. Support Aboriginal and Torres Strait Islander organisations to invest, grow capital and build commercial capability.</p>	<p>2020–21 Corporate Plan (CP)</p> <p>Support Aboriginal and Torres Strait Islander entrepreneurs and businesses to build business knowledge, skills and capabilities.</p>
<p>PBS — Delivery: IBA increases wealth and economic independence for Aboriginal and Torres Strait Islander people by delivering:</p> <p>2. Finance products and tailored support to help start, acquire or grow a business.</p>	<p>CP — How we create impact — business solutions:</p> <ul style="list-style-type: none"> • Business loans • Leasing services • Cash flow financing • Business support services • Strong Women Strong Business • Futures Forum • COVID-19 relief support.
<p>IAS Business Solutions Program Agreement</p> <p>The purpose of the Business Solutions Program is to fund the provider (IBA) to provide Indigenous business support and capability development services to Indigenous businesses and entrepreneurs with a focus of early stage customers and pre-bank customers during the term of the project.</p>	<p>CP — Business Solutions Program Policy</p> <p>The Business Solutions Program contributes to IBA's purposes by delivering a range of finance products as well as business support services to assist Aboriginal and Torres Strait Islander people to start, develop and grow their businesses.</p>

¹⁸ Subsections 146(a) and (b) of the Act.

IAS COVID-19 Relief Package Agreement The purpose of the project is to fund IBA to extend rapid business assessments, business support, grants and loans to eligible Indigenous business customers (being new and existing IBA customers) during the period 9 April 2020 to 30 June 2021.	IBA Business Support Performance Measurement of Business Support performance in against IBA's purpose focuses on the value of business finance products and the survivability of financed businesses.
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Source: Australian Government and IBA documentation.

3.5 The Business Support Program Policy outlines policy settings for customer eligibility, loan portfolio risk management and IBA's reporting, impact measurement and evaluation requirements for the program. The policy objectives are consistent with parliamentary and government expectations, as set out in the 2020–21 PBS including that business support products and services are to assist eligible business customers to acquire, start and grow their business as well as supporting the economic independence and wealth acquisition of Aboriginal and Torres Strait Islander peoples.

3.6 The IAS agreement between IBA and NIAA for business support activities sets out the services and activities that IBA is to provide, including: business finance products such as loans, grants and other capital products; business development workshops, including an Indigenous women in business conference; and capability and business support.¹⁹ Between July 2017 and December 2020, IBA reported to NIAA that it provided:

- \$159.4 million in business finance products including \$40.8 million funded via the IAS agreement;
- 151 business workshops attended by 1,188 participants in 2017–18 and 2018–19²⁰; and
- 5020 capability development and business support services.

3.7 Under the funding agreement, IBA is expected to focus on pre-bank and early stage customers and the funding agreement has a single key performance indicator (KPI) that relates to the number of start-up and pre-bank customers receiving business support services.²¹ Although reporting against this KPI is not due until July 2021²², IBA reported to NIAA that between October 2020 and December 2020, 92 per cent of its customers who received support were classified as pre-bank or early stage businesses. The ANAO could not replicate the reported figure due to incomplete data, inappropriate methodology and inconsistent application of the reporting methodology. For example, ANAO observed material discrepancies in IBA's classification of pre-bank loan customers.

3.8 IBA does not have accurate and reliable data or a methodology to effectively demonstrate the extent to which funding of business support activities aligns with the intended focus on pre-bank and early stage businesses.

19 The 2020 Strong Women Strong Business conference was postponed due to COVID-19.

20 IBA did not report the number of workshops delivered or participant numbers in 2019–20 and 2020–21.

21 Early stage customers are defined in the agreement as 'Customers whose business has been operating for less than 24 months and includes Customers who have not yet started their business'. Pre-bank customers are defined as 'Customers that the Provider does not reasonably consider could access the business support and the quantum of capital needed through a commercial bank on terms that are optimal for that business.'

22 Under the agreement, the KPI will be measured on the data from 1 April 2021 to 30 June 2021.

Recommendation no. 2

3.9 IBA ensure that it has complete and accurate customer data and an appropriate methodology for calculating the extent to which future business support activities focusses on pre-bank and early stage customers to enable reliable reporting to Parliament and the National Indigenous Australians Agency.

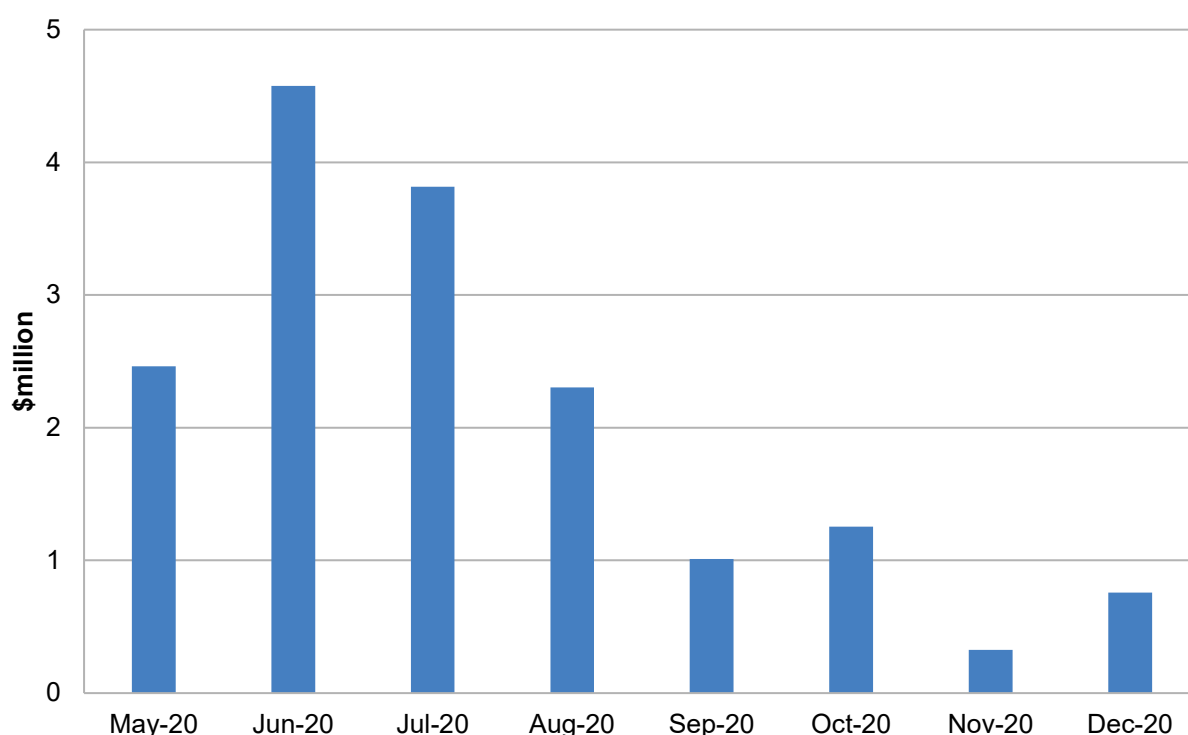
Indigenous Business Australia: Agreed.

3.10 *IBA is well-progressed on a program of work that commenced prior to the audit and the Board is confident that the new core banking solution that IBA is implementing in 2021 will provide a consistent and reliable method for collecting customer data across the business, resulting in a 'one customer' view across IBA's multiple business areas. In relation to reporting methodologies, an appropriate methodology is already in place which is consistent with the funding agreement definition of early stage and pre-bank customers. Accordingly, while the Board considers that this part of the recommendation is already largely implemented, IBA will continue to seek further improvements into the future.*

COVID-19 Relief Package agreement funding

3.11 The purpose of the COVID-19 relief package is to provide rapid business assessments, business support services and business loans and grants to new and existing IBA customers between 9 April 2020 and 30 June 2021. As at 31 December 2020, IBA had reported to NIAA that it had provided 435 rapid business assessments and 205 grant and loan packages at a total value of \$16.5 million.²³ Figure 3.1 shows the monthly distribution of grant and loan funding approved under the COVID-19 Relief Package.

23 189 were grant and loan packages, 16 were grants with no loan component.

Figure 3.1: COVID-19 Relief Package funding distribution

Note: Does not include spending on rapid business assessments or capability support provided under the COVID-19 Relief Package.

Source: ANAO analysis of IBA reporting.

Are arrangements established and implemented to administer business support activities effective?

IBA has established appropriate policies and procedures to administer its business support activities but arrangements have not been effectively implemented. In many cases, transactions have not been administered consistently with procedures and record keeping is not sound. IBA's methodologies for 11 of 16 grant agreement KPIs were appropriate, but IBA could not provide verifiable reporting against eight of 16 grant agreement KPIs due to data quality issues. IBA has effective arrangements in place to engage with existing and new customers.

3.12 Effective grant administration involves the implementation of policies and procedures in accordance with government expectations, legislative obligations and funding agreement requirements. It also requires accurate and timely reporting against agreement KPIs and effective engagement with potential and existing customers. To assess whether IBA's administration of business support activities is effective, the ANAO reviewed business support policies and procedures, grant agreement reporting and customer engagement.

Business support policies and procedures

3.13 IBA has established clear and detailed procedures for its business support activities. They describe steps for each stage of each activity, include links to relevant forms and specify record keeping and data entry requirements. IBA has also developed clear procedures for COVID-19 Relief

Package implementation, including administrative requirements and timeliness benchmarks for processing customer expressions of interest, organising rapid business assessments and processing business loans and grants.

Record keeping and storage

3.14 IBA is required to maintain its records in accordance with the *Archives Act 1983*,²⁴ internal procedures and guidance and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). IBA's IAS funding agreement also requires IBA to keep full and accurate records relating to the agreement, including records relating to project delivery and grant expenditure. The ANAO assessed IBA records against these requirements and found that record-keeping was inconsistent and not sufficiently robust. For example, an initial review of 15 transaction records found that, in all 15, key documents, including confirmation of descent, application forms and approval documents, were not stored in accordance with procedural requirements.²⁵

Loan and lease transactions

3.15 Loan and lease service procedures include the following key steps and record keeping requirements:

- confirm eligibility by obtaining Aboriginal and Torres Strait Islander descent confirmation form and/or confirming business is an Aboriginal corporation or has majority Indigenous ownership;
- obtain privacy consent;
- obtain a completed and signed application form;
- complete a credit finance submission including credit assessment;
- obtain delegate approval; and
- obtain signed loan or lease agreement.

3.16 An assessment of a risk based sample of 11 loans and 15 leases approved in 2019–20 showed that IBA confirmed eligibility and obtained consent from customers in 23 of 26 cases. In nine of the 23 cases consent was not documented in a manner that was consistent with procedural guidance. Delegate approvals and signed agreements were completed for all transactions. Two loans and one lease transaction did not have an application form and another loan application form was incomplete. IBA obtained, via IBA staff emails, the required financial and business information for incomplete application forms, however this is inconsistent with record keeping requirements.

24 Provision 2A Objects of the Archives Act, subsections 2A(a)iii and 2A(b) authorises the National Archives of Australia to issue standards for Commonwealth records and to preserve and make accessible the archival resources of the Australian Government. Principle 1 of the *Digital Continuity 2020* policy is that 'agencies will manage their information as an asset, ensuring that it is created and managed for as long as required, taking into account business and other needs and risks'.

25 IBA records were also assessed against the *Australian Securities and Investment Commission Responsible Lending Guidelines on Record Keeping*. While IBA is not required to comply with the guidelines, they are considered to be an appropriate industry record-keeping benchmark.

External business support transactions

3.17 External business support procedures include the following key steps and record keeping requirements:

- confirm eligibility by obtaining Aboriginal and Torres Strait Islander descent confirmation form and/or confirming business is an Aboriginal corporation or has majority Indigenous ownership;
- obtain privacy consent;
- complete external business needs assessment; and
- obtain three quotes for all services estimated to be in excess of \$5,000.

3.18 An assessment of 11 external business support transactions approved in 2019–20 showed that IBA appropriately documented eligibility and consent in all cases. In one case consent and eligibility were not confirmed until after the service was approved. Business needs assessments were also completed in all 11 cases. In 10 of 11 cases IBA did not obtain three quotes as stipulated in the relevant procedural guidance and did not document how value for money was achieved in the procurement of external support services in these cases.

Performance bond and partnership transactions

3.19 IBA approved 14 performance bonds in 2018–19 and 2019–20. IBA's administration of performance bond transactions was consistent with documented procedures except that there was no delegate signature on one approval and in two other cases application forms were not signed.

3.20 IBA entered into five new partnership arrangements in 2019–20 and maintained an additional five from the previous year. ANAO reviewed all 10 partnership arrangements against procedural guidance requiring IBA to develop a business case, obtain legal clearance and approval, and execute the agreement. While approvals were not documented in two cases, the delegate executed the partnership agreement. Partnership arrangements were otherwise developed and implemented consistent with procedural guidance.

COVID-19 Relief Package transactions

3.21 COVID-19 Relief Package procedures require IBA to:

- obtain a complete application form;
- obtain a complete Aboriginal and Torres Strait Islander descent confirmation form;
- confirm and respond to customer expressions of interest;
- complete a business impact assessment
- obtain privacy consent; and
- obtain delegate approval.

3.22 An ANAO assessment of 10 transactions showed that seven had been completed consistent with procedural requirements. One inconsistent transaction did not include an expression of interest or an application form and the approval record was inconsistent with the final loan

amounts.²⁶ A further two inconsistent transactions had incomplete applications forms. In five of the 10 transactions, incorrect or incomplete amounts had been entered into IBA's Customer Records Manager data repository for the loan, grant or cost of the business impact assessments undertaken.

3.23 In summary, analysis of business finance, COVID-19 Relief Package and external business support records show that while sufficient information was available for IBA delegates to confirm customer eligibility and make an informed credit decision, IBA business support activity records were incomplete and inconsistent with its procedures and record keeping requirements.

3.24 IBA initiated a number of actions during the course of the audit to improve its record keeping. This included delivery of record keeping training to all IBA employees and amending existing procedural guidance to incorporate additional checks on records at the approval stage. The ANAO observed improvements in the quality and consistency of records for transactions approved after September 2020. The actions taken did not, however, improve historical records that IBA is required to maintain consistent with its procedures and record keeping requirements and that business support staff use for repeat customers.

Recommendation no. 3

3.25 IBA ensure that its documentation of business loans, leases and external business services transactions is complete and complies with record-keeping requirements, as set out in legislation, funding agreements and internal procedures.

Indigenous Business Australia: Agreed.

3.26 *As ANAO is aware, IBA has undertaken significant work in the area of record keeping in the business support area, which has resulted in marked improvements. Continuous improvement activities in relation to record keeping that commenced during the audit fieldwork will continue and will be prioritised. IBA has developed procedures for ensuring compliance with relevant legislation, practices, agreements and guidelines. The Board thanks the ANAO for its input and feedback to this process, and for its engagement in re-sampling to independently test improvement in record keeping practices over the audit period. IBA is committed to continuous improvement in this area and will focus its quality assurance processes on these matters going forward to ensure these improved results are sustained.*

Business support grant reporting

Business support activities

3.27 The IAS funding agreement for business support activities includes 16 KPIs. The KPIs are a mix of mostly output measures, with some outcome measures relating to business survivability and customer satisfaction. Some KPIs have been revised or added since 2016–17, making annual comparisons and calculating trends in performance difficult.

26 The transaction was discussed in detail in Chapter 2, case study 2.

3.28 IBA reporting to NIAA between 2016–17 and 2018–19 shows that it met or exceeded all KPIs except for two.²⁷ Some KPIs were exceeded by a significant margin; for example, an average of 61 per cent of business support services were provided to businesses and individuals in remote and regional Australia, more than double the KPI of 30 per cent. IBA reported meeting all KPIs in 2019–20. Details of IBA's KPIs and reported performance in 2019–20 is in Appendix 2.

3.29 IBA has documented procedures for reporting to NIAA, including methodologies for calculating most KPIs, and uses nine IT systems to manage data and produce reports on its business support activities. The ANAO reviewed the document that outlines the methods underlying performance reporting and found that methodologies were appropriate for 11 of 16 KPIs. Reporting methodologies for the following KPIs were not appropriate or clearly articulated in IBA documentation:

- Business finance (KPIs 5, 6 and 7) — methodology did not include key steps for cleansing and transferring data or specify the formulas for calculating the measures;
- Customer satisfaction (KPI 15) — methodology only covers customers receiving external business support services²⁸; and
- Participation in service (KPI 16) — methodology relies in part on subjective assessments of IBA staff and was not applied consistently, as outlined in paragraph 3.7.²⁹

3.30 The ANAO also reviewed data and methods used by IBA for its grant agreement reporting. For eight of 16 agreement KPIs, the methods used were appropriate and IBA had verifiable, accurate and complete data, including data for internal and external business support, regional and remoteness and the strong women, strong business platforms.³⁰ IBA could not verify the accuracy and completeness of data for the following KPIs:

- Business finance (KPIs 5, 6 and 7) — data could not be verified due to system limitations and IBA processes;
- Business survivability data (KPIs 9, 10 and 11) — a verifiable source of employee data was not available;
- Customer satisfaction (KPI 15) — reported performance was based on external business support customer data only; and
- Participation in service (KPI 16) — pre-bank customer data was inaccurate due to inconsistent application of the reporting methodology.

27 The two KPIs not met were:

- in 2016–17, the percentage of loan customers still in business three years after commencing business (65 per cent against a target of 75 per cent); and
- in 2018–19, meets or exceeds the Australian survival rates for businesses with 1–4 employees as measured by ABS (54 per cent against a target of 69.3 per cent).

28 External business support are business services, typically provided by consultants, which are procured by IBA.

29 Participation in service KPI relates to the percentage of customers that are pre-bank or early stage customers.

30 Minor inconsistencies were observed with IBA's strong women, strong business platform data as a result of customers registering multiple times.

COVID-19 Relief Package

3.31 IBA is required to meet targets on customer satisfaction, business survivability and rapid business assessment under its COVID-19 Relief Package agreement with NIAA. IBA is required to report its final performance results to NIAA in June 2021 after the project is completed. Reporting to date is set out in Appendix 3.

3.32 The ANAO reviewed reporting guidance and Customer Records Manager data for the COVID-19 Relief Package. The ANAO could not verify the accuracy of IBA's reporting to NIAA against agreement KPIs due to data quality issues. For example, application commencement dates were not accurately recorded for 39 per cent of applications recorded in IBA's Customer Records Manager database and ANAO sampling of COVID-19 Relief Package transactions found that, in five of 10 transactions, incorrect or incomplete grant, loan and business impact assessment amounts had been entered into this database. A consistent approach to creating and storing records improves efficiency of IBA operations, supports transparent decision making and improves data quality.

Business support customer engagement

3.33 IBA has effective arrangements in place to engage with new and existing customers. A customer focus is evident throughout IBA's corporate planning documentation, customer engagement model, social media strategy, communications guideline and information products such as its customer service charter and COVID-19 information videos. For example, IBA's Strategic Plan 2018–23 states that IBA:

- invests with its customers so 'their dreams become a reality';
- is 'available to support our customers and celebrate their success'; and
- 'will continuously strive to improve our customer's end-to-end experience'.

3.34 Primary channels used by IBA for business support activity customer engagement are:

- social media platforms;
- networking events such as conferences, industry events, roundtables and face-to-face and online community forums;
- customer meetings and workshops;
- customer satisfaction and impact surveys;
- statements and correspondence relating to the customer's product (for example, six monthly statements), newsletters, email and text message communications; and
- directly through programs such as:
 - Strong Women Strong Business: created to provide Aboriginal and Torres Strait Islander business women with greater support and connectedness;
 - Futures Forum: created to support the growing number of young Indigenous business leaders and the increasing focus on the future intersection of business and culture;
 - Accelerator: developed to provide Indigenous entrepreneurs with critical start-up support on how to make their business ideas a successful reality;

- Film Finance: finance products specifically designed to help Indigenous film makers share their stories; and
- the MURRA Indigenous Business Master Class Program, which IBA supports and is designed to increase the capabilities and business literacy of Aboriginal and Torres Strait Islander entrepreneurs.

3.35 IBA's website presents business support activity information such as business finance, leasing, starting or growing business workshops and forums as well as COVID-19 information videos. IBA analysis shows a 122 per cent increase in activity across its social media platforms over the past three years, which IBA attributes to investment in this mode of engagement. IBA relationship managers are the main point of contact for business loans, business equipment finance and other services provided across IBA. A 2018 IBA customer satisfaction survey reported positive feedback on the relationship manager, including that they were perceived to have been 'genuinely interested in customer's businesses'.

Does IBA measure the efficiency of its business support activities?

IBA has not measured whether its business support activities are being undertaken efficiently. IBA's 2020–21 Corporate Plan and PBS state that an efficiency measure is to be piloted and a target will be developed.

3.36 The PGPA Rule states that an entity's performance measures must include measures of the entity's outputs, efficiency and effectiveness, if these are appropriate measures of the entity's performance in the context of its purposes or key activities.³¹ Efficient use of resources and service delivery demonstrates the appropriate use of public money to achieve legislated and policy outcomes.

3.37 IBA does not have a business support activity efficiency measure. IBA's 2020–21 Corporate Plan and PBS states that a new efficiency measure (cost per dollar lent) is being developed and further work will be undertaken in 2020–21 to refine the calculation method and establish a benchmark and targets for future years. Nor does IBA have benchmarks for, or calculate, the timeliness of its business support activities. In 2019–20, IBA received four complaints relating to timeliness.

3.38 IBA's COVID-19 Relief Package includes two timeliness benchmarks:

- time taken for IBA to assess and complete applications for loan and grant packages (five days); and
- time taken to arrange a rapid business assessment (seven days).

3.39 Based on results reported to NIAA to December 2020, IBA is not meeting its timeliness benchmarks, taking an average of 10 days to process applications for loans and grants (against a target of five working days) and an average of 19 days to complete rapid business assessments (against a target of seven working days).

31 Section 16EA of the Public Governance and Accountability Rule 2014.

4. Investment Activities

Areas examined

This chapter examines the effectiveness of Indigenous Business Australia's (IBA's) management of investment activities and if IBA measures the efficiency of those activities.

Conclusion

IBA's management of investment activities is effective and it has recently established an appropriate measure of investment efficiency that shows it improving over time. Investment activities and decisions are aligned with parliamentary and government expectations and IBA has implemented effective arrangements to administer those activities. Investment activities improve opportunities for employment and wealth growth, and include effective co-investor engagement arrangements.

4.1 IBA is required to administer its public funds as a commercially focused Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and in accordance with the *Aboriginal and Torres Strait Islander Act 2005* (the Act). To form a conclusion about IBA's management of investment activities, the ANAO examined whether:

- investment activities and decisions are aligned with government expectations;
- arrangements established and implemented to administer investment activities are effective; and
- IBA measures the efficiency of its investment activities.

Are investment activities and decisions aligned with parliamentary and government expectations?

The purpose of IBA's investment activities is clearly defined and aligns with parliamentary and government expectations. Investment activities and decisions are also aligned with government expectations.

4.2 The legal and government policy framework for IBA's investment activities is set out by the Act, portfolio budget statements (PBS) and the Statement of Expectations. IBA's corporate documentation, activities and decisions that relate to investments must align with its legal and government policy framework. The ANAO assessed the extent to which IBA's investment activities and decisions aligned with parliamentary and government expectations.

4.3 IBA's functions as they relate to investment activities are set out in the Act and include to 'engage in commercial activities' and to 'promote and encourage Aboriginal and Torres Strait Islander self-management and self-sufficiency'.³²

4.4 Table 4.1 shows the close alignment between government expectations for IBA included the 2020–21 PBS and Statement of Expectations and its purpose as it is articulated in the Act and IBA's 2020–21 Corporate Plan.

32 Subsections 147(a) and (b) of the Act.

Table 4.1: Alignment between IBA's investment-related purpose and government expectations

<p>2020–21 PBS</p> <p>Outcome 1 Improved wealth acquisition to support the economic independence of Aboriginal and Torres Strait Islander peoples through commercial enterprise, asset acquisition and access to concessional business and home finance.</p>	<p>Australian Government Statement of Expectations for IBA include that it:</p> <ul style="list-style-type: none"> • is expected to have a particular focus on improving economic outcomes for Aboriginal and Torres Strait Islander people; and • will work with the Australian Government to improve Indigenous economic development and employment.
<p>PBS Program 1.1 Indigenous Economic Participation and Wealth Creation</p> <p>3. Support Aboriginal and Torres Strait Islander organisations to invest, grow capital and build commercial capability.</p>	<p>2020–21 IBA Corporate Plan (CP)</p> <p>Statutory purpose is:</p> <ol style="list-style-type: none"> a) to assist and enhance Aboriginal and Torres Strait Islander self-management and economic self-sufficiency; and b) to advance the commercial and economic interests of Aboriginal persons and Torres Strait Islanders by accumulating and using a substantial capital asset for the benefit of the Aboriginal and Torres Strait Islander peoples.
<p>PBS — Delivery: IBA increases wealth and economic independence for Aboriginal and Torres Strait Islander people by delivering:</p> <p>3. Investment and direct management of businesses and assets as well as commercial capability development.</p>	<p>CP — How we create impact investments:</p> <ul style="list-style-type: none"> • Direct investment joint ventures • Managed investment funds • Increasing the number and value of Indigenous co-investment • Generating commercial financial returns • Generating positive social & economic impact • Developing the commercial capability of our co-investors.
<p>PBS — Investment performance criteria:</p> <p>Measure 12: Total value of Indigenous co-investments with IBA (cumulative since 1 July 2015).</p> <p>Measure 13: Five-year average annual portfolio return to Indigenous co-investors.</p> <p>Measure 14: Number of Indigenous co-investor partnerships (cumulative since 1 July 15).</p> <p>Measure 16: Percentage of jobs supported by IBA's subsidiaries and associates held by Indigenous Australians.</p> <p>Measure 17: Percentage of investors satisfied or very satisfied with IBA's service.</p> <p>Measure 18: Asset management expense ratio.</p>	<p>CP — Investment performance: Measurement of the division's performance against IBA's purpose focuses on the financial growth and returns of our assets and investments as well as the socioeconomic impacts of our direct investments, using the following measures. Measures as per 2020–21 PM&C PBS.</p>

Source: Australian Government and IBA documentation.

4.5 IBA's purpose as articulated in corporate and internal business planning documentation aligns with investment activity-related government expectations outlined in its PBS performance

criteria and measures and Statement of Expectations. IBA's 2018–23 Strategy also includes two investment measures — that by 2023:

- IBA will have supported 100 partnerships with Aboriginal and Torres Strait Islander co-investors; and
- partners invest at least \$250 million alongside IBA to generate impact.

4.6 While both measures have been revised in the 2020–21 PBS to be 75 co-investment partners and \$182 million co-invested by 2023–24, they are still aligned with government expectations outlined in the PBS and Statement of Expectations. IBA's performance measures are discussed further in Chapter 5.

4.7 IBA has specified how its investment activities align with government expectations in its 2019–22 Investment Policy Statement. The Investment Policy Statement contains a more detailed version of what is listed in the Corporate Plan, outlining ways in which IBA will apply investment-related government expectations in practice. For example, the Investment Policy Statement states that IBA:

seeks to use its capital assets to contribute to IBA's vision by...:

- offering well-managed competitively priced investment funds...; and
- growing the capability of co-investors and Aboriginal and Torres Strait Islander organisations to manage their direct investment assets and investment portfolios.

4.8 The 2019–22 Investment Policy Statement includes requirements that direct investment decisions be supported by information about the extent to which it provides Aboriginal and Torres Strait Islander investors with access to investment opportunities and generates financial returns or positive social and economic impacts. Meetings of the Finance, Investments and Products Committee (FIPC) of the Board include a 'Investment Update' standing item, which is used to:

- consider and make revisions to the Investment Policy Statement; and
- update the committee on, and make decisions informed by, investment portfolio performance against the current Investment Policy Statement, such as on returns, social impact, employment, training and procurement activity.

4.9 IBA documentation developed for internal decision-making and to support FIPC and Board deliberations also align IBA investment activities with government expectations. IBA templates for investment decision papers to the Board include an attachment titled 'authority and compliance checklist' that provides details of the authority and power to proceed with the investment. The attachment is used to justify how the recommended investment decision aligns with its legal and policy requirements and government expectations. An ANAO review of all IBA acquisitions that occurred under the latest iteration of the Investment Policy Statement found that the Board was provided with a completed checklist for all Board decisions.³³

4.10 Separate standing items are also discussed at each IBAAM meeting for investment fund performance, market commentary and forecasted implications for fund activity. IBAAM decision papers on whether to acquire, invest further or divest an asset include the same requirements to

33 IBA completed eight approvals of an investment acquisition between November 2018, which was when the Investment Policy Statement was most recently updated, and the end of 2019–20.

justify its alignment with IBA legal and policy requirements as well as government expectations. Social impact is considered for all funds, and specifically as a consequence of the Indigenous Real Estate Investment Trust (I-RIET), and these results are periodically reported to the FIPC.

Are arrangements established and implemented to administer investment activities effective?

IBA has established and implemented effective arrangements to administer its investment activities. IBA administered its investment activities in a manner that was consistent with its policies and procedures, created Indigenous employment opportunities and wealth and was enabled by effective engagement with co-investors.

4.11 Implementation of an activity should involve the application of policies and procedures in accordance with legal requirements and government expectations. Investment activity administration is only effective if it is implemented in such a way that generates socio-economic benefits for Aboriginal and Torres Strait Islander peoples and proactively engages with potential and existing investment partners to maximise these benefits.

4.12 The ANAO examined administration of investments decisions by IBA, including acquisitions and divestments, with a focus on activity since January 2018. Activity was assessed against *Resource Management Guide No.308 – Commonwealth Investments* (RMG 308)³⁴ and IBA's relevant legal, policy and procedural requirements. RMG 308 includes principles and steps in administering an investment and applies to IBA as a corporate Commonwealth entity that is responsible for equity investments, loans and investment funds.

4.13 To assess whether IBA's administration of investment activities is effective, the ANAO reviewed investment policies and procedures, social and economic impacts from investment activities and IBA's engagement with investment partners.

Investment policies and procedures

4.14 IBA has developed a number of internal policies to administer its investments. IBA describes the Investment Policy Statement as being:

the primary document that governs the operations of the Investment program and is a top-level policy as opposed to an operational document. It outlines amongst other things the IBA Investment portfolio return target, sector and asset class limits, key considerations for new investments, what outcomes IBA is seeking to achieve with the portfolio, and liquidity considerations.

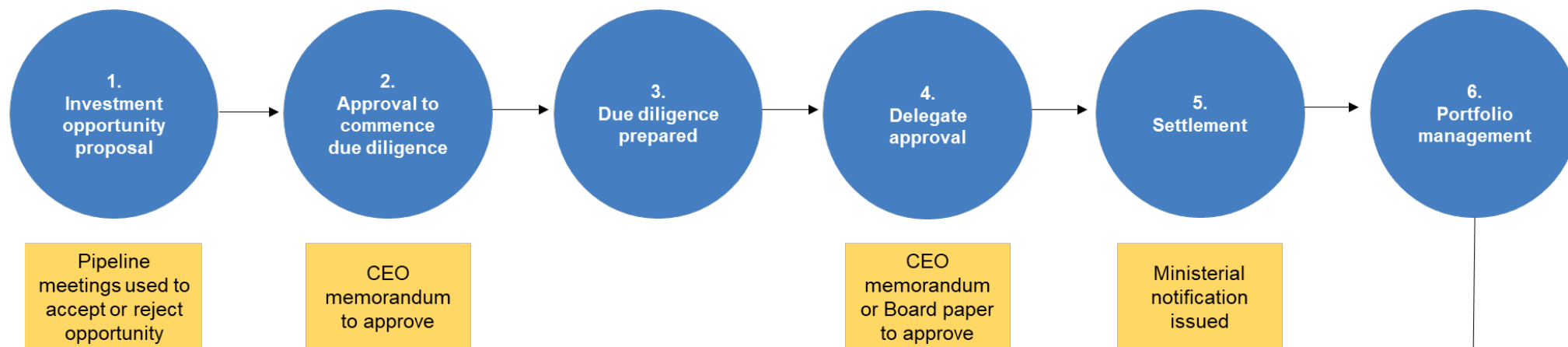
4.15 The Investment Selection Guidelines and Acquisition and Due Diligence Manual are operational documents that outline aspects of the investment process in more detail than the Investment Policy Statement. Decision paper templates for the Chief Executive Officer (CEO) and the IBA Board include guidance notes to ensure that completed papers are standardised and cover the requirements of the respective delegates to allow them to make informed, risk-based decisions.

34 Department of Finance, *Resource Management Guidelines No.308 Commonwealth Investments*. Available from <https://www.finance.gov.au/publications/resource-management-guides/commonwealth-investments-rmg-308> [accessed 6 November 2020].

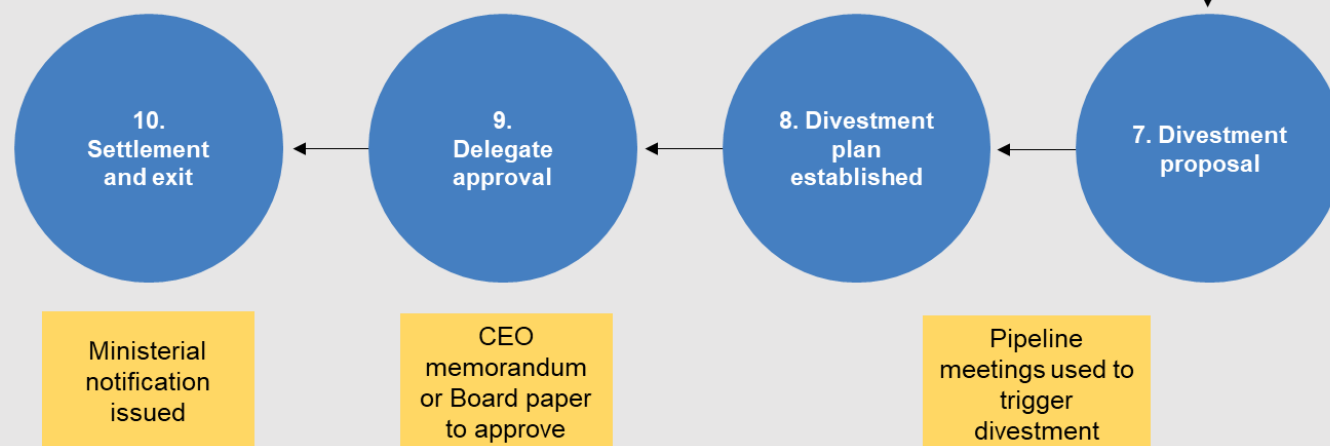
4.16 Figure 4.1 shows a high-level summary of IBA’s investment lifecycle from the point of an investment opportunity being proposed, or developed internally by IBA, through to settlement and exit of a divested asset.

Figure 4.1: Investment lifecycle

Acquisition



Divestment



Source: ANAO analysis of IBA documentation.

4.17 A review of IBA's policies, operational documents, procedures and templates found that they are broadly consistent with the requirements under IBA's legal framework for investment activities and the principles and steps in RMG 308. In November 2020, IBA updated its procedures to outline clear minimum due diligence requirements and resolve minor inconsistencies in its policies, procedures and briefing templates.

4.18 The ANAO reviewed records for 14 of IBA's 36 active investments for which an acquisition or divestment decision was approved by a delegate between November 2018 and June 2020. The review found that investment administration was consistent with IBA policy and procedures and RMG 308 in all cases and the completion of all steps in the investment lifecycle had been documented.

4.19 IBA provided email and other documentary evidence of initial contact with co-investors and initial proposals being developed by IBA or submitted to it for each of the transactions records examined. However, IBA did not have a documented process in place to consistently record or manage the receipt and coordination of acquisition opportunities developed or received by IBA. In November 2020, IBA amended its Investment Selection Guidelines to include a process to handle and record approvals, referrals and rejections of investment opportunities in a consistent and consolidated way.

4.20 Until July 2020, IBA did not record deliberations of its internal investment pipeline meetings, which are used to make key acquisition and divestment decisions and actions prior to a delegate being asked to approve a recommended approach. Minutes now record actions, responsibilities and timelines agreed at the meetings.

4.21 The decision paper (CEO or Board paper) is the record for IBA investments, which captures the material information gathered to inform a decision about whether to acquire or divest an investment. Decision papers and supporting documents, including for conditions of the decision, were cleared, signed and placed on file in all cases examined.

4.22 Prior to November 2020, IBA had not specified minimum requirements for completing a divestment in accordance with legal and policy requirements. There was also no documented process in place to manage the circumstances that trigger a decision to prepare to divest from an investment, or minimum information requirements that should be satisfied before a delegate is asked to make a decision to prepare legal documents to execute a divestment.

4.23 In November 2020, IBA expanded its Acquisition and Due Diligence Manual and Investment Selection Guidelines to also include details of a new:

- sign-off process for initial assessment of an acquisition opportunity before it is considered at a pipeline meeting;
- acquisition due diligence project plan; and
- divestment plan and process, including monitoring arrangements for pipeline meetings.

Social and economic impacts of investment activities

4.24 IBA obtains monthly reports from its subsidiaries on the social impacts and financial performance of investments, which provide an indication of its impact on wealth and employment outcomes for Aboriginal and Torres Strait Islanders. Recent annual reports have included several

such indicators. While performance over time, or against a benchmark, is not consistently reported by IBA, Table 4.2 consolidates figures reported in annual reports since 2015–16.

Table 4.2: Social and economic impacts from IBA investment portfolio

Measure	Financial year				
	2015–16	2016–17	2017–18	2018–19	2019–20
Indigenous jobs supported by IBA investment portfolio	208	203	217	203	185
Per cent jobs supported by IBA investment portfolio that are Indigenous	27	29	31	29	27
Per cent Indigenous investment in portfolio	27	30	39	35	39
Per cent return to Indigenous investors	7.1	6.3	7.4	7.7	0.64
Equity held by Indigenous co-investors (millions)	\$109	\$130	\$184	\$165	\$169

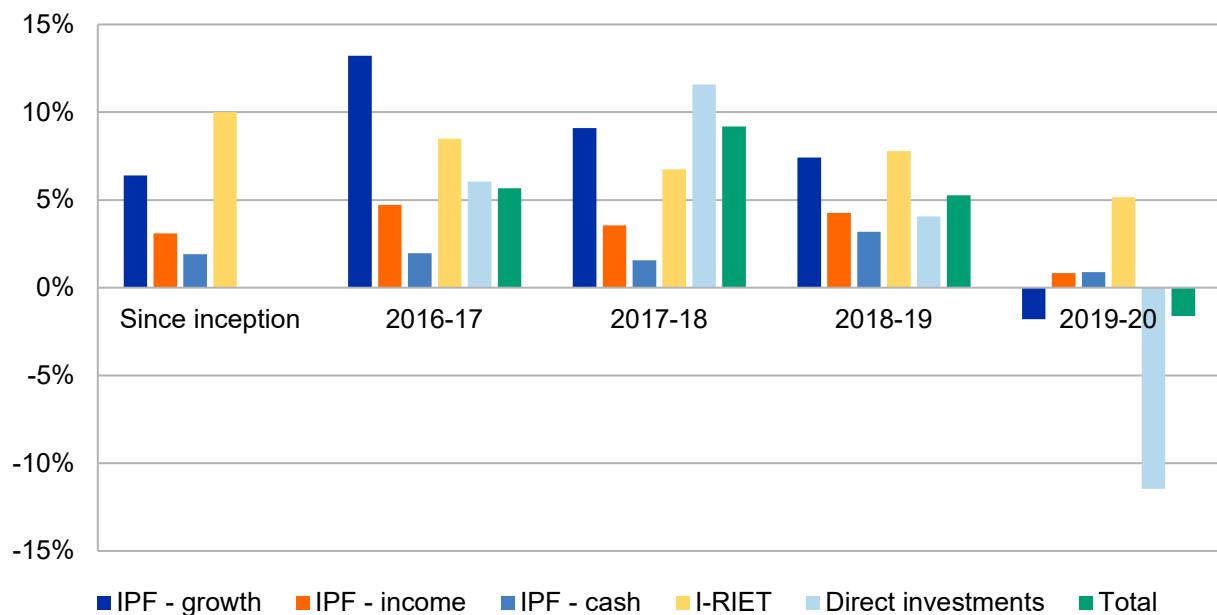
Source: ANAO analysis of IBA data.

4.25 IBA attributed the decrease in percentage return to Indigenous investors in 2019–20 to the impact of the COVID-19 pandemic, particularly for tourism sector investments.

4.26 The social and economic impacts vary among investments and are described in the CEO or Board approval paper for each investment. For the 14 investments referred to in paragraph 4.18, Indigenous employment rates increased following IBA's acquisition of an asset where increasing employment was an objective.

4.27 In 30 June 2020, IBA reported to its Board that total financial return to funds co-investors since inception (2013 for I-RIET and 2015 for Indigenous Prosperity Funds (IPF)) was \$25.7 million, representing an average annual return of 5.93 per cent. Figure 4.2 shows returns according to investment activity type and as a total for the last four financial years.

Figure 4.2: IBA returns for each investment activity type since inception and from 2016–17 to 2019–20



Note: Returns as at 30 June. Data for annual returns since inception was available for IBA funds only, and not for 'direct investments'.

Source: ANAO analysis of IBA data.

4.28 Figure 4.2 shows that since the inception and between 2016–17 and 2018–19, returns were between two and 10 per cent each year. The IPF growth fund and direct investment returns were negative in 2019–20 due to the impact of COVID-19, however the pandemic did not result in negative returns for the other two IPF types or the I-REIT. Until 2019–20, IBA funds were performing above the benchmark investment objectives of:

- for IPF growth, 5.2 per cent over rolling seven year periods;
- for IPF income, 2.9 per cent over rolling three year periods;
- for IPF cash, 0.9 per cent each year over rolling one year periods; and
- for I-RIET, above the Morgan Stanley Capital International Investment Property Databank Index of 9.1 per cent since inception.

4.29 IBA does not have a benchmark investment objective for its direct investments. Further discussion of IBA performance results is in Chapter 5.

Investment partner engagement

4.30 IBA has effective arrangements in place to engage with existing and new investment partners. It engages with potential co-investors based on an analysis of their financial assets, in order to focus on those most likely to benefit from funds management. IBA also meets approximately monthly to discuss potential direct investment opportunities. Engagement occurs via telephone calls, emails, site visits and workshops. Potential and new co-investment partners are monitored on a consolidated spreadsheet, categorised according to their location, industry sector, stage and probability of becoming a partner and the funds invested were it to progress to such as stage.

4.31 Investor relations is a standing item on the IBAAM agenda. IBA provides updates on potential sources of funds investment and engagement with organisations that have the required financial assets and in a form that would be likely to experience increased returns were it to be managed by IBAAM (for example, equity as cash is a low risk and return form of equity compared to the growth and income funds under the IPF).

4.32 Investment managers maintain regular communication with existing investment partners to inform status reporting that is a regular item of FIPC and Board meetings. Engagement occurs via telephone calls, letters, emails and site visits. A range of periodic reports are provided to existing funds co-investors, including on market and funds activity, funds distribution, and tax statements.

Does IBA measure the efficiency of its investment activities?

IBA has recently established an appropriate measure of investment efficiency that shows that it has improved over time.

4.33 The Statement of Expectations includes that IBA will ‘take all available measures to reduce overheads and operating costs including those of its Board’. In its Statement of Intent, IBA stated that ‘it will grow its capital base and revenue streams through innovation and private sector partnerships, including... improving the efficiency and overall performance of IBA’.

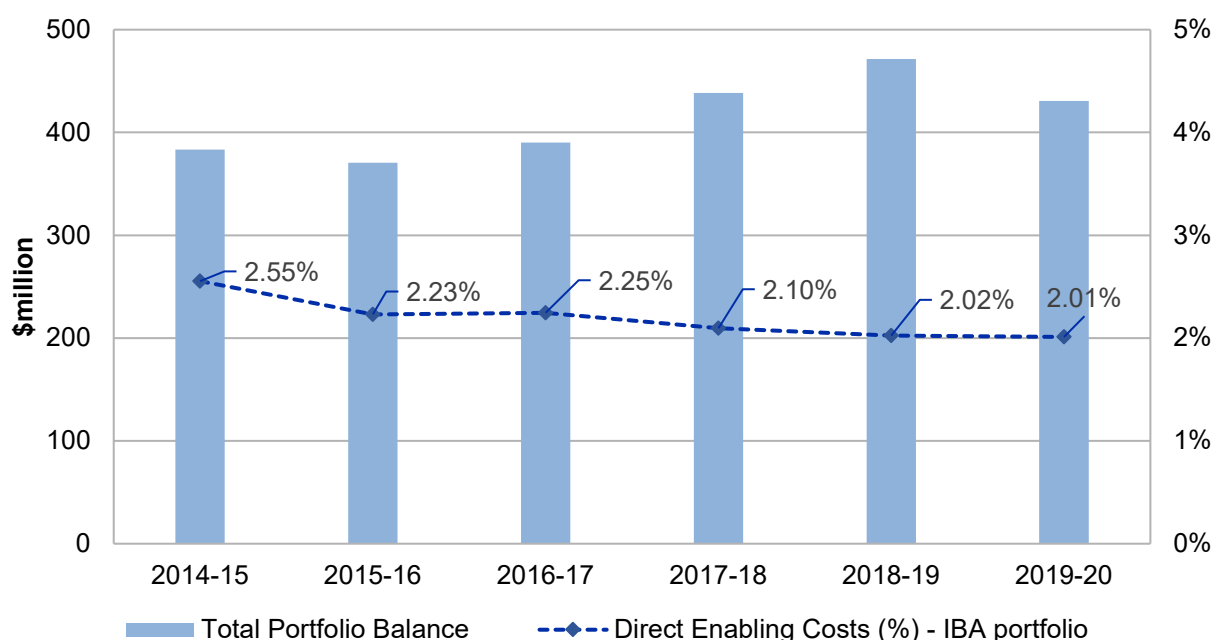
4.34 In June 2020, IBA measured the efficiency of its investment activities since 2014–15 using a Management Expense Ratio (MER), which is the ratio of management expenses to the value of its investment portfolio each year. IBA had not measured the efficiency of its investment activities prior to this.

4.35 MER is an industry measure of efficiency of investments activities. MER is calculated by dividing costs by the balance of the investment portfolio value. Key elements of MER as an efficiency measure are as follows:

- **MER inputs** are the management costs listed for each financial year and are used to calculate expenses;
- **MER output** is portfolio value as at the end of each financial year;
- **MER quality/quantity** is costs divided by the balance of the investment portfolio value;
- **drivers** of a decreased MER (or increased efficiency) include reduced staffing levels, increased portfolio value, greater demand for services or assets invested in by IBA, reduced consultancy costs for steps such as due diligence, and high productivity for each staff member; and
- **benefits** of a decreased MER include higher equity in the investment portfolio, decreased costs incurred by IBA, additional outcomes to customers including progressing and implementing new acquisition, allows for volatility when comparing IBA with other equity funds, and provides a business case for investment team and costs if there is a clear correlation with increased portfolio value.

4.36 Figure 4.3 shows IBA’s MER performance between 2014–15 and 2019–20. ‘Direct Enabling Costs’ refers to the costs of the investments program.

Figure 4.3: IBA investment portfolio value and costs between 2014–15 and 2019–20



Source: IBA data.

4.37 Figure 4.3 shows that IBA investment-related costs in relation to the total portfolio value and the value of IBA's holding have decreased steadily from 2.55 per cent in 2014–15 to 2.01 per cent in 2019–20. Increased investment portfolio value and a reduction in costs have been the primary drivers of improved efficiency since 2015. IBA's portfolio balance has increased over the period from \$383 million to \$431 million. In the same period, direct costs have decreased from \$7.35 million to \$5.15 million.

4.38 During the course of the audit, the MER efficiency measure was included for the first time in IBA's 2020–21 Corporate Plan and the 2020–21 PBS.³⁵ Based on data shown in Figure 4.3, IBA would have achieved the 2020–21 PBS benchmark of less than three per cent each year between 2015–16 and 2019–20. IBA has not provided a justification for setting the benchmark at this level.

4.39 In November 2020, IBA updated its procedures to include two new measures of process efficiency. The two measures are:

- the extent to which due diligence is completed within exclusivity periods contained in agreements with potential co-investors; and
- the time taken to execute a transaction once approved.

Both measures could identify avoidable delays that can result in financial penalty or losses, or negotiations falling through.

³⁵ The efficiency measure is referred to as an 'Asset Management Expense Ratio' in the 2020–21 PBS.

5. Performance measurement and monitoring

Areas examined

This chapter examines the effectiveness of IBA's performance measurement for 2019–20 and monitoring of its business support and investment activities.

Conclusion

IBA's performance measurement and monitoring of business support and investment activities is partially effective. IBA has established an appropriate performance framework, however its 2019–20 performance measures are partially appropriate as they are relevant and mostly reliable, but are not fully adequate. IBA's performance reporting is timely, and accurate for investment activities. However, performance reporting for some business support activity is not accurate due to inaccurate or incomplete supporting data. IBA has established processes to inform continuous improvement, although not all processes have been implemented.

Area for improvement

The ANAO made one recommendation aimed at improving business support and investment activity performance reporting, and suggestions to improve its information technology quality control and evaluation.

5.1 Accountable authorities of Commonwealth entities are required to provide annual performance statements that inform the Parliament about their performance in achieving their purposes.³⁶ Performance feedback to inform continuous improvement is important to determine barriers to successfully achieving intended results, respond to environmental changes and create new opportunities. To form a conclusion about IBA's performance measurement and monitoring, the ANAO examined whether:

- IBA has established appropriate performance measures and monitors its performance;
- performance reporting is accurate and timely; and
- IBA has established effective processes to inform continuous improvement.

Has IBA established appropriate performance measures and does it monitor its performance?

IBA has established an appropriate performance framework that includes a strategy, procedures and ways of monitoring performance. IBA's 2019–20 performance measures for business support and investment activities are not fully appropriate because they are relevant, mostly reliable, but are not fully adequate. IBA monitors performance on a quarterly and annual basis. However, performance trends and the reasons for them are not reported publicly.

5.2 Performance measures are presented in the Portfolio Budget Statement (PBS) and corporate plan and results achieved are conveyed in the annual performance statements. These documents are key components of the Commonwealth performance framework. Effective

36 Section 38 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

performance measures create a foundation for accountability and transparency. *Resource Management Guide No.131 Developing good performance information* (RMG 131) supports and assists entities to develop effective measures.³⁷

5.3 To draw a conclusion on how effectively IBA measures and monitors its performance, the ANAO assessed IBA's performance framework and the appropriateness of its business support, investment and overall performance measures as published in the 2019–20 PBS, including the results achieved, against the principles of the Commonwealth performance framework and RMG 131.³⁸

Performance framework

5.4 Establishing an appropriate performance framework assists an entity to determine whether it is achieving its intended purpose. IBA has established a framework that includes procedures, methodologies and data, and accountabilities for measuring its performance. The framework is outlined in the key documents described below.

- IBA Strategic Plan 2018–23: used by IBA to track performance against the Corporate Plan. The strategic plan is built on four pillars: Customer Success, Smart Money, Strong Systems and Deadly People. IBA cites the four pillars as pivotal to achieving its statutory purpose to assist the self-management and economic self-sufficiency of Aboriginal and Torres Strait Islander people.
- Procedures for each performance measure published in IBA's Corporate Plan and PBS that cover:
 - scope, methodology and the names and locations of source data for each measure;
 - recording changes to methodology throughout the current financial year;
 - recording and monitoring quarterly and annual progress against the measure;
 - forecasted future financial year performance;
 - personnel responsible for completing the methodology or clearing a draft measure calculation; and
 - internal controls to ensure consistency with the Commonwealth Enhanced Performance Framework and assist with compliance with the PGPA Act.
- Impact Framework: approved in March 2020 and used by IBA to improve its understanding of the economic, social and cultural impacts of its work, and how these impacts generate short, medium and long-term change.

5.5 IBA prepares reports for governance arrangements on financial, non-financial, risk and performance against each measure. The results are reported on a monthly basis to IBA senior management. Quarterly and annual performance updates are also provided to the Board via one of its three committees.

37 Department of Finance, *Resource Management Guidelines No. 131 Developing good performance information*. Available from <https://www.finance.gov.au/government/managing-commonwealth-resources/developing-good-performance-information-rmg-131> [accessed 29 November 2020].

38 IBA's housing solutions performance measures was out of scope for the audit and therefore not assessed.

Appropriateness of performance measures

5.6 Table 5.1 shows IBA performance measures presented in the 2019–20 PBS for business support (measures 6 and 7), investment (measures 8 and 9) activities and the three overall measures (measures 10 to 12). Performance measures 1–5 are excluded because they relate to housing solutions, which is out of scope for this audit.

Table 5.1: ANAO assessment of IBA 2019–20 performance measures

		Audit criteria and characteristic									
Measure		Individual assessment							Overall assessment		
		Relevant	Benefit	Focus	Understandable	Reliable	Measure	Free from bias	Adequate	Collective	Balanced
Business support	1. Value of business finance approved (annual)	✓	●	●	●	✗	◐	●	✗	●	○
	2. Survivability of IBA business finance customers	✓	●	●	●	✓	●	●			
Investment	3. Total amount of Indigenous co-investments with IBA	✓	●	●	●	✓	●	●	✗	●	○
	4. Portfolio return to Indigenous co-investors (annual)	✓	●	●	●	✓	●	●			
Overall measure	5. Per cent of total value of goods or services purchased from Indigenous suppliers	✓	●	●	●	✓	●	●	✗	●	○
	6. Per cent of IBA's suppliers that are Indigenous	✓	●	●	●	✓	●	●			
	7. Per cent of jobs supported by IBA's associates, subsidiaries and program customers held by Indigenous Australians	✓	●	●	●	✓	●	●			
KEY: ✓ = criteria met ✗ = criteria not met ● = characteristic met ◐ = characteristic partially met ○ = characteristic not met											

Source: ANAO analysis of IBA data.

5.7 Table 5.1 shows that IBA's 2019–20 performance measures are not fully appropriate (see Appendix 4 for ANAO's benchmark on appropriate performance measures). The performance measures are **relevant** because they largely align to IBA's purpose and strategic objectives, particularly regarding who benefits and how they benefit from the entity's activities, and provide a clear read to key Commonwealth performance framework documents. Measures 7 to 12 are

reliable, but measures 6 is not reliable because it was supported by a methodology that was incomplete and could not be replicated. The performance measures are not fully **adequate** because they did not comprise a mix of qualitative and quantitative measures or represent a balance of measuring outputs, efficiency and effectiveness.

5.8 Since 2016, IBA has changed several business support, investment and overall performance measures each year making it difficult to establish the contributions that activities make to a combined outcome over time. In February 2020, IBA revised its performance measures for 2020–21 to better align with the changes to the PGPA Rule 2014. The ANAO has made a recommendation that IBA ensure that performance measures in its corporate plan are appropriate, including that they are reliable and adequate (Recommendation 4).

Performance results

5.9 Targets should express quantifiable performance levels or changes of level to be attained at a future date, as opposed to the minimum level of performance. Table 5.2 shows the results, as reported by IBA, against business support and investment performance targets in 2019–20.

Table 5.2: 2019–20 performance targets and results

	Measure		Target	Actual	Variance	Results
Business support	6. Value of business finance approved (annual)		\$40 million	\$59.9 million	\$19.9 million	✓
	7. Survivability of IBA business finance customers ^a	0–4 employees	63 per cent	65 per cent	2 per cent	✓
		5–19 employees	78 per cent	94 per cent	16 per cent	✓
		20–199 employees ^b	82 per cent	100 per cent	18 per cent	✓
		200+ employees	87 per cent	N/A	N/A	N/A
Investment	8. Total amount of Indigenous co-investment with IBA		\$200 million	\$169 million	(\$31 million)	✗
	9. Portfolio return to Indigenous co-investors (annual)		3.2 per cent (CPI + 3.5 per cent)	0.64 per cent	(2.56 per cent)	✗
Overall measure	10. Per cent of total value of goods or services purchased from Indigenous suppliers (annual)		5 per cent	6.5 per cent	1.5 per cent	✓
	11. Per cent of IBA's suppliers that are Indigenous (annual)		15 per cent	8.5 per cent	(6.5 per cent)	✗

Measure	Target	Actual	Variance	Results
12. Per cent of jobs supported by IBA's associates, subsidiaries and program customers held by Indigenous Australians	40 per cent	46.5 per cent	6.5 per cent	✓
KEY: ✓ = target met ✗ = target not met				

Note a: IBA measures the trading status of business finance customers at the end of each financial year and results are compared to the data showing 'survival rate by employment size range' as published by the Australian Bureau of Statistics in the most recent version of *Counts of Australian Businesses, including Entry and Exits* (cat. no. 8165.0). Measure is reported on by survivability of finance clients compared to Australian average.

Note b: IBA reported an actual of 100 per cent against its target of 82 per cent in its 2019–20 performance statements. ANAO could not gain assurance on the accuracy and reliability of the data supporting this measure because the completeness of the data sets used to calculate the business survivability performance indicator could not be verified.

Source: ANAO analysis of IBA data.

5.10 Table 5.2 shows that IBA did not meet the targets for measures 8, 9 and 11 in 2019–20. IBA's annual performance statement includes an explanation for these results, including that measures 8 and 9 were significantly impacted by the economic impacts of COVID-19.

5.11 IBA records progress against the target for each measure, which is reported to the Audit, Risk and Performance Committee of the Board on a quarterly basis and reasons are documented as to why each measure was achieved or not achieved at the end of the financial year. While IBA conducted internal trends analysis, it did not consistently publicly report, in the annual performance statement, overall trends or the reason for any expected level of change for its targets over time. This approach does not provide a basis for parliamentarians and other stakeholders to judge the level of, or improvements in, performance. The ANAO made a recommendation to publicly report performance result trends and the reason for any changes over time (Recommendation 4).

Is performance reporting accurate and timely?

IBA's performance reporting is accurate for investment activities and timely for business support and investment activities. Performance reporting for some business support activities is not accurate due to inaccurate or incomplete supporting data.

5.12 Accurate and timely reporting are important components of transparency and accountability. Auditor-General Report No.11 2015–16 *Indigenous Home Ownership Program* identified data quality issues and limitations in IBA's performance measurement and reporting mechanisms that were likely to be reflected in both internal and external reporting. IBA is required to prepare annual performance statements after the end of each reporting period in its annual report.³⁹ These statements are a key mechanism to demonstrate proper use of resources. IBA is also required to fulfil its duty to keep the responsible Minister and Finance Minister informed⁴⁰, report on business support performance to NIAA as the funding entity and report on investment

39 Section 46 of the PGPA Act.

40 Section 19 of the PGPA Act.

activity performance to funds co-investors as stated in information memoranda for its funds. The ANAO assessed the accuracy and timeliness IBA performance reporting against its procedures, benchmarks and agreements with NIAA.

Performance reporting accuracy

5.13 Well managed IT systems and data quality controls increase confidence that performance measurement is accurate. Accurate reporting on overall program and service delivery performance can be assisted by data collection systems being established from the outset and adapted during the lifecycle of a program.

5.14 IBA uses a variety of systems to administer business support activities:

- Quote and Application Tracking System (QATS) and the Loans Administration System (LLAS) for loan information;
- DanceRace for invoicing and uploading ledgers;
- AMBIT Optimist, a financial data analysis tool;
- ProgenNet for managing leasing;
- Technology One for pay runs, bank transactions and financial reporting; and
- Content Manager, Customer Record Manager (CRM) and shared drive folders as data repositories.

5.15 Business support activity reporting is supported by QATS, LLAS, ProgenNet, Technology One and CRM.

5.16 IBA has established independent approval of system change requests and monitors systems usage. However, for each system listed in paragraph 5.15 there are only a small number of administrators or personnel with corporate knowledge of the system. IBA may have proportionate administrator numbers for an entity of approximately 200 full time employees, however there are risks associated with reliance on a small number of individuals for key systems administration. These risks include lack of segregation of duties in control areas, increased likelihood of erroneous scripts or data not being identified and profiles being outdated or misused. An opportunity exists for IBA to improve the quality control over its IT systems by, for example, using administrators to spot check and review changes for the administrators of other systems.

5.17 Investment activities are predominantly managed via a variety of spreadsheets, Technology One for pay runs and management of program costs, and shared drives as the data repository. Two administrators verify the accuracy of source data used for performance measurement of investment activities. Risks of unreliable investment activity data are substantially mitigated by a segregated review process between two administrators, data matching back to source information, documented processes and a change management control. These actions provide reasonable assurance that IBA's performance reporting is accurate for investment activities.

5.18 IBA has established review and clearance processes for business support grant agreement KPIs and PBS targets for business support and investment activity reporting. Data extracts are reviewed for erroneous data entry, such as duplicate entries or blank fields, before they are relied on for reporting, reviewed by a delegate or submitted to the intended audience.

5.19 IBA is in the process introducing an enterprise wide IT system and implementing a program of upgrades to be completed by the end of 2021. The completed system is intended to: integrate currently disparate and siloed systems and datasets; automate workflows for business support and investment activity administration; and provide mobile based services for IBA customers. In addition, IBA's Quality Assurance Framework and associated operational plan may assist IBA to identify and manage risks relating to the accuracy and completeness of source data and manual data entry (the Quality Assurance Framework and plan are discussed in paragraph 5.29). However, systems upgrades and controls to identify weaknesses in reporting will not entirely mitigate the risk of inaccurate or incomplete data entry. IBA's documented reporting practices for business support activities could be improved to further manage this risk. The ANAO made a recommendation to improve the quality of methods and data used for performance reporting to ensure that results are accurate and can be independently replicated (Recommendation 4).

Performance reporting timeliness

5.20 IBA has established a consolidated schedule of business support and investment activity, which contains information about the purpose, frequency, owner, reviewer and source system for each report. The schedule also captures whether the IBA CEO, Board or Board committee would consider the report for awareness, endorsement or decision. An ANAO review of internal reporting on business support and investment activity performance found that reports were cleared by the CEO and provided for the majority of Board and committee meetings since July 2018.

5.21 For business support activities, IBA prepares a range of performance reports outlining its compliance with funding requirements and progress against program objectives and benchmarks as required under its agreements with NIAA (further detail is in paragraphs 3.27 to 3.32). Reporting on investment activities occurs monthly, quarterly and annually to the relevant recipients. The ANAO reviewed the reports and found that IBA:

- met the majority of NIAA agreement reporting requirements⁴¹;
- prepared and submitted quarterly reports to the Minister within two months of the period being reported on; and
- prepared and sent quarterly and annual reports to investment fund partners within two months of the period being reported on.

41 Four of 13 reports were submitted to NIAA between one to two months after the report deadline; 31 other weekly, monthly and quarterly reports were submitted within the agreed timeframe.

Recommendation no. 4

5.22 To improve business support and investment activity performance reporting, IBA:

- ensure that performance measures in its corporate plan are appropriate, including that they are reliable and adequate;
- publicly report performance result trends and the reason for any changes over time; and
- improve the quality of methods and data used for performance reporting to ensure that results are accurate and can be independently replicated.

Indigenous Business Australia: Agreed.

5.23 *IBA is committed to supporting the Parliament and public assess how well IBA is achieving its purposes. The ANAO's observations in the report were based on an assessment of IBA's 2019–20 performance measures and the improvements suggested in the recommendations have been largely implemented. The IBA Board implemented changes for the 2020–21 financial year to IBA's performance measures which can be viewed in IBA's 2020–21 Corporate Plan and will be reported upon in IBA's 2020–21 annual performance statement. IBA will focus on improving its reporting of result trends and the reason for changes over time in its annual performance statement. The Board is confident that the new data warehouse that IBA is implementing in 2021, alongside the new core banking solution, delivers improvements in the accessibility and reliability of methods and data used for performance reporting.*

Has IBA established effective processes to inform continuous improvement?

IBA has established largely effective processes to inform continuous improvement of business support and investment activities. Complaints, reviews and quality assurance activity findings inform continuous improvement processes, although investment quality assurance activities had been planned but not completed. IBA has not evaluated its business support or investment activities.

5.24 IBA has established a number of processes that collect information about business support and investment activities, and draw on feedback and findings to improve operations. Key sources are complaints, reviews and evaluations.

Complaints

5.25 IBA's Customer Service Charter outlines the process for handling complaints and is available on the IBA website. The Complaints Management Procedure, established in August 2019, is consistent with the charter and outlines how IBA fulfils each principle in the Commonwealth Ombudsman's Better Practice Guide.⁴²

42 In assessing the extent to which IBA has effective processes to inform continuous improvement of business support and investment activities, the ANAO also examined IBA processes against the Commonwealth Ombudsman's *Better Practice Guide to Complaint Handling* 2009 as an industry accepted benchmark.

5.26 IBA uses a complaints register to log details of the complaint, including the relevant business area and what lessons can be learnt. Of the 41 complaints recorded in the register between 1 July 2019 and 30 June 2020, 21 were attributed to the Business Solutions program and none were related to investment activities.⁴³ The ANAO found that lessons learnt from complaints that related to business support activities were passed on to the relevant area within IBA, which was required to provide assurance that lessons were implemented. Complaints are reported quarterly to senior management and those that are rated significant or high risk are reported quarterly to the Board and the Audit, Risk and Performance Committee.

Reviews and internal audits

5.27 Between July 2019 and October 2020, IBA has completed two reviews and internal audits that related to aspects of the business support and investment activities, and a further three reviews and internal audits relating to governance arrangements and performance measurement.

5.28 IBA has established processes to report findings to senior management, the Board and the Audit, Risk and Performance Committee where it is appropriate to do so. IBA tracks implementation of recommendations from reviews and internal audits and closes the recommendation once implementation is complete.

5.29 In February 2020, IBA combined the separate housing and business support quality assurance teams into one team that is responsible for quality assurance of all IBA housing, business support and investment activities. An enterprise-wide Quality Assurance Framework and operational plan were finalised in June and August 2020 respectively. Four completed reviews have focussed on high risk aspects of business support activities, with a further four reviews planned throughout 2020–21. As of October 2020, no investment activity reviews had commenced, although four are planned to commence in 2020–21.

Evaluation

5.30 IBA investment and business support activities have been in operation since 1990 and 2005 respectively. Both activities were last evaluated in 2007, but the evaluation report did not conclude on the effectiveness or efficiency of either program due to limited available information and the scope of the terms of reference.⁴⁴ IBA expects to finalise an Evaluation Framework in early 2021. The framework is intended to outline a three year forward work plan of the programs, products and activities that will be evaluated.

5.31 IBA established an impact framework in March 2020 to improve its understanding of the economic, social and cultural impacts of its work, and how these impacts generate short, medium and long-term change. In July 2020, IBA surveyed approximately 9,500 former and current customers. Survey results, finalised in November 2020, indicated the strongest impacts for Business Solutions customers are in personal growth, learning business skills and increased wealth. For Investment and Asset Management customers, social, cultural and economic impacts were positive. The impact framework does not represent a comprehensive evaluation of the extent to which business support or investment activities are achieving their intended outcomes. The opportunity

43 The other 21 complaints related to the housing program or IBA corporate matters.

44 Department of Finance and Deregulation, Office of Evaluation and Audit (Indigenous Programs), *Evaluation of Indigenous Business Australia (IBA)*, 2007.

exists for IBA to evaluate its business support and investment activities and use the results to inform improvements to its administration.



Grant Hehir
Auditor-General

Canberra ACT
7 May 2021

Appendices

Appendix 1 Entity response



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16 April 2021

Mr Grant Hehir
Auditor-General
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2600

IBA reference: D21/87734

Dear Mr Hehir

Thank you for the opportunity to provide comment on the proposed report under s 19 of the *Auditor-General Act* regarding Indigenous Business Australia's Business Support and Investment Activities (**Report**).

As your staff will no doubt have understood from their fieldwork, IBA is deeply invested in the financial success and economic independence of Indigenous Australians. In achieving its purposes, IBA values opportunities for review and feedback and is always open to opportunities to improve. This approach has been demonstrated through IBA's open and collaborative approach to the performance audit and by its willingness to swiftly implement a range of suggested improvements throughout the audit process.

Recommendations

IBA has agreed to the four recommendations outlined in the Report. As the ANAO is aware, IBA undertook substantial work during the audit process to address opportunities for improvement as they arose.

Accordingly, the Board considers that both recommendation 1 and part of recommendation 2 are already implemented.

For recommendation 3, the IBA Board is confident that IBA's digital futures strategy, which includes the rollout of a new core banking solution, a data warehouse and migration to the cloud will significantly improve IBA's ability to capture and maintain accurate, consistent, and reliable customer records as well as creating a central repository for data, which will streamline IBA's reporting processes, including in relation to financial and non-financial performance reporting.

The Report places importance on requirements such as data integrity, performance reporting and record keeping. The IBA Board agrees with this approach and continues to focus on these as key areas for constant improvement. IBA undertook significant work, during the audit, to improve the consistency of record keeping processes in the business support area, which has resulted in marked improvements. The Board thanks the ANAO for its input and feedback to this process, and for its engagement in re-sampling



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to independently verify improvement in record keeping practices over the audit period. IBA is committed to continuous improvement in this area and will focus its quality assurance processes on these matters going forward to ensure these improved results are sustained.

IBA is appreciative of the ANAO's role in supporting the Parliament and the public assess how well IBA is achieving its purposes, and the issues identified in recommendation 4 complement the work IBA has put into developing its 2020-21 performance measures to improve reporting of trend results. IBA looks forward to reporting on these results in its 2020-21 annual performance statement.

Findings and conclusions

The ANAO audit objective was to assess the effectiveness and efficiency of IBA's management of its business support and investment activities.

IBA welcomes the ANAO's positive findings in relation to the effectiveness of IBA's governance arrangements and its investment activities.

Considering those positive findings detailed in the Report, it has been difficult for IBA to understand the basis on which the ANAO has made an overall assessment of the effectiveness of IBA's management of its business support and investment activities as 'partially effective' and we believe that a finding of 'largely effective' would have been more appropriate.

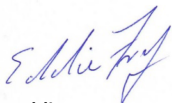
IBA appreciates the ANAO's insights about developing a measure and target for business support activity efficiency. IBA presently calculates the efficiency of its business support activity internally and as noted by the ANAO, IBA intends to publish performance measures and targets for efficiency in its forthcoming 2021-22 corporate plan.

IBA also appreciates the ANAO's scrutiny of its conflict identification processes and so as to remove any ambiguity in regard to interpretation, IBA has made a number of additional changes to its identification processes as a result of the performance audit. The IBA Board and all Directors at all times acted in accordance with the Board Governance Charter and complied with relevant accounting standards.

Finally, IBA considers that the ANAO's finding of 'partially effective' with respect to IBA's performance measurement and monitoring is unduly critical of IBA's performance measures, particularly when considered in the context of Table 5.1 of the Report, which demonstrates that almost all of the relevant audit criteria and characteristics are satisfied. It should also be noted that the issues raised had been addressed in IBA's 2020-21 performance measures, and IBA will focus on improving its reporting of results trends and the reason for changes over time in its annual performance statement.

On behalf of the Board, I would like to thank your team for the collegiate manner in which this audit was conducted, and for their willingness to consult throughout the process and confirm IBA's commitment to implementing the ANAO's recommendations.

Yours sincerely



Eddie Fry
Chair

Encl.

Appendix 2 Business support activity KPI results in funding agreement between IBA and NIAA, 2019–20

Table A.1: Business support activity KPI results in funding agreement between IBA and NIAA, 2019–20

KPI	Target	Result	Achieved / Progress
1. Number and proportion of Indigenous people employed in the delivery of the project (mandatory KPI under the IAS)	N/A	34.3 per cent	N/A
2. Number of individual businesses and organisations (customers) who received IBA capability development or other support (external support)	450 (across both external and internal)	250	Achieved
3. Number of individual businesses and organisations (customers) who received IBA capability development or other support (internal support)		244	Achieved
4. Percentage of supported businesses and organisations in regional or remote Australia	30 per cent	62 per cent	Achieved
5. Number of individual financed businesses and organisations in the reporting period	80	118	Achieved
6. Percentage of individual financed businesses and organisations in regional or remote Australia	30 per cent	63 per cent	Achieved
7. Total capital provided to financed businesses and organisations in the reporting period	\$9.2 million	\$12.9 million	Achieved
8. Number of third parties with whom a collaborative partnership has been formed	6	5 new, 5 maintained	Achieved
9. Business survival rates of IBA loan recipients (1–4 employees)	63 per cent	65 per cent	Achieved
10. Business survival rates of IBA loan recipients (5–19 employees)	78 per cent	94 per cent	Achieved
11. Business survival rates of IBA loan recipients (20–199 employees)	82 per cent	100 per cent	Achieved
12. Business survival rates of IBA loan recipients (200 employees)	87 per cent	N/A	N/A
13. Number of gender products developed. Strong Women Strong Business Facebook members	1400	1854	Achieved
14. Number of gender products developed. Strong Women Strong Business Platform Users	150	494	Achieved
15. Quality of Support (customer satisfaction)	80 per cent	91 per cent	Achieved
16. Participation in service (customers are defined as early stage customers or pre-bank customers)	80 per cent	N/A	Not required until final quarter 2020–21

Source: ANAO analysis of IBA documentation and data.

Appendix 3 COVID-19 Relief Package KPI reporting, April 2020 to December 2020

Table A.2: COVID-19 Relief Package KPI reporting, April 2020 to December 2020

KPI	Target	Result	Achieved / Progress
Number of rapid business assessments	1,250 (to June 2021)	435 (to December 2020)	In progress
Average time to deliver rapid business assessment	Seven working days	19	Not achieved
Average time to assess and process applications for working capital	Five working days from receipt of all information	10	Not achieved
Percentage of customers that have received business support or working capital that are still in business at 30 June 2021	Meets or exceeds the Australian survival rates for business with 1–4 employees	-	In progress
	Meets or exceeds the Australian survival rates for business with 5–19 employees	-	In progress
	Meets or exceeds the Australian survival rates for business with 20–199 employees	-	In progress
	Meets or exceeds the Australian survival rates for business with 200+ employees	-	In progress
Customer satisfaction ratings	80 per cent or more of Customers say they are at least satisfied with IBA's services	-	In progress

Source: ANAO analysis of IBA documentation and data.

Appendix 4 Appropriate performance measures

1. In the absence of formal criteria in the PGPA Act, the ANAO drew on the Department of Finance, *Resource Management Guide No. 131: Developing Good Performance Information* (RMG 131), and Auditor-General Report No.17 2018–19 *Implementation of the Annual Performance Statements 2017–18* to develop the audit criteria and characteristic for assessing the appropriateness of performance measures. Table A.3 outlines how relevant and reliable are described in RMG 131 and how the ANAO assesses these elements.

Table A.3: Assessing relevance and reliability

	RMG 131	ANAO criteria
Relevant	Performance information should clearly state who benefits and how they benefit from the entity's activities	Benefit: clearly indicates who will benefit and how from the entity's activities Focus: should address a significant aspect/s of the purpose Understandable: should provide sufficient information in a clear and concise manner
Reliable	Performance information should use information sources and methodologies that are fit-for-purpose and verifiable	Measurable: performance indicators should use information sources and methodologies that are fit for purpose Free from bias: free from bias and where possible, benchmarked against similar activities

Source: Department of Finance, *Resource Management Guide No.131 Developing Good Performance Information*, April 2015 and related *Quick Reference Guide*, 2016.

2. For the review of activities that do not relate to an entire entity the ANAO examines the adequacy of performance measures within an activity area rather than whether they are complete. Performance indicators are considered to be adequate where they:

- collectively address the purpose of the activities identified in the Portfolio Budget Statements (PBS); and
- provide a balance between: effectiveness and efficiency indicators, quantitative and qualitative data, and short, medium and long-term performance.

3. Table A.4 presents the ANAO's assessment of the appropriateness of performance information for the seven performance measures related to business support and investment activities and overall activity.

Table A.4: Appropriateness of performance information of IBA performance measures

Criteria	ANAO assessment	Result
Relevant		
Benefit	The seven performance measures, or the relevant performance criteria, clearly describe who will benefit and how they will benefit from the business and investment activities to be undertaken.	Met
Focus	The seven performance measures directly align with IBA's purpose under the Act. Performance measures also align with IBA's strategic objectives published in its Corporate Plan.	Met

Criteria	ANAO assessment	Result
Understandable	The seven performance measures are clear and simple to understand.	Met
Reliable		
Measurable	<p>IBA's performance measures use sources of information and methodologies that are largely reliable. They are supported by:</p> <ul style="list-style-type: none"> • clear and simple to follow Performance Measures Records (PMRs) that include details on the PBS program that the performance measure applies to, a description of what the performance measure quantifies, how the performance measure will support the achievement of strategic priorities, calculation methodologies, data, governance and delegate approval; and • a mix of in-house resources and contracted out service support. The contracted out resources are experienced and well-resourced but IBA's internal operations are heavily reliant on a small number of staff with a long period of corporate knowledge and specialist expertise to capture and analyse the performance measure data. <p>Risks were identified with the identified with the calculation methods noted in the PMR for performance measure 6. Steps were missing in the PMR to enable efficient and accurate recalculation of the performance measure methodology.</p>	Partially met
Free from bias	The seven performance measures were free from bias and, where possible, benchmarked against similar activities.	Met
Adequate		
Collective	The seven performance measures collectively address the purpose of the activities identified in the corporate plan and PBS for 2019–20.	Met
Balanced	<p>A full performance story over time can be told when there is a balanced mix of outputs, effectiveness, efficiency, qualitative and quantitative, short, medium and long term information. Of the seven performance measures in 2019–20:</p> <ul style="list-style-type: none"> • two of the seven performance measures evaluated effectiveness with the remaining five evaluating outputs. There were no efficiency performance measures with IBA not clear in its corporate plan on why they could not measure efficiency; • all seven performance measures referred to quantitative observations with IBA failing to explain in its corporate plan its preference for quantitative over qualitative information; and • four of the seven performance measures focused on short term with the remaining three focused on long term timescales. A full performance story can be told when short, medium and long term timescales are represented. IBA did not explain why medium term timescales were excluded. 	Not met

Source: ANAO analysis of IBA data.