



Australian Government
Australian Research Council

ARC

ARC Foreign Interference and Security Risk

Internal Audit Findings

March 2023

Contents

Executive Summary	3
Recommendations and Improvement Suggestions	5
Business Process Improvement Suggestion 1	5
Recommendation 1	5
Recommendation 2	6
Recommendation 3	7

Executive Summary

The University Foreign Interference Taskforce (UFIT) defines foreign interference as:

*'Foreign interference occurs when activities are carried out by, or on behalf of a foreign actor, which are coercive, clandestine, deceptive, or corrupting and are contrary to Australia's sovereignty, values, and national interests'*¹

The Australian Government recognises that espionage and foreign interference continue to pose a threat to Australia, its sovereignty, and the integrity of its national institutions. The university sector is amongst those sectors at risk, given it is at the leading edge of policy, research and scientific development.

As the administrator of the National Competitive Grants Program (NCGP), Australia's largest funding program for non-clinical research in Australia, the Australian Research Council (ARC) understands and is aware of the importance of evolving and monitoring their policies and procedures to stay ahead of national security risks and address threats of foreign interference.

In March 2022, the Parliamentary Joint Committee on Intelligence and Security (PJCIS) released a report on its inquiry into national security risks affecting the higher education and research sector (the sector). Within the report, the PJCIS provides specific commentary on the ARC's grant processes and its ability to assist the sector in responding to national security risks, raising three recommendations (19, 26 and 27) in respect of the ARC's processes.

The objective of this audit was to review the ARC's performance in assessing foreign interference and national security risks in the context of grants lifecycle since the launch of the *Guidelines to counter foreign interference in the Australian university sector* (Guidelines) in 2019.

Overall, Internal Audit found that since 2018, the ARC has continued to develop and strengthen its policies and procedures to identify, assess and manage material risks relating to foreign interference and national security in respect of each phase of the grants lifecycle. Specifically, Internal Audit found that the ARC has:

- established specific criteria that is appropriate for conducting foreign interference checks on grant applications and contract variations
- improved its documentation and record-keeping practices in relation to potential risks and issues of foreign interference over time
- established the Due Diligence Committee which is considered to strengthen the approach to identifying and managing foreign interference risks in the context of grants
- provides administering organisations with the opportunity to respond to potential risks and sensitivities relating to foreign interference that are identified during the due diligence process on applications.

Breaches or issues are managed in accordance with the *ARC Research Integrity and Research Misconduct Policy*. Internal Audit found no issues based on review of three matters relating to foreign interference that have been addressed by the ARC since 2019.

¹ University Foreign Interference Taskforce, *Guidelines to Counter Foreign Interference in the Australian University Sector*, pg. 5

Notwithstanding the positive observations above, Internal Audit has identified some opportunities for improvement. These relate to the following observations on the ARC's current practices:

- the ARC has not updated its Work Instructions and process documents to reflect the circumstances where it will proceed with the grant application process in the absence of all requested advice from Home Affairs and the steps that should be followed by the ARC's staff
- there are limited policies and procedures in place to manage foreign interference and national security risks associated with grants during the post-award stage of the grants lifecycle
- the ARC does not have a single overarching framework or policy document which documents its approach to identifying, investigating, and addressing issues or breaches relating to foreign interference or national security in the context of grants.

Internal Audit has raised one low risk and two medium risk recommendations in respect of these findings. Internal Audit also made one business process improvement suggestion for the ARC to strengthen the current due diligence checks performed on applications.

Recommendations and Improvement Suggestions

Business Process Improvement Suggestion 1	
<p>To strengthen due diligence checks performed by the ARC, Internal Audit suggests that the ARC consider incorporating the following additional open-source indices into the RMS automated checks to enable identification of additional jurisdictions that represent a higher foreign interference and/or national security risk:</p> <ul style="list-style-type: none"> • Democracy Index² • Rule of Law Index³ 	
Management Comments	
<p>In accordance with the agreed process with the Department of Education and the Department of Home Affairs, the methods used by ARC for open-source risk checking, including digital resources, is informed by the Home Affairs portfolio. The ARC has provided the suggested open source information to Home Affairs in line with these arrangements.</p>	
Responsibility:	Branch Manager, Research Policy
Timeframe:	Completed

Recommendation 1	
<p>Internal Audit recommends that the ARC update its Work Instructions and process documents to ensure that they reflect the process for proceeding with the grant application process in the absence of all requested advice from Home Affairs.</p>	
Priority Implementation Rating:	
<p>Low – to be completed within six months.</p>	
Management Comments	
<p>Agreed and completed.</p>	
Responsibility:	Branch Manager, Research Policy
Timeframe:	Completed

² [Democracy Index 2021 - Economist Intelligence Unit \(eiu.com\)](https://www.eiu.com/en/research/indices/2021-democracy-index/)

³ [WJP Rule of Law Index 2021 - World Justice Project](https://www.worldjusticeproject.org/rule-of-law-index-2021/)

Recommendation 2

In order to obtain assurance that administering organisations and researchers are meeting their obligations in respect of managing risks of foreign interference during the post-award stage, Internal Audit recommends that the ARC develop and implement an assurance process which includes:

- an annual questionnaire⁴ (or similar) for administering organisations to complete and submit to the ARC to declare and certify the following:
 - » significant risks or issues associated with ARC grants have been identified and reported to the ARC during the period, including assessment of any changes to the sensitivity level of a given technology during the course of a research project⁵
 - » adequate policies and processes (with reference to the Guidelines) are in place and operated effectively during the year, including the requirement for all individuals named in ARC-funded grants who are at risk of foreign interference, to provide an annual declaration of interest disclosure.⁶

The ARC should then consider implementing other activities to gain further assurance that risks of foreign interference are being managed appropriately during the post-award stage. These activities may include:

- follow-up check or review of awarded grants that were flagged as having a potential risk or sensitivity during the due diligence checks to ensure that the administering organisation has managed identified risks appropriately
- annual spot checks or reviews of a sample of grant contracts to review and assess whether the details provided are up to date and accurate (including identification of whether all foreign interests have been declared).

Priority Implementation Rating:

Medium - to be completed within nine months.

Management Comments

Agreed in principle.

Additions to the NCGP assurance framework to address aspects of the questionnaire recommendation were already under development prior to the audit. The ARC will also review the NCGP assurance framework to address the other recommendations and consult with universities regarding implementation.

Responsibility:

Branch Manager, Programs

Timeframe:

30 November 2023

⁴ The ARC Grant Support Team advised Internal Audit that they are in the early stages of developing a questionnaire for administering organisations to complete. This is expected to include questions that relate specifically to foreign interference and national security. There was no draft questionnaire available for review during this audit.

⁵ Guidelines, p.18

⁶ Guidelines, p.17

Recommendation 3

To support the ARC to manage expectations in respect of its particular role in managing risks of foreign interference and national security within the Australian research sector, Internal Audit recommends that the ARC:

- a. develop and document a Countering Foreign Interference (CFI) strategy or framework in the context of research grants awarded under the NCGP. The document should provide a holistic view and articulate the following:
 - » identified risks relevant to foreign interference and national security in the context of grants
 - » the role and responsibilities of the ARC
 - » the ARC's expectations of the external stakeholders (Department of Education, Home Affairs, UFIT, administering organisations and researchers) in managing identified risks
 - » controls and procedures in place at each stage of the grants lifecycle to manage the relevant risks
 - » ARC stakeholders involved in the above controls and procedures
 - » escalation process in place to address any breaches or issues identified relating to foreign interference (with reference to the research integrity process), including clear consequences for individuals (and the administering organisation) that fail to declare all of their interests in accordance with the ARC's declaration of interest disclosure requirements.
- b. once the strategy or framework has been finalised, the ARC should consider publicising the document to support transparency and aid stakeholders' understanding of the ARC's role in managing risks in this area.

Priority Implementation Rating:

Medium - to be completed within nine months.

Management Comments

Agreed.

The ARC will develop a CFI framework, as part the NCGP assurance framework, in parallel with the work outlined in Recommendation 2. The framework will be published on the ARC website following its finalisation.

Responsibility:

Branch Manager, Research Policy

Timeframe:

30 November 2023