

# **The Export Market Development Grants Scheme**

## **Australian Trade Commission**

### **Follow-up Audit**

**Tabled 17 October 1996**

**Audit Report No. 11 1996-97**

#### **Abbreviations / Glossary**

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<b>AFP</b>	Australian Federal Police
<b>AGS</b>	Australian Government Solicitor
<b>ANAO</b>	Australian National Audit Office
<b>Austrade</b>	Australian Trade Commission
<b>AUSTRAC</b>	Australian Transaction Reports and Analysis Centre
<b>BMS</b>	Business Management System
<b>CLEB</b>	Commonwealth Law Enforcement Board
<b>DoF</b>	Department of Finance
<b>DPP</b>	Director of Public Prosecutions
<b>ECIA</b>	Export Consultants Industry Association
<b>EMDG</b>	Export Market Development Grants Scheme
<b>FCP</b>	Fraud Control Plan
<b>FRA</b>	Fraud Risk Assessment

<b>KPI</b>	Key Performance Indicator
<b>MOU</b>	Memorandum of Understanding
<b>SIU</b>	Special Investigations Unit

## ***Part One - Summary***

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### **Background**

1. The EMDG scheme is the Government's principal form of assistance for Australian exporters. It came into operation on 1 July 1974 under the *Export Market Development Grants Act 1974*. The purpose was to provide incentives for the development of export markets. The objective of the scheme, as defined in the 1995-96 EMDG Business Plan, is '...to provide financial assistance to encourage Australian exporters to seek out and develop markets overseas for goods, specified services, industrial property rights and know-how which are substantially of Australian origin'. It reimburses a percentage of exporter's expenditure on export promotion. Until 1993, responsibility for the scheme was split between the Portfolio Department (responsible for policy and legislation) and Austrade (responsible for implementations). To all intents and purposes, Austrade now has practical responsibility for EMDG policy and legislation, although formal responsibilities remains with the Department of Foreign Affairs and Trade on the Portfolio Department.

2. In 1995-96, the scheme was the largest item (approximately 53 per cent) in Austrade's budget and employed 5.5 per cent of its staff. The Austrade *Annual Report 1994-95* (the latest grants figures available at the time of preparation of this report) reported payments for that financial year of \$209.7 million covering 3497 grants. In June 1996 the EMDG Unit had a total staff of 69.

3. The Commonwealth's appropriation for this program was \$236.9 million in 1995-96, while actual expenditure was \$202.3 million. The appropriation for 1996-97 is \$204.6 million. Since its commencement the scheme has been continuously extended and is currently approved for expenditure until June 30, 1999. In the 1996-97 Budget, the Government announced a number of changes to the EMDG Scheme, including a reduction in the eligible expenditure threshold; a reduction of the number of expenditure categories under which grants can be made; the tightening of some eligibility criteria; increased access to the Scheme for the tourism industry; and the capping of the scheme at \$150 million per year, which is to include administration costs.

4. The Australian National Audit Office (ANAO) assessed the efficiency and effectiveness of the Export Market Development Grants (EMDG) Scheme in *Audit Report No.33 of 1993-94*. The major recommendations in that report related to:

- improved quality of claims and control measures;
- optimisation of management planning and control;

- rationalisation of the strategic planning structure;
- improved responsiveness of the scheme; and
- improved accountability to Parliament.

### **Audit objective and methodology**

5. The objective of this follow-up audit was to form an opinion on Austrade's progress with implementing the recommendations of *Audit Report No.33 of 1993-94*.

6. The audit was conducted from February to April 1996. Field work was undertaken at the EMDG National Office in Sydney and the NSW State Office, with some input from the Queensland State Office and some other areas of Austrade. The ANAO interviewed key EMDG officers and reviewed documents. Officers from the Department of Finance (DoF), the Commonwealth Law Enforcement Board (CLEB) and the Australian Federal Police (AFP) were also interviewed. The Export Incentives Consultants Association (EICA) accepted ANAO's invitation to make a submission.

### **Audit findings**

7. The ANAO found that, of the twenty recommendations in the original report:

- thirteen have been implemented (2,4,7,9,10,11,13,14,15,16);
- four have been partially implemented (and Austrade is progressing well with them) (1,3,6,20);
- two are not relevant (5,12); and
- one cannot be implemented due to legal constraints, but Austrade has initiated action to address the underlying problem (8).

8. The ANAO also found that: management of the Scheme over the longer term would have been more efficient and effective if problems associated with the increasing complexity of the legislation had been addressed when they were first identified, at least as early as 1989. Further, the split in responsibility for policy and legislation and for implementation which existed until 1993 also hampered effective administration.

9. This finding could have broader applicability, as the split in responsibility for policy and legislation, on the one hand, and implementation on the other, between a Portfolio Department and a statutory authority is not uncommon. Arrangements similar to those negotiated between the Department of Foreign Affairs and Trade and Austrade, whereby the latter in practical terms controls the Scheme, may be of assistance in other agencies as a means of improving the effectiveness of administration.

## **1. Introduction**

*This Chapter sets out the framework for the follow-up audit, including objectives, scope, methodology, and some background information on the EMDG program.*

## **Background to the audit**

1.1 It is the policy of the ANAO to follow-up significant efficiency audit reports. *Audit Report No.33 of 1993-94*, on the efficiency and effectiveness of the Export Market Development Grants Scheme (EMDG), was tabled in the Parliament in May 1994.

1.2 The ANAO's major recommendations in Report No.33 related to:

- improved quality of claims and control measures;
- optimisation of management planning and control;
- rationalisation of the strategic planning structure;
- improved responsiveness of the scheme; and
- improved accountability to Parliament.

1.3 The Australian Trade Commission (Austrade) negotiated and received a significant increase in its administrative resources over a four year period to implement the audit recommendations. These resources were allocated to Austrade's budget in May 1995.

1.4 Follow-up was considered important because the EMDG is the largest Austrade appropriation and most material item in its financial statements; there has been recent public criticism of the scheme due to increased staff numbers and administrative costs; and the 1993-94 audit found the lack of performance measures combined with Austrade's minimal annual reporting of the scheme had left Parliament inadequately informed of the scheme's effectiveness given its high profile and frequency of legislative change required. It was also considered that the audit would assist Government to improve the administration of the Scheme.

## **Audit objective, scope and methodology**

1.5 The objective of the follow-up audit was to form an opinion on Austrade's progress with implementing *Audit Report No.33 of 1993-94*. In so doing, Austrade's management of the EMDG scheme was also assessed against the ANAO's *Best practice guide for the administration of grants*. This guide was issued shortly after the original audit report was tabled. Senior program managers in Austrade advised that their implementation of the recommendations in that report, and their own continuous improvements activities, had been carried out with reference to this guide.

1.6 The audit was conducted from February to April 1996. Field work was undertaken at the EMDG National Office in Sydney and the NSW State Office, with some input from the Queensland State Office and some other areas of Austrade. The ANAO interviewed key EMDG officers and reviewed documents. Officers from the Department of Finance (DoF), the Commonwealth Law Enforcement Board (CLEB) and the Australian Federal Police (AFP) were also interviewed and the Export Incentives Consultants Association (EICA) accepted ANAO's invitation to make a submission.

1.7 The follow-up audit was conducted in conformance with the ANAO Auditing Standards and cost approximately \$90,000.

## Program description

1.8 The EMDG scheme is the Government's principal form of assistance for Australian exporters. It came into operation on 1 July 1974 under the *Export Market Development Grants Act 1974*. The purpose was to provide incentives for the development of export markets. The objective of the scheme, as defined in the 1995-96 EMDG Business Plan, is '...to provide financial assistance to encourage Australian exporters to seek out and develop markets overseas for goods, specified services, industrial property rights and know-how which are substantially of Australian origin'. It reimburses a percentage of exporter's expenditure on export promotion.

1.9 In 1995-96, the scheme was the largest item (approximately 53 per cent) in Austrade's budget and employed 5.5 per cent of its staff. The Austrade *Annual Report 1994-95* (the latest grants figures available at the time of preparation of this report) reported payments for that financial year of \$197.5 million covering 3497 grants. In June 1996 the EMDG Unit had a total staff of 69. The Commonwealth's appropriation for this program was \$236.9m in 1995-96, while actual expenditure was \$202.3 million. The appropriation for 1996-97 is \$204.6 million.<sup>1</sup> Since its commencement the scheme has been continuously extended and now has expenditure approved until June 30, 1999.

1.10 In the 1996-97 Budget, the Government announced a number of changes to the EMDG Scheme, including a reduction in the eligible expenditure threshold, a reduction of the number of categories under which grants can be made, the tightening of some eligibility criteria, increased access to the Scheme for the tourism industry, and the capping of the scheme at \$150 million per year which is to include administration. Staff reductions as part of the restructuring of Austrade announced on 26 August 1996 can also be expected to impact upon staffing for the EMDG Scheme.

1.11 To administer the scheme Austrade has an organisational structure with an Executive General Manager, a National Manager and four EMDG business units, namely, State Operations Unit (including the Special Investigations Unit); Policy and Legislation Unit; Quality, Risk and Data Unit; and the Customer Service Unit.

1.12 Austrade describes the EMDG scheme as 'largely non-discretionary', with eligibility of expenditure and recipients specified by legislation. Particular items of eligible expenditure are not as clearly defined as the general categories however, and consequently areas of discretion exist. For example, appropriate levels of superannuation claimed may be subject to query, as may be the inclusion of individual items under a general category. Failure to specify items of eligible expenditure more precisely has led, over the years, to an increasingly complex and cumbersome administrative decision-making machinery, and frequent legislative amendments.

1.13 This impacts adversely on the efficiency and effectiveness of the scheme, and hampers achievement of its objectives. This was recognised as long ago as 1989, in the report of the Committee for Review of Export Market Development Assistance (the Hughes Report):

*The EMDG legislation has become very complex because subsequent reviews and resulting changes have sought to make it as cost effective as possible and not open to manipulation and abuse. This has led to substantial modifications to the original legislative provisions and the addition of many new provisions since the inception of the legislation in 1974. Thus whilst it would be desirable to simplify the EMDGS [EMDG*

*Scheme] this cannot be done by making it less performance oriented or compromising its strict anti-manipulative provisions.*

*Continual change causes confusion and indecision. Frequent changes have created an advisory industry that appropriates a share of the EMDGS benefits.*<sup>2</sup>

1.14 Notwithstanding this, the concept of the scheme and the principles for its management remain essentially simple and straight forward. In this, the EMDG scheme is similar to many other grants programs administered by the Commonwealth.

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## **2. Efficiency**

*This Chapter examines Austrade's implementation of those recommendations in Audit Report No.33 of 1994-95 that dealt with efficiency matters.*

2.1 *Audit Report No.3 of 1993-94 contained a number of findings related to the efficiency of Austrade's management of the EMDG scheme. Recommendations 7, 8, 10, 11, 14, 15 and 16 aimed to address these issues.*

2.2 *According to the Australian Accounting Research Foundation, 'Efficiency means the use of financial, human, physical and information resources such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.'*<sup>3</sup>

2.3 *The Best practice guide for the administration of grants suggests that in the best grant schemes, 'operating methods are flexible and responsive to lessons learned from monitoring completed projects and evaluation of results and achievements. A key feature of a successful grant operation is having well-trained appraisers familiar with the aims and objectives of the scheme.' It also pointed out that 'getting a grant should not involve surviving an obstacle course.'*<sup>4</sup>

### **Claims processing**

*Recommendation 7 of Audit Report No.33 of 1993-94:*

*The ANAO recommends that where corrections are required to claim forms, penalties (resulting in a reduction of grants paid) be imposed on claimants in recognition that the onus is on the claimant to insure the validity of the claim.*

*The ANAO is of the opinion that the onus for EMDG claim accuracy should lie with the claimant and not Austrade, provided that there is adequate opportunity for claimants to inform themselves about the requirements of the scheme. The purpose of this recommendation is to ensure that EMDG signals unequivocally to claimants the need for accurate and well documented claims*

**Austrade's Response in 1994**<sup>5</sup>

*Accepted with reservations.*

### **Assessment**

2.4 Austrade has not implemented this recommendation as specified. However, as

signalled in the response to the original audit report, Austrade has addressed the issue of inaccurate claims and of claims quality generally through other strategies.

2.5 Initiatives have included information workshops, revised claim forms, a new Guidelines subscription service for claimants, repeated warnings that penalties may be imposed for false or misleading statements, and increased publicity for successful fraud prosecutions. Other activities foreshadowed in the EMDG Business Plan include workshops for self-prepared claimants claims consultants, code of practice development for consultants, and facilitation of the development of technical standards and professional development activity.

2.6 At the same time, however, Austrade has continued to seek annual legislative amendments and to issue policy rulings on areas where the Act does not cover the particular situations that claimants and administrators are finding occur. The instability and fluidity of the administrative rules for the EMDG scheme following from frequent legislative amendment increase the risk that claimants will provide inaccurate or misleading information unwittingly, although Austrade has made concerted efforts to manage this risk. As a granting authority, Austrade has a responsibility to provide claimants with unambiguous information regarding the scheme.<sup>6</sup> The ANAO considers that Austrade's obligations in this area could have been fulfilled more efficiently by reviewing and simplifying the rules, rather than by addressing deficiencies as they arise. This is discussed further in Chapter 3.

2.7 Overall, the ANAO considers that Austrade has sought to address the concerns underlying Recommendation 7, with some success. However, the ANAO considers that greater attention by Austrade to pursuing simplification of the rules of the EMDG scheme could have greater long-term benefits for efficiency and effectiveness.

### **Consultants policy**

Recommendation 8 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that the EMDG Unit assist claimants by identifying those in the export industry who can provide quality assistance in claiming for and maximising export market development grants.*

*This can be accomplished:*

- by gathering and analysing data on the quality of claims, correlating this analysis with the export market consultants concerned and making the information available to claimants, and
- by seeking to improve the knowledge and expertise of the export market consultants.

*The ANAO notes that the strategy of improving the level of skills among practising export market consultants will lead to increased EMDG Unit efficiency in the long term.*

#### **Austrade's Response in 1994**

Accepted.

### **Assessment**

2.8 Legal advice provided to Austrade after the tabling of the original audit report indicated that implementation of recommendation 8 as worded could be contrary to the provisions of section 53 of the *Trade Practices Act 1974*. Austrade has, instead, chosen to address the underlying concern by working with consultants to develop and implement a Code of Practice for claims consultants.

2.9 Austrade has also employed various other strategies to improve the efficiency of the EMDG scheme by working with consultants. In spite of this, there does not appear to be an appreciable difference in outcome in the value of adjustments between consultant-prepared claims and those prepared by individual claimants. Table 1 shows the adjustments (in proportionate values) made to claims for the 1993-94 and 1994-95 grant years. However the overall proportion of consultant prepared claims requiring no adjustment has moved from 11 per cent to 17 per cent to 28 per cent. For self prepared claims the improvement has been from 9 per cent to 9 per cent to 19 per cent.

**Table 1:**  
**Consultant and Self Prepared Claim Outcomes, 1993-94 and 1994-95**

Category	Value of adjustments 1993-94 (%)	Value of adjustments 1994-95(%)
Made by consultants	8.9	7.6
Self Prepared	12.9	7.1
All claims	10.2	7.5

**Risk assessment and fraud detection**

Recommendation 10 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that steps be taken to improve the risk assessment of claims by:*

- making use of the databases and technology available (for example police checks, corporate affairs checks, financial checks and customs checks);
- requiring some additional information on the claims forms and during investigations which will facilitate the use of database checking; for example the identity of third parties who could provide verification of the claimants and associated representatives and consultants in Australia and overseas; and
- continuing and expanding involvement with the AFP (both formally and informally) in all cases where there is suspicion that false or misleading information has been provided.

*The ANAO notes that these measures will have resource implications both in the added cost of conducting checks and in savings made in grants paid. To cover the risk assessment/ database checking a lodgement fee for claims should therefore be considered.*

**Austrade's Response in 1994**

*Accepted.*



## Assessment

### *Database checks*

2.10 Bankruptcy, corporations, related companies test, fraud and dishonesty convictions checks, Australian Customs Service import and export records checks and verification of passenger movements through the records of the Department of Immigration and Multicultural Affairs are undertaken by Austrade. These are done on a sample basis and when grants assessors consider such checks necessary. In addition, in some Austrade fraud investigations the AFP searches the Australian Transaction Reports and Analysis Centre (AUSTRAC) database. Austrade is also considering the need for direct use of that database and developing closer contact with the Australian Taxation Office.

2.11 The database checks process appears to be running smoothly. Appropriate legislative changes have been made and claimant agreement is sought in the circumstances where it is required. The level of sampling is appropriate, with the option for discretion on the part of the grants assessors if there are concerns about particular claims. Austrade considers that the administration costs imposed on claimants and the Commission and the consequential impact on claims processing turnover by the requirement to seek a consent from every director or principal before conducting criminal history checks are necessary to maintain appropriate risk management. With simplification occurring to the *Corporations Law 1989*, there may be some impact on the information available to the EMDG.

### *Overseas representatives and consultants checks*

2.12 Within the EMDG scheme, expenditure incurred by claimants in setting up and maintaining an overseas representative for promotion and marketing and/or undertaking market research may qualify as eligible expenditure. This information was rated by Austrade as an area of high risk for overpayment and fraud.

2.13 Database and overseas representatives checks have targeted resources on priority areas, in accordance with the *Best practice guide for the administration of grants*,<sup>7</sup> and with Austrade's own risk assessment strategy. In addition, Austrade has in place a range of publicity measures to draw attention to the fraud problem and ensure successfully prosecuted cases are publicised.

### *Involvement with the Australian Federal Police*

2.14 Austrade has significantly expanded its involvement with the AFP. The success of this system and its rapid implementation has been heavily dependent on having an AFP officer with appropriate skills and experience in the Manager, Special Investigations Unit (SIU) position.

2.15 Austrade indicated concerns about a lack of appreciation on the part of the AFP and Director of Public Prosecutions (DPP) of the urgency for Austrade in addressing some EMDG fraud cases accepted for investigation and prosecution. However, Austrade's national management have not taken up a formal offer made by the AFP's National Headquarters in late 1995 to over 100 Commonwealth agencies, including Austrade, to discuss implementing more formal liaison arrangements at a national level. Instead, Austrade has concentrated on working with local AFP units.

**Table 2:**  
**Austrade AFP, DPP And AGS Referral Statistics, 1982-83 to 1995-96** <sup>8</sup>

Financial year	Refer to DPP and/or AFP	Bring before the Courts	Seek recovery of overpayment
1982-83	A number of matters	No cases	-
1983-84	5 matters involving 7 claimants to the AFP	2 successful; several additional charges laid	-
1984-85	10 matters involving 29 claimants	-	-
1 July 1985 - 5 January 1986	6 matters	1	-
6 January 1986 - 30 June 1987	8 cases referred to the AFP	3 to the courts and prosecution	-
1987-88	6 cases of suspected offences	3 cases resulting in 1 conviction and 2 remained unfinalised	2 cases totalling \$297,393
1988-89	4 cases, these plus 1 from 1987-88 carrying over to 1989-90	2 cases brought before the courts resulting in convictions. No mention whether these were those cases from 1987-88	No cases
1989-90	5 cases, these plus 1 from 1988-89 carrying over to 1990-91	No cases	No cases
1990-91	3 cases, these were finalised but 2 from 1989-90 continue to be investigated by the AFP	No cases	No cases
1991-92	5 cases. 1 finalised, 4 continuing to be investigated by the AFP	No cases	No cases
1992-93	14 cases, 3 returned (no action), 9 being investigated by AFP, 1 referred to DPP	1 case, person pleaded guilty	No cases (one case subsequently occurred in 1993-94)
1993-94	20 cases, 5 returned (no action), 14 pending	2 convictions, following guilty pleas	-
Establishment of SIU (Feb 1995) to March 1996	33 cases to AFP with a value of \$6.4m.	5 before the courts 5 prosecutions about to commence 3 recent successful prosecutions	\$49,000, no payout \$635,000 recovery action \$210,553

2.16 As a result of Austrade's significant commitment to the fraud detection and investigation and the establishment of the SIU, the number of suspected and prosecuted cases of fraud has increased significantly (see Table 2 above). This situation was disputed by the Exporters Incentives Consultants' Association (EICA) in their submission to the ANAO, but the figures speak for themselves. Through the establishment of an internal fraud database, better data are now being collected on fraud cases under investigation

(internally and by the AFP) and being prosecuted.

#### *Claim lodgement fee*

2.17 Austrade received supplementary funding to implement the ANAO recommendations on risk assessment and database checking, so imposition of a fee was not necessary.

#### *Overall assessment*

2.18 On the basis of the statistics provided in Table 2 above, it appears that only a small number of EMDG claimants are involved in fraud. Notwithstanding this, it is Government policy that agencies should actively pursue strategies to reduce fraud as much as possible. The ANAO is satisfied that Austrade is achieving an appropriate balance in its efforts on fraud and ensuring client satisfaction with the scheme. Recommendation 10 has been implemented.

### **Quality control systems**

Recommendation 11 of *Audit Report No. 33 of 1993-94*:

*The ANAO recommends that the EMDG Unit develop a quality control system to monitor and improve the risk assessments.*

*This would involve in-depth investigations (using a number of investigators) on randomly selected claims following the initial risk assessment.*

#### **Austrade's Response in 1994**

*Accepted and improved upon.*

### **Assessment**

2.19 Austrade has continued to develop its quality control system. This currently involves three processes:

- peer review - to investigate issues Austrade management consider cannot be adequately assessed by data already collected;
- data correlations - to assess overall quality of claims; and
- sampling - a sample of claims assessed as low risk was conducted in 1995-96, to determine the quality of risk assessment.

2.20 Austrade has in place all the elements for an effective quality control system. To this extent, recommendation 11 has been implemented. However, recent Internal Audit reports indicate that implementation of the quality control system has not yet been completed successfully across all state offices. Austrade has initiated action to redress the problems identified by its internal auditors.

### **Fraud profiling**

Recommendation 14 of *Audit Report No. 33 of 1993-94*:

*The ANAO recommends that fraud profiles be developed based upon theoretical work, feedback from the AFP, DPP and other sources, and*

*from actual and suspected cases of misuse and fraud.*

**Austrade's Response in 1994**

*Accepted with change of emphasis.*

**Assessment**

2.21 Austrade's concern at the time of *Audit Report No.33 of 1993-94* was with the lack of appropriate comparative data upon which to develop robust fraud profiles. Instead, Austrade indicated that profiles would be developed over time, using mainly internal data.

2.22 The AFP advised that fraud profiling can be addressed in two ways: through the profiling of individuals through checking information associated with their businesses and their claim, and in building up a profile of the high risk areas where fraud is likely to occur; or by tracking trends in fraud cases.

2.23 Austrade has developed databases which will enable the progressive refinement of fraud profiles. In addition, Austrade reports suspected fraud cases to the AFP for inclusion in their internal database. The AFP advised that as this develops, information on Commonwealth trends in fraud cases could be passed onto agencies, including Austrade, and also fed into that process.

2.24 Austrade has implemented recommendation 14.

**Budget and savings**

Recommendation 15 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that given the savings that the Investigation Officers make, consideration should be given to allocating more resources to the investigation process.*

**Austrade's Response in 1994**

*Accepted with change of emphasis.*

**Assessment**

2.25 In the original response to *Audit Report No.33 of 1993-94*, Austrade indicated that the real issue in relation to recommendation 15 was one of resource allocation, and that 'an overly aggressive pursuit of 'savings' from allocated EMDG funding could be contrary to the principal support objective of the scheme.' Instead, Austrade intended to focus on improving productivity without significant staff increases.

2.26 In May 1995 Austrade received \$1.58 million for the 1994-95 year, the first year of implementation of those recommendations that related to risk management, investigations, legislative review, performance indicators and liaison in budget and reporting. When applying for this administrative funding Austrade estimated that it would achieve savings in grant allocation of \$15.26 million over four years. The then Government agreed to fund Austrade a total of \$8.48 million over four years. Austrade used these funds to employ additional staff in the EMDG Unit, as shown in Table 3 following.

**Table 3:  
EMDG Staff Numbers per Year**

Staff	1992-93	1993-94	1994-95	1995-96
Operations *	23.4	34.2	51.3	55.5
Better Integration	0.2	0.5	1.5	3
Policy & Legislation	1	1.6	4	6
Quality, Risk & Data	0.5	0.5	4.5	6
Corporate Function	1.9	4.2	3.7	4.5
<b>Total</b>	<b>27</b>	<b>41</b>	<b>65</b>	<b>75</b>

\* includes Special Investigation Unit

2.27 The 1993-94 ANAO Audit found that the administrative cost of processing a claim had risen slightly throughout the operation of the scheme. Since the implementation of ANAO recommendations the operational cost of assessing a grant claim has risen. According to information Austrade provided to the Senate Estimates Committee in September 1995, the total cost of EMDG administration has risen. If the total cost of administration is divided by the number of claims, in 1992-93, the cost of assessing a claim was \$730, in 1994-95 it had risen to \$1,644 and in 1995-96 is estimated to cost \$1,853. However, the cost of claims processing functions of the grants only (including the Special Investigations Unit) was \$849 per claim in 1995-96.

2.28 Recommendation 15 has been implemented.

### **Administration budget**

Recommendation 16 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that the administration budget for the EMDG scheme should be separate from the Austrade administration budget and linked to the budgeted level of grants to provide some reflection of expected workload.*

#### **Austrade's Response in 1994**

*Accepted.*

### **Assessment**

2.29 This recommendation will be implemented with a recent Government decision to include administration in the appropriation for the scheme in the 1997-98 financial year.

*Australian exports: performance obstacles and issues of assistance*, Report of the Committee for Review of Export Market Development Assistance, July 1989 (Canberra, AGPS) p.70.

3

AUS 806, .04

4

The Auditor-General, *Best practice guide for the administration of grants*, AGPS, Canberra, 1994, page 11.

5

This and other summary responses are quoted from Audit Report No.33 of 1993-94, p. xxix. The full text of Austrade's responses is at Appendix 1.

6

Ibid, p. 6.

7

The Auditor-General, *Best practice guide for the administration of grants*, AGPS, Canberra, 1994, page 12.

8

Source: 1982-83 to January 1986 - Export Market Development Grants Board Annual Reports; January 1986 to 1993-94 - Austrade Annual reports; SIU data - SIU statistics

### **3. Effectiveness**

*This Chapter examines Austrade's implementation of those recommendations in Report No.33 of 1994-95 dealing with effectiveness measures.*

3.1 The ANAO addressed findings related to effectiveness in recommendations 2, 4, 6, 9, 12, 17 and 18.

3.2 The Australian Accounting Research Foundation defines effectiveness as '...the achievement of the objectives or other intended effects of activities.'<sup>1</sup>

3.3 The successful management of a program is dependent upon its planning processes. The *Best practice guide for the administration of grants* makes this plain in three simple points:

- *Good planning is essential for an economic, efficient and effective grant scheme. The fundamental objective is to ensure that the scheme is compatible with the grant giving organisation's strategic objectives. Planning should also ensure consistency between the scheme's aims, objectives, performance measures and appraisal criteria.*<sup>2</sup>
- *In the best grant schemes, operating methods are flexible and responsive to lessons learned from monitoring completed projects and evaluation of results and achievements.*<sup>3</sup> and
- *Evidence of the effectiveness of a scheme in achieving its intended results will come mainly from the performance measures set at the planning stage.*<sup>4</sup>

## **Planning**

Recommendation 2 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that an annually revised document be produced containing a precis of all the relevant parts of strategic planning documents which are of higher order (for example the National Trade Strategy, the three-yearly Austrade Corporate Plan), the rationale of the scheme, performance indicators and measures together with related planned goals and objectives, and that the current EMDG Business Plan be assembled and made available to the key players influencing the strategic direction of the EMDG scheme.*

### **Austrade's Response in 1994**

*Accepted.*

## **Assessment**

3.4 Austrade has developed a mission statement, objectives and key performance indicators for the EMDG scheme. These were included in the 1995-96 EMDG Business Plan.

3.5 The 1995-96 business plan goes further than that of the previous year. The 1995-96 Business Plan contains all of the information recommended by ANAO, except a precis of the relevant parts of strategic planning documents (for example, the National Trade Strategy). This latter information could be included, to allow the EMDG scheme to be placed in its appropriate policy setting.

3.6 Also, the 1995-96 EMDG Business Plan was not adequately tiered into the wider Austrade Operational Plan for 1995-96. For example, the EMDG objectives/initiatives listed in Austrade's Operational Plan do not match those in the corresponding EMDG Business Plan. More detailed and consistent information could have been expected on the program that makes up approximately 53 per cent of Austrade's budget.

3.7 Recommendation 2 has been implemented, but the ANAO considers that there is still scope for improvement in the linkages between some of the documents, such as the Operational and Business Plans.

## **Cost-benefit analysis**

Recommendation 4 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that the opportunities presented by the scheme with respect to adding value to each EMDG claimant's exporting effort as well as adding to the general pool of knowledge regarding export market imperfections and artificial barriers be assessed on a regular basis as to the cost and benefits of 'taking up' the export opportunities.*

**Austrade's Response in 1994**

*Accepted.*

**Assessment**

3.8 The EMDG scheme has been evaluated some 12 times in the 21 years of its existence. However, Austrade still does not have set measurable standards against which the effectiveness of the scheme can be assessed. Each evaluation seems to devise new standards. This contrasts with Austrade's approach to the evaluation of other schemes. For instance, the International Trade Enhancement Scheme, a loan scheme, has established target and performance against these targets is assessed as part of the evaluation strategy.

3.9 The last effectiveness evaluation of the scheme, *Helping to meet the export challenge*, was released in April 1994, just prior to the tabling of the ANAO report. The evaluation found that the EMDG scheme was achieving its objective of encouraging firms to seek out and develop export markets and recommended the scheme should be extended for a further five years.

3.10 Nevertheless, the evaluation also queried the effectiveness of some aspects of the scheme. In particular, it raised issues of drop out rates and failed businesses. Austrade claims that the methodology used to measure these two items was inadequate, and that internal work has revised the findings significantly (for the better). The Grants Entry Test was added to the scheme through legislative amendment in June 1996 to address this particular weakness.

3.11 The latest evaluation of the EMDG scheme also provided a methodology for repeat measurement of effectiveness through complex econometric modelling. As this would cost \$100,000 for each evaluation, Austrade advised that it would only repeat the study about every 3-4 years. The ANAO supports this decision.

3.12 Regular monitoring of performance is an important management tool. Austrade advised that this is done using its databases but Key Performance Indicators were adopted only as recently as July 1995. These indicators are reasonable and are consistent with Austrade's corporate performance measures. These indicators are not yet supported by measurable standards, although Austrade advised that they have been incorporated in the 1996-97 Business Plan.

3.13 Recommendation 4 has been implemented but the ANAO is of the opinion that, from 1996-97, Austrade will be better able to make use of performance information that will be available from the Key Performance Indicators to monitor the ongoing effectiveness of the scheme.

**Legislation**

Recommendation 6 of *Audit Report No.33 of 1993-94*:



*The ANAO recommends that, before the expiry of the current five-year period of the EMDG scheme, the opportunity be taken to review the structure and wording of the EMDG Act and regulations with a view to improving the responsiveness of the scheme to the marketplace.*

*The ANAO notes that this recommendation has resource implications regarding the conduct of such a review, however, it should be noted that an appropriately revised Act and Regulations may reduce the cost and appeals to Austrade (estimated at \$100,000 to \$200,000).*

**Austrade's Response in 1994**

*Accepted.*

**Assessment**

3.14 The legislative base of the EMDG is the critical element that underpins all aspects of the scheme. Written in 1974, it has been continually amended, resulting in increased complexity of rules and guidelines in an effort to define eligibility rules more clearly. There are areas within the scheme where the legislation provides little guidance on interpretation and application of the rules of eligibility. This causes problems for grant assessors and claimants alike. The recommended Legislative Review was to be policy neutral and in the 're-writing of existing rules will make them easier to comply with, thus reducing compliance costs. It will also give users a better understanding of their rights and obligations'. Funding for the Legislative Review was received at the end of the 1994-95 financial year.

3.15 In the 30 November 1994 Quarterly Report to the then Minister for Finance, the then Minister for Trade advised that Austrade was 'recruiting senior personnel with specialist commercial and legislation skills.' The Austrade *Annual Report 1994-95* stated 'Another initiative for this year was a major rewrite of EMDG legislation.' This is somewhat misleading, as it refers not to a review of the legislation, but to major amendments. The 1995-96 EMDG Business Plan gave the commencement of the Legislative Review as May 1995. In a briefing to the then new Minister Austrade stated that the Review began in September 1995. These inconsistencies do not appear to have been fully explained to stakeholders, especially the Parliament, although Austrade is now implementing a revised plan which should have new legislation operative from mid-1997.

3.16 Recommendation 6 has not been implemented in the timeframe recommended, although drafting instructions have now been forwarded to the Office of the Parliamentary Counsel.

**Fraud control**

Recommendation 9 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that the portion of the Austrade Fraud Control Plan (FCP) dealing with the EMDG scheme be revised to:*

- indicate all documents which constitute total fraud control planning
- have goals, objectives, performance measures and performance standards to achieve during the life of the plan
- identify the various monitoring and reporting mechanisms which are

in place by which management controls activities in order to achieve the goals

- identify the liaison arrangements with the AFP, DPP, AGS and any other relevant 'down stream' agencies, and
- identify the strategic position of the FCP in Austrade's and the EMDG's strategic planning structure.

#### **Austrade's Response in 1994**

*Accepted.*

#### **Assessment**

3.17 Preparation of fraud risk assessment (FRA) and fraud control plans (FCP) has been a requirement for all Commonwealth agencies and authorities since 1987. This requirement was reaffirmed and strengthened in 1994 with the acceptance by the Government of the *Fraud Control Policy of the Commonwealth*. The agency currently responsible for assessing the quality of agency FRAs and FCPs is the Commonwealth Law Enforcement Board (CLEB). Their quality assurance guidelines were revised in March 1995 and Recommendation 9 is essentially a subset of an earlier version of those guidelines.

3.18 In his Quarterly Report to the then Minister for Finance on 28 February 1995, the former Minister for Trade advised that, 'Austrade has finalised an update of the Fraud Control Plan to incorporate the above as at 17 February 1995.'

3.19 Austrade's most recent Fraud Risk Assessment and Fraud Control Plan was approved by the Austrade Board in October 1995, and forwarded to CLEB. The EMDG scheme was one of two areas of Austrade rated as high risk. Austrade has noted that the EMDG FCP will operate as a subset of the Austrade FCP.

3.20 The CLEB assessment of Austrade's FRA and FCP identified several areas of the most recent plan requiring further information or development. Of particular relevance to this audit is that the EMDG section also referred to a more detailed EMDG plan of fraud prevention and detection that had not been forwarded to CLEB.

3.21 CLEB advised the ANAO that Austrade's FRA and FCP:

- were based upon a commercially developed risk assessment methodology which was sound and well developed;
- promised a detailed fraud control plan specifically focussed on the EMDG program by December 1995, but this had not yet been received by CLEB;
- as yet did not address the specific points raised by the ANAO review;
- contained a timetable for the implementation of the FCP which, while adequate, was not particularly detailed; and
- to be effective, implementation needed to follow up on the executive's stated commitment to fraud control and CLEB was not in a position to ascertain the extent of that commitment.

3.22 A draft fraud control plan for the EMDG was subsequently submitted to CLEB following an evaluation of the draft EMDG fraud control plan and risk assessment, CLEB advised that, with some very minor amendments, the EMDG's fraud control arrangements fully meet the requirements laid down in the policy. The advice to the ANAO continued:

*CLEB was pleased to note a number of proactive initiatives developed by the EMDG to reduce the level of fraud and increase detection of fraud against the program. These initiatives include the development of a computer generated risk assessment and profiling model; the benchmarking of this methodology against data analysis models used by the Health Insurance Commission; claimant education programs, which familiarise claimants with the required documentation and processes involved in claiming a grant; a Code of Practice for claims consultants; and the counselling of consultants who engage in non-acceptable behaviour and practice.*

3.23 On the basis of the information presented in both documents, implementation of recommendation 9 is complete.

### **Arrangements with the AFP and DPP**

Recommendation 12 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that Austrade expedite the development of Memoranda of Understandings with the AFP and the DPP ensuring that the various regional officers of the AFP, DPP and Austrade are included.*

#### **Austrade's Response in 1994**

*Accepted.*

### **Assessment**

3.24 In December 1994 this recommendation was superseded by a change in the Commonwealth's fraud control policy outlined in the documents *Fraud control policy for the Commonwealth* and *Interim Ministerial direction on fraud control*.

3.25 Information previously set out in Memoranda of Understandings (MOUs) is now included as part of that policy for the AFP, DPP and Commonwealth agencies. MOUs with the AFP are now only required in special circumstances, for example, the Department of Foreign Affairs and Trade has one related to passports. No special circumstances were identified by Austrade as warranting a MOU with the AFP. The ANAO supports that view.

3.26 The Commonwealth's policy in relation to the prosecution of criminal offences is set out in the *Prosecution Policy of the Commonwealth*. The *Interim Ministerial direction on fraud control* states that the DPP has MOUs with major agencies. Austrade's comment that there is little need for an agreement with the DPP because the AFP handles those referrals is still relevant. The ANAO supports that view.

### **Administrative flexibility**

Recommendation 17 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that Austrade develop greater flexibility in its administrative budgeting and staffing, given that the level of claim*

*investigation work and other staff resource pressures are likely to remain difficult to predict.*

**Austrade's Response in 1994**

*Accepted.*

**Assessment**

3.27 The 30 November 1994 Quarterly Report to the Minister for Finance reported that 'In view of the lack of support from the Department of Finance of a separate appropriation for the EMDG administration, this recommendation cannot be materially progressed.'

3.28 Nevertheless, Austrade has taken a number of steps to increase flexibility in administrative budgeting and staffing. These include:

- transferring officers between States for short periods;
- the employment of contractors in the grant assessment position; and
- the introduction of half-yearly claims lodgement for year 1,2 and 3 claimants.

3.29 Recommendation 17 has been implemented.

**Costing system**

Recommendation 18 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that Austrade develop a comprehensive EMDG scheme costing system that would permit managers to better monitor, review and control productivity and investigation trends.*

**Austrade's Response in 1994**

*Accepted but will investigate further to develop a comprehensive package of measures.*

**Assessment**

3.30 The *Best practice guide for the administration of grants* states:

*The main costs of a grant scheme are the grants paid and administrative support. It may be difficult to assess the likely demand in terms of grants paid, since take-up will depend on the number of potential grantees, terms of assistance, extent of publicity, etc. Estimates should be linked to the assumptions or measures on which they are based. Administrative costs, including the costs of appraisal and monitoring, are generally easier to estimate and control.*<sup>5</sup>

3.31 The productivity of the grant areas is monitored regularly. Austrade can track the number and type of claims processed on a monthly basis, and against key performance indicators such as timeliness of claim processing. Comparative data such as Table 4 below is available for managers on a cost centre basis.

**Table 4:  
Processing of EMDG Claims**

(i) Received before 31 October 1995

Grant Year at 5 March	No of Claims	Completed in 8 Weeks	%	Over 8 weeks	%	Not Yet Paid	%
1994-95	1239	713	57.5	437	35.5	89	7.2
1993-94	1137	522	45.9	607	53.4	50	4.4

(ii) Received after 31 October 1995

Grant Year at 5 March	No of Claims	Completed in 7 Weeks	%	Over 7 weeks	%	Not Yet Paid	%
1994-95	358	306	85.5	42	11.7	17	4.7

3.32 The quality of information available to Austrade managers has improved since *Audit Report No.33 of 1993-94*. Austrade's systems for monitoring productivity would be further improved by the development of measurable standards against Key Performance Indicators, and linking these with costing information. In the response to this report, Austrade advised that this had been done.

3.33 Recommendation 18 has been implemented.

## 4. Accountability

*This Chapter examines Austrade's implementation of those recommendations in Audit Report No.33 of 1994-95 relating to accountability.*

4.1 In following up the 1993-94 ANAO Audit Report the efficiency and effectiveness of Austrade's management of the EMDG scheme has been examined.

4.2 According to the ANAO's *Best practice guide for the administration of grants*,

*Accountability arrangements should relate to the effectiveness of the program and address its aims and objectives as well as the process of administering it. The granter, the grant recipient and the grant administrators all have their respective roles to play in achieving the scheme's aims and objective and should be held accountable for the way in which they fulfil their roles... All those involved in the decision making and administrative process are responsible to account for the inputs to the program and relate them to outputs and outcomes set by the Government. They are also accountable to ensure that all aspects of due process are complied with.*<sup>6</sup>

4.3 Accountability issues arising from the 1993-94 Audit were dealt with in Recommendations 1, 3, 5, 13, 19 and 20.

### Performance information

Recommendation 3 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that Austrade should not only continue to search for and analyse meaningful performance measures and indicators related to the focus, use and effectiveness of the export market development grants but should also report the results to Parliament on*

*an annual basis.*

**Austrade's Response in 1994**

*Accepted.*

**Assessment**

4.4 In his Quarterly Report to the then Minister for Finance on 30 November 1994, the former Minister for Trade noted that '...Arthur Andersen had been contracted for six months to facilitate development of key performance indicators. A work program has been agreed and interim findings are expected to be concluded in February 1995...'

4.5 In his Quarterly Report of 28 February 1995, the former Minister for Trade advised, under recommendation 19, that '...The project is acknowledged by Austrade and Arthur Andersen to be complex. This project is due to report in May 1995...'

4.6 In July 1995, the Austrade Board was asked to note the EMDG Business Plan for 1995-96, including 11 Key Performance Indicators. The Board did so, and the Business Plan was adopted. Details on the performance indicators are set out in Table 5 below.

4.7 The Key Performance Indicators Report noted that only limited details on measurable standards for all indicators were provided as EMDG management was to develop these once realistic targets had been identified through ongoing performance measurement.

4.8 Austrade has partially implemented recommendation 3. Implementation will be complete when measurable standards are identified to supplement the existing KPIs. Austrade advised that this information would be available for 1996-97.

**Administrative performance indicators**

Recommendation 13 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that the EMDG Unit introduce administrative performance indicators for the activities of claim investigators which give more weight to savings achieved, the identification of possible misuse/fraud and referrals made to the AFP.*

**Austrade's Response in 1994**

*Accepted with change of emphasis.*

Recommendation 19 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that a range of administrative performance indicators be developed to accurately reflect the amount of work being undertaken and to give greater weight to savings, efficient customer service and the like. The need for a broader range of performance measures is even more important if the proposal to contract investigations is actioned.*

**Austrade's Response in 1994**

*Accepted but will investigate further to develop a comprehensive package of measures.*

**Assessment**

4.9 In response to *Audit Report No. 33 of 1993-94*, Austrade expressed concern that implementation of recommendation 13 as it stood 'could be seen as placing undue emphasis on the detection of fraud (which is accepted as a priority within EMDG) and would inhibit the continuing integration of EMDG into the Commission's range of export assistance programs.' Instead, the Commission proposed the development of a broader range of performance indicators to assist in balancing priorities for investigative staff.

4.10 Austrade has established Key Performance Indicators for the work of claims investigators. These are set out in Table 5 below.

4.11 Austrade has implemented recommendations 13 and 19, subject only to the caveat for recommendation 3 above.

### Other grants schemes

Recommendation 5 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends whenever a grant scheme is set up a clear set of performance measures and intended standards to be achieved be established and reported to allow Parliament to assess the effectiveness and therefore the need for the scheme. This recommendation is of a general nature directed to all government agencies.*

**Austrade's Response in 1994**

*Accepted.*

#### Assessment

4.12 Austrade has not established any new grants schemes since *Audit Report No.33 of 1993-94*.

### Database

Recommendation 20 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that the EMDG scheme database should be upgraded to permit a wider range of performance indicators to be incorporated. This database should include:*

- the type of investigations
- the complexity of claims
- results of investigations
- the activities other than investigations, and
- data that would permit management to judge the status of the balance between:

- *benefits to clients*
- *productivity of IOs/resources, and*
- *control of fraud/overpayment/misuse.*

**Austrade's Response in 1994**

*Accepted but will investigate further to develop a comprehensive package of measures.*

## Assessment

4.13 The EMDG Unit manages two separate databases, the EMDG database, the fraud database. There is also a link into Austrade's BMS/cost system.

**Table 5:  
EMDG Key Performance Indicators**

Objective	KPI Grouping	Performance Indicators	Indicative Performance Standards	Data Source
Enhance client services	1.1 Turn around time for claims	Lodged prior to Nov. 1	95% processed & paid within 8 weeks (does not include fraud or appeals) 95% by June 30 (does not include fraud or appeals) minimum 80% satisfied with process minimum 80% satisfied with level of way enquiry was handled minimum 80% satisfied with provisions of legislation	Data base
		Lodged after Oct. 31		Survey
	1.2 Degree of claimant satisfaction	Claim processing Enquiry service		Survey
		Legislative provisions		Survey
Return on investment	2.1 Leverage ratio	Export earnings	\$5.5b exports \$10 exports per \$ grant  number per year number continuing to claim number continuing to export number total  number, average exports (\$) for claimants, marketing by visits No. of claimants with agents, number agents/claimant, average exports (\$) for claimants with agents No. claimants with o/s offices, number of offices/claimant, average exports (\$) for claimants with offices number of claimants with subsidiaries, number of subsidiaries/claimant,	Data base
		Leverage ratios		Data base
		export to grants		Data base
	2.1 Claimant success	New exporters		Survey
		Year 1 - year 8+ claims		
	2.3 Size of scheme	Promote through market visits		Data base
Appoint agent		Data base		
2.4 Degree of claimant globalisation	Establish office	Data base		
	Establish subsidiary	Data base		



			average exports (\$) for claimants with subsidiaries	
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Objective	KPI Grouping	Performance Indicators	Indicative Performance Standards	Data Source
Effective risk management	3.1 Type of investigation	Special investigations	number, \$ value	Data base
		Appeals	number, \$ value	
		Desk audits	number, \$ value	
		Site audits - limited	number, \$ value	
	3.2 Results of claims determination process	- detailed	number total, number referred to AFP & \$ value, number prosecuted & \$ value	Data base
		Frauds		Data base
		Management	\$ cost, % total cost, special project activity cost	Data base
	3.3 Cost analysis	Legislation	\$ cost, % total cost, special project activity cost, operations support cost	Data base
		Quality risk & data	\$ cost, % total cost, special project activity cost, operations support cost	BMS/ Budgets
Customer service		\$ special project activity cost, \$ operations support cost, \$ special approvals cost		
Operations		\$ cost, % total cost, \$/claim total operations, \$ claim/IO		
Improve the working environment	4.1 Employee satisfaction	Employee perceptions	% employee satisfaction	Survey
	4.2 Value-added hours	Client related hours	% of total operations hours	Time recording

4.14 An examination of the data elements of the EMDG database shows that most of the

performance information cited in the recommendation are covered by the EMDG database. The exceptions are benefits to clients, data on which is collected by survey; and fraud, which is available on the separate fraud database established and maintained by the SIU.

4.15 Austrade is continuing to improve the quality of the databases through enhanced software. Access to and use of the databases could be improved with greater training and familiarisation of staff.

4.16 Recommendation 20 has therefore been largely implemented.

## Reporting to Parliament

Recommendation 1 of *Audit Report No.33 of 1993-94*:

*The ANAO recommends that more information on the focus, use and effectiveness of the EMDG scheme should be reported to Parliament on an annual basis in order to provide feedback on the relevance of eligibility criteria, export barriers being overcome with the assistance of the grant moneys and the impact on Australia's export earning and export culture.*

### **Austrade's Response in 1994**

*Accepted.*

## Assessment

4.17 The *Best practice guide for the administration of grants* notes that:

*It is important that the scheme reports regularly to Parliament for the use of public funds. Reports should be in a form that addresses the aims and objectives of the scheme. Program Performance Statements and Annual Reports should be considered. Public and internal reporting mechanisms are both part of the audit trail. It is the responsibility of program managers to ensure that this accountability requirement is developed in a way that accurately reflects the operations of the scheme.*<sup>1</sup>

4.18 Austrade reports to Parliament through its own Annual Report, as part of the Foreign Affairs and Trade Portfolio Budget Statements and through regular reviews.

4.19 Prior to the tabling of *Audit Report No. 33 of 1993-94*, the *Austrade Annual Report 1992-93* devoted three paragraphs to the EMDG scheme. This related the total of expenditure on grants and number of grants. Austrade reported that 96 per cent of claims were processed within timeliness standards. Amendments to the legislation were also reported.

4.20 The EMDG scheme was reported in the *Austrade Annual Report 1994-95* in two pages. The total of expenditure on grants and number of grants was again given, as well as being linked to the number of people employed by claimants and the amount of exports generated. Basic eligibility criteria were described and changes to eligibility criteria through amendments to legislation provided. The finalisation of measures for Key Performance Indicators should allow the EMDG Unit to report more fully against stated performance measures.

4.21 Austrade now provides more performance information in its Annual Report. However, as noted in *Audit Report No.33 of 1993-94*, reporting to Parliament on the EMDG scheme still does not appear commensurate with financial responsibilities and the profile of the scheme (approximately 53 per cent of Austrade's annual appropriation and approximately 5.5 per cent of the staff in 1995-96). Financial reporting of this major area of Austrade is restricted to one line in the 1994-95 Annual Report with no other detail provided on this expenditure.

4.22 Austrade still provides little information on the effectiveness of the EMDG scheme in its annual report to Parliament. The 1994-95 report, for example, mentioned the evaluation, *Helping to meet the export challenge*, but this report was published in 1993-94. No updated information on effectiveness was included in the Annual Report.

4.23 The ANAO also recommended the inclusion of information on export barriers being overcome with the assistance of the scheme. Austrade advised that the barriers described in *Audit Report No.33 of 1993-94* were no longer relevant, and that others had more primacy in the current climate. An explanation of changing barriers for exporters, and the effect of the EMDG scheme in alleviating them, would add greatly to the transparency of administration, and hence the accountability of the scheme.

4.24 Recommendation 1 has been partially implemented.

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## 5. Conclusion

*This Chapter summarises the main findings of the follow-up audit.*

5.1 The objective of this follow-up audit was to form an opinion on Austrade's progress with implementing *Audit Report No.33 of 1993 -94*.

5.2 It is the ANAO's view that, of the twenty recommendations in the original report:

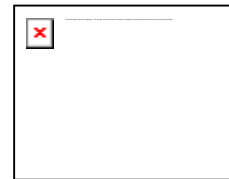
- thirteen have been implemented (2,4,7,9,10,11,13,14,15,16,17,18,19);
- four have been partially implemented (and Austrade is progressing well with them) (1,3,6,20);
- two are not relevant (5,12); and
- one cannot be implemented due to legal constraints, but Austrade has initiated action to address the underlying problem (8).

5.3 In the course of conducting this audit, however, one other matter emerged which deserves consideration: the long-term management of the EMDG scheme. The increasing complexity of the legislation has been identified as a problem in several reviews over the 21 years of the Scheme's existence. The Hughes Report drew out the implications of this most clearly, as cited in Chapter 1 above. The solution recommended in several reviews, including *Audit Report No.33 of 1993-94*, has been essentially the same: streamline processes and seek to simplify the legislation. This follow-up audit has shown that this has not happened, although drafting instructions are now with the Office of the Parliamentary Counsel. If anything, recent legislative amendments have made the Scheme still more complicated to administer and to access.

5.4 The ANAO accepts Austrade's position that a complete review of the legislation was not feasible in the timeframe recommended in *Audit Report No.33 of 1993-94*. However, such a review could have been completed in the seven years since the publication of the Hughes Report in 1989 first identified legislative complexity as an issue for effectiveness of the EMDG scheme.

5.5 The ANAO is thus of the opinion that long-term management of the EMDG Scheme could be improved by streamlining administrative processes and simplifying regulations, as suggested in the Hughes Report and the *ANAO Audit Report No.33 of 1993-94*; and by chosen linkage of policy and implementation responsibilities.

5.6 One of the difficulties identified by Austrade in dealing with this issue was the split of responsibility between Portfolio Departments responsible for policy and legislation, and Austrade, responsible for implementation. Austrade has negotiated an informal arrangement with the Department of Foreign Affairs and Trade, and, for all practical purposes, now has ownership of the Scheme, including control of policy and legislative matters. The split of responsibility between a Portfolio Department and a statutory authority is not uncommon in the Commonwealth Public Sector. Other agencies may wish to consider the appropriateness of an arrangement similar to that agreed between Austrade and the Department of Foreign Affairs and Trade as a means of improving the effectiveness of administration



Canberra ACT  
16 October 1996

P. J. Barrett  
Auditor-General

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The Auditor-General, *Best practice guide for the administration of grants*, AGPS, Canberra, 1994 page 1.

3

Ibid page 11.

4

Ibid page 27.

5

The Auditor-General, *Best practice guide for the administration of grants*, AGPS, Canberra, 1994 page 5.

6

The Auditor-General, *Best practice guide for the administration of grants*, AGPS, Canberra, 1994, page 8.

7

Ibid page 8.

## **Appendix 1 - Recommendations and Responses from Audit Report No.33 of 1993-94**

### **Recommendation 1**

The ANAO recommends that more information on the focus, use and effectiveness of the EMDG scheme should be reported to Parliament on an annual basis in order to provide feedback on the relevance of eligibility criteria, export barriers being overcome with the assistance of the grant moneys and the impact on Australia's export earning and export culture.

#### *Austrade's Response in 1994*

*Austrade accepts this recommendation and will provide more information to Parliament in the Annual Report. However, we note that comprehensive reviews of the scheme have been conducted more frequently than every three years. Counting the two current reviews there have been more than ten studies or reviews on the program in the last twelve years (see page 61). There are also significant other channels for discussion of EMDG such as Senate Estimates or debates on new legislation. Such studies or reviews are available to Parliament and in most instances considered by Parliament. An important aspect of the scheme, from the claimants' perspective, is the need for certainty in its provisions. Exporters and potential exporters need confidence that money spent will be reimbursed. Any increase in uncertainty as a result of reporting to Parliament would not be welcomed by the scheme's clients.*

### **Recommendation 2**

The ANAO recommends that an annually revised document be produced containing a precis of all the relevant parts of strategic planning documents which are of higher order (for example the National Trade Strategy, the three-yearly Austrade Corporate Plan), the rationale of the scheme, performance indicators and measures together with related planned goals and objectives, and that the current EMDG Business Plan be assembled and made available to the key players influencing the strategic direction of the EMDG

scheme.

#### *Austrade's Response in 1994*

*Austrade has been moving toward this approach and in the next strategic planning cycle is happy to implement the recommendation. The current planning for EMDG is comprehensive. Austrade has a document in place which summarises the major priorities. There are a large number of stakeholders for the EMDG, many with special interests. the recommendation to circulate such a document may assist in facilitating agreement among stakeholders on strategic directions for the program.*

### **Recommendation 3**

The ANAO recommends that Austrade should not only continue to search for and analyse meaningful performance measures and indicators related to the focus, use and effectiveness of the export market development grants but should also report the results to Parliament on an annual basis.

#### *Austrade's Response in 1994*

*The EMDG is established primarily to create an export culture within Australian industry. The scheme seeks to do this by providing incentives to seek and develop export markets.*

*Austrade's search for performance measures has been extensive. Recently this work has demonstrated impressive results which have established that firms participating in the scheme do develop an export culture by being prepared to invest in export promotion well over and above the level of grants received.*

*Ongoing revision of the business plan, together with better defined performance measures, will assist with the administration of the scheme.*

*As a generic, open access system, operational characteristics and outcomes change little over time. Therefore, detailed overall evaluation of the scheme, particularly external surveying, is better carried out on a periodic basis at greater intervals than one year. However, new initiatives which change the operational nature of the scheme could be reviewed more frequently until patterns and trends emerge and general indicators relating to performance measures could be used.*

### **Recommendation 4**

The ANAO recommends that the opportunities presented by the scheme with respect to adding value to each EMDG claimant's exporting effort as well as adding to the general pool of knowledge regarding export market imperfections and artificial barriers be assessed on a regular basis as to the cost and benefits of 'taking up' the export opportunities.

#### *Austrade's Response in 1994*

*Austrade agrees that more recent data found in the evaluation of ITES and EMDG present more significant opportunities in this area. Austrade has under consideration several new policy proposals to address such barriers. The general pool of knowledge associated with export has been substantially expanded over the years by the various reviews and studies on EMDG. Aggregated data have been made available to numerous*

*export studies (eg AMC/McKinsey study on Emerging Exporters, and the current LEK study on services), all of which play a significant role in adding to the pool of information available. EMDG survey data have in the past played a significant role in identifying market failures and impediments to export. Austrade collects significant data from claims, but is reluctant to expand the collection of data from all claimants where those data do not have direct relevance to the assessment of the claim and the applicants' entitlement to a grant. Austrade has instead adopted a policy of surveying claimants to augment the data available from claims.*

### **Recommendation 5**

The ANAO recommends whenever a grant scheme is set up a clear set of performance measures and intended standards to be achieved be established and reported to allow Parliament to assess the effectiveness and therefore the need for the scheme.

This recommendation is of a general nature directed to all government agencies.

*Austrade's Response in 1994*

*Austrade has established all of its more recent financial incentive programs under these principles and supports this recommendation. Austrade is focusing on the development of more meaningful standards associated with the performance measures.*

### **Recommendation 6**

The ANAO recommends that, before the expiry of the current five-year period of the EMDG scheme, the opportunity be taken to review the structure and wording of the EMDG Act and regulations with a view to improving the responsiveness of the scheme to the marketplace.

The ANAO notes that this recommendation has resource implications regarding the conduct of such a review, however, it should be noted that an appropriately revised Act and Regulations may reduce the cost and appeals to Austrade (estimated at \$100,000 to \$200,000).

*Austrade's Response in 1994*

*Austrade agrees with this recommendation. The time lag associated with closing loopholes and responding to new initiatives is a problem for Austrade. Austrade has commenced a review of the legislation. However, in the view of Austrade's EMDG management, the Act requires section-by-section restructuring of many parts of the legislation, regulations, guidelines and operating procedures to allow equitable decisions to be made and to improve market responsiveness. Improving the operation of the scheme will in many cases require removing from legislation the operating rules of each section and combining these with intention under Guidelines and Regulations. Austrade understands that this is an approach that may not be welcomed by all stakeholders. The review needs to be carefully considered, as many previous attempts to rewrite and simplify the legislation has resulted in different challenges and complexities not anticipated. The resources associated with this exercise will be significant and it is considered unlikely that it could be completed in the suggested time frame.*

### **Recommendation 7**

The ANAO recommends that where corrections are required to claim forms, penalties (resulting in a reduction of grants paid) be imposed on claimants in recognition that the onus is on the claimant to insure the validity of the claim.

The ANAO is of the opinion that the onus for EMDG claim accuracy should lie with the claimant and not Austrade, provided that there is adequate opportunity for claimants to inform themselves about the requirements of the scheme. The purpose of this recommendation is to ensure that EMDG signals unequivocally to claimants the need for accurate and well documented claims

#### *Austrade's Response in 1994*

*Austrade has been considering this option. the current legislation has penalties for false claims. The difficulty with exercising these penalties is that Austrade is required to prove intent.*

*Austrade is currently considering whether the introduction of such penalties is compatible with the current strategic direction and philosophy of the scheme.*

*Austrade strongly supports the move to require greater onus on claimants to ensure the validity of claims; and has a major strategy in place to do this. The strategy at this time is to seek greater cooperation from claims consultants and claimants to improve the quality of claims and for Austrade to communicate policy and expectations to the claimants.*

*Up to 30% of EMDG claimants each year are 'new' first year claimants. For these claims some leniency should be considered as they learn about the EMDG.*

*Between half and two thirds of EMDG claims are lodged in the last two to three weeks of November each year.*

*As noted in this report, the ANAO recognises that a large number of these claims are assembled quickly, knowing that errors may occur, but accepts the Commission's willingness to make adjustments during the claim investigation. Austrade is considering a possible option of allowing a maximum positive 10% adjustment on claims.*

*Subsequent appeals against expenditure disallowances by the Commission can only be in relation to those expenditures already claimed. Claimants therefore prefer to include doubtful items in the claim for discussion and possible deletion during the investigation.*

*Claimants are encouraged to flag such uncertain items in the claim for the early attention of EMDG staff.*

*Many adjustments are the result of misunderstanding or innocent mistakes on the part of claimants. It is likely that the AAT and Courts will continue to espouse the view that EMDG is beneficial legislation and that whenever possible the claimant should be given the benefit of any doubt.*

*Given the ongoing nature of AAT and Court decisions, it is necessary for Austrade EMDG to adjust its interpretation of particular items of claimed expenditure (as noted in 2.3 of this report). Many claimants are unaware of these changes until advised by Austrade EMDG during a claims investigation.*

*Penalties for errors detected in the EMDG claims may be accepted practice in the Taxation and Customs organisations, but these are revenue-raising bodies that seek to*



*penalise people who avoid paying.*

*At this time Austrade does not totally accept this recommendation. Austrade regards the initiative to impose penalties as an undesirable fall-back position, if the current strategies for shifting the onus to claimants to improve the quality of claims are not successful.*

### **Recommendation 8**

The ANAO recommends that the EMDG Unit assist claimants by identifying those in the export industry who can provide quality assistance in claiming for and maximising export market development grants.

This can be accomplished:

- by gathering and analysing data on the quality of claims, correlating this analysis with the export market consultants concerned and making the information available to claimants, and
- by seeking to improve the knowledge and expertise of the export market consultants.

The ANAO notes that the strategy of improving the level of skills among practising export market consultants will lead to increased EMDG Unit efficiency in the long term.

*Austrade's Response in 1994*

*This process is already well under way in EMDG. The objective is to implement an efficient system to maximise the accuracy of claims. This strategy takes into account that if quality advice and preparation of claims is offered by the consultant industry this will substantially assist the operation of the scheme. The objective is to expedite the payment of claims which consultants and claimants can certify as correct. A system based on records of consultant performance and the results of EMDG claim investigations will be undertaken to ensure compliance.*

### **Recommendation 9**

The ANAO recommends that the portion of the Austrade Fraud Control Plan (FCP) dealing with the EMDG scheme be revised to:

- indicate all documents which constitute total fraud control planning
- have goals, objectives, performance measures and performance standards to achieve during the life of the plan
- identify the various monitoring and reporting mechanisms which are in place by which management controls activities in order to achieve the goals
- identify the liaison arrangements with the AFP, DPP, AGS and any other relevant 'down stream' agencies, and
- identify the strategic position of the FCP in Austrade's and the EMDG's strategic planning structure.

*Austrade's Response in 1994*

*Austrade is happy to improve the fraud control plan to incorporate these items.*

### **Recommendation 10**

The ANAO recommends that steps be taken to improve the risk assessment of claims by:

- making use of the databases and technology available (for example police checks, corporate affairs checks, financial checks and customs checks);
- requiring some additional information on the claims forms and during investigations which will facilitate the use of database checking; for example the identity of third parties who could provide verification of the claimants and associated representatives and consultants in Australia and overseas; and
- continuing and expanding involvement with the AFP (both formally and informally) in all cases where there is suspicion that false or misleading information has been provided.

The ANAO notes that these measures will have resource implications both in the added cost of conducting checks and in savings made in grants paid. To cover the risk assessment/ database checking a lodgement fee for claims should therefore be considered.

#### *Austrade's Response in 1994*

*The Commission has, for some time, been obtaining company searches and credit reports on particular claims. More than twelve months ago the decision was made to make use of external databases. The available resources and feasibility of doing so have not yet allowed this to be fully implemented. Recently a sampling regime was implemented which will see 5% of all claims with overseas representatives subjected to credit and integrity checks.*

*Requiring some additional information on the claim forms and from investigations will facilitate the use of database checking; it is a proposal by EMDG which was discussed with the ANAO during the review. Implementation of these suggestions will require upgrading of Austrade's database and claim form, which is, at least in part, already completed.*

*Referrals to the AFP have been in operations since June 1992. Prior to this opinions were always sought from the AGS or DPP.*

*Austrade has made a number of initiatives in the last twelve months to look at the issue of whether the handling of fraud and referrals to the Federal Police and DPP are appropriately handled by Austrade and these agencies. In particular, the secondment of a federal police officer to the EMDG Unit has improved the understanding of both Austrade and the police of the issues and their handling.*

*With respect to claim lodgement fees, the Commission is reluctant to impose such a fee, as this could be seen as an unnecessary impost on small exporters.*

### **Recommendation 11**

The ANAO recommends that the EMDG Unit develop a quality control system to monitor and improve the risk assessments.

This would involve in-depth investigations (using a number of investigators) on randomly selected claims following the initial risk assessment.

*Austrade's Response in 1994*

*The Commission has an alternative system for quality control in place involving a feedback system for special policy, investigation issues and further investigation of a percentage of claims. In addition, Austrade has recently completed planning enhancement for the system with the assistance of Coopers & Lybrand. Austrade believes this system will be well regarded by the ANAO.*

### **Recommendation 12**

The ANAO recommends that Austrade expedite the development of Memoranda of Understandings with the AFP and the DPP ensuring that the various regional officers of the AFP, DPP and Austrade are included.

*Austrade's Response in 1994*

*The Commission has recently completed a Memorandum of Understanding with the AFP.*

*As the majority of the Commission's contact is with the Federal Police, there appears to be less need for such a protocol with the DPP. The matter will, however, be considered.*

### **Recommendation 13**

The ANAO recommends that the EMDG Unit introduce administrative performance indicators for the activities of claim investigators which give more weight to savings achieved, the identification of possible misuse/fraud and referrals made to the AFP.

*Austrade's Response in 1994*

*Given that the EMDG scheme is seen by the Government and the Courts as beneficial legislation, the emphasis is on the provision of assistance to Australian exporters and the payment of grants which fully satisfy the eligibility and expenditure acquittal provisions of the legislation.*

*The Commission is very mindful of the need to fully investigate any potential fraud and of the need to continue to improve appropriate risk management practices. Adoption of the ANAO recommendations could be seen as placing undue emphasis on the detection of fraud (which is accepted as a priority within EMDG) and would inhibit the continuing integration of EMDG into the Commission's range of export assistance programs. The EMDG management, however, agrees that a broader range of performance indicators may assist in balancing of priorities for investigation staff.*

### **Recommendation 14**

The ANAO recommends that fraud profiles be developed based upon theoretical work, feedback from the AFP, DPP and other sources, and from actual and suspected cases of misuse and fraud.

*Austrade's Response in 1994*

*Based on discussions with these agencies, EMDG management is at this time uncertain*

*that this work will produce dividends in the short term. The task will be complex and costs high. There appear to be little hard data available which relate to the types of potential abuses relevant to the EMDG and the very small number of cases will not provide sufficient internal data to distinguish trends in abuses to the scheme. However, the task is being developed and given priority in the risk management program.*

*The need for improvements to the database was identified and in part funded in the last budget cycle. Work on this and many other areas has been scoped for inclusion in the present upgrade of the EMDG database. Significantly more work is now under consideration.*

### **Recommendation 15**

The ANAO recommends that given the savings that the Investigation Officers make, consideration should be given to allocating more resources to the investigation process.

*Austrade's Response in 1994*

*Given the range of recommendations made in the present ANAO report and the Commission's own priorities concerning further program development within EMDG, the real issue is one of resource allocation. It is hoped that with the development of improved risk management procedures, new EMDG database analysis programs, improved investigation methods and improve equipment for field staff, an increase in productivity and effectiveness will be achieved. At this time Austrade intends to attempt to achieve this without significant staff increases beyond that commensurate with growth in the scheme. It is of paramount importance to Austrade that claimants continue to receive their correct EMDG entitlement.*

*The Commission believes that an overly aggressive pursuit of 'savings' from allocated EMDG funding could be contrary to the principal support objective of the scheme.*

### **Recommendation 16**

The ANAO recommends that the administration budget for the EMDG scheme should be separate from the Austrade administration budget and linked to the budgeted level of grants to provide some reflection of expected workload.

*Austrade's Response in 1994*

*Austrade agrees that the administrative budget for the EMDG scheme should be separate from that of Austrade. EMDG management needs certainty in the level of budget available and needs to know that it is linked substantially to the level of work to be performed.*

### **Recommendation 17**

The ANAO recommends that Austrade develop greater flexibility in its administrative budgeting and staffing, given that the level of claim investigation work and other staff resource pressures are likely to remain difficult to predict.

*Austrade's Response in 1994*

*Austrade agrees with this recommendation and has made several moves to more flexible administrative budgeting in the past two years. Further work, however, needs to be done.*

*Separating the budget from Austrade's budget is seen as the most efficient process to achieve this.*

### **Recommendation 18**

The ANAO recommends that Austrade develop a comprehensive EMDG scheme costing system that would permit managers to better monitor, review and control productivity and investigation trends.

*Austrade's Response in 1994*

*Austrade agrees that improvements could be made to the costing process and the performance measures for investigation staff. These measures have been improved over the last two years. Given the number of ANAO recommendations in this area, Austrade proposes to employ a consultant expert in this field to assist in the identification of parameters that are likely to achieve outcomes. There is, in Austrade's opinion, a high likelihood of the costs of recording outweighing the potential benefits if selectivity of recording is not limited to useful data for decision-making.*

### **Recommendation 19**

The ANAO recommends that a range of administrative performance indicators be developed to accurately reflect the amount of work being undertaken and to give greater weight to savings, efficient customer service and the like.

The need for a broader range of performance measures is even more important if the proposal to contract investigations is actioned.

*Austrade's Response in 1994*

*See response to Recommendation 18.*

### **Recommendation 20**

The ANAO recommends that the EMDG scheme database should be upgraded to permit a wider range of performance indicators to be incorporated.

This database should include:

- the type of investigations
- the complexity of claims
- results of investigations
- the activities other than investigations, and
- data that would permit management to judge the status of the balance between:
  - benefits to clients
  - productivity of IOs/resources, and
  - control of fraud/overpayment/misuse.

*Austrade's Response in 1994*

*See response to Recommendation 18*

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## **Appendix 2 - Performance Audits in the Foreign Affairs and Trade Portfolio**

*Set out below are the titles of the reports of the main performance audits by the ANAO in the Foreign Affairs and Trade Portfolio tabled in the Parliament in the past three years.*

Audit Report No.26 1994-95  
*Inoperative Staff in the APS*

Audit Report No.27 1994-95  
*Studybank*

Audit Report No.19 1995-96  
*Management of Small and Medium-sized Overseas Posts*  
*Department of Foreign Affairs and Trade*  
*The Australian Trade Commission*

Audit Report No.5 1996-97  
*Accounting for Aid - The Management of Funding to Non-Government Organisations*  
*Australian Agency for International Development*