

Australian Wool Innovation

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Canberra ACT

6 June 2023

Dear President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in the Australian Wool Innovation. The report is titled *Australian Wool Innovation*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

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

Yours sincerely



Grant Hehir
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Audit snapshot

Auditor-General Report No.32 2022–23

Australian Wool Innovation



Why did we do this audit?

- ▶ Rural research and development corporations (RDCs) help drive agricultural innovation and improve profitability, productivity, competitiveness and long-term sustainability of Australia's primary industries. RDCs are funded by industry levies and payments from the Australian Government through Statutory Funding Agreements (SFAs).
- ▶ This audit examined whether Australian Wool Innovation (AWI) is effectively complying with the SFA.



What did we find?

- ▶ AWI is largely effective in meeting the requirements of the SFA.
- ▶ AWI's management and governance arrangements are largely appropriate.
- ▶ AWI is largely effective in applying the performance principles under the SFA.
- ▶ AWI's arrangements for the management of funds are largely effective.



What did we recommend?

- ▶ There were six recommendations to AWI aimed at improving: board performance reviews; the development and maintenance of a balanced portfolio; measurement and reporting on improvements in administrative efficiency; arrangements to determine eligible research and development (R&D) processes for preparing matching payment claims; and risk management.
- ▶ AWI agreed to six recommendations.



Key facts

- ▶ AWI is a not-for-profit company established under the *Wool Services Privatisation Act 2000*. It is an industry-owned RDC.
- ▶ In October 2020, AWI and the Australian Government entered into a 10-year SFA, which contains five performance principles that AWI must 'act in accordance with and uphold'.

\$3.6bn

Total value of Australian wool exports in 2021–22.

25%

Greasy (unprocessed) wool sold on the world market is produced by Australia.

\$57.7m

Levy and matching payments received by AWI via the SFA in 2021–22.

Summary and recommendations

Background

1. Australian Wool Innovation Limited (AWI) is a not-for-profit company established under the *Wool Services Privatisation Act 2000* (Wool Services Privatisation Act). It is one of 10 industry-owned rural research and development corporations (RDCs) in Australia.¹ AWI is a public not-for-profit company limited by shares and owned by AWI shareholders.² Its purpose is to:

- enhance the profitability, international competitiveness and sustainability of the wool industry;
- increase value, demand and market access for Australian wool; and
- invest in research, development, extension and marketing initiatives whilst collaborating and consulting with stakeholders.³

2. AWI is governed by a Board of Directors (board), which appoints a Chief Executive Officer (CEO). As well as the Wool Services Privatisation Act, AWI is subject to the requirements in the *Corporations Act 2001*, *Australian Charities and Not-for-profits Commission Act 2012* and other legislation applicable to companies and not-for-profit entities. As a non-government entity, AWI is not subject to the requirements of the *Public Governance, Performance and Accountability Act 2013* and associated rules.

Rationale for undertaking the audit

3. RDCs are a vehicle through which the Australian Government and primary producers co-invest in research and development for the benefit of industry and regional communities. RDCs help drive agricultural innovation and seek to improve the profitability, productivity, competitiveness and long-term sustainability of Australia's primary industries.

4. On 20 October 2021, the Senate Rural and Regional Affairs and Transport Legislation Committee wrote to the Auditor-General requesting an audit be conducted on AWI. The Joint Committee of Public Accounts and Audit identified the topic as an audit priority of the Parliament for 2022–23.

5. This audit provides independent assurance to Parliament on AWI's compliance with the requirements of the Statutory Funding Agreement (SFA), including in relation to governance and management, application of the performance principles, and the management of funds.

6. This is the first Australian National Audit Office (ANAO) audit of AWI, or any industry-owned RDC.⁴ This audit was conducted under paragraph 18B(1)(b) of the *Auditor-General Act 1997* (Auditor-General Act). AWI is a Commonwealth partner as defined in subsection 18B(2) of the Auditor-General Act.

1 There are also five statutory RDCs in Australia.

2 AWI had 19,776 shareholders as at 30 June 2022. To be eligible to become an AWI shareholder, applicants must have paid at least \$100 in wool levies in the past three years.

3 Australian Wool Innovation, *Strategic Plan 2022–2025*, p. 3.

4 The five statutory RDCs were examined in Auditor-General Report No.21 of 2019–20 *Probity Management in Rural Research and Development Corporations*.

Audit objective and criteria

7. The audit objective was to examine whether AWI is effectively meeting the requirements of the SFA.

8. To form a conclusion against the objective, the following high-level audit criteria were adopted.

- Does AWI have appropriate management and governance arrangements?
- Is AWI effectively applying the performance principles under the SFA?
- Is AWI effectively managing funds in accordance with the SFA?

9. The audit focused on AWI's compliance with the requirements under the SFA. The audit did not examine:

- merits of decisions made by the AWI board;
- the effectiveness of the programs, projects or investments undertaken by AWI; and
- the effectiveness of the Department of Agriculture, Fisheries and Forestry's (DAFF) role in overseeing the operations of and administering the funding for AWI.

Conclusion

10. AWI is largely effective in meeting the requirements of the SFA. It has been making improvements to its governance, stakeholder engagement and monitoring and evaluation arrangements; however, some of AWI's policies and processes need to be updated to align with the current SFA.

11. AWI's management and governance arrangements are largely appropriate. AWI details its governance arrangements in policies, which are regularly reviewed. AWI assesses the skills and performance of its board annually. The skills assessed largely align with the skills required by the SFA, except for skills relating to public policy and administration. AWI had not established policy and guidance for its directors and officers regarding the SFA requirement to not engage in agri-political activity. AWI has established a risk management policy and framework and prepares risk profiles for each of its programs and support and administrative areas, which are regularly reviewed. AWI has established a strategic plan that aligns with and has regard to the SFA performance principles and relevant guidelines. AWI has appropriate arrangements to address issues identified in performance reviews.

12. AWI is largely effective in applying the performance principles under the SFA. AWI engages with stakeholders and is undertaking cross-industry and cross-sectoral collaboration. AWI has not established a research, development and extension (RD&E) investment profile, against which the balance of the portfolio can be monitored. The investment portfolio does not outline the planned proportion or target of projects against AWI's strategic plan's priorities, government and industry priorities, or by risk and return. AWI has established a measurement and evaluation framework to track and report on outcomes of RD&E and marketing activities and is measuring and demonstrating improvement in governance. It is not effectively monitoring or reporting on improvements in administrative efficiency.

13. AWI's arrangements for the management of funds are largely effective. AWI has policies for spending funds and has established largely effective processes for approving projects and

purchase orders in accordance with its financial delegations. AWI does not have a documented control framework to provide visibility over the effectiveness of its processes and controls. AWI has not established a methodology for calculating the proportion of eligible R&D for projects. The terminology and approach used by AWI in its matching payment claims differs from year to year as well as differing from the terminology and approach used by DAFF. There are substantial differences between the R&D excess amounts listed in AWI's matching payment claims and the data in DAFF's systems. AWI is not managing risk for high-risk and high-value projects in accordance with its Risk Management Framework. AWI's annual reports comply with the SFA requirements. It publishes plans, reports, priorities and key information about its activities.

Supporting findings

Governance and management

14. AWI's governance arrangements largely align with ASX Corporate Governance Principles and Recommendations. AWI details its governance arrangements in policies and protocols, which are regularly reviewed. AWI's board meeting records are largely complete and it assesses the skills and performance of its board annually. The skills assessed largely align with the skills required by the SFA, except for skills relating to public policy and administration. AWI has established a code of conduct and probity policies. AWI has established a risk management policy and framework. It prepares risk profiles for each of its programs and support and administrative areas, which are reviewed by the Audit and Risk Committee every six months. (See paragraphs 2.3 to 2.61)

15. AWI has established a strategic plan for 2022–25. The strategic plan is accompanied by an annual operating plan that provides a detailed outline of activities under individual programs. AWI consulted with its key stakeholders on the development of its 2022–25 Strategic Plan. The strategic plan aligns with and has regard to the SFA performance principles and relevant guidelines. (See paragraphs 2.62 to 2.70)

16. AWI has arranged its Reviews of Performance (ROP) and Annual Performance Meetings with DAFF in accordance with the SFA and publishes its progress in implementing ROP recommendations on the ROP Implementation Portal. AWI has implemented recommendations from other independent reviews including the WoolPoll Review and the Wool Selling Systems Review. (See paragraphs 2.71 to 2.85)

Performance principles

17. AWI's consultation and communication approaches, in place as at March 2023, largely align with DAFF's best practice guide principles and industry-specific guidance. AWI has established stakeholder consultation forums and commissions an annual survey to seek feedback from woolgrowers. AWI engages with stakeholders to identify RD&E priorities and activities. AWI is undertaking cross-industry and cross-sectoral collaboration to address shared challenges and draw on experience from other sectors. (See paragraphs 3.3 to 3.32)

18. AWI has established arrangements to monitor and report on investment against its strategic portfolios and government and industry strategic plans and priorities. It has established arrangements to monitor and report on the collaboration status of its projects. While AWI identifies the balance of risk and return for its projects, this information is not provided to the board to support oversight and inform investment decision-making. AWI has not established an

RD&E investment profile, against which the balance of the portfolio can be monitored. The investment portfolio does not outline the planned proportion or target of projects against AWI's strategic plan's priorities, government and industry priorities, or by risk and return. (See paragraphs 3.33 to 3.57)

19. AWI has established a measurement and evaluation framework to track and report on outcomes of RD&E and marketing activities. AWI publishes reports on its progress against annual program targets every six months. AWI's annual reports are accompanied by performance reports, which provide a high-level summary of AWI's investments. AWI is measuring and demonstrating continuous improvement in governance. It is not effectively monitoring or reporting on improvements in administrative efficiency. (See paragraphs 3.60 to 3.76)

Management of funds

20. AWI has financial policies for spending funds, which are reviewed. It has established financial delegations and largely effective processes for approving projects and purchase orders in accordance with its financial delegations. AWI's financial reports and matching payment claims are independently audited. AWI has established arrangements to review its compliance with SFA clauses relating to the management and application of funds. AWI does not have a documented control framework to provide visibility over the effectiveness of its processes and controls. (See paragraphs 4.3 to 4.34)

21. AWI has not established a methodology for calculating the proportion of eligible R&D for projects. AWI's processes are reliant on examples and interpretations from the 2010–2013 SFA. The terminology and approach used by AWI in its matching payment claims differ from year to year as well as differing from the terminology and approach used by DAFF. There are substantial differences between the R&D excess amounts listed in AWI's matching payment claims and the data in DAFF's systems. AWI identifies project risks and mitigations. AWI is not managing risk for high-risk and high-value projects in accordance with its Risk Management Framework. (See paragraphs 4.35 to 4.75)

22. AWI's annual reports comply with the requirements of the SFA and the *Australian Charities and Not-for-profits Commission Act 2012*. AWI publishes its annual reports on its website. It publishes documentation required to be made public under the *Corporations Act 2001* and the SFA on its website. AWI has also published plans, reports, priorities and key information about its activities. (See paragraphs 4.78 to 4.80)

Recommendations

Recommendation no. 1 Australian Wool Innovation update its policies, board performance review processes and reporting to include all skills listed in the Statutory Funding Agreement.

Paragraph 2.30

Australian Wool Innovation response: *Agreed.*

Recommendation no. 2 Australian Wool Innovation develop, implement and maintain a balanced portfolio by:
Paragraph 3.58

- (a) establishing an investment profile, which outlines a target proportion of projects against AWI, government and industry priorities and for each risk and return category; and
- (b) monitoring investments and the balance of the portfolio against these targets.

Australian Wool Innovation response: *Agreed.*

Recommendation no. 3 Australian Wool Innovation establish performance indicators to measure and report on improvements in administrative efficiency.
Paragraph 3.77

Australian Wool Innovation response: *Agreed.*

Recommendation no. 4 Australian Wool Innovation improve its arrangements for determining eligible R&D by:
Paragraph 4.50

- (a) updating its policies and processes to align with the 2020–2030 Statutory Funding Agreement; and
- (b) establishing methodology outlining how to consistently determine and review the proportion of eligible R&D assigned to projects.

Australian Wool Innovation response: *Agreed.*

Recommendation no. 5 Australian Wool Innovation improve its processes for preparing matching payment claims by:
Paragraph 4.65

- (a) using consistent terminology that aligns with the terminology used by the Department of Agriculture, Fisheries and Forestry; and
- (b) accurately calculating and recording excess R&D in accordance with the Statutory Funding Agreement 2020–2030 and the *Wool Services Privatisation Act 2000*.

Australian Wool Innovation response: *Agreed.*

Recommendation no. 6 Australian Wool Innovation consistently apply the processes and requirements for project risk management outlined in its risk management framework.
Paragraph 4.76

Australian Wool Innovation response: *Agreed.*

Summary of entity response

Australian Wool Innovation Ltd (AWI) welcomes the review and findings that AWI is largely effective in meeting our requirements under the Statutory Funding Agreement with the Commonwealth.

AWI operates under the principle of continuous improvement and welcome the findings from the ANAO to further strengthen our processes.

AWI agrees to all 6 recommendations.

Key messages from this audit for all Australian Government entities

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

Governance and risk management

- For research and development organisations like AWI, clearly communicating the scope of its role to stakeholders is important to manage expectations, ensure productive engagement and consultation, and provide clarity in its strategic direction. Limitations on its role should be clearly articulated in its key policy documents.
- Reporting publicly on the progress of the implementation of recommendations from performance reviews, like AWI is doing through its Review of Performance Implementation Portal, supports transparency and accountability.

Program implementation

- Leveraging the experience and knowledge of peak bodies and representative organisations can be an effective and efficient way to consult, obtain information and receive feedback. When required to consult with a broad range of stakeholders, establishing a core consultative group comprising a representative subset of the industry can help facilitate effective engagement. There should be clear criteria for membership so that the group is sufficiently representative of the industry and provides a diversity of views.

Audit findings

1. Background

Introduction

1.1 Australian Wool Innovation Limited (AWI) is a not-for-profit company established under the *Wool Services Privatisation Act 2000* (Wool Services Privatisation Act). It is one of the 10 industry-owned rural research and development corporations (RDCs) in Australia.⁵ AWI is a public not-for-profit company limited by shares and owned by AWI shareholders.⁶ It is established to:

- (i) receive funds from the Commonwealth of Australia comprising proceeds from the Wool Levy and contributions by the Government to research and development in relation to the wool industry and account to the Government and Parliament of the Commonwealth of Australia for the expenditure of such funds;
 - (ii) seek funds from other persons for research and development, innovation and other activities for the benefit of Australian woolgrowers;
 - (iii) manage funds the Company receives and risks related to the Company's ongoing expenditure and funding;
 - (iv) investigate and evaluate the requirements for research and development and innovation in relation to the wool industry;
 - (v) provide funds for research and development and innovation activities in relation to the wool industry;
 - (vi) facilitate the dissemination, adoption and commercialisation of the results of research and development and innovation in relation to the wool industry;
 - (vii) manage, develop and exploit intellectual property from research and development activities, and to receive the proceeds of such development and exploitation;
 - (viii) provide services to Australian woolgrowers in the interests of the Australian wool industry; and
 - (ix) engage in any other activities in the interests of the Australian wool industry,
- in each case for the benefit of Australian woolgrowers.

1.2 AWI is governed by a Board of Directors, which appoints a Chief Executive Officer (CEO). As well as the Wool Services Privatisation Act, AWI is subject to the requirements in the *Corporations Act 2001*, *Australian Charities and Not-for-profits Commission Act 2012* and other legislation applicable to companies and not-for-profit entities. As a non-government entity, AWI is not subject to the requirements of the *Public Governance, Performance and Accountability Act 2013* and associated rules.

AWI's relationship with the Australian Government

1.3 AWI's relationship with the Australian Government is outlined in the Wool Services Privatisation Act, associated regulations and an agreement with the Australian Government called the Statutory Funding Agreement (SFA). The SFA outlines AWI's governance and performance

⁵ There are also five statutory RDCs in Australia.

⁶ AWI had 19,776 shareholders as at 30 June 2022. To be eligible to become an AWI shareholder, applicants must have paid at least \$100 in wool levies in the past three years.

requirements and defines the conditions under which AWI may invest wool levies and government matching payments.

1.4 In October 2020, AWI and the Australian Government entered into a 10-year SFA, which contains five performance principles that AWI must ‘at all times act in accordance with and uphold’.

- Engage stakeholders to identify research, development and extension (RD&E)⁷ priorities and activities that provide benefits to the industry.
- Ensure RD&E priorities and activities (Marketing Activities and Other Activities) are strategic, collaborative and targeted to improve profitability, productivity, competitiveness and preparedness for future opportunities and challenges through a Balanced Portfolio.
- Undertake strategic and sustained cross-industry and cross-sectoral collaboration that addresses shared challenges and draws on experience from other sectors.
- Governance arrangements and practices to fulfil legislative requirements and align with contemporary Australian best practice for open, transparent and proper use and management of funds.
- Demonstrate positive outcomes and delivery of RD&E and marketing benefits to Levy Payers and the Australian community in general, and show continuous improvement in governance and administrative efficiency.

1.5 The Department of Agriculture, Fisheries and Forestry (DAFF) administers the funding for AWI and monitors AWI’s compliance with the SFA.

1.6 Australia is one of the world’s largest wool producers, producing around 25 per cent of greasy (unprocessed) wool sold on the world market. The value of Australian wool exports in 2021–22 was \$3.6 billion. Around 80 per cent of Australia’s greasy wool exports are sent to China for processing.⁸

7 Research, Development and Extension (RD&E) is defined in the Statutory Funding Agreement (SFA). ‘R&D’ and ‘R&D Activities’ are defined as ‘systematic experimentation and analysis in any field of science, technology, economics, industry leadership or business (including the study of the social or environmental consequences of the adoption of new technology) carried out with the object of:

- a) acquiring knowledge that may be of use in achieving or furthering an objective of woolgrowers (as reflected in the woolgrower priorities in the AWI strategic plan), including knowledge that may be used for the purpose of improving any aspect of the production, processing, storage, transport, or marketing of the industry’s products, or goods that are derived from the wool industry’s products; or
- b) applying such knowledge for the purpose of achieving or furthering such an objective, including through Extension’.

The SFA defines extension as ‘facilitating the adoption of the outputs from R&D Activities by persons or organisations engaged in or with the Industry and other stakeholders by way of activities that educate and inform them about opportunities for change or that develop their capacity and/or capability to adopt changes’.

8 In November 2021, the Australian Government awarded a \$728,200 grant under the Agricultural Trade and Market Access Cooperation (ATMAC) program to a peak industry body, WoolProducers Australia, to conduct a feasibility study to assess opportunities to increase early-stage processing of greasy wool in Australia. In March 2023, the Australian Government awarded an \$800,000 grant to WoolProducers Australia under the ATMAC program to build a roadmap for the diversification of export markets for Australian wool, building on the recommendations of the feasibility study. AWI is providing resources and in-kind technical expertise to WoolProducers Australia to support this project.

AWI funding

1.7 Section 31 of the Wool Services Privatisation Act provides for the Commonwealth to make two categories of payments to AWI, outlined in Table 1.1. This is also detailed in clause 14 of the SFA.

Table 1.1: Categories of Commonwealth payments to AWI

Category of payment	Description	Calculation of payment	Activities permitted to be funded
Levy payments (Category A)	Payments in relation to the wool levy	Equal to total amount of wool levy received by the Commonwealth	Research and development; Marketing; and Other Activities ^a
Matching payments (Category B)	Payments in relation to research and development	Equal to half of AWI's eligible research and development expenditure, capped at 0.5 per cent of the Gross Value of Production of the wool industry for the financial year.	Research and development activities for the benefit of Australian woolgrowers and the Australian community generally

Note a: The SFA defines Other Activities as 'activities of AWI (other than Marketing Activities and R&D Activities) that are supported by Levy Payers and shareholders, and that relate to a function for which there is market failure'.

Source: ANAO summary of provisions in the *Wool Services Privatisation Act 2000* and SFA 2020–2030.

1.8 The Wool Services Privatisation Act and SFA provide that AWI will pay the Commonwealth for any expense incurred by the Commonwealth in collection, recovery and administration of levy funds.

1.9 Wool that is 'produced in Australia and sold by the producer, used in the production of other goods, or that is exported [attracts] a levy or charge'.⁹ The rate of the wool levy is set by wool levy payers, who vote every three years on the amount of levy they will pay for the next three-year period through a legislated poll known as WoolPoll, which is conducted by AWI.¹⁰ The current levy rate, elected in WoolPoll 2021 and effective from July 2022, is 1.5 per cent of the sale value of shorn greasy (unprocessed) wool.

1.10 Matching payments are funds paid by the Commonwealth for R&D activities.

1.11 The combined amount for levy payments and matching payments is drawn annually from the Consolidated Revenue Fund via a special appropriation. Levy payments and matching payments comprise the majority of AWI's revenue. In 2021–22, levy payments were \$43.8 million (67 per cent of AWI total revenue) and the matching payments were \$13.9 million (21 per cent), with a total of \$57.7 million (88 per cent) provided to AWI via the SFA (Table 1.2).

1.12 The SFA also provides for AWI to receive voluntary contributions.¹¹ This is a pathway for AWI to receive funds from investors for the purposes of R&D and marketing. For example, AWI projects

9 Department of Agriculture, Fisheries and Forestry, *Wool levy and charge* [Internet], available from <https://www.agriculture.gov.au/agriculture-land/farm-food-drought/levies/rates/wool#wool-levy-and-charge-rates> [accessed 28 November 2022].

10 *Wool Services Privatisation Act 2000*, section 32; Wool Services Privatisation (Wool Levy Poll) Regulations 2003.

11 The SFA defines voluntary contributions as 'payments made to AWI for the purpose of funding R&D and Marketing Activities, excluding payments of Levy Funds and Matching Payments'.

that are co-funded by industry receive investment via the voluntary contributions pathway. AWI includes voluntary contributions in 'sales of goods & services' in its financial statements (Table 1.2).

Table 1.2: Summary of AWI revenue from 2017–18 to 2021–22

Revenue	2017–18 \$'000	2018–19 \$'000	2019–20 \$'000	2020–21 \$'000	2021–22 \$'000
Wool levy	72,479	68,077	37,773	33,634	43,756
Government contributions	17,870	20,801	19,971	16,584	13,931
Licence fees	7,321	6,789	6,583	2,881	4,829
Interest	2,556	2,907	2,181	824	520
Royalties	1,975	1,963	1,707	1,953	1,617
Sale of goods and services ^a	35	35	377	247	23
Voluntary contributions ^b	207	363	443	443	468
Rents and sub-lease rentals	548	201	100	182	112
Other operating revenue	79	14	34	143	17
Total revenue	103,070	101,150	69,169	56,891	65,273

Note a: AWI reports voluntary contributions as part of sale of goods and services in its financial statements. In January 2023, AWI advised that it is planning to report voluntary contributions separately in its financial statements going forward. The table separates voluntary contributions and sale of goods and services.

Note b: Values reflect year of revenue recognition rather than year of receipt.

Source: ANAO summary from AWI annual reports and information provided by AWI.

Rationale for undertaking the audit

1.13 RDCs are a vehicle through which the Australian Government and primary producers co-invest in research and development for the benefit of industry and regional communities. RDCs help drive agricultural innovation and seek to improve the profitability, productivity, competitiveness and long-term sustainability of Australia's primary industries.

1.14 On 20 October 2021, the Senate Rural and Regional Affairs and Transport Legislation Committee wrote to the Auditor-General requesting an audit be conducted on AWI. The Joint Committee of Public Accounts and Audit identified the topic as an audit priority of the Parliament for 2022–23.

1.15 This audit provides independent assurance to Parliament on AWI's compliance with the requirements of the SFA, including in relation to governance and management, application of the performance principles, and the management of levies and Australian Government funding.

Audit approach

Audit objective, criteria and scope

1.16 The audit objective was to examine whether AWI is effectively meeting the requirements of the SFA.

1.17 To form a conclusion against the objective, the following high-level audit criteria were adopted.

- Does AWI have appropriate management and governance arrangements?
- Is AWI effectively applying the performance principles under the SFA?
- Is AWI effectively managing funds in accordance with the SFA?

1.18 The audit focused on AWI's compliance with the requirements under the SFA. The audit did not examine:

- merits of decisions made by the AWI board;
- the effectiveness of the programs, projects or investments undertaken by AWI; and
- the effectiveness of DAFF's role in overseeing the operations of and administering the funding for AWI.

Audit methodology

1.19 The audit methodology included:

- examining AWI's documentation, with a focus on documents that relate to its governance arrangements, strategic planning, project management, financial management, and funding expenditure;
- assessing a sample of AWI projects and purchase orders for compliance against the requirements in the SFA and AWI's policies;
- a site visit to AWI's office in Sydney to observe a meeting of a key stakeholder forum with peak wool industry representative organisations;
- meeting with relevant AWI staff;
- meeting with AWI's independent financial statement auditor; and
- meeting with relevant DAFF staff, as required.

1.20 The ANAO received 15 submissions from the public via the citizen contribution facility on the ANAO website.

1.21 This audit was conducted under paragraph 18B(1)(b) of the *Auditor-General Act 1997* (Auditor-General Act). AWI is a Commonwealth partner as defined in subsection 18B(2) of the Auditor-General Act.

1.22 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of approximately \$466,500.

1.23 The team members for this audit were Casey Mazzarella, Se Eun Lee, Hayley Pang, Ben Thomson, Tessa Coy, Bradley Medina and Corinne Horton.

2. Governance and management

Areas examined

This chapter examines whether Australian Wool Innovation (AWI) has established appropriate management and governance arrangements.

Conclusion

AWI's management and governance arrangements are largely appropriate. AWI details its governance arrangements in policies, which are regularly reviewed. AWI assesses the skills and performance of its board annually. The skills assessed largely align with the skills required by the Statutory Funding Agreement (SFA), except for skills relating to public policy and administration. AWI had not established policy and guidance for its directors and officers regarding the SFA requirement to not engage in agri-political activity. AWI has established a risk management policy and framework and prepares risk profiles for each of its programs and support and administrative areas, which are regularly reviewed. AWI has established a strategic plan that aligns with and has regard to the SFA performance principles and relevant guidelines. AWI has appropriate arrangements to address issues identified in performance reviews.

Areas for improvement

The ANAO made one recommendation for AWI to update its policies and review processes to include all skills listed in the SFA.

The ANAO identified two opportunities for improvement for AWI to set gender diversity objectives and disclose environmental and social risks; and to ensure a complete record of directors' resolutions is maintained.

2.1 Clause 10.2 of the SFA outlines the five performance principles that AWI is required to meet, one of which is 'for governance arrangements and practices to fulfil legislative requirements and align with contemporary Australian best practice for open, transparent and proper use and management of Funds'. Chapter 3 examines AWI's application of the other four performance principles.

2.2 In this chapter the Australian National Audit Office (ANAO) assessed whether AWI has established appropriate management and governance arrangements. Appropriate management and governance arrangements include:

- establishing and maintaining policies that articulate the corporate governance structure and governance arrangements as well as AWI's responsibilities in accordance with the SFA¹²;
- maintaining records of key decisions, especially resolutions by the board of directors¹³;

12 Australian Government and Australian Wool Innovation, *Statutory Funding Agreement 2020-2030*, clause 8; ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations* [Internet], 4th Edition, February 2019, available at <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf> [accessed 25 November 2022].

13 *Australian Charities and Not-for-profits Commission Act 2012*, subsection 55-5(2).

- establishing an effective risk management framework¹⁴;
- establishing and implementing a strategic plan¹⁵; and
- establishing arrangements to review performance and address any issues that are identified.¹⁶

Does AWI have a fit-for-purpose corporate governance framework?

AWI's governance arrangements largely align with ASX Corporate Governance Principles and Recommendations. AWI details its governance arrangements in policies and protocols, which are regularly reviewed. AWI's board meeting records are largely complete, and it assesses the skills and performance of its board annually. The skills assessed largely align with the skills required by the SFA, except for skills relating to public policy and administration. AWI has established a Code of Conduct and probity policies. AWI has established a risk management policy and framework. It prepares risk profiles for each of its programs and support and administrative areas, which are reviewed by the Audit and Risk Committee every six months.

ASX principles and recommendations

2.3 Clause 8.1 of the SFA requires AWI to 'maintain, implement and regularly review a framework of good corporate governance to ensure proper use and management of [funds]'. The SFA notes that 'in maintaining the governance framework, AWI should draw on best practice as appropriate'.

2.4 AWI stated that it is 'committed to governance systems that enhance performance and ensure AWI operates legally and responsibly on all matters and maintains the highest ethical standards'.¹⁷ AWI's 2021–22 annual report explained that, while it is not a listed company, AWI uses the ASX Corporate Governance Principles and Recommendations¹⁸:

as guidance in its governance practices to the extent that they are reasonably applicable to AWI's circumstances as a not for profit entity with charitable objects to act in the best interests of Australian woolgrowers.¹⁹

2.5 AWI reported against the ASX Corporate Governance Principles and Recommendations in its 2019–20 and 2020–21 annual reports. From 2022, AWI published a Corporate Governance Statement on its website where it reports its governance arrangements against the ASX Corporate Governance Principles and Recommendations.

2.6 The ANAO reviewed AWI's statements in its 2020–21 annual report and August 2022 Corporate Governance Statement. AWI's statements against the ASX principles and

14 ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations* [Internet], 4th Edition, February 2019, pp. 26–28, available from <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf> [accessed 25 November 2022].

15 Australian Government and Australian Wool Innovation, *Statutory Funding Agreement 2020–2030*, clause 13.

16 Australian Government and Australian Wool Innovation, *Statutory Funding Agreement 2020–2030*, clause 10.

17 Australian Wool Innovation, *Annual Report 2021–22*, p. 26.

18 ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations* [Internet], 4th Edition, February 2019, available at <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf> [accessed 25 November 2022].

19 Australian Wool Innovation, *Annual Report 2021–22*, p. 26.

recommendations are supported by evidence in AWI policies and practices and, overall, align with the ASX principles and recommendations. Two ASX recommendations were assessed by the ANAO as partly aligning.

- Recommendation 1.5: AWI has not set measurable objectives for achieving gender diversity in the composition of its board, senior executives and workforce generally.
- Recommendation 7.4: AWI does not disclose its exposure to environmental or social risks.

Opportunity for improvement

2.7 Setting and disclosing measurable objectives for achieving gender diversity, as well as AWI's progress towards achieving those objectives, and disclosing AWI's exposure to environmental or social risks will support AWI's alignment with the ASX Corporate Governance Principles and Recommendations.

Corporate governance structure

2.8 AWI has established a corporate governance structure, which is articulated in a suite of corporate governance policies. The corporate governance structure is illustrated in Figure 2.1. Key governance policies that are published on AWI's website²⁰ include:

- Constitution;
- Board Charter;
- Rules and Procedures Governing the Election of Directors;
- Charter of Committees of the Board;
- Board Nomination Committee Charter;
- Code of Conduct and Business Ethics; and
- Corporate Governance Statement.

2.9 AWI maintains a register of its policies and protocols. The register records the adherence checks; document owner; where the policy is available; how the policy is provided to staff (for example, as part of induction, role or incident specific, etc.); the next review date; review cycle; and approver. The majority (70 per cent) of its policies are reviewed at least every 12 months.

2.10 In March 2021, AWI conducted a review of all company policies, guidelines and protocols to 'ensure each is current in terms of the dates they are due to be reviewed and the content is still relevant'. The review was presented to the Audit and Risk Committee (ARC), where the minutes indicate that it was received and reviewed.

Board

2.11 AWI's Constitution empowers the board of directors (the board) to manage and control the business and affairs of AWI. AWI's Board Charter outlines the functions and responsibilities of the board and management of AWI. The board and its committees meet regularly throughout the year.

20 Australian Wool Innovation, *Governance* [Internet], available from <https://www.wool.com/about-awi/who-we-are/governance/> [accessed 25 November 2022].

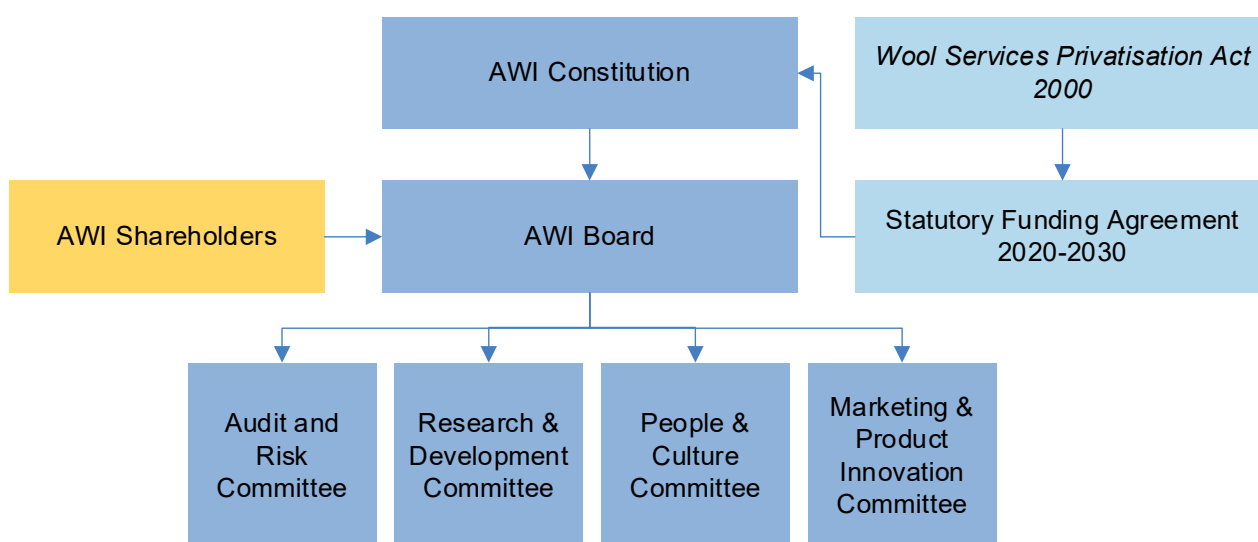
AWI publishes the number of board meetings held, as well as the number of board and board committee meetings that each board member attended, in its annual report.

Board independence

2.12 The Board Charter states that ‘the majority of directors of the Company will be independent directors, and the Chairperson must be an independent director’.

2.13 AWI stated in its 2021–22 annual report that ‘all directors meet the criteria for independence in accordance with the ASX Corporate Governance Principles and Recommendations’.²¹ It advised that one director’s tenure exceeded 10 years²² and that ‘an assessment was conducted in conjunction with the Board performance review process and the Board found that the director met the criteria to a high level and was endorsed as an independent director’.

Figure 2.1: AWI corporate governance structure



Source: ANAO summary of AWI corporate structure.

Board committees

2.14 The Constitution provides that the board may establish and delegate any of its powers to committees. AWI has established four board committees:

- Audit and Risk Committee;
- People and Culture Committee;
- Research and Development Committee; and

21 AWI’s Board Charter provides that ‘the Board will consider and conclude on the independence of its non-executive directors each year. In relation to directors whose tenure has exceeded 10 years ... the Board shall document the process for the annual independence assessment in relation to such directors, and publish the outcome of such assessment in the Company’s annual report’.

22 From 2021, directors are required to retire on a rotation year (a year ending in 1, 3, 5, 7 or 9) that is more than ten years since the date on which the director first became a director. A director can serve more than one 10-year maximum term, so long as there is a period of at least two years between the date on which the person last served as director and the date that they resume their directorship.

- Marketing and Product Innovation Committee.²³

2.15 The committees are required to meet at least twice each financial year. Each committee is required to report to the board at the first meeting subsequent to each committee meeting. The committees generally hold meetings on the day prior to or the same day as board meetings.

Meeting records

2.16 Section 55-5 of the *Australian Charities and Not-for-profits Commission Act 2012* (ACNC Act) requires registered entities to keep written records that correctly record their operations, including meeting minutes. The board and its committees' meeting records are largely complete, recording the proceedings and resolutions of the board in minutes and approving the minutes at the following meeting.

2.17 The ANAO examined board meeting papers for the period June 2020 to February 2023. Board meetings include a 'board only session'. No formal minutes are recorded for these sessions. This compromises the completeness of the records of the board's proceedings and resolutions.

2.18 In October 2021, the board's deliberations and decisions regarding the establishment of a new senior executive role, Chief Marketing and Innovation Officer (CMIO),²⁴ were not documented in the board's minutes. There are no records of the board's deliberations or resolutions regarding the establishment of the CMIO role, nor its responsibilities or remuneration package. Nor are there records of the board's resolutions regarding the appointment of a candidate to the role.

2.19 AWI advised that the board's deliberations regarding the CMIO role occurred during board only sessions and via email and 'were not recorded at the time due to the high level of sensitivity and confidential nature of the topic'.

2.20 AWI provided records of emails between the Chair and directors discussing and refining the position description for the role; updating directors regarding the Chair's progress negotiating the contract and remuneration package with the candidate; and providing advice that the contract had been signed. The email records do not provide evidence of the board's resolutions regarding the establishment of the role, its remuneration or appointment of a candidate to the role. AWI acknowledged that the decisions regarding the CMIO role should have been better recorded:

With hindsight the Board acknowledge that this should have been noted in the November 2021 meeting following the appointment of the CMIO and associated changes.

2.21 A full record of the proceedings and resolutions of directors' meetings, as well as resolutions passed by directors without a meeting, should be captured in minutes. This ensures a complete record of the directors' resolutions is maintained.

Opportunity for improvement

2.22 Recording formal minutes of deliberations and decisions of the board during 'board only sessions' and for deliberations via email and other mediums, will provide a more complete and accurate record of the proceedings and resolutions of directors and support compliance with section 55-5 of the *Australian Charities and Not-for-profits Commission Act 2012*.

²³ The Marketing and Product Innovation Committee was established during the audit, in October 2022.

²⁴ On 15 October 2021, AWI announced the appointment of Stuart McCullough (the Chief Executive Officer of AWI) to the new international role of Chief Marketing and Innovation Officer (CMIO), effective immediately.

Skills Based Board

2.23 Clause 8.2 of the SFA states that 'AWI must maintain a Skills Based Board of Directors with the necessary skills and experience to effectively govern AWI'. It defines a skills based board as 'a board of directors which can demonstrate collective expertise against a range of relevant areas'. The relevant skills required by the SFA are listed in Table 2.1.

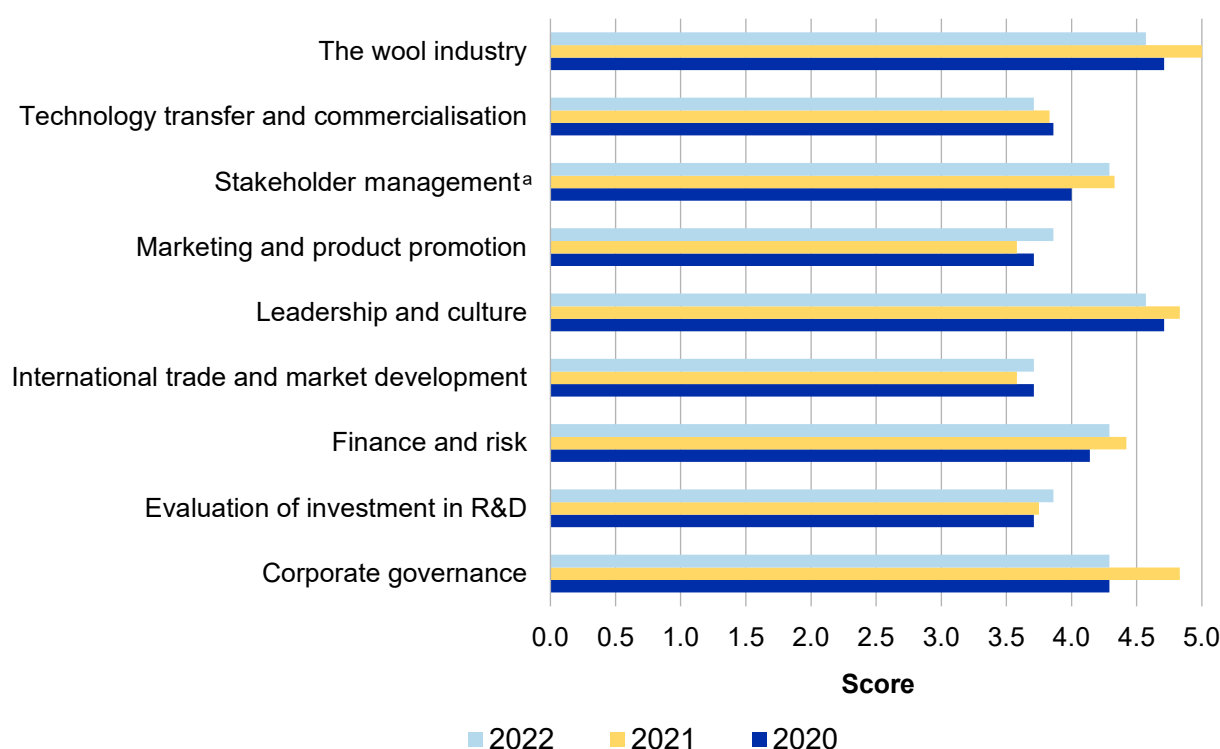
2.24 The Constitution states that 'The Board shall be composed of Directors who collectively possess the skills required to properly discharge its functions'. The Board Charter states that 'the Board, supported by the [Board Nomination Committee²⁵], will endeavour to ensure that it has, or has access to, the appropriate range of expertise to properly fulfil its responsibilities'. The areas of expertise are listed in Table 2.1.

2.25 The Board Charter states that the board will 'review the range of expertise of its members on a regular basis and ensure that it continues to have, or have access to, the expertise set out [in the Charter]'. The board commissions a review of its performance annually, which is facilitated by an external adviser.

2.26 Directors are asked to rate their level and currency of knowledge and skill in each of the skill areas (listed in Figure 2.2 and Table 2.1). The individual scores are combined into a single skills matrix to reflect the collective skills and experience the board possesses. The skills matrix is published in the annual report.

2.27 The ANAO examined the reports from the board performance reviews in 2020, 2021 and 2022. Figure 2.2 illustrates the reviews' analyses of the board's collective skills.

25 The Constitution provides for the board to establish a Board Nomination Committee (BNC) to support the process for the election of directors.

Figure 2.2: AWI board skills matrix

Note a: In the 2022 board performance review, this skill was updated to 'stakeholder management, including government relations'.

Source: ANAO summary of board skills matrices from 2020 to 2022.

2.28 Table 2.1 compares the skills listed in the SFA, areas of expertise listed in the Board Charter and the skills listed in the board annual performance review skills matrix.

Table 2.1: Alignment with SFA skills

SFA skills	Board Charter areas of expertise	Board performance review skills
Governance, risk and compliance	Executive management of a corporation	Leadership and culture
	Corporate governance	Corporate governance
Finance, accounting and audit	Financial and business management	Finance and risk
R&D, innovation, technology and technology transfer, commercialisation and adoption of R&D	Oversight and administration of Research and Development	Evaluation of investment in R&D
	Research and development and commercialization of R&D outcomes	Technology transfer and commercialisation
	Science	
	Conservation and management of natural resources	

SFA skills	Board Charter areas of expertise	Board performance review skills
Product promotion and marketing (including communications)	Product promotion and retail marketing	Marketing and product promotion
Exports and export market development	Domestic and international market development and international trade	International trade and market development
Wool industry knowledge, including practical growing and/or production experience	The Australian wool growing industry The wool processing industry in Australia and overseas	The wool industry
Public policy and administration	No corresponding area of expertise included in Board Charter	No corresponding skill included in board performance review skill matrix
No corresponding skill required by the SFA	No corresponding area of expertise included in Board Charter	Stakeholder management ^a

Note a: In the 2022 board performance review, this skill was updated to 'stakeholder management, including government relations'.

Source: ANAO comparison of SFA, AWI Board Charter and AWI Board performance review skills lists.

2.29 The Board Charter areas of expertise and board performance review skills largely align with the skills required by the SFA. The SFA skill 'public policy and administration' is not included in either the Board Charter's areas of expertise or the performance review skills. AWI is not assessing or reporting on whether its current or potential directors collectively possess this skill.

Recommendation no. 1

2.30 Australian Wool Innovation update its policies, board performance review processes and reporting to include all skills listed in the Statutory Funding Agreement.

Australian Wool Innovation response: *Agreed.*

2.31 *This will be included in 2022/23 Annual Report.*

Probity

Values and code of conduct

2.32 AWI has established a Code of Conduct and Business Ethics Policy (Code of Conduct), which is published on AWI's website.²⁶ The Code of Conduct outlines AWI's values and its expectations for how its directors and officers, managers, employees and contractors and consultants providing services for AWI (AWI People) will carry out their duties and responsibilities. The Code of Conduct outlines AWI's policies on a range of probity matters including:

- anti-bribery and corruption (including secret commissions or profits);

²⁶ Australian Wool Innovation, *Governance* [Internet], available from <https://www.wool.com/about-awi/who-we-are/governance/> [accessed 23 November 2022].

- giving or receiving gifts; and
- conflicts of interest.

2.33 The Code of Conduct also outlines the procedures for reporting non-compliance.

2.34 AWI has established a Whistleblower Policy, which is published on AWI's website.²⁷ The policy details the responsibilities of directors, officers, employees and contractors and consultants to 'help detect, prevent and report instances of suspicious activity or wrong doing'. It outlines:

- how to report suspicious activity or wrongdoing;
- the investigative process; and
- protections for whistleblowers.

2.35 AWI has established a Fraud and Corruption Control Plan. The plan outlines AWI's approach to fraud and corruption prevention and detection as well as its procedures for responding to detected fraud or corruption.

Gift register

2.36 The Code of Conduct states that 'all gifts offered to or provided by AWI People must be reported to the Company Secretary' and that 'all such gifts shall be recorded in a Gift Register'.

2.37 AWI has maintained a Gifts Register in various forms since 2010. From 2015, AWI managers have been required to answer a monthly survey, which asks if they or any of their staff have received gifts and, if they have, to provide information about the gifts. From November 2020, a question regarding gifts given was added to the survey. The survey does not ask about gifts that were offered but not accepted. The survey results are reviewed and approved by the Company Secretary and manually compiled into the Gifts Register. The Gifts Register does not record gifts that were offered but not accepted or gifts that were given by AWI People. The Gifts Register is not reviewed by the board.

2.38 The gift register for directors is maintained by the Company Secretary and held separately from the Gifts Register. In February 2023, AWI added a standing agenda item for directors to declare gifts and review the director gift register at board meetings. The gift register for directors is not published on AWI's website.

Conflicts of interest register

2.39 The Code of Conduct states that AWI will 'keep a register of all actual potential and perceived conflicts of interest reported in accordance with this Code, other than conflicts of interest that are merely trivial'. The Code of Conduct provides that 'material conflicts of interest and conflicts of interest involving AWI's directors shall be a standing agenda item at Board meetings'.

2.40 From 2015, AWI managers have been required to answer a monthly survey, which asks if they or any of their staff have interests that require disclosure and, if so, to provide information about the interests. The survey results are reviewed and approved by the Company Secretary and manually compiled into the Executive Interests Disclosure Table and the Staff Conflicts of Interest Register.

27 Australian Wool Innovation, *Governance* [Internet], available from <https://www.wool.com/about-awi/who-we-are/governance/> [accessed 23 November 2022].

2.41 AWI has established a Directors Disclosure of Interests Register. The ANAO examined board meeting records from June 2020 to October 2022. During this period, the board reviewed the Directors Disclosure of Interests Register at all board meetings (excluding out of session meetings).²⁸ Changes to directors' interests were reported on several occasions and subsequently updated on the Directors Disclosure of Interests Register.

2.42 The CEO report for all board meetings (excluding out of session meetings) included a standing item at which the CEO reported on any new interests that needed to be disclosed by the Senior Executive Group. No new interests were reported to the board during the period reviewed. The Conflict of Interests Register records two entries from the senior executive group during the period reviewed. There is no record of non-director interests being reported to the board.

2.43 The Code of Conduct states that 'unless the Board determines otherwise, where a director has a conflict of interest, he/she must not be present while the matter is being considered at a Board meeting and must not vote on the matter'. During the period examined, there were three instances of directors noting potential conflicts of interest related to the topic of deliberations during a board meeting or board committee meeting. In one instance, the board committee did not consider that the director had a conflict of interest. In the other two instances, the minutes indicate that the directors left the meeting during the board's deliberations.

Probity training

2.44 The Fraud and Corruption Control Plan states that 'AWI regularly provides fraud and corruption training for its employees and directors'. The Code of Conduct states that 'all AWI group staff are required to complete awareness training on modern slavery key principles'.

2.45 AWI advised that Code of Conduct and Business Ethics training is delivered via an online training course. Staff are required to complete the training annually. AWI provided reports of staff completion of the course, which showed a completion rate of 99.1 per cent in 2020 and 96.5 per cent in 2021.

Agri-political activity

2.46 Clauses 9.1 to 9.5 of the SFA prohibits AWI from engaging in agri-political activity²⁹ or acting as an Industry Representative Organisation.³⁰ AWI has not established arrangements to ensure it does not engage in agri-political activity. AWI confirmed that it 'currently [has] no formal policies, training documentation or guidelines in relation to not engaging in Agri-political activities'. It explained that not engaging in agri-political activity is 'part of [its] DNA' and 'is discussed during inductions and is well understood by the business'.

28 The minutes of all board meetings in this period recorded that the Directors Disclosure of Interests Register had been reviewed. However, for three meetings in 2022, the Directors Disclosure of Interests Register was not included in board meeting papers.

29 The SFA defines agri-political activity as 'activities that involve engaging in, or financing with Levy Funds or Matching Payments, any form of external or internal political influencing'. The SFA includes a list of activities that constitute agri-political activity as well as a list of activities that do not constitute agri-political activity.

30 The SFA defines Industry Representative Organisation as 'an Industry peak body or a body established for the purpose of, or substantially engaged in, Agri-Political Activity'.

2.47 Recent Reviews of Performance (ROP)³¹ indicate that stakeholders have a negative perception of AWI's compliance with the SFA's requirement not to engage in agri-political activity. Despite stakeholder perceptions, neither the 2018 nor 2021 ROP found AWI to be engaging in agri-political activity. The 2021 ROP stated that 'while there is acknowledgement of the agri-political nature of the industry there was no clear evidence of Board or AWI executive members bringing this into Board decisions'. More information about ROPs is at paragraphs 2.73 to 2.76.

2.48 The Department of Agriculture, Fisheries and Forestry (DAFF) advised that it has not issued any notices requiring AWI to take action to address agri-political issues.

2.49 AWI advised the ANAO that many stakeholders do not understand AWI's role as a rural research and development corporation (RDC) or what comprises agri-political activity, which has created tensions between AWI and its stakeholders. AWI is making efforts to better communicate its role to stakeholders. For example, at the August 2022 Woolgrower Industry Consultation Panel (WICP) meeting:

The AWI Chair spoke of the importance of the delineation between what the AWI can assist with under its Statutory Funding Agreement and what was outside its scope. Namely policy and lobbying, which often fell on the shoulders of the various woolgrower bodies. A summary document illustrating the different roles of the organisations has been made available to all wool growing bodies.

2.50 Articulating and disclosing the standards of behaviour required by the SFA regarding agri-political activity in a Code of Conduct or other governance policy supports effective communication of these expectations to AWI People and stakeholders.

2.51 In February 2023, AWI updated its Code of Conduct to include a section on agri-political activity. The updated Code of Conduct quotes the SFA definition of agri-political activity and states that:

AWI people are expected to conduct themselves at all times apolitically by not engaging in agri-political activity when representing AWI. This includes the support for particular candidates or political parties and advocating/supporting policy positions.

2.52 The updated Code of Conduct states that a violation 'will subject an AWI person to disciplinary action, which may include summary termination of employment or an engagement'. It also notes that 'questions and guidance on what is and isn't considered Agri-political activity should be directed to the [General Manager] Consultation and Engagement'.

2.53 AWI advised that agri-political activity will be incorporated into its annual probity training from March 2023. The training will incorporate questions covering potential scenarios that may involve agri-political activity.

31 Clauses 10.6 and 10.8 of the SFA provide that the Commonwealth may request AWI obtain, at AWI's expense, an 'independent review on AWI's performance against the Performance Principles including evaluating the AWI Board's contribution to AWI's performance'. This may be requested 'from time to time (but no more than once every three years)'. The 2018 ROP was conducted by EY; the independent review lead was Andrew Metcalfe AO. The 2021 ROP was conducted by Accenture; the Managing Director was Shaun Chau.

Risk management

Audit and Risk Committee

2.54 AWI has established an Audit and Risk Committee (ARC). The ARC has three members, all of whom are independent directors, and is chaired by an independent director. The committee's charter and membership is published on AWI's website.³² AWI publishes the number of ARC meetings and the number of directors in attendance in its annual report. In 2021–22, the ARC met eight times.

2.55 The ANAO examined ARC meeting records from June 2020 to October 2022. A monthly finance report is prepared and tabled at each ARC meeting. If the meeting was not held in a certain month, the report is tabled at the next ARC meeting and two reports are reviewed. A legal services report is prepared for every meeting. This report contains information on AWI's legal and regulatory requirements, intellectual property matters and any (legal) opposition the company is facing from various sources as well as progress in resolving these issues.

2.56 Risk was considered by the ARC in 10 of 20 meetings from June 2020 to October 2022. The external auditor attended and provided reports twice a year, in April and August.

Risk Management Policy and Framework

2.57 AWI has established a Risk Management Policy, which is published on AWI's website³³ and outlines AWI's risk appetite. AWI has also established a Risk Management Framework. The framework outlines AWI's risk management process and risk reporting framework. The framework includes a risk matrix and risk assessment template.

2.58 AWI prepares risk profiles for each of its programs and support and administrative areas, which are reviewed by the ARC every six months. The risk profiles were most recently reviewed by the ARC in August 2022.

2.59 The risk profiles identify the program's risk in not achieving targets. They assess the likelihood and consequence of the risk and assign a risk level. The profiles identify risk source(s) and current controls and assess the 'risk current control rating'. Risk profiles identify treatments and assess the adequacy of controls. They also include a 'risk completion timeline'.

2.60 The risk profiles, titled 'program delivery risk statements', are also included in internal annual program achievement reports.

2.61 Project risk management is discussed in paragraphs 4.67 to 4.75.

Does AWI establish and maintain a strategic plan as required under the SFA?

AWI has established a strategic plan for 2022–25. The strategic plan is accompanied by an annual operating plan that provides a detailed outline of activities under individual programs. AWI consulted with its key stakeholders on the development of its 2022–25 Strategic Plan. The

32 Australian Wool Innovation, *Board of Directors* [Internet], available from <https://www.wool.com/about-awi/who-we-are/governance/board-of-directors/> [accessed 29 November 2022].

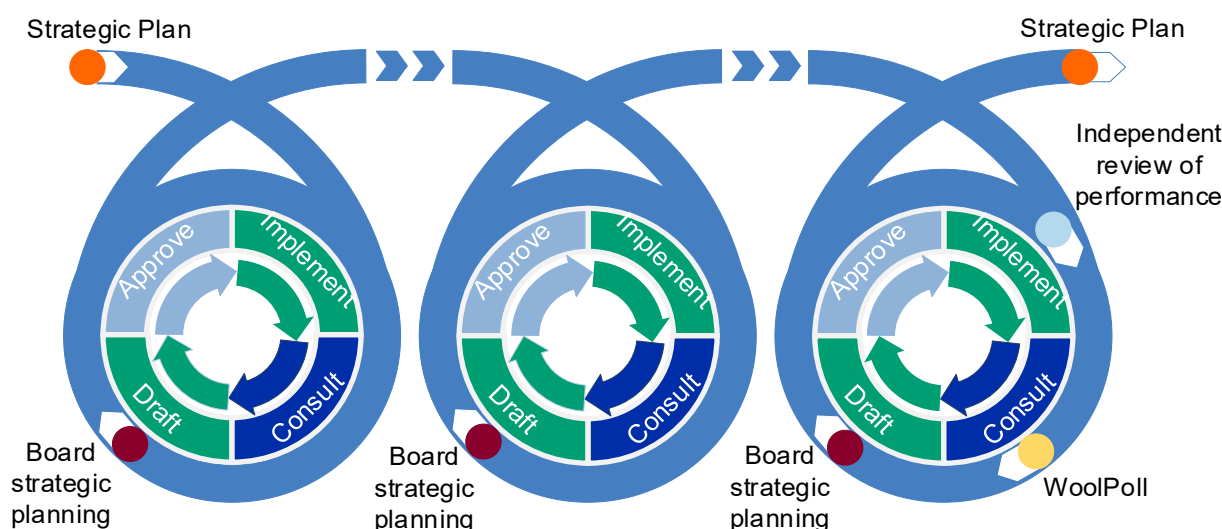
33 Australian Wool Innovation, *Governance* [Internet], available from <https://www.wool.com/about-awi/who-we-are/governance/> [accessed 23 November 2022].

strategic plan aligns with and has regard to the SFA performance principles and relevant guidelines.

Establishing a strategic plan

2.62 Clause 13 of the SFA requires AWI to establish and maintain a strategic plan that has regard to the performance principles and Guidelines for Statutory Funding Agreement 2020–2030 (the guidelines).³⁴ AWI has a three-year strategic planning timeframe. This is aligned with triennial ROPs and WoolPoll³⁵, where woolgrowers vote on the amount of levy they will pay for the next three-year period. This enables the next three-year strategic plan to be informed by the results of the review and the levy poll. The diagram below illustrates AWI’s planning cycle.

Figure 2.3: AWI planning cycle



Source: Adapted from AWI Woolgrower Consultation and Communication Plan, July 2022.

2.63 AWI’s current strategic plan covers the period 2022–23 to 2024–25. The strategic plan is accompanied by ‘individual yearly operating plans that detail the individual programs to enhance the overall strategy’. The Strategic Plan 2022–2025 and the Annual Operating Plan (AOP) 2022–2023 were presented to the AWI Board at its June 2022 meeting. The AOP was approved by the board at the meeting and the strategic plan was ‘received and reviewed’. AWI advised that the strategic plan went through minor amendments after the board’s review and was approved by the CEO prior to publication.

2.64 Both plans were published on AWI’s website on 29 June 2022 and provided to the Secretary of DAFF³⁶ and to the Minister for Agriculture, Fisheries and Forestry.

2.65 The strategic plan outlines five key priorities for 2022–25.

- Growing the value and international demand for wool.

34 The guidelines were released by DAFF and took effect from 1 January 2022. The guidelines outline key performance indicators (KPIs) for the five performance principles to provide consistency across the RDCs while maintaining flexibility for individual RDCs to determine how best to demonstrate achievement of them.

35 WoolPoll is conducted by AWI under section 32 of the *Wool Services Privatisation Act 2000* and the *Wool Services Privatisation (Wool Levy Poll) Regulations 2003*.

36 Then known as the Department of Agriculture, Water and the Environment.

- Wool harvesting.
- Collaboration, consultation and engagement.
- Sustainability.
- Strengthening the supply chain.

2.66 Each area of priority has associated key performance indicators against which to measure progress and achievement at the end of the three-year period. The strategic plan also has four overall performance indicators.

2.67 The AOP contains yearly performance indicators and targets for each program area. AWI reports on progress against the annual indicators in program achievement reports, which are published biannually. Results of performance against the indicators are reported in annual reports.

Consultation

2.68 AWI consulted with its two primary consultation forums, the WICP and Woolgrower Consultation Group (WCG), during the development of its Strategic Plan 2022–2025. Minutes of the relevant WICP and WCG meetings document the feedback received and how the feedback was addressed by AWI. AWI's Strategic Plan 2022–2025 outlines the consultation process undertaken during its development.

Regard to performance principles and guidelines

2.69 AWI's strategic plan aligns with and has regard to the performance principles and relevant guidelines. AWI's application of the performance principle related to governance is examined in paragraphs 2.3 to 2.61. AWI's application of the other four performance principles is examined in paragraphs 3.1 to 3.76.

2.70 The AOP 2022–23 maps AWI's program areas against the strategic priorities outlined in the strategic plan. The AOP also maps AWI's strategic priorities against the pillars and focus areas of two key industry strategies, the Wool2030 Strategy and Sheep Sustainability Framework.

Does AWI have appropriate arrangements to address issues identified in performance reviews?

AWI has arranged its ROPs and Annual Performance Meetings with DAFF in accordance with the SFA and publishes its progress in implementing ROP recommendations on the ROP Implementation Portal. AWI has implemented recommendations from other independent reviews including the WoolPoll Review and the Wool Selling Systems Review.

Annual Performance Meetings

2.71 AWI arranges Annual Performance Meetings with DAFF each financial year, in accordance with clauses 11.1 and 11.2 of the SFA. The 2021 and 2022 Annual Performance Meetings were held in June 2021 and July 2022 respectively.

2.72 At the meetings, AWI delivered a presentation on its performance and achievements against the performance principles to DAFF. AWI's 2022 presentation reported against the KPIs from the

guidelines.³⁷ In July 2022, DAFF stated that AWI ‘has satisfactorily met the requirements of the 5 performance principles for 2021–22’.

Review of Performance

2.73 Clauses 10.6 and 10.8 of the SFA provide that the Commonwealth may request AWI obtain an independent review of its performance against the performance principles every three years.

2.74 Following the commencement of the 2020–30 SFA, DAFF has requested one review of AWI’s performance against the performance principles in 2021. The 2021 ROP made 14 recommendations. The 2021 ROP Implementation Plan, which was agreed between DAFF and AWI, details the actions AWI will take to address the recommendations. The recommendations, the agreed implementation plan, and AWI’s progress to implement the recommendations are published on AWI’s Review of Performance Implementation Portal (ROPIP).³⁸

2.75 AWI provides reports to DAFF on its implementation progress every two months. DAFF determines the overall progress of implementation and completion status of recommendations, after which the ROPIP is updated. As at November 2022, the ROPIP stated that AWI has completed the implementation of nine of the 14 recommendations, with overall implementation progress at 91.5 per cent.³⁹ The remaining five recommendations are reported as ‘in progress’ and are at various stages of completion:

- improve engagement with the wool industry (80 per cent);
- commission an independent report to measure international sentiment towards mulesed⁴⁰ wool (15 per cent);
- WoolQ stakeholder engagement plan and go/no go analysis (70 per cent);
- investigate the opportunity for a brand strategy for ‘wool’ (95 per cent); and
- modernisation of people management and culture (95 per cent).

2.76 AWI’s reported progress against the 2021 ROP recommendations is supported by evidence.

Other reviews

2.77 AWI has commissioned two independent reviews, the 2020 WoolPoll Review and the 2016 Wool Selling Systems Review (WSSR). AWI has addressed the issues identified by both reviews. AWI may also commission other reviews or reports, as necessary.

WoolPoll Review

2.78 The 2018 ROP found that ‘WoolPoll can be a costly process for the same outcome, where more stability may be more beneficial for both AWI and levy payers’ and recommended that an

37 Guidelines for Statutory Funding Agreement. The guidelines were released by DAFF and took effect from 1 January 2022. The guidelines outline key performance indicators (KPIs) for the five performance principles to provide consistency across the RDCs while maintaining flexibility for individual RDCs to determine how best to demonstrate achievement of them.

38 Australian Wool Innovation, *Review of Performance Implementation Portal for ROP 2021* [Internet], available from <https://rop.wool.com/index.html> [accessed 28 September 2022].

39 Progress percentage is proposed by AWI and approved by DAFF prior to publication of progress on ROPIP.

40 Mulesing is a procedure which involves removing skin from around the breech and tail area of a sheep to prevent the parasitic infection flystrike. Mulesed wool refers to wool from a sheep that has undergone the procedure.

independent assessment of the WoolPoll mechanism be conducted. AWI agreed to the recommendation.

2.79 As DAFF⁴¹ administers the legislation that regulates WoolPoll, DAFF agreed to conduct the WoolPoll Review. The final report was published in October 2020. The review found that 'WoolPoll remains an appropriate and contemporary process that provides government with assurance about what wool levy payers want their levy rate to be' and outlined 10 recommendations to optimise the process in respect to improving procedures, bolstering transparency, and clarifying roles and responsibilities.

2.80 Eight of the 10 recommendations from the WoolPoll Review were for AWI and two were for DAFF. The ANAO reviewed AWI's implementation of the WoolPoll Review recommendations. All eight recommendations have been implemented.

Wool Selling Systems Review

2.81 In October 2014, AWI selected a panel to undertake a review assessing 'the state of all wool selling systems currently available to Australian wool producers'. The key objectives of the Australian Wool Selling Systems Review (WSSR) were:

to improve the returns that woolgrowers receive for their wool through:

- (a) evaluating whether greater efficiencies and cost savings within the exchange of ownership between the seller and the first buyer are attainable
- (b) understanding the potential for increased competitive tension throughout the wool selling process and how it can be achieved, and
- (c) determining whether there is sufficient transparency within the exchange of ownership to allow woolgrowers to make the most informed commercial decisions about their wool growing enterprise.

2.82 The WSSR Panel released an issues paper in December 2014 and a discussion paper in July 2015. The final WSSR report was released in February 2016. Six of the eight recommendations were applicable to AWI. The ANAO reviewed AWI's implementation of the WSSR recommendations. All recommendations applicable to AWI have been implemented.

WoolQ options paper

2.83 In May 2019, AWI commissioned Port Jackson Partners (PJP) to 'evaluate the ownership, operation and the liquidity of WoolQ and present options to the AWI Board and CEO'.

2.84 In October 2019, PJP provided its report to the board. The report outlined PJP's 'assessment of ownership and governance options for WoolQ as well as [its] assessment of how to achieve the broader objectives of transparency and choice in the wool industry'. The report identified key challenges faced by WoolQ and options for next steps. The report noted that:

Ownership and governance of WoolQ are subsidiary to broader data transparency issues.

- Many potential investors/owners are conflicted. It is unlikely other entities would [be] interested in taking a stake in WoolQ prior to it demonstrating take up unless the intention was to frustrate its development.

41 Then known as the Department of Agriculture, Water and the Environment.

- New ownership unlikely to address impediments to uptake. Those with the potential to help resolve impediments to take up, are those with the greatest incentive to frustrate WoolQ's development and impede industry transparency and restructuring more broadly.

2.85 More information regarding WoolQ is at Appendix 3.

3. Performance principles

Areas examined

This chapter examines whether Australian Wool Innovation Limited (AWI) is effectively applying the performance principles under the Statutory Funding Agreement (SFA).

Conclusion

AWI is largely effective in applying the performance principles under the SFA. AWI engages with stakeholders and is undertaking cross-industry and cross-sectoral collaboration. AWI has not established a research, development and extension (RD&E) investment profile, against which the balance of the portfolio can be monitored. The investment portfolio does not outline the planned proportion or target of projects against AWI's strategic plan's priorities, government and industry priorities, or by risk and return. AWI has established a measurement and evaluation framework to track and report on outcomes of RD&E and marketing activities and is measuring and demonstrating improvement in governance. It is not effectively monitoring or reporting on improvements in administrative efficiency.

Areas for improvement

The ANAO made two recommendations for AWI to establish an investment profile, which outlines a target proportion of projects against AWI, government and industry priorities and in each risk and return category; and establish performance indicators to measure and report on improvements in administrative efficiency.

The ANAO identified one opportunity for improvement for AWI to establish structure and consistency in its platform recording stakeholder engagement and interactions.

3.1 The SFA outlines five performance principles that AWI must 'at all times act in accordance with and uphold'. The performance principles are:

- (a) to engage stakeholders to identify RD&E⁴² priorities and activities that provide benefits to the industry;
- (b) to ensure RD&E priorities and activities (Marketing Activities and Other Activities⁴³) are strategic, collaborative and targeted to improve profitability, productivity, competitiveness and preparedness for future opportunities and challenges through a Balanced Portfolio;

42 Research, Development and Extension (RD&E) is defined in the Statutory Funding Agreement (SFA). 'R&D' and 'R&D Activities' are defined as 'systematic experimentation and analysis in any field of science, technology, economics, industry leadership or business (including the study of the social or environmental consequences of the adoption of new technology) carried out with the object of:

- a) acquiring knowledge that may be of use in achieving or furthering an objective of woolgrowers (as reflected in the woolgrower priorities in the AWI strategic plan), including knowledge that may be used for the purpose of improving any aspect of the production, processing, storage, transport, or marketing of the industry's products, or goods that are derived from the wool industry's products; or
- b) applying such knowledge for the purpose of achieving or furthering such an objective, including through Extension'.

The SFA defines extension as 'facilitating the adoption of the outputs from R&D Activities by persons or organisations engaged in or with the Industry and other stakeholders by way of activities that educate and inform them about opportunities for change or that develop their capacity and/or capability to adopt changes'.

43 The SFA defines 'Other Activities' as 'activities of AWI (other than Marketing Activities and R&D Activities) that are supported by Levy Payers and shareholders, and that relate to a function for which there is a market failure'.

(c) to undertake strategic and sustained cross-industry and cross sectoral collaboration that addresses shared challenges and draws on experience from other sectors;

(d) for governance arrangements and practices to fulfil legislative requirements and align with contemporary Australian best practice for open, transparent and proper use and management of Funds; and

(e) to demonstrate positive outcomes and delivery of RD&E and marketing benefits to Levy payers and the Australian community in general, and show continuous improvement in governance and administrative efficiency.

3.2 Performance principle (d) is examined in Chapter 2. In this chapter the ANAO assessed whether AWI is effectively applying the remaining four performance principles.

- Principles (a) and (c) are examined in the first section of this chapter, which considers AWI's stakeholder engagement and collaboration.
- Principle (b) is examined in the second section, which considers AWI's management of RD&E priorities and activities through a balanced portfolio.
- Principle (e) is examined in the third section of this chapter, which considers how AWI demonstrates the outcomes and benefits of its activities.

Does AWI undertake effective stakeholder engagement and collaboration?

AWI's consultation and communication approaches, in place as at March 2023, largely align with the Department of Agriculture, Fisheries and Forestry's (DAFF) best practice guide principles and industry-specific guidance. AWI has established stakeholder consultation forums and commissions an annual survey to seek feedback from woolgrowers. AWI engages with stakeholders to identify RD&E priorities and activities. AWI is undertaking cross-industry and cross-sectoral collaboration to address shared challenges and draw on experience from other sectors.

Stakeholder engagement

3.3 In July 2022, AWI developed a new Woolgrower Consultation and Communications Plan (communications plan). The communications plan identifies a range of key stakeholder groups, along with engagement channels for each group.

Stakeholder consultation forums

3.4 AWI has two primary consultation forums, the Woolgrower Industry Consultation Panel (WICP) and Woolgrower Consultation Group (WCG). The WICP and WCG were established in 2019 to replace the Woolgrower Industry Consultation Committee (ICC), which operated from 2010. This was to implement a recommendation from the 2018 Review of Performance (ROP) to redefine the ICC 'to ensure a more independent advisory body'. The role and membership of the WICP and WCG is summarised in Table 3.1. The ANAO observed the WICP meeting in August 2022.

Table 3.1: Role and membership of WICP and WCG

Forum	Role	Meetings	Membership
WICP	<ol style="list-style-type: none"> 1. Consult on the key research, development and marketing priorities of woolgrowers and key industry issues to inform and guide AWI's strategic and investment plans. 2. Receive progress reports from AWI on its research, development and marketing programs. 3. Consult with AWI on its communications, engagement and other consultation activities. 4. Receive reports on AWI's progress against independent ROP recommendations. 5. Report back to their organisations to keep members informed on matters outlined above. 6. Contribute to the development of a 10-year plan for the wool industry. 7. Nominate industry members to AWI's Board Nomination Committee. 	Quarterly	<ul style="list-style-type: none"> • Chair (independent from both AWI and wool industry representative bodies) • Nine woolgrower industry representatives^a • Representative from DAFF • Two representatives from the AWI board
WCG	<ol style="list-style-type: none"> 1. Consult on the key research, development and marketing priorities of woolgrowers and key industry issues to inform and guide AWI's strategic and investment plans. 2. Report back to their organisations to keep members informed on matters outlined above. 3. Contribute to the development of the 10-year plan for the wool industry by canvassing membership base for input. 	Biannually	<ul style="list-style-type: none"> • WICP Chair • 28 industry representatives,^b including all industry members of the WICP • Representative from DAFF • Two representatives from the AWI Board

Note a: The WICP woolgrower industry representatives comprise: ASHEEP, Australian Association of Stud Merino Breeders, Australian Superfine Wool Growers' Association, Australian Woolgrowers Association, Broad Wool Representative, Commercial Merino Ewe Competitions Association, MerinoLink, Pastoralists & Graziers Association of Western Australia, and WoolProducers Australia.

Note b: The WCG woolgrower industry representatives comprise the WICP members as well as AgForce Queensland, Australian Dohne Breeders Society, Birchip Cropping Group, Flinders Ranges Merino, Liebe Group, Livestock SA, Mallee Sustainable Farming Group, Monaro Farming Systems (MFS), NSW Farmers Association, NSW Stud Merino Breeders' Association, Queensland Merino Stud Sheepbreeders Association, SA Stud Merino Sheepbreeders Association, Stud Merino Breeders Association of Tasmania, Stud Merino Breeders' Association of WA, SuperBorder, Tasmanian Farmers & Graziers Association, Victorian Farmers Federation, Victorian Stud Merino Sheep Breeders Association, and Western Australian Farmers Federation.

Source: ANAO summary of WICP and WCG.

3.5 The WICP and WCG terms of reference state that 'membership, including the process for appointing the independent Chair of the WICP, as well as performance of the committees will be reviewed annually as part of the ongoing monitoring and evaluation of AWI's consultation activities'. At the December 2021 WCG meeting, AWI proposed that two new members of the WICP be appointed. Nominations were sought from the WCG, with AWI recommending ASHEEP and MerinoLink for nomination. The minutes state that the WCG endorsed the proposal without objection.

3.6 The 2021 ROP found that many woolgrowers do not feel engaged and represented by WICP representatives. The majority of woolgrowers (56 per cent) are not aware of who their representatives are on the WICP and 14 per cent rated communication from their WICP representatives as 'good' or 'very good'. AWI advised that it is working to raise the profile of the WICP through various communication channels, including through its podcast and quarterly magazine, and working directly with woolgrowers.

3.7 AWI's other stakeholder forums include:

- the Animal Welfare Forum, which was established by AWI in 2009 to engage with key animal welfare organisations and researchers on sheep welfare issues and meets annually; and
- state-based woolgrower extension networks in each state, which are funded by AWI and run under the guidance of a Producer Advisory Panel comprising six to eight woolgrowers and stakeholders. The extension networks provide information, training and workshops to woolgrowers at regional and grassroots levels.

WICP member priorities

3.8 AWI receives feedback on WICP members' RD&E and marketing priorities in WICP meetings. From its inaugural meeting in September 2019 to May 2022, WICP members have identified 157 concerns and priorities for AWI. Their top priorities related to:

- flystrike (including mulesing) (18 per cent);
- various RD&E programs or projects, including those relating to training workshops and industry events (13 per cent); and
- labour shortage and shearing (11 per cent each).

WICP and WCG surveys

3.9 AWI conducts post-meeting surveys after each WICP and WCG meeting. The post-meeting surveys seek to capture the members' satisfaction with AWI's consultation efforts, whether the members' consultation expectations are being met, and whether information provided by AWI at the meeting was useful. The ANAO examined the survey results from 2020 to August 2022. During this period, there were two surveys of the WCG and 11 surveys of the WICP.

3.10 Table 3.2 summarises average ratings provided by WCG respondents and Table 3.3 summarises average ratings provided by WICP members to the survey questions.

Table 3.2: Summary of WCG survey results — averages^a

Question	December 2021	May 2022
How do you rate AWI's consultation efforts from [the relevant] WCG meeting?	7.38	7.78
How well are the consultation expectations of your organisation currently being met by AWI?	7.00	7.39
Was the update on AWI's marketing and R&D activities provided at the [relevant] WCG meeting useful?	7.92	7.78
Is the material provided prior to the WCG meeting relevant?	Yes — 92%	Yes — 88%

Note a: Survey ratings were provided on a scale of 1 to 10, with 1 being poor and 10 being exceptional.

Source: ANAO summary of WCG member surveys.

Table 3.3: Summary of WICP survey^a results — averages^b

Question	Mar 20	Nov 20	Mar 21	May 21	Aug 21	Mar 22	May 22
AWI's consultation efforts in mid-2018	6.5	5.40	7.00	4.00	5.00	8.00	6.22
AWI's consultation efforts at relevant meeting	7.00	6.75	8.00	4.00	5.00	8.33	8.22
Consultation expectations being met?	Yes — 75%	Yes — 50%	Yes — 100%	Yes — 0%	Yes — 100%	Yes — 100%	Yes — 89%
Awareness and understanding of AWI activities after the meeting	More — 50%	More — 50%	More — 33%	N/A	More — 0%	More — 50%	More — 88%
AWI's efforts to address and respond to the issues raised at the meeting	7.25	6.50	7.00	1.00	5.00	9.00	8.22

Note a: The surveys are optional. Surveys conducted in May 2020, June 2020, August 2020, and October 2021 received zero responses and were not included in the above table. Responses for the months listed in the table above range from one response to nine responses. Due to the small number of respondents to the surveys, the results may be skewed, especially if there is one particularly low or high score.

Note b: Survey ratings were provided on a scale of 1 to 10, with 1 being poor and 10 being exceptional.

Source: ANAO summary of WICP member surveys.

Woolgrower sentiment surveys

3.11 AWI commissions a survey of woolgrowers annually. The survey gathers feedback from woolgrowers across several different focus areas, including woolgrowers' 'experience' of AWI activities and programs; woolgrower satisfaction with AWI communication and engagement; and the importance of AWI to the Australian wool industry.

3.12 The ANAO examined the survey results from 2020, 2021 and 2022. The surveys consistently reported that respondents who are more familiar and engaged with AWI's programs are more likely to be satisfied with the outcomes of the programs.⁴⁴ The survey reports noted that AWI's challenge is to reach those who are not aware of AWI's programs and incentivise those who are aware, but not engaged, to make the decision to engage in AWI's programs.

3.13 The surveys reported that woolgrowers placed high importance on having an industry services body like AWI (importance ratings of 8.7–8.8 out of 10), including in 2020 when satisfaction ratings with AWI declined across the board. The survey reports comment that this could be 'signal[ing] the likely growing expectations around where and how AWI will support growers'.

3.14 The survey reports noted that there is a cohort of growers (8 to 10 per cent) that it described as 'extremely dissatisfied' or 'antagonistic'. This cohort are 'far less positive than other growers about the future'; 'place a much lower importance of the industry having a services and marketing

⁴⁴ In 2022, the difference in average overall satisfaction ranged from 6.0 out of 10 from 'disengaged' woolgrowers to 6.7 out of 10 from 'highly engaged' woolgrowers.

body like AWI'; and rated lower than other growers 'across all satisfaction measures'. The survey reports noted that this cohort has a dampening effect on the overall measure of grower satisfaction.

3.15 AWI's Strategic Plan 2022–2025 and Annual Operating Plan 2022–2023 contain performance indicators to improve woolgrower satisfaction with AWI's engagement, as measured through the woolgrower sentiment surveys.

Salesforce Community and Stakeholder Platform

3.16 In March 2022, AWI introduced the Salesforce Community and Stakeholder Platform (the platform), a cloud-based software tool which enables AWI to track, analyse, and report on stakeholder interactions and engagement.

3.17 The ANAO examined an extract of the platform's data from 11 March 2022 to 10 August 2022. During this period, there were 381 entries in the platform documenting AWI's various interactions with stakeholders. Of these, 249 (65 per cent) were from meetings; 56 (15 per cent) were from agriculture shows; 34 (9 per cent) were from field days; and the rest were from various other events, phone calls, emails and workshops.

3.18 Of the 381 entries, 210 (55 per cent) included comments from AWI staff outlining the nature of the interaction. The comments are unstructured data containing varying levels of detail. It is unclear from some of the comments whether follow-up actions were required and, if so, whether those actions were undertaken. The remaining 171 entries (45 per cent) did not contain any comments indicating the nature of AWI's interaction with stakeholders.

Opportunity for improvement

3.19 Establishing structure and consistency in the entries would improve the usefulness of the platform to AWI — for example, by noting the type of stakeholder (such as woolgrower, industry body representative, government); requiring certain details to be captured for each entry; and noting whether there are any follow-up actions required and completed.

Best Practice Guide to Stakeholder Consultation

3.20 DAFF⁴⁵ has developed a *Best Practice Guide to Stakeholder Consultation* (best practice guide) for each rural research and development corporation (RDC).

3.21 The best practice guide states that 'good stakeholder consultation can be designed around six key principles'. It explains that 'These principles underpin meaningful, best practice consultation that is conducted in a genuine, frank, and respectful manner' and that 'Trust should be at the core of interactions between RDCs, industry organisations and levy payers'. The six principles are as follows.

- Transparent: 'RDCs must be transparent about their operations and expenditure, and the setting and implementation of research, development and extension (RD&E) [and marketing]⁴⁶ priorities and activities. RDCs have a responsibility to be accountable to their stakeholders and an obligation to make any information related to performance available to their stakeholders'.

⁴⁵ Then known as the Department of Agriculture, Water and the Environment.

⁴⁶ Square brackets are used in the original quote.

- Accessible: ‘RDCs should ensure information is provided in a format that is easy for stakeholders to understand, through a variety of means that enables them to consult in the easiest and most appropriate way to suit their needs’.
- Straightforward: ‘RDCs should consider the needs and competing priorities of their stakeholders to ensure that they are able to consult in the most appropriate and simplest way’.
- Well planned: ‘RDCs should plan well ahead, and give stakeholders advance notice about how they will be consulted and provide adequate time for them to prepare feedback and advice, to achieve meaningful input’.
- Fit for purpose: ‘RDCs are expected to balance the long-term, short-term, high and low risk RD&E [and marketing]⁴⁷ activities. Industries have a diverse range of stakeholders and there will inevitably be different needs and expectations to be managed’.
- Responsive: ‘As part of their SFAs, RDCs are required to undertake monitoring and evaluation. This includes a commitment to communicate and demonstrate the results of RD&E [and marketing]⁴⁸ activities and investments to stakeholders’.

3.22 Each principle includes several elements. The best practice guide also includes industry-specific advice ‘on what good consultation looks like’.

3.23 The ANAO assessed AWI’s consultation and communication approaches, as outlined in AWI’s communications plan, against the best practice guide (see Appendix 4). AWI largely meets the principles. There is room for improvement in relation to the principles of ‘transparent’, ‘accessible’ and ‘straightforward’.

- Transparent: approximately one third (30 to 33 per cent) of woolgrowers reported that they do not understand what AWI does. AWI advised that stakeholders do not understand its role as an RDC, which has created tensions between AWI and its stakeholders (see paragraphs 2.49 to 2.53).
- Accessible: WICP feedback following the 2021 Annual General Meeting (AGM) noted that the process for the election of directors was ‘slightly confusing’ and recommended ‘greater clarity around the nature of the voting process along with more plain English wording to be used’. Other stakeholders also raised concerns that ‘late communication with growers ... left little time for how-to-participate messages to reach all growers and appeared to be heavily weighted towards social media’.
- Straightforward: approximately one third of woolgrowers (27 to 29 per cent) reported that there is not enough communication from AWI.

3.24 AWI’s consultation and communication approaches meet industry-specific guidance (Appendix 5).

Collaboration

3.25 In October 2021, AWI developed a new collaboration framework. The collaboration framework outlines AWI’s collaboration strategy across three categories of activities: ‘on-farm’, ‘off-farm’ and ‘marketing’. More information about these categories, referred to by AWI as ‘funding

47 Square brackets are used in the original quote.

48 Square brackets are used in the original quote.

sources' is at paragraphs 4.36 to 4.39. For each of these categories, the framework outlines: how AWI participates in collaboration; AWI's expectation on collaboration; how AWI manages projects; and selection criteria for collaboration.

Collaboration activities

3.26 AWI reports on its collaboration activities with various industry partners in its annual reports. In 2019–20, AWI reported that it collaborated with 'over 200 industry partners from farm to fashion', with 254 partners in 2020–21, and with 247 partners in 2021–22.

3.27 AWI publishes a 'stocktake' of its collaborative co-investment activities⁴⁹ with RDCs for the financial year on its website.⁵⁰ The ANAO examined the stocktakes from 2019–20, 2020–21 and 2021–22. The stocktakes show that AWI has undertaken 75 collaboration projects with RDCs over the three years, amounting to a total project spend of \$4.7 million.

3.28 Across the three years, an average of 95 per cent of AWI's collaborative projects were cross-industry (involving collaboration with industries other than wool). Most commonly this involved research projects that had broader application for sheep and other livestock. More than half (56 per cent of projects) were cross-sectoral (involving matters that go beyond the agriculture sector). Common cross-sectoral topics related to projects on climate change and managing farm carbon emissions, as well as those that involved technologies with broader, non-agricultural application such as plant genetics, biodiversity and land management.

3.29 Meat and Livestock Australia⁵¹ was the most common RDC collaboration partner, involved in 91 per cent of the examined projects over three years, followed by Grains RDC⁵² (33 per cent), and AgriFutures⁵³ (23 per cent).

Collaboration on strategic industry plans

3.30 AWI is a signatory to the National Primary Industries RD&E Framework (the framework), which is a joint initiative of the Australian, state and Northern Territory governments; RDCs; CSIRO; and universities.⁵⁴ The framework comprises 14 primary industry and seven cross-sectoral strategies and aims to 'encourage greater collaboration and promote continuous improvement in the investment of RD&E resources nationally'.

3.31 AWI participates in the framework's wool industry and cross-sectoral strategies, including supporting the implementation of the strategies financially and operationally. In particular, AWI supports the:

- Wool2030 strategy, the wool industry's 10-year strategic plan; and

49 The user manual of AWI's project management system defines 'collaborative' projects as those where 'a partner contributes cash, in-kind or allocated time towards the delivery of a project'. It defines 'co-funded' projects as those where 'AWI works with other stakeholders on a project and the funding is shared'.

50 Australian Wool Innovation, *Call for Proposals* [Internet], available at <https://www.wool.com/people/call-for-proposals/> [accessed 8 December 2022].

51 Meat and Livestock Australia is an industry-owned RDC for the red-meat and livestock industry.

52 Grains Research and Development Corporation is a Commonwealth statutory RDC for growers of grain crops.

53 Rural Industries Research and Development Corporation (trading as AgriFutures Australia) is a Commonwealth statutory RDC for thirteen industries (chicken meat, rice, honey bee and pollination, ginger, tea tree oil, pasture seeds, export fodder, thoroughbred horses, kangaroo, buffalo, deer, goat fibre and ratite).

54 The framework is overseen by the Research & Innovation (R&I) Committee, which is a sub-committee of the Agricultural Senior Officials Committee (AGSOC).

- Sheep Sustainability Framework, which monitors, measures and reports on the Australian sheep industry's performance against sustainability priorities.

Collaboration forums

3.32 AWI collaborates with cross-industry and cross-sector stakeholders through participation in forums such as the:

- Council of Rural RDCs (CRRDC)⁵⁵;
- AgriFutures' Emerging National Rural Issues (ENRI) forum⁵⁶;
- Agricultural Innovation Australia (AIA)⁵⁷; and
- AWI Animal Welfare Forum.⁵⁸

Are AWI's research, development and extension priorities and activities strategic, collaborative and targeted?

AWI has established arrangements to monitor and report on investment against its strategic portfolios and government and industry strategic plans and priorities. It has established arrangements to monitor and report on the collaboration status of its projects. While AWI identifies the balance of risk and return for its projects, this information is not provided to the board to support oversight and inform investment decision-making. AWI has not established an RD&E investment profile, against which the balance of the portfolio can be monitored. The investment portfolio does not outline the planned proportion or target of projects against AWI's strategic plan's priorities, government and industry priorities, or by risk and return.

3.33 Performance principle (b) requires that AWI 'ensure RD&E priorities and activities (Marketing Activities and Other Activities⁵⁹) are strategic, collaborative and targeted to improve profitability, productivity, competitiveness and preparedness for future opportunities and challenges through a Balanced Portfolio'. Clause 16.4 of the SFA states that 'AWI must develop, implement and maintain an appropriate Balanced Portfolio'. It defines balanced portfolio as an:

RD&E investment portfolio incorporating an appropriate blend of issues of national importance based on government and Levy Payer priorities that seeks to balance short, medium and long term,

55 The Council of Rural RDCs comprises the 15 (five Commonwealth statutory and 10 industry-owned) RDCs. The Council's website states that it 'provides a structure through which the Rural RDCs can work together on matters of common interest and importance'.

56 AgriFutures' Emerging National Rural Issues forum is an annual forum hosted by AgriFutures, attended by the 15 (five Commonwealth statutory and 10 industry-owned) RDCs as well as representatives from DAFF and the National Farmers' Federation.

57 Agricultural Innovation Australia is a not-for-profit company founded by the 15 (five Commonwealth statutory and 10 industry-owned) RDCs. Its website states that it was 'established to facilitate joint investment and collaboration in cross-industry agricultural issues of national importance'.

58 The AWI Animal Welfare Forum was established by AWI in 2009 and meets annually. AWI's Consultation and Engagement Strategy states that the forum 'allows for robust and open dialogue between parties on issues of importance to sheep health and welfare'. The forum includes animal welfare groups (RSPCA Australia, Animals Australia, Four Paws, and the Humane Society), veterinarians (Australian Veterinary Association), genetic reviewers, researchers (CSIRO and University of Melbourne), DAFF, and AWI.

59 The SFA defines 'Other Activities' as 'activities of AWI (other than Marketing Activities and R&D Activities) that are supported by Levy Payers and shareholders, and that relate to a function for which there is a market failure'.

high and low-risk, and strategic and adaptive research needs including consideration of regional variations and needs.

3.34 The Guidelines for Statutory Funding Agreements⁶⁰ elaborate on performance principle (b), stating that RDCs must seek to achieve outcomes that inform ‘strategic industry, cross-industry and cross-sectorial issues’; ‘address present and future needs’; and ‘develop the capacity of levy payers to identify and adopt R&D activities and results’. It explains that a ‘balanced portfolio identifies and assesses objectives, analyses risk and develops appropriate controls to mitigate those risks to acceptable levels’.

Strategic

AWI key priorities

3.35 AWI’s Strategic Plan 2022–2025 identifies five key priorities⁶¹:

- growing the value and international demand for wool;
- wool harvesting;
- collaboration, consultation and engagement;
- sustainability; and
- strengthening the supply chain.

3.36 AWI’s Annual Operating Plan 2022–2023 outlines strategic reporting portfolios, programs and sub-programs. It identifies the alignment between AWI’s strategic portfolios, programs and sub-programs and AWI’s key priorities. AWI’s project management system requires projects to be assigned a strategic reporting portfolio, program and sub-program.

3.37 AWI reports its investments against its strategic portfolios and programs in its annual report. The 2022–23 financial year will be the first year that the Strategic Plan 2022–2025 and its key priorities are in effect. In April 2023, AWI advised that it intends to report its investments against the key priorities.

3.38 The ANAO examined all AWI projects that had a start date in 2020–21 and 2021–22 for alignment with AWI’s strategic portfolios. There were 104 projects that started in 2020–21 and 171 in 2021–22, for a total of 275 projects over the two years (see Table 3.4).

Table 3.4 AWI projects’ strategic portfolio alignment

Strategic portfolio	Projects commenced 2020–21	Projects commenced 2021–22	Total (%)
Marketing	25	68	93 (33.8%)
Sheep Production, Innovation & Advocacy	22	27	49 (17.8%)
Processing Innovation	22	21	43 (15.6%)
Support Admin Costs	18	21	39 (14.2%)

60 The guidelines were released by DAFF and took effect from 1 January 2022. The guidelines outline key performance indicators (KPIs) for the five performance principles to provide consistency across the RDCs while maintaining flexibility for individual RDCs to determine how best to demonstrate achievement of them.

61 AWI’s key priorities are also referred to as ‘strategic objectives’ in its Annual Operating Plan.

Strategic portfolio	Projects commenced 2020–21	Projects commenced 2021–22	Total (%)
Consultation	11	15	26 (9.5%)
Traceability	5	11	16 (5.8%)
Sheep Production	–	5	5 (1.8%)
Industry Development	1	2	3 (1.1%)
Market Analytics	–	1	1 (0.4%)
Total	104	171	275 (100%)

Source: ANAO analysis of AWI projects' alignment with strategic portfolios.

3.39 AWI's project management system provides for AWI staff to identify project alignment with government and industry strategic plans and priorities, including:

- Australian Government research and development (R&D) priorities;
- Wool2030 Strategy pillars and elements; and
- Sheep Sustainability Framework themes and focus areas.

National Agricultural Innovation Priorities

3.40 In October 2021, the National Agricultural Innovation Policy Statement was released. It identifies four priorities for Australia's agricultural innovation system to address by 2030.

- Priority 1: Trusted exporter of premium food and agriculture products.
- Priority 2: Champion of climate resilience to increase the productivity, profitability and sustainability of the agricultural sector.
- Priority 3: World leader in preventing and rapidly responding to significant pests and diseases through future-proofing our biosecurity system.
- Priority 4: Mature adopter, developer, and exporter of digital agriculture.

3.41 The government R&D priorities listed in AWI's project management system were the 2016 national rural RD&E priorities, which were replaced by the National Agricultural Innovation Policy priorities in October 2021. AWI's system was not updated to reflect the new priorities until January 2023. AWI advised that its system has been 'aligned manually for financial year 2021/22 and now updated for 2022/23 reporting'. AWI reported on the total value of its investment as aligned to each of the National Agricultural Innovation Policy priorities in its 2021–22 Annual Report (see Table 3.5).

Table 3.5: AWI investment aligned to government R&D priorities, 2021–22

Priority	R&D \$'000 ^a	Marketing \$'000	Other \$'000	Total \$'000	Percentage of total
Trusted exporter	25,425	–	–	25,425	25%
Climate resilience	1,267	–	–	1,267	14%
Pests and diseases	2,680	–	24	2,704	5%
Digital agriculture	2,383	–	992	3,375	1%
Non-R&D activities	–	43,411	–	43,411	55%

Priority	R&D \$'000 ^a	Marketing \$'000	Other \$'000	Total \$'000	Percentage of total
Total	31,755	43,411	1,016	76,182	–
Percentage of total	44%	55%	1%	100%	100%

Note a: The values included in the annual report, reproduced in this table, did not include value markers. AWI confirmed that the values in this table were intended to be \$'000.

Source: Australian Wool Innovation, Annual Report 2021–22, p. 29.

Wool2030

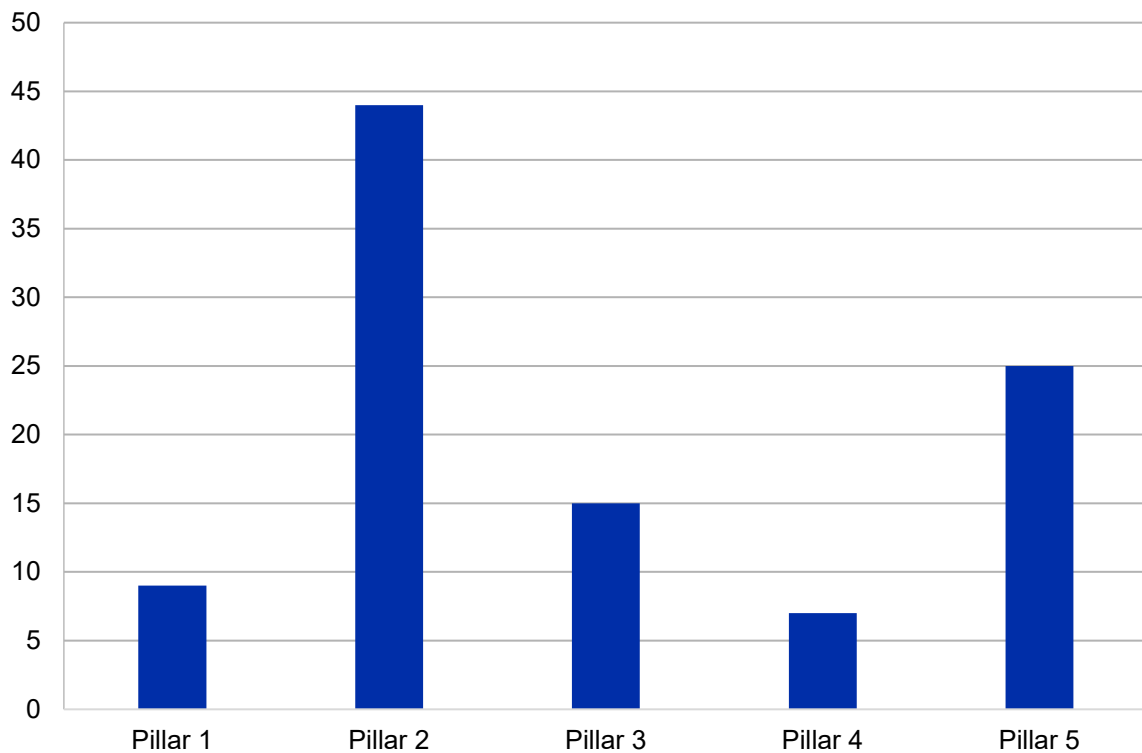
3.42 The Wool2030 Strategy is a 10-year strategy for the wool industry. It specifies five 'pillars of success'. AWI's project management system provides for projects to be aligned with one or more pillars.

- Pillar 1: caring for our animals and the environment.
- Pillar 2: marketing the world's most desirable fibre.
- Pillar 3: communicating with our customers.
- Pillar 4: transforming our production systems through innovation.
- Pillar 5: fostering and promoting a prosperous woolgrowing community.

3.43 The ANAO examined a random representative sample of 76 AWI projects that commenced between 1 January 2021 and 30 June 2022. Five projects in the sample were processed before the current project management system was implemented, and therefore did not have a field to specify alignment with Wool2030 pillar(s). Of the remaining 71 projects examined:

- 59 projects (83 per cent) specified an alignment with one or more pillars (see Figure 3.1); and
- 12 projects (17 per cent) did not specify alignment with the Wool2030 strategy.

Figure 3.1: Sample project alignment with Wool2030 Strategy pillars



Source: ANAO sample testing of AWI projects.

Sheep Sustainability Framework

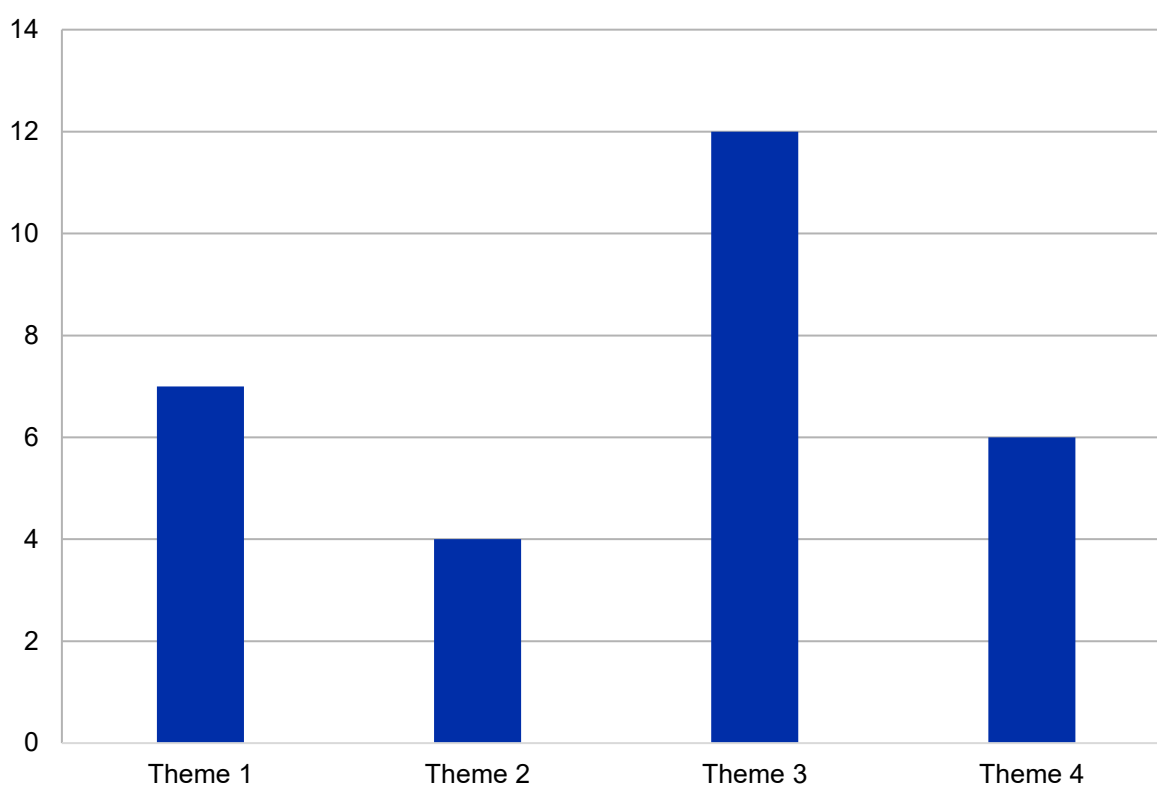
3.44 The Sheep Sustainability Framework (SSF) was developed by an industry steering group, led by Sheep Producers Australia and WoolProducers Australia, to ‘monitor, measure and report industry performance against sustainability priorities’. The SSF outlines four themes, nine focus areas and 21 priority areas. AWI’s project management system provides for projects to be aligned with one or more focus areas under each theme.

- Theme 1: caring for our sheep.
- Theme 2: enhancing the environment and climate.
- Theme 3: looking after our people, our customers and the community.
- Theme 4: ensuring a financially resilient industry.

3.45 Of the 76 sample projects examined by the audit team, 66 projects commenced after the SSF was released. Of these:

- 19 projects (29 per cent) specified an alignment with one or more SSF themes (see Figure 3.2); and
- 46 projects (70 per cent) did not specify an alignment.

3.46 One other project that commenced in March 2021 specified alignment with a SSF theme.

Figure 3.2: Sample project alignment with Sheep Sustainability Framework themes

Source: ANAO sample testing of AWI projects.

Collaborative

3.47 AWI's project management system requires AWI staff to indicate the collaboration status of projects. AWI's project management system user manual defines the statuses as:

- Collaborative — 'A partner contributes cash, in-kind, or allocated time towards the delivery of a project';
- co-funded — 'Where AWI works with other stakeholders on a project and the funding is shared'; and
- standard — 'AWI/TWC [The Woolmark Company⁶²] are completing this project individually with no contribution in cash [or] in-kind from project partners'.

3.48 The ANAO examined the collaboration status of all AWI projects that had a start date in 2020–21 and 2021–22. Of the 275 projects:

- 197 (71.6 per cent) were standard projects;
- 72 (26.2 per cent) were collaborative; and
- five (1.8 per cent) were co-funded.

3.49 There was also one project from 2021–22 that was listed as 'Innovation'. AWI advised that this project was incorrectly categorised. It should have been listed as a standard project and has

⁶² The Woolmark Company is a subsidiary of Australian Wool Innovation.

now been updated in AWI's project management system. AWI's collaboration activities are examined in more detail at paragraphs 3.25 to 3.32.

Targeted

3.50 AWI has established arrangements to monitor and report on its investments against its strategic portfolios (see paragraphs 3.35 to 3.38). AWI invests its budget based on a 60 per cent marketing and 40 per cent R&D 'split' (see Table 3.5 for AWI's 2021–22 marketing and R&D investment). AWI's Strategic Plan 2022–2025 provides budgets for program costs for 2022–23, 2023–24 and 2024–25 against its strategic portfolios (see Table 3.6).

Table 3.6: AWI Financial Budget, 2022–23, 2023–24 and 2024–25

Program costs	2022–23 \$'000,000 ^a	2023–24 \$'000,000	2024–25 \$'000,000
Sheep production	12.5	12.6	12.6
Consultation	4.6	4.6	4.6
Marketing	36.8	37.1	37.2
Market Analytics	4.2	4.2	4.3
Industry development	7.2	7.3	7.3
Total program costs	65.3	65.8	66
Support & Administration costs	10.0	10.1	10.1
Total expenditure	75.3	75.9	76.1

Note a: The values included in the Strategic Plan, reproduced in this table, did not include value markers. AWI confirmed that the values in this table were intended to be \$'000,000.

Source: Australian Wool Innovation, Strategic Plan 2022–2025, p. 34.

AWI strategic priorities

3.51 AWI's Annual Operating Plan (AOP) identifies the alignment between AWI's strategic portfolios, programs and sub-programs and its key priorities.⁶³ The AOP identifies investment focuses, targets and benchmarks/measurement criteria against its programs. AWI's monitoring and evaluation activities are examined in more detail at paragraphs 3.61 to 3.68. AWI has not established a planned proportion or target of projects against its strategic plan's key priorities.

Government and industry priorities

3.52 AWI has established arrangements to monitor and report on its investments against government and industry strategic plans and priorities (see paragraphs 3.39 to 3.46) and has established arrangements to receive feedback on WICP members' RD&E priorities (see paragraph 3.8). AWI has not established a planned proportion or target of projects against government and industry strategic plans and priorities.

Risk

3.53 AWI's project management system provides for projects to be assigned risk and return of 'low', 'medium' or 'high'. The ANAO examined a random representative sample of 76 AWI projects

⁶³ AWI's key priorities are also referred to as 'strategic objectives' in its Annual Operating Plan.

that commenced between 1 January 2021 and 30 June 2022. Twelve projects in the sample were processed before the balanced portfolio fields were implemented and did not contain this information. Of the remaining 64 sample projects, eight projects (13 per cent) did not contain an assessment of the risk and return of their projects.

3.54 AWI advised that the balanced portfolio information recorded in the project management system for each project is fed through to its measurement and evaluation dashboard, which displays the number and value of projects based on risk and return. The balance of AWI's project portfolio for 2021–22 is illustrated in Table 3.7. AWI's monitoring and evaluation activities are examined in more detail at paragraphs 3.61 to 3.68.

3.55 The dashboard shows that the highest number of projects are assessed as low risk and are expected to provide medium return. In terms of value, projects assessed as having medium risk and high return were the most common. There are no projects assessed as high risk and low return. Project proposals indicate estimated project start and end dates. Project duration is not collated to inform balance between short and long-term investments.

Table 3.7: 2021–22 Balanced Portfolio — number and value of projects

2021–22 Balanced Portfolio — number and value of projects				
Risk		Low	Medium	High
Return	High	51 (\$6,900,000)	37 (\$12,500,000)	5 (\$6,500,000)
	Medium	89 (\$9,700,000)	59 (\$6,800,000)	1 (\$93,000)
	Low	57 (\$4,400,000)	1 (\$25,000)	—

Source: ANAO summary of AWI's 2021–22 portfolio balance.

3.56 While the balance of project risk and return is being collated in the measurement and evaluation dashboard, this information is not provided to the AWI Board to support oversight of the balance of risk and return across the portfolio and inform investment decision-making. AWI has not established a target proportion of projects in each risk and return category.

3.57 AWI has not established an investment profile for its balanced portfolio. Establishing an investment profile, which outlines a target proportion of projects against AWI, government and industry priorities and in each risk and return category will support decision-makers to approve projects that align with and will achieve this target. Monitoring AWI's investments against this target will support strategic investment and maintenance of a balanced portfolio.

Recommendation no. 2

3.58 Australian Wool Innovation develop, implement and maintain a balanced portfolio by:

- (a) establishing an investment profile, which outlines a target proportion of projects against AWI, government and industry priorities and for each risk and return category; and
- (b) monitoring investments and the balance of the portfolio against these targets.

Australian Wool Innovation response: *Agreed.*

3.59 (a) *This will be included in the 2023/24 Annual Operating Plan.*

(b) *This will be included in the 2023/24 Annual Performance Report.*

Does AWI effectively demonstrate the outcomes and benefits of its activities?

AWI has established a measurement and evaluation framework to track and report on outcomes of RD&E and marketing activities. AWI publishes reports on its progress against annual program targets every six months. AWI's annual reports are accompanied by performance reports, which provide a high-level summary of AWI's investments. AWI is measuring and demonstrating continuous improvement in governance. It is not effectively monitoring or reporting on improvements in administrative efficiency.

3.60 Performance principle (e) requires that AWI 'demonstrate positive outcomes and delivery of RD&E and marketing benefits to Levy Payers and the Australian community in general, and show continuous improvement in governance and administrative efficiency'.

Research, development and extension and marketing outcomes

3.61 AWI has a measurement and evaluation (M&E) framework, which was revised following the 2018 ROP. In 2019, an M&E team was formed to deliver on the framework. The M&E framework was updated in March 2022, to better align with AWI's Strategic Plan 2022–2025, and is scheduled to be updated triennially with the development of each strategic plan.

3.62 The M&E framework states that AWI aims to deliver 'measurable improvements' in:

Productivity – efficiency of production of goods or services expressed by some measure.

Demand – describes how much consumers in a particular segment are willing to spend on a particular product.

3.63 The M&E framework outlines performance measurement and reporting mechanisms on the program and project-level. This is summarised in Table 3.8.

Table 3.8: M&E framework at program and project levels

Level	Description	Reporting
Program	Programs are the principal mechanism through which AWI pursues its purpose.	<ul style="list-style-type: none">Program Achievement Reports (PARs) — show progress against the annual program targets. PARs are produced biannually. Reports from July to December

Level	Description	Reporting
		<p>2021 and January to June 2022 are available on AWI's website.</p> <ul style="list-style-type: none"> Annual reports — provide a summary of program achievement reports and financial performance for the past financial year. Annual reports are accompanied by performance reports, which provide a high-level summary of AWI's investments. Annual reports and performance reports are available on AWI's website.
Project	Projects combine to create outcomes at the program level.	<ul style="list-style-type: none"> Project Completion Report — internal reports produced for each completed project to capture project performance, lessons learned and financial performance. Evaluations — two to three projects are selected for internal or external evaluation each financial year.

Source: ANAO summary of AWI M&E framework.

3.64 AWI's M&E activities are also informed by:

- consumer sentiment and market research: which examines identified key markets to understand consumer sentiment, purchasing behaviour and opinions of wool and apparel more generally;
- woolgrower sentiment surveys: an annual survey of woolgrowers, examined in paragraphs 3.11 to 3.15; and
- internal surveys: conducted to get feedback from staff on the services provided by AWI's business support teams.

3.65 In 2020, AWI introduced a new data management system for M&E tracking and reporting. The system is linked to AWI's project management system, with information from approved projects automatically sent to the data management system and collated in a dashboard format for reporting. Example dashboards include consultation (showing data regarding meetings and events); collaboration (showing data regarding industry partners, RDC collaboration projects, number of projects by managing country); marketing (showing consumer campaigns, engagement, trade marketing, etc.); and marketing brand partnerships (showing sales revenue, sales units, number of brand partners, etc.).

3.66 AWI receives feedback on its M&E activities through the WICP and WCG. For example, at the August 2022 WICP meeting, members noted that the outcomes of marketing projects are not easy to measure, as measuring outputs is not necessarily measuring outcomes. Members noted the importance of AWI being transparent about both successes and failures.

3.67 AWI regularly holds training for AWI staff on M&E processes, including annual training on using the data management system.

3.68 In March 2023, AWI published its 2019/22 Strategic Plan Impact Assessment, which evaluated and reported on the financial outcomes of its Strategic Plan 2019/20 to 2021/22. The report covered a range of performance areas including 'Benefit Cost Ratio for levy payers';

collaborations with supply chain partners; ‘AWI generated supply chain leverage’; and achievement of program level targets.⁶⁴ The report’s ‘performance highlights’ are listed in Table 3.9.

Table 3.9: 2019/22 Strategic Plan Impact Assessment, performance highlights

Area of performance	Statistics	AWI strategic plan impact assessment comments
Supply Chain Collaboration	344 partners	Throughout the evaluation period, AWI engaged and worked in collaboration with 344 individual supply chain participants who engaged on 540 occasions.
Levy Leverage	121%	For every \$1.00 paid to AWI as levy, AWI secured an additional \$1.21 from supply chain partners or the government.
Benefit Cost Ratio	3.7	For every \$1.00 paid to AWI as levy, AWI generated a return of \$3.70 to the levy payer.
Net Economic Value Added	\$444m	The net economic value to levy payers (net of levy paid) generated over the three-year evaluation period.

Source: Australian Wool Innovation, *2019/22 Strategic Plan Impact Assessment*, 10 March 2023, p. 15.

Improvements in governance

3.69 AWI measures and shows its improvement in governance through a variety of methods, including:

- ROPs (see paragraphs 2.73 to 2.76);
- board performance reviews (see paragraph 2.25 to 2.27); and
- woolgrower sentiment surveys (see paragraphs 3.11 to 3.15).

Showing continuous improvement

3.70 Reviews of AWI’s performance have shown improvement in its governance over the last five years. The 2018 ROP found that:

Lack of transparency is a common issue communicated by stakeholders and has had a significant impact on stakeholder perceptions and their trust in AWI. There have been a number of issues that have arisen in the past 12 months, which raised questions about the governance framework and practices of AWI.

3.71 The 2021 ROP reported that ‘[t]he majority of AWI staff and levy payer representatives interviewed believe AWI governance and leadership has improved in the last three years’, and that ‘[i]ncreased reporting on corporate governance in the annual report as well as the implementation of 2018 review recommendations has improved transparency’. However, the review noted that:

There is a 52% to 49% divide in levy payers’ views of whether the Board and leadership have improved or not over the last three years. This finding is likely to be associated to a lag in perception change from AWI to the broader levy payer group.

3.72 The results of woolgrower sentiment surveys show slight improvement over the last three years, with AWI’s performance rating for ‘being transparent and accountable’ rising from 6.0 in

⁶⁴ Australian Wool Innovation, *2019/22 Strategic Plan Impact Assessment* [Internet], available at <https://www.wool.com/about-awi/how-we-consult/measuring-performance/> [accessed 19 April 2023].

2020 to 6.4 in 2022. Having ‘good governance and integrity’ was added in 2021 and also rose slightly from 6.4 to 6.5 in 2022.

3.73 In the August 2022 WICP meeting, DAFF provided a summary of feedback received from stakeholders in the lead up to the 2022 annual performance meeting with AWI. In relation to governance, DAFF noted that stakeholders acknowledged improvements in AWI’s performance:

Stakeholders noted AWI’s Governance has improved and highlighted the AWI Board now recognise that good governance needs to be part of board culture.

While stakeholders are confident AWI will continue to improve its Governance, it is noted AWI, and industry, need to be cognisant about the costs and barriers to achieving this. AWI can also continue to improve its transparency and accountability of levy expenditure.

Improvements in administrative efficiency

3.74 AWI has implemented several systems to improve administrative efficiency; however, it is not effectively monitoring or reporting on improvements. One system improvement (a new HR system) measured the efficiencies resulting from implementation. AWI acknowledged that ‘at this current time, it has been difficult to measure these operational program improvements as AWI has been focusing on project related efficiency improvements’. AWI advised that it plans to capture cost/time benefits of the improvements going forward.

3.75 AWI’s AOP 2022–23 sets targets for its corporate services areas. There is no performance indicator to monitor improvements in administrative efficiency. AWI does not report on its administrative efficiencies in its annual report. In the 2021 and 2022 annual performance meetings with DAFF (see paragraphs 2.71 to 2.72), discussions on the fifth performance principle focused on AWI’s M&E framework and communicating benefits of RD&E and marketing programs. It did not include improvements in administrative efficiency.

3.76 Adding a performance measure for improving administrative efficiency would help ensure that AWI is meeting the fifth performance principle in full.

Recommendation no. 3

3.77 Australian Wool Innovation establish performance indicators to measure and report on improvements in administrative efficiency.

Australian Wool Innovation response: *Agreed.*

3.78 *These will be included in the 2023/24 Annual Operating Plan.*

4. Management of funds

Areas examined

This chapter examines whether Australian Wool Innovation (AWI) has established effective arrangements to manage funds in accordance with the Statutory Funding Agreement (SFA).

Conclusion

AWI's arrangements for the management of funds are largely effective. AWI has policies for spending funds and has established largely effective processes for approving projects and purchase orders in accordance with its financial delegations. AWI does not have a documented control framework to provide visibility over the effectiveness of its processes and controls. AWI has not established a methodology for calculating the proportion of eligible research and development (R&D) for projects. The terminology and approach used by AWI in its matching payment claims differs from year to year as well as differing from the terminology and approach used by the Department of Agriculture, Fisheries and Forestry (DAFF). There are substantial differences between the R&D excess amounts listed in AWI's matching payment claims and the data in DAFF's systems. AWI is not managing risk for high-risk and high-value projects in accordance with its Risk Management Framework. AWI's annual reports comply with the SFA requirements. It publishes plans, reports, priorities and key information about its activities.

Areas for improvement

The ANAO made three recommendations for AWI to improve arrangements for determining eligible research and development, as defined by the current SFA; improve its processes for preparing matching payment claims; and consistently apply the processes and requirements for project risk management outlined in the AWI Risk Management Framework.

The ANAO identified three opportunities for improvement for AWI to document control procedures; implement a centralised and managed approach to patching; and implement a schedule of internal audits to regularly test the effectiveness of internal processes and controls and IT general controls.

4.1 Clause 15.1 of the SFA requires that AWI 'establish and maintain all necessary accounting systems and financial procedures and controls' to ensure that funds are managed in accordance with the *Wool Services Privatisation Act 2000*, the *Corporations Act 2001* and the SFA. As a registered not-for-profit entity, AWI is also subject to the requirements in the *Australian Charities and Not-for-profits Commission Act 2012* (ACNC Act).

4.2 In this chapter the ANAO assessed whether AWI has established effective arrangements to manage funds in accordance with the SFA. Effective arrangements to manage funds include:

- establishing and maintaining policies that articulate financial arrangements and procedures as well as AWI's responsibilities in accordance with the SFA⁶⁵;

65 Australian Government and Australian Wool Innovation, *Statutory Funding Agreement 2020–2030*, clause 15.

- accounting systems that maintain sufficient financial records to record and explain AWI's transactions and financial position and to allow true and fair financial statements to be prepared and audited⁶⁶;
- establishing effective financial assurance processes to minimise the risk of fraud or material misstatement in financial reports⁶⁷;
- establishing effective arrangements to manage the spending of levy payments and matching payments in accordance with the SFA⁶⁸; and
- effectively reporting on activities.⁶⁹

Does AWI have appropriate financial assurance processes in place?

AWI has financial policies for spending funds, which are reviewed. It has established financial delegations and largely effective processes for approving projects and purchase orders in accordance with its financial delegations. AWI's financial reports and matching payment claims are independently audited. AWI has established arrangements to review its compliance with SFA clauses relating to the management and application of funds. AWI does not have a documented control framework to provide visibility over the effectiveness of its processes and controls.

Financial policies

4.3 AWI has established policies outlining its financial policies for spending funds. Key financial policies include:

- Financial Delegations Policy;
- procurement and cost allocation policies;
- Investment Policy and Investment Protocols;
- treasury and reserves policies;
- travel and expenses policies (for all staff, consultants and the Board); and
- Fraud and Corruption Control Plan.

4.4 Financial policies are reviewed by AWI's Audit and Risk Committee (ARC) and approved by the board.

Financial delegations

4.5 AWI's Financial Delegations Policy sets out the financial activity permitted for six levels ranging from the board (Level 1) to 'other delegated approvers' (Level 6). It includes an authorisation list outlining all individuals by position and name for levels two to six (all levels other

66 Australian Government and Australian Wool Innovation, *Statutory Funding Agreement 2020–2030*, clause 15; *Australian Charities and Not-for-profits Commission Act 2012*, subsection 55-5(1).

67 *ibid.*

68 Australian Government and Australian Wool Innovation, *Statutory Funding Agreement 2020–2030*, clause 16.

69 Australian Government and Australian Wool Innovation, *Statutory Funding Agreement 2020–2030*, clause 12; *Australian Charities and Not-for-profits Commission Act 2012*, Division 60.

than the board). Financial activities are split into nine categories. Each category has several sub-categories detailing the specific activity that is authorised.⁷⁰

4.6 AWI's accounting system facilitates and records financial approval workflows for the spending of funds. The approval workflows are automated and align with the financial delegations.

Projects

4.7 The ANAO examined a random representative sample of 76 AWI projects that commenced between 1 January 2021 and 30 June 2022 with a total value of \$10,000 or more. Of the 76 projects examined, 74 (97 per cent) were approved in accordance with the financial delegations policy.

4.8 Two of the 76 projects were not approved in accordance with the financial delegations policy. The budgets of both projects were greater than \$350,000 and therefore required the approval of the board. The financial system recorded approval from the General Manager, Chief Financial Officer (CFO) and Chief Executive Officer (CEO) and final release from the Company Secretary. The projects were listed in the board meeting papers as items for approval; however, approval of the projects was not recorded in the board meeting minutes.

Purchase orders

4.9 The ANAO examined a random representative sample of 70 purchase orders that were processed and paid between 1 January 2021 and 30 June 2022 with a total value of \$10,000 or more. The 70 purchase orders sampled included 61 contracts (some purchase orders sampled were for payments under the same contract). Of the 61 contracts tested:

- 61 (100 per cent) were released in the accounting system by the correct delegate;
- two (3 per cent) were executed (contract signed) by the incorrect delegate; and
- 13 (21 per cent) were released in the accounting system before the contract was signed.

4.10 AWI advised that, for the two contracts executed by the incorrect delegate, the correct delegate was travelling at the time and had authorised the officer to execute the contract. AWI acknowledged that this arrangement was outside of the financial delegations. AWI advised that it is 'in the process of implementing a new contract creation software that uses electronic signatories'. This new system will align with the financial delegations and restrict authorisation to execute contracts as an additional control.

Fraud and Corruption Control Plan

4.11 AWI has established a Fraud and Corruption Control Plan (the plan). The plan includes potential fraud and corruption threats and control measures as well as an overall assessment of the appropriateness of controls for key areas.

4.12 The plan outlines the procedures for the investigation of detected or suspected incidents of fraud or corruption, including provisions for independent investigation; internal reporting and escalation policies; disciplinary procedures; and external reporting policies. The plan provides that,

70 For the Treasury, Travel and People categories, the policy states whether the level is authorised to do the action, rather than specifying the financial limit that the level can authorise. For example, only levels one, two and three are authorised to engage in the Treasury activity 'opening, closing and changing bank or investment accounts (including term deposits)'.

where a suspected or alleged incident of fraud or corruption has occurred, an internal control review will be conducted:

the Chief Executive Officer or the Board will review the adequacy of the internal control environment, particularly those controls directly impacting on the fraud incident and potentially allowing it to occur, and consider whether any improvements are required.

4.13 Regular testing of internal control measures is an important element in effectively managing fraud and corruption risks. AWI does not have an internal audit function and no internal audits have been conducted in the last three years (see paragraph 4.22 to 4.24).

4.14 AWI has established a Whistleblower Policy to support the reporting of suspected fraud or corruption incidents. More information about AWI's Whistleblower Policy is at paragraph 2.34.

Financial assurance processes

Audit of financial report

4.15 Section 60-25 of the ACNC Act requires AWI, as a large registered entity⁷¹, to have its financial report for a financial year audited and obtain an auditor's report.

4.16 The financial report of AWI and its controlled entities is audited by an independent auditor.⁷² The audit conducts substantive testing, examining AWI's financial statements and supporting documentation to determine if they contain errors. In 2021–22, the independent auditor reported that:

In our opinion, the accompanying financial report of the Group has been prepared in accordance with Division 60 of the *Australian Charities and Not-for-profits Commission Act 2012*, including:

- a. giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended; and
- b. complying with Australian Accounting Standards – Simplified Disclosures and Division 60 of the *Australian Charities and Not-for-profits Commission Regulation 2013*.

4.17 As part of the audit, the independent auditor 'evaluate[s] the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management'. The independent auditor also 'obtain[s] an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control'.

Review of compliance with SFA

4.18 AWI arranges for the independent auditor to audit AWI's compliance with SFA clauses relating to the management and application of funds every financial year. The audit provides 'reasonable assurance that Australian Wool Innovation Limited has complied with the Agreement as measured by the criteria in clauses 15 and 16 of the Agreement'.

71 For reporting periods starting from 2022, large registered entities are those with annual revenue of \$3 million or more.

72 AWI is not an Australian Government entity. The ANAO does not audit AWI's financial reports as part of its Annual Audit Work Program. The ANAO did not audit AWI's financial reports as part of this performance audit. AWI's independent auditor has been HLB Mann Judd since 2017–18.

4.19 In the 2021–22 Annual Report, the independent auditor concluded that ‘in our opinion Australian Wool Innovation has complied, in all material respects, with sections 15 and 16 of the Agreement for the period from 1 July 2021 to 30 June 2022’. The auditor’s report noted that it provides limited assurance regarding operating effectiveness of accounting systems, processes and controls to comply with paragraph 15.1 of the SFA.

4.20 The 2020–21 and 2021–22 annual reports were prepared under the current SFA and included reports from the independent auditor on AWI’s compliance with clauses 15 and 16 of the SFA. Reports on compliance with clauses 25 (management of funds) and 26 (application of funds) of the 2016–20 SFA are included in AWI’s 2016–17; 2017–18; 2018–19; and 2019–20 annual reports. AWI’s 2015–16 Annual Report also included a compliance report against the relevant clauses of the previous SFA.

Audit of matching payment claims

4.21 Clause 14.8 of the SFA states that AWI’s ‘final claim for Matching Payments in respect of Eligible R&D Expenditure made in a Financial Year must be supported by an independent audit report of AWI’s financial statements’. The report for this audit is not published in the annual report. The 2020–21 and 2021–22 claims for matching payments were completed and audited under the current SFA. ANAO analysis of the matching payment claims is at paragraphs 4.52 to 4.64.

Internal audit

4.22 The ASX Corporate Governance Principles and Recommendations explains that an internal audit function can assist an entity to accomplish its objectives by ‘bringing a systematic, disciplined approach to evaluating and continually improving the effectiveness of its risk management and internal control processes’.⁷³

4.23 AWI does not have an internal audit function. AWI’s 2020–21 Annual Report states that:

AWI does not have an internal audit function but relies on the processes and functions it employs to evaluate and continually improve the effectiveness of its governance, risk management and internal control process. Through this risk management process, any internal audit requirements identified are dealt with on a case by case basis. When necessary, external auditors may be engaged to fulfil specific reviews and report to the Audit and Risk Committee.

4.24 AWI advised that no internal audits have been conducted in the last three years.

Systems assurance

4.25 The ANAO reviewed the AWI control environment through enquiry and review of documented policies and procedures. No inspection or testing of AWI IT controls was performed by the ANAO as part of this audit.

Financial system

4.26 AWI has visibility of risks in its financial services, which are recorded in its risk profiles and Fraud and Corruption Control Plan. For example, the Fraud and Corruption Control Plan notes that

73 ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations* [Internet], 4th Edition, February 2019, p. 27, available from <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf> [accessed 8 February 2023].

‘due to the size of AWI, difficulties arise in segregating many of the responsibilities involved in the accounts payable process’. It explains how this is managed:

All payments require two signatories in the relevant banking payment system.

The greatest control that is possible is in analysing performance against budget and the checking of invoices included in the payment runs.

An internet based banking system is in place which permits remote authorisation of electronic transfers by the Chief Financial Officer and/or approved bank signatories.

4.27 AWI has not established a documented controls framework. AWI’s financial processes are reliant on a small number of staff from the finance team, who are responsible for informally ‘checking’ that financial processes are being followed correctly. There is a risk that temporary or permanent loss of one or two key staff may compromise the effective and consistent application of AWI’s financial processes.

Opportunity for improvement

4.28 Documenting control procedures and establishing succession plans for key roles outlining responsibility for controls would strengthen AWI’s control environment and mitigate the risk that temporary or permanent loss of one or two key staff may compromise the effective and consistent application of its financial processes.

IT security

4.29 AWI has visibility of key risks to its ICT environment, which are recorded in its risk profiles and Fraud and Corruption Control Plan.

4.30 AWI’s accounting system has a routine patch cycle. However, there were indications that some servers and software may be maintained without formal patch management. This is further supported by AWI’s independent cyber security testing reports, which included findings against critical patches.

4.31 The Information Security Manual Guidelines for System Management⁷⁴ explain the importance of patch management processes and procedures:

Applying patches or updates is critical to ensuring the ongoing security of applications, drivers, operating systems and firmware. In doing so, it is important that patches or updates are applied consistently and in a secure manner. For example, by using a centralised and managed approach that maintains the integrity of patches or updates, and confirms that they have been applied successfully.

Opportunity for improvement

4.32 Implementing a centralised and managed approach that maintains the integrity of patches or updates, and confirms that they have been applied successfully, to patch or update applications, operating systems, drivers and firmware would improve AWI’s patch management processes and procedures.

⁷⁴ Australian Government, Australian Signals Directorate, *Information Security Manual*, December 2022, pp. 97–98.

4.33 AWI does not have visibility over the effectiveness of its processes, controls or IT general controls. It does not regularly conduct internal audits to test its processes, controls or IT general controls.

Opportunity for improvement

4.34 Implementing a schedule of internal audits to regularly test the effectiveness of internal processes and controls and IT general controls would improve AWI's oversight of its internal control environment. The schedule should be risk-based, with critical processes and controls tested more frequently than less critical processes and controls.

Does AWI administer claims for Australian Government payments in accordance with the SFA?

AWI has not established a methodology for calculating the proportion of eligible R&D for projects. AWI's processes are reliant on examples and interpretations from the 2010–2013 SFA. The terminology and approach used by AWI in its matching payment claims differ from year to year as well as differing from the terminology and approach used by DAFF. There are substantial differences between the R&D excess amounts listed in AWI's matching payment claims and the data in DAFF's systems. AWI identifies project risks and mitigations. AWI is not managing risk for high-risk and high-value projects in accordance with its Risk Management Framework.

4.35 Clause 14.5 of the SFA provides that the Australian Government will pay Matching Payments to AWI 'equal to one-half of AWI's Eligible R&D Expenditure', capped at 0.5 per cent of the Gross Value of Production of the wool industry for the financial year (GVP cap).

Eligible R&D

4.36 AWI has established a Cost Allocation Policy. The policy provides definitions of the different types of expenditure (projects costs, delivery costs and support and administration costs) and states that 'costs are classified based on a combination of both the funding source ... and the strategic portfolio based on the objectives, activities and nature of each project'. The funding sources and strategic portfolios are listed in Table 4.1.

4.37 The policy includes the definition of R&D, but not the definition of extension from the SFA.⁷⁵ It does not specify how to determine whether an activity should be categorised as eligible R&D and, if so, to what extent.⁷⁶

Table 4.1: AWI investment management, 2022–23

AWI Funding Source	Strategic Portfolio	Program
Marketing	Marketing	Trade Marketing
		Talent Development
		Brand Awareness
	Industry Development	Education & Extension (Retail)
On farm	Sheep Production	Healthy Productive Sheep
		Agri Technology
		Training & Technology Take-up
	Consultation	Woolgrowers (Extension Networks)
	Market Analytics	Supply Chain Initiatives (WoolQ)
Off farm	Industry Development	Woolmark
		Education & Extension (Trade, Students)
		Technical Support
	Market Analytics	Emerging Markets
		Supply Chain Initiatives (Traceability)
		Fibre Science
Business Services	Consultation	Woolgrowers (Events & Forums, Media)
		Industry

75 Research, Development and Extension (RD&E) is defined in the Statutory Funding Agreement (SFA). ‘R&D’ and ‘R&D Activities’ are defined as ‘systematic experimentation and analysis in any field of science, technology, economics, industry leadership or business (including the study of the social or environmental consequences of the adoption of new technology) carried out with the object of:

- a) acquiring knowledge that may be of use in achieving or furthering an objective of woolgrowers (as reflected in the woolgrower priorities in the AWI strategic plan), including knowledge that may be used for the purpose of improving any aspect of the production, processing, storage, transport, or marketing of the industry’s products, or goods that are derived from the wool industry’s products; or
- b) applying such knowledge for the purpose of achieving or furthering such an objective, including through Extension’.

The SFA defines extension as ‘facilitating the adoption of the outputs from R&D Activities by persons or organisations engaged in or with the Industry and other stakeholders by way of activities that educate and inform them about opportunities for change or that develop their capacity and/or capability to adopt changes’.

76 Clause 16.2 of the SFA states that AWI must only spend ‘Levy Funds on R&D Activities, Marketing Activities and Other Activities’ and only spend Matching Payments on ‘R&D Activities’, both types of funds must be spent ‘for the benefit of Australian Woolgrowers and the Australian community generally’.

AWI Funding Source	Strategic Portfolio	Program
	Market Analytics	Business Intelligence
		Market Analysis
	Support and Administration costs	Corporate Services

Source: Summary of AWI Investment Management, 2022–23.

4.38 In February 2023, AWI updated its Cost Allocation Policy to include a section titled ‘Cost Allocation methodology – Alignment with SFA Funding Sources’. It states that:

The first stage of this process is to identify whether all or part of the costs are eligible for matching funds based on the objectives, activities and nature of the project in relation to the SFA R&D activity definitions.

All individual projects are reviewed at both inception (Project Proposal) and at the end of each financial year to allocate/review what percentage is eligible for matching funds to be claimed.

The second stage is based on the AWI funding sources which signify the correct SFA funding source.

All Eligible R&D costs are classed as R&D.

All On Farm projects that are ineligible are classed as Other Activities. These primarily tend to be in relation to on ground Wild Dog activities.

All Non-eligible costs across the AWI Marketing, Off Farm, Support and Admin costs are allocated as Marketing costs.

4.39 AWI’s project management system contains fields that require AWI staff to indicate the AWI funding source and strategic portfolio as well as whether a project is eligible R&D and, if so, to what extent.

4.40 Project Managers determine the proportion of eligible R&D for the project, which is listed in the project proposal submitted through the project management system. The proportion of eligible R&D is reviewed by the relevant delegate(s) as part of the project approval process. If approvers do not agree with the proportion of eligible R&D in the project proposal, it is sent back to the project manager to be amended. Project Manager or approver judgements regarding the proportion of eligible R&D assigned are not recorded.

Methodology

4.41 AWI has not established a methodology for calculating the proportion of eligible R&D for a project. AWI explained that ‘the proportion of eligible R&D assigned to a project is based on the proportion of activities that are eligible R&D activities’. There is no standard measure or metric for how the proportion of activities is calculated. There is no formal training regarding how these judgements should be applied.

Review

4.42 Proportions of eligible R&D assigned to projects may be changed during the course of a project. Changes are recorded in the accounting system but not in the project management system. AWI advised that its finance team reviews project activities against the SFA definitions of R&D and extension. There are no procedures for reviewing the proportions and no evidence of reviews occurring.

ANAO analysis

4.43 The ANAO examined a random representative sample of 76 AWI projects that commenced between 1 January 2021 and 30 June 2022 with a total value of \$10,000 or more. The results of the analysis of the 76 projects are summarised in Table 4.2.

Table 4.2: Eligible R&D assigned to AWI projects across AWI funding sources

AWI Funding Source	Eligible R&D (100 per cent)	Proportion of Eligible R&D	Not eligible R&D (0 per cent)
Marketing	0	6	27
On Farm	17	0	1 ^a
Off Farm	15	0	1 ^b
Business Services	4	2	3
Totals	36	8	32

Note a: Project related to the promotion, management and communication of the WoolQ platform.

Note b: Project related to the administration of the Woolmark certification program.

Source: ANAO analysis of sampled projects.

4.44 Of the 76 projects, 44 (58 per cent) claimed a proportion of eligible R&D greater than zero. Of these 44 projects, the ANAO identified fifteen projects (34 per cent) that had claimed a proportion of eligible R&D that does not align (16 per cent) or partly aligns (18 per cent) with the SFA definition of eligible R&D.

4.45 When asked to explain why projects that do not align with the current definition of R&D were determined to be eligible R&D, AWI advised that it uses the examples outlined in the 2010–2013 SFA to inform its determinations of the appropriate proportion of eligible R&D for projects. The 2010–2013 SFA provided examples ‘which may be determined to be Research & Development Activities’, which included the example:

engaging directors, employees, consultants and agents of the Company and in meeting administration, operating or capital expenses (including, but not limited to, lease costs, legal and other professional expenses and the cost associated with the conduct of the WoolPoll) reasonable necessary or appropriate to be incurred by the Company to support its activities in relation to [R&D Activities].

4.46 These examples were not included in the 2016–20 SFA or the current 2020–2030 SFA and were not used to inform the ANAO analysis.

4.47 The ANAO asked DAFF whether it has provided any advice or guidance to AWI regarding the application of the definition of eligible R&D for the previous or current SFA. DAFF stated that the ‘current 10-year SFA contains the definitions of “R&D” and “R&D Activities” and “Marketing”’. When asked whether activities such as government relations, consultation, board administration and senior executive travel to attend events qualify as eligible R&D, DAFF advised that:

The department does not consider the eligibility of AWI activities to receive Australian Government matching funds on a line item basis.

As set out in the SFA, AWI certifies to the department that expenditure AWI has made is eligible to receive matching payments and the department provides matching payments to AWI on the basis of this certification.

4.48 AWI has not established a methodology for calculating the proportion of eligible R&D for projects and its processes are reliant on examples and interpretations from the 2010–2013 SFA. Under the current arrangements, projects have claimed eligible R&D without clear evidence that the project activities align with the current SFA definition of eligible R&D.

4.49 Without an established methodology for calculating the proportion of eligible R&D, there is a risk that proportions of eligible R&D will be assigned inconsistently by different project managers. This also limits the effectiveness of reviews of eligible R&D and the effectiveness of the independent audit of AWI's compliance with the SFA and the independent audit of matching payment claims.

Recommendation no. 4

4.50 Australian Wool Innovation improve its arrangements for determining eligible R&D by:

- (a) updating its policies and processes to align with the 2020–2030 Statutory Funding Agreement; and
- (b) establishing methodology outlining how to consistently determine and review the proportion of eligible R&D assigned to projects.

Australian Wool Innovation response: *Agreed.*

4.51 (a) *Policies and processes will be updated.*

(b) *Methodology will be established and agreed with DAFF.*

Matching payment claims

4.52 Clause 14.6 of the SFA requires AWI to submit a claim for matching payments 'identifying an amount that is one-half of AWI's Eligible R&D Expenditure'. Table 4.3 summarises AWI's matching payment claims and DAFF's records of AWI's matching payment claims for the period 2019–20 to 2021–22.

Table 4.3: Matching payment claims, AWI and DAFF data, \$'000

	2019–20			2020–21			2021–22		
	AWI	DAFF	Diff.	AWI	DAFF	Diff.	AWI	DAFF	Diff.
Total R&D	34,324	34,324	0	26,205	26,205	0	31,756	31,756	0
R&D Limit (50%)	17,162	17,162	0	13,103	13,103	0	15,878	15,878	0
GVP Cap	19,971	19,971	0	16,584	16,584	0	13,931	13,931	0
Amount claimed	19,971	19,971	0	16,584	16,584	0	13,931	13,931	0

Source: Summary of data provided by DAFF and AWI R&D Certification Reports for Commonwealth Matching Funds Contributions for 2019–20, 2020–21 and 2021–22.

4.53 AWI's matching payment claims and DAFF's records of AWI's matching payment claims for the period align. The terminology and approach used by AWI to describe and calculate the amounts listed in its matching payment claims differ from year to year as well as differing from the terminology used by DAFF.⁷⁷

Audit of matching payment claims

4.54 Clause 14.8 of the SFA requires that the matching payment claim 'be supported by an independent audit report of AWI's financial statements'. AWI's matching payment claims⁷⁸ are signed by the AWI CEO and CFO and audited by an independent financial auditor.⁷⁹

4.55 AWI's independent auditor informed the ANAO that the audit of the matching payment claim provides assurance that the amount of R&D claimed agrees with AWI's records regarding R&D undertaken that financial year. The audit also confirms that the GVP cap has been applied appropriately in the claim form. In 2021–22, the auditor's opinion stated that:

We have audited the accompanying schedule titled "R&D Certification Report for Commonwealth Matching Funds Contribution for the financial year 1 July 2021 - 30 June 2022" ("the Claim Form").

In our opinion, the accompanying Claim Form of Australian Wool Innovation Limited ("the Company") for the financial year 1 July 2021 to 30 June 2022 is prepared, in all material respects, to disclose eligible research and development expenditure in accordance with the definitions of eligible research and development activities in the Statutory Funding Agreement 2020-30 between the Commonwealth of Australia represented by the Department of Agriculture and Water Resources and the Company (the "Agreement").

4.56 The ANAO's analysis of a random representative sample of AWI projects (see paragraphs 4.43 to 4.49) found projects that have claimed eligible R&D without clear evidence that the project activities align with the current SFA definition of eligible R&D projects. This was not identified by the independent auditor.

4.57 The independent auditor advised that it, like AWI (see paragraphs 4.45 to 4.46), uses previous SFAs as a guide to inform its testing of AWI's compliance with the current SFA. The independent auditor did not raise any risks or issues regarding AWI's processes for determining eligible R&D.

4.58 DAFF advised that it 'has received the audited report and not requested a reconciliation from AWI for the last two financial years (2020–2022)'.⁸⁰

Excess research and development expenditure

4.59 The *Wool Services Privatisation Act 2000* provides that, if there is eligible research and development expenditure that was not 50 per cent matched (due to the cap of 0.5 per cent of the Gross Value of Production of the wool industry for the financial year), it can be carried forward into later years. Table 4.4 summarises the excess R&D listed in AWI's matching payment claims and in DAFF's systems for the period 2019–20 to 2021–22.

⁷⁷ The audit report uses the terminology used in DAFF's systems.

⁷⁸ Titled R&D Certification Reports for Commonwealth Matching Funds Contribution.

⁷⁹ AWI's independent auditor has been HLB Mann Judd since 2017–18.

⁸⁰ Clause 14.9 of the SFA states that 'upon request, AWI must provide a reconciliation between the total amount of Eligible R&D on which its claim for Matching Payments for the Financial Year is based and the amounts shown in the audited financial statements'.

Table 4.4: Research and development excess, AWI and DAFF data, \$'000

	2019–20			2020–21			2021–22		
	AWI	DAFF	Diff.	AWI	DAFF	Diff.	AWI	DAFF	Diff.
R&D Excess (opening balance)	11,154	62,915	-51,761	8,344	60,769	-52,425	4,863	59,999	-55,135
R&D Excess (closing balance)	8,344	76,746	-68,402	0	73,266	-73,266	665	75,212	-74,547

Source: Summary of data provided by DAFF and AWI R&D Certification Reports for Commonwealth Matching Funds Contributions for 2019–20, 2020–21 and 2021–22.

4.60 There are substantial differences between the R&D excess amounts listed in AWI's matching payment claims and the data in DAFF's systems. When asked about the difference in amounts, AWI explained that:

Historically AWI has been over the cap and has amassed significant brought forward R&D excesses. AWI had conservatively estimated these based on claims from 2013/14 onwards due to wording in clause 5.4 of the 2010-2013 SFA.

4.61 The terminology and approach used by AWI to describe and calculate the amounts listed as excess R&D in its matching payment claims differ from year to year as well as differing from the terminology and approach used by DAFF.⁸¹

4.62 In September 2020, DAFF raised concerns with AWI regarding how it was calculating and listing R&D excess in its matching payment claims. DAFF explained that AWI's approach was confusing and had resulted in DAFF staff entering an incorrect amount into its systems. The incorrect amount was subsequently rectified, and no overpayments were made.

4.63 AWI's independent auditor did not raise any risks or issues regarding the calculation and listing of R&D excess on the matching payments claim.

4.64 AWI is not accurately calculating, recording or monitoring its excess R&D. AWI's approach of 'conservatively' estimating its R&D excess limits its visibility and understanding of the balance of its R&D excess. Accurate information regarding this balance would allow AWI to monitor its financial position and inform strategic decisions regarding its investments in R&D activities more effectively.

⁸¹ The audit report uses the terminology used in DAFF's systems.

Recommendation no. 5

4.65 Australian Wool Innovation improve its processes for preparing matching payment claims by:

- (a) using consistent terminology that aligns with the terminology used by the Department of Agriculture, Fisheries and Forestry; and
- (b) accurately calculating and recording excess R&D in accordance with the Statutory Funding Agreement 2020–2030 and the *Wool Services Privatisation Act 2000*.

Australian Wool Innovation response: *Agreed.*

4.66 (a) *This will be addressed in the 2022/23 claim.*

(b) *AWI records will be reconciled and updated to match DAFF's records.*

Project risk management

4.67 AWI's Risk Management Framework states that 'any project with a value in excess of \$350,000 ... should have a risk assessment conducted'. It notes that 'these risks and mitigation strategies are captured and recorded as part of the project approval process' and that 'risk assessments should be conducted utilising the AWI risk assessment template'.

4.68 The risk assessment template is included as an appendix of the framework. It provides for an assessment of likelihood and consequence and assigns a risk level. The risk assessment template includes sections for the identification of sources of risk and current controls; assessment of the adequacy of the controls; and application of risk treatments.

4.69 AWI's project management system includes fields for risk management, including risk source; risk description; risk mitigation and assumptions. It also contains a field labelled 'Balanced Portfolio' where staff can specify the risk and return of a project based on categories of 'low', 'medium' or 'high'. More information on Balanced Portfolio is at paragraphs 3.33 to 3.57.

4.70 The ANAO examined a random representative sample of 76 AWI projects that commenced between 1 January 2021 and 30 June 2022 with a total value of \$10,000 or more. Of the 76 projects, 74 projects (97 per cent) had completed the risk management section of the project proposal in the project management system.

4.71 Of the 76 projects, 17 projects (22 per cent) had a value in excess of \$350,000, ranging from \$350,000 to \$10,000,000. None of the projects with a value in excess of \$350,000 had conducted a risk assessment using the AWI risk assessment template. AWI advised that these projects used the risk management section of the project proposal to meet this requirement:

For all of these we use the Risk Management section of the project proposal as this mirrors the requirements in the Risk Framework and ensures that all information relative to the project is incorporate in one document.

4.72 The framework requires that 'high' and 'extreme' risks be managed with a detailed action plan and senior management or executive management attention, respectively. Twelve projects in the sample of 76 examined by the ANAO were processed before the balanced portfolio fields were

implemented. Of the remaining 64 projects, five projects were assigned a risk level 'high'. None of the projects with a risk level 'high' had completed a detailed action plan.

4.73 All five projects with a risk level 'high' had a total value in excess of \$350,000 and were approved by the board. The board was presented with a paper for decision outlining the details for each project. Of the five project proposals, one identified project risks and outlined a proposed approach to manage these risks in the paper presented to the board. This project also noted that 'STOP/GO' exit points had been identified and included in the project.

4.74 AWI's Risk Management Policy states that the 'risks arising from AWI's [research, development and marketing] activities and mission ... can be significant'. Projects that represent a significant investment or which are highly visible require careful management and monitoring to ensure that risks to the delivery of the project are appropriately managed. Delays or failures to deliver these projects may be a source of financial or reputational risk for the entity.

4.75 In January 2023, AWI updated its project management system to include a more detailed project proposal risk management plan, which can also be used for program or strategy risk assessments. It provides for an assessment of likelihood and consequence and assigns a risk level. The project management system risk assessment template includes sections for a description of the risk and current controls; assessment of the adequacy of the controls; and application of new risk treatments.

Recommendation no. 6

4.76 Australian Wool Innovation consistently apply the processes and requirements for project risk management outlined in its Risk Management Framework.

Australian Wool Innovation response: *Agreed.*

4.77 *The rollout of the digital Risk Management solution has been initialized and will continue to be enhanced.*

Is AWI effectively reporting on its activities?

AWI's annual reports comply with the requirements of the SFA and the *Australian Charities and Not-for-profits Commission Act 2012*. AWI publishes its annual reports on its website. It publishes documentation required to be made public under the *Corporations Act 2001* and the SFA on its website. AWI has also published plans, reports, priorities and key information about its activities.

Annual reports

4.78 Clause 12.1 of the SFA states that 'AWI must prepare and publish on its public website an Annual Report for the preceding financial year, that complies with the financial reporting and other reporting requirements in Chapter 2M of the Corporations Act' and specifies elements that must be included.

4.79 The 2020–30 SFA applies to annual reports from the 2020–21 and 2021–22 financial years. AWI publishes its annual reports on its website.⁸² The ANAO examined AWI’s 2020–21 and 2021–22 annual reports. AWI’s annual reports comply with the reporting requirements in the SFA, including requirements under the relevant provisions of Chapter 2M of the *Corporations Act 2001*⁸³ and Division 60 of the *Australian Charities and Not-for-profits Commission Act 2012*.

Documentation and communication on website

4.80 Various clauses in the SFA require AWI to publish documents and information on its website and demonstrate its performance to levy payers and other stakeholders. The ANAO examined the documentation published on AWI’s website. AWI has published the required documents and information on its website and reports on its performance against the performance principles in its annual reports. More information on AWI reporting on its performance is at paragraphs 3.60 to 3.76.



Grant Hehir
Auditor-General

Canberra ACT
6 June 2023

82 Australian Wool Innovation, *Annual Reports* [Internet], available from <https://www.wool.com/about-awi/shareholder-information/annual-reports/> [accessed 8 March 2023].

83 Section 111L of the Corporations Act lists the provisions of the Corporations Act that ‘do not apply to bodies corporate registered under the ACNC Act’. This includes Parts 2M.1, 2M.2 and 2M.3 relating to financial reports and audit.

Appendices

Appendix 1 Entity response



10th May 2023

Grant Hehir
Auditor General
Australian National Audit Office
GPO Box 707
CANBERRA. ACT. 2601

Dear Mr Hehir

Re: ANAO Section 19 draft report on 11th April 2023

Thank you for your email dated 11th April 2023 and for the opportunity to provide comments on the Section 19 draft report for the audit of Australian Wool Innovation (AWI).

AWI is proud of the research, development and marketing work it undertakes on behalf of Australian woolgrowers in accordance with the Statutory Funding Agreement (SFA). We note that the audit coincided with the implementation of new frameworks and programs to improve our performance and measurement systems.

Our sole purpose is to invest in both R&D and marketing projects which will enhance the profitability, international competitiveness and sustainability of the Australian wool industry. We aim to increase value, demand and market access for Australian wool through collaboration and consultation with stakeholders, investment in research, development, extension and marketing initiatives whilst collaborating and consulting with stakeholders.

AWI's agrees with all the recommendations as presented in the Section 19 draft report as we are always seeking ways to continually improve all areas of governance within the company and are already taking steps to implement improvements in several key areas.

Please find enclosed with this letter AWI's summarised response to the report and a response to recommendations.

I would like to thank the ANAO audit team for their co-operative and professional approach throughout the audit.

Your sincerely

Jock Laurie
Chairman

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Appendix 2 Improvements observed by the ANAO

1. The existence of independent external audit, and the accompanying potential for scrutiny improves performance. Improvements in administrative and management practices usually occur: in anticipation of ANAO audit activity; during an audit engagement; as interim findings are made; and/or after the audit has been completed and formal findings are communicated.
2. The Joint Committee of Public Accounts and Audit (JCPAA) has encouraged the ANAO to consider ways in which the ANAO could capture and describe some of these impacts. The ANAO's 2022–23 Corporate Plan states that the ANAO's annual performance statements will provide a narrative that will consider, amongst other matters, analysis of key improvements made by entities during a performance audit process based on information included in tabled performance audit reports.
3. Performance audits involve close engagement between the ANAO and the audited entity as well as other stakeholders involved in the program or activity being audited. Throughout the audit engagement, the ANAO outlines to the entity the preliminary audit findings, conclusions and potential audit recommendations. This ensures that final recommendations are appropriately targeted and encourages entities to take early remedial action on any identified matters during the course of an audit. Remedial actions entities may take during the audit include:
 - strengthening governance arrangements;
 - introducing or revising policies, strategies, guidelines or administrative processes; and
 - initiating reviews or investigations.
4. The below actions were observed by the ANAO during the course of the audit. It is not clear whether these actions and/or the timing of these actions were planned in response to proposed or actual audit activity. The ANAO has not sought to obtain assurance over the source of these actions or whether they have been appropriately implemented.

Report paragraph no.	Changes implemented during the course of the audit
2.14	In October 2022, AWI established a board subcommittee, the Marketing and Product Innovation Committee.
2.51 to 2.53	In February 2023, AWI updated its Code of Conduct to include a section on agri-political activity. AWI advised that agri-political activity will be incorporated into its annual probity training from March 2023. The training will incorporate questions covering potential scenarios that may involve agri-political activity.
3.41	In January 2023, AWI advised that it had updated the government R&D priorities listed in its project management system from the 2016 national rural RD&E priorities to the 2021 National Agricultural Innovation Policy priorities. AWI advised that its system has been 'aligned manually for financial year 2021/22 and now updated for 2022/23 reporting'.
4.38	In February 2023, AWI updated its Cost Allocation Policy to include a section titled 'Cost Allocation methodology – Alignment with SFA Funding Sources'.
4.75	In January 2023, AWI updated its project management system to include a more detailed project proposal risk management plan, which can also be used for program or strategy risk assessments.

Appendix 3 WoolQ

1. WoolQ, previously known as the Wool Exchange Portal (WEP), was the result of a recommendation from the 2014 Wool Selling Systems Review (WSSR). The WSSR Panel expressed the view that the portal would help address many of the issues in the wool industry raised during the course of the review, which were difficult to address individually.

Wool Exchange Portal

2. In July 2016, a WEP Working Group was established to progress the WSSR Panel's recommendation. At AWI's November 2016 Annual General Meeting (AGM), it was announced that the WEP Working Group members had voted unanimously in favour of establishing the portal. The board asked the WEP Working Group chair to 'return to the AWI Board in April 2017 a costing, timing and business case model for funding approval of a Wool Exchange Portal'.

3. In April 2017, the WEP Working Group provided the AWI board with a business case for the WEP outlining an estimated cost of delivery and benefits to the industry. The business case noted that 'the success of the WEP is highly dependent on obtaining accurate and real-time data from multiple industry sources'. AWI approved the WEP moving to the discovery phase.

4. In September 2017, the discovery phase business case was presented to the AWI board. It revised the expected costs of the build and noted additional risks, including that:

For the Wool Exchange Portal to effectively deliver on required functionality, we require a 'raw data feed' from AWEX [Australian Wool Exchange], and the ability for the WEP to store this data so we can meet the needs of our users. The data proposal from AWEX provided on 14th August 2017 ... will not meet our requirements. We are still in discussions with AWEX regarding data delivery methods and commercials.

5. AWI was not able to reach an agreement with the Australian Wool Exchange (AWEX) regarding the provision of its raw data to the WEP team. Despite this, the AWI board resolved to proceed with the Build, Pilot and Deployment phase of the WEP. It is unclear whether the AWI board or the WEP project team considered the viability of the project without access to AWEX's data, which was noted throughout WEP Working Group's meetings and in both planning and discovery phase business cases as critical to the success of the project.

WoolQ

6. WoolQ was launched in 2018. As at October 2022, WoolQ has comprised 23 projects, with a total expenditure of \$7.5 million. There was no overarching risk assessment or management plan for delivery of WoolQ. Data access issues have continued to be raised as an ongoing barrier to adoption and the success of WoolQ.

7. In November 2018, the AWI Board, on the recommendation of the Finance and Audit Committee, approved the set-up of WoolQ as a new Pty Ltd company with AWI to be the initial sole shareholder and AWI's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as initial directors. In May 2019, AWI commissioned Port Jackson Partners (PJP) to 'evaluate the ownership, operation and the liquidity of WoolQ and present options to the AWI Board and CEO'.

8. In October 2019, PJP provided its report to the board. The report outlined PJP's 'assessment of ownership and governance options for WoolQ as well as [its] assessment of how

to achieve the broader objectives of transparency and choice in the wool industry'. The report identified key challenges faced by WoolQ and options for next steps. The report noted that:

Ownership and governance of WoolQ are subsidiary to broader data transparency issues.

- Many potential investors/owners are conflicted. It is unlikely other entities would [be] interested in taking a stake in WoolQ prior to it demonstrating take up unless the intention was to frustrate its development.
- New ownership unlikely to address impediments to uptake. Those with the potential to help resolve impediments to take up, are those with the greatest incentive to frustrate WoolQ's development and impede industry transparency and restructuring more broadly.

9. The 2021 Review of Performance (ROP) noted that 'support for the project has wavered and meant key outcomes have not been met' and that 'WoolQ was consistently mentioned by woolgrowers as a project of concern'. In 2020 and 2021, AWI received calls from woolgrower representative bodies to cease investment in WoolQ.

10. From 2021, AWI shifted the focus of WoolQ towards its usefulness as a traceability tool. In September 2022, AWI announced that it will be collaborating with AWEX to develop a single electronic specification tool by the end of 2022.

11. In January 2023, the Australian Council of Wool Exporters and Processors (ACWEP), AWEX, the National Council of Wool Selling Brokers of Australia (NCWSBA), the Australian Wool Testing Authority (ATWA) and AWI announced that they are collaborating to 'allow the Australian industry to better meet the evolving needs of their global customer database in terms of sustainability and traceability'. It explained that:

To achieve these outcomes, the groups believe the key success factor will be to work together as an industry and utilize the multiple digital assets that already exist in the industry today. In doing so, the industry can leverage its highly developed and trusted assets to validate Australian wool credentials for our global customer base.

Over the last 12 months, key industry initiatives include:

- Digitalisation with e-speci collaboration between AWEX and AWI
- eBale - from July 2023 every wool pack imported into Australia will carry technology that will allow traceability from farm to retailer
- AWI / Woolmark Supply Chain Builder software tool developed by Everledger to assist wool growers and their customers with traceability and validation.
- Very significant growth in the capture and transfer of PIC data by sellers to AWTA which would facilitate rapid response in the event of an EAD outbreak.
- Sheep Sustainability Framework – funded by AWI and MLA.⁸⁴


84 Australian Wool Innovation, *Wool Industry Working Together to Future Proof Our Fibre* [Internet], available from <https://www.wool.com/about-awi/media-resources/news/wool-industry-working-together-to-future-proof-our-fibre/> [accessed 20 April 2023].

Appendix 4 Assessment of AWI's consultation and communication approaches, guiding principles for all RDCs

Table A.1: Assessment of AWI's consultation and communication approaches against Best Practice Guide to Stakeholder Consultation, guiding principles for all RDCs

Principle	Guidance	ANAO Analysis
Transparent	<ul style="list-style-type: none"> • Be upfront with stakeholders about consultation expectations by clearly documenting and communicating roles and responsibilities of the RDC, industry representative bodies, industry participants and other stakeholders, including the degree in which they will consult and when and how their views will affect the project or activity • Be open to, and willing to accept feedback from stakeholders • Demonstrate in a timely and respectful manner how stakeholder input has been incorporated • Where stakeholder input cannot be incorporated, be clear about why not • Communicate key decisions relating to members and levy payers, including Board deliberations, and opportunities for input • Be transparent about why information cannot be shared if unable to be completely transparent with stakeholders (for example if the information is confidential and cannot be publicly shared) • Utilise platforms and forums such as AgriFutures Australia growAG. and evokeAG. to share and engage. 	▲
Accessible	<ul style="list-style-type: none"> • Use plain English, particularly when the issue is complex in nature • Ensure the presentation, format and platform is easy to understand and appropriate • Include summaries in written communication to ensure stakeholders can quickly identify information relevant to them • Adapt or modify the consultation approach depending on the need of the stakeholder/s, with online options where appropriate • Publish key information and research on website or other platforms, which are easily searchable • Ensure that all stakeholders are provided an opportunity to contribute • Respond promptly to the queries of stakeholders and show a genuine interest in their input. 	▲
Straightforward	<ul style="list-style-type: none"> • Ensure that stakeholders are aware of the time commitment expectations and ensure consultation is efficient • Be understanding of demands already on their stakeholders, including other consultation processes, and seasonal considerations 	▲

Principle	Guidance	ANAO Analysis
	<ul style="list-style-type: none"> • Monitor and evaluate where stakeholders rely on and appreciate regular consultation and where stakeholders are feeling over-consulted • Consider targeted or group requests to reduce the burden on stakeholders and improve efficiency, particularly for smaller industries input is sought from the same stakeholders • Where possible, streamline consultation across RDCs, for example where a stakeholder may farm multiple commodities • Use trusted and established industry pathways to communicate with stakeholders. 	
Well planned	<ul style="list-style-type: none"> • Ensure consultation is purpose-driven, timely, appropriate, and adaptable • Have realistic timeframes, taking account of seasonal pressures (for example, sowing, harvesting and pruning), public holidays, the end of financial year and holiday periods, and being aware of competing activities • Engage stakeholders early so stakeholders can plan and prepare their input • Where a project is large and is likely time consuming, provide stakeholders multiple opportunities to provide feedback • Recognise and link into industry events and annual general meetings. 	◆
Fit for purpose	<ul style="list-style-type: none"> • Know what their stakeholders want and need to know and ensure consultation is tailored accordingly • Ensure that the consultation approach is adaptable and tailored to the audience and/or levy payers and considers their priorities • Base consultation on the most appropriate methodology (for example, co-design, seeking comments on options to deliver an outcomes etc) • Adjust consultation depending on the issues under consideration, who needs to be consulted, and the available time and resources. Examples of ways to consult include, but are not limited to: <ul style="list-style-type: none"> – Discussion papers – Calls for comment or feedback – Forums, workshops or networks – Extension events, conferences – Social media – Surveys – Newsletters – Publications – Website updates – Webinars. 	◆







Principle	Guidance	ANAO Analysis
Responsive	<ul style="list-style-type: none"> • Collect data on what consultation methods are most effective (for example, which type of consultation yielded the most responses or resulted in the most information provided) • Regularly evaluate and review the ways that they consult stakeholders to ensure that they are effective • Look for informal opportunities to seek feedback and review performance • Be evidence-based and accountable to stakeholders • Be aware of stakeholder consultation fatigue and adjust consultation accordingly. 	
<p>Key:</p> <p>◆ Consultation and communication approaches meet the principles.</p> <p>▲ AWI's consultation and communication partly meets the principles, with some, but not all, of the elements applied by AWI. This may reflect initiatives in-progress.</p> <p>■ Consultation and communication approaches do not meet the principles.</p>		




Source: ANAO analysis of AWI's stakeholder engagement approach.

Appendix 5 Assessment of AWI's consultation and communication approaches, industry-specific

Table A.2: Assessment of AWI's consultation and communication approaches against Best Practice Guide to Stakeholder Consultation, industry-specific

Type	Description	ANAO Analysis
Process and Activities (including industry R&D investment decisions)	<ul style="list-style-type: none"> Formalise a process to engage industry representatives (and levy payers) on strategic planning, spending decisions and monitoring of projects, recognising the AWI Board has responsibility under the Corporations Act 2001 for management of funds collected through the wool levy <ul style="list-style-type: none"> Consult and collaborate meaningfully with the AWI Wool Industry Consultative Panel (WICP) and AWI Wool Consultative Group (WCG) on project priorities prior to making spending decisions Seek feedback from WICP and WCG when reviewing and monitoring spending decisions if necessary Provide project updates to WICP and WCG across the life of each project to allow for meaningful discussion and input on the direction of projects This process will be supported by policy development processes and governance arrangements identified by the industry^a. 	◆
	<ul style="list-style-type: none"> Wool Industry Consultation Panel (WICP) (quarterly) <ul style="list-style-type: none"> Includes members from national woolgrower bodies, mixed farming and next generation farmers plus Department of Agriculture, Water and the Environment run by an independent chair. 	◆
	<ul style="list-style-type: none"> Annual survey <ul style="list-style-type: none"> AWI to undertake an annual survey of WICP members and the groups they represent to inform priorities. 	◆
	<ul style="list-style-type: none"> Wool Consultation Group (WCG) (minimum of 2 per year) <ul style="list-style-type: none"> Representatives of state and regional production-based woolgrower groups, as well as the members of the WICP Formulation of smaller working groups (2021 Review of Performance recommendation). 	◆
	<ul style="list-style-type: none"> For both the WICP and WCG <ul style="list-style-type: none"> Formalise engagement reports to both the AWI Board and to the WICP (2021 Review of Performance recommendation). 	◆

Type	Description	ANAO Analysis
	<ul style="list-style-type: none"> State-based woolgrower networks <ul style="list-style-type: none"> Directed by a Producer Advisory Panel of woolgrowers and stakeholders in participating states Meet at least twice a year and managed by a program manager in each participating state They offer a two-way communications channel, extend AWI and best practice localised production-based information, events and support Networks include, but are not limited to: SheepConnect NSW, Leading Sheep QLD, Bestwool Bestlamb Vic, SheepConnect Tas, SheepConnect SA, The Sheep's Back WA based around facilitated small groups (55) In Vic, SA and Qld, the network is a collaboration with state government^a Formalised event briefs highlighting feedback and issues raised — to be provided to the AWI Board and the WICP (2021 Review of Performance recommendation). 	
	<ul style="list-style-type: none"> Australian Wool Testing Authority (AWTA) and Australian Wool Exchange (AWEX) <ul style="list-style-type: none"> Increased collaboration and formalised meeting schedule with AWTA and AWEX to ensure streamlined and efficient outcomes for woolgrowers. 	
	<ul style="list-style-type: none"> Animal Welfare Forum allows annual consultation with key animal welfare organisations, researchers and stakeholders on sheep welfare issues. Participants include RSPCA, the Australian Veterinary Association, Animals Australia and WoolProducers Australia. 	
	<ul style="list-style-type: none"> Increased collaboration with other broadacre agriculture RDCs (Grains Research and Development Corporation, Meat and Livestock Australia, Cotton Research and Development Corporation,) to streamline research and engagement that is applicable to levy payers who produce multiple commodities on a rotational basis. 	
Publications and Communications	<ul style="list-style-type: none"> AWI has a range of documents and other mechanisms that enable industry stakeholders to see their input reflected in RD&E activities and projects and receive ongoing invitations to engage on these activities. 	
	<ul style="list-style-type: none"> As per the 2021 Accenture Review of Performance, AWI will review the effectiveness of publications and communication methods to streamline the effort and place stakeholders at the centre of the communications strategy. Following the review, current activities may continue, be amended to reach a larger stakeholder cohort or may be ceased. 	

Type	Description	ANAO Analysis
Key:  AWI's approach meets the best practice guide, with all key elements of the guide clearly applied by AWI.  AWI's approach partly meets the best practice guide, with some, but not all, of the elements applied by AWI. This may reflect initiatives in-progress.  AWI's approach does not meet the best practice guide.		

Note a: This element does not directly apply or is not under the control of Australian Wool Innovation and did not form part of the assessment.

Source: ANAO analysis of AWI's stakeholder engagement approach.