

The Auditor-General
Audit Report No.11 2006–07
Performance Audit

National Food Industry Strategy

Department of Agriculture, Fisheries and Forestry

Australian National Audit Office

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of Australia 2006

ISSN 1036-7632

ISBN 0 642 80930 5

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Canberra ACT
9 November 2006

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Agriculture, Fisheries and Forestry in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *National Food Industry Strategy*.

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

Yours sincerely

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

Ian McPhee
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. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations and Glossary

ANAO	Australian National Audit Office
Austrade	Australian Trade Commission
CEI	Chief Executive Instruction
Centre	The food centre of excellence examined by the ANAO
Contract	The contract between DAFF and NFIS Ltd
DAFF	Department of Agriculture, Fisheries and Forestry
FIG	Food Innovation Grant
FMA Act	Financial Management and Accountability Act 1997
KPI	Key Performance Indicator
MIS	Management Information System
MOU	Memorandum of Understanding
NFIS Ltd	National Food Industry Strategy Limited
R&D	Research and Development
SME	Small-to-Medium Enterprise
STA	Supermarket to Asia
Strategy	National Food Industry Strategy

Summary and Recommendations

Summary

1. Australia's food industry makes a substantial contribution to the national economy. In 2004–05, the gross value of farm and fisheries food production was \$31.4 billion, with exports of \$24 billion. As well, 194 000 people were employed directly in food and beverage manufacturing. This represents 18 per cent of Australia's manufacturing workforce.¹

2. A report for the Prime Minister's Supermarket to Asia (STA) Council² in November 2000 identified globalisation of food processing and retailing as the key force exerting pressure on the industry. It considered that the emergence of global retail chains would result in major changes to the structure and operation of the food industry.³

3. The Australian Government decided on a food industry action agenda⁴, as the vehicle for establishing a National Food Industry Strategy (the Strategy) to succeed the STA Strategy. The purpose of the action agenda process was to engage stakeholders in the development of the Strategy, with industry identifying the actions and tasks that needed to be taken to realise its full potential.

4. The Strategy envisaged that, by 2007, the Australian food industry would be a significant global player with a sustainable and profitable role in the global food product system. It was to commence on 1 July 2002 and included:

- the establishment of a high-level industry council to oversight the development of the industry and the implementation of the Strategy;
- a product and service innovation strategy, which would build on Research and Development (R&D) activities and infrastructure, and establish a Food Innovation Grants (FIG) programme;

¹ Department of Agriculture, Fisheries and Forestry, 2005, *Australian Food Statistics 2005*, Commonwealth of Australia, Canberra, pp. 1-3.

² The STA Council included senior representatives of Government and industry and was established as part of the STA Strategy to meet the challenges of growing Australia's food sales to Asia.

³ Department of Agriculture, Fisheries and Forestry, 2002, *National Food Industry Strategy: An Action Agenda for the Australian Food Industry*, Commonwealth of Australia, Canberra, pp. 5, 34.

⁴ Action agendas comprise a key part of the Australian Government's industry strategy. Their primary purpose is to foster industry leadership. The Department of Industry, Tourism and Resources coordinates the whole-of-government action agenda process.

- a food trade initiative to develop and implement an international food market entry strategy with a focus on market access, trade development and promotion; and
- a strategy to build more competitive supply chains and improve national food safety and quality systems.

5. The Strategy is intended to provide the framework for developing and implementing a partnership between the food industry and the Government. It is to deliver their shared vision of increased output, profitability, investment, innovation, export sales and employment in the Australian food industry. The Government budgeted \$114.4 million⁵ to deliver the Strategy over a five year period (1 July 2002 to 30 June 2007). Funds are channelled through the Department of Agriculture, Fisheries and Forestry (DAFF), for industry-led programmes, delivered by National Food Industry Strategy Limited (NFIS Ltd).⁶ The partnership for delivering the Strategy was formalised in a contract between NFIS Ltd and DAFF (the Contract) in October 2002. The Contract was designed to manage the risks associated with the outsourcing arrangements and to achieving the Strategy's outcomes.

6. NFIS Ltd received \$88.5 million to provide Secretariat services to the National Food Industry Council and to deliver the following four key programmes⁷:

- Food Innovation Grants: match dollar for dollar funding for Australian-based food processing firms to undertake R&D projects;
- Food Centres of Excellence: provide grants to Australian food R&D centres to attract and develop world-class capability;
- Food Market Development: undertake collaborative market development projects, between the food industry, State food agencies and the Australian Government, to facilitate an integrated food market strategy; and

⁵ Originally, \$102.4 million was provided to deliver the Strategy. However, this was increased in late 2005 by an additional \$12 million for the FIG programme.

⁶ STA Ltd, which had been responsible for implementing the STA strategy, was renamed NFIS Ltd in September 2002 and its constitution amended.

⁷ NFIS Ltd also provided seed funding for a fifth programme, the Food Graduate Management Development programme, to support the establishment of a national food industry management development course.

- Food Chain: provide funding for food industry demonstration projects, which assist to disseminate chain knowledge and experience to the wider industry, and to support activities aimed at building and strengthening chain management capabilities in the Australian food industry.
7. These programmes are overseen by a number of advisory committees.⁸ As at 1 September 2006, the Strategy has provided funding for: 72 FIG projects; two food centres of excellence; eight food market development projects; and 13 major food chain projects.

Audit objective and scope

8. The objective of this audit was to assess DAFF's management of the contractual arrangements in place to deliver the National Food Industry Strategy. The audit assessed:

- implementation of the Strategy;
- financial management;
- assessment and selection of grants and projects;
- management of grants and projects;
- monitoring and verification of contract services; and
- performance management.

9. The Australian National Audit Office (ANAO) examined a number of FIG applications and projects, one food centre of excellence and a major project under the Food Market Development programme. The audit did not examine the Food Chain programme or DAFF's administration of the Strategy's government-to-government activities.

⁸ The Food Innovation Committee oversees the FIG and Food Centres of Excellence programmes. The Food Market Development and Food Chain programmes were overseen by the Food Trade Advisory Committee and the Food Chain Advisory Committee respectively. In late 2005, these Committees were amalgamated to become the Market Development Advisory Committee.

Key Findings

Implementing the Strategy (Chapter 2)

10. DAFF did not develop a plan for implementing the National Food Industry Strategy (the Strategy) that set out tasks, resources, timeframes, milestones, risks and responsibilities. This would have enabled DAFF to prioritise its tasks to achieve the implementation date of 1 July 2002. NFIS Ltd was not operational until 2 September 2002 and the Contract was formalised on 24 October 2002.

11. In addition, DAFF did not prepare a risk management plan for implementing the Strategy or for managing the Contract as required by its own guidelines. However, DAFF identified a number of high-level risks associated with the outsourced delivery of the Strategy, which were addressed through provisions in the Contract. While DAFF's early planning for the Contract included a provision for risk management by NFIS Ltd, the signed Contract did not include such a requirement. Accordingly, NFIS Ltd was under no contractual obligation to underpin its operations with a structured risk management framework. Risk management was also not addressed in later variations to the Contract.

Financial management (Chapter 3)

12. The ANAO found that DAFF established adequate controls over appropriations to fund the Strategy. The Contract contains provisions to facilitate sound financial management and these, with some minor exceptions, have been complied with.

Assessing and selecting grants and projects (Chapter 4)

13. Under the Contract, NFIS Ltd is responsible for managing the assessment and selection of grants and projects to be undertaken as part of the Strategy.

Selection criteria

14. The Contract defines the minimum requirements to be addressed when developing selection criteria for each programme. The ANAO found that the criteria developed for the FIG and Food Centres of Excellence programmes satisfied these requirements, including Ministerial approval of the guidelines. For the Food Market Development programme, NFIS Ltd developed core

principles for selecting projects. However, these principles did not fully address the selection criteria outlined in the Contract. While there is a requirement for NFIS Ltd to develop selection criteria, there is no requirement these be approved by the Minister or DAFF.

Managing conflict of interest

15. A major risk identified by DAFF was the potential for conflict of interest, and provisions were built into the Contract to reflect this.⁹ NFIS Ltd developed processes to manage conflict of interest within the Food Innovation Committee, which oversees the FIG and Food Centres of Excellence programmes. Conflict of interest measures were followed when assessing and selecting applications for the two FIG funding rounds examined by the ANAO. However, these measures were not fully applied when assessing and selecting the two food centres of excellence. It was also difficult to determine from the available documentation how potential conflict of interest was addressed when the grant assessment group made its recommendations. The minutes of this meeting could not be provided by NFIS Ltd.

16. The Contract and the Food Trade Advisory Committee Charter specify the requirements for addressing potential conflict of interest for the Food Market Development programme. However, the ANAO found that the Committee did not implement these requirements. The Committee was replaced by the Market Development Advisory Committee in late 2005. DAFF advised that this new Committee has introduced confidentiality and conflict of interest procedures similar to those used by the Food Innovation Committee.

Assessing and selecting applications

17. The ANAO found that FIG selection processes operate transparently and equitably, and the appraisal process was consistent with FIG programme requirements. FIG applicants (both successful and unsuccessful) also expressed overall satisfaction with FIG selection processes in interviews with the ANAO.

18. The one-off process for selecting the two food centres of excellence followed the procedures outlined in the programme guidelines. The grant assessment group's recommendations were considered by the Food Innovation Committee and approved by the NFIS Ltd Board, as required. However, as

⁹ The risk arose from the fact that an industry-based council would advise on the delivery of funds by an industry-owned Secretariat to members of the (same) food industry.

previously noted, the minutes of the grant assessment group meeting could not be provided by NFIS Ltd.

19. The project examined by the ANAO under the Food Market Development programme was assessed against the core principles developed by NFIS Ltd (and approved by the National Food Industry Council). However, as these principles did not fully address contract requirements, the assessment process may not have included consideration of key aspects of the project that DAFF considered necessary for ensuring that the Strategy's outcomes were achieved.

20. DAFF and NFIS Ltd advised that, when selecting projects under the programme, consideration was given to the criteria outlined in the Contract. However, this assessment was not undertaken in a structured manner or formally documented.

Managing grants and projects (Chapter 5)

FIG programme

21. The ANAO found that NFIS Ltd had managed the FIG programme in accordance with the Contract. All projects reviewed by the ANAO had a deed of grant in place, variations were properly approved and project reports were provided. There is detailed reporting to the Food Innovation Committee, which includes details of completed projects and those that have undergone variations. Given the long FIG lead-times, there has been limited opportunity to date for the Committee to consider the impact of completed projects.

Food Centres of Excellence programme

22. NFIS Ltd did not use the standard deed of grant for its agreement with the two food centres of excellence as required in the Contract. NFIS Ltd advised that this was because of complexities in programme arrangements.¹⁰ For the food centre of excellence examined by the ANAO, the lead partner also entered into a joint venture agreement with its consortium partners. There was an inconsistency between these two arrangements. The NFIS Ltd contract with the lead partner made provision for NFIS Ltd to be represented on the Industry Board. The joint venture agreement did not include this provision. As a result, stakeholders found the governance arrangements for the Centre for

¹⁰ DAFF advised the contract with the food centres of excellence was developed by the Australian Government Solicitor and approved by the Food Innovation Committee.

the first two years confusing. A change in governance structure in mid-2005, to include NFIS Ltd on the Centre's Management Committee and clarifying the role of the Industry Board, has largely resolved these governance issues.

23. Although the contract between NFIS Ltd and the lead partner does not clearly define reporting mechanisms, the ANAO found that, in practice, there is detailed reporting to the Food Innovation Committee and monitoring of the food centre of excellence by NFIS Ltd.

Food Market Development programme

24. Projects under the Food Market Development programme involve external partners, including State Governments, the private sector and a partner in the target country. For the project examined by the ANAO, the South Australian Government was responsible for project management, with NFIS Ltd providing oversight. Memorandums of Understanding (MOUs) were used to define the relationship between partners. Contract requirements for reporting and monitoring Food Market Development projects were met, although more explicit reporting by NFIS Ltd against milestones in the project plan would have allowed the Food Trade Advisory Committee greater oversight of the project.

Monitoring and verification (Chapter 6)

25. The Contract specifies the services to be provided by NFIS Ltd and outlines quality requirements. It also contains a range of provisions that are designed to facilitate DAFF oversight of NFIS Ltd's performance of its obligations under the Contract.

26. On two occasions the Contract was varied but these variations were not formalised by DAFF in a letter of agreement or contract amendment. In addition, at the time of the audit, DAFF had not published guidelines to assist its staff in managing the NFIS Ltd Contract.

27. NFIS Ltd is to provide services in accordance with the standards set out in the DAFF Client Service Charter. Although NFIS Ltd implemented a Client Service Charter, which is consistent with the DAFF Charter, NFIS Ltd does not report to DAFF on its client services.

28. The Contract requires NFIS Ltd to develop an annual business plan and budget, for Ministerial approval. These plans were approved by the Minister for Agriculture, Fisheries and Forestry, on advice from DAFF. NFIS Ltd is also required to report quarterly to DAFF on progress against activities in the

approved plan. The quarterly reports were provided in a timely manner and, overall, met Contract requirements. DAFF reviews all quarterly reports and provides a written response to NFIS Ltd.

Measuring performance (Chapter 7)

29. NFIS Ltd reports annually to DAFF against the Key Performance Indicators (KPIs) outlined in the Contract for each programme. The KPIs do not include specific targets and some are difficult to measure. For example, given its long lead-times and the fact that the final applications are only now being considered, the FIG programme's contribution will only be fully evident after June 2007. The Contract has no KPIs to assess NFIS Ltd's performance. If the Strategy continues, reporting would be strengthened if DAFF and NFIS Ltd developed an information plan that identifies, for each performance indicator, the information to be collected and the methods that will be used to collect it.

Overall conclusion

30. The ANAO considers that, overall, DAFF's management of the contractual arrangements in place to deliver the National Food Industry Strategy was effective. DAFF has developed and implemented sound financial management arrangements for managing the funds provided to NFIS Ltd under the Contract. The processes for assessing, selecting and managing grants and projects for the Food Innovation Grants and Food Centres of Excellence programmes were also effective.

31. However, the core principles used to assess projects under the Food Market Development programme did not meet Contract requirements. As a consequence, key aspects of the projects that DAFF considered necessary to achieve the Strategy's outcomes may not have been assessed. The projects selected under this programme were reasonably well managed by NFIS Ltd.

32. There were a number of areas where the ANAO considers that DAFF's management could have been strengthened and where improvements could be made should the Strategy continue beyond June 2007 or for any future programme. These include:

- improving programme planning processes, including assessing the risks involved;
- putting in place adequate processes, including guidelines, to assist staff in managing contracts;

- documenting all variations to the contract by either a contract amendment or letter of agreement between the parties involved; and
- developing an information plan for collecting and analysing the performance information needed to assess the success of the Strategy.

Agency response

33. The Department of Agriculture, Fisheries and Forestry welcomes the ANAO's conclusions that overall, the Department's management of the contractual arrangements in place to deliver the NFIS was effective and that it had developed and implemented sound financial management arrangements for managing the NFIS funds. The recommendations put forward by the ANAO are constructive and the Department agrees to all three recommendations. DAFF's full response is at Appendix 1 and NFIS Ltd's response is at Appendix 2.

Recommendations

The ANAO made three recommendations aimed at improving the administrative effectiveness of DAFF's management of the contractual arrangements in place to deliver the National Food Industry Strategy. Report paragraph references and abbreviated DAFF responses are included. More detailed responses are shown in the body of the report. The ANAO considers that DAFF should give priority to Recommendation 2.

Recommendation No.1 The ANAO recommends that DAFF's management of new programmes includes developing:

Paragraph 2.14

- (a) an implementation plan that identifies and prioritises tasks, allocates resources and details milestones; and
- (b) a risk management plan that identifies, analyses and mitigates the risks associated with the programme.

DAFF response: Agreed.

Recommendation No.2 The ANAO recommends that DAFF strengthen its contract management framework by implementing a structured process for reviewing and managing contracts, including publishing guidelines for staff.

Paragraph 6.5

DAFF response: Agreed.

Recommendation No.3 The ANAO recommends that DAFF, when implementing new programmes or substantial changes to existing programmes, develop an information plan to assess programme performance and outcomes that includes:

Paragraph 7.11

- (a) the information to be collected for each performance indicator; and
- (b) the data collection methods that will be used to collect the information.

DAFF response: Agreed.

Audit Findings and Conclusions

1. Background and Context

This Chapter discusses the development of the National Food Industry Strategy. The objective and scope of the audit and structure of the report are also outlined.

Introduction

1.1 Australia's food industry makes a substantial contribution to the national economy. In 2004–05, the gross value of farm and fisheries food production was \$31.4 billion. As well, 194 000 people were employed directly in food and beverage manufacturing. This represents 18 per cent of the Australian manufacturing workforce. The value of Australia's food exports was \$24 billion in 2004–05. This was an increase of almost nine per cent over the previous year, resulting from strengthening export prices for sugar, beef and dairy products.¹¹

Addressing the challenge of globalisation

1.2 A report for the Prime Minister's Supermarket to Asia (STA) Council¹² in November 2000 identified globalisation of food processing and retailing as the key force exerting pressure on the industry. It considered that the emergence of global retail chains would result in major changes to the structure and operation of the food industry.¹³

1.3 The Australian Government decided on a food industry action agenda, as the vehicle for establishing a National Food Industry Strategy (the Strategy) to succeed the STA Strategy. The purpose of the action agenda process was to engage stakeholders in the development of the Strategy, with industry identifying the actions and tasks that needed to be taken to realise its full potential.¹⁴

1.4 Development of the Strategy was guided by the National Food Industry Advisory Committee, comprising senior representatives from the processed food, horticulture and related service industries, and chaired by the

¹¹ Department of Agriculture, Fisheries and Forestry, 2005, *Australian Food Statistics 2005*, Commonwealth of Australia, Canberra, pp. 1-3.

¹² The STA Council included senior representatives of Government and industry and was established as part of the STA Strategy to meet the challenges of growing Australia's food sales to Asia.

¹³ Department of Agriculture, Fisheries and Forestry, 2002, *National Food Industry Strategy: An Action Agenda for the Australian Food Industry*, Commonwealth of Australia, Canberra, pp. 5, 34.

¹⁴ *ibid.*

then Minister for Agriculture, Fisheries and Forestry.¹⁵ The Committee's report in September 2001 identified the following four key areas as those that needed to be addressed:

- encouraging innovation through leveraging off Australia's science and technology, education and training;
- developing a more integrated export strategy;
- enhancing the business environment; and
- ensuring environmental sustainability.¹⁶

The National Food Industry Strategy

1.5 The then Minister for Agriculture, Fisheries and Forestry and Minister for Industry, Science and Resources announced the Strategy on 28 September 2001. It was intended to commence on 1 July 2002. The vision for the Strategy was that, by 2007, the Australian food industry would be a significant global player with a sustainable and profitable role in the global food product system.¹⁷

1.6 To achieve this, the Ministers announced:

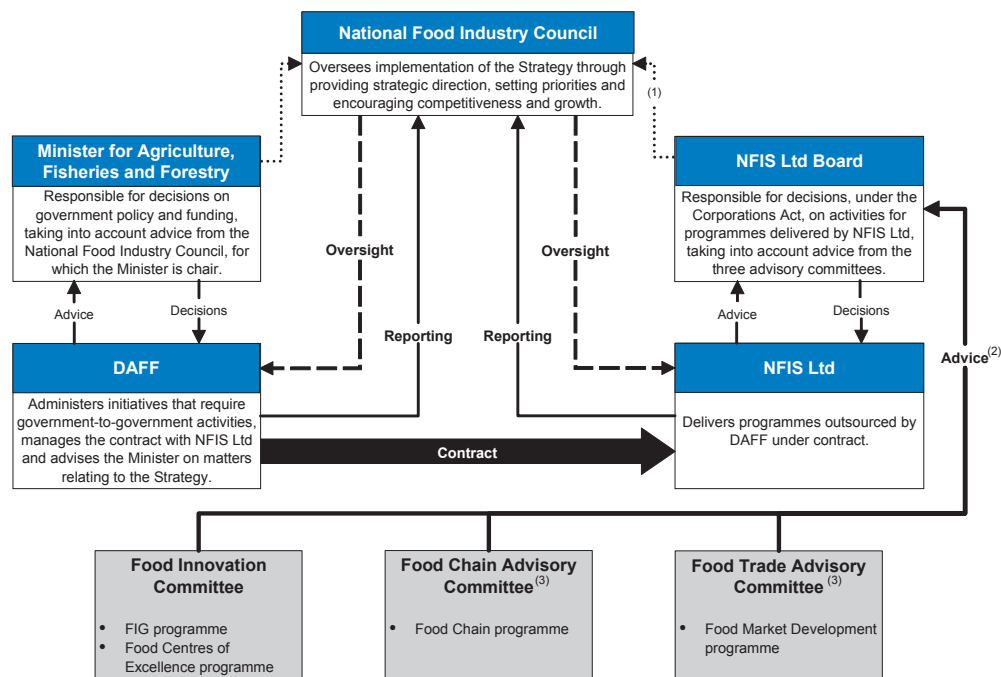
- the establishment of a high-level industry council to oversight the development of the industry and the implementation of the Strategy;
- a product and service innovation strategy aimed at enabling superior innovation performance by Australian-based firms, which would build on Research and Development (R&D) activities and infrastructure, and establish a Food Innovation Grants (FIG) programme;
- a food trade initiative to develop and implement an international food market entry strategy with a focus on market access, trade development and promotion; and
- a strategy to build more competitive supply chains and improve national food safety and quality systems.

1.7 The governance arrangements established for the Strategy are outlined in Figure 1.1.

¹⁵ Joint Media Release, Senator Nick Minchin and Hon Warren Truss MP, 28 September 2001, *\$102.4 million National Food Industry Strategy announced*.

¹⁶ Department of Agriculture, Fisheries and Forestry, 2002, op. cit., p. 7.

¹⁷ Joint Media Release, Senator Nick Minchin and Hon Warren Truss MP, 28 September 2001, op. cit.

Figure 1.1**Governance arrangements for the Strategy**

1. NFIS Ltd provides support and advice to the National Food Industry Council primarily through its Secretariat function. However, advice to the Council may also come from NFIS Ltd Board members who are also members of the Council.
2. The advisory committees reported to the National Food Industry Council until January 2004, after which they reported to the NFIS Ltd Board following a DAFF decision for the National Food Industry Council to have an oversight role, rather than a decision-making role.
3. The Food Trade Advisory Committee and the Food Chain Advisory Committee were amalgamated in late 2005 to become the Market Development Advisory Committee.

Source: ANAO analysis of NFIS documentation

1.8 The Strategy is intended to provide the framework for developing and implementing a partnership between the food industry and Government. It is to deliver a shared vision of increased output, profitability, investment, innovation, export sales and employment in the food industry. Government funding for the Strategy is channelled through the Department of Agriculture, Fisheries and Forestry (DAFF). Industry-led programmes are managed by an independent Secretariat, which was established in September 2002 as a private company, National Food Industry Strategy Limited (NFIS Ltd).¹⁸ The

¹⁸ STA Ltd, which had been responsible for implementing the STA strategy, was renamed NFIS Ltd and its constitution amended.

partnership for delivering the Strategy was formalised in a contract between DAFF and NFIS Ltd in October 2002 (referred to as the Contract). The Contract was designed to manage the risks associated with the outsourced arrangements and to achieving the Strategy's outcomes. The major programmes outsourced to NFIS Ltd are outlined in Table 1.1.

Table 1.1

Major programmes managed by NFIS Ltd

Programme	Description
Food Innovation Grants	A competitive merit-based programme that matches dollar-for dollar funding to Australian-based food processing firms to undertake R&D projects.
Food Centres of Excellence	Provides grants to Australian food R&D centres to attract and develop world-class capability, particularly in human capital, and contribute to better coordinating Australia's R&D efforts.
Food Market Development	Undertakes collaborative market development projects between the food industry, State food agencies and the Australian Government (including Austrade) aimed at facilitating an integrated food market strategy.
Food Chain	Aims to strengthen Australia's performance as a supplier to global food markets by supporting and accelerating the efforts of businesses to build internationally competitive customer-responsive food chains. It provides funding for food industry demonstration projects, which will help to disseminate chain knowledge and experience to the wider industry. It also supports activities aimed at building and strengthening chain management capabilities in the Australian food industry.

Source: DAFF

Funding arrangements

1.9 The Australian Government budgeted \$114.4 million¹⁹ to fund the Strategy over five years (1 July 2002 to 30 June 2007). DAFF retained \$25.9 million of this funding to administer initiatives involving government-to-government activities, and to manage the Contract with NFIS Ltd.²⁰ NFIS Ltd received \$88.5 million from DAFF to deliver four key programmes, as well as

¹⁹ Originally, \$102.4 million was provided to deliver the Strategy. However, this was increased in late 2005 by an additional \$12 million for the FIG programme.

²⁰ DAFF administers the Technical Market Access (\$17.1 million), International Food Standards (\$2.6 million) and Food Safety and Quality (\$5.2 million) programmes. DAFF was also provided with \$1 million to manage the Contract.

to provide seed funding for a fifth programme.²¹ NFIS Ltd also provides Secretariat services²² to the National Food Industry Council.

1.10 Over the years, the budget has been re-phased and re-allocated. The re-allocations have benefited principally the FIG programme, which also received \$12 million in new funding. The FIG programme now accounts for 56 per cent of NFIS Ltd's funds. Funding for the Food Chain programme has been reduced by 23 per cent.²³ Table 1.2 details the funding breakdown for delivering these programmes for the five year period of the Strategy.

Table 1.2

NFIS Ltd funding for the period 1 July 2002 to 30 June 2007

Programme	NFIS Ltd funding per financial year (\$ million)					
	2002-03	2003-04	2004-05	2005-06	2006-07	Total
FIG	1.8	8.9	10.8	15.4	13.1	50.0
Food Centres of Excellence	0.9	2.9	3.4	2.4	2.3	11.9
Food Market Development	1.0	1.0	1.6	1.1	0.7	5.4
Food Chain	1.1	2.0	1.9	1.2	0.9	7.1
Food Management Development	0.4	n/a	n/a	n/a	n/a	0.4
Secretariat services	2.0	2.6	2.7	2.2	2.9	12.4
Total	7.2	17.4	20.4	22.3	19.9	87.2²⁴

Source: DAFF

1.11 As at 1 September 2006, the Strategy has provided funding for: 72 FIG projects; two food centres of excellence; eight²⁵ food market development projects; and 13 major food chain projects.

²¹ NFIS Ltd received a one-off seed funding payment of \$400 000 in 2002–03 to support the establishment of a national food industry management development course within an existing graduate management school to strengthen the capabilities of food managers.

²² The Secretariat also undertakes research and analysis in areas such as environmental sustainability, to ensure completion of action agenda recommendations that do not fall under other programmes delivered by either DAFF or NFIS Ltd.

²³ Originally, the Food Chain programme was provided \$9.2 million under the 2002 Contract. The latest Contract variation, in 2005, reduced this amount to \$7.1 million (Table 1.2).

²⁴ NFIS Ltd also received \$1.3 million to support interim arrangements and winding up the STA Strategy.

²⁵ This figure does not include investigations into potential projects that were not implemented.

Audit objective, scope and methodology

1.12 The objective of this audit was to assess DAFF's management of the contractual arrangements in place to deliver the National Food Industry Strategy. The audit assessed:

- implementation of the Strategy;
- financial management;
- assessment and selection of grants and projects;
- management of grants and projects;
- monitoring and verification of contract services; and
- performance management.

1.13 The audit included an examination of a number of FIG projects²⁶, one food centre of excellence and a major project under the Food Market Development programme.²⁷ The audit did not examine the Food Chain programme or DAFF's administration of the Strategy's government-to-government activities.

Methodology

1.14 The audit methodology was a combination of quantitative and qualitative analysis, file reviews and interviews with DAFF and NFIS Ltd staff. A range of stakeholders, including grant recipients and project participants, were interviewed to gain their perspectives of the Strategy and its operation.

1.15 The audit was conducted in accordance with ANAO auditing standards. The total cost of the audit was \$555 000.

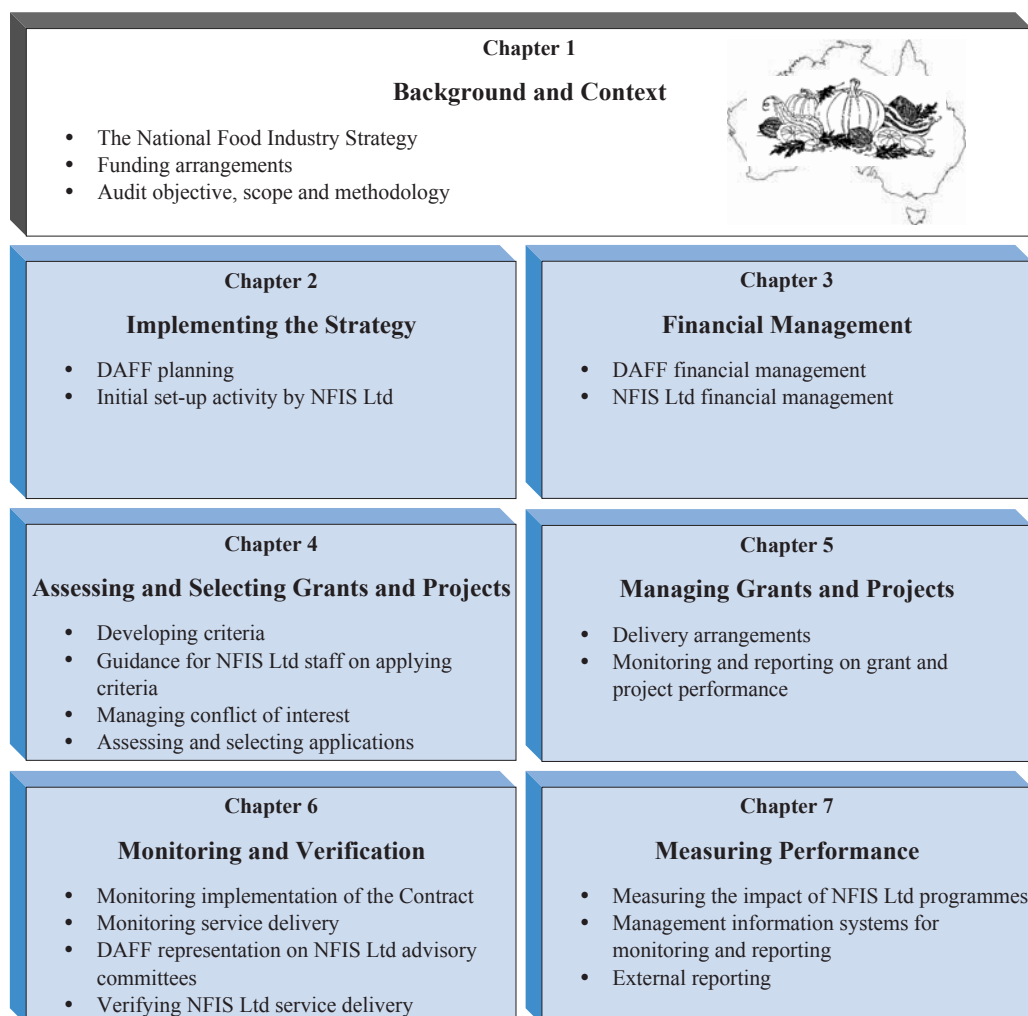
Acknowledgements

1.16 The ANAO would like to express its appreciation to DAFF and NFIS Ltd staff for their assistance in the conduct of this audit.

²⁶ The assessment and selection of 37 FIG applications (over two funding rounds) and the management of nine FIG projects were reviewed.

²⁷ These programmes were chosen on a risk basis: the FIG programme was chosen for its materiality value; the Food Centres of Excellence programme due to the degree of separation between DAFF and programme activities; and the Food Market Development programme for its potential to impact on the Australian food industry.

Structure of this report



2. Implementing the Strategy

This Chapter discusses DAFF's planning for implementation of the Strategy.

Introduction

2.1 The Ministerial announcement of 28 September 2001 anticipated that the Strategy would commence on 1 July 2002. Key tasks for DAFF to achieve this target included formulating governance and financial arrangements for the Strategy, identifying delivery mechanisms and managing negotiations. The ANAO reviewed DAFF's management of the implementation of the new arrangements.

DAFF planning

2.2 DAFF understood from the start that it had a significant task before it when the Government approved the broad arrangements for implementing the Strategy on 14 April 2002. Although DAFF could have requested Supermarket to Asia Limited (STA Ltd) to immediately commence work on the implementation arrangements, subject to finalisation of the Budget, it waited until the Budget had been brought down on 14 May 2002. This allowed a timeframe of five weeks, which was ambitious given the nature and variety of the tasks involved.

2.3 DAFF had identified the tasks that needed to be completed. However, the ANAO found that DAFF did not develop a transition strategy or implementation plan setting out tasks, resources, timeframes, milestones, risks and responsibilities. This would have enabled DAFF to prioritise its tasks to achieve the implementation timeframe. For example, it was not until May 2002 that DAFF identified a risk that the Strategy's delivery arrangements would not be finalised by 1 July 2002. It was at this stage that DAFF began to consider the arrangements that would be necessary if the new company was not operational from 1 July 2002, both with regard to the wind-up of the STA Strategy and initial activities under the new Strategy. This did not allow DAFF or STA Ltd very much time to put in place interim measures.

2.4 Table 2.1 shows the intended timetable and actual achievements for implementing the Strategy.

Table 2.1

Strategy implementation timeframes

Task	Expected date	Actual date
DAFF was to develop draft programme frameworks for the Strategy initiatives, in consultation with STA Ltd and other industry stakeholders, for tabling at the first National Food Industry Council meeting.	19 June 2002	Draft frameworks tabled at 19 June Council meeting.
STA Ltd was to be restructured and the new company (NFIS Ltd) in place.	1 July 2002	2 September 2002
STA Ltd was asked to provide the Minister with a shortlist of possible candidates for appointment as head of the new Secretariat, with a view to making the appointment as soon as possible. ²⁸		Appointment announced 11 October 2002
Once governance and budget issues were settled, the Contract was to be finalised.	1 July 2002	24 October 2002

Source: DAFF

Risk management

2.5 DAFF did not, in accordance with its own guidelines, prepare a risk management plan for implementing the Strategy or for managing the Contract. DAFF considered some risks associated with the Strategy, identifying a possible lack of industry acceptance and high staff turn-over as potential risks in its business plans (without any accompanying treatments). DAFF also identified a number of high-level risks associated with the outsourced delivery of the Strategy. These included: programme outcomes not being achieved; programme funds being improperly allocated and spent; and lack of acceptance by industry. These risks were addressed through provisions in the Contract.

2.6 While DAFF's early planning for the Contract included a provision for risk management by NFIS Ltd, the signed Contract did not include such a requirement. Accordingly, NFIS Ltd was under no obligation to underpin its operations with a structured risk management framework. Risk management was also not addressed in later variations to the Contract. This created a situation where there was no systematic or coordinated approach to managing risk, despite responsibility for the disbursement of appropriated funds being

²⁸ This appointment was approved by DAFF.

shared between two parties. As a result, DAFF was unable to provide assurance that risks associated with the Strategy were identified and properly managed.

Public money under the FMA Act

2.7 One issue that arose during the implementation of the Strategy was whether the funds paid by DAFF to NFIS Ltd were ‘public monies’ under the *Financial Management and Accountability Act 1997* (FMA Act). Public monies are defined as:

- money in the custody or under the control of the Commonwealth; or
- money in the custody or under the control of any person acting for or on behalf of the Commonwealth in respect of the custody or control of the money.

This includes money that is held on trust for, or otherwise for the benefit of, a person other than the Commonwealth.²⁹

2.8 If funds paid to NFIS Ltd were public money, they would be subject to the provisions of the FMA Act, which would have to be reflected in the governance arrangements. DAFF sought verbal legal advice on this issue, which indicated that it was not public money. However, this advice was not documented or formally followed-up.

2.9 The ANAO obtained legal advice, which concluded that, while DAFF had a high degree of oversight of NFIS Ltd, the funds ceased to be public money once they had been paid to NFIS Ltd. This was on the basis that, in part, there was no legal relationship between DAFF and the eventual recipients of the funds. Control of the funds paid to NFIS Ltd for the purpose of the Strategy was not subject to detailed and ongoing direction from DAFF officials, but rested with NFIS Ltd.

2.10 This was an important governance matter, with a potentially significant impact on contractual and governance arrangements if DAFF’s informally-obtained view was not substantiated. Formal consideration and documentation of this matter by DAFF would have mitigated the risk of developing inappropriate accountability arrangements around the management of these funds.

²⁹ *Financial Management and Accountability Act 1997*, Commonwealth of Australia, Canberra, p. 3.

Interim arrangements

2.11 By late June 2002, it was clear that interim arrangements would need to be set up as implementation of the Strategy was running late. DAFF continued working with STA Ltd until it was succeeded by NFIS Ltd. This required two deeds of variation to STA Ltd's contract (signed on 27 June and 9 September 2002 respectively).³⁰

2.12 DAFF had expected to have contract negotiations completed by mid-September, but changes were required by the Government that increased NFIS Ltd's responsibilities and share of Strategy funds.³¹ In particular, NFIS Ltd was given responsibility for providing Secretariat services to the National Food Industry Council. The Contract was finally signed on 24 October 2002. A consequence of the manner in which these contract negotiations and variations were managed was that STA Ltd operated for a period without a formal legal relationship with DAFF governing its expenditure of Australian Government funds.

Areas for improvement

2.13 Implementation of the Strategy was not supported by an implementation plan or proper assessment of the risks associated with implementing the Strategy. These are two key areas that need to be addressed for any future programme.

Recommendation No.1

2.14 The ANAO recommends that DAFF's management of new programmes includes developing:

- (a) an implementation plan that identifies and prioritises tasks, allocates resources and details milestones; and
- (b) a risk management plan that identifies, analyses and mitigates the risks associated with the programme.

³⁰ The first deed of variation covered the period from 1 to 31 July 2002. The second covered the period from 1 August to 15 September 2002. The period from 15 September to Contract signing on 24 October 2002 was not covered by a contractual arrangement.

³¹ The additional funding transferred to NFIS Ltd included those earmarked for performance monitoring and evaluation and the Food Management Development programme.

DAFF response

2.15 Agreed. The Department is committed to implementing better practice, as described in the recently released ANAO/Department of Prime Minister and Cabinet Better Practice Guide on Implementation of Programme and Policy Initiatives. The Department has been a member of the Cabinet Implementation Unit Reference Group, which has provided a reference point for the guide.

Initial set-up activity by NFIS Ltd

2.16 NFIS Ltd was required to develop a business plan and budget for the year ahead, including critical initial steps in setting up NFIS Ltd programmes. The Contract required the business plan to be submitted for Ministerial approval by 30 November 2002. However, approval was only given in late February 2003, following considerable revision of the first draft.

2.17 There were some delays in setting up the programmes. This was in part, due to the need to appoint key staff, and that guidelines, principles and procedures developed for the FIG and Food Centres of Excellence programmes required Ministerial approval before each programme could be implemented. Nevertheless, NFIS Ltd completed the majority of major set-up tasks in a relatively timely manner and made good progress in getting the Strategy underway in the first financial year.

2.18 The delays that occurred during 2002–03 meant that NFIS Ltd was not able to spend all of the 2002–03 budget. Almost \$4 million budgeted for the FIG and Food Centres of Excellence programmes was re-phased to later years. In December 2003, NFIS Ltd advised the Minister of its expectation that all available FIG funds would be committed by March 2005. The funds were fully committed by December 2004, and NFIS Ltd drew upon the findings of a review of the programme³² to support a request for the re-allocation of existing funds and some additional funds.

³² The 2004 FIG review concluded that there was a strong case for continuing the FIG programme funding beyond the initial allocation on the basis that the progress of programme outcomes may lose momentum if additional funds were not available in 2005.

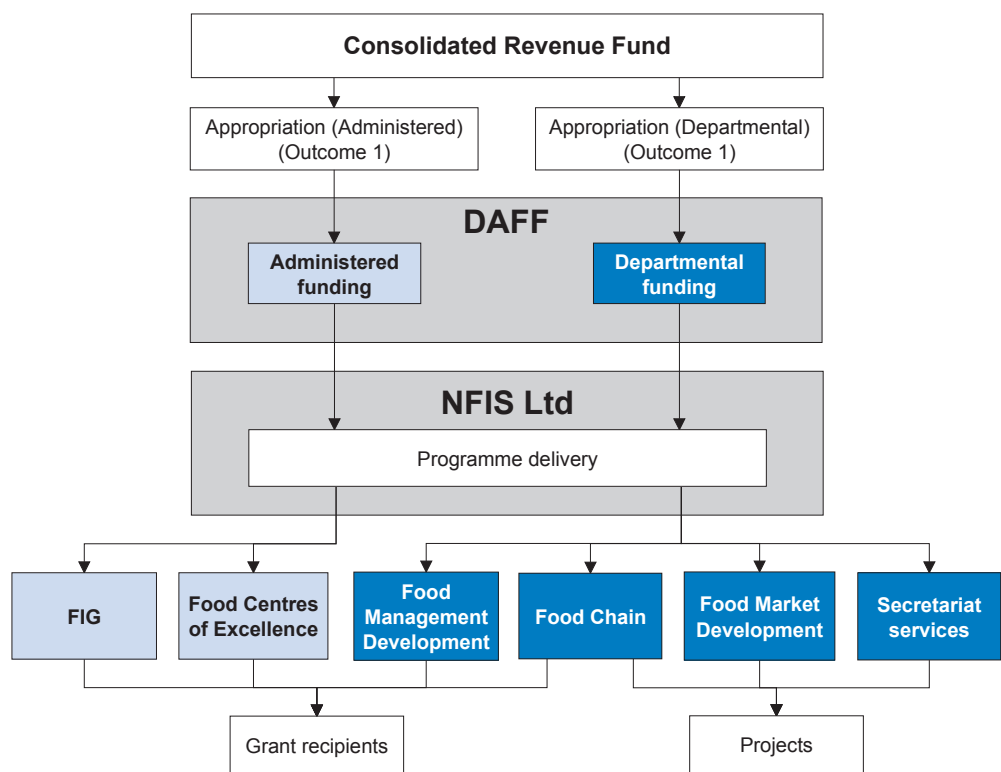
3. Financial Management

This Chapter discusses the operation of the financial management arrangements established for the Contract.

Introduction

3.1 DAFF is accountable for the funds appropriated to the Strategy (\$114.4 million over five years). NFIS Ltd received \$88.5 million to deliver its programmes and is accountable for its use of these funds. Figure 3.1 illustrates the flow of funds through NFIS Ltd to recipients under the Strategy’s outsourcing arrangements.

Figure 3.1
Flow of funds through NFIS Ltd to recipients



Source: ANAO analysis of DAFF documentation

3.2 DAFF is required to manage funding for the Strategy consistent with the requirements of the FMA Act and its regulations. This includes:

- implementing adequate controls over appropriations, including issuing drawing rights, use of internal delegations and approval of future spending proposals; and
- ensuring that NFIS Ltd meets its contractual obligations with regard to spending and accounting for Australian Government funds.

3.3 The ANAO reviewed the financial framework established by DAFF to deliver the Strategy.

DAFF financial management

3.4 The Contract involved commitments to multi-year expenditure, including for administered funds (FIG and Food Centres of Excellence programmes). DAFF is required to obtain the approval of the Minister for Finance and Administration for any future spending proposals not currently authorised through an existing appropriation or law. The ANAO found that DAFF met this requirement.

3.5 Before entering into a contract under which public money is, or may become payable, DAFF must be satisfied that the proposed expenditure accords with the policies of the Australian Government and will make efficient and effective use of the money being spent. DAFF also met this requirement.

3.6 Section 26 of the FMA Act requires that valid drawing rights be authorised before making a payment of public money, requesting that an amount be debited against an appropriation. DAFF issued drawing rights for the debiting of appropriations and the making of payments to NFIS Ltd, consistent with the requirements of the FMA Act.

3.7 DAFF is also required to provide assurance to Parliament that the funds have been expended for the purpose for which they were appropriated. The ANAO examined NFIS Ltd's monitoring of the activities of grant recipients and DAFF's monitoring of NFIS Ltd's activities.³³ DAFF is able to provide this assurance to Parliament.

³³ This is discussed in Chapters 5, 6 and 7.

NFIS Ltd financial management

Contract financial management provisions

3.8 The Contract contains provisions designed to facilitate sound financial management. These include Ministerial approval of the NFIS Ltd annual business plans and budgets, banking arrangements, provisions governing NFIS Ltd's payment of grant funds³⁴ and financial reporting to DAFF.

3.9 The ANAO found that:

- the annual budget is prepared, submitted and approved in accordance with Contract requirements;
- quarterly payments to NFIS Ltd are made after receiving relevant acquittals and within the required 30-day timeframe;
- NFIS Ltd meets Contract requirements for the payment of grant funds; and
- NFIS Ltd provides quarterly reports to DAFF.

3.10 When a major re-allocation of funds occurred in 2005, involving a major redirection of funds to the FIG programme³⁵, the necessary variation was arranged, following approval by the Minister for Finance and Administration.

Bank account arrangements

3.11 The original Contract required NFIS Ltd to maintain a separate bank account for each programme to facilitate tracking of programme funds. NFIS Ltd found that a single bank account was a more efficient and effective method for managing a large proportion of funds and implemented a 'work-around' under which funds for around half of its payments were channelled through a clearing account.

3.12 DAFF advised the ANAO that it was aware of the work-around and the sum involved could be reconciled. It approved a contract variation permitting NFIS Ltd to use a single bank account for its funds in September 2003 following a due diligence process.

³⁴ At the time of audit, DAFF had not activated provisions allowing suspension of contract payments directing NFIS Ltd not to make payments from funds it holds under the Contract.

³⁵ This is discussed in paragraph 1.10.

Authorisation of NFIS Ltd programme payments

3.13 Under the Contract, NFIS Ltd is required to establish accounting systems and procedures to ensure that Contract payments are in accordance with the agreement, and properly authorised and accounted for. The ANAO found that, with one exception, this requirement has been met. In this instance, NFIS Ltd managers approved payments according to delegation limits. However, for the processing of payments for one supplier, there was an inadequate separation of duties, with the approving officer also being the paying officer.

4. Assessing and Selecting Grants and Projects

This Chapter examines NFIS Ltd processes for assessing and selecting grants and projects to be funded under the Strategy.

Introduction

4.1 NFIS Ltd is responsible for managing the assessment and selection of grants and projects to be undertaken as part of the various programmes under the Strategy.³⁶ Under the FIG programme, individual applications are considered in funding rounds, whereas the Food Centres of Excellence programme involved a one-off selection process. The selection process, for each programme involved initial review by a grant assessment group, whose recommendations were then considered by the Food Innovation Committee³⁷, and subsequently the NFIS Ltd Board.

4.2 Food Market Development projects are identified by a committee of Australian, State and Territory Government officials, the Trade Alliance Group, which makes recommendations to the Market Development Advisory Committee.³⁸ State Government agencies are responsible for identifying local companies that may wish to participate in programme activities.

4.3 DAFF is represented on the two advisory committees that oversee these programmes. The ANAO reviewed the processes established by NFIS Ltd for assessing applications for grants and projects for the FIG, Food Centres of Excellence and Food Market Development programmes.

Developing criteria

4.4 NFIS Ltd was required to develop criteria for allocating funds under the FIG and Food Centres of Excellence programmes, and selecting activities to be undertaken as part of the Food Market Development programme. The criteria are designed to guide the selection of projects in a manner fully consistent with the programme objectives, and provide the basis for transparent and equitable decisions on grant selections. Under the Contract,

³⁶ As outlined in Table 1.1.

³⁷ DAFF is represented on the Food Innovation Committee.

³⁸ Prior to a restructure in late 2005, this was the Food Trade Advisory Committee. DAFF is represented on this committee.

the criteria for the FIG and Food Centres of Excellence programmes formed part of the guidelines for the respective programmes. These were approved by the then Minister for Agriculture, Fisheries and Forestry, and other relevant Ministers.³⁹ Criteria for the Food Market Development programme were developed in consultation with the Food Trade Advisory Committee.

Contract requirements for criteria

4.5 The Contract defines the minimum requirements to be addressed when developing the criteria for each programme. The ANAO found that the criteria developed by NFIS Ltd for the FIG and Food Centres of Excellence programmes satisfy these requirements. For example, they:

- define eligible and ineligible activities;
- include eligibility/threshold and merit criteria for the two programmes; and
- include a central requirement for grant programmes, namely, that the applicant should demonstrate that the project would not be able to proceed in the desired manner and timeframe without NFIS Ltd funding.⁴⁰

4.6 For the Food Market Development programme, NFIS Ltd developed core principles for selecting projects. These principles were approved by the National Food Industry Council in December 2002 and revised by NFIS Ltd in 2005. However, the principles did not fully address the requirements in the Contract for selecting projects involving the food industry, State food agencies and the Australian Government. For example, the core principles used did not include the following criteria outlined in the Contract:

- programme outline, outcomes and objectives;
- eligible trade facilitation activities;
- assessment of eligibility (eligible partners and projects, including specifying Australian-based firms);
- available assistance, including contributions from programme partners;

³⁹ For the FIG programme, this was the Minister for Industry, Tourism and Resources. For the Food Centres of Excellence programme, this was the Minister for Education, Science and Technology.

⁴⁰ Australian National Audit Office, May 2002, *Administration of Grants Better Practice Guide*, Commonwealth of Australia, Canberra, p. 39.

- funding requirements (including ineligible activities, project duration, level of other assistance from other State and Commonwealth programmes and intellectual property); and
- feasibility studies for high-risk projects.⁴¹

4.7 Selection criteria that do not include key elements of projects that DAFF intended to be considered as part of the assessment process may render the measures designed by DAFF to address potential risks ineffective. Should it be decided to continue the Strategy, the criteria for selecting projects under the Food Market Development programme need to be revised to align with Contract requirements or the Contract varied to accept the core principles as selection criteria.

Approval of criteria

4.8 The Contract requires that the FIG and Food Centres of Excellence programme criteria be approved at Ministerial level. This occurred in each case.

4.9 The Food Market Development programme criteria were approved by the National Food Industry Council in December 2002. Under the Contract, they were required to be developed by NFIS Ltd in consultation with the Food Trade Advisory Committee. However, unlike the other programmes under the Strategy, there is no clearly stated contractual requirement that the Minister or DAFF approve the criteria for this programme. This could be addressed in any future Strategy to provide assurance to DAFF that projects selected for funding under this programme are contributing to the Strategy's outcomes.

Guidance for NFIS Ltd staff on applying criteria

4.10 The procedural requirements for administering funding applications vary across the programmes. It is therefore important that all those involved in assessment and decision-making processes have a clear understanding of programme requirements and carry out their responsibilities appropriately.

4.11 The ANAO found that NFIS Ltd developed guidelines for the FIG and Food Centres of Excellence programmes, which include:

- guidance on the application process, the criteria to be met and the process for submitting a full application;

⁴¹ NFIS Ltd completed a feasibility study for the project examined by the ANAO.

- a checklist for NFIS Ltd staff to use when assessing the initial eligibility of applications; and
- guidance for members of the grant assessment group to use in scoring applications against the merit criteria.

4.12 Consistent scrutiny is helped by the use of appraisal checklists, standard appraisal forms and written guidelines for assessors. Clearly defined procedures also provide assurance that assessment and decision-making is done in a reliable consistent manner.⁴²

4.13 NFIS Ltd did not produce procedural guidance for the Food Market Development programme, and there is no contractual requirement for this.

Managing conflict of interest

4.14 A major risk identified by DAFF when developing the outsourced arrangements for delivery of the Strategy was the potential for conflict of interest. This arose from the fact that an industry-based council would advise on the delivery of funds by an industry-owned Secretariat to members of the (same) food industry. Concern about the potential for conflict of interest was not limited to the Department. DAFF advised that the Minister for Industry, Tourism and Resources was concerned that commercially-sensitive information would be put at risk for applicants under the FIG programme. As the Australian Government needed to be satisfied that there were arrangements to handle any conflict of interest that might arise, provisions were built into the Contract.

Addressing conflict of interest

FIG and Food Centres of Excellence programmes

4.15 The initial assessment and selection of applications for FIG funds and the two food centres of excellence was conducted by a sub-group of the Food Innovation Committee, called the grant assessment group. The Committee and grant assessment group members are drawn from industry and Australian, State and Territory Governments. Companies with representation on the Committee are permitted to apply for FIG funds and potentially view competitor applications.⁴³

⁴² Australian National Audit Office, May 2002, op. cit., p. 45.

⁴³ The ANAO noted 17 conflicts of interest recorded at seven Food Innovation Committee meetings at which FIG applications were considered.

4.16 NFIS Ltd developed processes to manage potential conflict of interest within the Food Innovation Committee when assessing and selecting grant applications. These were approved by the National Food Industry Council in November 2002. They involved structured procedures to be followed on appointment to the Committee or its sub-committees, including the grant assessment groups, and for use when assessing and approving applications. The procedures are outlined in Appendix 3.

4.17 The ANAO examined the assessment and selection of projects for two FIG funding rounds and for the two food centres of excellence. Overall, the required conflict of interest processes were followed for the FIG selection processes. This was confirmed by FIG stakeholders interviewed by the ANAO.

4.18 However, the ANAO found that there were the following omissions in the process for selecting the food centres of excellence:

- *statements of pecuniary and other private interests* were not provided for those members of the food centres of excellence grant assessment group who were not also members of the FIG grant assessment group;
- *fax-back forms*⁴⁴ were also not provided for the same members of the food centres of excellence grant assessment group; and
- it was not possible to determine how potential conflict of interest was addressed when this grant assessment group met to formulate its recommendations, because the minutes of this meeting could not be provided by NFIS Ltd.

Food Market Development programme

4.19 The Contract, and the Food Trade Advisory Committee Charter⁴⁵, specified the requirements for addressing potential conflict of interest for the Food Market Development programme. However, the ANAO found that the Committee did not implement these requirements. NFIS Ltd advised that the Committee's focus was on strategy, direction and recommending major projects, rather than involving itself in operational matters where conflict of interest might arise in relation to decisions about suppliers and distributors, which are made on a commercial basis. However, the Charter gave the Committee a clear role in managing the implementation of chosen projects. The absence of mechanisms to manage potential conflict of interest is contrary

⁴⁴ Fax-back forms are used by grant assessment group members in declaring conflicts of interest when assessing grant applications.

⁴⁵ The Charter was approved by the National Food Industry Council in November 2002.

to sound governance practices, risked perceptions of unfair advantage and reduced the transparency of the Food Trade Advisory Committee's decisions.

4.20 The Food Trade Advisory Committee was replaced in late 2005 by the Market Development Advisory Committee. DAFF advised that this Committee has introduced confidentiality and conflict of interest procedures similar to those used by the Food Innovation Committee. This more structured approach provides consistency across the NFIS Ltd programmes and has the potential to ensure any actual or perceived conflict of interest are identified and managed appropriately.

Assessing and selecting applications

4.21 NFIS Ltd is obliged by the Contract to ensure that assessment and selection processes are transparent and free from claims of bias.⁴⁶ For NFIS Ltd this requires:

- following the agreed conflict of interest procedures; and
- observing specified assessment and selection processes.

Application of assessment and selection processes

FIG programme

4.22 Selection of FIG projects involves a multi-stage process, as illustrated in Appendix 4. The ANAO found that this process was followed in the sample of funding rounds examined. For example:

- the grant assessment group ranked each round's applications, providing supporting commentary addressing key merit criteria issues;
- its recommendations were considered by the Food Innovation Committee, which in turn made recommendations to NFIS Ltd;
- decisions on each application were recorded; and
- unsuccessful applicants were given feedback with regard to their applications.

4.23 The ANAO also confirmed that funding decisions were consistent with the approved FIG guidelines and that:

⁴⁶ Australian National Audit Office, May 2002, op. cit., p. 43.

- individual grants approved were within the minimum and maximum range (\$50 000 to \$1.5 million)⁴⁷ allowed for the programme; and
- each project approved involved a commitment by the applicant to make a contribution of at least 50 per cent of project cost.

4.24 The ANAO concluded that FIG selection processes operate transparently and equitably. The appraisal process was consistent with FIG programme requirements. FIG applicants (both successful and unsuccessful) also expressed overall satisfaction with FIG selection processes in interviews with the ANAO.

Food Centres of Excellence programme

4.25 The one-off process for selecting the two food centres of excellence began with a survey of industry needs, with the report made available to potential applicants. NFIS Ltd received five bids, which were assessed by a grant assessment group made up of a number of Food Innovation Committee members. The grant assessment group's recommendations were considered by the Food Innovation Committee and forwarded to the NFIS Ltd Board for approval.

4.26 The ANAO confirmed that the selection process followed the procedures outlined in the programme guidelines, with approved selection criteria used to assess and rank applications. NFIS Ltd also commissioned a report on the due diligence and financial aspects of the applications, which strengthened the assessment process.

4.27 The grant assessment group's recommendations were considered by the Food Innovation Committee and approved by the NFIS Ltd Board, as required. However, as previously noted, the minutes of the grant assessment group meeting could not be provided by NFIS Ltd. Decisions such as this, involving competitive selection processes, should be appropriately documented.

Food Market Development programme

4.28 The ANAO found that the project examined by the ANAO under the Food Market Development programme was assessed against the core principles approved by the National Food Industry Council. However, as these

⁴⁷ FIG funding contributions in the range of \$25 000 to \$50 000 are able to be considered if the applicant can demonstrate assistance from a State Government or other assistance provider, particularly with the development of the application and business plan. At the time of audit, no applications had been approved for this amount.

principles did not fully address contract requirements, the assessment process may not have included key aspects of the project that DAFF considered necessary for ensuring that the Strategy's outcomes were achieved.

4.29 DAFF and NFIS Ltd advised that, when selecting projects under the programme, consideration was given to the selection criteria required by the Contract. However, this assessment was not undertaken in a structured manner or formally documented.

4.30 The ANAO recognises that projects under the Food Market Development programme are developed in successive stages⁴⁸, and it may be some time before key elements of selected projects are finalised. Nevertheless, the assessment process would be strengthened by using selection criteria that meet contract requirements and have been approved by DAFF. This would improve the transparency of decision-making and provide assurance that selected projects are aligned with the objectives of the Strategy.

⁴⁸ Projects selected under the Food Market Development programme are developed in a series of stages designed to test their viability. These can include: initial market research; locating a suitable partner; and ultimately reaching a view about the potential competitiveness of the project.

5. Managing Grants and Projects

This Chapter assesses NFIS Ltd's management of grants and projects under the Strategy.

Introduction

5.1 NFIS Ltd is responsible for ensuring that the approved activity or project for which funding has been provided is achieving the programme's objectives. This includes monitoring FIG projects, the two food centres of excellence and the projects under the Food Market Development programme. NFIS Ltd is also responsible for reporting to the relevant advisory committee. To comply with these requirements, NFIS Ltd has developed contractual mechanisms and monitoring and reporting arrangements to manage grants and projects under the Strategy. The ANAO reviewed these processes.

Delivery arrangements

FIG programme

5.2 Once FIG applications have been approved, NFIS Ltd is required to negotiate a deed of grant for each approved recipient.⁴⁹ The deed used to manage FIG projects is based on a standard format outlined in the Contract, which contains a range of provisions designed to facilitate accountability and oversight. The standard deed was used and appropriately signed for all FIG grants sampled by the ANAO.

5.3 Any variation to the project must have prior written approval by NFIS Ltd. Around half of the projects examined by the ANAO required variations, mainly due to technical difficulties or issues with suppliers and research providers. These variations were appropriately approved.

Food Centres of Excellence programme

5.4 As with FIG projects, the Contract also requires the standard deed of grant to be used when entering into agreements with the two food centres of excellence. However, a different contract was entered into with the centres as NFIS Ltd determined that the standard deed was not appropriate due to

⁴⁹ A precisely-expressed deed helps protect the Australian Government's interests as the grant manager can more readily determine whether the recipient is complying with the conditions and, if necessary, take action to ensure compliance.

complexities in programme arrangements. DAFF advised that this contract was developed by the Australian Government Solicitor and approved by the Food Innovation Committee. However, approval to vary the Contract was not formalised by DAFF in a letter of agreement.

5.5 For the centre examined by the ANAO, NFIS Ltd entered into a contract with the lead partner. The lead partner also entered into a joint venture agreement⁵⁰ with its consortium partners. However, there was an inconsistency between these two arrangements. The NFIS Ltd contract with the lead partner made provision for NFIS Ltd to be represented on the Industry Board. The joint venture agreement did not include this provision. As a result, stakeholders found the governance arrangements for the Centre for the first two years confusing. A change in governance structure in mid-2005, to include NFIS Ltd on the Centre's Management Committee and clarifying the role of the Industry Board, has largely resolved these governance issues.

5.6 The Contract defines, to some extent, requirements for the agreement to be signed by NFIS Ltd with the food centres of excellence. For example, the agreement should, inter alia, set out how the grant is to be used, milestones and KPIs consistent with the objectives of the programme, and also reporting requirements. However, there is no provision for DAFF to approve the two contracts negotiated by NFIS Ltd with the centres. Including such a provision in any future Strategy would enable DAFF to review the draft contracts, and consider whether they adequately protect the Australian Government's interests.

Food Market Development programme

5.7 The major activities undertaken under the Food Market Development programme involve 'overseas platforms' or international food promotions in target markets. Many of the projects delivered under the programme involve external partners, with NFIS Ltd providing oversight. For the project examined by the ANAO:

- the South Australian Government was responsible for project management;

⁵⁰ This agreement defines key aspects of the relationship between the partners, such as: the Centre's objectives; project-specific requirements; the role of the lead partner; funding and performance review arrangements; and key governance structures.

- the in-country partner agreed to provide local expertise, customised distribution channels, sales and marketing resources and operational infrastructure; and
- there was some additional cash and in-kind support from other State Governments and Austrade.

5.8 In circumstances where there are many stakeholders and long timeframes, roles and responsibilities need to be defined, as do funding arrangements. With regard to the overseas partner for the project examined by the ANAO, the relationship was defined in three memoranda of understanding (MOUs), covering successive stages of the project.

5.9 NFIS Ltd also documented the roles and responsibilities for the Australian-based parties at a high-level in the project plan. However, NFIS Ltd did not formalise other key relationships for the project, which meant there was the risk of a lack of common understanding about the project's objectives. This was borne out by the findings of a post-project evaluation, carried out in mid-2005, which concluded that the roles of stakeholders and participants needed to be clarified to manage expectations.

5.10 The South Australian Government suggested that a formal process (involving contracts, agreements or MOUs) be adopted for later projects to clarify roles and responsibilities against objectives. The ANAO supports this approach. NFIS Ltd has negotiated MOUs to formalise relationships with State Government partners and Austrade, for the current India project.

Monitoring and reporting on grant and project performance

5.11 NFIS Ltd is expected to monitor projects, directly or indirectly as appropriate, and report on progress to the relevant advisory committee.

FIG programme

5.12 The Contract specifies a standard deed be used, which has detailed reporting requirements, for the duration of the project and following completion. These are supplemented by access provisions that NFIS Ltd uses, initially to assist with the preparation of the application, and later, to negotiate the deed and review project progress.⁵¹

⁵¹ The NFIS Ltd project officer maintains regular contact with grantees for the duration of the project via email, telephone, meetings and also site visits.

5.13 The ANAO found that:

- milestone reports were provided and NFIS Ltd assessments were conducted;
- annual audit reports were provided; and
- final project reports were provided, including independent audit reports confirming that applicants met their commitment to provide at least 50 per cent of the planned expenditure.

5.14 The first two-year post-commercialisation milestone reports are only now becoming due.

5.15 The ANAO found that there is detailed reporting to the Food Innovation Committee, which includes details of completed projects and those that have undergone variations.⁵² Given the long FIG lead-times, there has been limited opportunity to date for the Committee to consider the impact of completed projects.

Food Centres of Excellence programme

5.16 NFIS Ltd is responsible for monitoring the Centre's performance and is also required to develop reporting mechanisms that facilitate the Food Innovation Committee's oversight. The contract between NFIS Ltd and the Centre requires six-monthly reports, but the format and content of these reports was not defined. In practice, NFIS Ltd has established oversight mechanisms whereby:

- the directors of the two food centres of excellence report bi-annually to the Food Innovation Committee, which also considers the progress of the centres at other meetings;
- this is supplemented by periodic visits by NFIS Ltd staff and ongoing email contact; and
- the centres also provide annual reports.

5.17 The Food Innovation Committee undertakes an active monitoring role. Although the contract between NFIS Ltd and the Centre does not clearly define reporting mechanisms, the ANAO found that, in practice, there is detailed reporting to the Food Innovation Committee.

⁵² For example, in July 2004, the Committee was briefed on three completed projects, involving: a container for abalone; avocado processing; and prototype production of artwork directly onto confectionary products.

Food Market Development programme

5.18 The major activities under this programme are generally managed by a project manager, funded by a State Government partner, and working to an agreed project plan. In the case of the project examined by the ANAO, a steering committee was also appointed involving Austrade and three State Governments⁵³ that had in-country offices. NFIS Ltd provides ongoing supervision.

5.19 NFIS Ltd advised that its programme staff provided advice to the South Australian Government. NFIS Ltd also provided regular reports on progress to the Food Trade Advisory Committee. However, these reports did not specifically address progress against the milestones in the project plan. Providing this information would have allowed the Committee greater oversight of the project.

5.20 The Contract requires post-project evaluations to enable the Food Trade Advisory Committee to assess:

- the impact of the funding on the product, service or process that the funding supported;
- the commercial benefit;
- lessons learned; and
- the means by which the project has changed the actions of the partners.

5.21 NFIS Ltd commissioned successive reviews of the project examined by the ANAO. This included documenting what happened, summarising the main lessons learned and developing a 'toolkit' for future projects. There were also lessons identified on the operation of collaborative arrangements that were later considered by the Food Trade Advisory Committee and the National Food Industry Council.

⁵³ These were the South Australian, Western Australian and Victorian Governments.

6. Monitoring and Verification

This Chapter discusses DAFF's mechanisms for monitoring and verifying NFIS Ltd's contracted services.

Introduction

6.1 The Contract specifies the services to be provided by NFIS Ltd and outlines quality requirements. It also contains a range of provisions that are designed to facilitate DAFF oversight of NFIS Ltd's performance of its obligations under the Contract. These include:

- defining contract services;
- quality of service delivery;
- reporting provisions; and
- verifying NFIS Ltd service delivery.

6.2 The ANAO examined how DAFF monitored and verified the services delivered by NFIS Ltd.

Monitoring implementation of the Contract

6.3 A key element of contract management is ensuring that contractual requirements are met and steps are taken to address non-compliance.⁵⁴ On two occasions the Contract was varied but these variations were not formalised by DAFF in a letter of agreement or contract amendment.

6.4 In addition, at the time of the audit, DAFF had not published guidelines to assist its staff in managing the NFIS Ltd Contract.⁵⁵ Adopting a systematic approach to implementing and monitoring the Contract would assist DAFF to:

- identify any aspects of the Contract that have not been implemented;
- consider the reasons for this; and
- take appropriate action.

⁵⁴ Australian National Audit Office, February 2001, *Contract Management Better Practice Guide*, Commonwealth of Australia, Canberra, pp. 45, 58.

⁵⁵ DAFF advised the ANAO that it was developing guidelines but will make a decision on when these are released when proposed whole-of-government guidance on contract management better practice is published.

Recommendation No.2

6.5 The ANAO recommends that DAFF strengthen its contract management framework by implementing a structured process for reviewing and managing contracts, including publishing guidelines for staff.

DAFF response

6.6 Agreed. The Department is committed to implementing better practice, as described in the recently released ANAO/Department of Prime Minister and Cabinet Better Practice Guide on Implementation of Programme and Policy Initiatives. The Department has been a member of the Cabinet Implementation Unit Reference Group, which has provided a reference point for the guide.

6.7 The Department has a Chief Executive Instruction (CEI) that covers procurement and contains links to associated guidance provided by the Department of Finance and Administration. A Procurement Advisory Unit established by the Department in 2005 has been examining the development of guidelines for staff on better practice contract management.

Monitoring service delivery

Defining contract services

6.8 The Contract schedules specify objectives, outcomes and KPIs for each programme. Although there are some limitations in the KPIs, in terms of their breadth and lack of accompanying measures⁵⁶, the services to be provided by NFIS Ltd are clearly specified. This provides the basis for subsequent oversight of service delivery.

Quality of service delivery

Providing services in accordance with DAFF client service standards

6.9 NFIS Ltd is required to provide services in accordance with the standards set out in the DAFF Client Service Charter.⁵⁷ NFIS Ltd implemented its own Client Service Charter in 2003. It defines critical success factors and a series of behaviours and values to be observed by NFIS Ltd staff in their relations with clients and stakeholders. Although the Charter is consistent with the DAFF Charter, NFIS Ltd does not report to DAFF on its client services.

⁵⁶ This is discussed in more detail in paragraph 7.2.

⁵⁷ There are five standards in the charter: professionalism; fairness; respect; integrity; and openness. Each is supported by qualitative descriptors.

DAFF advised that it notes any client service issues raised by stakeholders when reviewing NFIS Ltd quarterly reports.

Reporting against the business plan

NFIS Ltd business plans and budgets

6.10 The Contract requires NFIS Ltd to develop annual business plans and budgets for Ministerial approval. NFIS Ltd is also required to report quarterly to DAFF on progress against activities in the approved plan. Consistent with the Contract, these plans are approved by the Minister for Agriculture, Fisheries and Forestry, on advice from DAFF.

6.11 The ANAO found that NFIS Ltd generally specified the activities planned for the year ahead and, where appropriate, indicated timeframes for each activity. The 2005–06 business plan adopted a format that identified the activities to be undertaken within each programme at a high-level only. This approach was agreed to by DAFF.

NFIS Ltd quarterly reporting

6.12 The Contract prescribes the information to be provided by NFIS Ltd to DAFF in its quarterly reports. This includes activities for the previous quarter and its plans for the next.⁵⁸ The ANAO found that reports are provided in a timely manner and, overall, met Contract requirements by reporting for each quarter:

- the number of applications for grants received, assessed and approved, where this was relevant;
- details of project funds expended or committed;
- details of the progress of projects;
- any additional issues raised by the National Food Industry Council or the Australian Government; and
- activities to be undertaken in the next quarter.

6.13 NFIS Ltd does not always report on activities if there has been no work undertaken in a particular quarter. However, the inclusion of this information would give DAFF assurance that these activities had not been overlooked. Reporting on progress against the timeframes specified in the business plan

⁵⁸ Financial information included in these reports is discussed in paragraph 3.9.

would also strengthen NFIS Ltd's accountability for results and enable these to be presented in context.⁵⁹

DAFF review of quarterly reports

6.14 As previously advised (paragraph 6.4), DAFF does not have contract management guidelines for its staff. However, the contract management team has developed mechanisms specifically for managing payments to NFIS Ltd, including:

- a spreadsheet to assess NFIS Ltd quarterly reports against its annual business plan;⁶⁰ and
- a checklist used for assessing claims for payment under the Contract.

6.15 The gradual completion of the spreadsheet during the year provides DAFF with an overview of NFIS Ltd's progress against activities specified in the business plan. The approval of the previous quarterly report is also a pre-condition for approving payments to NFIS Ltd. DAFF advised that it uses a checklist to assess NFIS Ltd claims for payment. Also, during the audit, DAFF initiated a process to include contract compliance as part of its quarterly assessment.

6.16 DAFF normally provides NFIS Ltd with a written response to the quarterly reports, giving high-level comment on key strategic issues. Meetings are also held to discuss any concerns about a programme's progress. NFIS Ltd advised the ANAO that, overall, it considers that the feedback provided meets its needs and it has a clear sense of DAFF's requirements.

6.17 The Contract also requires NFIS Ltd to provide independent audit and compliance reports each year.⁶¹ The ANAO confirmed that these are provided to DAFF.

DAFF representation on NFIS Ltd advisory committees

6.18 The Contract requires NFIS Ltd to establish advisory committees to oversee the FIG, Food Centres of Excellence, Food Chain and Food Market

⁵⁹ Australian National Audit Office and Department of Finance and Administration, April 2004, *Better Practice in Annual Performance Reporting*, Commonwealth of Australia, Canberra, p. 23.

⁶⁰ Use of the spreadsheet was first implemented in 2003. The spreadsheet includes a statement of whether progress for the quarter is satisfactory, the budget is on track and the required CEO certification is included.

⁶¹ Compliance reports include documents presented at NFIS Ltd Annual General Meetings, including: financial statements audited by a registered company auditor; the audit report from a registered company auditor on the financial statements; and the directors report.

Development programmes. In each case, the committee membership and role was approved by the National Food Industry Council.

6.19 DAFF's role, as contract manager, is enhanced by its participation on the advisory committees as it provides the opportunity to closely observe the operation of the NFIS Ltd programmes and its service delivery arrangements. However, there is no contractual requirement for DAFF to be represented on these committees and, initially, DAFF was only represented on two of the three advisory committees.

6.20 Following a restructure in late 2005, DAFF is now represented on the two remaining committees—the Food Innovation Committee and the Market Development Advisory Committee. It would be a useful enhancement to any future contract to define a clear role for DAFF on the advisory committees. This would allow DAFF to monitor service delivery arrangements and provide advice on contractual issues.

Verifying NFIS Ltd service delivery

6.21 The Contract contains provisions designed to facilitate DAFF's verification of NFIS Ltd service delivery.⁶² However, DAFF has not used these provisions and advised the ANAO that it would conduct such audits only if it suspected criminal activity or had concerns about the company's operation.

6.22 In practice, DAFF relies on NFIS Ltd reports, comments from external stakeholders, reports from the independent auditor and participation in the advisory committees to underpin its judgments on whether NFIS Ltd is meeting its Contract obligations. The ANAO considers this to be a sensible approach. However, it needs to be supported by an active risk management approach to provide assurance that problems are properly addressed when they arise.

⁶² These provisions include the power to examine NFIS Ltd's books and audit compliance with the Contract.

7. Measuring Performance

This Chapter examines measurement and reporting of programme outcomes under the Strategy.

Introduction

7.1 Where services have been outsourced, performance information should be set out in contracts with providers.⁶³ NFIS Ltd is required to report to DAFF annually against the KPIs for each programme. The ANAO reviewed the KPIs and management information systems established to monitor and evaluate the Strategy and its component programmes.

Measuring the impact of NFIS Ltd programmes

Defining and assessing Contract KPIs

7.2 Schedules to the Contract define the objective, outcomes and KPIs for each programme. The KPIs, which are outlined in Appendix 5, are stated in terms of outcomes and outputs. These indicators use terms such as ‘greater’, ‘improved’ and ‘increased’, rather than specific targets. For example, a FIG programme KPI does not specify the target number of new products, improved processes and new enabling technologies that are expected to be developed by 30 June 2007.

7.3 Some KPIs are easily measured, with data readily available. For example, a FIG programme KPI assesses:

Industry participation (location, Small to Medium Enterprises (SMEs), range of sectors) with measurement of size of firms to be based on employment numbers.

7.4 Others can only be measured through surveys. For example, another FIG programme KPI requires:

Increased levels of strategic investment in firm-based research and development, including flow-on benefits outside FIG funded activities and increased linkages between firms and public research and development activities.

⁶³ Australian National Audit Office, February 2001, op. cit., p. 49.

7.5 Some (a minority) are difficult to measure. For example, a Food Market Development programme KPI assesses:

An improved 'partnership' between the Commonwealth, States and Food Businesses in approaching food trade development.

7.6 All KPIs in the Contract are designed to assist in assessing the outcome of programmes under the Strategy. However, the Contract has no KPIs to assess the performance of NFIS Ltd.

Revision of Contract KPIs

7.7 During the audit, the KPIs were revised following a mid-term evaluation of the Strategy. This resulted in some new and amended KPIs being included in the revised Contract, which was signed in December 2005.

7.8 The revised KPIs could be further improved, for example, by specifying targets for such matters as customer satisfaction ratings, or a clear statement of the percentage and non-NFIS Ltd sources of income that would demonstrate self-sustainability for the food centres of excellence.

Performance reporting to DAFF on Contract KPIs

7.9 The Contract requires NFIS Ltd to report on achievement against the KPIs, and also objectives and outcomes, in its annual reports to DAFF. This has occurred. However, it does not allow timely intervention if KPI data suggests unfavourable trends.⁶⁴ Practical performance information is best collected and recorded throughout the year, and collated and assessed in a predictable and consistent manner.⁶⁵ In any future Strategy, it would be useful for DAFF to specify more frequent KPI reporting, possibly in conjunction with the quarterly reports.

7.10 If the Strategy continues, reporting would be strengthened if DAFF and NFIS Ltd developed an information plan to identify, for each performance indicator, the information to be collected and the methods that will be used to collect it. This would enhance DAFF's ability to measure the impact of the Strategy and the effectiveness of NFIS Ltd's performance.

⁶⁴ Between 2002 and 2007, DAFF will have received KPI reporting on five occasions, through NFIS Ltd annual reports.

⁶⁵ Australian National Audit Office and Department of Finance and Administration, April 2004, op. cit., p. 6.

Recommendation No.3

7.11 The ANAO recommends that DAFF, when implementing new programmes or substantial changes to existing programmes, develop an information plan to assess programme performance and outcomes that includes:

- (a) the information to be collected for each performance indicator; and
- (b) the data collection methods that will be used to collect the information.

DAFF response

7.12 Agreed. The Department is committed to implementing better practice, as described in the recently released ANAO/Department of Prime Minister and Cabinet Better Practice Guide on Implementation of Programme and Policy Initiatives. The Department has been a member of the Cabinet Implementation Unit Reference Group, which has provided a reference point for the guide.

Consistency with the DAFF performance information framework

7.13 The FIG and Food Centres of Excellence programmes are funded as DAFF administered items⁶⁶, with the remaining programmes funded as departmental items⁶⁷.

7.14 The ANAO found that:

- the Contract KPIs for the administered programmes are consistent with, and flow from, the related indicators in DAFF's performance information framework for Output 3, as set out in the Portfolio Budget Statements (PBS) and departmental and divisional business plans; and
- the KPIs for the remaining NFIS Ltd programmes generally address the relevant DAFF Output 3 indicator requiring effective programme administration by DAFF (that is, effective administration on DAFF's part facilitates their achievement).

⁶⁶ Administered items are expenses, revenues, assets or liabilities that agencies administer on behalf of the Australian Government. They include grants, subsidies and benefits. In many cases, administered expenses fund the delivery of third-party outputs.

⁶⁷ Departmental funds are resources directly controlled by agencies, including salaries and allowances. They are used to produce outputs on behalf of the Government, including outsourced activities funded and controlled by the agency.

7.15 This consistency between the DAFF performance information framework and the Contract KPIs facilitates ongoing monitoring and measurement of NFIS Ltd performance against the Strategy's objective.⁶⁸

Evaluating the Strategy

7.16 In addition to annual performance reporting, the Contract also makes provision for evaluating the impact of the Strategy. This involves:

- a baseline study of the food industry to be undertaken by NFIS Ltd during 2002–03 to enable the impact of the Strategy to be assessed;
- NFIS Ltd, in conjunction with DAFF, to undertake a mid-term and final evaluation of the Strategy in 2004–05 and 2006–07 respectively; and
- NFIS Ltd to provide a final report by 31 August 2007 that provides an assessment of the performance of each programme.

7.17 The baseline study and mid-term evaluation have been completed. The mid-term evaluation clarified how the baseline study could be used and led to revisions to the Contract KPIs to improve measurability.⁶⁹ The reviews also identified issues to be addressed by future evaluations. The final evaluation was yet to be conducted at the time of audit.

7.18 There were also two FIG programme reviews conducted in 2003 and 2004, which were required by the Contract. Both of these reviews made recommendations to strengthen the assessment process.

Management information systems for monitoring and reporting

NFIS Ltd's monitoring of Contract KPIs

7.19 The Contract requires each programme to establish a computer based Management Information System (MIS) for collecting and analysing performance information. NFIS Ltd implemented a project management module called 'FoodBase' that contains project details and tracks the status of grants from the initial request for information stage through to final payment. It is primarily used for managing FIG projects and grants under the Food

⁶⁸ Australian National Audit Office, May 2002, *Performance Information in Portfolio Budget Statements Better Practice Guide*, Commonwealth of Australia, Canberra, p. 6.

⁶⁹ Contract KPIs were revised following the recommendations of the mid-term evaluation. Refer to paragraph 7.7.

Chain programme, and provides the data used in quarterly and KPI reporting to DAFF.

7.20 The ANAO's testing of FoodBase's main data entry screens revealed adequate automated data input controls in the form of drop-down lists, compulsory fields, 'reasonableness' checks and error warning messages. However, the ANAO found limitations in manual data input controls, data storage and reporting, affecting the accuracy of data from the MIS. These could be addressed, for any future Strategy, in the following manner:

- where source documentation contains data omissions, NFIS Ltd could place a comment in the appropriate MIS field to indicate that required data has not been supplied;
- to ensure that project status codes⁷⁰ are correctly applied, NFIS Ltd could document their definitions, including how and when each should be used, and communicate these to relevant staff; and
- to provide assurance of data accuracy and completeness, NFIS Ltd could also develop, document and implement quality assurance procedures.

7.21 For the other programmes, NFIS Ltd uses network folders as a source of programme information. The folders are structured on a programme-by-programme basis, with sub-folders organised by project. However, this approach means that NFIS Ltd is relying on an electronic filing system, rather than a MIS, to meet contractual requirements. Both DAFF and NFIS Ltd have advised that they consider the arrangements in place, including the shared folders, meet Contract requirements.

7.22 In any future version of the Strategy, once DAFF and NFIS Ltd have considered the data that is required for monitoring KPIs, they should also consider whether a computer-based MIS is the best approach for all programmes, and develop contract specifications accordingly.

⁷⁰ A project status code indicates the stage of the application and assessment process each FIG application has reached. For example, 'P1' indicates a preliminary application has been received and 'P6' indicates that an application is awaiting approval.

External reporting

DAFF annual report

7.23 DAFF is responsible for reporting to Parliament, in the annual report, on the management of aspects of the Strategy for which it is responsible under the Contract.

7.24 The ANAO found that DAFF reports:

- its performance in programme administration and contract management; and
- on administered items and the Food Market Development and Food Chain programmes.

7.25 As the reporting is largely descriptive, it is difficult to judge the level of performance achieved. Departments should report against the performance information established in the related PBS. However, not all indicators listed in the PBS were addressed in the relevant annual report, reducing accountability to Parliament. This oversight should be addressed in the next annual report.



Ian McPhee
Auditor-General

Canberra ACT
9 November 2006

Appendices

Appendix 1: DAFF's response



Australian Government

Department of Agriculture, Fisheries and Forestry

Audit-in-Confidence

SECRETARY

18 October 2006

Mr Ian McPhee PSM
Auditor-General
Australian National Audit Office
Centenary House
19 National Circuit
BARTON ACT 2600

Dear Ian

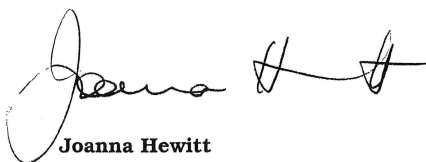
PERFORMANCE AUDIT – NATIONAL FOOD INDUSTRY STRATEGY

I refer to the proposed report prepared by your Office as a result of the performance audit into the Department of Agriculture, Fisheries and Forestry's management of the contractual arrangements in place to deliver the National Food Industry Strategy (NFIS). The report was forwarded to the Department for response under cover of letters from Barbara Cass, dated 21 September 2006 and 13 October 2006.

The Department is pleased to note the ANAO's conclusion that, overall, its management of the contractual arrangements in place to deliver the NFIS was effective. The recommendations put forward by the ANAO are constructive and the Department agrees to all three recommendations. An overall Departmental response and a response to each recommendation are attached for publication in the final report.

I would like to thank you and your officers for the professionalism displayed during this audit and I look forward to receiving the final report.

Yours sincerely


Joanna Hewitt

Edmund Barton Building Barton ACT GPO Box 858 Canberra ACT 2601 ph +61 2 6272 4180 fax +61 6272 4906 www.daff.gov.au ABN241006566

DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY

Audit-in-Confidence

DEPARTMENTAL RESPONSE

The Department of Agriculture, Fisheries and Forestry welcomes the ANAO's conclusions that overall, the Department's management of the contractual arrangements in place to deliver the NFIS was effective and that it had developed and implemented sound financial management arrangements for managing the NFIS funds. The recommendations put forward by the ANAO are constructive and the Department agrees to all three recommendations.

The Department has been a member of the Cabinet Implementation Unit Reference Group, which has provided a reference point for the joint ANAO/Department of Prime Minister and Cabinet Better Practice Guide on Implementation of Programme and Policy Initiatives, launched on 16 October 2006. The Department is committed to implementing better practice as described in the guide.

The Department has a Chief Executive Instruction (CEI) that covers procurement and contains links to associated guidance provided by the Department of Finance and Administration. A Procurement Advisory Unit established by the Department in 2005 has been examining the development of guidelines for staff on better practice contract management.

RECOMMENDATION No. 1

Para 2.14

The ANAO recommends that DAFF's management of new programmes includes developing:

- (a) an implementation plan that identifies and prioritises tasks, allocates resources and details milestones; and
- (b) a risk management plan that identifies, analyses and mitigates the risks associated with the programme.

DAFF Response: Agreed. The Department is committed to implementing better practice, as described in the recently released ANAO/Department of Prime Minister and Cabinet Better Practice Guide on Implementation of Programme and Policy Initiatives. The Department has been a member of the Cabinet Implementation Unit Reference Group, which has provided a reference point for the guide.

RECOMMENDATION No. 2

Para 6.5

The ANAO recommends that DAFF strengthen its contract management framework by implementing a structured process for reviewing and managing contracts, including publishing guidelines for staff.

DAFF Response: Agreed. The Department is committed to implementing better practice, as described in the recently released ANAO/Department of Prime Minister and Cabinet Better Practice Guide on Implementation of Programme and Policy Initiatives. The Department has been a member of the Cabinet Implementation Unit Reference Group, which has provided a reference point for the guide.

The Department has a Chief Executive Instruction (CEI) that covers procurement and contains links to associated guidance provided by the Department of Finance

Audit-in-Confidence

and Administration. A Procurement Advisory Unit established by the Department in 2005 has been examining the development of guidelines for staff on better practice contract management.

RECOMMENDATION No. 3

Para 7.11

The ANAO recommends that DAFF, when implementing new programmes or substantial changes to existing programmes, develops an information plan to assess programme performance and outcomes that includes:

- (a) the information to be collected for each performance indicator; and
- (b) the data collection methods that will be used to collect the information.

DAFF Response: Agreed. The Department is committed to implementing better practice, as described in the recently released ANAO/Department of Prime Minister and Cabinet Better Practice Guide on Implementation of Programme and Policy Initiatives. The Department has been a member of the Cabinet Implementation Unit Reference Group, which has provided a reference point for the guide.

Appendix 2: NFIS Ltd's response

19 October 2006



Ms Barbara Cass
Acting Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Ms Cass

Thank you for your letter of 21 September 2006 and the revisions of 13 October 2006 to the proposed performance report on the Department of Agriculture, Fisheries and Forestry's management of contractual arrangements to deliver the National Food Industry Strategy (NFIS).

It is encouraging that the ANAO considers the contractual arrangements in place for NFIS Ltd to deliver components of the Strategy are effective and that the processes for assessing, selecting and managing grants and projects for the Food Innovation Grants, Food Centres of Excellence and Food Market Development programs were also effective.

During the course of the audit, since early 2005, we have appreciated the suggestions for improvements to our processes which have been made by the ANAO. Many of these suggestions have already been incorporated into our systems and we will be considering the further suggestions for implementation.

We have noted the three recommendations to DAFF regarding its contract management activities. You may be assured that if the Strategy is continued beyond 30 June 2007 the company will work closely with DAFF to ensure that these recommendations are implemented in the development and delivery of any new programs.

Finally, I would like to extend my appreciation, on behalf of the company, for the professional and cooperative manner in which officers of the ANAO have undertaken this audit.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Susan Nelle'.

Dr Susan Nelle
Managing Director

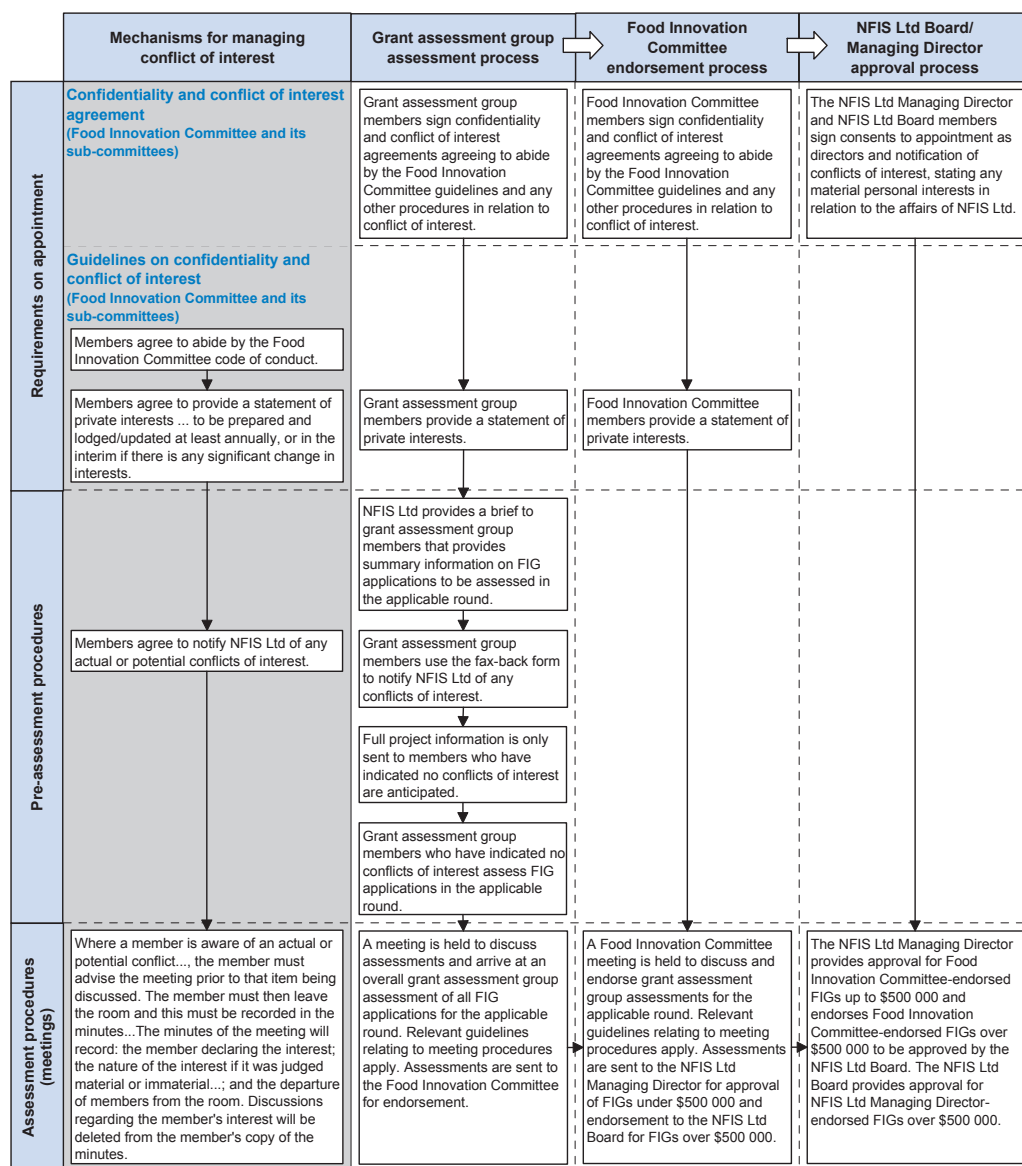
cc Mr David Mortimer
Executive Manager
Food and Agriculture Division
Department of Agriculture, Fisheries and Forestry

National Food Industry Strategy LTD ABN 31 075 678 232.

T 02 6270 8800 F 02 6270 8888 E nfis@nfis.com.au W www.nfis.com.au

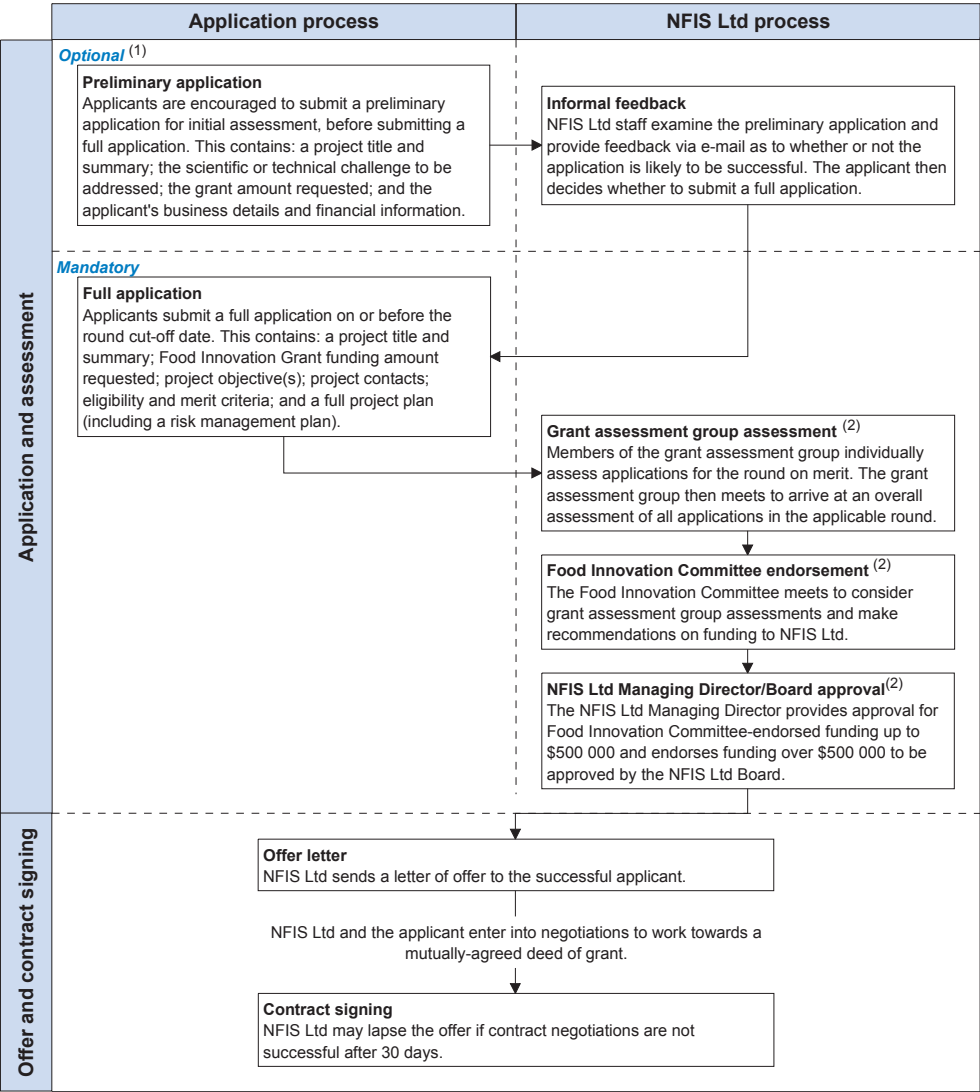
10 National Circuit Barton Barton ACT 2600 | Locked Bag 4911 Kingston ACT 2604

Appendix 3: Managing Conflict of Interest in the Food Innovation Committee



Source: ANAO analysis of NFIS Ltd documentation.

Appendix 4: Food Innovation Grants assessment process



1. It is not mandatory for applicants to submit a preliminary application. However, applicants have informed the ANAO that feedback provided by NFIS Ltd is very useful towards submitting a full application.
2. An application may be unsuccessful at any stage of the assessment process. However, at the time of audit, no decisions by the Food Innovation Committee have been overturned by the NFIS Ltd Managing Director or the Board.

Source: ANAO analysis of NFIS Ltd documentation.

Appendix 5: NFIS Ltd Contract KPIs

Programme KPIs
Food Innovation Grants (FIG) programme <ol style="list-style-type: none"> 1. Introduction to the market of food products and adoption of production processes that incorporate scientific discoveries and technological applications funded and supported by the FIG programme. 2. Extent to which the FIG programme generates processed food and enabling technology activities that are innovative (proportion of grants funded) reflected in: <ul style="list-style-type: none"> – number of new products, improved processes and new enabling technologies developed; – sustained commercial benefits as a result of grants; and – industry participation (location, SMEs, range of sectors). 3. An increased number of processed food firms with improved knowledge, understanding and uptake of innovation through grants and projects funded under the FIG programme. 4. Firms will also have increased levels of strategic investment in firm-based R&D and have increased linkages with public R&D activities.
Food Centres of Excellence programme <ol style="list-style-type: none"> 1. An increase in the number of global food corporations that conduct their R&D activities in Australia. 2. An increase in the number of collaborative partnerships between Australian R&D organisations and Australian-based food processing companies. 3. The extent to which the activities of the Centres: <ol style="list-style-type: none"> a) increased the commercial application of R&D by Australian-based food processing firms; b) made a significant contribution to the generation of knowledge in the identified key technology areas; and c) improved access to world-class R&D expertise for Australian-based firms.
Food Market Development programme <ol style="list-style-type: none"> 1. An improved 'partnership' between the Commonwealth, States and Food Businesses in approaching food trade development. 2. A greater perception of a united 'Australian' presence in food markets.

Source: DAFF.

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