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Department of Health

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DEPARTMENT OF HEALTH

Internal Audit of: Implementation and Management of the Medical Research Future Fund

Final Report
22 May 2019

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Timeline

Milestone	Dates
Entry Interview	20 December 2018
Approved Audit Plan	18 March 2019
Commence Fieldwork	19 March 2019
Completion of Fieldwork	10 May 2019
Exit Meeting	17 May 2019
Draft Report to Audit Sponsor	17 May 2019
Final Report including Management Comments	22 May 2019
Final report provided to the Audit Committee	June 2019
Completion of the Audit Satisfaction Survey	June 2019

Sign-Off

I acknowledge the findings and recommendations enclosed in this report and undertake to have the agreed actions completed within the identified time frame.

.....
Paul McBride
First Assistant Secretary
Health, Economics and Research Division
Department of Health

.....
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Managing Director
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1. Executive Summary

1.1 Background

As part of the 2014-15 Budget, the Australian Government announced the establishment of the Medical Research Future Fund (MRFF) with a long-term funding target of \$20 billion, and \$1.4 billion to be spent in the first five years. Through the MRFF, the Government seeks to deliver a major additional injection of funds into the health and medical research sector, complementing existing medical research and innovation funding.

The implementation of the MRFF program is overseen by the Office of Health and Medical Research (OHMR), Health Economics and Research Division in the Department of Health. OHMR employs the grants expertise of the National Health and Medical Research Council (NHMRC), the government's Business Grants Hub (BGH) within the Department of Industry, Innovation and Science and Cancer Australia to assist with grants administration. The MRFF is in addition to and complements the ongoing research funding provided the NHMRC. The point of difference is that the NHMRC predominantly funds investigator-led research and the MRFF prioritises research topics and themes for investment.

The MRFF was created under the *Medical Research Future Fund Act 2015 (Cth)* (the MRFF Act). The Act establishes the Australian Medical Research Advisory Board (AMRAB), and sets out its functions, including the development of the Australian Medical Research and Innovation Strategy (the Strategy, a five-yearly document) and the Australian Medical Research and Innovation Priorities (the Priorities, set every two years). The Act requires that Government take into consideration the current Priorities in determining the initiatives to be funded by the MRFF.

An inaugural five year MRFF Strategy (2016-2021) and first two-year set of Priorities (2016-2018) were released on 9 November 2016. The second round of Priorities (2018-2020) were released on 7 November 2018. All of these AMRAB products were informed by national public and sector consultations.

1.2 Overall Assessment

The objective of the internal audit was to examine the establishment and early implementation of the MRFF, including a review of the initial grant funding rounds for compliance with the legislative framework. The internal audit also assessed progress against the early milestones and measures of success for the MRFF and the adequacy and effectiveness of governance arrangements.

The internal audit found that the establishment and early implementation of MRFF components within the remit of the Department were largely compliant with legislative requirements contained in the MRFF Act. This included the proper establishment of the AMRAB, the proper establishment of the inaugural five-year Strategy and the two sets of Priorities (2016-2018, 2018-2020) developed to date.

While the establishment and operation of the MRFF by the OHMR was generally compliant with legislative requirements, the internal audit identified aspects of MRFF program implementation and research initiative granting and administration that could be improved with respect to governance arrangements and measuring success. These areas for improvement were identified with the recognition that MRFF program implementation has occurred in an environment of resource constraints, new and unique partnership interdependencies with grant administration hubs (NHMRC and BGH), and ministerial direction. We have outlined our assessments against the individual scope items below:



Scope	Assessment
1. Assessment of effectiveness of governance arrangements that support the MRFF grant process, including oversight committees and stakeholder engagement functions.	<p>Our assessment of the effectiveness of governance arrangements focused on the clarity of outcomes, objectives, and roles and responsibilities; issue escalation and accountability mechanisms; and stakeholder management.</p> <p>We found that there was clear and consistent articulation of the intended objectives of the MRFF throughout key artefacts and the intended outcomes of research initiatives. However, we found limited articulation of MRFF key milestones, roadmaps or roles and responsibilities (refer to Finding 3.1).</p> <p>We found limited performance reporting to senior management (refer Finding 3.2), limited formalised issue escalation procedures (refer to Findings 3.1 and 3.3), and limited definition of accountability measures between the Department and partnering grant administration agencies (refer to Finding 3.3).</p> <p>We found that public consultations were in line with stakeholder management expectations for setting the MRFF Strategy and Priorities. However, management of partnerships with BGH and NHMRC need refinement (refer to Finding 3.3) to align with the level of governance in place with the Community Grants Hub which administer all other grants for the Department.</p>
2. Assessment of whether the processes for the establishment of the Strategy, Priorities and Advisory Board membership were in accordance with the MRFF Act.	<p>We found that the processes for the establishment of the MRFF Strategy, Priorities and the AMRAB were largely compliant with the MRFF Act. We found one instance of potentially delayed reporting to Parliament (refer to Observation 4.3), as compared to legislative requirements.</p>
3. Assessment of the alignment of MRFF research grant selection, approval and payment processes with the MRFF Act, the Funding Principles, the Australian Medical Research and Innovation Strategy and Australian Medical Research and Innovation Priorities and relevant better practice.	<p>Acknowledging that the ultimate decision on research grant selection is made by Government, we compared the Department's MRFF initiative implementation and grantee selection to the Commonwealth Grants Rules and Guidelines (CGRGs) and the Australian National Audit Office (ANAO) better practice guide on <i>Implementing Better Practice Grants Administration</i>. The majority of grants artefacts and processes were in line with the CGRGs and better practice. However, we noted there was opportunity to improve the assessment of grantee and grant activity risk (refer to Observation 4.1) to further align with the CGRGs. There is also opportunity to standardise granting practices and formalise lessons learnt between research initiatives to improve efficiency and effectiveness across all grant activities (refer to Observation 4.2).</p>
4. Assessment of the plans and arrangements for facilitating future government decisions on MRFF disbursements (of around \$1.4 billion over five years from 2016-17), and monitoring the performance and impact of MRFF research proposals over time.	<p>We noted that MRFF management are in the process of developing an evaluation strategy and a comprehensive evaluation and monitoring framework to start measuring the impacts and outcomes of research initiatives. However, we noted that this planning and strategising is happening later in the implementation of the MRFF than would be expected, and there are further areas in the planning of the evaluation strategy to consider (refer to Finding 3.2). We also noted that planning for future years of MRFF disbursements could be strengthened and further formalised (refer to Finding 3.1).</p>

1.3 Summary of Findings and Recommendations

The following is a summary of the key findings and associated recommendations noted during this



audit. The risk ratings associated with these findings reflect the assessment of consequence and likelihood of the related risk exposure of each finding using the Department's Risk Management Matrix and definitions included in **Attachment A**.

Finding	Recommendation	Implementation Timeline	Risk Rating
1. Gaps in the Implementation and Coordination of MRFF	<p>The Department should:</p> <ul style="list-style-type: none"> develop MRFF planning documentation and roadmaps for the future that identify key MRFF activities, milestones, strategic outlook, and MRFF governance roles and responsibilities; undertake comprehensive MRFF-level risk analysis that covers the Department's risk management policy risk themes, and is aligned with the Department's risk management framework; and report against MRFF risks in performance reporting (discussed further in Finding 3.2), including use of risk ratings to report on management of activities and effectiveness of controls or treatments. 	30 September 2019	Medium (Consequence: Moderate; Likelihood: Possible)
2. Limited Performance Monitoring and Gaps in Evaluation Planning	<p>The Department should:</p> <ul style="list-style-type: none"> establish a regular system of reporting to MRFF management (delegates), including establishing a set of relevant performance indicators for key activities managed by the OHMR. This report should incorporate information on upcoming activities and risks, and incorporate indicators to report against the success of past activities; and review the planning for the MRFF evaluation strategy underway, and incorporate considerations of success indicators, baseline data to measure progress against, short-to-medium term outcomes to evaluate, and aspects of MRFF management or administration to evaluate. 	31 July 2019	Medium (Consequence: Minor; Likelihood: Possible)
3. Weaknesses in Risk Management of Partnership Arrangements	<p>The Department should:</p> <ul style="list-style-type: none"> clarify and document the roles and responsibilities of the Department and partnering grants administration agencies in the administration of MRFF grants, for example using local service standards; establish escalation protocols and procedures for identification and communication of high-risk issues; and s47E(d) [REDACTED] [REDACTED] [REDACTED] [REDACTED] 	31 October 2019	Medium (Consequence: Moderate; Likelihood: Unlikely)

1.4 Management Comments

Management agrees with and accepts the commentary and recommendations in this report noting resourcing constraints, the requirement to use grant hub and ministerial directions.



1.5 Restriction of Use

This report is intended solely for use by the Department of Health, and should not be distributed to any third party without the consent of Protiviti, which will not be unreasonably withheld. This document is not to be used for any other purpose, except as required by law, without our prior express consent.

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2. Background, Objective, Scope and Approach

2.1 Background

As part of the 2014-15 Budget, the Australian Government announced the establishment of the Medical Research Future Fund (MRFF), an endowment fund with a long-term capital target of \$20 billion. The first five years of the program has made available \$1.4 billion for investment. Through the MRFF, the Government seeks to deliver a major additional prioritised injection of funds into the health and medical research sector, complementing existing predominantly investigator-led research funding provided by the National Health and Medical Research Council (NHMRC).

The MRFF was created under the *Medical Research Future Fund Act 2015 (Cth)* (the MRFF Act). The Act establishes the Australian Medical Research Advisory Board (AMRAB), and sets out its functions, including the development of the Australian Medical Research and Innovation Strategy (the Strategy) and the Australian Medical Research and Innovation Priorities (the Priorities).

The Act requires that Government take into consideration the current Priorities in determining the initiatives to be funded by the MRFF.

The Government has articulated MRFF investment according to four key themes:

1. Patients – The MRFF will deliver more advanced healthcare and medical technology that will improve the health of Australians.
2. Researchers – The MRFF is supporting the best health and medical researchers to make breakthrough discoveries, develop their skills and progress their careers in Australia.
3. Research missions – The MRFF is supporting missions which are programs of work with ambitious objectives that are only possible through major funding, leadership and collaboration.
4. Research translation – The MRFF funds research translation – turning research discoveries into new treatments and cures.

The implementation of the MRFF program is overseen by the Office of Health and Medical Research (OHMR), Health Economics and Research Division in Department of Health. OHMR uses the grants expertise of the NHMRC, the government's Business Grants Hub with the Department of Industry, Innovation and Science and Cancer Australia to assist with grants administration.

MRFF Strategy

In November 2016 in accordance the MRFF Act, the AMRAB tabled in Parliament the inaugural MRFF Strategy (2016-2021) following a national consultation process. This Strategy identifies six strategic platforms to guide MRFF Priorities and initiatives:

1. Strategic and international horizons: Support stronger partnerships between researchers, healthcare professionals, governments and the community. This will help position Australia as a leader in significant global research, such as tackling antimicrobial resistance.
2. Data and infrastructure: Make better use of existing data and infrastructure to help improve our health and medical research.
3. Health services and systems: Strengthen our health services and systems research to make healthcare more efficient and affordable.
4. Capacity and collaboration: Develop the skills of researchers and healthcare professionals and encourage collaboration across health and medical research disciplines and sectors.
5. Trials and translation: Support new and existing clinical trial networks to guide the development of new drugs and devices, new models of care, and improved clinical practice.
6. Commercialisation: Support researchers to find a commercial partner or investor to help turn their discoveries into every day realities.



MRFF Priorities

Also in keeping with the MRFF Act, the AMRAB has determined to date two sets of MRFF Priorities. Both Priorities were the subject of national consultation and were required to be consistent with the Strategy that is in force. The 2016-2018 MRFF Priorities are available at **Attachment B**.

The second round of Priorities, for the period from 2018-2020, were released in early November 2018. These new Priorities build on (where appropriate) and replace the first set of Priorities 2016-2018. They remain consistent with the vision, aim, objectives and six strategic platforms identified in the inaugural MRFF Strategy. The scope of the audit focused on the first set of 2016-2018 Innovation Priorities.

MRFF Funding Principles

In December 2017, the Australian Government endorsed the MRFF Funding Principles developed by the AMRAB, which serve as a reference for MRFF initiative design and implementation. These Principles outline the important features of investments to ensure the MRFF funds enhance Australia's reputation for research excellence. Each MRFF initiative has its own program grant guidelines that articulate eligibility criteria, funding arrangements and processes for identifying investment. The MRFF may disburse funds by open and contestable or targeted calls for applications.

Research Grants

The MRFF has already begun investing in health and medical research with several initiatives having been the subject of approaches to market with selection outcomes implemented under funding agreements. OHMR has started to develop a MRFF evaluation strategy that incorporates a draft MRFF program logic model, sets out evaluation questions, the proposed methodology and the scope of the evaluation of individual initiatives that have received funding, and the MRFF program outcomes. A comprehensive evaluation and monitoring framework will incorporate baseline data for each initiative, success indicators and measures.

While the MRFF has been running there has been Whole-of-Government change to administering grants which has moved grants administration to a centralised model. This is resulted in the OHMR using the grants expertise of the NHMRC and BGH to assist with administration of grants. Cancer Australia is used only to support the Australian Brain Cancer Mission and was not a specific focus of this audit.

Federal Budget Commitments

MRFF funds available for disbursement in 2016-17 and 2017-18 were each announced in the Federal Budgets of that financial year. This meant that OHMR had a significantly contracted period (approximately five weeks from the May Budget announcement to 30 June) to implement research initiatives that for the majority of cases required contestable grant opportunities.

The 2018-19 Federal Budget made no changes to the capitalisation of the MRFF and it is still on track to reach the full \$20 billion by 2020-21. Two billion dollars of the MRFF was committed, with some initiatives being grouped under the National Health and Medical Research Industry Growth Plan from 2017-18 onwards.

In the recent 2019-20 Budget the Government committed a further 10 years of funding from the MRFF, resulting in 30 bespoke programs, with the majority to commence funding from 1 July 2019.

2.2 Objective

The internal audit examined the establishment and early implementation of the MRFF, including a review of the initial funding rounds for compliance with the legislative framework. The audit assessed progress against the early milestones and measures of success for the MRFF and the adequacy and effectiveness of governance arrangements.

2.3 Scope

The scope of the internal audit included providing assessments of:



1. the effectiveness of governance arrangements which support the MRFF grant process, including oversight committees and stakeholder engagement functions;
2. the processes for the establishment of the Strategy, Priorities and AMRAB membership, and whether these were in accordance with the MRFF Act;
3. the alignment of MRFF research grant selection, approval and payment processes with the MRFF Act, the Funding Principles, the Australian Medical Research and Innovation Strategy and Australian Medical Research and Innovation Priorities and relevant better practice; and
4. the plans and arrangements for facilitating future government decisions on MRFF disbursements (of around \$1.4 billion over five years from 2016-17), and monitoring the performance and impact of MRFF research proposals over time.

The results of our internal audit have been informed by comparison of the early implementation of the MRFF against better practice associated with public sector governance from the Australian National Audit Office (ANAO) and Prime Minister and Cabinet (PM&C) Toolkit on *Implementing Policy*, and better practice associated with the administration of grants from the CGRGs, ANAO and Australian Institute of Grants Management (AIGM).

2.4 Scope Limitations

The scope of this audit did not include:

- any legal advice;
- assessment of the policy underpinning the establishment of the MRFF;
- assessment of effectiveness or control over any systems underpinning the operation of the MRFF;
- assessment of individual investments, or the funding strategy; and
- a review of the entire MRFF, as this review was limited to the scope elements identified above.

The assessments made during this internal audit have been provided in good faith and in the belief that such statements and opinions are not false or misleading. Due to the limited duration of the internal audit, Protiviti has relied on information that was provided by the Department. Accordingly, Protiviti does not express an opinion as to whether the information supplied is accurate and no warranty of accuracy or reliability will be given. Furthermore, we have not implied and it should not be construed that we have verified the information provided to us, or that our enquiries could reveal any matter that a more extensive examination might disclose.

The Department is responsible for maintaining an effective internal control structure. The purpose of the internal audit was to assist management in discharging this obligation. Due to the inherent limitations in any internal control structure, it is possible that errors or irregularities might have occurred and have not been detected. Further, the overall control environment within which the reviewed control procedures operate has not been audited.

Please note that an internal audit is not designed to detect all weaknesses in control procedures, as the audit is not performed continuously throughout the period and the tests performed were conducted on a sample basis only. Any projection of the evaluation of the control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Considerable professional judgement is required in determining the overall assessment. Accordingly, others could evaluate the results differently and draw different conclusions.



3. Positive Practices

We identified a number of positive practices in the governance and compliance with legislation in implementing the MRFF.

3.1 Legislative Compliance with Regards to MRFF Key Components

Components regarding the establishment and early implementation of MRFF that lie within the remit of the OHMR were largely compliant with key legislative requirements contained in the MRFF Act. This included the proper establishment of the AMRAB, with appropriate membership and appointments. The inaugural five-year Strategy and 2016-2018 and 2018-2020 Priorities were also compliantly established by the AMRAB following appropriate national consultations. We found only one instance of potentially late reporting to Parliament, as compared to legislative requirements (as discussed in Observation 4.3). However, this report has already been drafted by OHMR and is awaiting the next Parliament to be tabled.

3.2 Positive and Proactive Attitude of Team in Implementing MRFF

The internal audit identified strong staff commitment to implementing the MRFF and associated research initiatives. This included a collaborative approach to informally sharing information, experiences and learnings between project managers, collaboration with relevant policy areas across the department to inform initiative design and a proactive attitude towards strengthening the tools and processes for research initiative management, including strengthening working relationships with BGH and NHMRC as partnering grant administrators.

3.3 Publicly Available Information

The CGRGs state that information on all awarded grants should be accessible to public. In line with this, information on grant opportunities and awards is available publicly on the Department's MRFF website. Further, OHMR are working to revise the current MRFF website to improve the presentation, usability and breadth of information available to the public and research sector. The updated MRFF website is currently in demonstration mode and has been developed with public and sector focus groups. It contains more information on the MRFF, how funding works, how the MRFF is managed, and MRFF news in a clearer structure. This is reflective of better practice government transparency.



4. Findings and Recommendations

4.1 Finding 1: Gaps in the Implementation and Coordination of MRFF

While planning and implementation of individual research initiatives and establishment of legislatively mandated functions were well-governed, we found weaknesses in the planning and implementation of the MRFF at the program level. This included weaknesses in activity or milestone planning, limited clarity on roles, responsibilities and escalation methods; limited engagement with risks for the whole of MRFF; and limited formal planning for future years with increasing disbursements from the MRFF.

Discussion

4.1.1 Limited MRFF activity planning and governance documentation identified

Public sector governance and effective policy implementation requires high-level planning around the program or project's objectives, major strategies and key activities to be undertaken in the short and longer terms.

For the MRFF, we identified limited early identification of key goals and milestones linked to the MRFF Act objectives and government commitment, and limited planning of resources against specific deliverables. This may in part be due to the limited planning time provided before OHMR had to start implementing the MRFF as a result of the announcement of initiative commitments occurring late in the Budget cycle as detailed in the Background to this report. In a resource constrained environment with limited upfront planning time provided, the focus of the OHMR to-date has been on the establishment of MRFF initiatives in line with the MRFF Act and running grant opportunities under those initiatives in line with government decisions. However, going forward there is opportunity to focus further on the supporting infrastructure and governance.

The ANAO guidance on *Public Sector Governance* also suggests that responsibilities should be clearly articulated with individual staff appropriately informed about the authority and role they have. There was limited governance documentation regarding the MRFF's ownership and roles and responsibilities between agencies and other departmental Divisions and OHMR officers, including escalation protocols and procedures.

We understand that a program logic is currently being developed, however, this is high-level and does not adequately identify or define the MRFF's key management roles and responsibilities, accountabilities, or MRFF milestones and timelines. Draft initiative program logics are intended to contain accountabilities and responsibilities at the initiative level. MRFF management are also currently in the process of setting up a new business section focused on monitoring and reporting, which is expected to help in the execution of day-to-day activities, collection of baseline data, and program and initiative implementation. Planning and identification of key activities and milestones may assist with the management of the risk of underspends, as experienced in previous years.

4.1.2 Limited MRFF-level risk analysis

Comprehensive risk analysis is a powerful tool to understand the areas of weakness in program or project management and areas of risk that are unacceptable to an entity. The PM&C Toolkit on *Implementing Policy (2013)* states that engaging with risk, through risk planning, mitigation and management should occur at both the operational and strategic levels.

Currently, there is limited engagement with risk at the higher MRFF program level. Although risk analyses for individual research initiatives were identified, there was limited formal or documented analysis of key risks at the overarching MRFF-level. This included limited identification, treatment and monitoring of MRFF delivery and strategy risks that fall under the Department's risk management policy and risk themes, such as people, fraud, delivery and financial, and any shared risks (discussed further in Finding 4.3). Lack of identification of risks under the Department's risk management policy also limits the ability for the MRFF program to be actively managed within the Department's risk appetite.

Further, ANAO better practice on *Public Sector Governance* states that risk management should



inform entity strategy, including the allocation of scarce resources to areas of need and responses to changes in priorities or the environment. Therefore, comprehensive risk identification, and associated analysis of treatments and acceptability to the Department should be used to inform and formalise work prioritisation and resource allocation.

4.1.3 Limited formal planning for future years

High performing project or program management requires governance, program and service delivery approaches that support the achievement of intended outcomes. The ANAO better practice guide on *Public Sector Governance (2014)*, identifies that core to good governance in policy implementation and service delivery in government is thinking about and planning systematically for the future.

The MRFF program is a large conglomerate of many initiatives and projects, with approximately 30 initiatives currently being managed by OHMR, with some led by other Divisions. The MRFF is also continuing to grow, and the rate of disbursements is increasing exponentially. The Government has committed \$1.4 billion of research investments over the first five years of the MRFF. As at 5 April 2019, \$467.9 million had been contractually committed since 2016-17, leaving about two-thirds of the initial \$1.4 billion government commitment to be made in the next two years. While Government direction on initiatives and investment plans has made it difficult for OHMR to plan effectively, strategic planning for future years will be necessary to create supporting structures and approaches to deal with an ever-increasing workload. Strategic planning for future years may include consideration resource structure, work allocation, and management tools, to facilitate effective fulfillment of Government decisions and expected outcomes.

Risk Exposure

Inadequate planning and clarity over governance roles and responsibilities may lead to ineffective management of MRFF initiatives and disbursement targets, resulting in failure to deliver on government commitments.

Limited risk analysis by MRFF management may lead to issues not being identified or managed, misallocation of resources or priorities, and lack of oversight over quality of program controls.

Recommendation 1

Risk Rating

Medium

(Consequence: Moderate. Likelihood: Possible.)

The Department should:

- develop MRFF planning documentation and roadmaps for the future that identify key MRFF activities, milestones, strategic outlook, and MRFF governance roles and responsibilities;
- undertake comprehensive MRFF-level risk analysis that covers the Department's risk management policy risk themes, and is aligned with the Department's risk management framework; and
- report against MRFF risks in performance reporting (discussed further in Finding 3.2), including use of risk ratings to report on management of activities and effectiveness of controls or treatments.

Management Comments

Management agrees with and accepts the recommendation.

Accountable Position

Assistant Secretary, OHMR/HERD

Agreed Completion Date

30 September 2019



Assurance

The following will provide assurance that the risk has been managed:

- MRFF planning documentation and roadmaps that identify key activities, milestones, and MRFF governance roles and responsibilities;
- risk analysis, including risk identification, controls and ongoing treatments for MRFF activities and roles that lie within the remit of OHMR, and
- example performance reports that demonstrate updates on areas of high risk and use of risk profiles to show changing risk ratings.

4.2 Finding 2: Limited Performance Monitoring and Gaps in Evaluation Planning

There is limited reporting to senior management on the performance of MRFF management and research initiatives, reflecting limited formalised channels to provide regular updates on key activities, risks or tracking against outcomes. We also found there is opportunity to strengthen the planning and activities underway for the MRFF evaluation strategy, to further facilitate the measurement of achievement of outcomes and performance of MRFF management and implementation.

Discussion

Performance reporting and evaluation are key management tools that allow project or program managers to track the progress of day to day activities and outcomes or impact of policy measures.

4.2.1 Limited performance monitoring

The ANAO better practice guide on *Public Sector Governance* states that effective performance information and a structured and regular system of reporting positions an entity to assess the impact of policy measures and adjust management approaches as required. Effective performance reporting is aligned to the activity's outcomes and program structure, and generates information that is appropriate for internal performance management.

We identified limited ongoing performance monitoring mechanisms in place for the MRFF, including limited regular reports provided to senior management on key activities and risks for the relevant period. There is no formal reporting on the MRFF as a whole to senior management or delegates. This means there are limited formal mechanisms for MRFF implementers and research initiative owners to regularly report to senior management on MRFF progress, emerging initiatives, upcoming activities, key completed activities, key risks, and status of key milestones for senior management to consider and track. Some of this information is currently provided to senior management with informal, verbal ad hoc mechanisms and via the Administered Program Board. However, a structured and regular reporting method supports a more comprehensive capture of performance information and potential issues, and supports accountability being attributed to senior management.

4.2.2 Gaps in evaluation planning

The ANAO guide on *Public Sector Governance* suggests that an evaluation of significant programs or policy implementation should be conducted over time, to assess whether intended objectives are being achieved and to identify any improvement opportunities in policy design and delivery. There are currently actions underway to address these requirements in the MRFF program. This includes the work to develop an evaluation strategy, monitoring and evaluation framework, and the development of post-activity evaluations by BGH and NHMRC on administration of grants and research initiatives. While development of an MRFF evaluation strategy is a positive step towards addressing better practice evaluation requirements, our review of the strategy to date revealed that this is still high level and could be further built out. These areas for further consideration relate to the following key elements of effective evaluation that are stated in the ANAO better practice guide.

- i. Planning for evaluation from the outset of major program, projects and activities, including by identifying objectives, timeframes, resources, baseline data and required performance information.



- ii. Focused and clear statements of expected outcomes and well-defined program objectives to measure program effectiveness. In cases where outcomes can only be achieved over the longer term (particularly in social or health policy), it may be necessary to develop intermediate objectives that demonstrate progress towards the program's overall objective.
- iii. Periodically evaluating and reviewing governance arrangements and practices and performance.

In relation to the first two elements of effective evaluation, we note that planning for an evaluation strategy has started recently. However, to date there has been limited identification of the measures, success indicators, targets or methods to measure achievement of MRFF outcomes. There has also been limited activities to date on collecting baseline data to assess the starting point for which outcomes will be measured and benchmarked against. The collection of baseline data and current information is a particularly time-sensitive activity which benefits from being conducted at the outset of major program implementation to measure achievement of outcomes later down the track. We acknowledge that there are challenges associated with sourcing data to support measures, and their application across sometimes diverse initiatives. However, key measures and indicators need to be identified due to the nature of longer-term realisation of outcomes in health and medical research, and in line with the ANAO better practice, there should be consideration of intermediate objectives that demonstrate progress towards the MRFF overall objective or progress against MRFF implementation.

In relation to the third element of effective evaluation, there is scope for the MRFF evaluation strategy to broaden its remit, in order to consider governance arrangements and practices. This may include evaluation of the effectiveness of partnership arrangements with other agencies, including NHMRC and BGH, or other governance elements such as stakeholder or industry engagement.

Risk Exposure

Absence of effective performance reporting may cause delayed identification of performance issues, accountable delegates not being informed of current activities, and missed opportunities to improve performance. This may result in operational inefficiencies and weakened accountability.

Without adequate evaluation of MRFF outcomes, there is a risk that achievement of outcomes and realisation of benefits will not be effectively measured, that proper use of public funds will not be clearly demonstrable, and that opportunities to improve MRFF performance will not be identified.

Recommendation 2

Risk Rating

Medium

(Consequence: Minor. Likelihood: Possible.)

The Department should:

- establish a regular system of reporting to MRFF management (delegates), including establishing a set of relevant performance indicators for key activities managed by the OHMR. This report should incorporate information on upcoming activities and risks, and incorporate indicators to report against the success of past activities; and
- review the planning for the MRFF evaluation strategy underway, and incorporate considerations of success indicators, baseline data to measure progress against, short-to-medium term outcomes to evaluate, and aspects of MRFF management or administration to evaluate.

Management Comments

Management agrees with and accepts the recommendation.

Accountable Position

Agreed Completion Date

Assistant Secretary, OHMR

31 July 2019



Assurance

The following will provide assurance that the risk has been managed:

- An example of a management report of completed and upcoming activities, and key risks; and
- the completed MRFF evaluation strategy and comprehensive evaluation and monitoring framework, incorporating consideration of outcomes indicators, baseline data, and evaluation of MRFF management and administration.

4.3 Finding 3: Weaknesses in Risk Management of Partnership Arrangements

Proper and efficient administration of MRFF grants relies on effective working relationships between the OHMR and the NHMRC and the BGH both serving as grant administrators to Health. To support the proper and efficient administration of MRFF grants, there is ongoing work to be done in mitigating the risks associated with the effectiveness of these partnership arrangements. This includes further clarifying and formalising the roles and responsibilities of parties under the partnership arrangements, and managing the quality of services provided by the BGH. A particular area of attention is compatibility between financial and reporting system to ensure the Department can be accountable for the MRFF appropriation in a timely and reliable manner. This work requires further collaboration between OHMR and Chief Operating Officer Group (COOG) in the Department.

Discussion

The Whole-of-Government change to a centralised model for administering grants, has required that OHMR use BGH and NHMRC services to support the administration of MRFF research initiative grants. **s 47C, s47E(d)**

Therefore, administration of MRFF grants operates in a cooperative and cross-entity context of shared risk, with the Department being reliant on the BGH and NHMRC to administer grants in an efficient, equitable and transparent manner that aligns with research initiatives and intended outcomes. OHMR is the only area of Department that relies on NHMRC and BGH, all other policy and program areas are serviced by the Community Grants Hub operated by the Department of Social Services.

Cross-entity arrangements are a more complex arrangement for policy implementation, with stringent governance requirements. According to the ANAO better practice guide on *Public Sector Governance*, an important condition for effectiveness in cross-entity arrangements is the proper definition and communication of each entity's roles and responsibilities. It is important in this regard for all entities involved in managing the program or implementing policy to have an agreed and clear purpose, a coordinated strategy, and shared and visible lines of accountability. Against these requirements, the Department is still in the process of refining its arrangements with BGH and NHMRC in administering the MRFF.

4.3.1 Scope for further formalisation of partnership arrangement

In the context of co-administration of grants by the Department, BGH and NHMRC, it is crucial to have clear and well-communicated roles and responsibilities in place. The ANAO better practice states that there should be an appropriate and comprehensive written agreement that has been signed by all parties involved in the collaboration to allow entities to understand their roles in the arrangements.

The memoranda of understanding reviewed as part of the internal audit revealed variability in the level of detail outlined in the agreements between the Department and the partnering agencies. There was also a lack of definition of the specific responsibilities or processes each partnership agency would undertake, and who would be ultimately accountable for those processes. For example, in the memorandum of understanding with the BGH, the services that BGH would provide **s47E(d)** and the lines of accountability or escalation were not articulated (as discussed above in Finding 1). While we acknowledge that contracts or agreements between the Department and partnering agencies is owned by the COOG there is scope for OHMR to develop local agreements or service standards to more clearly articulate specifics of the partnership arrangements. The delineation of roles and

4.3.2 Refining Quality of Service with Business Grants Hub

[REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

The internal audit also identified further opportunities to standardise the consideration of grantee and grant activity risk in co-administered research initiatives, as discussed further in Observation 5.1.

Risk Exposure

Ineffective management of the partnership risks associated with cross-entity management of the MRFF may result in ineffective or inefficient grants administration, sub-optimal disbursement decisions, or unclear accountabilities over processes or decisions.

Recommendation 3	
Risk Rating	Medium (Consequence: Moderate. Likelihood: Unlikely.)
<p>The Department should:</p> <ul style="list-style-type: none"> clarify and document the roles and responsibilities of the Department and partnering grants administration agencies in the administration of MRFF grants, for example using local service standards; establish escalation protocols and procedures for identification and communication of high-risk issues; and s47E(d) 	
Management Comments	
Management agrees with and accepts the recommendation.	
Accountable Position	Agreed Completion Date
Assistant Secretary, OHMR	31 October 2019



Assurance

The following will provide assurance that the risk has been managed:

- service standards or other memoranda of understanding between the Department and partnering grants administering agencies that clearly define roles and responsibilities and escalation protocols; and
- s47E(d) [REDACTED]

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5. Observations

The below observations have been made as potential areas for improvement, or as observations with regards potential areas for further improvement that MRFF management are already working to address. The observations and suggested improvements may lead to management efficiencies, more robust administration of grant initiatives.

5.1 Inadequate Consideration of Grantee and Grant Activity Risk

Identifying and engaging with risk is a key element of grants administration and making informed decisions on granting. The CGRGs use three broad categories of risk – grant program or grant opportunity risk; grantee risk; and grant activity risk. Risks involving the grant opportunity or program comprise risks related to the planning, development and implementation of the grants by the relevant entity.

Research initiative owners under the MRFF have appropriately engaged with grant program risks through risk assessments of the granting activity working with grant administrator guidance. However, in our review of three grant initiatives, we found that grantee and grant activity risk were not comprehensively considered across all the initiatives. This also reflects variability in risk management approaches across grant administrators.

According to the CGRGs, risks involving the grantee relate to the grantee's industry or sector, and the granting entity's relationship with the grantee, such as:

- the nature of a particular industry (including highly volatile sectors, controversial providers, industry capacity and regulation);
- the relationship between the parties to the grant agreement; and
- accountability procedures.

Risks involving the grant activities relate to the specific activities that are funded by the grant, such as:

- the nature of grant activities (including scope, range and number of activities, location, beneficiaries);
- stakeholder capabilities (including governance and experience, clear roles and responsibilities, competing outcomes);
- grant activity design (including the value and duration of specific activities, objectives and timeframes for projects); and
- accountability procedures (including service standards and specific accountabilities).

s 47C, s47E(d)

[REDACTED]

Further alignment with the CGRG requirement for risk consideration may be addressed in the continuing refinement of services between the Department and the partnering grants hubs, as discussed in Finding 4.3.

Further, we acknowledge that some of the grantee and grant activity risk factors are considered during grant assessments under other existing and broader assessment criterion, including criteria about the capacity or capability of the applicant. However, there is scope to require applicants to more clearly reflect on and disclose their risks and risk management strategies to consider in making granting decisions in line with CGRGs, and this should be considered in future co-administered grants.



5.2 Scope for Standardisation and Formalisation of Lessons Learnt Between Research Initiatives

s 47C, s47E(d)

[REDACTED]

To further support the standardisation of practices across research initiatives, there is scope to formalise the identification and sharing of lessons learnt across initiative owners. Within the first few rounds of research initiative grants, project owners have already identified areas for improvement, such as providing progress report templates for grantees to standardise the detail, quality and length of progress reports. Lessons such as these have been informally noted by project owners, and are valuable areas for sharing across all research initiatives. Accordingly, formalisation of the recording and sharing of lessons learnt, especially in these formative years of MRFF establishment and implementation, is an area for OHMR to consider. MRFF management have communicated an intention to establish a community of practice for existing and new MRFF missions, which we support, and we encourage MRFF management to consider broader application to all research initiatives.

5.3 Instance of Potential Delayed Reporting, as Compared to Legislative Requirement

Under s 57A (1) of the MRFF Act, the Health Minister must, 'as soon as practicable' after the most recent Innovation Priorities cease to be in force, prepare a report on the financial assistance provided for medical research and medical innovation from the MRFF Special Account. The 2016-2018 MRFF Priorities ceased to be in force on 7 November 2018. Between the date of these Priorities ceasing to be in force and Parliament being dissolved on 11 April 2019, five months had passed and a report had not been provided to Parliament. While we provide no legal assessment on whether a period of five months was reasonably 'practicable' to provide this report to Parliament, we have identified the report has not yet been provided. Although, we note that a report has been drafted by OHMR, and this report is intended to be provided to the new Parliament following the Federal Election.



Attachment A: Risk Rating Definitions

This internal audit report includes a range of findings and observations. The risk exposure of these findings and observations have been identified based on the internal audit work performed. A risk rating associated with the findings has been determined based on an assessment of the consequence and likelihood of the related risk exposure of the finding. We have used the Department Risk Assessment Matrix at **Diagram 1**.

Opportunities have been identified to address each finding / observation. **Diagram 2** provides an outline of risk consequences. This has also been taken from the Department's Risk Management Framework.

Diagram 1: Risk Assessment Matrix

Australian Government Department of Health			RISK ASSESSMENT MATRIX				
Date Approved:			Likelihood				
General description of Consequences			Rare <small>Exceptional circumstances only</small>	Unlikely <small>Not expected to occur</small>	Possible <small>Could occur at some time</small>	Likely <small>Will probably occur in most circumstances</small>	Almost Certain <small>Expected in most circumstances</small>
Consequence	Would stop achievement of functional goals/objectives	Severe	High	High	Extreme	Extreme	Extreme
	Would threaten functional goals/objective(s)	Major	Medium	Medium	High	High	Extreme
	Requires significant adjustment to overall function to achieve objective(s)	Moderate	Medium	Medium	Medium	High	High
	Would threaten an element of the function and would require some adjustment to achieve objective(s)	Minor	Low	Medium	Medium	Medium	High
	Lower consequence to achievement of objectives.	Insignificant	Low	Low	Low	Medium	Medium



Diagram 2: Risk Consequence Table

	Insignificant	Minor	Moderate	Major	Severe
Strategic level	Negligible impact on Health's ability to achieve its strategic objectives. Impact can be managed through routine activities.	Negligible impact on Health's ability to achieve its strategic objectives. Additional internal management efforts required to manage	Minor impact on Health's ability to achieve its strategic objectives. Significant adjustment to resource allocation and service required to manage impact.	Major impact on Health's ability to achieve its strategic objectives. Impact cannot be managed within DoH's existing framework.	Significant impact on Health's ability to achieve its strategic objectives. Impact cannot be managed within Health's existing framework.
Safety of our People	Incident but no injury or illness; Injury, illness or ailment not requiring first aid or medical assessment	Injury, illness or ailment which may or may not require first aid or medical assessment	Injury, illness or ailment which requires medical assessment	Life threatening injury; Serious injuries causing hospitalisation	Death; Permanent disability; Multiple life threatening injuries
Security of our Systems, Buildings, Assets	Some localised damage to assets/non-infrastructure but with harm below the threshold of any government or public concern.	Some localised damage to assets and/or other infrastructure and/or significant localised damage to assets and/or non-infrastructure. Localised recovery operation.	Significant localised damage to assets and/or other infrastructure and/or severe localised damage to non-infrastructure. Localised recovery operation.	Some widespread loss or damage to other infrastructure and/or severe localised loss or damage of other infrastructure. Extensive recovery operation.	Loss or damage to critical assets and/or infrastructure. Severe widespread loss or damage to other infrastructure. Extensive recovery operation.
Security of our Information	No loss or compromise of Health's information.	Loss or compromise of organisation information resulting in delays/relocation with no impact on broader Portfolio outcomes.	Loss or compromise may result in significant financial loss to organisation.	Loss or compromise could result in large scale financial loss to organisation.	Loss or compromise would result in financial loss that would have significant impact on Portfolio outcomes.
External Scrutiny - Reputation Risk eg loss of confidence by Secretary/Minister/Parliament, loss of community support, failure to engage	Minor deviation from Health's procedure. Self-improvement review required.	Scrutiny required by internal committees or internal audit to prevent escalation.	Scrutiny required by external committees or ANAO. Compliance breach notification required.	Intense public, political and media scrutiny evidenced by front page headlines and/or television coverage.	Royal Commissions/ Parliamentary Enquiries
External Scrutiny - Stakeholders eg how will citizens be impacted? How complex are the stakeholders? Multiple jurisdictions.	Low impact on a small number of citizens.	Medium impact on moderate number of citizens.	Medium impact on moderate number of citizens and scrutiny required by external committees or ANAO. Media scrutiny.	Intense public, political and media scrutiny evidenced by front page headlines and/or television coverage.	Royal Commissions/ Parliamentary Enquiries. A lack of confidence in regulatory decisions demonstrated by the community.
Departmental Outcomes (Portfolio Budget Statement Outcomes)	Project does not fully meet objectives or is delayed. Impact limited to project only.	Project does not meet objectives or fails. Impact limited to project and team only.	Project failure. Impact on Departmental Outcomes or performance indicators. Impact on the reputation of the Branch.	Project failure. Major Impact on Departmental Outcomes or performance indicators. Impact on the reputation of the Division.	Project failure. Outcome and over 20% of performance indicators not meet. Critical impact on the reputation of the Department.
Financial Impact (the potential for loss of public monies)	Insignificant loss of assets, adverse impact on annual expenditure.	Loss of assets, adverse impact on annual expenditure of lower of either: * <\$500,000 or * <5% deviation from project/program budget.	Loss of assets, adverse impact on annual expenditure of lower of either: * \$500,000 to \$1 million, or * 5% to 10% deviation from project/program budget. Potential for material loss.	Loss of assets, adverse impact on annual expenditure of lower of either: * \$1 to \$5 million, or * 15% to 30% deviation from project/program budget. Potential for material loss.	Loss of assets, adverse impact on annual expenditure of lower of either: * >\$5 million, or * 30% deviation from project/program budget. Potential for material loss.



Attachment B: 2016-18 MRFF Innovation Priorities

The 2016-18 Innovation Priorities are listed below, under the associated strategic platforms from the 2016-2021 Innovation Strategy.

Strategy Item: Strategic and International Horizons

Antimicrobial resistance	Investment in this global challenge, consistent with Australia's First National Antimicrobial Resistance Strategy (2015–2019), with a focus on research to bring to market point-of-care solutions.
International collaborative research	Create a reserve for rapid funding of international collaborative work in priority areas of health and medical research, capable of leveraging multiple agency, discipline, national or industry investment.
Disruptive technology	Assess the impact of disruptive technologies such as artificial intelligence, wearables, genomic engineering and emerging markets on health service delivery and health training requirements.

Strategy Item: Data and Infrastructure

Clinical quality registries	Provide start-up investment in disease or therapy-focussed clinical registries supported by a national framework to maximise interoperability and value of research to clinical practice.
National data management study	Study, in collaboration with key agencies, the requirements for infrastructure enhancement that expands the use of secure, digitised (My Health Record) and linked health and social data and inter-agency collaborative research.
MRFF infrastructure and evaluation	Establish: (1) a consumer-driven health and medical research agenda; (2) a method to guide future MRFF priorities; and (3) the means to measure and report on economic returns from investments.
Communicable disease control	Enhance and coordinate research on national surveillance of and response to current and emerging infectious diseases and antimicrobial resistance.

Strategy Item: Health Services and Systems

National Institute of Research	In partnership with the states and territories, determine the feasibility of establishing a national institute focused on health services, and public and preventive health research to facilitate evidence-based and cost-effective healthcare.
Building evidence in primary care	Work alongside the Medicare Benefits Schedule Review Taskforce to identify interventions with limited supporting evidence that are amenable to randomised control trial investigations, and engage the existing workforce to build capacity.
Behavioural economics application	Support development of research in applied behavioural economics that concentrates on public and preventive health, with an emphasis on early intervention in mental health, healthy eating and physical activity.
Drug effectiveness and repurposing	Invest in post-clinical effectiveness studies of drugs and other health interventions and support pre-clinical proposals that identify new uses for existing drugs.

Strategy Item: Capacity and Collaboration



National infrastructure sharing scheme	Develop and evaluate a national scheme that enables researchers to locate and access existing high cost infrastructure to maximise hardware use and foster research collaboration.
Industry exchange fellowships	Connect industry and academia via PhD and postdoctoral fellowships to enable and encourage talent exchange, with the aim of stimulating entrepreneurial and translation capabilities.
Clinical researcher fellowships	Expand the scope and scale of the existing NHMRC Practitioner Fellowships Scheme to increase engagement of research-focussed clinicians in problem-solving and the translation of research into clinical practice.

Strategy Item: Trials and translation

Clinical trial network	Provide infrastructure support for existing and new national clinical trial networks to enhance innovation, collaboration, clinical research capacity and patient participation.
Public good demonstration trials	Invest in extension of clinical trials of proven therapies with limited opportunity for further commercial sponsorship to at-risk groups including adolescents and young adults, culturally diverse groups, and people with complex co-morbidities.
Targeted translation topics	Work with the NHMRC-accredited Advanced Health Research and Translation Centres to deliver research agendas in primary care, acute and sub-acute settings relating to: <ul style="list-style-type: none">clinical pathways and care transition;clinical variation;co-morbidity; andhealth inequities in Aboriginal and Torres Strait Islander Australians and other vulnerable populations.

Strategy Item: Commercialisation

Research incubator hubs	Create and evaluate virtual or actual health research incubator hubs that stimulate partnerships across a range of academic, clinician and industry stakeholders to generate early-stage research ideas for diagnostics, devices and molecular therapeutics.
Biomedical translation	Through the Biomedical Translation Fund, seek outmatched private capital to invest via licensed fund managers in pre-clinical to early clinical translation of research of commercial value.