

# Department of Industry, Science and Resources

Post Implementation Review – PsiQuantum Project

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#### 1. Executive Summary

The objective of this internal audit was to review the approach and processes undertaken by the Department of Industry, Science and Resources (DISR) in its evaluation of PsiQuantum’s investment proposal and provision of advice to government to identify what worked well, lessons learned and opportunities for improvement. The full scope of the internal audit is listed in **Appendix A,** including aspects that were explicitly out of scope. McGrathNicol was contracted to assist the Internal Audit team in delivering this audit.

This was a complicated project that involved consideration of scientific and engineering technology that was yet to be fully developed. The proposal involved 2 government jurisdictions, with each having shared, as well as unique interests. To inform advice, DISR led a process that required financial, commercial, legal, economic, national security and technological input. Due to the complexities involved, contributions from multiple government agencies were required. This included engagement across various Ministers, portfolio interests and ultimately the Cabinet.

Overall, the Internal Audit identified that DISR’s approach and processes were appropriate. The review additionally identified a number of lessons learned. While the Australian Government does not have a single, formal, agreed framework on managing consideration of industry proposals, DISR’s governance frameworks were fit-for-purpose, and advice to government was responsive. A summary of key observations is provided below:

* **Assessment approach & authorising environment:** DISR engaged appropriate technical, legal and commercial assistance to provide an informed view to government on the benefits and risks of the proposal. The business case prepared for government aligned with government objectives, described the policy opportunity, and articulated potential benefits and risks.
* **Stakeholder engagement:** Throughout the process DISR engaged with stakeholders across the Commonwealth, Queensland (QLD) Treasury and the private sector to provide an informed view to government, while also balancing the sensitivity and confidentiality requirements of the project.
* **Market testing:** DISR’s approach was appropriate and the documented assessment process was followed. Planning for the market testing could have been improved, and possible next steps – depending on the outcome of the evaluation – could have been better documented.
* **Governance arrangements:** The governance structures used were fit-for-purpose, and arrangements were appropriately structured according to each stage of the project. This included use of IDCs, working groups and clear roles and responsibilities established in terms of reference.
* **Probity and confidentiality**: Probity and confidentiality were managed effectively. Arrangements were implemented early, followed throughout, and included use of an external probity advisor.

**Risk & project planning**: From establishment of the Taskforce there was dedicated, documented project and risk plans, and clear monitoring of due diligence and negotiation matters. Prior to the Taskforce, while there was no dedicated, documented project or risk plan, DISR had adopted enterprise arrangements with additional arrangements in the responsible Division, reflecting the early stage of the project.

* **Records management:** All required records were provided.

This internal audit identified six key aspects of the project that are likely to be relevant to future comparable processes:

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| 1. Consistent with enterprise processes, DISR considered early whether it should conduct a competitive process (i.e. whether the broader market may have the ability to provide comparable benefits).
2. When conducting an Expression of Interest (EOI) and developing an evaluation plan, including detail of possible outcomes following evaluation activity (based on defined ratings) supports the robustness of market testing. DISR could have been more explicit in its proposed course of action following an assessment outcome.
3. Early implementation and senior support of strong probity and confidentiality arrangements contributed to a well-managed process and reduced the risk of probity issues.
4. High-risk, high-profile initiatives can be expected to bring with them external scrutiny. Robust record keeping supports efficient and timely access to material, and transparency of departmental actions.
5. The DISR Initiative Support Model provides a good framework to assist DISR define and then support officials with complex initiatives.
6. Having the right expertise, culture and leadership was critical to successfully delivering a complex initiative.
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#### 2. Introduction

This internal audit examined the approach and processes undertaken by the Department of Industry, Science and Resources (DISR) in its consideration of PsiQuantum’s (PQ’s) proposal between receipt of the proposal in November 2022 until contractual close for the investment in May 2024. The internal audit focused on DISR and did not examine documentation held, or consult stakeholders, outside of DISR. The full objective and scope of the internal audit is listed in Appendix A.

McGrathNicol was contracted to lead this review. A work order for this internal audit was signed on 18 October 2024, and a final Project Plan approved 17 December 2024. Internal Audit team members were required to sign conflict of interest declarations and attend a probity briefing. Additional Non-Disclosure Agreements (NDAs) were signed by specific team members in order to access documentation relating to DISR’s market testing process.

##### 2.1 Structure of report

The report structure is based on the internal audit’s scope points at **Appendix A**, which cover

understanding of the project timeline and key milestones;

assessing the effectiveness of DISR’s decision-making frameworks, assessment approach and procurement practices;

assessing the effectiveness of DISR’s risk, governance and compliance frameworks, including record-keeping; and

identifying lessons learned and opportunities for improvement.

For this internal audit, consideration of the project was based on the following stages of the project:

* Initial consideration of PQ’s proposal (November 2022-May 2023) – referred to as ‘Stage 1’. This stage covered activities commencing with DISR’s receipt of PQ’s revised proposal in November 2022, up until the government’s decision to establish a Taskforce to formally consider the proposal.

Detailed due diligence, market testing and non-binding commercial negotiations (June 2023-February 2024) – referred to as ‘Stage 2’. This stage covered activities commencing with the government’s approval for additional due diligence in June 2023, up until final advice to government on the outcome of this process in February 2024.

Contract negotiations and close (February-May 2024) – referred to as ‘Stage 3’. This stage covered activities commencing with government’s agreement to invest in PQ and for the conduct of contractual negotiations in February 2024, up until contractual close in May 2024 (with government publicly announcing the investment decision on 30 April 2024).

##### 2.2 Operating environment

PQ’s proposal was considered in a context where the Australian Government had either already published, or would publish, the following reports and strategies applicable to investment in the quantum sector:

Commonwealth Scientific and Industrial Research Organisation’s (CSIRO) *Growing Australia’s Quantum Technology Industry* report (May 2020), a roadmap flagging the growth and potential for the quantum sector in Australia, including the need to act quickly. Amongst other recommendations, the report recommended the development of a “national quantum technology strategy” and the exploration of funding and investment mechanisms to support “quantum technologies that demonstrate commercial potential.”[[1]](#footnote-2)

DISR’s *Critical Technologies Statement* (May 2023) noted one critical technology that would impact on Australia’s national interest was quantum technologies. Critical technologies have both benefits and risks for Australia. The statement reaffirms Australia’s commitment to building a sustainable and world-leading quantum economy.[[2]](#footnote-3)

The *National Quantum Strategy* (May 2023) (the Strategy) focuses on the opportunities, uses, and case studies of quantum technologies, in addition to the themes of the Strategy. The Strategy is a part of the government’s framework for critical technologies, and notes that government investment must maximise benefit and minimise market distortions. In doing so, the Australian Government will “be bold and ambitious in supporting the growth of new quantum infrastructure, including building the world’s first error-corrected quantum computer in Australia”.[[3]](#footnote-4) The Strategy notes the need for a national effort for the implementation and growth of critical technologies, such as quantum, across government departments and the private sector. A key focus in the Strategy is means for investing in quantum, with a primary vehicle for investment in critical technologies and projects being the National Reconstruction Fund (NRF), which commenced operations in 2023.

#### 3. The effectiveness of the decision-making framework, assessment approach and procurement practices applied by DISR

To test this scope point the Internal Audit considered the following matters:

* The assessment approach and authorising environment
* Stakeholder engagement (including with the Minister for Industry and Science)
* Market testing

##### 3.1 Assessment approach and authorising environment

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| Observation: DISR engaged appropriate technical, legal and commercial assistance to provide an informed view to government on the benefits and risks of the proposal. The business case prepared for government aligned with government objectives, described the policy opportunity the investment was seeking to address, and articulated potential benefits and risks. |

Overview of Stage 1 authorising environment

PQ submitted its proposal on 16 November 2022 addressing the proposal’s competitive advantage; value for money; and impact for government. It also outlined the investment support sought from government.

On 19 December 2022, the Minister for Industry and Science (the Minister) agreed that DISR should undertake a more comprehensive assessment of the proposal in collaboration with QLD Treasury. In the associated Ministerial Submission, DISR added its preliminary views on QLD Treasury’s initial assessment and included initial technical advice from Australia’s Chief Scientist. DISR’s initial assessment reflected its uncertainty over both potential benefits and risks of the proposal, and that gaps in understanding necessitated further analysis.

On 25 May 2023, DISR reported to the Minister the outcomes of this assessment, recommending detailed due diligence on PQ’s proposal. To support its recommendation, DISR included the results of commercial and economic analysis conducted by a third party, a technical maturity risk assessment by Defence Science and Technology Group (DSTG), and further advice from Australia’s Chief Scientist. DISR’s Submission articulated both the potential benefits and risks of the proposal. This Submission led to advice to Cabinet on the merits of further consideration, including establishing a taskforce.

Overview of Stage 2 authorising environment

In June 2023, the government established the Technology Investment Taskforce (TITF, or the Taskforce) to manage detailed due diligence and non-binding commercial negotiations – including a framework to govern the Commonwealth and QLD’s relationship in supporting non-binding negotiations.

This clear authorising environment was translated into the Taskforce’s Terms of Reference (ToRs) (discussed in Section 4.1 ‘Governance arrangements’). Funding was allocated to operate the Taskforce, which included costs for additional DISR staff, officials from other government agencies, establishment of a project management office, and the engagement of legal, commercial, economic and probity support.

On 12 July 2023, the SES Band 3 Inter-Departmental Committee (IDC) approved 2 negotiation mandates acceptable to the Commonwealth to guide commercial advisors involved in negotiations and a potential contractual decision:

The Commonwealth negotiation mandate was a principle-based framework of Commonwealth priorities, distinguishing between Commonwealth and QLD responsibilities.

The second negotiation mandate outlined how the Commonwealth could work with the QLD government to achieve a fair distribution of rights, risks, and potential future rewards, whilst protecting the Commonwealth interests. At the time, the document was flagged as yet to be agreed with QLD.

The mandates were treated as living documents that would continue to be refined, and were provided to the Minister. Initially, it was noted that QLD and the Commonwealth were “still some way apart on certain issues” but “respective commercial advisers will now work to close the gaps.” The QLD government was provided a copy of the QLD related mandate.

Overview of Stage 3 authorising environment

In February 2024, Government authorised the Secretary of DISR to lead negotiations with PQ, agree on the term sheet, and to lead resolution of outstanding contractual issues. Based on DISR advice, the government agreed to restructure part of the financial support package during the negotiation process. The Internal Audit noted evidence of the Secretary reviewing and approving refinements to the Commonwealth’s position on outstanding commercial items.

On 30 April 2024, the Australian Government announced the decision to invest in PQ, with contracts executed on 31 May 2024. Broadly, these set out the obligations and rights of all parties, including conditions PQ must meet to access government funding; governance and oversight of the transaction; and includes statements of overarching government objectives and PQ commitments. Following execution of contracts, the Taskforce transitioned into a Branch within DISR, with a reduction in staffing and a corresponding shift in focus towards implementation.

Management of the business case and investment decision

At the time, unsolicited proposals seeking Commonwealth investment lacked a Whole of Australian Government (WoAG) framework to manage consideration. At a high level, the Commonwealth Investment Framework requires that a business case: clearly articulate the policy problem / opportunity being addressed; align to government strategic objectives; contain clear and measurable targets; and includes analysis of options (including analysing market demand and alternative sources of supply), costs, benefits and risks.

DISR provided legal, technical, and economic / commercial considerations to support government to make an informed decision, cognisant of the risk. PQ’s proposal aligned with the strategic objectives of government, and identified the policy benefits. DISR’s business case articulated that PQ’s proposal, although innovative and offering significant potential economic and financial benefits, also involved high financial risk, which the transaction structure subsequently sought to mitigate.

Information provided to government at first pass (to inform a government decision on further due diligence requirements)[[4]](#footnote-5) drew on DISR’s and technical advisors’ understanding of the market, but did not include market analysis. However, this was addressed in the second pass (see also Section 3.3 ‘Market testing’). As DISR’s consideration of the proposal progressed, additional analysis was undertaken on assessing the instruments and vehicles for investment, and the costs, benefits and risks of the selected approach were outlined (including legal risks).

The government considered the business case and investment decision through multiple passes spanning each Stage of the project. This included the decision to purchase equity and provide loans, using Export Finance Australia (EFA) as the investment vehicle, and authorisation for the Secretary of DISR to continue negotiations and finalise due diligence prior to contractual close. The final investment detail was agreed by Government, as part of the finalisation of the 2024-25 Budget.

##### 3.2 Stakeholder engagement

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| Observation: Throughout the process DISR engaged with stakeholders across the Commonwealth public service, QLD Treasury and the private sector to provide an informed view to government, while also balancing the sensitivity and confidentiality requirements of the project. |

Effective stakeholder engagement is important to successfully implement complex initiatives, including where there are implications for multiple government agencies and expertise is required across multiple domains. Engaging with a broad range of stakeholders and industry specialists throughout the process was required to provide informed advice to government on the full risks and implications of the proposal. This cut across security, economic, technical and commercial areas.

During initial consideration of the proposal, DISR convened a WoAG Working Group with representatives from relevant Commonwealth agencies.[[5]](#footnote-6) This forum was primarily used to promote awareness and consistency of communication across the Commonwealth.

Stakeholder engagement was formalised upon the creation of the Taskforce:

With Department of Finance (Finance) as the primary supporting agency, including as Deputy Chair of the Band 2 Steering Committee and Band 3 IDC. Other agencies represented on the Band 3 IDC included the Department of the Prime Minister and Cabinet, the Department of the Treasury and the Department of Defence.

The Technical Advisory Group (TAG) included representatives from Finance, CSIRO, DSTG, and the Chief Scientist.

Outside of these forums there was engagement with QLD Treasury, and communication with PQ.

Advice to the Minister

Advice on the proposal needed to clearly articulate DISR’s assessment, progress, risks and opportunities. DISR engaged the Minister throughout consideration of the proposal. In addition to the work supporting multiple passes through Cabinet (see Section 3.1 ‘Assessment approach & authorising environment’), DISR prepared multiple Ministerial Submissions and briefings between December 2022 and May 2024. Most prominently, weekly updates were provided to the Minister in the period from 30 June to 15 September 2023, during a period of significant Taskforce work.

The Internal Audit reviewed ministerial submissions, briefings and cabinet submissions. Overall, DISR provided the Minister with regular reporting and was responsive to ministerial direction. DISR’s language was appropriately tailored to the information at hand. For example, in the early stages, where there was minimal independent assessment of the potential benefits of PQ’s proposal, DISR’s language was appropriately cautious and focused on the uncertainty. As the project progressed, there was increasing focus on the benefits of the proposal, while also acknowledging ongoing risks and uncertainties.

##### 3.3 Market testing

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| Observation: DISR’s approach was appropriate. Probity and confidentiality were managed effectively, and the documented process for assessment was followed. Planning for the market testing could have been improved, in particular by documenting possible next steps depending on the outcome of the evaluation. |

Testing the market in response to receiving an investment proposal provides additional certainty to government that the proposed expenditure involves the proper use of public resources. Good practice to test the broader market is by using a competitive process. Expressions of Interest (EOI/s) are a suitable tool often used by government to screen the market and to inform whether a more detailed process (e.g a request for tender) is required. Typically, the level of detail expected in response to an EOI would be less than that as part of a request for tender. However, an EOI needs to be sufficiently detailed and be supported by clear criteria that can be readily evaluated to inform next steps.

The Government agreed, in June 2023 as part of establishing a Taskforce, that DISR, supported by Finance, should undertake a market testing process consistent with an EOI. This was undertaken in parallel with due diligence activities and commercial negotiations with PQ. This was to be completed in time to form part of further advice to government in October 2023, which placed time pressure on the Taskforce.

The EOI approach was developed by DISR working with Finance and the Band 3 IDC. On 2 August 2023, the Minister agreed to the proposed process, which involved a confidential and limited approach to market to 21 quantum computing companies. This approach was selected as it would meet necessary requirements whilst minimising risks of impacting PQ negotiations.

An EOI Plan, which included an evaluation plan and probity plan, was also developed by DISR in consultation with Finance, DSTG and the TAG.[[6]](#footnote-7) A DISR SES representative chaired the panel, with 2 other members from DSTG and Finance, supported by the TAG and other specialist advisors. The Panel finalised the Evaluation Report on 25 September 2023.

The Phase 2 Risk Register for the Taskforce identified the risk that a market testing process could be subject to criticism. Controls identified included having a robust process, detailed probity advice, clear messaging around the investment supporting the Strategy, and that market testing is not a procurement.

DISR’s approach to undertaking market testing met the requirements of government and was appropriate:

The expertise of the panel was balanced, supported by policy, financial and technical representation, and complemented by guidance from the Band 3 IDC on establishing the process.

* The criteria used were appropriate and focused on matters being considered as part of PQ’s proposal, including key technical requirements and the timeline.

The panel followed the defined process and applied the assessment criteria consistent with the EOI plan.

The selected approach to testing the market, via a confidential approach to identify possible respondents, was appropriate: the Taskforce considered several options for market testing, and the list of possible respondents was developed with input from the TAG and cleared by the Minister.

Confidentiality and probity requirements were managed effectively during the market testing process (see also Section 4.2 ‘Probity and confidentiality’).

DISR could have improved its EOI plan to support the robustness of the market testing approach. In particular:

* The EOI Plan did not define in any detail the rating scale used. Evaluation of EOIs was based on a four-stage rating scale:
1. Highly Competitive
2. Competitive
3. Borderline
4. Not Competitive

Prior to and during evaluation, the rating scale used was not defined beyond the title. This approach risks creating ambiguity about what each rating meant and the implications for being rated as such (particularly the ‘Borderline’ category).[[7]](#footnote-8) After assessments were conducted and during finalisation of the evaluation report, broad definitions of each were included (in response to a recommendation from the probity advisor). DISR did advise Internal Audit that the Panel did discuss what the ratings meant, however this was not documented in the EOI Plan. This would be expected as part of good practice.

The EOI Plan did not articulate next steps, including what action would be taken as a result of possible assessment outcomes (according to the rating scale adopted), in line with better practice. DISR advised Internal Audit that its next step was always to provide advice to Government on the outcomes, and seek authority for next steps.

* The EOI Plan also did not identify a proposed course of action for notifying respondents about the outcome and possible debriefings (debriefings were later provided in May 2024, once consideration of the proposal was complete). DISR advised that the plan was based on the existing departmental template, which did not include a section for planning and documenting next steps.

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| 1. LESSON: Consistent with enterprise processes, DISR considered early whether it should conduct a competitive process (i.e. whether the broader market may have the ability to provide comparable benefits).2. LESSON: When conducting an Expression of Interest (EOI) and developing an evaluation plan, including detail of possible outcomes following evaluation activity (based on defined ratings) supports the robustness of market testing. DISR could have been more explicit in its proposed course of action following an assessment outcome.  |

#### 4. The effectiveness of the risk, governance and compliance frameworks applied to the project, and record-keeping undertaken by DISR

To test this scope point the Internal Audit considered the following matters:

* Governance arrangements
* Probity and confidentiality
* Risk and project planning
* Records management

##### 4.1 Governance arrangements

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| Observation: The structures used were fit-for-purpose: there was a clear authorising environment, and arrangements were appropriately structured according to the stage of consideration. Documented Taskforce Terms of Reference were developed, then an updated ToR was drafted as the Taskforce proceeded into contract negotiations and final due diligence, however this update was not formally endorsed / finalised. |

Governance structures must be fit-for-purpose and tailored to the issues being addressed and the operating environment. Taskforces are a type of structure often used to deliver high priority issues requiring cooperation across agencies.

During Stage 1, DISR’s initial consideration was managed within the normal organisational structure of DISR, within the Quantum Branch. While not a formalised structure with ToRs, a WoAG Working Group was established, which met 4 times between October 2022 and May 2023. It comprised representatives from multiple Commonwealth agencies and was used to promote awareness and consistency of communication and information. This Working Group agreed that DISR would be the point of contact for all Commonwealth communication with PQ.[[8]](#footnote-9)

The establishment of the Taskforce in Stage 2 was based on ToRs that built on a “Governance and process plan” DISR provided to the Government. The ToRs were reviewed and finalised through the Band 3 IDC meeting. The ToRs set out the project objectives, policy framework, project governance and oversight arrangements, and supporting committees (see also diagram below):

The Band 3 IDC, which met monthly (between June 2023 and January 2024), provided guidance and direction on all critical parts of the non-binding negotiations to support advice to government.

The Band 2 Steering Committee, which met at least twice weekly (from July 2023 until June 2024), managed project deliverables, including engagement with Secretaries, and the Minister.

The Band 1 Working Group, which met multiple times per week (from July 2023 until June 2024), focused on delivering day-to-day activities and responding to direction from the Steering Committee and IDC.[[9]](#footnote-10)

ToRs were also subsequently established for the TAG, with clear roles and authority as an advisory (not decision-making) body.

The Taskforce structure that operated during the life of the Taskforce has been depicted below (see Figure 1).

**Figure 1**: PsiQuantum Project Taskforce
Governance Structure

Overall, the project’s ToRs were fit-for-purpose against key guidance contained in the Australian Public Service Commission (APSC) Taskforce Toolkit:

There was a clear authorising environment for the work of the Taskforce, set by Cabinet direction, which included funding approval, representing clear buy-in from government. As noted in the Toolkit:

*Authority in the form of a Cabinet decision or a deeply-invested minister or deputy secretary can be a great tool to drive action, particularly if you need to marshal resources or efforts around your problem.[[10]](#footnote-11)*

Arrangements were logically structured with a clear ultimate decision-maker (the Expenditure Review Committee of Cabinet (ERC), with the Minister for Industry and Science as lead Minister), decision-making and advisory bodies. The IDC / Steering Committee / TAG structure was a tailored governance arrangement that increased commitment and facilitated consultation across Commonwealth partner organisations.[[11]](#footnote-12)

For Stage 3 of the project, updated ToRs were drafted. DISR advised that while the updated ToRs were not formally endorsed / finalised due to competing high priority tasks, the changes were understood and operationalised. While the lack of finalised ToRs did not appear to impact the operation of the project, ToRs are key governance documents that should be finalised to provide certainty on objectives and approach.

##### 4.2 Probity and confidentiality

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| Observation: Probity and confidentiality were managed effectively. Arrangements were implemented early, followed throughout the project, and an external probity advisor was used to guide DISR’s actions where probity issues emerged. |

Probity relates to conduct within the public sector, both at the individual and the entity level, that is ethical and defensible. There were many probity matters that DISR needed to be mindful of during consideration of the proposal, including:

Managing engagement with PQ, including supporting the Minister during meetings with PQ, in a way that did not incorrectly create the perception of Commonwealth support ahead of due diligence and a decision by government. This occurred whilst also requiring PQ to provide substantial commercial and additional information to support DISR’s consideration.

Other Commonwealth equities in the quantum industry (including an Australian Government investment in another quantum computing company).

Points where the Commonwealth and QLD Government had different priorities.

Engaging sufficient external technical expertise (through the TAG) in an environment where the Australian quantum sector is small and well connected.

Continuing due diligence and commercial negotiations with PQ during a time when the Taskforce was also undertaking market testing through an EOI process.

The need to implement appropriate probity arrangements was identified in DISR’s first submission to the Minister in December 2022, and for Stage 1 DISR engaged an external probity advisor in January 2023. This resulted in the development of a probity plan and ‘probity protocols,’ to provide appropriate arrangements for DISR’s engagement with PQ. There are records that indicate that DISR and the probity advisor revised the probity plan for Stage 1. It was unclear to Internal Audit if this early probity plan was finalised, or whether a Stage 1 probity register was developed. Given the importance of probity arrangements these should have been clearly documented (see also comments on Stage 1 in Section 4.4 ‘Records management’).

In Stages 2 and 3, probity was managed in a proactive and comprehensive manner with the introduction of the Taskforce (which included the appointment of a new probity advisor):

Meetings of the Band 2 Steering Committee and Band 3 IDC were attended by the probity advisor and included consideration of any conflicts of interest.

A new Commonwealth-only probity plan was developed in September 2023, providing the principles and processes within which the Commonwealth (DISR and Finance) would manage probity matters.

Probity Registers were developed by DISR and the probity advisor, documenting aspects of probity management such as conflict of interest and confidentiality declarations, as well as listing matters and outcomes where DISR consulted the probity advisor.

Measures were put in place to separate the personnel involved in the Taskforce from those involved with ongoing quantum policy.

During market testing, the probity advisor was engaged at appropriate times, and the probity issues that required management during the process were documented in the evaluation report.

During Stage 3 the probity advisor was involved with, amongst other things, briefing the Secretary’s office (with the Secretary being authorised by the government to manage this stage of negotiations), debriefing sessions for market testing participants, and providing advice on meeting protocols and information sharing between the public announcement of the investment in April and execution of the Deed in May.

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| 3. LESSON: Early implementation and senior support of strong probity and confidentiality arrangements contributed to a well-managed process and reduced the risk of probity issues. |

##### 4.3 Risk & project planning

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| Observation: From establishment of the Taskforce there was dedicated, documented project and risk plans, and clear monitoring of due diligence and negotiation matters. Prior to the Taskforce, while there was no dedicated, documented project or risk plan, DISR had adopted enterprise arrangements with additional arrangements in the responsible Division, reflecting the early stage of the project. |

During Stage 1, project planning was based on documentation provided to the Minister in December 2022:

A summary of the proposed assessment process (formal due diligence in conjunction with the QLD government, technical analysis, national security community engagement, and probity advice).

A timeline that was developed by QLD Treasury (the submission notes that meeting the timeframes indicated by QLD Treasury would be subject to the Commonwealth and ministers conducting appropriate due diligence). These were ultimately superseded as DISR put in place processes to satisfy itself (and to inform the Minister) around value for money, risk and legality.

Given the scale and this initial stage of consideration, particularly when compared to Stages 2 and 3, developing detailed project plans and risk registers was not to be expected. However, the outcome of this assessment was to be reported to the Minister, and involved stakeholders including the Chief Scientist, and a probity advisor to support appropriate engagement with PQ. While relying on enterprise risk planning and additional arrangements in the responsible Division is appropriate at an early stage of a project, tailored, fit-for-purpose risk and project planning at this stage could have been developed. This could have included, for example, a plan with a clear objective and outputs (essentially how each element of the proposed assessment process was to be delivered), key roles and responsibilities, timeframe, identification of external stakeholders (stakeholder engagement was tracked formally), reporting arrangements, and the identification of key risks.

Formal risk and project reporting was introduced at Stage 2. Deliberations of the Band 3 IDC and Band 2 Steering Committee were minuted, with actions recorded and tracked across meetings. The Band 2 Committee met regularly to track progress on key issues. In Stage 3, more formalised project status reporting was provided to the Committees tracking stakeholder engagement (including with PQ) and the status of the project workstreams.

Stage 2 & 3 risk management

As per advice from APSC, taskforces should put in place appropriate risk management arrangements consistent with an agency’s risk management framework. The Taskforce developed a project management risk register and treatment plan in August 2023, which was reviewed by the Deputy Head of the Taskforce in September 2023 (although a ‘clearance date’ field covering the register did not reflect this). In practice it is not clear how frequently the register was referred to, although updates to the register were observed (e.g. December 2023 and when the project transitioned into Stage 3). For both stages, the associated risk treatment plan captured all risks rated medium and above, although no specific treatments were adopted beyond "Accept the risk without additional controls".

The structure of the register was consistent with good risk management practice: reasonable analysis was included for each risk, all risks had specific owner/s, shared risks with other government agencies were identified, and the register applied DISR’s Risk Management Matrix and Tolerance levels.

##### 4.4 Records management

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| Observation: All required records were provided. One area for improvement identified was accessing documentation from earlier in the project. |

Public sector agencies need to maintain adequate records to evidence their activities and decision-making. Good recordkeeping practices should also standalone and not rely on personnel who were involved in a past activity.

Internal Audit was provided with records in response to requests for information and other records DISR considered relevant. While there were fewer records sought and provided for Stage 1, assistance from a DISR official involved in Stage 1 was required in order to provide probity related documentation, and confirm the absence of dedicated, project-level risk and project planning documentation. Provided probity documentation did not include a probity register, as DISR could not confirm whether a register for Stage 1 was created. Internal Audit did not identify any significant concerns with records management from Stage 2 onward. Other minor observations included:

clarification was required around version control of a small number of documents given; and

* there was delay in Internal Audit being provided a list of key decisions and associated approvals as the Taskforce ‘Decision Register’ required updating. Internal Audit notes that such a register assists officials to navigate records systems and efficiently respond to any questions around the process.

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| 4. LESSON: High-risk, high-profile initiatives can be expected to bring with it significant external scrutiny. Robust record keeping supports efficient and timely access to material, and transparency of departmental actions. |

#### 5. Additional observations

These additional observations, while not assessed as part of the internal audit, highlight additional lessons that would apply to future comparable processes.

##### 5.1 The DISR Initiative Support Model

During internal audit consultations the ‘DISR Initiative Support Model’ was highlighted as a process that was being developed at the time DISR was considering the PQ proposal.

At a high-level, the Model is a framework to assist in assessing the complexity of an initiative (for example a new project, New Policy Proposal, or establishment of a taskforce). A level of complexity or risk will be automatically calculated based on responses to 11 questions covering topics such as alignment with government priorities and reputational risk, complex probity issues, and the need for cross-agency engagement. Appropriate support is then provided based on the result, with higher complexity assessments attracting additional support.

Though assessing the Model was not within scope of this internal audit, its application during management of the PQ proposal resulted in additional support being provided internally by DISR for procurement and legal activities. Additionally, the Model would now support the need for tailored, formalised planning around risk and project management at the early stage of a similar project.

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| 5. LESSON: The DISR Initiative Support Model provides a good framework to assist DISR define and then support officials with complex initiatives. |

##### 5.2 Workforce and culture

Consultations for this internal audit covered officials ranging from Assistant Manager (EL1) to the Deputy Secretary level. Though not an explicit focus area of the internal audit, a consistent theme that arose from reflections was the critical role that the right expertise, culture and leadership played in successfully delivering the process. In an uncertain environment, creating a strong and resilient culture amongst officials, and building strong relationships with officials from other agencies, was seen as central to managing consideration of the proposal.

Successfully implementing complex initiatives requires a range of supporting capabilities that need to be identified early and underpinned by a culture that fosters collaboration and cooperation to respond to government requirements.

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| 6. LESSON: Having the right expertise, culture and leadership are critical to successfully delivering a complex initiative.  |

#### Appendix A – Objective and scope of internal audit

The objective of this internal audit was to review the approach and processes undertaken by the Department in its evaluation of PsiQuantum’s investment proposal and provision of advice to government.

Scope

The objective was achieved by reviewing the following scope items through the period between receipt of the proposal until contractual close for the investment:

1. Understanding the project and timeline to provide a holistic view of events that have occurred, decisions that were made and the evidence supporting those decisions.
2. Assessing the effectiveness of the decision-making frameworks, assessment approach and procurement practices applied by the Department.
3. Assessing the effectiveness of the risk, governance and compliance frameworks applied to the project and record-keeping undertaken by the Department.
4. Identifying what worked well, lessons learned and opportunities for improvement to inform the ongoing management of the project, and for comparable processes that may need to be undertaken in future.

The following matters were out of scope of the internal audit:

Actions of the Department relating to the management of the signed contracts.

Activities and decision-making of the Queensland Government.

Activities and decisions by other Commonwealth Government agencies (DISR’s actions taken in response to advice and decisions from other bodies remains within scope).

* The Internal Audit team did not meet with individuals outside of the Department, nor seek records that are not held by the Department.
1. Growing Australia’s Quantum Technology Industry: Positioning Australia for a 4 billion-dollar opportunity, p. 32. [↑](#footnote-ref-2)
2. While not specifically including quantum technologies within its 2 streams, the *Future Made in Australia National Interest Framework* (2024), includes the *Critical Technologies Statement* as a complementary framework, and notes the government’s “recent investments in quantum computing are an example of this process in action”.

Related to the ‘Government’s Future Made in Australia’ agenda, Treasury has sought stakeholder feedback on establishing a new ‘Front Door’ “for investors with major, transformational proposals to make it simpler to invest in Australia and attract more global and domestic capital.” [↑](#footnote-ref-3)
3. [*National Quantum Strategy*](https://www.industry.gov.au/sites/default/files/2023-05/national-quantum-strategy.pdf)*,* pg. 28 [↑](#footnote-ref-4)
4. The assessment included technology, commercial, finance and economic analysis, supported by risk assessment and investment considerations (specifically ways to best protect the State and Commonwealth interests while ensuring a Quantum ecosystem could develop). Note this internal audit did not assess the adequacy or accuracy of accompanying analysis. [↑](#footnote-ref-5)
5. The first WoAG Working Group meeting was held in October 2022, prior to formal receipt of the unsolicited proposal. Representatives from QLD Treasury attended the March 2023 meeting. [↑](#footnote-ref-6)
6. The scope of this internal audit did not include assessing the respondents’ submissions. [↑](#footnote-ref-7)
7. While including a scoring system is a clearer approach, it is not a requirement if categories are well defined. [↑](#footnote-ref-8)
8. This position was reflected in the probity protocols developed when DISR attended meetings with PQ. [↑](#footnote-ref-9)
9. These meetings were not minuted, however Internal Audit validated the operation of this Group through consultation. [↑](#footnote-ref-10)
10. <https://www.apsc.gov.au/node/303> – Understand your authorising environment [↑](#footnote-ref-11)
11. <https://www.apsc.gov.au/node/304> – Develop an effective governance structure [↑](#footnote-ref-12)