

The Auditor-General
Audit Report No.22 2012–13
Performance Audit

**Administration of the Tasmanian Forests
Intergovernmental Agreement Contractors
Voluntary Exit Grants Program**

Department of Agriculture, Fisheries and Forestry

Australian National Audit Office

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Canberra ACT
21 February 2013

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Agriculture, Fisheries and Forestry in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament. The report is titled *Administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program*.

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

Yours sincerely

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

Ian McPhee
Auditor-General

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

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For further information contact:

**The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601**

Telephone: (02) 6203 7505

Fax: (02) 6203 7519

Email: webmaster@anao.gov.au

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Audit Team

Sally Ramsey
Sonia Pragt
Reece Pate
Mark Simpson

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Abbreviations

ANAO	Australian National Audit Office
CGGs	<i>Commonwealth Grant Guidelines: Policies and Principles for Grants Administration</i>
DAFF	Australian Government Department of Agriculture, Fisheries and Forestry
DIER	Tasmanian Government Department of Infrastructure, Energy and Resources
Finance	Australian Government Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
IGA	Tasmanian Forests Intergovernmental Agreement
IGACEP	Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program
KPI	Key Performance Indicator
PBS	Portfolio Budget Statements
PM&C	Australian Government Department of the Prime Minister and Cabinet
SEWPac	Australian Government Department of Sustainability, Environment, Water, Population and Communities
TFCA	Tasmanian Forest Contractors Association
TFCEAP	Tasmanian Forest Contractors Exit Assistance Program

Glossary

Clarity	The Australian Government Department of Agriculture, Fisheries and Forestry's grants management system.
Contractor	A business that undertakes contracted operations utilising capital equipment owned by the business, such as harvesting equipment and trucks.
Contract holder	A business that has entered into a contract or arrangements with a principal.
Principal	A commercial enterprise that holds public native forest harvest rights and contracts other businesses to undertake the harvest and/or haulage of native forest logs from Tasmanian public native forests or silvicultural operations in Tasmanian public native forests.
Silviculture	Operations to establish or manage trees.
Tasmanian public native forests	Publicly owned Tasmanian State forests that are not plantations and are not private native forests.

Summary and Recommendations

Summary

Introduction

1. Forests cover approximately 50 per cent of Tasmania's total land mass, with the forested area of 3 425 000 hectares comprising around 91 per cent (3 117 000 hectares) native forest and nine per cent (308 000 hectares) plantation forest. The management of Tasmania's forests has been an area of ongoing, and at times bitter, conflict. The industry and regional communities with a high reliance on forest industry jobs seek to maintain access to native forest areas, while environmental groups seek to conserve these areas.
2. Since 2008, there has been a downturn in Tasmania's forest and wood products industries driven by a range of factors, including the global financial crisis and the appreciation of the Australian dollar. Employment has fallen by 50 per cent as market demand has changed and processing facilities closed. This downturn was compounded by the November 2010 business decision of Gunns Limited, at that time Tasmania's largest forestry company, to undertake a major operational restructure of its forest products division to focus on plantation sourced forestry products.¹
3. In 2010, representatives of Tasmania's forest industry, unions and non-government environmental organisations presented the Australian and Tasmanian governments with their agreed approach to: resolve conflict over Tasmania's forests; protect native forests; and develop a strong, sustainable timber industry. The approach was documented in the *Tasmanian Forests Statement of Principles to lead to an Agreement* (Statement of Principles).²
4. In response to the Statement of Principles, the Australian and Tasmanian governments:
 - jointly appointed an independent facilitator, Mr Bill Kelty AC, to assist the signatories and other stakeholder groups to reach a common understanding and interpretation of the Statement of Principles; and

¹ Gunns Limited, *Media Release—Restructure of Gunns Forest Products Business*, 24 November 2010. Available from <<http://www.asx.com.au/asxpdf/20101124/pdf/31v3s56lfng63m.pdf>> [accessed 22 January 2013].

² The Statement of Principles was presented to the Tasmanian State Government on 18 October 2010 and to the Australian Government on 22 November 2010.

- conducted a due diligence assessment to verify signatories' claims.

5. To progress the approach outlined in the Statement of Principles, a *Tasmanian Forests Agreement—Heads of Agreement* was signed by the Prime Minister and the Tasmanian Premier on 24 July 2011. The commitments outlined under the Heads of Agreement were formalised on 7 August 2011, when the Prime Minister and the Tasmanian Premier signed the *Tasmanian Forests Intergovernmental Agreement between the Commonwealth of Australia and the State of Tasmania* (the IGA).

6. Under the IGA, the Australian and Tasmanian governments agreed to provide \$277 million³ in funding over 15 years across three streams of activity:

- Stream 1: Support for Workers, Contractors and Communities—\$86 million to support contractors and their families affected by the downturn in the industry, in particular Gunns Limited's decision to exit native forest processing;
- Stream 2: Protecting High Conservation Forests and Ensuring Sustainable Wood Supply—\$43 million to facilitate the implementation of protection of new areas of high conservation value forests and \$28 million to support the management of the additional reserves; and
- Stream 3: Economic Diversification—\$120 million over 15 years to identify and fund appropriate regional development projects.

7. One of the measures outlined in the IGA under Stream 1, was a \$45 million exit assistance program that aimed to reduce the oversupply of harvest, haulage and silviculture contractor capacity.

Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program

8. The Australian Government Department of Agriculture, Fisheries and Forestry (DAFF) was responsible for administering the exit assistance program—the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program (IGACEP). During the design of the IGACEP, the Minister for Agriculture, Fisheries and Forestry (the Minister), the Minister's office and DAFF consulted with the Tasmanian Government, the

³ It was agreed within the IGA that total funding contributions will include \$261.5 million from the Australian Government and \$15.5 million from the Tasmanian Government.

Tasmanian Forest Contractors Association (TFCA) and key industry stakeholders on the parameters of the program and the program guidelines.⁴

9. The IGACEP's objective was:

to assist the Tasmanian public native forest industry to adjust to industry downturn and to the reduced scale of native forest harvesting, through voluntary exit assistance to eligible harvest, haulage and silvicultural contracting businesses. It is expected that the reduced scale of harvesting will result in the order of 1.5 million fewer tonnes of wood being harvested and hauled and a decrease in public native forest silvicultural activities. The integrated nature of harvest and haulage means that it is desirable to exit an approximately equal amount of harvest and haulage capacity from the industry so as to minimise supply disruption and business failure caused through disproportional exiting of sector capacity.⁵

10. Under the IGACEP, eligible businesses (contractors and subcontractors) from the native forest harvest, haulage and silvicultural contracting sectors could nominate an amount (up to \$3 million) to exit the industry. A successful grant recipient (a business and the directors/owners) was required to exit from public native forest operations in Tasmania and not re-enter the forest industry nationally for 10 years (except to the extent of existing contractual arrangements in the mainland sector, the Tasmanian private native forest sector or the Tasmanian plantation sector).

Assessing and funding applications

11. An Advisory Panel of three senior officers, one each from DAFF (Chair), the Australian Government Department of Sustainability, Environment, Water, Population and Communities (SEWPaC) and the Tasmanian State Government, was established to assess grant applications and to provide advice to the Minister's delegated decision maker.⁶ DAFF provided secretariat support for the assessment process.

12. The IGACEP application period opened on 26 October 2011 and closed at 5:00pm on 24 November 2011. DAFF received 102 applications for grant

⁴ Clause 16 of the IGA required the Commonwealth to 'consult with the State and, where appropriate, the forest contractors' associations during the design and delivery of this exit assistance mechanism'.

⁵ Australian Government Department of Agriculture, Fisheries and Forestry, *Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program—Grant Program Guidelines*, October 2011, Canberra, p.2.

⁶ DAFF's Deputy Secretary responsible for Forestry Policy and Programs was the decision maker.

funding, with four applications not assessed as they were considered to have been lodged after the deadline. The remaining 98 applications were to be initially checked for eligibility by the secretariat and marked as eligible or ineligible, which would be taken into account by the panel when making a final assessment against the eligibility criteria. All eligible applications were to be assessed by the panel against:

- merit criteria—to score and rank applications against program objectives⁷; and
- assessment criteria—to determine whether the panel would recommend a funding offer for the applicant that was lower than the amount nominated to exit the industry.⁸

13. The Advisory Panel assessed 62 applications (61 applicants) as eligible, with all eligible applications recommended for grant funding.⁹ The departmental decision maker approved all recommendations on 16 February 2012 and on 17 February 2012, the Minister announced funding of \$44 019 623.¹⁰ Table S.1 (on the following page) outlines the grant funding offered to successful grant applicants by contractor type.

⁷ Merit criteria for harvest and haulage contractors were weighted and addressed: reduction in tonnage (40 per cent); nominated amount of funding sought (40 per cent) and supply chain exit (20 per cent). The criteria for silviculture contractors (equally weighted) addressed reduction in hectares and nominated amount of funding sought. Refer to: Australian Government Department of Agriculture, Fisheries and Forestry, op.cit., pp.6-7. The merit criteria are provided at Appendix 2.

⁸ There were three assessment criteria for harvest and haulage contractors and two assessment criteria for silviculture contractors. Refer to: Australian Government Department of Agriculture, Fisheries and Forestry, op.cit., p.7. The assessment criteria are provided in Table 4.1 of this report.

⁹ In one case, DAFF determined that two applications had been submitted by one business. These applications were further assessed as one application.

¹⁰ Of the \$45 million allocated for the IGACEP, \$0.8 million was allocated for administration costs and the remaining \$44.2 million was available for grant payments.

Table S.1**Grant funding offered by contractor type**

Contractor type	No. of successful applicants	Total funding offered (\$)	Maximum grant amount offered (\$)	Minimum grant amount offered (\$)
Harvesting and haulage	29	28 636 302.46	3 000 000.00	62 092.80
Harvesting	13	5 156 659.75	1 000 000.00	20 000.00
Haulage	17	9 826 660.55	2 000 000.00	36 476.30
Silviculture	2	400 000.00	300 000.00	100 000.00
Total	61	44 019 622.76		

Source: ANAO analysis of DAFF information.

14. Of the 61 successful applicants, 58 accepted the department's offer of funding to exit the Tasmanian public native forest industry.

Grant payment milestones

15. All grants were to be paid by 30 June 2012, with payments against applicants' achievement of the following two milestones:

- Milestone 1—75 per cent of the total grant amount approved was to be paid on execution of a funding deed and a Deed of Undertaking by all directors/owners of the business¹¹; and
- Milestone 2—payment of 25 per cent of the total grant approved on provision of:
 - an exit strategy for ongoing contracts or ongoing arrangements;
 - proof of payment of all employees' entitlements;
 - evidence that hire or lease arrangements for the businesses' forestry machinery had been terminated; and
 - evidence that the business had ceased using its forestry machinery.

¹¹ A Deed of Undertaking, a form of Statutory Declaration, provides a means for the Commonwealth to pursue the directors or owners to repay grant funding if they breach the funding deed, even in the cases where the original business has been deregistered.

Audit objectives, criteria and scope

16. The objective of the audit was to examine the effectiveness of the Department of Agriculture, Fisheries and Forestry's administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program. The audit assessed whether the department had:

- effectively designed the program;
- appropriate processes for assessing and approving grant applications received for program funding;
- effectively negotiated and managed compliance with the program funding deeds; and
- monitored and reported performance against the program's objectives.

17. The audit focused on the design and delivery of the IGACEP. Other programs, activities or arrangements delivered as part of the IGA were not within the scope of this audit.

Overall conclusion

18. The Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program (the IGACEP) was established to provide up to \$45 million in grant funding to assist harvest, haulage and silviculture contractors to adjust to the industry downturn and the reduced scale of harvesting. The program commenced on 26 October 2011 with funding to be determined through a competitive, merit-based assessment process. On 17 February 2012, the Minister for Agriculture, Fisheries and Forestry announced funding of \$44 019 623 for 62 successful applications (61 applicants) with individual grants ranging from \$20 000 to \$3 million.

19. Of the 61 successful applicants, 58 accepted the department's offer of funding to exit the Tasmanian public native forest industry. The department has estimated that the exit of these businesses will reduce wood being harvested by 819 888 tonnes and wood being hauled by 972 831 tonnes. Despite committing the total program budget, the expectation (outlined in the program objectives) that the harvested and hauled wood exited from the industry would be in the order of 1.5 million tonnes each, was not achieved. This was primarily a result of the number of eligible applicants, the scale of their forestry activities and the amounts offered to exit the industry.

20. While the IGACEP is a relatively small grants program, the short timeframe for program design and implementation, coupled with the diverse nature, complex business structures and the financial difficulties of potential applicants under the program, presented a challenging delivery environment for the department. DAFF worked quickly to establish the IGACEP and to distribute the majority of program funding within the timeframes established for the program. Potential applicants were appropriately informed of the opportunity to apply and were provided with timely access to the program guidelines and additional guidance material. To support program delivery, the department established detailed administrative arrangements to process applications and grant payments.

21. There was, however, a large number of incomplete IGACEP applications lodged (77 per cent), primarily due to applicants being unable to provide the documentation to demonstrate that the eligibility criteria had been met.¹² In response, the department provided applicants with additional opportunities to meet eligibility requirements. Although this approach assisted many applicants to receive funding under the program, which contributed positively to the program objective, it adversely impacted on the assessment process and the timeliness of payments to successful applicants.

22. While 58 forest contracting businesses have received funding to exit from the Tasmanian public native forest sector under the IGACEP, there were weaknesses in key aspects of DAFF's administration that adversely impacted on the effectiveness of program delivery. In particular the basis for the assessment of eligibility where applicants had not provided the required documentation, but received funding, was not clearly recorded by the department.¹³ Further, the process used to assess applications was not in keeping with the approach outlined in the guidelines, such as the use of a funding cap as the basis for assessing whether the panel would recommend a funding offer that was lower than the amount nominated by the applicant to exit the industry. DAFF's adoption of assessment practices that were outside the published program guidelines, in the absence of advice to applicants,

¹² Most applicants were missing: evidence of an ongoing contract or arrangement in Tasmanian public native forests as at 24 July 2011; evidence that 50 per cent of native forest operations conducted in at least one of the four previous financial years had been in public native forest operations; and/or information requested in the application form.

¹³ The ANAO's analysis indicated that 10 applicants had been offered grant funding despite not providing the required documentation to demonstrate that the IGACEP eligibility requirements had been met.

ultimately reduced the transparency and accountability of the assessment process.

23. The ANAO has previously examined DAFF's administration of grants programs, including those assisting the Tasmanian forest industry, and has made recommendations designed to strengthen the department's administration practices. In response to the ANAO's previous audits and better practice guidance¹⁴ and the 2009 release of the *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration* (the CGGs), DAFF developed a Grants Management Manual to support departmental program managers. However, in the case of the IGACEP, the department did not follow some key requirements established in the Grants Management Manual (and the CGGs), particularly in relation to the:

- establishment of sound governance arrangements before releasing the program guidelines and draft funding deed¹⁵;
- documentation of important aspects of the assessment process¹⁶; and
- development of measures to assess and report on program performance.¹⁷

24. The ANAO has made three recommendations that are directed towards improving DAFF's grants administration practices by reinforcing the importance of: documenting all elements of the assessment process; informing applicants of significant changes to assessment processes and the methods used to determine grant funding offers outlined in the program guidelines; and preparing compliance strategies early in the design phase of grants programs.

¹⁴ In particular, ANAO, *Better Practice Guide—Implementing Better Practice Grants Administration*, June 2010, Canberra and ANAO, *Better Practice Guide—Implementation of Programme and Policy Initiatives*, October 2006, Canberra.

¹⁵ The CGGs indicate that agency planning processes should have proper regard to all relevant issues including the need to undertake risk management. Refer to: Australian Government Department of Finance and Deregulation, Australian Government Department of Finance and Deregulation, *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration*, July 2009, Canberra, p.15.

¹⁶ DAFF's Grants Guidance Manual advises program managers that, for the assessment process to be fully documented, the decisions and rationale leading to each decision and the basis of approval for each recommended grant are to be clearly recorded.

¹⁷ The CGGs indicate that a granting activity should have a performance framework that links an agency's strategic directions and the grant's operational objectives to government outcomes. Refer to: Australian Government Department of Finance and Deregulation, op.cit., p.17.

Key findings by chapter

Program design and governance

Designing the program

25. The design of the IGACEP and the development of the program guidelines were informed by DAFF's extensive consultation with a broad range of stakeholders, expert advice and the experience gained by the department through delivering previous forestry grant programs. The design process did, however, present challenges for the department, as stakeholders held strong views on their preferred program design and key elements of the program were negotiated at ministerial level.

26. Potential applicants were aware of the opportunity to apply for funding, with DAFF providing access to the program guidelines, the application form and further guidance material on the department's website. While the guidelines were generally clear and comprehensive, there was scope for the department to have provided additional information regarding ongoing compliance arrangements, the performance data that would be required to evaluate the effectiveness of the program, and milestone reporting requirements. This would have helped to ensure that potential applicants were fully aware of the obligations that would arise from participation in the program. Further, there would have been merit in the department more clearly explaining the process for assessing applications and determining offers of funding, particularly given contractors could influence subcontractors' potential eligibility and merit score in the competitive merit based assessment process by not acknowledging their relationship.¹⁸ In addition, the treatment of applications from contractors and subcontractors under the IGACEP differed from that adopted for earlier programs.¹⁹ In an environment where there has been a number of grant programs with different terms and conditions, there is an obligation on administering agencies to clearly explain the elements of new programs to potential applicants.

¹⁸ In those instances where an informal arrangement existed, it was more difficult for the subcontractor to demonstrate the relationship without a written acknowledgement from the contractor.

¹⁹ For example, under the earlier Tasmanian Forest Contractors Financial Support Program a contractor was required to pass on part of their grant to their subcontractor. Consequently, knowledge of the previous program may have influenced the willingness of some contractors applying for the IGACEP to disclose their relationships with their subcontractors or support their subcontractors' applications for IGACEP grant funding. This ultimately made the assessment process more difficult.

Governance arrangements supporting the IGACEP

27. When the program application period opened on 26 October 2011, DAFF had identified the timing of key program activities and endorsed its communication plan. However, contrary to departmental grants administration guidance materials, the department had not agreed: its approach to assessing grant applications; evaluating the program's effectiveness; or managing compliance. While DAFF officers advised that they had an appreciation of the risks to program delivery, the absence of a structured approach to assessing and managing the risks to the IGACEP adversely impacted on the department's preparedness to effectively deliver the program. A number of risks that might have been expected in managing the implementation of a grants program in the Tasmanian forest sector under time constraints, such as poor quality applications due to complex business structures and incomplete information on contracting arrangements, eventually materialised.

28. Program administrators routinely provided reports to DAFF's Executive, the Minister for Agriculture, Fisheries and Forestry and the IGA Taskforce on progress with program delivery. Although the department has reported to external stakeholders on program activity, it has not reported on the extent to which the program's objectives have been achieved. As the department did not develop key performance indicators for the IGACEP, there was not an agreed basis on which to report program performance.

Application eligibility assessment

29. A key consideration in the assessment of grant applications is the equitable and transparent selection of applications in accordance with the process outlined in the program guidelines. DAFF prepared an assessment plan that was endorsed the day the application period closed and outlined the process for assessing IGACEP applications.

30. DAFF received 102 applications²⁰, with four of these applications not assessed because they were submitted late. Each applicant was advised in writing whether their application had been accepted. The secretariat initially checked all 98 applications for eligibility, with the Advisory Panel ultimately determining applicant eligibility, taking into account the secretariat's advice.

²⁰ The IGACEP secretariat opened applications as they were lodged, registered applicants' details in a spreadsheet and assigned a unique identification number to each application.

Assessing the eligibility of applications

31. Compared to other applications-based competitive grants programs examined by the ANAO, there was a high rate of ineligible and incomplete applications for the IGACEP. The department advised that the high rate was, in part, due to businesses that were undertaking ineligible activities for funding applying because they were also experiencing the impact of changes in forestry activity. The secretariat's initial eligibility check deemed: seven applications eligible; 16 applications ineligible; and 75 applications incomplete.²¹ In response, DAFF sought additional information from applicants and engaged a financial assessor to examine 64 applications. The Advisory Panel ultimately determined that there were 62 eligible applications (61 applicants²²) and 36 ineligible applications.

32. The ANAO's analysis indicated that, of the 61 applicants assessed as eligible by the panel, 10 applicants (16 per cent) had been offered grant funding totalling \$3 595 863 despite not providing the required documentation to demonstrate eligibility, including financial information, evidence of ongoing arrangements and/or evidence of activity in public native forestry.²³ The analysis also identified that the department did not document key aspects of the panel's rationale for determining seven of the ten applicants as eligible. In particular, the evidence taken into consideration when applicants were deemed eligible without having submitted the required documentation, where a lower eligibility threshold was applied, or the basis on which the panel did not agree with the secretariat's advice regarding eligibility. The lack of documentation raised questions about whether equitable access was provided to the program.

²¹ Most applicants were missing: evidence of an ongoing contract or arrangement in Tasmanian public native forests as at 24 July 2011; evidence that 50 per cent of native forest operations conducted in at least one of the four previous financial years had been in public native forest operations; and/or information requested in the application form.

²² In one case, the department determined that two applications had been submitted by one business. These applications were further assessed as one application.

²³ These 10 included: seven applicants where the secretariat had advised the Advisory Panel that applicants were ineligible because information was missing; and three applicants where the ANAO identified that required information had not been provided, but both the secretariat and the panel had determined the application to be complete and the applicant to be eligible.

Merit assessment and selection

33. The selection of eligible applicants to receive IGACEP funding was to be determined through a two-stage process, with eligible applicants initially assessed against merit criteria to score and rank applications against program objectives.²⁴ The assessment criteria were then to be used to determine whether the panel would recommend a funding offer that was lower than the amount nominated by the applicant to exit the industry.²⁵

Assessment against the merit criteria

34. The Advisory Panel, with extensive support from the secretariat, assessed each application against the merit criteria, determined scores and subsequently ranked each application. The information relevant to each merit assessment was appropriately recorded and retained by the department.

35. To facilitate the merit assessment process, the panel determined that 'actual tonnage' would be used to calculate all eligible applicants' scores for Merit Criterion 1 (reduction in tonnage) and Merit Criterion 2 (nominated amount of funding sought). While DAFF considered that this approach ensured consistent treatment of all applications, it was not consistent with the program guidelines and the assessment plan, which indicated that actual tonnage would only be used if the applicant did not have an agreed 'annual tonnage'.²⁶ Applicants were not advised of this determination, unless this aspect of the process was specifically questioned by an applicant as part of a review request.

36. The highest ranked application received a score of 92.56, while three applications scored zero. Scores for each merit criterion and the total merit score out of 100 were recorded on a score sheet for each eligible application. All applications, including three with a merit score of zero, progressed to the second stage of the assessment process. DAFF advised that

²⁴ Merit criteria for harvest and haulage contractors were weighted and addressed: reduction in tonnage (40 per cent); nominated amount of funding sought (40 per cent) and supply chain exit (20 per cent). The criteria for silviculture contractors (equally weighted) addressed reduction in hectares and nominated amount of funding sought. Refer to: Australian Government Department of Agriculture, Fisheries and Forestry, op.cit., pp.6-7.

²⁵ There were three assessment criteria for harvest and haulage contractors and two assessment criteria for silviculture contractors. Refer to: Australian Government Department of Agriculture, Fisheries and Forestry, op.cit., p.7.

²⁶ In some cases, the use of actual tonnages where agreed tonnages were available disadvantaged applicants, as this approach reflected the work undertaken during a period of industry downturn rather than the business' capacity.

despite the applicant's merit score, it was desirable to maximise the reduction in industry capacity in line with the program's objectives by seeking to exit as many businesses as possible within the funding envelope.

Assessment of nominated funding amounts

37. In contrast to its assessment against the merit criteria, the Advisory Panel did not document its assessment of applications against each assessment criterion. In its Assessment Report, the panel advised the departmental decision maker of the factors taken into consideration when assessing whether to recommend a funding amount that was lower than the amount nominated to exit the industry. The panel advised that these factors included an assessment of the amount nominated by each applicant to exit the industry in conjunction with business financial statements, industry financial information and the results of the independent financial assessment.

38. In practice, the panel used a funding cap of \$35 per tonne of wood harvested or hauled to assess value for money, which then formed the basis of funding offers recommended to the decision maker. The panel set the funding cap per tonne harvested or hauled between the median dollar per tonne sought by applicants (\$48.04 per tonne) and the mean dollar per tonne sought by applicants (\$24.62 per tonne). DAFF informed the ANAO that the use of a cap enabled the department to remove contractors and subcontractors from the industry at the lowest cost. However, the basis on which the value of the cap was determined as representing value for money for the Australian Government was not documented by the panel. Further, the arrangements established by DAFF to determine whether a funding offer that was lower than the amount nominated to exit the industry would be offered were not consistent with the process established in the program guidelines or the assessment plan.

39. All eligible applicants, irrespective of merit scores, were recommended by the Advisory Panel for grant funding. The total approved grant funding of \$44 019 623 was within the funding envelope of \$44.2 million, with 25 eligible applicants offered a lower funding amount than requested. Of these 25, 24 harvest and/or haulage applicants were offered lower amounts on the basis of the \$35 per tonne cap and one silviculture applicant was offered a lower amount on the basis of the panel's assessment of the applicant's business. While this approach maximised the number of businesses offered grant funding to exit the Tasmanian public native forest industry, the objective of 1.5 million tonnes of wood harvested and hauled that was expected to be

removed from the Tasmanian forestry industry, was not achieved. The department advised the decision maker that the 61 grants offered under the IGACEP would remove 865 628 tonnes of harvesting capacity (58 per cent of the target) and 973 718 tonnes of haulage capacity (65 per cent of the target).

Advising the departmental decision maker

40. DAFF provided the delegated IGACEP decision maker with timely and appropriate advice regarding the selection of applicants for funding. The IGACEP Grant Application Assessment Report, which was provided to the decision maker within 10 days of the panel's final meeting, clearly outlined the panel's recommendations, adequately explained the assessment process, including the determinations made by the panel during the assessment process, and the decision maker's Regulation 9 obligations. In addition to the material included in the report, the decision maker received further information from the panel Chair on two occasions and reviewed a sample of applications. The department did not retain a record of the information provided to the decision maker by the panel Chair.

41. DAFF's provision of advice to successful and unsuccessful applicants was timely, with applicants advised of the outcome of the process within one week of the decision. The advice to unsuccessful applicants provided general information, including which eligibility criteria had not been met. Advice to applicants who were offered a lower amount of funding than the amount they nominated to exit the industry did not indicate that a funding cap had been used or that actual tonnage harvested or hauled for 2009–10 was used to determine funding offers. Despite receiving direct requests from those applicants seeking information on the reasons for the lower amount of funding offered, the department did not disclose the use of a funding cap as the reason for the lower offer. As a consequence, the basis on which the offer was made was not transparent to applicants.

42. Offers were made to 61 applicants—29 harvest and haulage businesses, 13 harvesting businesses, 17 haulage businesses and two silviculture businesses.

Decision review process

43. DAFF received 16 requests for review from four successful applicants that had been offered a lower amount of funding than requested and 12 unsuccessful applicants. Reviews were undertaken and oversighted by officers who had not been involved in the assessment process and were generally completed within the established 30 working day timeframe. Of the

16 cases reviewed, the review officer recommended that 14 decisions be upheld and two decisions be changed to increase the funding amount offered by \$33 773 in total, due to identification of errors in the panel's calculations of verified tonnage. The department did not, however, conduct a broader review of the remaining funding offers to provide assurance regarding the integrity of all funding calculations.

Deed management and monitoring compliance

Establishing funding deeds

44. DAFF modified the funding deed and Deed of Undertaking from the earlier Tasmanian Forest Contractors Exit Assistance Program (TFCEAP) to reflect the IGACEP requirements, which was a practical and efficient approach given the condensed timeframe for program delivery. The use of a Deed of Undertaking also positioned the department to achieve the program's longer term industry adjustment objective by making owners and directors jointly responsible for complying with the IGACEP terms and conditions. The IGACEP funding deeds appropriately outlined the terms and conditions associated with receiving program funding and were amended to incorporate additional conditions and to address identified risks, where necessary. The department also met its obligations under the CCGs, by publishing the details of funding deeds for the 58 successful applicants that accepted offers of grant funding, within the required timeframe.

Making grant payments

45. The IGACEP guidelines established that all grants were to be paid by 30 June 2012. To claim their payments, applicants were required to submit, for Milestone 1, a funding deed and a Deed of Undertaking and, for Milestone 2, a Deed Poll with reports confirming that exit requirements had been met. DAFF provided each successful grant applicant with required documentation to be completed and used a suite of checklists to review the documentation submitted to claim payments against the two milestones. In general, payments were made in accordance with funding agreements.²⁷

46. Payments were approved by an appropriate delegate and processed through the department's Grants Management System (Clarity) and the

²⁷ In one case, an underpayment was made because the Good and Services Tax had not been included. The ANAO's analysis did not identify any further payment errors.

financial management system.²⁸ The payments under the IGACEP were finalised for 40 grant recipients by 30 June 2012 and for all grant recipients by 19 September 2012. The department did not meet the established 30 June 2012 deadline, primarily because extensive follow up work was required to ensure that all requirements had been met, particularly Milestone 2 requirements, before payments could be made.

Managing ongoing compliance

47. Managing grant recipients' compliance with IGACEP terms and conditions will be challenging, particularly given: the sensitivities surrounding the exit of businesses from the public native forest sector; the nature of recipients' businesses and the complexity of business arrangements; and the 10 year exclusion from re-entering the forest industry nationally.

48. The establishment of a risk-based compliance strategy early in a program's design phase enables compliance obligations to be incorporated into the program's guidelines and funding deeds and for them to be clearly communicated to applicants. While DAFF did not establish a compliance strategy early in the design phase of the IGACEP (the compliance strategy was approved on 11 December 2012), the department: incorporated clauses into the funding deed that outline recipients' compliance obligations; and commenced preparing a compliance plan.²⁹ At the date of preparation of this report, the department is yet to determine the number of compliance visits, the basis on which grant recipients will be selected for visits and how compliance data will be captured and used to inform ongoing monitoring.

Summary of agency response

49. DAFF's summary response to the proposed report is provided below, while the full response is provided at Appendix 1.

The department welcomes the ANAO's acknowledgement that: the department undertook extensive consultation in the design and the development of the program including with the Tasmanian Government and a number of industry bodies; applicants were aware of the opportunity to apply and that the guidelines were generally clear and comprehensive; and there

²⁸ In two cases, payments were made through direct deposits.

²⁹ Although site visits are included in the conditions outlined in the funding deed, the deterrent effect offered by the site visits under IGACEP has been reduced with the inclusion of the requirement for the Commonwealth to provide advance notice to recipients of a pending compliance visit.

was a practical and efficient approach to development of the contractual arrangements.

The report also recognises that the program was delivered in a challenging and condensed timeframe and notes the comments of the Joint Committee of Public Accounts and Audit in its Report 435 that the Government gives consideration to the capacity of agencies to comply with administrative requirements when delivering programs in compressed timeframes. The department considers that the timeframe along with the limited applicant group and the program's relationship to the broader range of initiatives designed to diversify the Tasmanian economy define the context in which the program was delivered.

The department acknowledges the overall findings of the audit report including that assessment processes for grants can be improved so that the rationale for decisions is clearer and all details are conveyed to applicants; and that more detailed advice of compliance activities are set out in program guidelines. As the report notes, there was a requirement for the program to be put in place quickly and as such the department considered that it was prudent to prioritise its activities.

The department considers that the program achieved its objective by assisting the Tasmanian forest industry to adjust to the downturn in the sector and to the reduced scale of native forest harvesting through the exit of 58 harvest, haulage and silviculture contracting businesses.

The department agrees with each of the recommendations made in the audit report and in addition to existing grants management training and guidance, has planned the roll-out of training, from late February 2013, to all staff and external assessors involved in grants management processes which will reinforce the key principles outlined in the updated Commonwealth Grant Guidelines.

Recommendations

Recommendation No. 1

Paragraph 4.26

To improve the quality and transparency of grant assessment processes for future grants programs, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry reinforce the:

- obligations to manage programs in accordance with approved program guidelines and the Commonwealth Grants Guidelines; and
- importance of retaining documentation to appropriately evidence the assessment of grant applications and decisions made.

DAFF's response: *Agreed*

Recommendation No. 2

Paragraph 4.38

To enhance the transparency of future grants programs, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry advise applicants of any significant changes to the:

- method used to determine grant funding offers; and
- assessment process outlined in the program guidelines.

DAFF's response: *Agreed*

**Recommendation
No. 3**

Paragraph 5.39

To enable the Department of Agriculture, Fisheries and Forestry to monitor compliance with the terms and conditions of funding, the ANAO recommends that the department reinforce the importance of:

- preparing compliance strategies and determining the basis for funding ongoing compliance activities early in the design phase of grants programs; and
- incorporating compliance obligations into program guidelines and funding agreements.

DAFF's response: *Agreed*

Audit Findings

1. Background and Context

This chapter provides background on the management of Tasmanian forests and the establishment of the Tasmanian Forests Intergovernmental Agreement. The administrative arrangements for the Tasmanian Forests Intergovernmental Agreement Contractor Voluntary Exit Grants Program and the objective, methodology and scope of the audit are also outlined.

Management of Tasmania's forests

1.1 Forests cover approximately 50 per cent of Tasmania's total land mass, with the forested area of 3 425 000 hectares comprising around 91 per cent (3 117 000 hectares) native forest and nine per cent (308 000 hectares) plantation forest. The management of Tasmania's forests has been an area of ongoing, and at times bitter, conflict. The industry and regional communities with a high reliance on forestry industry jobs seek to maintain access to native forest areas, while environmental groups seek to conserve these areas.

1.2 Since 2008, there has been a downturn in Tasmania's forest and wood products industries driven by a range of factors, including the global financial crisis and the appreciation of the Australian dollar. Employment has fallen by 50 per cent as market demand has changed and processing facilities closed. This downturn was compounded by the November 2010 business decision of Gunns Limited, at that time Tasmania's largest forestry company, to undertake a major operational restructure of its forest products division to focus on plantation sourced forestry products.³⁰

1.3 In 2010, representatives of Tasmania's forest industry, unions and non-government environmental organisations presented the Australian and Tasmanian governments with their agreed approach to: resolve conflict over Tasmania's forests; protect native forests; and develop a strong, sustainable timber industry. The approach was documented in the *Tasmanian Forests Statement of Principles to lead to an Agreement* (Statement of Principles).³¹

³⁰ Gunns Limited, *Media Release—Restructure of Gunns Forest Products Business*, 24 November 2010. Available from <<http://www.asx.com.au/asxpdf/20101124/pdf/31v3s56lfnq63m.pdf>> [accessed 22 January 2013].

³¹ The Statement of Principles was presented to the Tasmanian State Government on 18 October 2010 and to the Australian Government on 22 November 2010.

1.4 In response to the Statement of Principles, the Australian and Tasmanian governments:

- jointly appointed an independent facilitator, Mr Bill Kelty AC, to assist the signatories and other stakeholder groups to reach a common understanding and interpretation of the Statement of Principles; and
- conducted a due diligence assessment to verify signatories' claims.³²

1.5 To progress the approach outlined in the Statement of Principles, a *Tasmanian Forests Agreement—Heads of Agreement* was signed by the Prime Minister and the Tasmanian Premier on 24 July 2011, which was designed to:

underpin a transition, provide immediate assistance to those workers and families who are in distress as a result of industry restructuring, support the restructuring of the industry towards future sustainability, create a significant conservation benefit by reserving and protecting High Conservation Value forest areas and strengthen the partnership between the two governments and other stakeholders to develop and diversify the Tasmanian economy, creating new sources of prosperity and opportunity for all Tasmanians.³³

1.6 The commitments outlined under the Heads of Agreement were formalised on 7 August 2011, when the Prime Minister and the Tasmanian Premier signed the *Tasmanian Forests Intergovernmental Agreement between the Commonwealth of Australia and the State of Tasmania* (the IGA).

Tasmanian Forests Intergovernmental Agreement

1.7 The IGA acknowledged the structural impacts on the Tasmanian forest industry of changing markets and community values and the decision of Gunns Limited, the State's major processor of both native forest sawlog and pulpwood products, to exit native forest operations and to focus on its plantation-based pulp mill at Bell Bay. To address these impacts, the

³² The following reports were prepared as part of the due diligence assessment:

- Forestry Tasmania, *Evaluation of Wood Resource Scenarios Relevant to the Tasmanian Forests Statement of Principles to lead to an Agreement—Final Report to Signatories*, June 2011;
- Brack, C. and Vanclay, J., *Independent Review of Forestry Tasmania Sustainable Yield Systems*, June 2011; and
- Cooperative Research Centre for Forestry, *Technical Report 214—Interim Report: Socioeconomic impacts of forest industry change: a baseline study of the Tasmanian forest industry*, July 2011.

³³ *Tasmanian Forests Agreement—Heads of Agreement*, 24 July 2011, p.1.

Australian and Tasmanian governments agreed to provide \$277 million³⁴ in funding over 15 years across three streams of activity:

- Stream 1: Support for Workers, Contractors and Communities—\$86 million to support contractors and their families affected by the downturn in the industry, in particular Gunns Limited's decision to exit native forest processing;
- Stream 2: Protecting High Conservation Forests and Ensuring Sustainable Wood Supply—\$43 million to facilitate the implementation of protection of new areas of high conservation value forests and \$28 million to support the management of the additional reserves; and
- Stream 3: Economic Diversification—\$120 million over 15 years to identify and fund appropriate regional development projects.

1.8 An Intergovernmental Taskforce, chaired by the Secretary of the Tasmanian Government Department of Infrastructure, Energy and Resources, was established to oversee the implementation of the IGA. The taskforce comprised representatives of the Australian and Tasmanian governments.

1.9 One of the measures outlined in the IGA under Stream 1, was an exit assistance program that aimed to reduce the oversupply of harvest, haulage and silvicultural contractor capacity. The exit assistance program was outlined in clause 16 of the IGA, which states:

The Commonwealth will provide and manage the allocation of \$45 million subject to demand in assistance for voluntary exits from public native forest operations for haulage, harvest and silviculture contractors. The Commonwealth will consult with the State and, where appropriate, the forest contractors' associations during the design and delivery of this exit assistance mechanism.

³⁴ It was agreed within the IGA that total funding contributions will include \$261.5 million from the Australian Government and \$15.5 million from the Tasmanian Government.

Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program

1.10 On 21 October 2011, the Federal Minister for Agriculture, Fisheries and Forestry (the Minister) and Tasmania's Deputy Premier³⁵ announced that the voluntary exit package of up to \$45 million to assist Tasmanian forestry contractors wishing to leave the industry would open to applications on 26 October 2011.³⁶ The Minister advised that the grants would assist Tasmania's public native forest sector to adjust to the industry downturn and the reduced scale of harvesting.

Program establishment

1.11 DAFF's Forestry Branch, in the Climate Change Division, was responsible for administering the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program (IGACEP). During the design of the IGACEP, the Minister, the Minister's office and DAFF consulted with the Tasmanian Government, the Tasmanian Forest Contractors Association (TFCA) and key industry stakeholders on the parameters of the program and the program guidelines. DAFF also obtained legal, financial and grants policy advice.

1.12 The program's design and guidelines were agreed by the Minister on 25 October 2011, endorsed by the Minister for Finance and Deregulation on 26 October 2011 and were subsequently released publicly on the department's website. Potential applicants were advised by the Minister on 27 October 2011 that the program guidelines were available and that the application period opened on 26 October 2011 and closed at 5:00pm on 24 November 2011.

1.13 On 27 October 2011, DAFF was advised by the Tasmanian Government that the wording of merit Criterion 3—supply chain exit—was not in accordance with its understanding of the intent of this criterion. In response, the department revised the guidelines on its website on 28 October 2011. The revised guidelines were approved by the Minister on 31 October 2012.

³⁵ The Deputy Premier of Tasmania also holds the positions of Minister for: Primary Industries and Water; Energy and Resources; Planning; Local Government; and Racing.

³⁶ Joint media release: Senator the Hon. Joe Ludwig, Minister for Agriculture, Fisheries and Forestry and the Hon. Bryan Green, Tasmanian Deputy Premier, *Exit grants for Tasmanian forest contractors*, 21 October 2011.

1.14 The IGACEP was designed as a competitive grants process with the following objective:

to assist the Tasmanian public native forest industry to adjust to industry downturn and to the reduced scale of native forest harvesting, through voluntary exit assistance to eligible harvest, haulage and silvicultural contracting businesses. It is expected that the reduced scale of harvesting will result in the order of 1.5 million fewer tonnes of wood being harvested and hauled and a decrease in public native forest silvicultural activities. The integrated nature of harvest and haulage means that it is desirable to exit an approximately equal amount of harvest and haulage capacity from the industry so as to minimise supply disruption and business failure caused through disproportional exiting of sector capacity.³⁷

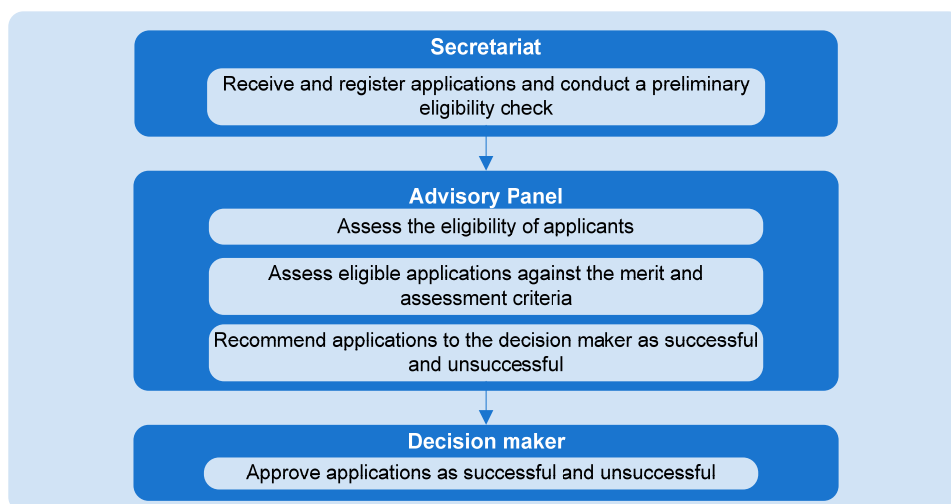
1.15 Under the IGACEP, eligible businesses (contractors and subcontractors) from the native forest harvest, haulage and silvicultural contracting sectors could nominate an amount (up to \$3 million) to exit the industry. A successful grant recipient (a business and the directors/owners) was required to exit from public native forest operations in Tasmania and not re-enter the forest industry nationally for 10 years (except to the extent of existing contractual arrangements in the mainland sector, the Tasmanian private native forest sector or the Tasmanian plantation sector).

Assessing and funding applications

1.16 An Advisory Panel, comprised of three senior officers, one each from DAFF (Chair), SEWPaC and the Tasmanian State Government, was established to assess grant applications and to provide advice to the Minister's delegated decision maker.³⁸ DAFF provided secretariat support for the assessment process. The assessment process is outlined in Figure 1.1.

³⁷ Australian Government Department of Agriculture, Fisheries and Forestry, *op.cit.*, p.2.

³⁸ DAFF's Deputy Secretary responsible for Forestry Policy and Programs was the decision maker.

Figure 1.1**Assessment process**

Source: ANAO analysis of DAF information.

1.17 DAFF received 102 applications for grant funding under the IGACEP, with four of these applications not assessed as they were considered to have been lodged after the deadline. The remaining 98 applications were to be initially checked for eligibility by the secretariat and marked as eligible or ineligible, which would be taken into account by the panel when making a final assessment against the eligibility criteria. All eligible applications were to be assessed by the panel against:

- merit criteria—to score and rank applications against program objectives³⁹; and
- assessment criteria—to determine whether the panel would recommend a funding offer for the applicant that was lower than the amount nominated to exit the industry.⁴⁰

³⁹ Merit criteria for harvest and haulage contractors were weighted and addressed: reduction in tonnage (40 per cent); nominated amount of funding sought (40 per cent) and supply chain exit (20 per cent). The criteria for silviculture contractors (weighted equally) addressed reduction in hectares and nominated amount of funding sought. Refer to: Australian Government Department of Agriculture, Fisheries and Forestry, op.cit., pp.6-7.

⁴⁰ There were three assessment criteria for harvest and haulage contractors and two assessment criteria for silviculture contractors. Refer to: Australian Government Department of Agriculture, Fisheries and Forestry, op.cit., p.7.

1.18 The Advisory Panel assessed 62 applications (61 applicants) as eligible, with all eligible applications recommended for grant funding.⁴¹ The departmental decision maker approved all recommendations on 16 February 2012 and on 17 February 2012, the Minister announced funding of \$44 019 623.⁴² Table 1.1 outlines the grant funding offered to successful grant applicants by contractor type. Of the 61 successful applicants, 58 accepted the department's offer of grant funding to exit the Tasmanian public native forest industry.

Table 1.1

Grant funding offered by contractor type

Contractor type	No. of successful applicants	Total funding offered (\$)	Maximum grant amount offered (\$)	Minimum grant amount offered (\$)
Harvesting and haulage	29	28 636 302.46	3 000 000.00	62 092.80
Harvesting	13	5 156 659.75	1 000 000.00	20 000.00
Haulage	17	9 826 660.55	2 000 000.00	36 476.30
Silviculture	2	400 000.00	300 000.00	100 000.00
Total	61	44 019 622.76		

Source: ANAO analysis of DAFF information.

Grant payment milestones

1.19 All grants were to be paid by 30 June 2012, with payments against applicants' achievement of the following two milestones:

- Milestone 1—75 per cent of the total grant amount approved was to be paid on execution of a funding deed and a Deed of Undertaking by all directors/owners of the business; and
- Milestone 2—payment of 25 per cent of the total grant approved on provision of:
 - an exit strategy for ongoing contracts or ongoing arrangements;
 - proof of payment of all employees' entitlements;

⁴¹ In one case, DAFF determined that two applications had been submitted by one harvesting and haulage business. These applications were assessed as one application.

⁴² Of the \$45 million allocated for the IGACEP, \$0.8 million was allocated for administration costs and the remaining \$44.2 million was available for grant payments.

- evidence that hire or lease arrangements for the businesses' forestry machinery had been terminated; and
- evidence that the business had ceased using its forestry machinery.

Grant administration framework and guidance

1.20 Australian Government grant programs involve the expenditure of public money and are subject to applicable financial management legislation. Specifically, the *Financial Management and Accountability Act 1997* (FMA Act) provides a framework for the proper management of public money and public property, which includes requirements governing the process by which decisions are made about whether public money should be spent on individual grants.

1.21 The framework for grants policy and administration is established by the *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration* (CGGs), which were issued in July 2009 by the Finance Minister under Section 64 of the FMA Act and Regulation 7A of the *Financial Management and Accountability Regulations 1997*.⁴³ The CGGs articulate the Government's expectations within which agencies subject to the FMA Act are to determine their own specific grants administration practices. The CGGs have a particular focus on establishing grants administration processes that promote the following principles: robust planning and design; an outcomes orientation; proportionality; collaboration and partnership; governance and accountability; probity and transparency; and achieving value with public money. Officials performing grants administration duties must act in accordance with the CGGs.

1.22 To support compliance with applicable financial legislation and the CGGs, DAFF's Chief Executive Instruction 3.3: *Grants Management* requires officers to develop, manage and report on grant programs in accordance with the CGGs and to manage grant programs in accordance with its own Grants Management Manual. The Grants Management Manual has regard to the CGG

⁴³ In December 2012, the Department of Finance and Deregulation released the second edition of the CGGs which are to take effect in June 2013.

requirements and guidance as well as the ANAO's previous audit work and better practice guidance.⁴⁴

Previous reviews of Tasmanian forest industry programs

1.23 Since 2005, the Australian Government has committed \$78.4 million across the following five Tasmanian forest industry grant assistance programs:

- three industry development and assistance programs as part of the Tasmanian Community Forest Agreement providing \$56 million over three years from 2005, which were administered by DAFF—the Tasmanian Forest Industry Development Program, Tasmanian Softwood Industry Development Program, and Tasmanian Country Sawmills Assistance Program; and
- two programs providing \$22.4 million in grant funding during 2010–11:
 - DAFF administered the Tasmanian Forest Contractors Exit Assistance Program (TFCEAP), which provided up to \$17 million to reduce business overcapacity by exiting eligible businesses from the Tasmanian native forest harvest and haulage contracting sector; and
 - the Tasmanian Government delivered the Tasmanian Forest Contractors Financial Support Program (TFCFSP), which provided up to \$5.4 million to assist Tasmanian harvest and/or haulage forest contractors and subcontractors operating predominantly in the native forest sector to continue their operations.

Tasmanian Forest Industry Development and Assistance Programs

1.24 The ANAO completed an audit of the *Tasmanian Forest Industry Development and Assistance Programs* in February 2008.⁴⁵ The ANAO found that DAFF had not followed assessment processes and procedures and that the assessment process was not transparent because key documentation to support

⁴⁴ In particular, ANAO, *Better Practice Guide—Implementing Better Practice Grants Administration*, June 2010, Canberra and ANAO, *Better Practice Guide—Implementation of Programme and Policy Initiatives*, October 2006, Canberra.

⁴⁵ ANAO Audit Report No. 26 2007–08, *Tasmanian Forest Industry Development and Assistance Programs*, February 2008, Canberra.

the assessment of applications and the reasons justifying the Committee's decisions were not retained. Further, funding deeds did not always protect the Commonwealth's interests and the department was not adequately monitoring compliance with the funding deeds. In addition, DAFF did not report against all outcome indicators for the programs in the department's 2006–07 *Annual Report*.

1.25 The ANAO made three recommendations directed towards improving performance reporting, strengthening funding deeds and developing an effective approach to monitoring compliance. The department agreed with all recommendations.

Evaluation of the Tasmanian Community Forest Agreement Industry Development Package

1.26 In 2011, DAFF engaged Ernst & Young to evaluate the outcomes of the three industry development and assistance programs delivered from 2005 to 2008 under the Tasmanian Community Forest Agreement. The report, *Evaluation of the Tasmanian Community Forest Agreement Industry Development Program* was released in May 2011.⁴⁶ The report identified that, although there were elements of better practice in the overall program design, there were ongoing weaknesses in DAFF's delivery of the three grant programs despite the ANAO's earlier findings and recommendations. In particular, Ernst & Young found that:

- objectives between the individual grant (and associated reporting requirements) to the program did not link through to overall program objectives;
- key performance indicators (KPIs) had not been developed for the Industry Development Program and the three industry development and assistance programs to facilitate assessment of outcomes against objectives. As a consequence, the evaluation was based largely on anecdotal evidence; and
- evaluation objectives and data collection strategies were not developed and agreed as part of program planning. As a result, some data had

⁴⁶ Ernst & Young considered the three industry development and assistance programs as sub-programs of an industry development program. Available from: Ernst & Young, *Evaluation of the Tasmanian Community Forest Agreement Industry Development Program*, 2011. Available from <<http://www.daff.gov.au/forestry/national/info/cfa>> [accessed 3 April 2012].

been collected for one outcome, but not for other outcomes, and there were challenges in relation to consistency of definition and maintenance of data.

Recent developments

Advice that Gunns Limited would cease trading

1.27 On 25 September 2012, Gunns Limited advised the Australian Securities Exchange that the group of company lenders, whose support had been required to stabilise the company's operations while discussions in relation to a potential capital raising and restructuring took place, had:

informed the company that the lenders will not permit the company to retain further funds, which are necessary to meet the operational and working capital requirements of the business. As a result the company is unable to continue trading and the directors are in the process of appointing an administrator.⁴⁷

1.28 Subsequently, on 25 September 2012, Gunns Limited announced that PPB Advisory had been appointed as administrator of the company⁴⁸ and KordaMentha announced that it had been appointed Receivers and Managers of the company.⁴⁹

Agreement on the protection of Tasmanian native forest areas

1.29 On 22 November 2012, the Premier of Tasmania announced that the signatories to the Statement of Principals had reached agreement on the areas of native forest to be reserved for the purposes of the IGA.⁵⁰ The *Tasmanian*

⁴⁷ Gunns Limited, *Appointment of Voluntary Administrator* [Internet]. Company Announcement Platform, Australian Securities Exchange, 2012. Available from: <<http://www.gunns.com.au/Content/uploads/documents/ASX%20RELEASE%20-%202012%2009%2025%20-20Appointment%20of%20Voluntary%20Administrator.pdf>> [accessed 4 April 2012].

⁴⁸ Gunns Limited, *Confirmation of Appointment of PPB Advisory as Voluntary Administrator* [internet]. Company Announcement Platform, Australian Security Stock Exchange, 2012. Available from: <<http://www.gunns.com.au/Content/uploads/documents/ASX%20RELEASE%20-%202012%2009%2025%20-20Appointment%20of%20Voluntary%20Administrator.pdf>> [accessed 19 October 2012].

⁴⁹ KordaMentha, Gunns Appointment, media release, 25 September 2012. Available from: <<http://www.gunns.com.au/Content/uploads/documents/121004-Post%20for%20Website-CRS-EKD.pdf>> [accessed 19 October 2012].

⁵⁰ Clause 30 of the IGA advised that the Tasmanian Government was to introduce legislation (no later than 30 June 2012) in the Parliament to formally protect 430 000 hectares (from the 572 000 hectares proposed by environmental non-government organisations as 'high conservation value native forest' areas) with appropriate land tenure.

Forests Agreement Bill 2012 was passed by Tasmania's House of Assembly on 23 November 2012 and presented to the Legislative Council for its concurrence.

1.30 On 11 December 2012, the Australian and Tasmanian governments announced additional funding of \$102 million to support the activities outlined in the *Tasmanian Forests Agreement Bill 2012*.⁵¹ Subsequently, on 13 December 2012, the Legislative Council referred the Bill for consideration by a Select Committee. At the time of preparation of this report, the Bill was still being considered by the Select Committee.

Audit objective, criteria and methodology

1.31 The objective of the audit was to examine the effectiveness of the Department of Agriculture, Fisheries and Forestry's administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program. The audit assessed whether the department had:

- effectively designed the program;
- appropriate processes for assessing and approving grant applications received for program funding;
- effectively negotiated and managed compliance with the program funding deeds; and
- monitored and reported performance against the program's objectives.

1.32 The audit focused on the design and delivery of the IGACEP. Other programs, activities or arrangements delivered as part of the IGA were not within the scope of this audit.

Audit methodology

1.33 In undertaking this audit, the ANAO examined DAFF's IGACEP documentation including:

- all 102 applications to confirm that each applicant provided the required information;

⁵¹ This additional funding would bring total funding provided through the IGA to \$379 million with the additional funding being provided jointly by the Australian Government (\$62.5 million) and the Tasmanian Government (\$39.5 million). Refer to: joint media release, the Hon Tony Burke MP, Minister for Sustainability, Environment, Water Population and Communities and The Hon Brian Green MP, Tasmanian Deputy Premier, *Funding to support Tasmanian Forests Agreement*, 11 December 2012.

- records of the assessment of applications against the eligibility, merit and assessment criteria to confirm the assessment was consistent with the program guidelines as well as being transparent and accountable;
- the funding deed, deed polls and reports submitted by the 58 successful grant applicants that claimed grant funding to confirm that milestone requirements had been met before each payment was released;
- payment records, including the department's Grants Management System, *Clarity*, to confirm payment accuracy and timeliness; and
- records of the review process to confirm consistency and timeliness.

1.34 In addition, the ANAO interviewed officials from DAFF and the Tasmanian State Government, as well as members of the Advisory Panel and representatives of the Tasmanian forest industry and the Tasmanian Forest Contractors Association (TFCA).

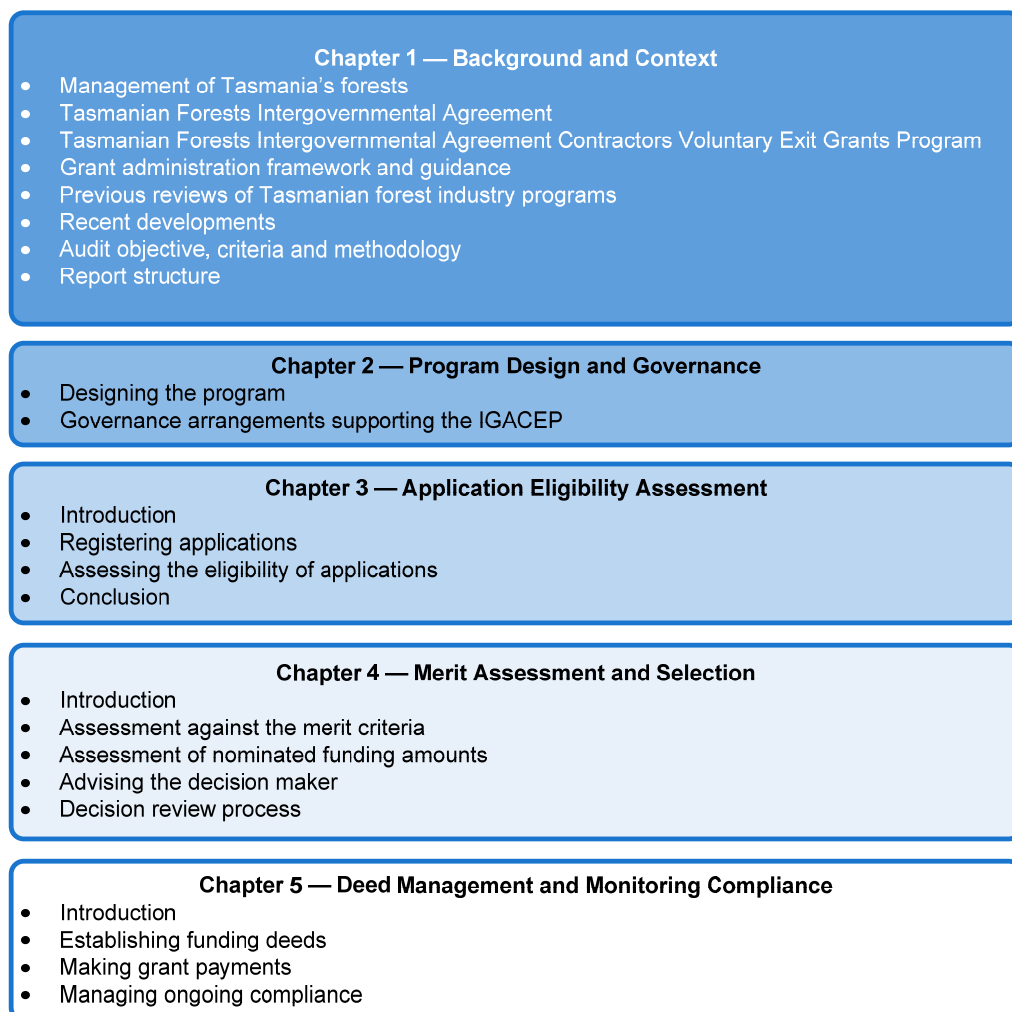
1.35 The audit was conducted in accordance with ANAO Auditing Standards at a cost of \$490 895.

Report structure

1.36 The report structure is outlined in Figure 1.2.

Figure 1.2

Report structure



2. Program Design and Governance

This chapter examines DAFF's design of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program (IGACEP) and the governance arrangements to oversight the program.

Designing the program

2.1 As the administering agency for the IGACEP, it was DAFF's responsibility to develop the design elements of the program within the agreed, high level parameters outlined in the IGA. In June 2011, DAFF provided early advice to the Australian Government on cost estimates for an exit assistance program, including the number of potential applicants expected. In developing its advice, the department reflected on its previous experience in delivering the *Tasmanian Forest Contractors Exit Assistance Program* (TFCEAP) in 2010–11.⁵² The department also consulted with the Cooperative Research Centre for Forestry, which had conducted a study into the impacts of forest changes in Tasmania between January and June 2011.⁵³

2.2 DAFF provided further advice to the Minister for Agriculture, Fisheries and Forestry (the Minister) in July and September 2011 to support his consideration of the design elements of the IGA's voluntary exit program and to obtain guidance on his preferred approach. To inform this advice, DAFF:

- consulted extensively with stakeholders, including the Tasmanian Government Department of Infrastructure, Energy and Resources (DIER), the Tasmanian Forest Contractors Association (TFCA), Forestry Tasmania and Gunns Limited; and
- sought legal, grants administration and financial advice, as required.

2.3 DIER and the TFCA held strong views that the program's model should be based on entitlements as this would be more equitable because all eligible applicants would receive funding. The proposed entitlements models based payments on either the income forgone on existing contracts (the TFCA's

⁵² As discussed in paragraph 1.23, the TFCEAP aimed to reduce an oversupply of contractors in the Tasmanian native forest harvest and haulage sector. The program provided up to \$17 million for exit assistance to harvest and/or haulage contracting businesses.

⁵³ The Cooperative Research Centre for Forestry provided insights from its research prior to publicly releasing its report—*Technical Report 214: Socioeconomic impacts of forest industry change*, July 2011.

preferred model) or dollar per tonne of retired capacity with a dollar cap per tonne (DIER's preferred model). Both parties favoured contract retirement rather than business exit and DIER sought a total funding cap per business of \$3 million.

2.4 On the basis of consultation and advice, DAFF outlined its preferred model to the Minister for the exit program for a competitive grants program, with the grant payment being the lower of either: the applicant's nominated amount; the applicant's business earnings before interest, taxes, depreciation and amortisation averaged over three years; or a \$750 000 funding cap. The department also outlined its rationale for not recommending the alternative entitlements models that had been proposed by stakeholders. The department did not support these models as it considered that they: were not defensible; potentially overcompensated successful applicants; and/or could not be delivered quickly.

2.5 While the Minister did not endorse DAFF's preferred model for the IGACEP, the department's advice formed the basis for the Minister and his office to negotiate with the Tasmanian Government and the TFCA. The outcomes of these negotiations were provided to DAFF and subsequently reflected in the revised program design parameters that the department provided to the Minister, and which were agreed, on 25 October 2011. The department also attached draft program guidelines to its revised advice.

2.6 Key changes to the department's preferred model included: eligibility had been broadened to include applicants that had conducted at least 50 per cent of their harvest, haulage or silvicultural contracting activities in Tasmanian public native forests in one of the previous four years rather than two of the previous three years; an additional criterion related to supply chain exit was added; funding available to each grant recipient was increased from \$750 000 to \$3 million; and the timeframe that grant recipients were required to comply with funding conditions was extended from five to 10 years.

2.7 In its revised advice to the Minister, DAFF highlighted the potential impacts that the revisions to the proposed program parameters may have on the timeliness of providing exit payments to the industry. For example, broadening eligibility increased the potential number of grant funding applications that the department would receive.

Developing and approving Program Guidelines

2.8 When developing the draft program guidelines, DAFF sought comments from internal and external stakeholders including: the department's legal advisors and Grants Policy Section; the Minister's office; DIER; TFCA; the Department of Finance and Deregulation (Finance); and the Department of the Prime Minister and Cabinet (PM&C).

2.9 Under the grant administration policy framework, draft program guidelines must be approved for release by: the Expenditure Review Committee of Cabinet for a high risk program; the Minister for Finance and Deregulation (the Finance Minister) for a medium risk program; or the relevant Minister for a low risk program.⁵⁴ To determine the appropriate approval arrangements for the program guidelines, risks to the Government associated with the implementation of the proposed program are to be assessed using Finance's Risk Potential Assessment Tool.⁵⁵

2.10 The result of the risk assessment was an overall implementation risk rating of 'medium' for the IGACEP, which meant that approval of the guidelines was required from the Finance Minister. The guidelines were provided to the Finance Minister for approval after the Minister for Agriculture, Fisheries and Forestry had agreed to the draft program guidelines on 25 October 2011. The Finance Minister approved the guidelines for release on 26 October 2011 and the guidelines were subsequently released publicly on the department's website.⁵⁶

Release of the guidelines

2.11 On 21 October 2011, potential applicants were advised by the Minister and the Tasmanian Deputy Premier that the program guidelines would be

⁵⁴ The CGGs initially required agencies to obtain approval for all grant guidelines from the Expenditure Review Committee of Cabinet. Refer to: Australian Government Department of Finance and Deregulation, *op.cit.*, p.11, paragraph 3.22. These requirements were revised in September 2010, as part of various changes made with the objective of supporting strong and effective Cabinet Government.

⁵⁵ The Risk Potential Assessment Tool requires agencies to initially rate the consequence of six sources of implementation risks and likelihood of 14 sources of implementation risk and subsequently outline a mitigation approach for the five highest ranked risks. Available from <<http://www.finance.gov.au/gateway/risk-potential-assessment-tool.html>> [accessed 19 July 2012].

⁵⁶ The department's website was updated on 26 October 2011 at 7.10pm to include the approved program guidelines.

released on 26 October 2012.⁵⁷ On 27 October 2011, the Minister announced that the guidelines were available. The program was subsequently advertised in national and local newspapers between 29 October and 19 November 2011.

2.12 Stakeholders informed the ANAO that potential applicants possessed a high level of awareness regarding the opportunity to apply for a grant under the IGACEP and that sufficient time was available to prepare an application. The department did, however, receive one complaint from an individual advising that he had not been aware of the opportunity to apply.

2.13 As outlined earlier, on 27 October 2011, DAFF was advised by the Tasmanian Government that the wording of merit Criterion 3—supply chain exit—was not in accordance with its understanding of the intent of this criterion. In response, the department revised the guidelines on its website on 28 October 2011, to reflect that a principal's support was necessary to receive a total score of 20 out of 20 for merit Criterion 3. The guidelines were then re-submitted to the Minister for approval. The Minister approved the guidelines on 31 October 2011 and advised the Finance Minister. The department subsequently updated its website to advise potential applicants that the guidelines had changed. Where applicants submitted applications based on the superseded guidelines, the department sought the additional required information.

Appropriateness of the program guidelines

2.14 Clear, comprehensive guidelines that incorporate key information into a single source document help potential funding recipients to understand the program and submit high quality, complete, applications; and discourage ineligible applications. The CGGs outline that a single reference source for policy guidance, administrative procedures, appraisal criteria, monitoring requirements, evaluation strategies and standard forms helps to ensure consistent and efficient grants administration.⁵⁸

2.15 Stakeholders informed the ANAO that the guidelines were generally clear and comprehensive. Guidance provided by the IGACEP guidelines

⁵⁷ Potential applicants had been advised that applications would open 26 October 2011 and would close on 23 November 2011. Due to the late release of the program guidelines on 26 October 2011, the closing date for applications was extended until 24 November 2011.

⁵⁸ Refer to: Australian Government Department of Finance and Deregulation, op.cit., p.22. Similar advice is outlined in ANAO, *Better Practice Guide—Implementing Better Practice Grants Administration*, June 2010, Canberra, p.52 and included in the department's Grants Management Manual.

covered the program's: eligibility criteria; merit and assessment criteria; the assessment process; and the ongoing obligations of successful grant applicants. The program guidelines were prescriptive about the requirements that an applicant had to meet to be eligible for further assessment and the factors that the Advisory Panel would take into account when assessing applications against the merit criteria and the assessment criteria. As a consequence, the panel had limited flexibility to alter the process in response to unforeseen circumstances, such as accepting verbal advice in lieu of written advice or accepting evidence of hours or coupes worked to demonstrate activity in the Tasmanian forestry industry. To cater for the likelihood of changes to the assessment process, the CGGs advise that, in the interests of transparency, accountability and equity, the grant guidelines should document the circumstances in which changes to published guidelines may occur.⁵⁹

2.16 At the time the program guidelines were released, DAFF also made available on its website: the application form; a sample funding deed; a sample Deed of Undertaking; and answers to frequently asked questions. There was, however, scope for DAFF to have provided additional information in the guidelines in relation to:

- ongoing compliance arrangements—while Finance had advised DAFF of the need to outline in the guidelines its plans for monitoring on an ongoing basis whether successful applicants had re-entered the Australian native forest harvest, haulage and silvicultural contracting sector, the guidelines only outlined the conditions of accepting a grant;
- the evaluation strategy—the guidelines did not outline the strategy for evaluating the effectiveness of the program or information that may be required from successful applicants to inform the evaluation of the program;
- the Milestone 2 template deed poll and reports—potential applicants were not provided with a sample Milestone 2 deed poll and reports.⁶⁰ Specifying the information that the department required from grant recipients to meet their reporting obligations under Milestone 2, such as

⁵⁹ Australian Government Department of Finance and Deregulation, op.cit., p.29.

⁶⁰ The Milestone 2 template report was provided to successful applicants after Milestone 1 had been paid and the template report was released publicly in May 2012.

the content of the exit strategy, would have clarified the department's evidentiary requirements; and

- how funding offers would be determined where both the contractor and subcontractor(s) applied. A key issue affecting the quality of the applications received by the department related to the limited acknowledgement of subcontractor arrangements by contractors. This was despite a large number of applicants seeking professional assistance to complete IGACEP application.

Acknowledgement of subcontracting arrangements

2.17 The IGACEP program guidelines made it clear that both contractors and subcontractors could apply but did not specify how applications would be assessed and how funding offers would be determined where both the contractor and the subcontractors applied. Contractors' acknowledgement of their subcontracting arrangements influenced the subcontractors' potential eligibility and merit score. In practice, the quality of applications was impacted by contractors' limited disclosure of subcontracting arrangements and the lack of evidence that subcontractors were able to provide to the department to demonstrate an ongoing arrangement with a contractor.⁶¹ In particular:

- contractors' did not fully disclose subcontractor contributions to the total tonnages claimed to have been harvested or hauled. DAFF subsequently identified a number of relationships through the assessment of financial records. Additional follow-up activities confirmed relationships, but the department did not have sufficient assurance that all subcontractor relationships were identified; and
- subcontractors were unable to submit the required evidence to support their applications where contractors would not recognise the relationship or provide evidence to demonstrate the tonnages that the subcontractor had harvested or hauled on behalf of the contractor. This was made more difficult as subcontractors did not generally have written agreements with contractors. DAFF was informed by some sub-contractors that contractors would not provide support as they had been advised not to do so. The sub-contractors did not identify the source of this advice to contractors.

⁶¹ The quality of applications is discussed in Chapters 3 and 4.

2.18 Concerns around the acknowledgement of subcontracting arrangements were raised with the department by DIER during the IGACEP planning process. DAFF was advised by DIER of a subcontractor's concern regarding contractors not allowing subcontractors to apply under the IGACEP which had been the subcontractor's experience under the earlier *Tasmanian Forest Contractors Financial Support Program*.⁶² Further, potential applicants advised the department of similar concerns during the application period through the department's telephone hotline. However, the department did not update its frequently asked questions to clarify how: it would assess claims when both the contractor and their sub-contractor(s) had applied for grant funding; or funding offers would be subsequently determined for this program. A complaint from a subcontractor received by the department after the assessment process further illustrates the impact of the lack of clarity on this aspect of the process. In this instance, the subcontractor had not applied on the basis of advice from their contractor. The contractor had advised that contractors were to apply for the IGACEP and, if the application was successful, grant funding representing the subcontractor's contribution would be passed on.

2.19 From the applications received, and from complaints received later by the department, there was scope for the program guidelines, and subsequently the frequently asked questions to have more clearly explained the process for assessing IGACEP applications and determining funding offers where a contractor and related subcontractors applied for an exit grant. Clear guidance was particularly important as: contractors could impact the quality of applications submitted by their subcontractors in a competitive merit based assessment process; the department expected competition for exit grants to be high as there were no alternative opportunities for contractors and subcontractors to access grant funding to exit the industry; and there had previously been a high number of forest industry assistance programs delivered in Tasmania which may have impacted potential applicants interpretation of the program guidelines.

⁶² As discussed in paragraph 1.23, *Tasmanian Forest Contractors Financial Support Program* provided \$5.4 million in grant funding to assist Tasmanian harvest and/or haulage forest contractors and subcontractors operating predominantly in the native forest sector to continue their operations. The earlier program had been administered by DIER on behalf of the Australian Government and had required a successful contractor to pass on part of a grant to a subcontractor. Refer to the Department of Infrastructure, Energy and Resources, *Implementation of the Tasmanian Forest Contractors Financial Support Program*, 2011. Available from <http://www.dier.tas.gov.au/data/assets/pdf_file/0003/61788/Final_Report_to_DAFF.pdf> [accessed 26 July 2012].

Conclusion

2.20 The design of the IGACEP and the development of the program guidelines were informed by DAFF's extensive consultation with a broad range of stakeholders, expert advice and the experience gained by the department through delivering previous forestry grant programs. The design process did, however, present challenges for the department, as stakeholders held strong views on their preferred program design and key elements of the program were negotiated at ministerial level.

2.21 Potential applicants were aware of the opportunity to apply for funding, with DAFF providing access to the program guidelines, the application form and further guidance material on the department's website. While the guidelines were generally clear and comprehensive, there was scope for the department to have provided additional information regarding ongoing compliance arrangements, the performance data that would be required to evaluate the effectiveness of the program and milestone reporting requirements. This would have helped to ensure that potential applicants were fully aware of the obligations that would arise from participation in the program. Further, there would have been merit in the department more clearly explaining the process for assessing applications and determining offers of funding, particularly given contractors could influence subcontractors' potential eligibility and merit score in the competitive merit based assessment process by not acknowledging their relationship.⁶³ In addition, the treatment of applications from contractors and subcontractors under the IGACEP differed from that adopted for earlier programs. In an environment where there has been a number of grant programs with different terms and conditions, there is an obligation on administering agencies to clearly explain the elements of new programs to potential applicants.

Governance arrangements supporting the IGACEP

2.22 Governance refers to the practices, policies and procedures, exercised by an agency's executive, to provide strategic direction, ensure objectives are achieved, risks are managed and resources used responsibly and with accountability.⁶⁴ The ANAO examined DAFF's governance arrangements for

⁶³ In those instances where an informal arrangement existed, it was more difficult for the subcontractor to demonstrate the relationship without a written acknowledgement from the contractor.

⁶⁴ ANAO, *Better Practice Guide—Implementation of Programme and Policy Initiatives*, Canberra, October 2006, p.13.

the IGACEP including: administration and oversight arrangements; program planning; the assessment and management of risks; and performance monitoring and reporting.

Administration and oversight arrangements

2.23 An IGACEP team was initially established within DAFF's Forestry Branch, with approximately seven full time equivalent staff to assist with the assessment of applications. From April 2012, the IGACEP team was progressively reduced to five staff with responsibility for the management of payments. Grant recipients' ongoing compliance with their funding agreements will be managed by a DAFF officer (0.4 of a full time equivalent). DAFF informed the ANAO that broader management oversight and support will also be provided as necessary.

2.24 Oversight of the program's design and delivery was provided by the First Assistant Secretary, Climate Change Division and the Assistant Secretary, Forestry Branch as part of existing program oversight arrangements. DAFF's executive monitored the department's progress in delivering the IGACEP through regular reports that were provided via email and minutes. Further, as the IGACEP is a component of the IGA, the IGA Taskforce monitored the department's implementation of the IGACEP through regular traffic light reports.⁶⁵

Program planning

2.25 In line with grants administration better practice approaches to program planning⁶⁶, DAFF's Grants Management Manual encourages officers to plan for implementation in parallel with developing the program's design and guidelines. In practice, initial planning activities for the IGACEP were focused on positioning the department to deliver exit payments within the

⁶⁵ The Intergovernmental Taskforce was established to oversee the implementation of the IGA. The taskforce is chaired by the Secretary of DIER and comprised representatives of the Tasmanian Government, PM&C, SEWPaC, DAFF as well as the Australian Government Departments of: Regional Australia, Regional Development and Local Government (which is now the Department of Regional Australia, Local Government, Arts and Sport); Education, Employment and Workplace Relations; and Human Services.

⁶⁶ The CGGs advise that information on the outcomes and objectives of the grant program, governance arrangements (including roles and responsibilities), funding and selection processes, performance monitoring and reporting, evaluation, operational issues and complaint handling mechanisms should be incorporated in the grant program guidelines. Refer to: Australian Government Department of Finance and Deregulation, op.cit., p.23.

timeframe established for the program. DAFF emphasised to the ANAO that the department's approach to planning was tailored to the IGACEP's short timeframes for delivery. DAFF also indicated that it had conducted an appropriate level of planning to guide the implementation of the IGACEP, which the department considered was relatively simple in its objectives (exiting businesses) and that the program guidelines would serve as the principle guiding document for the program.

2.26 The CGGs require grant program administrators to have regard to a range of administration matters during planning, including performance and evaluation measures, documentation requirements, legal and policy matters and risk management during planning.⁶⁷ While timeliness of program implementation is important, the establishment of sound administrative arrangements, particularly where programs are to be delivered in condensed timeframes, is also a key consideration. The Joint Committee of Public Accounts and Audit recently commented on the importance of sound administrative arrangements for grants programs and indicated that the Government should consider the capacity of departments to complete administrative requirements when making decisions on program implementation.⁶⁸

2.27 While the department did not prepare an implementation plan for the IGACEP, DAFF had considered the timing of activities within the program and endorsed its communication plan when the program application period opened on 26 October 2011. The Communication Plan, which was to guide the communication activities to support the announcement and implementation of the IGACEP, was endorsed on 29 September 2011 by the Assistant Secretary, Forestry Branch. The plan included information on the: objectives for communicating the IGACEP; key audiences; mix of communication tools; and schedule of activities.

2.28 Other key aspects of implementation planning, including the department's approach to assessing grant applications and the program's evaluation strategy, were established after the program guidelines and funding deed were released. The department's compliance plan was endorsed on 11 December 2012.

⁶⁷ Australian Government Department of Finance and Deregulation, op.cit., p.15.

⁶⁸ Joint Committee of Public Accounts and Audit, *Report 435: Review of Auditor-General's Reports Nos.33 (2011–12) to 1 (2012–13)*, November 2012, Canberra, p.viii.

Grant Application Assessment Plan

2.29 DAFF's Grants Management Manual encourages program staff to plan the application assessment process at the same time as developing the criteria and to endorse the assessment plan prior to seeking any applications. Further, the manual advises that all involved in the assessment process should follow the approved assessment plan to ensure that the process is carried out in a systematic way and that all applicants are considered in a fair, timely, transparent and ethical manner.

2.30 The IGACEP *Grant Application Assessment Plan* (assessment plan) is a comprehensive document that: defined roles and responsibilities; provided guidance on the assessment process, method and timeframes; and included instructions on the management of documentation and the maintenance of confidentiality during the assessment process. The assessment plan was approved by the First Assistant Secretary, Climate Change Division on 24 November 2011. Panel members endorsed the plan prior to their first meeting on 19 December 2011.

2.31 In relation to the assessment process, there were differences between the guidelines and the assessment plan, which increased the risk of inconsistency between the approach outlined to potential applicants in the guidelines and the approach used to assess applications. For example, both the guidelines and the assessment plan indicated that the Advisory Panel could recommend a funding offer to the applicant that was lower than the amount requested. However, the guidelines advised applicants that the panel would determine if a lower offer was to be recommended on the basis of the assessment criteria⁶⁹, while the assessment plan did not direct the panel to use the assessment criteria as the basis for a lower offer. Instead, the assessment plan informs the panel that it may reduce the amount offered to successful grant applicants on the advice of the independent financial adviser.

Managing probity within the assessment process

2.32 While DAFF did not engage a probity advisor to oversee the Advisory Panel's implementation of the assessment process, the department sought probity advice from the Grants Policy Section and from legal advisors. Further, each panel member agreed to comply with the assessment plan and, by signing

⁶⁹ The assessment criteria are outlined in Table 4.1 on p.77 of this report.

a Statement of Interests as required by the program guidelines, confirmed that they had no conflicts of interest to declare at the commencement of the assessment process. Panel members also agreed that they would advise, and record in panel meeting minutes, where a perceived or actual conflict of interest arose during the assessment process.⁷⁰ Although the agenda for each panel meeting indicates that the consideration of conflicts of interest was a standing item, DAFF did not prepare meeting minutes to confirm that any new conflicts had been declared and appropriately considered by the panel.

Evaluation plan

2.33 The IGACEP evaluation plan, entitled *Evaluation Plan for the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program*, was developed by the IGACEP secretariat and was reviewed by the department's Grants Policy Section. On 11 January 2012, the Assistant Secretary, Forestry Branch approved the evaluation plan, which outlined a review to assess the manner in which the department administered the program. However, the evaluation plan did not include an assessment of whether the objectives established for the program had been achieved.

2.34 During the audit, a revised evaluation plan was approved (on 4 July 2012), which indicated that the program would be evaluated in two phases:

- Phase 1—an administrative review (as outlined in the original plan); and
- Phase 2—an evaluation of the extent to which the program objectives have been met.

2.35 DAFF proposes to commence, and to collect data for, the second phase in late 2013. DAFF's plan did not identify the proposed timing for reporting on review outcomes or whether the department would report at various stages during the 10 year life of the program. The criteria, methodology and data sources for each phase of the evaluation were outlined.

⁷⁰ Conflicts of interest arise where a person makes a decision or exercises a power in a way that may be, or may be perceived to be, influenced by either material personal interests (financial or non-financial) or material personal associations.

2.36 DAFF did not develop key performance indicators (KPIs) to underpin the evaluation of the extent to which the program's objectives have been achieved.⁷¹ The department advised that:

the decision not to develop KPIs was based on the type of program being run. KPIs are not able to be meaningfully measured at the grant level of a program such as this which only requires grant recipients to exit the industry and is not seeking to measure their performance.

2.37 Notwithstanding the department's views, the funding provided under the program was intended to achieve agreed objectives including supporting the adjustment of the Tasmanian public native forest industry in response to industry downturn. As such, measuring the extent to which the program achieved the objectives was a key responsibility of the department. Approaches to program evaluation, such as the program logic approach, which is used by other areas within DAFF, are scalable and capture the rationale underpinning the program by examining and outlining the anticipated cause and effect relationship between program activities and periodic outcomes.⁷² Through this mechanism, the department could have developed a small number of indicators that were fit-for-purpose and supported the capture of the short-term, medium-term and long-term impacts on the Tasmanian public native forest industry that were expected following the provision of exit payments.

2.38 Measuring the effect (positive or negative) the program has had on the Tasmanian public forest industry would better place the department to inform the Parliament and the community of the achievement of objectives through the provision of exit payments. Further, this information would assist the department when developing future policies for assistance to Tasmanian forestry and for exit programs where structural adjustment is sought.

Compliance plan

2.39 The funding conditions for the IGACEP prohibit grant recipients (both the recipient business and its owners or directors) from re-entering the forest

⁷¹ The CGGS indicate that granting activity should have a performance framework that links an agency's strategic directions and the grant's operational objectives to government outcomes. Refer to: Australian Government Department of Finance and Deregulation, op.cit., pp.17–18.

⁷² Caring for Country, *MERI Toolkit—Developing and using program logic in natural resource management user guide* [internet]. Commonwealth of Australia, 2011, available from <<http://www.nrm.gov.au/funding/meri/meri-toolkit.html>> [accessed 15 October 2012].

industry nationally for a period of 10 years, (except to the extent of existing contractual arrangements in the mainland sector, the Tasmanian private native forest sector or the Tasmanian plantation sector). While DAFF developed cost estimates for the department or AusIndustry⁷³ to deliver the program based on the initial program budget allocation (\$45 million for 2011–12) during the program design phase, the department did not develop a compliance strategy or cost estimates for ongoing compliance activities and resources over the 10 year compliance period. Funding has since been provided through the Federal Budget process, despite the compliance strategy not being finalised at that time.⁷⁴ The department endorsed its approach to monitoring grant recipients' compliance with the conditions of funding on 11 December 2012.

Assessing and managing risk

2.40 DAFF's Grants Management Manual provides program managers with a risk assessment checklist and instructions on how to incorporate risk management into grant administration processes at the planning and design phase, and as an ongoing activity during the life of the program.⁷⁵ The department advised that it considered risks to effective program delivery during the design phase, however, a documented assessment of the risks to program delivery or a risk management plan for the IGACEP were not prepared.

2.41 The Climate Change Division's Risk Plan outlined three specific risks to the division's deliverables.⁷⁶ The plan had been approved prior to the agreement of the IGA and was not updated to reflect the addition of the IGACEP to the division's responsibilities. The department's mid-year performance review, which was undertaken in November 2011, did, however,

⁷³ AusIndustry is a specialist program delivery division within the Australian Government Department of Industry, Innovation, Science, Research and Tertiary Education.

⁷⁴ DAFF advised that \$100 000 has been allocated from the departmental items budget (supplier expenses) for the 2012–13 financial year. This funding is to be used for compliance visits for both the TFCEAP and IGACEP.

⁷⁵ Further the CGGs advise that 'agency planning processes should have proper regard to all relevant issues including the need to undertake risk management. Risk management involves the systematic identification, analysis, treatment and allocation of risks.' Refer to: Australian Government Department of Finance and Deregulation, op.cit., p.15.

⁷⁶ The three risks included: government policies and programs are not designed and targeted well enough to assist farming and primary industries in preparing for drought, changed farm conditions or a changing climate; Australia suffers from a reduction in forest industry activity; and importation of illegally logged timber products are not significantly reduced.

outline generic risks presented by the IGACEP. For example, the review outlined risks to the department associated with the IGA, including resourcing, and high political and financial risk. It did not, however, outline risk treatments or the risks to the effective delivery of the program.

2.42 As a risk management plan was not developed for the IGACEP, DAFF did not fulfil its mitigation strategy for one of the top five program implementation risks identified in the initial Risk Potential Assessment Tool—‘government priority’.⁷⁷ The department had advised the Minister that a risk management plan would be prepared as an assurance process for the delivery of the program. Further, in its comments against this risk, DAFF had highlighted that ‘failing to deliver the IGACEP would damage the Government’s reputation’.

2.43 The absence of a structured approach to the assessment and management of risks for the IGACEP adversely impacted on the department’s ability to manage the diverse range of risks presented by this program. A number of the risks that might have been expected in managing the implementation of a grants program in the Tasmanian forest sector under time constraints, such as incomplete applications, eventually materialised and impacted on the effectiveness of the program’s delivery.

Performance monitoring and reporting

2.44 DAFF’s executive was informed of the progress of the IGACEP activities and risks to program delivery through regular emails. These emails advised of the status of applications, payments and other activities. Program progress was also reported through the department’s Weekly Business Notes, which outline divisions’ key activities for the current week and reviewed outcomes from the previous week.⁷⁸ In addition, the IGACEP Secretariat provided written advice to the Assistant Secretary, Forestry Branch and the First Assistant Secretary, Climate Change Division regarding eligibility and merit assessment issues that arose during program implementation. The

⁷⁷ For the IGACEP, the top five risks and their ratings were: stakeholders (very high); government priority (high); market (medium); other jurisdictions/agencies/business areas (medium); and timing constraints (medium). Other components of the risk mitigation strategy involved: managing the program in accordance with the program guidelines and the Grants Management Manual; developing a project plan; communication strategy and an issues management strategy; consulting with the Tasmanian Government and the industry during the development and delivery of the program; and recruiting and skilling staff to ensure that a fully resourced team was available.

⁷⁸ The Weekly Business Notes were also provided to the Minister’s Departmental Liaison Officer.

Climate Change Division's mid-year performance review, (discussed earlier in paragraph 2.41) provided further visibility of the IGACEP to the executive.

2.45 The Minister was provided with Question Time Briefs, which were frequently updated to reflect current issues associated with the IGA and forestry matters. Question Time Briefs outlined the key features of the IGACEP including: the quantum of grant funding; eligibility criteria; the conditions of receiving a grant; payment arrangements; and the availability of the guidelines. Further, the Minister was briefed by the department at key stages in the delivery of the program. For example, the department provided advice about the: Advisory Panel's progress in assessing applications; impending decision by the delegated decision maker; and the opportunity to announce the first payments.

External reporting

2.46 The principal mechanisms for monitoring and reporting program performance to external stakeholders are agency Portfolio Budget Statements (PBS) and annual reports. Performance against the deliverables and KPIs outlined in the PBS are reported in the department's Annual Report. As the IGACEP is funded under the IGA, DAFF is also required to report on program progress to the IGA Taskforce.

Portfolio Budget Statements

2.47 Following the endorsement of the IGA, the IGACEP's budget was included in the department's 2011–12 *Portfolio Additional Estimates Statements* under Program 1.3: *Forestry Industry*.⁷⁹ The KPI 'grantees comply with funding requirements', which was included in the 2011–12 PBS, is applicable to the IGACEP. The department's 2012–13 PBS did not, however, include a similar KPI or a deliverable to capture the ongoing effort to manage compliance with funding agreements. Retaining a similar KPI for future years would allow for ongoing reporting of recipients' compliance as assessed through the department's proposed compliance monitoring approach.

⁷⁹ The 2011–12 objective for Program 1.3: *Forestry Industry*, was to 'foster and enable a productive, profitable, international competitive and sustainable Australian forest and forest products industry. Refer to: Australian Government Department of Agriculture, Fisheries and Forestry, *2011–12 Portfolio Budget Statements*, pp.35–36.

Annual Report

2.48 In DAFF's 2011–12 *Annual Report*, the department outlined the background and purpose of the IGACEP and reported that 58 businesses had accepted grant funding totalling \$42.6 million to exit from the forest industry. The department also reported against the PBS KPI 'grantees comply with the funding requirements' for the IGACEP. The KPI has a target of 100 per cent compliance, which the department indicated was not met. The Annual Report states:

In 2011–12, there were 58 grantees under the IGACEP. As at 30 June 2012, 40 grants had been fully paid. The department was working with the remaining grantees to make final payments, which are expected to be finalised in early 2012–13.

IGA Taskforce

2.49 IGACEP progress reports were regularly provided to the IGA Taskforce. These high-level reports were incorporated into the taskforce's 'traffic light' report, which were used to monitor implementation of the IGA's components. The absence of established performance measures for the IGACEP makes it more difficult for the department to effectively report on the extent to which the program is achieving objectives. For example, the extent to which the Tasmanian public native forest industry has adjusted due to the provision of exit assistance.

Conclusion

2.50 When the program application period opened on 26 October 2011, DAFF had identified the timing of key program activities and endorsed its communication plan. However, contrary to departmental grants administration guidance materials, the department had not agreed: its approach to assessing grant applications; evaluating the program's effectiveness; or managing compliance. While DAFF officers advised that they had an appreciation of the risks to program delivery, the absence of a structured approach to assessing and managing the risks to the IGACEP adversely impacted on the department's preparedness to effectively deliver the program. A number of risks that might have been expected in managing the implementation of a grants program in the Tasmanian forest sector under time constraints, such as poor quality applications due to complex business structures and incomplete information on contracting arrangements, eventually materialised.

2.51 Program administrators routinely provided reports to DAFF's Executive, the Minister and the IGA Taskforce on progress with program delivery. Although the department has reported to external stakeholders on program activity, it has not reported on the extent to which the program's objectives have been achieved. As the department did not develop key performance indicators for the IGACEP, there was not an agreed basis on which to report program performance.

3. Application Eligibility Assessment

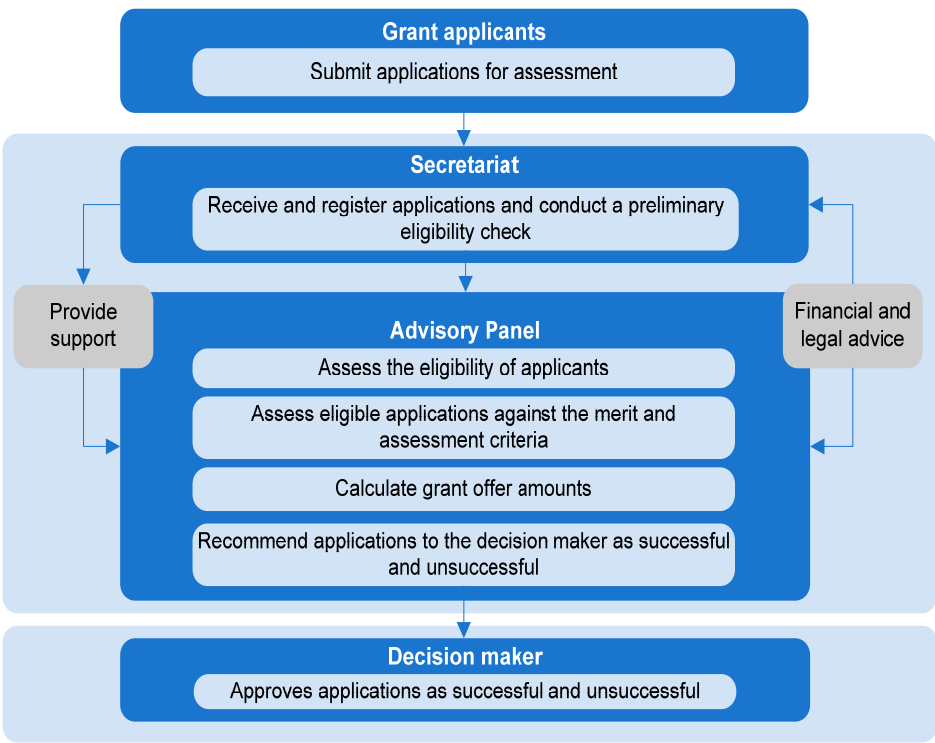
This chapter examines the assessment of IGACEP grant applications against the program’s eligibility criteria.

Introduction

3.1 A key consideration in the assessment of grant applications is the equitable and transparent selection of applications in accordance with the process outlined in the program guidelines and assessment plan. The criteria and process for assessing IGACEP applications was documented in DAFF’s assessment plan and this process is outlined in Figure 3.1.

Figure 3.1

Assessment process



Source: ANAO analysis of the IGACEP Grant Application Assessment Plan, p.5.

3.2 The assessment plan indicated that funding offers to successful applicants were to be made by 23 January 2012.⁸⁰ To meet this timeframe, panel members would receive copies of applications by 12 December 2011 and all applications would be assessed during one panel meeting spanning 14–16 December 2011. The proposed timeframe for the assessment of applications and the negotiation of funding deeds is outlined in Table 3.1.

Table 3.1

IGACEP initial assessment timeframe

Action	Delivery date
Secretariat checked eligibility and requested further information, if required	8 December 2011
Copies of applications distributed to Advisory Panel members	12 December 2011
Advisory Panel provide an endorsed Assessment Report to DAFF	19 December 2011
Assessment Report submitted by DAFF to the decision maker	19 December 2011
Offers made to successful grant recipients	23 January 2012
Funding deeds negotiated and endorsed	From January 2012

Source: ANAO analysis of DAFF's IGACEP Grant Application Assessment Plan, p.15.

3.3 The plan also allowed the panel to seek an independent financial assessment:

- about claims that appeared to be incompatible with the information on earnings and output of the business that were provided in the application; and
- to validate that the nominated amounts sought by businesses were equitable with earnings figures and capital assets of companies.

3.4 The assessment plan noted that, in circumstances where the Advisory Panel requested an independent financial analysis of applicants' businesses, the assessment timeframe would be extended by up to two months.

⁸⁰ The program guidelines advised potential applicants that a decision was anticipated in early 2012. However, advice later placed on DAFF's website informed applicants that every effort would be made to make a decision by 23 December 2011.

3.5 The first step in the IGACEP assessment and selection process is to determine the eligibility of applications. The ANAO examined key aspects of DAFF's assessment of applications against the eligibility criteria.

Registering applications

3.6 The IGACEP secretariat opened applications as they were lodged, registered applicants' details in a spreadsheet and assigned a unique identification number to each application. DAFF received 102 applications requesting grant funding totalling approximately \$75.3 million with 86 applications received before the application period closed at 5:00pm on 24 November 2011. The department received a further:

- 12 applications after 5:00pm on 24 November 2011—these applications were received up to 70 minutes after the closing time; and
- four applications between 28 November 2011 and 19 December 2011.

3.7 The secretariat registered the 12 applications submitted after 5:00pm on 24 November 2011 as being on-time and deemed the four applications received after 28 November 2011 as late and ineligible. The Advisory Panel was advised that the 12 applications had been received late because of an IT issue.⁸¹ The panel endorsed the secretariat's recommendation to register 98 applications and not accept four applications due to late submission.

3.8 Of the 98 applications received, departmental records indicate that 50 applications were received and registered prior to the approval of the assessment plan on 24 November 2011. Although the department advised that no applicants were contacted prior to the approval of the assessment plan, applications were processed before the roles, responsibilities and assessment processes were endorsed. The department considered that the initial checking of the applications enabled requests for further information to be forwarded to applicants as soon as the plan was approved.

3.9 Letters were sent to the 98 registered applicants acknowledging DAFF's receipt of their application. The department sent letters regarding two late applications on 23 December 2011. Letters were sent for the two remaining late applications on 20 February 2012, following the completion of

⁸¹ The panel was advised that 'an agent acting on behalf of the applicants attempted to send the applications before the cut off date and that the data storage system was unable to be accessed by the DAFF IT system'.

the department's investigation of the circumstances relating to the submission of the applications.

Assessing the eligibility of applications

3.10 Eligibility criteria⁸² are the threshold requirements for an application to be considered for funding and should be straightforward, easily understood and effectively communicated to potential applicants. This helps avoid frustration and potential costs to applicants and assists potential applicants to develop and submit applications that are eligible and discourage applications that have little chance of success.⁸³

3.11 The IGACEP's six eligibility criteria were outlined in the program guidelines and the assessment plan for reference by the Advisory Panel:

To be eligible to apply for a voluntary exit grant a contracting business, must have:

- (a) not received a grant under the Tasmanian Forest Contractors Exit Assistance Program 2010–11; and
- (b) an ongoing contract(s) or ongoing arrangements to conduct contracted operations in Tasmanian public native forests at 24 July 2011 and can provide evidence of that contract or arrangement; and
- (c) under an ongoing contract or an ongoing arrangement, been conducting harvest, haulage or silvicultural operations in Tasmanian public native forests. This means that more than 50 per cent of the native forest operations (including private native forests and excluding plantation forest) of a business must be in public native forest operations for at least one of the following four financial years: 2007–08, 2008–09, 2009–10 and 2010–11; and
- (d) at 24 July 2011, not have been sold (written offer of a sale exchanged but not necessarily settled), or be under receivership or be in bankruptcy administration; and
- (e) an Australian Business Number (ABN) held at 24 July 2011; and

⁸² Eligibility criteria are also variously expressed as 'mandatory criteria', 'compliance criteria' or 'gateway criteria'.

⁸³ Australian Government Department of Finance and Deregulation, op.cit., p.22.

(f) provided information requested in the application form including copies of tax returns, verified financial information and information on business arrangements related to the contracted operations.⁸⁴

3.12 To demonstrate that they met the criteria, applicants were required to submit detailed business information, including evidence that the principal, contractor and/or subcontractors supported the applicant's exit. The specific evidence required was set out in the program guidelines.

Preliminary eligibility check by the Secretariat

3.13 The IGACEP secretariat reviewed the 98 registered applications against the eligibility criteria and to confirm that the information requested in the application form, such as verified financial information, had been provided. These reviews were recorded using a checklist and the status of each application tracked in a spreadsheet. All 98 applications were initially checked for eligibility by the secretariat, with the Advisory Panel ultimately determining applicant eligibility, taking into account the secretariat's advice.

3.14 The results of the secretariat's initial eligibility check were: seven eligible applications; 16 ineligible applications; and 75 incomplete applications. To address the large number of incomplete applications, the secretariat wrote to each applicant seeking outstanding information. As the requested information was to be provided within five days of the receipt of registered letter, the secretariat also emailed and/or faxed the letter to applicants.

3.15 At the completion of the second eligibility check (in those cases where additional material had been provided), the secretariat determined that there were 47 eligible applications and 51 (52 per cent) ineligible applications. Most applicants were missing the information required to meet eligibility criteria (b), (c) and (f). Table 3.2 outlines the number of applications that did not meet each eligibility criterion at the first and second check of applications by the secretariat.

⁸⁴ Australian Government Department of Agriculture, Fisheries and Forestry, op.cit., p.3.

Table 3.2**Applications that the secretariat advised the panel did not meet each eligibility criterion**

Eligibility Assessment Stage	(a)	(b)	(c)	(d)	(e)	(f)
Number of applications that did not meet the eligibility criteria following the first review.	1	49	68	9	9	86
Number of applications that did not meet the eligibility criteria following the second review.	2	28	33	2	4	35

Source: ANAO analysis of DAFF data.

3.16 Even though the guidelines included clear instructions on the documentation required to support an application, there was a high rate of initial ineligible and incomplete applications for the IGACEP, compared to other applications-based competitive grants programs examined by the ANAO. To manage the high rate of ineligibility amongst applicants, the department advised that it offered every opportunity for applicants to provide required information. Ultimately, 36 applications were assessed as ineligible for the program. Of these 19 applicants did not undertake eligible activities, but had applied as they were also experiencing the impact of changes in forestry activity.

Preliminary eligibility assessment by the Advisory Panel

3.17 While the assessment plan indicated that Advisory Panel members would receive copies of the applications two days prior to the panel's first meeting, the department advised that one panel member reviewed applications over the weekend before the meeting and the remaining two panel members reviewed a selection of applications on the morning of the meeting. At the Advisory Panel's first meeting on 19–20 December 2011, the secretariat provided an outline of each application including: a general summary; a preliminary assessment of eligibility following the second review; details of missing information; the funding amount requested by the applicant; and a copy of legal advice that had been obtained in relation to the applicants' complex business structures. The secretariat also advised panel members that 'a large number of these applicants are unable to meet some or all of the eligibility requirements as outlined in the IGACEP guidelines'. Examples were provided of the difficulties applicants were experiencing in meeting the eligibility criteria and the secretariat advised that 'a number of applicants who are subcontractors sought verification of their arrangements, but have neither received that verification nor support from the supply chain'. Further, at least one applicant

advised the department of a reluctance to seek evidence from the principal, as to do so may jeopardise their existing business relationship if they were unsuccessful.

3.18 The panel reviewed the eligibility of applicants and determined that 50 applications were eligible and 48 applications (49 per cent) were ineligible.⁸⁵ To assist the remaining ineligible applicants to address the eligibility criteria, the panel:

- allowed applicants to submit additional information up until 5:00pm on 23 December 2011⁸⁶;
- sought missing information by telephone and email; and
- sought a financial analysis for 17 applications by an independent financial assessor. In addition, the panel requested the financial assessor undertake 'a broad sweep of all applications to check for any issues'. Although the panel's meeting records do not document the specific rationale for a financial analysis for 17 applications, DAFF advised that the panel had concerns regarding contractors not recognising subcontractors and the value for money presented by some applications.

Financial assessment of applications

3.19 In December 2011, DAFF selected a financial assessor following the evaluation of proposals submitted by four firms from a supplier panel. In January 2012, 64 applications (which included applications assessed as eligible and ineligible), were assessed by the financial assessor, with a template-based report prepared for each application. The financial assessor reported on the: business' structure and solvency; financial information provided by the applicant; reduction in tonnage in the 2010–11 financial year compared to the 2009–10 financial year; and dollars per tonne requested by the applicant. In addition, the financial assessor documented all the contractor-subcontractor relationships that were evident from applicants' financial statements and highlighted inconsistencies in applications and areas for further

⁸⁵ The three cases where the secretariat and the Advisory Panel came to different decisions on applicants' eligibility are discussed in paragraph 3.25.

⁸⁶ On 19 December 2011, the panel extended the deadline to 3:00pm on 20 December 2011. Subsequently, on 20 December 2011, the panel extended the deadline to 23 December 2011.

clarification/verification by the department. For example, where subcontractor expenses were identified in the contractor's financial statements, but subcontractors were not identified in the application.

3.20 Guided by the findings of the financial assessment, the secretariat obtained legal advice on the approach to be adopted to manage incorrect information submitted by applicants. Subsequently, the secretariat wrote to 40 applicants requesting clarification or verification of the information provided in their applications, including where a relationship between a contractor and subcontractor had been established from the financial records provided by the contractor. The secretariat reviewed applications once additional information was submitted. As a result of this review, the secretariat considered 57 applications to be eligible and 41 applications to be ineligible.

Final eligibility assessment by the Advisory Panel

3.21 At its second meeting on 1–2 February 2012, the Advisory Panel considered applications where additional information had been received since the previous meeting. The secretariat provided the panel with: an overall summary of the financial assessment outcomes; a copy of the legal advice on the approach to managing incorrect information provided by applicants; and an update on the replacement letters of support required from Forestry Tasmania's contractors.⁸⁷

3.22 During this meeting, the Advisory Panel finalised its assessment of eligibility. The panel ultimately determined that there were 62 eligible applications (61 applicants⁸⁸) and 36 ineligible applications.⁸⁹ Of the 36 ineligible applications, 17 applicants had been unable to provide evidence to

⁸⁷ As a principal, Forestry Tasmania was asked by contractors to provide a letter of support for the applicant's exit from the public native forestry industry. Evidence of support from the principal contributed to the applicant's merit score. In January 2012, Forestry Tasmania notified DAFF that all letters of support provided to their contractors were not duly authorised and should be disregarded. Subsequently, the department wrote to these applicants in late January 2012 requesting a replacement letter of support from Forestry Tasmania be provided by 31 January 2012. In seven cases, a replacement letter was not provided by Forestry Tasmania.

⁸⁸ In one case, the department determined that two applications had been submitted by one business. These were further assessed as one application.

⁸⁹ The five cases where the secretariat and the Advisory Panel differed in their assessment of eligibility following the final eligibility assessment are discussed in paragraph 3.25.

support their eligibility and 19 applicants did not undertake eligible harvest, haulage or silvicultural activities.⁹⁰

Records of the Advisory Panel's decisions on applicant eligibility

3.23 The panel advised the decision maker that its:

focus in assessing the eligibility of applicants was to determine whether each applicant has met the eligibility criteria set out in the assessment plan. An applicant must meet all the eligibility criteria to be eligible for a voluntary exit grant.

3.24 The panel's decision on the eligibility of each applicant at each meeting was recorded by the secretariat in a spreadsheet and also in an eligibility report. The eligibility report identified the criteria that had been met and was signed and dated by each panel member at the conclusion of the assessment process.

3.25 The ANAO reviewed the department's records and identified that, overall, there were seven applications (who were offered total grant funding of \$2 552 838.20) that the panel determined as eligible, although the secretariat did not consider the application as eligible because information was missing, including financial information, evidence of ongoing arrangements and/or evidence of activity in public native forestry.⁹¹

3.26 The program guidelines did not provide flexibility that would allow the panel to waive or apply reduced eligibility criteria, apply its industry knowledge or experience or accept alternate evidence as the basis for determining eligibility even in exceptional circumstances such as financial hardship. Rather these were the criteria that applicants were required to meet in order to demonstrate eligibility and for the assessment of eligibility to be equitable. Despite this, the panel determined that applicants were eligible in:

- three cases 'on the balance of evidence the applicant worked in the industry';
- two cases based on alternate evidence; and

⁹⁰ The 19 applicants included 15 silviculturalists and four roading contractors.

⁹¹ There were three applications in the panel's preliminary eligibility assessment and five applications from the panel's final eligibility assessment where the panel had determined applications to be eligible, when the secretariat advised that information was missing. However, these eight instances included one common application that the panel had determined as eligible at both the first and second eligibility assessment despite the secretariat's advice to the contrary on both occasions.

- two cases where applicants could not provide 2010–11 financial statements due to financial hardship.

3.27 In all seven cases, the Advisory Panel did not record sufficient information to underpin its rationale for accepting incomplete or alternate evidence as the basis for deeming the applicant to be eligible. The panel sought to obtain the missing financial statements for one applicant, by including a condition on the offer of grant funding that required the missing 2010–11 financial statements to be provided before the payment of Milestone 2. However, the panel did not apply the same condition to its recommendation to offer funding to the second applicant.

3.28 The ANAO also identified one further applicant where financial statements and business activities statements that were part of the evidence required to meet eligibility Criterion (f) were not obtained by the department, but the applicant was determined by both the secretariat and the panel to be eligible and was subsequently offered grant funding. In response to the ANAO's findings, the department sought the missing information from the applicant. On 18 December 2012, the department advised that the required information to determine eligibility to access the program had been received—five months after the release of the final milestone payment to this applicant.

3.29 The ANAO also identified two cases where the department had accepted documents provided to support an ongoing arrangement, but had not verified that the arrangements claimed had met the program guidelines' definition of an ongoing arrangement. The applicants, a contractor and related subcontractor, were both considered to be eligible on the evidence accepted by the department to demonstrate that the contractor had an ongoing arrangement with the principal. However, the ANAO's analysis indicated that the information provided with the application warranted further review as the principal had verified activity in the previous financial years but had not provided clear support of an ongoing arrangement as at 24 July 2011 (eligibility Criterion (b)).⁹² In contrast, the principal's letters for other applicants had provided clear support of an ongoing arrangement or contract as at 24 July 2011.

⁹² The guidelines required a letter from the principal of the contract holder setting out the circumstances in which the contracted operations had ceased although the arrangement was still ongoing. In all other circumstances, the arrangements were not considered to be ongoing.

Conclusion

3.30 DAFF received 102 applications⁹³, with four of these applications not assessed because they were submitted late. Each applicant was advised in writing whether their application had been accepted. The secretariat initially checked all 98 applications for eligibility, with the Advisory Panel ultimately determining applicant eligibility, taking into account the secretariat's advice.

3.31 Compared to other applications-based competitive grants programs examined by the ANAO, there was a high rate of ineligible and incomplete applications for the IGACEP. The department advised that the high rate was, in part, due to businesses that were undertaking ineligible activities for funding, applying because they were also experiencing the impact of changes in forestry activity. The secretariat's initial eligibility check deemed: seven applications eligible; 16 applications ineligible; and 75 applications incomplete.⁹⁴ In response, DAFF sought additional information from applicants and engaged a financial assessor to examine 64 applications. The Advisory Panel ultimately determined that there were 62 eligible applications (61 applicants⁹⁵) and 36 ineligible applications.

3.32 The ANAO's analysis indicated that, of the 61 applicants assessed as eligible by the panel, 10 applicants (16 per cent) had been offered grant funding totalling \$3 595 863, despite being unable to readily evidence that the IGACEP's eligibility requirements had been met.⁹⁶ The analysis also identified that the department did not document key aspects of the panel's rationale for determining seven of the ten applicants as eligible. In particular, the evidence taken into consideration when applicants were deemed eligible without having submitted the required documentation, where a lower eligibility threshold was applied, or the basis on which the panel did not agree with the secretariat's

⁹³ The IGACEP secretariat opened applications as they were lodged, registered applicants' details in a spreadsheet and assigned a unique identification number to each application.

⁹⁴ Most applicants were missing: evidence of an ongoing contract or arrangement in Tasmanian public native forests as at 24 July 2011; evidence that 50 per cent of native forest operations conducted in at least one of the four previous financial years had been in public native forest operations; and/or information requested in the application form.

⁹⁵ In one case, the department determined that two applications had been submitted by one business. These were further assessed as one application.

⁹⁶ These ten included: seven applicants where the secretariat had advised the Advisory Panel that applicants were ineligible because information was missing; and three applicants where the ANAO identified that required information had not been provided, but both the secretariat and the panel had determined the applicant to be eligible.

advice regarding eligibility. The lack of documentation raised questions about whether equitable access was provided to the program.

4. Merit Assessment and Selection

This chapter examines the assessment of IGACEP grant applications against the program's merit and assessment criteria. The advice provided to the decision maker and the process for reviewing assessment decisions is also examined.

Introduction

4.1 The selection of eligible applicants to receive IGACEP funding was to be determined through a two-stage process, with eligible applicants initially assessed against merit criteria to score and rank applications against program objectives.⁹⁷ Assessment criteria were then to be used to determine whether the panel would recommend a funding offer that was lower than the amount nominated by the applicant to exit the industry.⁹⁸

4.2 On the basis of its assessment, the Advisory Panel advised the decision maker of the applications that were recommended as being successful and unsuccessful. Applicants were subsequently advised of the outcome of the assessment process and were also advised that the decision could be reviewed by request.

4.3 The ANAO examined the following aspects of DAFF's assessment and selection processes:

- assessing eligible applications against the merit criteria;
- assessing eligible applications to determine whether a lower funding amount would be offered;
- advising the decision maker on successful and unsuccessful applications; and
- reviewing funding decisions.

⁹⁷ Merit criteria for harvest and haulage contractors were weighted and addressed: reduction in tonnage (40 per cent); nominated amount of funding sought (40 per cent) and supply chain exit (20 per cent). The criteria for silviculture contractors (equally weighted) addressed reduction in hectares and nominated amount of funding sought. Refer to: Australian Government Department of Agriculture, Fisheries and Forestry, op.cit., pp.6-7. The merit criteria are provided at Appendix 2.

⁹⁸ There were three assessment criteria for harvest and haulage contractors and two assessment criteria for silviculture contractors. Refer to: Australian Government Department of Agriculture, Fisheries and Forestry, op.cit., p.7. The assessment criteria are provided in Table 4.1 of this report.

Assessment against the merit criteria

4.4 Weighted criteria were established by the department to assess the merit of the applications and were designed to rank applicants on the following basis:

- the extent to which activity had been reduced—measured as a reduction in tonnage for harvest and haulage contractors and a reduction in hectares for silvicultural contractors. Applicants experiencing the greatest reduction would score the highest;
- the amount nominated to exit the industry divided by contracted tonnage or hectares. Applicants offering to exit for the lowest dollar value per tonne or per hectare would score the highest; and
- whether other members of the harvest and haulage supply chain supported the applicant's exit. Applicants with support from all members of their supply chain would score the highest.

4.5 To inform the Advisory Panel's assessment of the relative merit of applications at its second meeting on 1–2 February 2012, the secretariat presented a merit listing of the 62 eligible applications (61 applicants). The merit listing had been prepared using a spreadsheet to calculate scores for each merit criterion. DAFF informed the ANAO that the Australian Bureau of Agriculture and Resource Economics and Sciences was engaged to review the accuracy of the formulas used in the spreadsheet. DAFF further advised that merit scores and tonnage data were also reviewed and approved by panel members.

4.6 The highest ranked application received a score of 92.56, while three applications, including two applications from one applicant, scored zero. Scores for each merit criterion and the total merit score out of 100 were recorded on a score sheet for each eligible application. Score sheets also documented the applicant's: business name; unique identification number; type of business; nominated amount to exit the forest industry; price per tonne; and actual verified tonnage for 2009–10 and 2010–11. In addition, the panel recorded comments on the score sheets to indicate whether: conditions were

attached to the recommendation for approval⁹⁹; subcontractor tonnage had been deducted; and the complete supply chain would be exited. The panel's recommended offer of funding was also recorded. Each score sheet was endorsed by each panel member.

4.7 The Advisory Panel made a number of determinations when considering the merit of applications and making funding recommendations. For example, the panel determined that, on the basis of fairness, actual tonnage would be used to determine merit Criterion 1 (Reduction in tonnage) and merit Criterion 2 (Nominated amount) for all eligible applicants. This decision reflected that contracts, provided as evidence of agreed tonnage between contractors and Gunns Limited, did not differentiate between public and private native forest activity. Consequently, the department could only verify the actual amounts of public native forest tonnage harvested or hauled for these contractors. The department's Grants Policy Section had also advised that it was important to adopt a consistent approach.

4.8 The approach taken by the panel was, however, inconsistent with the program guidelines and the assessment plan, which indicated that actual tonnage would only be used if the applicant did not have an agreed annual tonnage.¹⁰⁰ In some cases, the use of actual tonnages where agreed tonnages were available disadvantaged applicants as this approach reflected the actual work undertaken during a period of industry downturn rather than the business' capacity. The applicants affected by this decision were not advised of the approach adopted by the panel, although details were provided in those cases where information about the calculation was requested as part of a review request.

4.9 All applicants, including three applicants with a merit score of zero, progressed to the second stage of the assessment process.

⁹⁹ Some offers to successful grant applicants were contingent on specific conditions or conditions precedent (a requirement that must be met before a contract can be deemed to be enforceable) being met in addition to the milestone requirements. For example, the panel recommended that seven applicants who had not been provided a replacement letter of support from the principal contract holder—Forestry Tasmania—be offered funding, but the approval include a condition precedent requiring the letter be provided before a funding agreement was signed. The alternate option for the panel was to determine the applicant ineligible or unsuccessful.

¹⁰⁰ All applicants were to provide verified actual tonnages harvested or hauled as part of the application process.

Conclusion

4.10 The Advisory Panel, with extensive support from the secretariat, assessed each application against the merit criteria, determined scores and subsequently ranked each application. The information relevant to each merit assessment was appropriately recorded and retained by the department.

4.11 To facilitate the merit assessment process, the panel determined that ‘actual tonnage’ would be used to calculate all eligible applicants’ scores for two of the three merit criteria. While DAFF considered that this approach ensured consistent treatment of all applications, it was not consistent with the program guidelines and the assessment plan, which indicated that actual tonnage would only be used if the applicant did not have an agreed ‘annual tonnage’. Applicants were not advised of this determination, unless this aspect of the process was specifically questioned by an applicant as part of a review request.

Assessment of nominated funding amounts

4.12 As outlined in the guidelines, the Advisory Panel was to determine whether a funding offer for the applicant that was lower than the amount nominated to exit the industry would be recommended. The set of unweighted assessment criteria to be used by the panel are outlined in Table 4.1.

Table 4.1

Assessment criteria

Harvest and Haulage Contractors	Silviculture Contractors
In making assessments, each application will be assessed by the panel against the total tonnage of wood expected to be reduced through processes codified in the Agreement. This is expected to be in the order of 1.5 million tonnes, but may vary between harvested and hauled wood.	No similar assessment criterion.
It is expected that given overall business costs and structures, the nominated amount submitted by a haulage business would usually be lower than for a similar sized harvest business; the panel will validate this through financial statements.	It is expected that given overall business costs and structures, the nominated amount submitted by a silviculture business would usually be lower than for a similar sized harvest or haulage business; the panel will validate this against the financial statements.

Harvest and Haulage Contractors	Silviculture Contractors
<p>The panel will seek, where possible, to exit complete contract chains. In determining contract chains the panel may seek verification of ongoing contracts and arrangements by a contract validation process that may request the assistance of and information from forest principals and/or contracting businesses.</p> <p>The panel may assess the applicant's nominated amount in conjunction with an assessment of the business' financial statements over the two financial years (2009–10 and 2010–11) to determine whether the amount nominated to voluntarily exit corresponds with industry financial information on business activity and earnings.</p>	

Source: Australian Government Department of Agriculture, Fisheries and Forestry, op.cit, p.7.

4.13 In contrast to its assessment against the merit criteria, the Advisory Panel did not document its assessment of applications against each assessment criteria. In its Assessment Report, the panel advised the decision maker that, in determining:

suitable applications and grant funding offers the panel looked at a number of matters including:

- assessment of the amount nominated by each applicant to exit the industry in conjunction with business financial statements, industry financial information and the results of the independent financial assessment;
- merit scoring of eligible applicants. This included considering the value for money to the Commonwealth represented by the merit criterion two score for the dollar amount nominated divided by the actual tonnage;
- an assessment of each eligible application with respect to the determination to set a cap of \$35 per tonne (for harvest and haulage contractors); and
- the funding offers to the two eligible applicants (including a combined application) that received a zero score were reduced from the Panel's original calculation, on a pro-rata basis, by 23.77 per cent to fall within the funding cap of \$44.02 million. The panel determined that this was the best way to ensure maximum tonnage capacity reduction within funding limitations.

4.14 It was not, however, evident from the records retained by the department that the panel considered the amount nominated by each applicant to exit the industry in the context of business financial statements, industry financial information and the results of the independent financial assessment. The financial assessor did not provide advice on whether the applicant had nominated a reasonable exit payment by comparison with the financial position of the business (as outlined in the assessment criteria) and the brief

comments provided on the score sheets do not support the completion of this assessment by the panel.¹⁰¹ Further, it is not evident how the panel was able to complete this assessment in the three cases where financial statements were not provided by the applicant.

4.15 In practice, the Advisory Panel determined that it would use a funding cap per tonne of wood harvested or hauled for the assessment of value for money, which then formed the basis of funding offers recommended to the decision maker. DAFF informed the ANAO that the use of a cap enabled the department to remove contractors and subcontractors from the industry at the lowest cost. In its assessment report for the decision maker, the panel advised that:

the cap was introduced because a high number of applicants sought a rate per tonne that the panel did not find reasonable value of money for the Commonwealth...a cap needed to be set to achieve value for money and fairness in the assessment process.

4.16 The guidelines advised applicants that a lower amount than that requested could be offered by the department and outlined the basis for doing so (the assessment criteria). However, use of a cap as the basis for offering a lower amount was not included in the guidelines or the assessment plan, even though the use of a cap had been considered during the preparation of the guidelines. The secretariat had consulted with the department's Grants Policy Section about the use of a cap and was provided the following advice:

we can't have hidden caps (i.e. maximum and minimum amounts per tonne), they need to be announced and need to be applied equitably across applicants. Also, while we can offer a lower amount than the nominated amount we would need to set out the circumstances in which that would occur and be consistent across applications.

4.17 The department informed the ANAO that 'there was a clear decision to not communicate the use of a cap in the guidelines to prevent collusion within the industry'. It was considered that all applicants would seek the maximum allowable funding where a cap was publicly announced. The department further advised that 'it was not the department's intention to apply a cap, however, the complexities of the applications meant that it wasn't possible to consider each applicant individually'.

¹⁰¹ The panel's comments on whether the nominated amount represented value for money against the funding cap were recorded on the score sheet. Score sheets were discussed in paragraph 4.6.

4.18 The adoption of a cap, in place of the assessment criteria meant that the panel did not recognise relative business values including earnings figures and capital assets when determining funding offers. This criterion had been included to reflect industry expectations that the generally higher capital investment required for harvesting contractors would be reflected in a higher payment than attributed to a similarly sized haulage or silvicultural business. However in practice, the use of a funding cap meant that all harvest and/or haulage businesses that were offered less funding than requested were treated as if they were of equivalent size and business type. As shown in Table 4.2, the funding cap resulted in haulage contractors being paid on average more than harvest contractors, albeit the maximum offer of grant funding for a harvest business was higher than for a haulage business.

Table 4.2

Average, maximum and minimum grant payment by business type

Business type	Average funding amount (\$)	Maximum grant amount offered (\$)	Minimum grant amount offered (\$)
Harvest and Haulage	988 623	3 000 000.00	62 092.80
Haulage	578 039	1 000 000.00	20 000.00
Harvest	396 666	2 000 000.00	36 476.30
Silviculture	200 000	300 000.00	100 000.00

Source: ANAO analysis of DAFF data.

Development and application of the funding cap

4.19 The panel set the funding cap per tonne harvested or hauled between the median dollar per tonne sought by applicants (\$48.04 per tonne) and the mean dollar per tonne sought by applicants (\$24.62 per tonne). The panel advised the decision maker that this approach had been adopted because the average dollar per tonne price sought by applicants was skewed by a small number of excessively high requests per tonne.¹⁰² However, the panel did not document the basis on which it determined that by capping payments at \$35 per tonne the assessment delivered value for money to the Commonwealth.

¹⁰² The maximum funding sought per tonne was \$381.15 and the minimum funding sought per tonne was \$3.64.

4.20 The total amount of funding required was reduced from \$59 350 115 (total requested by eligible applicants) to \$44 019 623 (total funding offered to eligible applicants) through:

- the application of the funding cap to 60 applications (59 applicants) from harvest and haulage contractors¹⁰³; and
- by assessing the two eligible silviculturalists' capital, number of employees, availability of alternate work; and transferability of the business' machinery.

4.21 On the basis that all funding offers were within the established program budget, the panel recommended funding be approved to all 62 eligible applications (61 applicants) with 25 applicants—24 harvest and haulage applicants and one silviculturalist—recommended to be offered a lower amount of grant funding than sought. Of these 25 applicants, five were to be offered less than 25 per cent of the amount that they had nominated, including one applicant who was to be offered 12 per cent of the amount nominated. While the department considered that the use of a funding cap provided a value for money outcome for the Commonwealth, the lower funding offers represented a significant reduction in the amounts sought by applicants to exit the industry. The panel advised the decision maker that merit scores 'were not the determining factor for offer amounts' with some applicants with higher merit scores recommended for a lower percentage of the amount nominated to exit the industry than applicants with lower merit scores.

4.22 The Advisory Panel also advised the decision maker that its 'recommendations were consistent with maximising tonnage reduction' in that by maximising the number of successful applicants, capacity expected to be exited from the industry would be maximised. Despite committing the total program budget, the expectation (outlined in the program objectives) that the reduction in tonnes of wood being harvested and hauled that was exited from the industry would match the anticipated reduction in the scale of harvesting in the order of 1.5 million tonnes of wood being harvested and 1.5 million

¹⁰³ All 60 eligible harvest and haulage applications (59 applicants) were assessed against the funding cap by multiplying the verified actual tonnage for 2009–10 by \$35 per tonne although, where no tonnage had been harvested or hauled in 2009–10, an alternate year was used. For three applications (two applicants) with a merit score of zero, the amount offered was further reduced, on a *pro rata* basis, to enable offers to be made to all eligible applicants within the funding cap.

tonnes being hauled was not achieved. Based on verified actual tonnage for 2009–10, the department estimated that the grants offered would remove 865 628 tonnes of harvest wood (58 per cent of the target) and 973 718 tonnes of haulage wood (65 per cent of the target). Although a further program objective aimed to balance the removal of harvest and haulage capacity, the removal of extra haulage capacity under the IGACEP helped balance the additional harvest capacity that had been removed by the earlier Tasmanian Forest Contractors Exit Assistance Program.

Conclusion

4.23 In contrast to its assessment against the merit criteria, the Advisory Panel did not document its assessment of applications against each assessment criteria. In its Assessment Report, the panel advised the decision maker of the factors taken into consideration when assessing whether to recommend a funding amount that was lower than the amount nominated to exit the industry. The panel advised that these factors included an assessment of the amount nominated by each applicant to exit the industry in conjunction with business financial statements, industry financial information and the results of the independent financial assessment.

4.24 In practice, the panel used a funding cap of \$35 per tonne of wood harvested or hauled to assess value for money, which then formed the basis of funding offers recommended to the decision maker. The panel set the funding cap per tonne harvested or hauled between the median dollar per tonne sought by applicants (\$48.04 per tonne) and the mean dollar per tonne sought by applicants (\$24.62 per tonne). DAFF informed the ANAO that the use of a cap enabled the department to remove contractors and subcontractors from the industry at the lowest cost. However, the basis on which the value of the cap was determined as representing value for money for the Australian Government was not documented by the panel. Further, the use of a cap to determine whether funding that was lower than the amount nominated to exit the industry would be offered was not consistent with the process established in the program guidelines or the assessment plan, which required an assessment against established criteria (outlined earlier in Table 4.1).

4.25 All eligible applicants, irrespective of merit scores, were recommended by the Advisory Panel for grant funding. The total approved grant funding of \$44 019 623 was within the funding envelope of \$44.2 million, with 25 eligible applicants offered a lower funding amount than requested. Of these 25, 24 harvest and/or haulage applicants were offered lower amounts on the basis

of the \$35 per tonne cap and one silviculture applicant was offered a lower amount on the basis of the panel's assessment of the applicant's business. While this approach maximised the number of businesses offered grant funding to exit the Tasmanian public native forest industry, the objective of 1.5 million tonnes of wood harvested and hauled that was expected to be removed from the Tasmanian forestry industry, was not achieved. The department advised the decision maker that the grants offered under the IGACEP would remove 865 628 tonnes of harvesting capacity (58 per cent of the target) and 973 718 tonnes of haulage capacity (65 per cent of the target).

Recommendation No.1

4.26 To improve the accountability and transparency of grant assessment processes for future grants programs, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry reinforce the:

- obligations to manage programs in accordance with approved program guidelines and the Commonwealth Grants Guidelines; and
- importance of retaining documentation to appropriately evidence the assessment of grant applications and decisions made.

DAFF's response:

4.27 *Agreed. The department acknowledges the important principle of undertaking robust and transparent grant assessment processes and that a fuller explanation of the Advisory Panel's rationale for its assessment decisions would have provided greater transparency and clarity to applicants.*

4.28 *In addition to its existing grants management guidance and training, the department is implementing training on the updated Commonwealth Grants Guidelines, to be rolled out to all staff and external assessors involved in grants administration from later this month. This training will further reinforce the obligations of staff and assessors to manage programs in accordance with the program guidelines and to document the decisions appropriately.*

Advising the decision maker

4.29 The decision maker¹⁰⁴ was responsible for making the final funding decision, taking into consideration the recommendations of the Advisory Panel. On 12 February 2012, the Advisory Panel provided its Grant Applicant Assessment Report to the decision maker. The covering minute broadly outlined the: program's background; decision maker's FMA Regulation 9 obligations¹⁰⁵; assessment process; and list of applications that the panel recommended for funding. The report provided details of: activities completed to raise awareness of the program among potential applicants; the number of applications lodged; the treatment of late applications; the assessment of applications against the eligibility, merit and assessment criteria; the panel's rules and decision parameters determined during the assessment; and the applications that were recommended for funding and the recommended grant offer. The assessment report included six annexures covering the:

- Advisory Panel's results sheet, which detailed final merit scores and recommended offers;
- eligibility report for all registered applicants that outlined whether the applicant had met the eligibility requirements;
- score sheet for each applicant that recorded the merit score, recommended offer and the panel's comments on each applicant;
- Grant Application Assessment Plan;
- Advisory Panel's decision sheets, which captured decisions made by the panel during the assessment process; and
- financial assessor's report.

4.30 The decision maker informed the ANAO that the Advisory Panel Chair provided two detailed briefings after submitting the assessment report. While the details of briefings were not recorded, the decision maker advised that the briefings covered the:

¹⁰⁴ The Minister delegated the role of decision maker to a senior DAFF officer. The Deputy Secretary responsible for Forestry Policy and Programs performed this role.

¹⁰⁵ FMA Regulation 9 establishes that an approver must not approve a spending proposal unless the approver is satisfied, after reasonable inquiries, that giving effect to the spending proposal would be a 'proper use' of Commonwealth resources. Proper use is defined as the efficient, effective, economical and ethical use that is not inconsistent with the policies of the Commonwealth.

- details relating to the use of the \$35 funding cap;
- management of late applications;
- reason why applications were deemed ineligible;
- selection process used to engage the financial assessor;
- Advisory Panel's application of criteria and decision rules; and
- successful applicants with a merit score of zero.

4.31 The decision maker further advised that, prior to approving funding decisions, he reviewed a sample of applications and was satisfied with the information provided within the assessment report and the additional information provided during the briefings. On 16 February 2012, the decision maker approved the 61 applicants recommended by the Advisory Panel, including the lower offers of grant funding to 25 applicants. The total funding allocated was \$44 019 623. The decision maker also approved 36 applicants as ineligible and four applications as being late and deemed ineligible by the panel without assessment.

Advice to applicants

4.32 The department initially intended to call all successful applicants on 17 February 2012. Although DAFF informed the ANAO that all successful and unsuccessful applicants were called, DAFF's records indicate that 38 successful and unsuccessful applicants were contacted by telephone following the assessment decision.

4.33 All applicants were notified in writing of the decision regarding their application. Letters to unsuccessful applicants were sent on 17 February 2012 outlining the reasons why the application was unsuccessful, including eligibility criteria that had not been met, and also provided information about income support that was available through the Department of Human Services.¹⁰⁶ Letters to successful applicants were sent between 21–22 February 2012¹⁰⁷ and outlined the: amount of funding offered; obligations of grant recipients who had previously received funding under the

¹⁰⁶ The Department of Human Services is responsible for delivering a range of health, social and welfare payments and services.

¹⁰⁷ One letter was sent on 29 February 2012.

Tasmanian Community Forest Agreement Industry Development Program¹⁰⁸; and the process for establishing a funding deed and receiving payments. All applicants were provided with information outlining the process for seeking a review of the decision.

Transparency around lower offers

4.34 As outlined earlier, of the 61 successful applicants, 25 applicants were offered less funding than they had sought in their applications. In the letters to successful applicants, DAFF advised that the lower amount was offered ‘having regard to the recommendations of the Advisory Panel following its overall assessment of your application in accordance with the Grant Program Guidelines’. However, DAFF did not disclose to these applicants the rationale for the lower offer.

4.35 Of the 25 applicants that received a lower amount than requested, two declined the offer and the remaining 23 accepted the lower offer. Of the 23 applicants that accepted the offer: four requested a review; three requested DAFF to provide the reason for the reduced funding offer; and two applicants enquired about a review, but accepted the offer without a review. In those cases where the reason for the reduced offer was requested, DAFF provided a general response, but did not advise that a cap had been used to calculate the lower offer and did not advise that actual tonnage harvested or hauled in 2009–10 had been used even where agreed tonnage could be verified.

Conclusion

4.36 DAFF provided the delegated IGACEP decision maker with timely and appropriate advice regarding the selection of applicants for funding. The IGACEP Grant Application Assessment Report, which was provided to the decision maker within 10 days of the panel’s final meeting, clearly outlined the panel’s recommendations, adequately explained the assessment process, including the determinations made by the panel during the assessment process, and the decision maker’s Regulation 9 obligations. In addition to the material included in the report, the decision maker received further information from the panel Chair on two occasions and reviewed a sample of

¹⁰⁸ For three successful IGACEP applicants, there were restrictions on the sale of machinery that had been purchased with Tasmanian Community Forest Agreement Industry Development Program grant funding.

applications. The department did not retain a record of the information provided to the decision maker by the panel Chair.

4.37 DAFF's provision of advice to successful and unsuccessful applicants was timely, with applicants advised of the outcome of the process within one week of the decision. The advice to unsuccessful applicants provided general information, including those eligibility criteria that were not met. Advice to applicants who were offered a lower amount of funding did not indicate that a funding cap had been used or that actual tonnage harvested or hauled for 2009–10 was used to determine funding offers. Despite receiving direct requests from those applicants seeking information on the reasons for the lower amount of funding offered, the department did not disclose the use of a funding cap as the reason for the lower offer. As a consequence, the basis on which the offer was made was not transparent to applicants.

Recommendation No.2

4.38 To enhance the transparency of future grants programs, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry advise applicants of any significant changes to the:

- method used to determine grant funding offers; and
- assessment process outlined in the program guidelines.

DAFF's response:

4.39 *Agreed. The department acknowledges that applicants would be better informed of decisions relating to their applications if all details of the assessment processes are provided earlier. Enhancements to the department's manual and checklist to highlight the importance of transparency and equity in the assessment process (particularly around the process for varying the assessment process) are currently being implemented.*

Decision review process

4.40 The program guidelines briefly outlined a complaints handling process for unsuccessful applicants. The guidelines indicated that concerns should initially be raised with the department. If no resolution was achieved, the applicant could then apply to the Commonwealth Ombudsman.¹⁰⁹ More

¹⁰⁹ Australian Government Department of Agriculture, Fisheries and Forestry, op.cit., p.14.

detailed advice about requesting a review and the review process was provided by the department in letters advising successful and unsuccessful applicants of the outcome of the assessment process. This advice was also included on the department's website.

4.41 Applicants had three months from the date of receipt of the decision letter to request a review. DAFF received 16 requests for review from four successful applicants that had been offered a lower amount of funding than requested and 12 unsuccessful applicants.

Conducting reviews

4.42 The DAFF officers reviewing the assessment decisions were independent from the original assessment process. Reviews were overseen by a Deputy Secretary who appointed an Assistant Secretary as the decision maker and a departmental officer to undertake the reviews.

4.43 The review process was to consider the applicant's claims against the: guidelines; original documentation submitted in the application; Advisory Panel's assessment report and supporting documentation; and delegate's decision. Templates were used to document and report on the outcomes of reviews.

Timeliness of decision reviews

4.44 The decision reviews were generally completed within the 30 working day timeframe. One review took 45 working days to complete, however, the department wrote to the review applicant advising of the delay.

Outcomes of the review process

4.45 The review officer provided the review decision maker with a report that: documented the information considered as part of the review and provided a recommendation for each decision reviewed. Of the 16 cases reviewed, the review officer recommended that 14 decisions be upheld and two decisions be changed, supporting an increase to the funding amount offered. In each case, the decision maker approved the recommendations and provided written advice of the outcome to each applicant that had requested a review.¹¹⁰

¹¹⁰ In each letter, DAFF included contact details for the Commonwealth Ombudsman to assist the applicant to seek a further review, where necessary.

4.46 In the two cases where a change in decision was considered necessary, the review officer recommended that a higher offer be made as errors had been identified in the panel's calculations of verified tonnage. In one case, the calculation had considered harvested tonnage, but not hauled tonnage. In the other case, sawlog tonnage had been omitted from the calculation. Despite these errors (totalling \$33 772.90), the department advised that it did not consider it necessary to conduct a broader review of the remaining funding offers to provide assurance regarding the integrity of all funding calculations, as 'spot checks' had been conducted in response to other issues that had been raised and similar errors had not been identified. However, the department had not retained records of its 'spot checks' of payment calculations. Given the level of funding involved and that funding calculations had not been provided to successful applicants, there would have been merit in the department confirming the accuracy of the funding offers made under the program.

4.47 To facilitate the \$33 772.90 increase in funding to the two applicants, the department required a new FMA Regulation 9 approval as it is expected that 'an arrangement or arrangements will be entered into, consistent with the terms of the spending proposal'. The Regulation 9 approval for the increase in the two funding offers was provided by the Advisory Panel Chair.

Subsequent review requests

4.48 One applicant requested a second DAFF review. The department advised the applicant that a response would be provided within 30 working days from 9 August 2012 (19 September 2012). A decision was made by the second reviewer on 26 October 2012 to uphold the original decision and the previous review outcome.

4.49 In addition, three applicants (two assessed as ineligible and one assessed as eligible, but offered a significantly lower level of funding than requested) have contacted the Commonwealth Ombudsman to request that an investigation be conducted. DAFF also informed the ANAO that one unsuccessful applicant had submitted an application to the Department of Finance and Deregulation under the Scheme for Compensation for Detriment caused by Defective Administration (the CDDA Scheme).¹¹¹

¹¹¹ The CDDA Scheme allows government agencies to compensate persons who have experienced detriment as a result of an agency's defective actions or inaction. Available from: <<http://www.finance.gov.au/financial-framework/discretionary-compensation/cdda-scheme.html>> [accessed 4 December 2012].

Conclusion

4.50 While the program guidelines included reference to a complaints handling process for unsuccessful applicants, the information made available to applicants did not sufficiently describe the process established by the department. All applicants were subsequently provided with additional information, including the opportunity to have the assessment decision reviewed, in the assessment decision letter and through the DAFF website. There is scope for the department to strengthen the coverage of complaints handling and review processes in its grants program guidelines.

4.51 DAFF received 16 requests for review from four successful applicants that had been offered a lower amount of funding than requested and 12 unsuccessful applicants. Reviews were undertaken and oversighted by officers who had not been involved in the assessment process and were generally completed within the established 30 working day timeframe. Of the 16 cases reviewed, the review officer recommended that 14 decisions be upheld and two decisions be changed to increase the funding amount offered due to identification of errors in the panel's calculations of verified tonnage. The department did not, however, conduct a broader review of the remaining funding offers to provide assurance regarding the integrity of all funding calculations.

5. Deed Management and Monitoring Compliance

This chapter examines DAFF's management of the payment of grant funding to successful grant applicants and the arrangements for managing grant recipients' ongoing compliance with funding conditions.

Introduction

5.1 DAFF used a funding deed to establish the terms and conditions of accepting grant funding under the IGACEP. Funding deeds were prepared for endorsement by each grant recipient and the department was responsible for managing the funding deeds, including making payments and monitoring grant recipients' ongoing compliance. The ANAO examined the department's:

- establishment of funding deeds for successful grant recipients;
- process for making grant payments; and
- arrangements for monitoring grant recipient's ongoing compliance over the 10 year term of the funding deed.

Establishing funding deeds

5.2 DAFF based the deed on the earlier Tasmanian Forest Contractors Exit Assistance Program (TFCEAP) with modifications to reflect the requirements for the IGACEP. In the case of the TFCEAP, the funding deed was used in combination with a Deed of Undertaking (a form of statutory declaration), through which the directors and/or owners of business' selected for funding under the program also agreed, as individuals, to meet the terms and conditions of funding. DAFF's legal advisors reviewed and updated both the funding deed and Deed of Undertaking to reflect the IGACEP program guidelines.¹¹²

5.3 The IGACEP deed outlined the overarching terms and conditions of the funding including the: conditions; project milestones; monitoring

¹¹² Under industry exit programs, it is likely that grant recipients' businesses will cease to exist after grant funding has been paid. There is, however, a risk that business owners or directors will re-enter the industry using a new business entity. The Deed of Undertaking provides a means for the Commonwealth to pursue the directors or owners to repay grant funding if they breach the funding deed, even in the cases where the original business has been deregistered.

requirements; payment of funding; Commonwealth's right to suspend or recover payments; reports to be provided by the grant recipient; and termination of the deed. A schedule attached to the deed outlined the: project term; project objectives; milestones and activities to meet milestones; and the payment schedule. Overall, the IGACEP funding deed appropriately established the terms and conditions that applied to grant recipients under the program.¹¹³

Execution of the deeds

5.4 DAFF was not required to negotiate details of the funding deeds with successful grant applicants as the program guidelines had set out the applicable terms and conditions including: milestone payments; requirements for meeting each milestone; terms of exit; and restrictions on re-entry.

5.5 The department prepared individual funding deeds, including conditions that the decision maker had endorsed for 10 successful applicants as a part of his approval, and provided the deeds to successful grant applicants for completion. DAFF used a checklist to assist with the preparation of the funding deeds and the status of draft funding deeds was tracked using a spreadsheet.

5.6 Of the 10 successful grant applicants with conditions included in the funding deed, nine applicants had conditions precedent¹¹⁴ and one applicant had a condition requiring 2010–11 financial statements to be provided prior to the Milestone 2 payment. The applicants with conditions precedent included:

- seven applicants who were required to provide a letter of support from the principal contract holder—Forestry Tasmania;
- one applicant who was required to clarify their business structure and relationships with subcontractors; and

¹¹³ The CCGs state that a grant funding deed must be consistent with the terms of the approval given under FMA Regulation 9, including any conditions precedent. Refer to: Australian Government Department of Finance and Deregulation, *op.cit.*, p.8.

¹¹⁴ A condition precedent is a requirement that must be met before a contract is deemed to be enforceable. As previously discussed in Chapter 4, some offers to successful grant applicants were contingent on specific conditions being met in addition to milestone requirements.

- one applicant who was to provide verified financial statements for 2010–11.¹¹⁵

5.7 Draft funding deeds were provided to DAFF’s legal advisors for review and, where needed, amendment. In six cases, the deeds were amended on the basis of legal advice to:

- better reflect the grant recipients’ business structures (three cases);
- manage an application by the Australian Taxation Office to wind up the business (two cases). In response, the Australian Taxation Office agreed to delay winding up proceedings if a payment plan was agreed and monetary instalments were established. In each case, DAFF split the Milestone 1 payment between the Australian Taxation Office and the successful grant applicant and included additional conditions in the funding deed; and
- avoid the risk of an applicant partially exiting the forest industry (one case) where the applicant held contracts with both Gunns Limited and Forestry Tasmania, but had not provided the required letter of support from Forestry Tasmania. DAFF reduced the Milestone 1 payment by 25 per cent and included a condition precedent requiring the letter of support be provided before the remainder of the Milestone 1 payment was released.

Meeting CGG reporting requirements following funding deed execution

5.8 Under the CGGs an agency must publish, on its website, information on each grant no later than seven working days after the funding agreement for the grant takes effect.¹¹⁶ Further, *Finance Circular No. 2009/04* requires agencies to publish details for grants activities, including: portfolio; agency title; program title; recipient’s legal name; purpose for which the money has been provided; and grant value (GST inclusive). All 58 grant recipients’ details were published on the department’s website within the required timeframe.

¹¹⁵ In this instance, the secretariat had not recorded the financial statements as unverified during its preliminary eligibility assessment. Both the secretariat and the panel assessed the applicant as eligible.

¹¹⁶ Australian Government Department of Finance and Deregulation, op.cit., p.12, paragraph 4.2.

Conclusion

5.9 DAFF modified the funding deed and Deed of Undertaking from the earlier Tasmanian Forest Contractors Exit Assistance Program (TFCEAP) to reflect the IGACEP requirements, which was a practical and efficient approach given the condensed timeframe for program delivery. The use of a Deed of Undertaking also positioned the department to achieve the program's longer term industry adjustment objective by making owners and directors jointly responsible for complying with the IGACEP terms and conditions. The IGACEP funding deeds appropriately outlined the terms and conditions associated with receiving program funding and were amended to incorporate additional conditions and to address identified risks, where necessary. The department also met its obligations under the Commonwealth Grant Guidelines, by publishing the details of funding deeds for the 58 successful applicants that accepted offers of grant funding, within the required timeframe.

Making grant payments

5.10 As outlined in the program guidelines, all IGACEP grants were to be paid by 30 June 2012 with payment against the grant recipients' achievement of the following two milestones:

- Milestone 1—payment of 75 per cent of the total grant amount approved on execution of a funding deed and a Deed of Undertaking by all directors/owners of the business; and
- Milestone 2—payment of 25 per cent of the total grant amount approved on provision of a signed Deed Poll along with:
 - an exit strategy for ongoing contracts or ongoing arrangements;
 - proof of payment of all employees' entitlements;
 - evidence that hire out or lease out arrangements for the businesses' forestry machinery had been terminated; and

- evidence that the business had stopped using its forestry machinery.¹¹⁷

5.11 In the case of each milestone, DAFF provided successful applicants with a milestone pack that included documentation to be completed and instructions for submitting a claim for payment. The information accompanying each claim for payment was reviewed for accuracy and completeness before the final approval from a senior departmental officer was sought and the final payment processed through departmental systems.

Completeness of documentation submitted to claim payments

5.12 DAFF provided Milestone 1 packs containing a tailored funding deed and a Deed of Undertaking to the 61 successful applicants. Of the 61 successful applicants, 58 accepted the offer by returning the documents to claim their Milestone 1 payment. Three successful applicants did not accept the grant funding offered by DAFF, with two applicants declining the offer in writing and the remaining applicant not returning the funding deed or Deed of Undertaking.¹¹⁸ All 58 grant recipients subsequently submitted a Deed Poll and the reports required to claim the Milestone 2 payment.

5.13 DAFF used checklists to manage the review of documentation submitted by grant recipients to support claims for payment. The Milestone 1 pre-approval checklist required officers to verify that: the details on the funding deeds were correct; the funding deed and Deed of Undertaking had been signed and dated; conditions had been met; solvency checks for the business and the directors/owners had been completed; and the tax invoice was appropriately rendered. The Milestone 2 pre-approval checklist required officers to check that: the deed poll was signed and dated; each annexure was completed correctly; conditions had been met; and the tax invoice was appropriately rendered.

5.14 Completed checklists were reviewed by a second officer and by the program manager or senior manager. The ANAO's review found that, for each

¹¹⁷ To address these milestone requirements, DAFF asked grant recipients to complete a series of reports that formed annexures to the Deed Poll. The Deed Poll sought grant recipients' acknowledgement that: the reports provided a full disclosure of ongoing activities and other businesses that might impact on the deed; requirements had been met; and it was an offence under the *Criminal Code Act 1995* (Cth) to provide false or misleading information to a Commonwealth entity.

¹¹⁸ Of these three, two applicants had been offered a lower amount than had been nominated to exit the industry and one applicant had been offered the amount requested to exit the industry.

grant recipient, DAFF had completed the checklist and placed it on an official file. DAFF also tracked the receipt of documents and actions taken to process payments using a spreadsheet.

5.15 The ANAO reviewed submitted claims to determine whether required documentation had been provided to demonstrate milestone achievement and confirmed that each recipient met the conditions listed in their funding agreement before their payment was recommended for release. For the 58 grant recipients reviewed by the ANAO, seven grant recipients had submitted incomplete documentation for Milestone 1 and 43 grant recipients (74 per cent) had submitted incomplete documentation for Milestone 2. In each case where documentation for Milestone 1 or 2 was incomplete, DAFF obtained the missing documentation before recommending payment. However, this extensive follow-up, required to ensure that all requirements had been met, also contributed to the delay in the department finalising payments to successful grant applicants. As reported in the department's *2011–12 Annual Report*, payments to 18 grant recipients were completed after 30 June 2012. Of these 18, the department advised that 15 payments were made in July 2012 and the final payment was made on 19 September 2012.

5.16 In relation to Milestone 2 claims, supporting documentation was generally incomplete because applicants had not: reconciled their reports to their applications; submitted documentation where there was a nil return; or signed each report as necessary. Although the department had provided detailed instructions for completing the reports, the instructions did not outline all requirements. For future programs, explaining all of the department's documentation requirements would help to ensure the provision of complete documentation by grant recipients.

5.17 An additional reason for incomplete Milestone 2 information being submitted was because a number of grant recipients were unable to provide the required report, signed by employees who had ceased employment, to verify that entitlements had been paid. In these cases, the department allowed grant recipients to submit a statutory declaration advising that the payment had been made. In total, 17 of the 58 grant recipients had submitted statutory declarations on behalf of 43 employees.

Approval to make a milestone payment

5.18 At each milestone, and for each grant recipient, a minute was prepared seeking approval from a senior DAFF officer to release the milestone payment.

These minutes provided: background information; details of any conditions, and information on whether recipients had met these; and recommended the delegate approve the milestone payment. In the case of the first milestone payment, the approving officer was also requested to sign and execute the funding deed. The minute seeking approval to release the Milestone 2 payment advised the decision maker that recipients had provided the documentary evidence required to effect the payment. The ANAO's analysis indicated that each grant payment was approved by an appropriately delegated officer.

Payments to ineligible applicants

5.19 To meet Milestone 2 obligations, grant recipients were required to provide a letter from their principal or contractor confirming that their contract or ongoing arrangement had now ceased. Milestone 2 documentation provided by one grant recipient (the contractor previously identified as ineligible from the ANAO's analysis as discussed in paragraph 3.29), advised that there had not been an ongoing contract or arrangement in place as at 24 July 2011—therefore confirming the applicant and the associated subcontractor were ineligible under the program's eligibility criteria.¹¹⁹ As the department considered these applicants to be eligible, it did not obtain legal advice, alert the decision maker or recover the Milestone 1 payments that had already been released. Both recipients (contractor and subcontractor) were recommended for payment and Milestone 2 payments were released. Grant funding paid to these two grant recipients totalled \$697 000.

Processing payments

5.20 DAFF's financial commitments and grant payments must be processed through the department's grants management system (Clarity). While Clarity has the functionality to manage all aspects of grant program delivery, such as recording whether milestone requirements have been met, IGACEP administrators only used Clarity to authorise IGACEP payments because they considered: there was a limited number of Clarity licenses available; obtaining a Clarity license attracts additional administrative costs; and officers require training to use Clarity, which was problematic for IGACEP given the condensed timeframe available for program delivery.¹²⁰ Instead, DAFF officers

¹¹⁹ Under eligibility Criterion (b), to be eligible to apply for a voluntary exit grant, a contracting business must have an ongoing contract(s) or ongoing arrangement(s) to conduct contracted operations in Tasmanian public native forest as at 24 July 2011 and provide evidence of that contract or arrangement.

¹²⁰ The department advised that three officers within the IGACEP team had access to Clarity.

monitored payment processing for both Milestone 1 and 2 payments using a post-approval checklist. In addition, DAFF tracked its progress in making payments using a spreadsheet. Details of the grant recipient and of the payment were entered into Clarity after the funding deed had been countersigned by a delegated senior DAFF officer.

5.21 The ANAO's review of payments made to the 58 grant recipients showed that all but two payments were made using Clarity. In two cases where payments were made to the Australian Taxation Office on behalf of grant recipients that had been issued with winding up instructions, the department used a manual process (direct deposit) to make the payments. These payments were subsequently recorded in Clarity to assist the department to reconcile payments made with the total approved funding.

Accuracy of payments

5.22 DAFF reviewed the accuracy of Clarity payments through a post-payment reconciliation process. Through this process, the department identified that a payment error of \$148 069 had occurred despite the independent review and verification processes undertaken. The payment was made on 3 April 2012 and the error was identified on 10 April 2012. DAFF corrected the error within 48 hours. The ANAO's analysis did not identify any further payment errors.

Timeliness of payments

5.23 The funding allocated to IGACEP was intended to be expended within the 2011–12 financial year, with all payments required to be made by 30 June 2012. While DAFF worked to finalise all payments by the established deadline, the provision of incomplete milestone documentation by grant recipients meant that payments to 18 grant recipients were not made within the 2011–12 financial year. DAFF sought advice from the department's Finance and Business Support Division on whether funding allocated to IGACEP could be carried over and expended in 2012–13. On the basis that all recipients had submitted milestone documentation by 30 June 2012, program staff were advised that payments could continue into the 2012–13 financial year. The ANAO confirmed that all grant recipients had submitted the required documentation by 30 June 2012.

5.24 To facilitate project closure following Milestone 2 payments, DAFF officers established a project checklist to help to ensure that all necessary documentation had been recorded and filed appropriately.

Conclusion

5.25 The IGACEP guidelines established that all grants were to be paid by 30 June 2012. To claim their payments, applicants were required to submit, for Milestone 1, a funding deed and a Deed of Undertaking and, for Milestone 2, a Deed Poll with reports confirming that exit requirements had been met. DAFF provided each successful grant applicant with required documentation to be completed and used a suite of checklists to review the documentation submitted to claim payments against the two milestones. In general, payments were made in accordance with funding agreements.¹²¹

5.26 Payments were approved by an appropriate delegate and processed through Clarity and the financial management system.¹²² The payments under the IGACEP were finalised for 40 grant recipients by 30 June 2012 and for all grant recipients by 19 September 2012. The department did not meet the established 30 June 2012 deadline, primarily because extensive follow up work was required to ensure that all requirements had been met, particularly Milestone 2 requirements, before payments could be made. Notwithstanding the general adequacy of the established processes, the integrity of program payments was adversely impacted in a small number of cases.

Managing ongoing compliance

5.27 The IGACEP provided payments to support the immediate exit of grant recipients from their public native forest operations in Tasmania on the basis that recipients (both businesses and owners/directors) do not re-enter the forest industry nationally for a period of 10 years (except to the extent of existing contractual arrangements in the mainland sector, the Tasmanian private native sector or the Tasmanian plantation sector).

5.28 Managing grant recipients' compliance with IGACEP terms and conditions will be challenging, particularly given: the sensitivities surrounding the exit of businesses from the forestry sector; the nature of recipients' businesses and the complexity of business arrangements; and the 10 year exclusion from re-entering the forest industry nationally. To help ensure that IGACEP grant recipients comply with their obligations, an appropriate

¹²¹ In one case, an underpayment was made because the Good and Services Tax had not been included. The ANAO's analysis did not identify any further payment errors.

¹²² In two cases, payments were made through direct deposits.

compliance strategy, informed by a risk assessment, would enable DAFF to target available resources at the highest priority risks and effectively respond to changing and emerging risks.

5.29 As the compliance obligations that apply to the receipt of a grant may influence a business' decision to apply for funding, it is important that this information is made available prior to the commencement of the application period. The establishment of a risk-based compliance strategy early in a program's design phase means compliance obligations can be incorporated into program guidelines and funding deeds and be clearly communicated to applicants. While DAFF did not establish an IGACEP compliance strategy early in the design phase of the program, the department advised that it was well aware of possible compliance issues. To respond to these issues the department: incorporated clauses into the funding deed that outline recipients' compliance obligations; and commenced preparing a compliance plan.

Compliance obligations established under funding deeds

5.30 The IGACEP funding deed establishes key obligations on grant recipients to enable DAFF to monitor compliance with the terms and conditions of funding. Specifically, ongoing compliance activities are facilitated by the inclusion of terms and conditions that relate to the Commonwealth's right to seek information and to conduct site visits.

5.31 While these requirements facilitate ongoing compliance monitoring, additional or alternative requirements were not considered as part of an overarching compliance strategy, nor were they based on a documented assessment of compliance risks. The proposed monitoring arrangements, which are primarily based on self-reporting, also provide a limited level of assurance regarding compliance. Although the inclusion of site visits potentially provides greater assurance, the deterrent effect offered by the site visits under IGACEP has been reduced with the inclusion of the requirement for the Commonwealth to provide advance notice to recipients of a pending compliance visit. DAFF informed the ANAO that it relies on the goodwill of grant recipients to accommodate compliance visits. However, including in both the guidelines and the funding deed that unannounced compliance visits were a condition of funding, would have provided DAFF with a stronger basis for managing compliance, particularly as there is limited financial incentive for

grant recipients to remain compliant following receipt of Milestone 2.¹²³ There would be merit in DAFF enhancing existing guidance material to emphasise the importance of developing risk-based compliance monitoring strategies for grant programs during the planning and design phase.

Compliance plan

5.32 While DAFF commenced work on the development of a compliance plan for IGACEP in April 2012, the plan was not approved until 11 December 2012 and some aspects of the compliance plan are yet to be finalised. DAFF informed the ANAO that the plan had not been finalised due to the delayed provision of funding for compliance activities (funding of \$100 000 was secured in the 2012 Federal Budget for 2012–13 compliance activities for both IGACEP and the TFCEAP).

5.33 The compliance plan provides high level information on intended compliance activities, with a focus on the following two primary mechanisms to monitor grant recipients' compliance with funding terms and conditions: the Milestone 2 report; and ongoing compliance activities (both desk-based and on-the-ground activities) to be delivered by the department or a service provider. The department informed the ANAO that significant compliance was built into milestone reporting and it considered that this provided the basis for ongoing monitoring.¹²⁴ The actions and the status of each action are outlined in Table 5.1 (on the following page).

¹²³ The funding deed allows the Commonwealth to seek the repayment of funding where funding is not spent in accordance with the terms and conditions of the deed.

¹²⁴ The final milestone payment was made in September 2012, three months prior to the completion of the compliance plan.

Table 5.1**Compliance management mechanisms**

Phase	Action	Completed
Milestone 2 compliance reporting	Checks on the cessation of businesses.	DAFF used web-based search tools to verify that: recipient businesses had ceased operation; the Australian Business Number and/ or business name had been annulled; and to verify that recipients had not established a new business entity on or after 26 October 2011. DAFF also obtained reports from grant recipients advising that these requirements had been met.
	Checks on the payment of employee entitlements and the cessation of use and hiring/leasing of machinery.	DAFF obtained reports from grant recipients advising that these requirements had been met. Reports pertaining to employee entitlements were to be signed by a certified accountant. For employees who could not be contacted, or who would not sign an employee entitlement report, a statutory declaration was submitted to verify that the employee had been paid.
	Checks on grant recipients who had assets purchased with grant funding under a previous program.	DAFF included, within its letter of offer to successful applicants, details relating to the obligations of those applicants who had received funding under a previous program.
Ongoing compliance activities	Onsite compliance checks	Activity on this phase is yet to commence.
	Yearly letter (until 2022) to grant recipients to check ongoing compliance.	DAFF activity on this phase is yet to commence.

Source: ANAO analysis of DAFF's compliance plan.

5.34 As outlined earlier, DAFF's proposed approach to ongoing compliance monitoring is heavily reliant on annual self-reporting from grant recipients, supplemented by compliance visits. All grant recipients are to be subject to a compliance visit in 2012–13 and 2013–14, with further compliance visits to be informed by risk ratings.

5.35 There is scope for the department to target ongoing compliance monitoring activities, particularly compliance visits, using information retained by the department on grant recipients. This information could be used to identify recipients that potentially could present a greater risk of non-compliance. Specifically, DAFF has received information through the application and payment process that identifies those recipients:

- with ongoing contracts (to conduct work in private native forests);
- with retained machinery;

- with ongoing employees; and
- who have received significantly less funding to exit the forest industry than initially requested in their applications.

5.36 The development of compliance risk profiles would better position DAFF to target its compliance monitoring activities initially—directing available resources toward recipients with the highest risk rating. This approach would also help to ensure that lower risk recipients were not subject to unnecessary compliance monitoring coverage.

5.37 The establishment of arrangements to capture compliance data to inform ongoing monitoring would also assist the department to provide assurance to stakeholders regarding grant recipients' compliance and, in turn, inform an assessment of the extent to which the program has supported the restructuring of the Tasmanian forest industry. In addition, the department's ability to identify, analyse and prioritise compliance risks and, revise the compliance plan accordingly, will be dependent on the quality of information available.

Conclusion

5.38 The establishment of a risk-based compliance strategy early in a program's design phase enables compliance obligations to be incorporated into the program's guidelines and funding deeds and for them to be clearly communicated to applicants. While DAFF did not establish a compliance strategy early in the design phase of the IGACEP (the compliance strategy was approved on 11 December 2012), the department: incorporated clauses into the funding deed that outline recipients' compliance obligations; and commenced preparing a compliance plan.¹²⁵ At the date of preparation of this report, the department is yet to determine the number of compliance visits, the basis on which grant recipients will be selected for visits and how compliance data will be captured and used to inform ongoing monitoring.

¹²⁵ Although site visits are included in the conditions outlined in the funding deed, the deterrent effect offered by the site visits under IGACEP has been reduced with the inclusion of the requirement for the Commonwealth to provide advance notice to recipients of a pending compliance visit.

Recommendation No.3

5.39 To enable the Department of Agriculture, Fisheries and Forestry to monitor compliance with the terms and conditions of funding, the ANAO recommends that the department reinforce the importance of:

- preparing compliance strategies and determining the basis for funding ongoing compliance obligations early in the design phase of grants programs; and
- incorporating compliance obligations into program guidelines and funding agreements.

DAFF's response:

5.40 *Agreed. The department's guidance already advises that performance (including compliance and audit) monitoring be built into the design of grant programs and detailed in program guidelines. The training currently taking place will reinforce that early development of compliance strategies, including identification of funding for ongoing activities and building these into guidelines, constitutes good practice.*



Ian McPhee
Auditor-General

Canberra ACT
21 February 2013

Appendices

Appendix 1: Agency's full response to the proposed report



Australian Government
Department of Agriculture, Fisheries and Forestry

REF: EXEC2012-09256

Ms Barbara Cass
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
BARTON ACT 2601

Dear Ms Cass 

Thank you for your letter of 19 December 2012, and for subsequently meeting with officers from the Department of Agriculture, Fisheries and Forestry on 29 January 2013, regarding the proposed performance audit report on the administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program.

The department welcomes the ANAO's acknowledgement that: the department undertook extensive consultation in the design and the development of the program including with the Tasmanian Government and a number of industry bodies; applicants were aware of the opportunity to apply and that the guidelines were generally clear and comprehensive; and there was a practical and efficient approach to development of the contractual arrangements.

The report also recognises that the program was delivered in a challenging and condensed timeframe and notes the comments of the Joint Committee of Public Accounts and Audit, in its Report 435, that the Government gives consideration to the capacity of agencies to comply with administrative requirements when delivering programs in compressed timeframes. The department considers that the timeframe along with the limited applicant group and the program's relationship to the broader range of initiatives designed to diversify the Tasmanian economy define the context in which the program was delivered.

The department acknowledges the overall findings of the audit report including that assessment processes for grants can be improved so that the rationale for decisions is clearer and all details are conveyed to applicants; and that more detailed advice of compliance activities are set out in program guidelines. As the report notes, there was a requirement for the program to be put in place quickly and as such the department considers that it was prudent to prioritise its activities.

The department considers that the program achieved its objective by assisting the Tasmanian forest industry to adjust to the downturn in the sector and to the reduced scale of native forest harvesting through the exit of 58 harvest, haulage and silviculture contracting businesses.

The department agrees with each of the recommendations made in the audit report and in addition to existing grants management training and guidance, has planned the roll-out of training from later this month, to all staff and external assessors involved in grants management processes which will reinforce the key principles outlined in the updated Commonwealth Grant Guidelines.

With respect to the three recommendations within the report, the department provides the following comments.

T +61 2 6272 4180
F +61 2 6272 4906

18 Marcus Clarke Street
Canberra City ACT 2601

GPO Box 858
Canberra ACT 2601

daff.gov.au
ABN 24 113 085 695

Recommendation No. 1: Agreed.

The department acknowledges the important principle of undertaking robust and transparent grant assessment processes and that a fuller explanation of the Advisory Panel's rationale for its assessment decisions would have provided greater transparency and clarity to applicants.

In addition to its existing grants management guidance and training, the department is implementing training on the updated Commonwealth Grants Guidelines, to be rolled out to all staff and external assessors involved in grants administration from later this month. This training will further reinforce the obligations of staff and assessors to manage programs in accordance with the program guidelines and to document the decisions appropriately.

Recommendation No. 2: Agreed.

The department acknowledges that applicants would be better informed of decisions relating to their applications if all details of the assessment processes are provided earlier. Enhancements to the department's manual and checklist to highlight the importance of transparency and equity in the assessment process (particularly around the process for varying the assessment process) are currently being implemented.

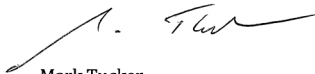
Recommendation No. 3: Agreed.

The department's guidance already advises that performance (including compliance and audit) monitoring be built into the design of grant programs and detailed in program guidelines. The training currently taking place will reinforce that early development of compliance strategies, including identification of funding for ongoing activities and building these into guidelines, constitutes good practice.

Finally, I would like to acknowledge the cooperation and assistance provided by members of your audit team.

Thank you for the opportunity to comment on the proposed audit report.

Yours sincerely



Mark Tucker
Deputy Secretary

4 February 2013

Appendix 2: IGACEP merit criteria

Merit Criteria—Harvesting and Haulage

Each criterion was weighted. The weighted scores for all criteria were to be added together and a total score used to determine the applicant's ranking against the criteria. The criteria for harvest and haulage were weighted as follows: Criterion 1 (40 per cent); Criterion 2 (40 per cent); and Criterion 3 (20 per cent).

Criterion 1: Reduction in tonnage (40 per cent)

The difference between the business' actual delivered harvest and/or haulage tonnage from Tasmanian public native forests for the period 1 July 2010 to 30 June 2011 and the business' annual agreed tonnage from Tasmanian public native forests under ongoing contracts or ongoing arrangements. This calculation was to be expressed as a percentage reduction for scoring purposes. Where a business did not have an annual agreed tonnage in its contract or arrangements it was to be based on the difference between actual delivered tonnage for the period 1 July 2010 to 30 June 2011 and actual delivered tonnage for the period 1 July 2009 to 30 June 2010.

This criterion sought to take account of the reduction in business operations from industry restructuring (for example the withdrawal of Gunns Limited from native forest logging and/or activities codified in the Agreement). The highest percentage in reduction was to be scored highest.

Criterion 2: Nominated amount (40 per cent)

The dollar amount nominated by an applicant to voluntarily exit divided by the business' annual agreed tonnage from Tasmanian public native forests under ongoing contracts or ongoing arrangements for the period 1 July 2009 to 30 June 2010. Where a business did not have an annual agreed tonnage in its ongoing contract or ongoing arrangements the actual delivered tonnage for the period 1 July 2009 to 30 June 2010 was to be used. This provides a value per tonne. The lowest value was to be scored highest.

Criterion 3: Supply chain exit (20 per cent)

A supply chain includes the principal, contract holders and subcontractors. For this criterion support meant a signed statement included with the application form showing the agreement of the principal and/or contract holder and/or subcontractors in the supply chain for the business to exit. Where a business can demonstrate that it existed prior to 24 July 2011 and was still active at 24 July 2011 and:

- this exit is supported by the principal and the contract holder and all the subcontractors in the supply chain, the business was to receive the full score under this criterion.
- this exit is supported by either the principal and the contract holder or all the subcontractors in the supply chain, the business was to receive half the score under this criterion.
- this exit is not supported by the principal and the contract holder and is not supported by all the subcontractors in the supply chain, the business was to receive no score under this criterion. For the sake of clarity this meant that if the business is supported by some, but not all subcontractors and not supported by the contract holder it was to receive no score for this criterion.

Merit criteria—Silviculture

Each criterion is equally weighted. The scores for each criterion were to be added together and a total score used to determine the applicant's ranking against the criteria.

Criterion 1: Reduction in hectares (50 per cent)

The difference between actual hectares of contracted operations in Tasmanian public native forests for the period 1 July 2010 to 30 June 2011 and the business' actual hectares of contracted operations for the period 1 July 2009 to 30 June 2010. This calculation was to be expressed as a percentage reduction for ranking purposes. This criterion sought to show the reduction in business operations from industry restructuring and associated with actions codified in the Agreement. The highest percentage in reduction was to be scored highest. Given the varying scope and nature of silvicultural contracting businesses the panel was to verify the percentage reduction through financial statements.

Criterion 2: Nominated amount (50 per cent)

The dollar amount nominated by an applicant to voluntarily exit was to be divided by the average of actual hectares of contracted operations in Tasmanian public native forests for the period 1 July 2009 to 30 June 2010. The lowest value was to be ranked highest.

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