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Performance Audit

# Tasmanian Forest Industry Development and Assistance Programs

## Department of Agriculture Fisheries and Forestry

Australian National Audit Office

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Australian National
Audit Office

Canberra ACT
28 February 2008

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*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Tasmanian Forest Industry Development and Assistance Programs.*

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

Yours sincerely

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

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| ANAO | Australian National Audit Office |
| CIU | Cabinet Implementation Unit |
| DAFF | Department of Agriculture, Fisheries and Forestry |
| DED | Department of Economic Development (Tasmanian Government) |
| DIISR | Department of Innovation, Industry, Science and Research |
| DEWHA | Department of the Environment, Water, Heritage and the Arts |
| MoU | Memorandum of Understanding |
| NFPS | *National Forestry Policy Statement* |
| PBS | Portfolio Budget Statement |
| PM&C | Department of the Prime Minister and Cabinet |
| RFA | Regional Forest Agreement |
| TCFA | Tasmanian Community Forest Agreement |
| TCSAP | Tasmanian Country Sawmillers Assistance Program |
| TFIDP | Tasmanian Forest Industry Development Program |
| TSIDP | Tasmanian Softwood Industry Development Program |

# Summary and Recommendations

# Summary

## Introduction

1. During the 1980s, there was considerable debate, both within Australia and internationally, about global and domestic environmental issues, including the use and management of forests. This global debate on environmental issues culminated in the United Nations Conference on the Environment and Development being held in Rio de Janeiro in June 1992. At this conference, Australia endorsed a number of agreements including a set of *Forest Principles* for the management, conservation and sustainable development of forests.[1]

2. Subsequent to agreeing to these principles, the Commonwealth, State and Territory governments developed the *1992 National Forestry Policy Statement* (NFPS). Regional Forest Agreements (RFAs) are a key element of the NFPS approach.[2] The Agreements are 20-year plans for the conservation and sustainable management of Australia's native forests and seek to balance the full range of environmental, social, economic and heritage values that forests can provide for current and future generations.[3]

### Tasmanian forest industry

3. Tasmania became a signatory to the NFPS on 12 April 1995 and signed an RFA in November 1997. This RFA increased the existing Tasmanian forest conservation reserve system by 17 per cent, bringing the total reserve system to 2.7 million hectares or 40 per cent of Tasmania's total land area.

4. In the lead up to the 2004 election, the Liberal Party and National Party coalition announced its policy, *A Sustainable Future for Tasmania*. This policy outlined the intention to preserve further high-conservation forests from logging, coupled with investment assistance to ensure the continued viability of forest and forest-related industries. With the Coalition's re-election to government in 2004, this policy was implemented through the Tasmanian Community Forest Agreement (TCFA).

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1 Other agreements endorsed include the *Framework Convention on Climate Change* and the *Convention on Biological Diversity.*

2 Ten Regional Forest Agreements have been signed across four States: Western Australia; Victoria; New South Wales; and Tasmania.

3 For further information on the NFPS and RFAs see www.daff.gov.au/rfa [accessed 1 August 2007].

## Tasmanian Community Forest Agreement

5. Following extensive negotiations between the Australian and Tasmanian Governments, the TCFA was signed by the former Prime Minister and Premier of Tasmania on 13 May 2005. The TCFA was negotiated as a Supplementary Agreement to the Tasmanian RFA. The Agreement is a joint commitment by the two governments of more than $250 million to assist the timber industry and to preserve old-growth forests. The TCFA included the following three programs aimed at providing assistance to specific sections of Tasmania's forest industry:

- Tasmanian Forest Industry Development Program (TFIDP) ($42 million over three years) to assist the Tasmanian hardwood industry to upgrade, add value to forest resources and to improve the efficiency and competitiveness of the industry;
- Tasmanian Country Sawmills Assistance Program (TCSAP) ($4 million over three years) to introduce new technologies, products and markets to increase the use of smaller re-growth and plantation logs; and
- Tasmanian Softwood Industry Development Program (TSIDP) ($10 million over three years) to assist the Tasmanian softwood industry to retool existing mills and to improve the efficiency and competitiveness of the industry.

## Administering the programs

6. The objectives, funding and administrative arrangements for implementing the TFIDP and TCSAP were outlined in a Memorandum of Understanding (MoU) between the two governments. These arrangements included establishing an Advisory Committee[4] that was responsible for assessing applications and making recommendations to both the Australian and Tasmanian Government Ministers on the allocation of funds. The Committee was supported by an independent assessor and a DAFF secretariat. Similar arrangements applied for the TSIDP and these were outlined in an exchange of letters between the two Ministers.

7. The three programs are funded by the Australian Government but jointly managed by the Australian and Tasmanian Governments through the Tasmanian Department of Economic Development (DED) and Australian

[4] The Advisory Committee included officials from both the Australian and Tasmanian Governments and industry experts.

Department of Agriculture, Fisheries and Forestry (DAFF). The guidelines for the programs were developed in conjunction with the Tasmanian Government and approved by the then Australian Government Minister for Fisheries, Forestry and Conservation and the then Tasmanian Government Minister for Infrastructure, Energy and Resources. The Ministers also jointly approved the funding of grants under these programs.

## Applying for funding

8. Potential applicants were invited to submit an application or expression of interest for funding in October 2005 and again in April 2006.[5] Lodging an expression of interest allowed a potential applicant to submit an application at a later date. Applications were also accepted on an ongoing basis until the formal application closing date of 30 June 2007. DAFF undertook a preliminary assessment of the applications against the eligibility criteria outlined in the guidelines. Applications were then referred to the Advisory Committee for further assessment, including against the program objectives and funding priorities also outlined in the guidelines. Applications recommended for funding were forwarded to the Ministers for their joint approval.

9. The guidelines for the programs stated that, as a general rule, eligible projects would be offered a minimum grant of 25 per cent of the total project costs, with grants of up to 50 per cent being considered for projects, which made a significant contribution to the priorities for funding. Generally, TSIDP and TFIDP applications were funded at the 25 per cent level and most TCSAP applications at the 50 per cent level.

## Grants approved by the Ministers

10. As of 30 November 2007, a total of 184 applications had been received across the three programs, with 56 applications still in progress. Of the remaining applications, 88 have been approved by the Ministers and 40 applications were either withdrawn, ineligible, rejected or transferred.[6] The total value of approved grants was $42.9 million. Individual grants ranged from $5 000 to $7.9 million, with payments being made on a reimbursement basis. The projects funded under the programs included: upgrading harvesting

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[5] The closing date for applications or expressions of interest for the TFIDP and TCSAP was November 2005 and, for TSIDP applications, 20 January 2006. The closing date for all programs following the April advertisement was May 2006.

[6] For these applications, 18 were withdrawn by the applicant for business reasons, 12 were transferred to another TCFA program, six were deemed ineligible and four were rejected by the Advisory Committee due to the applicants' poor financial status.

equipment; re-equipping sawmills to better handle smaller re-growth and plantation logs; installing kilns and other equipment; and purchasing equipment to introduce new technology into paper or veneer mills.

### Additional funding for grant recipients

11. On 16 October 2007, the then Minister for Fisheries, Forestry and Conservation wrote to successful applicants advising that all grants awarded under the programs would be increased by 30 per cent to assist applicants in offsetting the income tax liability of the original grant. The additional payments (of $16.8 million) were agreed by the former Prime Minister on 6 October 2007, subject to costs being agreed to by the then Minister for Finance and Administration.[7] DAFF advised that, as at 30 November, no payments in relation to this funding increase had been made as administrative arrangements were still being developed. DAFF subsequently advised the ANAO on 7 February 2008, that the incoming Government had reviewed spending commitments made by the former Government, which had not been legislated. An outcome of that review was a decision by the Government in February 2008 to increase the grant provided to successful applicants in the TCFA industry development programs by 30 per cent. Implementation of that decision is underway.

## Audit scope and objective

12. The objective of the audit was to assess DAFF's implementation and administration of the three forest industry assistance programs under the TCFA. Particular emphasis was given to the:

- implementation of the programs and ongoing governance arrangements;
- promotion of the program and the development of program guidelines;
- assessment of applications and approval of funding; and
- management of funding agreements.

The other components of the TCFA were not included in the scope of this audit.

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7 This brings the total funding for the programs to $72.8 million.

## Overall audit conclusion

13. The TCFA is intended to preserve Tasmanian old growth forests as well as provide practical assistance to help the industry modernise and adjust to changing timber resources following the conservation of almost 140 000 additional hectares of native forest. The grants provided by the three forest industry assistance programs are being used to adjust to the processing of smaller diameter logs, to improve the safety and efficiency of harvesting operations, add value to Tasmanian timbers, and protect jobs.

14. Of the 98 applications[8] that had been finalised under the programs as at 30 November 2007, 88 applications (90 per cent) had been approved, six applications were assessed as ineligible and four were rejected due to the financial status of the applicants. To date, the Ministers have approved all applications recommended by the Advisory Committee. The total value of approved grants was $42.9 million, with individual grants ranging from $5 000 to $7.9 million. In addition, the previous Government agreed to increase all grants awarded under the programs by 30 per cent to assist applicants in offsetting the income tax liability of the original grant. However, as at 30 November 2007, no payments in relation to this funding increase had been made. DAFF subsequently advised the ANAO that the incoming Government had decided in February 2008 to increase the grant provided to successful applicants in the TCFA industry development programs by 30 per cent.

15. DAFF, in conjunction with the Tasmanian Government, developed program guidelines and a sound framework for assessing and approving applications for the three programs. This framework was outlined in the MoU (and exchange of letters) between the Australian and Tasmanian governments. DAFF also has processes and procedures for assessing grant applications and these are outlined in the department's Chief Executive Instructions and Better Practice Guides.

16. However, in practice, not all processes and procedures were followed by the department when assessing and recommending applications to the Ministers for funding. There were no operating procedures developed for administering the programs, as required by the department's *Chief Executive Instruction on Grant Management*, including setting out the method and scale of rating applications.

[8] Of the 184 applications received at 30 November 2007, 56 applications were still being processed, 18 applications had been withdrawn and a further 12 applications had been resubmitted under another TCFA program.

17. The Advisory Committee, established to assess applications and to make recommendations to the responsible Australian and Tasmanian Government Ministers, was engaged for its knowledge of the forest industry and with the expectation that this expertise would add value to the assessment process. The Committee was also supported in its assessment of applications by the DAFF secretariat and an independent assessor. However, the lack of documentation supporting the Committee's assessment of applications and the reasons justifying the Committee's decisions means that the assessment process was not transparent and not consistent with the commonly applied standards of grants administration.

18. In the absence of advice to the contrary, it would be reasonable for the Ministers to expect that the assessment process undertaken would demonstrate that the proposed expenditure they were approving represented the efficient and effective use of public money, and met the requirements of the Financial Management and Accountability Regulations.[9] For a number of applications, the advice provided to Ministers did not accurately reflect where assessments were not completed by DAFF, DED or the independent assessor and where the scope of the assessment was restricted by the Committee. For example, the Advisory Committee did not refer 10 applications over $50 000 to the independent assessor, and restricted the scope of the assessment of another eight applications. The values of the grants for these applications ranged from $62 500 to $7.9 million.

19. The grants are funded under the programs on a reimbursement basis to minimise the risks to the Commonwealth. However, the funding deeds negotiated with grant recipients did not always protect the Commonwealth's interests as they did not properly address the ownership of the assets and the financial arrangements underpinning the projects. There were also inconsistencies and errors within the deeds. Further, DAFF was not adequately monitoring compliance with the funding deeds and, where reporting requirements were not being met by grant recipients, they were not always followed up by DAFF.

20. The programs have not been subject to any coverage by the department's internal audit, and reporting arrangements did not bring to notice the extent of shortcomings in the administration of the programs.

[9] FMA Regulation 9 requires that an approver (be that a Minister, agency Chief Executive or authorised official) must not approve a spending proposal unless satisfied, after undertaking such inquiries that are reasonable, that the proposed expenditure is in accordance with the policies of the Commonwealth and will make efficient and effective use of public money.

Currently, reporting of the programs is through periodic divisional performance reviews and reports prepared for the Minister and DAFF Executive. These reports provide limited information on the administration of the programs and do not report on performance against the outcome indicators in the Portfolio Budget Statements and departmental project plan for the three programs.

21. DAFF did not report against all outcome indicators for the programs in its 2006–07 Annual Report. As a result, Parliament has not been informed of the achievements (or otherwise) of the programs in meeting their objective. Consideration also needs to be given to the performance data being collected for these indicators and the level of department verification required. This is particularly important as DAFF has indicated that it intends evaluating the programs when completed in June 2009.

22. This audit has highlighted the importance of departments obtaining assurance through their governance arrangements that the administration of programs is in accordance with expectations, as outlined in instructions and guidance. In the case of the TCFA industry assistance programs, DAFF had appropriate Chief Executive Instructions and a sound basis for assessing and approving applications. However, the administration of the programs did not always adhere to these requirements indicating a need for the department to give greater emphasis to supervision, training, quality assurance and management reporting for these programs.

23. The ANAO has made three recommendations to improve the administration of the programs but also encourages DAFF to reinforce to those administering these programs the importance of adhering to existing departmental requirements.

## Key findings by chapter

### Implementation of the Programs and Ongoing Governance Arrangements (Chapter 2)

*Implementation plans for the programs*

24. The TCFA was included in the Department of the Prime Minister and Cabinet's (PM&C) quarterly implementation report to Cabinet. The Cabinet Implementation Unit (CIU) identified five sets of initiatives for which implementation plans were required, including the three forestry assistance programs. Implementation plans were not prepared by DAFF until requested

by the CIU in August 2005. However, these plans were never finalised or approved within the department as PM&C decided in September 2005, that the TCFA would no longer be included in the CIU quarterly report.

25. The draft assessment of risks developed for the CIU plans was not comprehensive and did not flow through to a risk management strategy for the programs. The draft plans also included five 'success factors' for each program. However, DAFF did not specify any performance indicators to measure these success factors or what performance information would be required to assess whether they had been achieved. Although both plans stated DAFF's intention to evaluate the programs when completed, there was no indication that consideration had been given to the performance information needed for this evaluation.

*Implementing the planning and reporting framework*

26. The 2006–07 and 2007–08 Portfolio Budget Statements and departmental project plans included three outcome performance indicators for the programs: the number of businesses assisted and jobs maintained; the amount of new investment in forestry industries; and the assistance given within agreed timeframes.

27. Currently, reporting of the programs is through periodic departmental performance reviews and reports prepared for the Minister and DAFF Executive. However, these reports do not include performance against the outcome indicators for the three programs and provide limited information on the administration of the programs.

28. DAFF did not report against all the outcome indicators in its 2006–07 Annual Report. The report noted the number of companies assisted and jobs likely to be created but not the number of jobs maintained. The amount of new investment was not identified specifically for the programs and there were no details of 'assistance given within agreed timeframes'. As a consequence, Parliament has not been advised of whether the programs are achieving their outcomes.

29. DAFF is not collecting all the performance data required to report against these indicators. The level of verification required for the employment data being reported by grant recipients also needs to be considered. While assessment of progress against agreed timeframes is also feasible, DAFF has not developed any targets or milestones to facilitate either internal or external reporting or identified the performance information required.

## Promoting Awareness of and Developing Guidelines for the Programs (Chapter 3)

30. DAFF has established a close working relationship with the Tasmanian forest industry. This relationship assisted the department in widely disseminating information to potentially eligible applicants. DAFF advertised for applications (or expressions of interest) in national newspapers and forest industry specific magazines. Potential applicants also had the opportunity to ask questions about the programs at information seminars held throughout Tasmania. The ANAO considers that DAFF effectively promoted the programs to potential applicants within the industry through its awareness raising activities and promotional material.

*Developing program guidelines*

31. DAFF advised that the Australian and Tasmanian governments agreed that the guidelines for the three programs would be developed in consultation with industry stakeholders and the Advisory Committee before being approved by the Ministers. As a result, DAFF had extensive discussions and negotiations with the Tasmanian Government and consulted widely with industry stakeholder groups. The stakeholders interviewed by the ANAO supported this consultation process and the opportunity to provide input into the development of the programs' guidelines.

32. The guidelines provided general information about the programs, the eligibility criteria and funding priorities. They did not however, outline the financial information to be provided by applicants, avenues of appeal, the timeframe for processing applications or provide the relative importance of appraisal criteria. In these respects, the guidelines differed considerably from the department's other forest-related industry program guidelines.

*Method and scale of rating applications*

33. In developing the guidelines, DAFF circulated to the Advisory Committee draft criteria for the assessment and weighting of applications that had been used in other forestry programs. The Committee considered the draft criteria too prescriptive and not suitable for the programs. It did not believe it could weight the program eligibility criteria in any meaningful manner as many of the agreed criteria are subjective, for example, financially sound business and capable management. The Committee also considered that the multiple priorities listed under the guidelines indicated that the Australian and Tasmanian governments wanted the funding to be available to businesses involved in any aspect of the forest industries, rather than a narrow subset.

34. The purpose of developing a method and scale of rating projects is to enable discrimination between the comparative merit of projects in terms of the selection criteria and meeting the objectives of the programs. This approach, which may include rating all criteria equally, also means that applications are appraised consistently and fairly. This was particularly important as the Committee had decided to assess applications on a continuous basis rather than through specific funding rounds. Adopting this approach would also have met the requirement of the department's *Chief Executive Instruction on Grant Management* that a systematic assessment process be established in advance that included, among other things, the method and scale of rating applications.

## Assessment and Approval of Applications for Funding (Chapter 4)

35. The framework for assessing and recommending applications to the Australian and Tasmanian Government Ministers for their joint approval was outlined in the Memorandum of Understanding (MoU) and exchange of letters between the two governments. Under these arrangements, an Advisory Committee was to assess applications for assistance and to make recommendations to the Ministers on the allocation of funds under the programs. The Committee was supported by a DAFF secretariat and an independent assessor.

### *Potential for conflicts of interest*

36. The Advisory Committee included representatives from the Australian and Tasmanian Governments and three other members with expertise in the forest and forest products industries or other relevant expertise. The independent assessor was also industry-based and had sub-contracted key financial analysis to an accounting firm associated with the forest industry. Although the potential for conflicts of interest was not identified as a risk by DAFF as part of the program implementation planning process, arrangements were put in place to handle potential conflicts of interest that might arise during the assessment of applications.

#### The Advisory Committee

37. The department's *Better Practice Guide for Advisory Committees* sets out the process for managing a declared potential conflict of interest. The ANAO examined the terms of reference, code of conduct and operating protocols prepared for the Advisory Committee and these are broadly consistent with DAFF's Guide. DAFF advised that the independent members were not asked

to nominate any potential conflicts of interest at the time of appointment, but believes that the independent members have diligently identified any potential conflicts of interest during committee meetings, in accordance with the procedures in the code of conduct. The minutes of face-to-face Advisory Committee meetings from August 2005 to September 2007 recorded potential conflicts of interest for committee members on five occasions.

38. It was not evident how potential conflicts of interest were addressed when the Advisory Committee met via three teleconferences. The proceedings of only one teleconference (September 2005) were documented. DAFF advised that applications were only discussed during one teleconference and the other two involved the development of the guidelines for the programs.

#### The independent assessor

39. The potential for conflicts of interest also applied to the independent assessor and their sub-contractor as both companies have interests in the Tasmanian forest industry. These companies have access to sensitive commercial information provided by applicants and may also have access to government material, which is not in the public domain.

40. There is a Consultancy Agreement in place between the independent assessor and DAFF. However, the role of the sub-contractor was not formalised in this Agreement and there was no formal contract between the independent assessor and the sub-contractor. The ANAO considers that it would be prudent for DAFF and the independent assessor to formalise arrangements with the sub-contractor and to take steps to ensure that the sub-contractor is not in a position where its business, or personal interests, could result in a potential conflict of interest situation.

### *Assessment of applications*

41. The *Financial Management and Accountability Act 1997* (FMA Act) provides a framework for the proper management of public money. Many of the detailed rules about how public money and property are to be dealt with are in the *Financial Management and Accountability Regulations 1997.* FMA Regulation 9 requires that an approver (be that a Minister, agency Chief Executive or authorised official) must not approve a spending proposal unless satisfied, after undertaking such inquiries as are reasonable, that the proposed expenditure is in accordance with the policies of the Commonwealth and will make efficient and effective use of public money. DAFF's *Chief Executive Instruction on Grant Management* also requires systematic assessment processes be established, which include the: information to be provided with grant

applications; grant eligibility criteria; and method and scale of rating applications.

Assessment of applications against eligibility criteria

42. DAFF undertook a preliminary assessment of the applications against the eligibility criteria[10] outlined in the program guidelines and documented its assessment in a report to the Advisory Committee. An assessment was completed for 79 of the 88 approved applications. DAFF advised that it did not assess the other nine applications because there was insufficient time before the next Advisory Committee meeting was convened and that the Committee considered these applications in relation to the program guidelines. The total value of the grants for the nine applications approved without a DAFF assessment was almost $9 million. The individual grants ranged from $49 950 to $7.9 million.[11]

Assessment of applications by the Advisory Committee

43. The Advisory Committee assessed all applications, including against the funding priorities outlined in the guidelines for the programs. The highest priority for funding across the programs was given to proposals from applicants affected by the impact of the TCFA. Other priorities for funding included innovation and the provision of significant upgrading of technology and industry-wide, State-wide or regional benefits.

44. As part of its assessment of the applications, the Committee decided which applications would be assessed by the independent assessor.[12] However, there were no criteria or thresholds that determined which applications would be subjected to the more detailed review undertaken by the assessor. DAFF advised that applications requesting more than $50 000 in funding were generally sent to the assessor. As at 30 November, 89 applications had been referred to the independent assessor. Ten applications over the $50 000 threshold were approved without an independent assessment

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[10] The eligibility criteria required applicants to demonstrate that their project was: industry and market focussed and commercially viable, financially sound and capable of providing or attracting funds; supported by secure long-term access to forest products; capably managed; and contributing to the industry's competitiveness.

[11] DAFF advised that, although a preliminary assessment was not completed for the $7.9 million grant application, it did provide an assessment following receipt of the independent assessor's report. Due diligence work was also undertaken by the Tasmanian Government for this major project.

[12] This assessment covered the financial status of the applicant, an assessment of the financial viability and the technical and operational feasibility of the applicant's proposal, investment risk analysis, sustainability of new jobs and availability of infrastructure.

being carried out. There were also eight applications where the scope of the assessment was restricted by the Advisory Committee.

45. The Advisory Committee did not use appraisal checklists or assessment summaries to document its assessment of applications. The Committee also decided not to undertake a comparative assessment of applications and recommended applications were not rated or ranked. The Committee meeting minutes briefly summarised the Committee's discussion surrounding each application. The entry for each application generally included: the value of the proposed grant; a brief description of the project or equipment; whether the assessor's report (where available) was favourable; and the risk rating assigned by the assessor. Any action to be taken by the secretariat or DED to progress the application and whether it would be submitted to the Ministers for approval was also noted.

46. The ANAO's analysis of the assessments undertaken for the 88 approved applications indicated that:

- for three applications (for $49 950, $68 312 and $102 585) there was only a DED assessment;
- six of the 14 approved applications (43 per cent) under $50 000 only had a preliminary assessment by DAFF against the eligibility criteria for the programs. These assessments did not cover the financial viability of the applicant or the technical and operational viability of the proposed projects, areas normally covered by the independent assessor or, to a lesser extent, by DED;
- 10 of the 74 approved applications over $50 000 were not referred to the independent assessor;
- the scope of the independent assessment of eight applications over $50 000 was restricted by the Advisory Committee. For five of these applications, the financial viability of the applicant was excluded from the assessment. For the other three applications, aspects of the financial viability of the proposal were excluded.

The total value of these 18 grants over $50 000 was in excess of $13 million, with individual grants ranging from $62 500 to $7.9 million. Three of these applications (with a total value of $8.2 million) were not assessed by DAFF.[13]

[13] Two of these applications (for $68 312 and $102 585) were assessed by DED and DAFF advised that the Tasmanian Government completed due diligence work for the $7.9 million grant.

*Advice provided to the Ministers*

47. The existence of an agreed assessment and approval framework for the three programs created the expectation that applications had been properly assessed. The agreed assessment process also met the requirements of FMA Regulation 9—to undertake 'reasonable inquiries' to demonstrate that the proposed expenditure would make efficient and effective use of public money. The Ministers approved all applications recommended by the Advisory Committee. In approving this funding, the Ministers relied upon DAFF's and the Advisory Committee's assessments and advice.

48. Ministers were advised that recommendations had been unanimously agreed by the Committee after taking into account advice from DAFF, Tasmanian Government officials and the independent assessor and the adequacy of applicants' business plans. However, the Ministers were not advised that 10 applications (over the $50 000 threshold) had not been assessed by the independent assessor or when the scope of this assessment was restricted for a further eight applications.

49. Similarly, the Ministers were not informed that there had only been an assessment by DAFF against the eligibility criteria for six applications under $50 000. There was also no documentation to support the Advisory Committee's assessment of the applications. In the absence of such advice, Ministers would reasonably presume that the process outlined in the MoU and exchange of letters between the two governments had been followed in the assessment of applications.

*Quality of information used to assess applications*

50. The Advisory Committee and DAFF had a responsibility to ensure that a full assessment of applications was undertaken. This would ensure that any funding decision made by the Ministers took account of all relevant information and met the requirements of the FMA Regulations. The ANAO considers that the assessment of applications could have been more effective if:

- credit and Australian Securities Investment Commission (ASIC) checks had been undertaken when assessing an applicant's financial viability;
- processes were established to determine how the value of second hand equipment would be assessed; and
- documentation was requested to support the specific financial arrangements for the proposals.

51. Details of all sources of government funding should also be requested from applicants and taken into consideration, in order to avoid the possibility of applicants 'double dipping' from other Australian Government programs. The ANAO has suggested DAFF include these elements in the assessment of applications in any future grant program.

*Timeliness of the assessment process*

52. The average time taken to finalise approved applications was 10 months, with 28 applications taking in excess of 12 months. Four applications took in excess of 24 months. The ANAO recognises that there were valid reasons for delays in processing applications. However, it should be a cause for concern where applications are taking in excess of 12 months to process. The ANAO considers that the time taken to process applications could have been reduced if DAFF had put in place strategies to better manage delays. For example, applicants could have been:

- asked to provide complete supporting information or told to seek assistance from DED to prepare a business case prior to the application being referred to the Advisory Committee; and
- given a reasonable timeframe in which to respond to information requests and, when they did not, been advised that their application would no longer be considered for funding unless the necessary documentation was provided.

*Monitoring Compliance with the Funding Deeds (Chapter 5)*

53. DAFF was responsible for negotiating the funding deeds with approved applicants and monitoring compliance with the deeds. The funding deed used for the programs differed from the standard funding deed and deed of grant used within the department at the time. The program area advised that it revised the standard deed to reflect that the grants funded under the three programs would be paid on a reimbursement basis, rather than as an 'upfront' payment for future commitments.

*Ownership of the assets and funding deed implications*

54. The definition of assets in the funding deed used for the programs has implications for the obligations within the various asset clauses of the deed. The definition of an asset in the deed 'means an asset acquired by the recipient wholly or partially with the grant'. However, clause 10.1 of this deed states that 'an asset is owned by the recipient'.

55. Legal advice indicated that the assets under the programs' funding deeds are only those that are in fact owned by the recipient. However, some assets funded were acquired through financial arrangements such as hire purchase, chattel mortgage and business loans. Whether or not a particular asset is owned by the recipient depends upon the specific terms of the agreement for the acquisition of that asset. As a consequence, the provisions of the funding deed that apply to assets may not apply to those assets acquired by the recipient under these arrangements. For example, there is no requirement on the recipient to use those assets for the purposes consistent with the project or to pay the Commonwealth the attributable proportion of proceeds if the funded asset is sold, lost, damaged or disposed of within three years.

56. The ANAO noted that information on the type of finance arrangement was not specifically identified when applications were approved and funding deeds negotiated. The funding deeds did not provide details of the financial arrangements under which assets were purchased. This information was sourced by the ANAO from applications, the assessment of applications and payment claims.

### *Payments to recipients*

57. DAFF's *Chief Executive Instruction on Grant Management* indicates that procedural rules and operational guidelines should outline payment procedures, including the payment of grant instalments where approved, and review and compliance mechanisms. DAFF does not have a documented compliance monitoring strategy for the programs or operational guidelines for staff. It has relied on the experience officers have gained through administering other grant programs. To monitor the grants, DAFF has developed a number of spreadsheets, which detail the status and progress of applications and the payments made to recipients.

### *Payment evidence*

58. The ANAO examined all payments made to recipients up to 30 November 2007. These payments totalled $16.6 million. The ANAO considers that, where supporting documents of purchase are incomplete, such as unsigned and undated contracts and tax invoices with the full balance of payment owing, DAFF should request further evidence of purchase such as a receipt. DAFF indicated that the audited statement received at the conclusion of the project confirmed the purchase. However, the audited statement may not be received until several months after the payments are made.

59. Each claim for payment is to include a milestone report. This report provides information relating to the effectiveness of the new equipment and employment details. Of the 67 milestone reports due with the claims for payments, 30 were received before the payment was made. There were 37 instances where DAFF made payments, where the milestone report had not been received.

*Monitoring of funding deeds*

60. DAFF is not adequately monitoring compliance with the funding deeds and this is compounded by inconsistencies and errors within the deeds. The requirements for milestone reports, final reports and audited statements are outlined in the body and schedules of the deed. However, there are inconsistencies, duplication and unclear due dates between these sections of the deed. The content of the final report is also duplicated, to some extent, by the audited statement. Recipients are not always providing milestone reports, final reports and audited statements and, when they do, the reports do not meet the requirements outlined in the funding deed. Clarifying reporting requirements and providing guidance (including pro formas) on the format and content of required reports would assist recipients. Outstanding reports and audited statements should also be followed up to properly acquit the grants.

*Summary of DAFF's response to this audit*

61. The Tasmanian Community Forest Agreement Industry Development programs are three programs jointly agreed and implemented by the Australian and Tasmanian governments. The operational program guidelines for the administration of the programs were agreed by the Australian and Tasmanian governments after lengthy consultation with stakeholders to provide specific guidance on how the concepts set out in a Memorandum of Understanding (MOU) and exchange of letters would be implemented. The programs are based on the reimbursement 25 to 50 per cent of total project expenditure to successful applicants, as opposed to 100 per cent of up front payments, which is common in a number of grant programs. Assessment of applications and recommendations for funding to decision makers was undertaken by an Advisory Committee established by both governments. The Department of Agriculture, Fisheries and Forestry (DAFF) accepts that in this context, ANAO's finding that some aspects of the programs' final administration differ from departmental 'best-practice' guidelines.

62. DAFF notes the ANAO's conclusion that it developed, in conjunction with the Tasmanian Government, a sound framework for assessing and approving applications for the three programs. In addition the ANAO found that DAFF effectively promoted the programs to potential applicants within the industry through its awareness raising activities and promotional material.

63. DAFF notes and welcomes the report's recommendations to collect and record performance data to more effectively report against the outcome performance indicators; to tailor the standard funding deeds to better reflect payment methods and financial arrangements in place to acquire assets; and to put in place clear payment guidelines and reporting requirements to better monitor compliance with the funding deeds.

64. While not yet fully implemented, the industry development programs have met the Government's objectives by leveraging significant investment from industry participants and assisting forest industry companies to adjust to the changing nature of the timber resource in Tasmania.

65. DAFF's full response to the audit can be found at Appendix 1.

# Recommendations

*The ANAO has made three recommendations aimed at improving the administrative effectiveness of the programs. Report paragraph references and abbreviated responses are included. More detailed responses are shown in the body of the report.*

**Recommendation No.1**

**Paragraph 2.37**

To effectively report against the outcome performance indicators for the Tasmanian forest industry assistance programs in the Portfolio Budget Statements and the department's project plan, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry:

(a) collect and, where necessary, validate relevant performance data; and

(b) record, analyse and report this data on an ongoing basis.

*DAFF response:* Agreed.

**Recommendation No.2**

**Paragraph 5.12**

To better protect the Commonwealth's interests, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry use the current standard funding deed for future projects tailored to incorporate the:

- method by which payments are made; and
- financial arrangements in place to acquire the assets, other than through outright purchase or leasing.

*DAFF response:* Agreed.

**Recommendation No.3**

**Paragraph 5.36**

To effectively monitor compliance with the funding deeds, for the Tasmanian forest industry assistance programs, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry:

(a) develop operational guidelines for the payment of claims, compliance reporting and the acquittal of grants; and

(b) clarify reporting requirements and provide guidance to grant recipients.

*DAFF response:* Agreed.

# Audit Findings and Conclusions

# 1. Background and Context

*This chapter outlines the background to the Tasmanian Community Forest Agreement and describes the three assistance programs delivered to the Tasmanian forest industry. The audit objective, scope and methodology are also outlined.*

## Introduction

1.1 During the 1980s, there was considerable debate, both within Australia and internationally, about global and domestic environmental issues, including the use and management of forests. This global debate on environmental issues culminated in the United Nations Conference on the Environment and Development being held in Rio de Janeiro in June 1992. At this conference, Australia endorsed a number of agreements including a set of *Forest Principles* for the management, conservation and sustainable development of forests.[14]

1.2 Subsequent to agreeing to these principles, the Australian, State and Territory governments commenced work towards a shared vision for the use and management of Australia's forests. The *1992 National Forestry Policy Statement* (NFPS) was the first step towards resolving years of conflict and dispute over forest use. The NFPS upholds the principle that Australia's forests should be managed for everyone.[15]

1.3 Regional Forest Agreements (RFAs) are a key element of the NFPS approach.[16] The Agreements are 20-year plans for the conservation and sustainable management of Australia's native forests. They seek to balance the full range of environmental, social, economic and heritage values that forests can provide for current and future generations.[17]

## Tasmanian forest industry

1.4 Tasmania became a signatory to the NFPS on 12 April 1995 and signed a RFA in November 1997. This RFA increased the existing Tasmanian forest

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[14] Other agreements endorsed include the *Framework Convention on Climate Change* and the *Convention on Biological Diversity.*

[15] Australian Government, *National Forest Policy Statement: A new focus for Australia's forests*, Commonwealth of Australia, 1992.

[16] Ten Regional Forest Agreements have been signed across four States: Western Australia; Victoria; New South Wales; and Tasmania.

[17] For further information on the NFPS and RFAs see <www.daff.gov.au/rfa> [accessed 1 August 2007].

conservation reserve system by 17 per cent, bringing the total reserve system to 2.7 million hectares or 40 per cent of Tasmania's total land area.

1.5 In the lead up to the 2004 election, the Liberal Party and National Party coalition announced its policy, *A Sustainable Future for Tasmania*. This policy outlined the intention to preserve further high-conservation forests from logging, coupled with investment assistance to ensure the continued viability of forest and forest-related industries. With the Coalition's re-election to government in 2004, this policy was implemented through the Tasmanian Community Forest Agreement (TCFA).

## The Tasmanian Community Forest Agreement

1.6 Following extensive negotiations between the Australian and Tasmanian Governments, the TCFA was signed by the former Prime Minister and the Premier of Tasmania on 13 May 2005. The Agreement is a joint commitment of the Australian and Tasmanian Governments to enhance protection of Tasmania's forest environment and growth in the Tasmanian forest industry and forestry jobs. The Governments committed over $250 million to assist the timber industry and to preserve old-growth forests.

1.7 The TCFA was negotiated under the Tasmanian RFA, as a Supplementary Agreement. Key features of the Agreement include:

- protection of an additional 170 000 hectares of forest on public and private land;
- protected areas of old-growth forest in Tasmania increased to more than one million hectares;
- formal reservation of significant areas of the Tarkine[18];
- significant increases in reservation levels for a number of old-growth forest types;
- a new Forest Conservation Fund to protect 45 600 hectares of old-growth forest;
- reduction of clear-felling of old-growth forest on public land;
- a phase-out of clearing and conversion of native forest to retain at least 95 per cent of the 1996 native forest extent;

[18] The Tarkine is a large wilderness area in the far north-west of Tasmania covering some 450 000 hectares.

- new statutory measures to prevent the clearing and conversion of rare, vulnerable and endangered native vegetation communities;
- measures to monitor impacts of chemical use on water quality, to save the Tasmanian devil and to further reduce the use of 1080 poison[19];
- $115 million to fund the establishment of additional plantations and productivity improvements in existing plantations and native forests;
- $11.4 million to support the special species and beekeeping industries; and
- $4 million to build skills and training for employees of the Tasmanian forest industry.[20]

1.8 The TCFA also included three programs aimed at providing assistance to specific sections of Tasmania's forest industry. The underlying objective of the programs is:

> To promote the continuing development of a sustainable, efficient and value-adding forest and forest products industry in Tasmania, through the provision of grants that will assist the industry to adjust to changes in wood resources arising from the TCFA.[21]

1.9 Key aspects of the three programs are set out in Table 1.1.

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[19] Compound 1080 or sodium monofluoroacetate, is a naturally occurring compound produced by many species of Australian plant. It was first used as a rabbit poison in Tasmania in 1952. It is now widely used in Australia and New Zealand to control pest animals.

[20] Spending profiles for individual measures funded by the Australian Government can be found in *The Tasmanian Community Forest Agreement Fact Sheet Number One,* available from <www.daff.gov.au/forestry/national/cfa/info/a_way_forward_for_tasmanias_forests> [accessed on 4 September 2007].

[21] Departmental report prepared by DAFF for the Australian Minister for Fisheries, Forestry and Conservation and the Tasmanian Premier and acting Minister for Economic Development for the period 1 January 2006 to 30 June 2006, July 2006.

**Table 1.1**

**Key aspects of the three Tasmanian forestry assistance programs**

| Program | Purpose | Eligible Parties | Funding Available |
|---|---|---|---|
| Tasmanian Forest Industry Development Program (TFIDP) | To upgrade and add value to forest resources and to improve the efficiency and competitiveness of the industry. | Tasmanian hardwood industry | Successful applicants could access grant funding for between 25 and 50 per cent of the project cost. There was a total of $42 million available to the industry. |
| Tasmanian Country Sawmillers Assistance Program (TCSAP) | To introduce new technologies, products and markets to increase the use of smaller re-growth and plantation logs. | Tasmanian country sawmills | Successful applicants could access grant funding for 50 per cent of the total cost of the project. Total funding of $4 million was available across the industry. |
| Tasmanian Softwood Industry Development Program (TSIDP) | To retool existing mills and to improve the efficiency and competitiveness of the industry. | Tasmanian softwood industry | Successful applicants could access grant funding for between 25 and 50 per cent of the project cost. There was a total of $10 million available to the industry. |

Source: ANAO analysis of program guidelines.

## Administering the programs

1.10 The three programs are funded by the Australian Government but jointly managed by the Australian and Tasmanian Governments through the Tasmanian Department of Economic Development (DED) and Australian Department of Agriculture, Fisheries and Forestry (DAFF). The guidelines for the programs were developed in consultation with the Tasmanian Government and approved by the then Australian Government Minister for Fisheries, Forestry and Conservation and the then Tasmanian Government Minister for Infrastructure, Energy and Resources. The Ministers also jointly approved the funding of grants under these programs.

1.11 The objectives, funding and administrative arrangements for implementing the TFIDP and TCSAP were outlined in a Memorandum of Understanding (MoU) between the Australian and Tasmanian governments. These arrangements included establishing an Advisory Committee that included officials from both the Australian and Tasmanian Governments and industry experts. The Committee has been supported by an independent assessor and a DAFF secretariat. The Committee assessed the applications for funding and made recommendations to the Ministers on the allocation of funds. Similar arrangements applied for the TSIDP and these were outlined in an exchange of letters between the two Ministers.

## Applying for funding

1.12 Although there were nominated closing dates[22] for receiving applications for the programs, applications were accepted on an ongoing basis from 19 October 2005 until the programs closed on 30 June 2007. Potential applicants were invited to submit an application or expression of interest[23] for funding in October 2005 and again in April 2006.[24] DAFF undertook a preliminary assessment of the applications against the eligibility criteria outlined in the guidelines. Applications were then referred to the Advisory Committee for further assessment, including against the program objectives and funding priorities outlined in the guidelines. Applications recommended for funding were forwarded to the Ministers for their joint approval.

## Grants approved by the Ministers

1.13 As of 30 November 2007, a total of 184 applications have been received across the three programs. Table 1.2 outlines the status of these applications.

### Table 1.2

### Status of applications as at 30 November 2007

| TCFA Program | Received | Approved | In progress | Ineligible | Rejected | Withdrawn | Transferred |
|---|---|---|---|---|---|---|---|
| TFIDP | 121 | 59 | 29 | 6 | - | 17 | 10 |
| TCSAP | 37 | 17 | 15 | - | 4 | - | 1 |
| TSIDP | 26 | 12 | 12 | - | - | 1 | 1 |
| Total | 184 | 88 | 56 | 6 | 4 | 18 | 12[(1)] |

Note 1: These applications were received under a particular program and re-submitted when considered more suitable for one of the other TCFA programs.

Source: ANAO analysis of DAFF status reports

1.14 Of these applications, the Ministers had approved 88 grants with a total value of $42.9 million. Four applications were rejected by the Advisory

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22 The nominated closing dates were to enable the Advisory Committee to assess as many applications as would be possible together without restricting those applicants who needed time to complete their applications.

23 Lodging an expression of interest allowed a potential applicant to submit an application at a later date.

24 The closing date for applications or expressions of interest for the TFIDP and TCSAP was November 2005 and, for TSIDP applications, 20 January 2006. The closing date for all programs following the April advertisement was May 2006.

Committee because of the poor financial status of the applicants, six applications were deemed ineligible and 18 applicants withdrew for business reasons. The value of individual grants ranged from $5 000 to $7.9 million, with payments being made on a reimbursement basis. The projects funded under the programs include: upgrading harvesting equipment; re-equipping sawmills to better handle smaller re-growth and plantation logs; installing kilns and other equipment; and purchasing equipment to introduce new technology into paper or veneer mills.

### Additional funding for grant recipients

1.15 On 16 October 2007, the then Minister for Fisheries, Forestry and Conservation wrote to successful applicants advising that all grants awarded under the programs would be increased by 30 per cent to assist applicants in offsetting the income tax liability of the original grant. The additional payments (of $16.8 million) were agreed by the former Prime Minister on 6 October 2007, subject to costs being agreed to by the then Minister for Finance and Administration.[25] DAFF advised that, as at 30 November, no payments in relation to this funding increase had been made as administrative arrangements were still being developed. DAFF subsequently advised the ANAO on 7 February 2008, that the incoming Government had reviewed spending commitments made by the former Government, which had not been legislated. An outcome of that review was a decision by the Government in February 2008 to increase the grant provided to successful applicants in the TCFA industry development programs by 30 per cent. Implementation of that decision is underway.

## Audit objective, scope and methodology

1.16 The objective of the audit was to assess DAFF's implementation and administration of the three forest industry assistance programs under the TCFA. Particular emphasis was given to the:

- implementation of the programs and ongoing governance arrangements;
- promotion of the program and the development of program guidelines;
- assessment of applications and approval of funding; and
- management of funding agreements.

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25 This brings the total funding for the programs to $72.8 million.

The other components of the TCFA were not included in the scope of this audit.

## Audit methodology

1.17 The audit methodology included quantitative and qualitative analysis, file and documentation reviews and interviews with staff from DAFF and the DED. Interviews were also conducted with members of the Advisory Committee and representatives from the Tasmanian forest industry. The ANAO reviewed all applications (184) received by DAFF as at 30 November 2007.

## Structure of the report

1.18 The structure of the report is illustrated in Figure 1.1.

## Figure 1.1

### Structure of the report

**Chapter 1—Background and Context**

- Tasmanian Forestry Industry
- Administering the programs
- Audit objective, scope and methodology

**Chapter 2—Implementation of the Programs and Ongoing Governance Arrangements**

- Implementation plans for the programs
- Ongoing governance arrangements
- Program planning framework
- Reporting framework for the programs
- Achieving the programs' objective

**Chapter 3—Promoting Awareness of and Developing Guidelines for the Programs**

- Awareness of the programs
- Developing program guidelines

**Chapter 4—Assessment and Approval of Applications for Funding**

- Assessment and approval framework
- Potential for conflicts of interest
- Assessment of applications
- Advice provided to the Ministers
- Quality of information used to assess applications
- Timeliness of the assessment process

**Chapter 5—Monitoring Compliance with the Funding Deeds**

- Developing the funding deeds
- Payments to recipients
- Monitoring of funding deeds

# 2. Implementation of the Programs and Ongoing Governance Arrangements

*This chapter examines the implementation of the three Tasmanian forest industry assistance programs and the ongoing governance arrangements for the programs.*

## Introduction

2.1 Effective planning helps to ensure that programs, when implemented, deliver the Government's objectives in an efficient and cost-effective manner. The planning process should consider, among other things, the delivery approach, roles and responsibilities, risks, timeframes and resources. Sound governance arrangements are also critical to the successful implementation of programs and their ongoing management.[26]

### Administrative arrangements

2.2 The TCFA was negotiated between the Australian and Tasmanian Governments during December 2004 to May 2005. A Memorandum of Understanding (MoU) outlining the administrative arrangements for implementing the TFIDP and TCSAP was signed in July 2005. Similar arrangements were put in place for the TSIDP and outlined in an exchange of letters between the relevant Australian and Tasmanian Ministers in September 2005. These arrangements included:

- establishing an Advisory Committee to assess the applications for assistance and to make recommendations to the Ministers;
- an independent assessor to comment on the financial and business planning aspects of the applications; and
- a secretariat established within DAFF that is responsible for: convening meetings of the Advisory Committee; preparing and administering funding agreements; the payment of grants; and other administrative functions related to the programs.

2.3 The three programs are all funded by the Australian Government but jointly managed by the Tasmanian and Australian Governments. The two relevant Ministers jointly approved both the guidelines and the funding of

[26] Australian National Audit Office, *Better Practice Guide–Implementation of Program and Policy Initiatives,* October 2006, p. 23.

grants under these programs. The guidelines also noted that the Tasmanian Department of Economic Development, on request from proponents, would be available to assist in the preparation of grant applications. The MoU did not assign any administrative responsibility for the programs to the Tasmanian Government.

2.4 The ANAO reviewed the:

- implementation of the three Tasmanian forest industry assistance programs; and
- governance arrangements to support these programs.

## Implementation plans for the programs

2.5 The TCFA was included in the Department of the Prime Minister and Cabinet's (PM&C) quarterly implementation report to Cabinet. The Cabinet Implementation Unit (CIU) identified five initiatives for which implementation plans were required, including the three forestry assistance programs. The purpose of CIU plans is to provide the information required for quarterly reports to Cabinet on the implementation of key government programs. The CIU plans are designed to build on plans already developed by departments as part of their normal program implementation process.

2.6 DAFF had not prepared implementation plans until requested by the CIU in August 2005. These plans were never finalised or approved within the department as PM&C informed DAFF in September 2005 that the TCFA would no longer be included in the CIU quarterly report. The ANAO reviewed the two draft plans (one for TFIDP and TCSAP and the other covering TSIDP only) as these were the only plans available.

### *Assessment of risks*

2.7 The draft plans included an analysis of risks to implementing the programs.[27] Broadly, the risks identified by DAFF were:

- political risk involving policy changes by either Commonwealth or Tasmania;
- failure to meet program objectives;
- financial risk;

[27] The TFIDP/TCSIP risk analysis identified 11 risks whereas the TSIDP risk analysis identified 12 risks (the TFIDP/TCSIP risks plus one other).

- internal criticism by Ministers expecting faster assessment than could realistically be achieved, given the need for accountability;
- external criticism involving unsuccessful applicants publicly criticising fairness of application and assessment process; and
- security of commercial information supplied by applicants being released (inadvertently or deliberately) by governments, advisory committee or independent assessor.

2.8 The analysis covered, for each risk, the treatment strategy, likelihood, consequences and risk level. However, the person (or entity) responsible for managing each risk was not specified. Nor were the timeframes for managing or reviewing the risks. DAFF indicated that the department's standard risk management framework, modified to incorporate the risk management requirements of the CIU, was used to analyse risks. However, it was unable to provide documentation to support this risk analysis.

2.9 The potential for conflicts of interest to occur was not identified as a potential risk, even though the external members of the Advisory Committee were chosen for their experience with the forest industry, as was the independent assessor.[28] There was also no consideration given to the risk profile of potential applicants at this stage (for example, their financial status and whether the proposed projects would be technically feasible and financially viable). Stakeholder criticism of the fairness of the application process was identified as a potential risk, but the programs did not provide a formal appeal process for applicants.

## Program success factors

2.10 The draft implementation plans identified the same five 'success factors' for each program and these are outlined in Table 2.1. However, DAFF did not specify any performance indicators to measure these success factors or what performance information would be required to assess whether they had been achieved. Although both plans stated DAFF's intention to evaluate the programs when completed, there was no discussion of the performance information needed for this evaluation.

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28 Management of conflict of interest is concerned with both actual and perceived conflict. The risk of either actual or perceived conflict of interest was not considered. Conflict of interest in relation to the assessment and selection process is discussed in more detail in Chapter 4.

**Table 2.1**

**Proposed success criteria for the Tasmanian forest industry assistance programs**

| Output/phase/activity | Success criterion |
|---|---|
| Approved guidelines and eligibility criteria | Relevant stakeholders support the guidelines and eligibility criteria |
| Successful applicants sign funding agreements | Recipients sign grant agreements with measurable milestones |
| New equipment commissioned | Equipment purchased with grant funds is fully operational and contributing to success of business and achievement of program objectives |
| Employment generation | New jobs created, as specified in the grant agreement |
| Investment leveraged | 50 per cent to 80 per cent of total project costs provided by industry |

Source: DAFF

### Conclusion

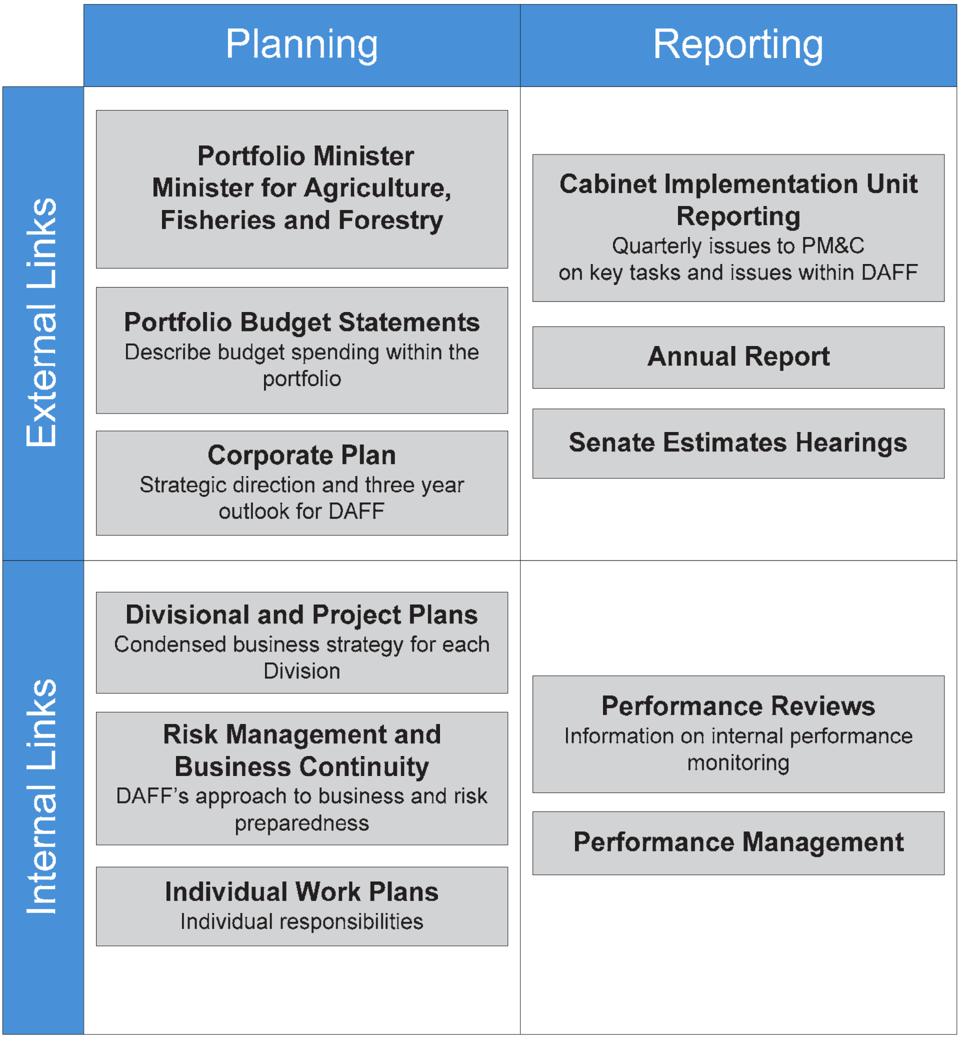
2.11 Implementation plans were not prepared by DAFF until requested by the CIU and these were never finalised or approved within the department. Some key risks were not identified nor incorporated into a risk management strategy for the program. The information required to assess the success of the programs, including milestones and performance indicators was also not included in the draft plans.

## Ongoing governance arrangements

2.12 DAFF advised that it works within an accountability and performance framework that governs the department's annual planning and reporting processes. This framework is illustrated in Figure 2.1.

## Figure 2.1

### DAFF's Planning and Reporting Framework[1]




Note 1: This framework reflects the new Administrative Order Arrangements from 3 December 2007.

Source: DAFF

# Program planning framework

## Portfolio Budget Statements and corporate planning

2.13 Program outcomes and the funding requested to achieve them, are outlined in the Portfolio Budget Statements (PBS). DAFF has only one outcome:

> Australian agricultural, fisheries, food and forestry industries that are based on sustainable management of and access to natural resources, are more competitive, self-reliant and innovative, have increased access to markets, are protected from diseases and are underpinned by scientific advice and economic research.[29]

2.14 The Tasmanian forest industry assistance programs are reported under Output Three: Industry Development. The 2006–07 and 2007–08 PBS included the following three outcome performance indicators for the programs:

- the number of businesses assisted and jobs maintained;
- the amount of new investment in forestry industries; and
- the assistance given within agreed timeframes.

2.15 DAFF's Corporate Plan provides a three year outlook for the department, but does not outline corporate priorities.[30] Annual business plans are prepared by DAFF's divisions and for projects. Division plans include corporate risk priorities, but do not include targets or performance indicators. These are found in the supporting project plans.

## Divisional and project plans

2.16 Divisional and project plans address risk. The 2006–07 Divisional Plan identified the corporate risks as being the failure to effectively implement and manage:

- priority policies and programs;
- people management priorities;
- financial management/governance;
- contingency planning and positioning for the future;

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29 Department of Agriculture, Fisheries and Forestry, *Portfolio Budget Statements 2007–08,* p. 13.

30 The ANAO reviewed DAFF's Corporate Plans for 2003–2006 and 2007–2010.

- outsourced service providers;
- government support; and
- stakeholder relationships and management.

2.17 Managers were to report against the corporate risks at two levels: against the division's key priorities and within projects. At the project level, risks identified in project plans were reviewed for inclusion in the divisional risk register and division business plan.

2.18 The Fisheries and Forestry Divisional Plan identified one risk relevant to the programs (insufficient applications received), which was included in the division risk register. The forest industry assistance project plan stated that there were no high or significant risks identified for the programs before or after treatment and that a risk management profile had been developed for CIU purposes. However, DAFF was unable to provide documentation to support this risk assessment.[31]

2.19 DAFF has introduced new divisional and project planning templates for the 2007–08 planning cycle. The templates are designed to introduce rigour into DAFF's business planning process and provide a closer link between business planning and risk management. In particular, divisions will be required to develop effectiveness and efficiency indicators for each key priority and state how they will measure against these indicators. Similar efficiency and effectiveness indicators are required at the project level. At the time of the audit, DAFF advised that its 2007–08 plans were still to be finalised.

## Reporting framework for the programs

2.20 Reporting to Parliament, stakeholders and the public provides assurance that funds are being used efficiently and effectively. Ideally, it also provides a basis for assessing what progress has been made towards achieving the programs' objectives.

### External reporting

*Reporting to Parliament*

2.21 The department's 2005–06 annual report included information about the progress made in implementing the TCFA. The 2005–06 PBS listed one performance indicator for the Tasmanian forestry assistance programs, the

[31] The plan also included the three outcome performance indicators outlined in the PBS (as discussed in paragraph 2.14).

'amount of investment leveraged from industry'. There are now three outcome performance indicators in the 2006–07 and 2007–08 Agriculture, Fisheries and Forestry PBS to assess the outcomes of the programs.

2.22 DAFF did not report against all the outcome indicators in its annual report for 2006–07. The report noted the number of companies assisted and jobs likely to be created but not the number of jobs maintained. The amount of new investment was not identified specifically for the programs and there were no details of 'assistance given within agreed timeframes'. As a consequence, Parliament has not been informed of whether the programs are achieving their outcomes.

### *Reporting to stakeholders*

2.23 The first report specifically for stakeholders was *Forests for the Future, Tasmanian Community Forest Agreement, Second Anniversary Implementation Update* released in May 2007.[32] This is a joint report by the Australian and Tasmanian Governments. The report describes the TCFA and forest industry assistance programs, including the number of applications approved and the value of grants under each program. However, the report does not examine program performance against outcome indicators. In September 2005, it was agreed by the then Australian and Tasmanian Government Ministers that a similar report would be produced each year for the life of the TCFA. However, DAFF have advised that, after the change of Ministers during 2006, there were no plans to prepare a similar report every year.

### *Reporting to Ministers*

2.24 DAFF provides six monthly reports to the relevant Australian and Tasmanian Government Ministers on the forest industry assistance programs. Copies of these reports are also provided to the DAFF Executive. The reports provide a history of the programs, a summary of progress and proposed activities for the next six months. DAFF does not report against the outcome indicators in the PBS and the project plan for the programs. A summary attachment provides details on the progress of applications under each program and a financial summary table. However, it does not include the:

- number of applications rejected or withdrawn;
- number of outstanding applications to be processed;

[32] Australian Government and Tasmanian Government, *Tasmanian Community Forest Agreement Second Anniversary Implementation*, May 2007, available from http://www.daff.gov.au/forestry/national/cfa [accessed 1 August 2007].

- time taken to process applications;
- total amount of uncommitted funds; and
- total investment expected from approved grants.

2.25 The ANAO considers that the inclusion of this additional data would enable more effective reporting of the programs to the Ministers and DAFF's Executive.

## Internal management reporting

2.26 The Fisheries and Forestry Division prepare performance reviews for DAFF's Executive. The performance reviews are to include:

- financial information;
- people statistics/information;
- performance against indicators and agreed deliverables (set out in the PBS and plans); and
- division-specific issues.

2.27 In 2006–07, these reviews were provided in September 2006, December 2006 and June 2007. The reviews provided a high level report against the Division's activities, including the TCFA programs. For example, reports generally noted that the programs were on schedule, approval had been sought to rephase funds into future years, the number of grants approved by Ministers and uncommitted funding. The reviews did not report progress against the outcome performance indicators in the project plan and PBS. DAFF acknowledges that the performance reviews provide limited information on the administration and performance of the programs.

2.28 In addition, DAFF prepares briefings for the portfolio business meetings held weekly during Parliament sitting weeks with the Minister and DAFF Executive. These reports are generally short and provide updates on progress and key issues. During the early stages of implementation, update briefs on the TCFA programs were prepared for each briefing. More recently, briefs have been prepared upon request from the former Minister's office. A weekly business report is also prepared for the department's Executive. These are 'exception' reports and matters affecting the forest industry assistance programs, such as meetings of the Advisory Committee or any significant issue that arose would be included in this report.

## Reporting against outcome performance indicators

2.29 Grants will continue to be approved until 30 June 2008 and it is anticipated that recipients will have until June 2009 to complete their projects. It will not be possible to fully assess the success of the programs until after that date. However, the three indicators in the PBS have the potential to inform Parliament and DAFF Executive on the progress being made towards achieving the programs' objectives.

2.30 DAFF is able to report the value of grants approved and new investment in forestry industries expected from approved grants. It is also able to report:

- the funds allocated to the forest industry assistance programs but not yet committed;
- the number of applications still to be processed; and
- the number of businesses assisted.

2.31 In relation to the number of jobs being maintained, all programs required applicants to provide employment details at the time of the application and expected employment when the project was completed. If DAFF was to collate this data from the applications, it would have a baseline for employment directly sustained through the programs.[33]

2.32 DAFF requests information on employment outcomes in most funding deeds. However, this information is not requested in a consistent manner across the deeds or in all relevant deeds. Furthermore, the funding deeds do not require the information provided by recipients to be validated. For example, by reference to the recipients' payroll data, possibly as part of the validation of expenditure of funds by the recipient's auditor.

2.33 The third performance indicator 'assistance given within agreed timeframes' is not clearly defined. DAFF has published no agreed timeframes (other than that all payments are to be made by 30 June 2008) against which it can report. For DAFF to report against this indicator, it will need to determine what the timeframes relate to, the targets to be achieved and the performance information required. For example, the targets could be for the processing of applications, the payment of claims and/or finalisation of recipients' projects.

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[33] This baseline could not be used to assess maintenance of employment across forestry industries as a whole.

2.34 Administration spreadsheets already capture some performance data but processes will need to be put in place to analyse the data. Collecting, validating and analysing the performance data as part of processing applications or monitoring funding deeds would facilitate more effective internal and external reporting.

## Conclusion

2.35 Currently, reporting of the programs is through periodic divisional performance reviews and reports prepared for the Minister. These reports provide limited information on the administration of the programs and do not report on all performance against the outcome indicators in the PBS and project plan for all aspects of the three programs.

2.36 DAFF is not collecting all the performance data required to report against these indicators. Consideration also needs to be given to the level of verification required for the employment data currently reported by grant recipients. While assessment of progress against agreed timeframes is also feasible, DAFF has not developed any targets or milestones to facilitate either internal or external reporting or identified the performance information required. It would also be more efficient if performance data was collated as applications were processed and when the reports required under funding deeds were received to inform management decision making, rather than as a separate exercise for annual reporting or for evaluation once the programs are completed.

# Recommendation No.1

2.37 To effectively report against the outcome performance indicators for the Tasmanian forest industry assistance programs in the Portfolio Budget Statements and the department's project plan, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry:

(a) collect and, where necessary, validate relevant performance data; and

(b) record, analyse and report this data on an ongoing basis.

## Agency response

2.38 Agreed. The department notes the ANAO's findings that current reporting arrangements provide limited information on the administration of the programs. The department agrees that collection and analysis of performance data will assist in reporting against the programs' performance indicators. This finding also highlights the need to better select meaningful performance indicators to better monitor the success of such programs.

## Achieving the programs' objective

2.39 As previously noted, the TCFA was implemented as an amendment to the Tasmanian Regional Forest Agreement (RFA). The TCFA contains no provision for review or evaluation. However, the RFA provides for:

- annual reporting against milestones and commitments for the first four years of the Agreement; and
- a review of progress on the implementation of the milestones and commitments in the fifth year (and, subsequently, every two years).

2.40 Reviews were scheduled for 2002, 2007 and 2012. The 2007 review, *Implementation of the Tasmanian Regional Forest Agreement 2002–2007*[34], included comments on progress against commitments under the TCFA. The report also noted that the three assistance programs had been established to support the development of the wood and wood products industry and that, as at 31 December 2006, $10.3 million in funding had been approved for 29 projects.

### Evaluating the forest industry assistance programs

2.41 DAFF has indicated that it intends evaluating the forest industry assistance programs when they are completed in 2009. As previously noted, the objective of the programs as a whole is:

> To promote the continuing development of a sustainable, efficient and value-adding forest and forest products industry in Tasmania, through the provision of grants that will assist the industry to adjust to changes in wood resources arising from the TCFA.[35]

2.42 The ANAO reviewed the performance data currently available to determine the extent to which DAFF will be able to assess how successful the programs were in achieving this objective. Appendix 2 breaks down the objective into specific components and provides an example of the data sources that could be used.

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[34] Australian Government and Tasmanian Government, *Implementation of the Regional Forest Agreement 2002-2007,* available from www.dpac.tas.gov.au/divisions/policy/rfa [accessed 1 August 2007].

[35] Department of Agriculture Fisheries and Forestry, Report prepared for the Australian Minister for Fisheries, Forestry and Conservation and the Tasmanian Premier and acting Minister for Economic Development for the period 1 January 2006 to 30 June 2006, July 2006.

2.43 The industry data required for such an evaluation also needs to be determined and sources identified.[36] Implementing the recommendation proposed by the ANAO will put DAFF in a good position to evaluate whether the programs have achieved their overall objective. Although some components can be measured quantitatively, others only qualitatively.

36 For example, the Australian Bureau of Agriculture and Resource Economics and peak forest industry organisations.

# 3. Promoting Awareness of and Developing Guidelines for the Programs

*This chapter reviews how the Department of Agriculture, Fisheries and Forestry promoted awareness among potential applicants of the three forest industry assistance programs and the development of the guidelines for the programs.*

## Introduction

3.1 The Department of Agriculture, Fisheries and Forestry (DAFF) was responsible for ensuring that the Tasmanian forest industry was aware of the three forestry assistance programs and that industry participants had a fair and equal opportunity to apply for funding. The ANAO reviewed the strategies for promoting awareness of programs and the development of program guidelines.

## Awareness of the programs

3.2 The Tasmanian forest industry is a well-organised stakeholder group and DAFF has established a close working relationship through its ongoing involvement with the industry. This relationship assisted the department in widely disseminating information to potentially eligible applicants.

3.3 DAFF advertised for applications (or expressions of interest) in national newspapers and forest industry specific magazines. All advertising directed potential applicants to the Tasmanian Department of Economic Development Hotline Business Point, the DAFF secretariat and the DAFF website (www.daff.gov.au/tcfa) for further information. Potential applicants also had the opportunity to ask questions about the programs at information seminars held throughout Tasmania.

3.4 At its first meeting, the Advisory Committee discussed the merits of having individual funding rounds or a continuous application process and agreed to accept continuous applications rather than have a formal closing date (or dates) for applications. Notwithstanding this decision, the Advisory Committee also agreed to have two funding rounds with nominated closing dates for the programs. DAFF advised that this decision was to enable the Committee to assess as many applications together as would be possible without restricting those applicants who required time to complete their applications.

### Submission of applications

3.5 Forestry companies were asked to submit either full applications or expressions of interest for funding under the programs on 19 October 2005. The closing date for the first round of TFIDP and TCSAP applications was 18 November 2005 and, for TSIDP applications, 20 January 2006. Submissions were also requested for the programs on 8 April 2006 with a closing date of 31 May 2006. Applications were also accepted on a continuous basis from 19 October 2005 until the programs closed on 30 June 2007.

3.6 Although the second opportunity for funding was not as widely publicised, information relating to the programs was readily available to potential applicants. The ANAO considers that DAFF effectively promoted the programs to potential applicants within the industry through its awareness raising activities and promotional material.

## Developing program guidelines

3.7 DAFF advised that when the TCFA was signed in May 2005, the Australian and Tasmanian Governments agreed that the guidelines for the three programs would be developed in consultation with industry stakeholders[37] and the Advisory Committee before being approved by the Ministers. As a result, DAFF had extensive discussions and negotiations with the Tasmanian Government and consulted widely with industry stakeholder groups. The stakeholders interviewed by the ANAO supported this consultation process and the opportunity to provide input into the development of the programs' guidelines. The guidelines were released on 19 October 2005.

3.8 The guidelines provided general information about the programs, the eligibility criteria and funding priorities. They did not, however, outline avenues of appeal, the timeframe for processing applications or provide the relative importance of appraisal criteria. Applicants were also not required to provide detailed financial information or other sources of government funding. In these respects, the guidelines differed from the department's other forest-related industry program guidelines.

3.9 DAFF advised that the Advisory Committee recommended that applicants should not be required to submit a full business case with their

[37] For example, the: Forest Industry Association of Tasmania and the Tasmanian Forest Contractors Association.

application or expression of interest. DAFF noted this decision was made for two reasons. Firstly, industry stakeholders had indicated during the consultation process that, while some businesses were ready to submit full business plans by the first closing date, most would need two or more months to prepare a business plan. Secondly, the Committee did not want applicants to have to go to the expense of preparing a full business plan, until it was clear that the proposal met the eligibility criteria and program priorities.

3.10 Nevertheless, the initial timeframe of one month to prepare and submit an application (or an expression of interest) was very short and would certainly have presented difficulties for some potential applicants. The ANAO also understands the Committee's rationale for giving applicants the opportunity to provide information supporting their proposals in two stages. However, adopting such an approach introduced the potential for a protracted assessment process, particularly in those instances where applicants took a long time to provide the necessary information.[38]

3.11 An alternative approach could have been to allow potential applicants more time to prepare their applications and to request more detailed information about the proposed projects, allowing a more thorough initial assessment. The ANAO notes that for the 50 applicants that chose to apply outside the two funding rounds, there were no restrictions on the time available to prepare their applications.[39]

3.12 DAFF also advised that it did not formally advise applicants of likely decision dates because it was not in control of all aspects of the process. For example, it did not know how long applicants would take to provide all required information, nor did it know how long Ministers would take to reach decisions. In its view, giving timeframes or decision dates could have misled applicants. However, this approach also meant that applicants did not have any appreciation of how long they may have to wait for a decision on their application.

3.13 Although the guidelines did not outline any appeal mechanisms, as at 30 November 2007, three applications were re-assessed by the independent

[38] The time taken to assess applications is discussed in Chapter 4.

[39] Of the 184 applications received across the three programs, 106 were received during the two funding rounds and 50 were outside these rounds. For the remaining 28 applications, the ANAO was unable to determine whether the applications were received as part of or outside the two funding rounds as DAFF did not record the dates received.

assessor following appeals by applicants. These applications were subsequently approved for funding.

## Eligibility criteria and funding priorities

3.14 The eligibility criteria and funding priorities for assessing applications were outlined in the guidelines for each program. The eligibility criteria in the guidelines required applicants to demonstrate that their project was:

- industry and market focussed and commercially viable;
- financially sound and capable of providing or attracting the funds required to complete the proposed project;
- supported by secure long-term access to a sufficient quantity and quality of forest products to undertake the proposal, for example through a timber supply contract or a direct link to a timber supply contract from public or private forest;
- capably managed; and
- contributing to the industry's competitiveness.

*Funding priorities*

3.15 The highest priority for TFIDP funding was to be for commercial proposals from timber processing operations affected by changes to available timber resources as a consequence of the TCFA. Priority was also to be given to proposals from harvesting and haulage contractors affected by the implementation of the TCFA.

3.16 For the TCSAP, country sawmills that needed to introduce new equipment or processes to adjust to the changes in log supply following the TCFA were to be given priority funding. The guidelines also stated that the allocation of funding was to be based on the merit of the individual proposal and its contribution to the future of the Tasmanian forest industry, with proposals from existing businesses being given a higher priority.

3.17 Broadly, the priorities for funding under the TSIDP were for proposals that assisted the industry to:

- adjust to the expected reduction in sawlog supply;
- introduce new but proven technologies to the softwood industry; and
- develop new products that attracted investment to the industry.

3.18 Projects that provided industry-wide, State-wide or regional benefits were also to be given priority. Projects that did not meet the funding priorities were to be considered on a case-by-case basis, if funding was available.

## Method and scale of rating applications

3.19 In developing the guidelines, DAFF circulated to the Advisory Committee draft criteria for the assessment and weighting of applications that had been used in other forestry programs. The Committee considered the draft criteria too prescriptive and, although suitable for use by members individually, they were not suitable for the Committee to use.

3.20 DAFF advised the ANAO that the Committee did not believe it could weight the program eligibility criteria in any meaningful manner as many of the agreed criteria are subjective, for example, financially sound business and capable management. DAFF also noted that, in regard to possible weighting of the priorities, the fact that there are multiple priorities listed under the guidelines indicates that both the Australian and Tasmanian governments wanted the funding to be available to businesses involved in any aspect of the forest industries, rather than a narrow subset.

3.21 The purpose of developing a method and scale of rating projects is to enable discrimination between the comparative merit of projects in terms of the selection criteria and meeting the objectives of the programs. This approach, which may include rating all criteria equally, also means that applications are appraised consistently and fairly. This was particularly important as the Committee had decided to assess applications on a continuous basis rather than through specific funding rounds. The assessment process was also dependent on when applicants provided the necessary supporting documentation.

3.22 Whilst an assessment against the eligibility criteria will be subjective, the assessment process should be able to determine whether the proposed project is commercially viable, the impact it will have on the industry and the organisational capability of the applicant. Not all applications or projects are equal. Some will certainly be more viable, whilst others may provide more benefits to the industry or meet the requirements of priority funding to a greater degree. Applying a rating scale allows the merits of the proposals to be assessed consistently across all criteria, with those representing the best value and likelihood of success of being recommended for funding. It also provides greater confidence that all applicants are treated equitably. Adopting this approach would also have met the requirement of the department's *Chief Executive Instruction on Grant Management* that a systematic assessment process be established in advance that included, among other things, the method and scale of rating applications.

## Conclusion

3.23 The ANAO considers that adopting a method and scale of rating applications would not have meant 'narrowing' the funding priorities. Rather, it would have allowed greater emphasis to be given to those applications considered to have most merit in terms of the programs' objectives. Also, the programs had finite funds and, at the time of developing the guidelines and assessment processes, neither DAFF nor the Committee knew the number of applications they would receive. It was therefore important to have a transparent process for selecting the most worthy projects, particularly if it turned out that the number of applications for funding exceeded the available funds. The decision by the Committee not to use a method and scale of rating applications (as required by the department's *Chief Executive Instruction on Grant Management)* increased the risk that applications could be assessed inconsistently.

# 4. Assessment and Approval of Applications for Funding

*This chapter discusses the processes in place for assessing applications and recommending proposed projects to the Australian and Tasmanian Government Ministers for funding under the programs.*

## Introduction

4.1 The measure of a good appraisal process is one that is transparent and that is likely to select those projects that best represent value for money in the context of the objectives and outcomes of the grant program.[40] As previously noted, the framework for assessing and recommending applications to the Australian and Tasmanian Government Ministers for their joint approval was outlined in the Memorandum of Understanding (MoU) and exchange of letters between the two governments. Applications were assessed by an Advisory Committee, supported by an independent assessor and the DAFF secretariat. This framework is illustrated in Figure 4.1. The ANAO reviewed these processes.

## Assessment and approval framework

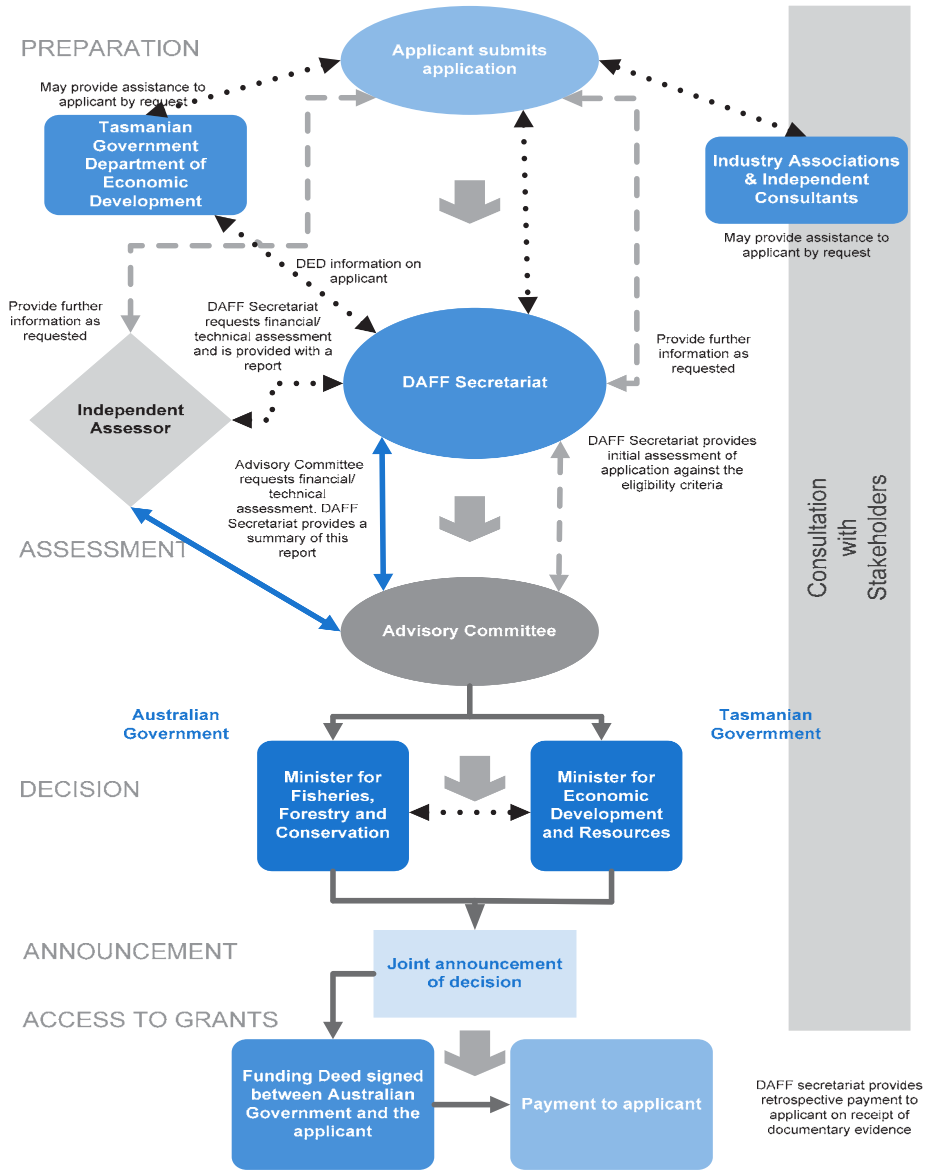
### The DAFF secretariat

4.2 DAFF established a secretariat to administer the three programs. It is responsible for convening meetings of the Advisory Committee, conveying recommendations from the Advisory Committee to Ministers and preparing and administering the funding deeds with approved applicants. The secretariat also undertook a preliminary assessment of applications against the eligibility criteria outlined in the guidelines. Applications were then referred to the Advisory Committee for assessment, including against the programs' funding priorities and objectives.

[40] Australian National Audit Office, *Better Practice Guide–Administration of Grants*, May 2002, p. 42.

## Figure 4.1

### Assessment and decision making framework




Source: ANAO analysis of DAFF processes

## The independent assessor

4.3 An independent assessor was appointed to provide expert advice on the financial and business planning aspects of applications. Under the terms of the contract, the assessor was to provide a written report on the eligibility and financial viability of applicants and the adequacy of their business plans within ten working days of receipt (by the assessor) of all relevant material from the applicant.

### The Advisory Committee

4.4 The Advisory Committee includes representatives from the Australian and Tasmanian Governments and three other members with expertise in the forest and forest products industries or other relevant expertise. The Advisory Committee is chaired by the DAFF representative. Under its terms of reference, the role of the Advisory Committee is to assess applications for assistance and to make recommendations to Ministers on the allocation of funds under the programs. Although the MoU did not specify the frequency of Advisory Committee meetings, these meetings have generally been held every six weeks. The Committee also held teleconferences.

4.5 At the commencement of the programs, the Tasmanian Department of Economic Development (DED) recommended engaging an independent probity advisor, to participate in the Advisory Committee's assessment process. The probity advisor attended one meeting. DAFF advised that, following this meeting, the Advisory Committee considered that the services of a probity advisor would be unlikely to assist the assessment process. DAFF was unable to provide any documentation prepared by the probity adviser. The ANAO considers including a probity advisor in the assessment and selection process would have enhanced the transparency of the process, particularly in the absence of any method and scale of rating applications.

### Tasmanian Department of Economic Development

4.6 Although the role of DED was not formalised in either the MoU or exchange of letters, the ANAO was advised that DED staff provided extensive support to applicants, the secretariat and the Advisory Committee. DED has a close working relationship with the local Tasmanian forest industry and assisted some applicants to develop business plans, conducted site visits and held discussions with applicants during the selection process. DED also undertook an assessment of some applicants and their projects for the Advisory Committee.

## Potential for conflicts of interest

**4.7** DAFF advised that the selection of the independent members of the Advisory Committee was jointly agreed by the Australian and Tasmanian

Governments. The Tasmanian Government wanted to ensure that the Advisory Committee had some expert understanding of Tasmanian forest industries, without direct involvement in any particular industry company. The Australian Government wanted to have independent members with expertise in the hardwood and softwood industries and, preferably, some previous experience with the administration of assistance programs.

**4.8** As a consequence, the assessment process involved an industry-based Advisory Committee, and an industry-based assessor who had sub-contracted key financial work to an accounting firm that was also associated with the forest industry. Although the potential for conflicts of interest was not identified as a risk by DAFF as part of the program implementation planning process, arrangements were put in place to handle potential conflicts of interest that might arise during the assessment of applications.

## The Advisory Committee

4.9 DAFF's *Better Practice Guide for Advisory Committees* sets out the process for managing a declared potential conflict of interest. The guide requires members, prior to joining an Advisory Committee, to sign a declaration of interests advising the Committee of any potential conflicts of interest. Further, at each meeting, members are to advise any potential or actual conflicts of interest in respect of issues on the meeting agenda and these should be recorded in the minutes of the meeting. Where there is a potential conflict of interest, the Chair and remaining committee members should adopt the appropriate course of action outlined in the guide and record details in the meeting minutes.[41]

4.10 The ANAO examined the terms of reference, code of conduct and operating protocols prepared for the Advisory Committee and these are broadly consistent with DAFF's Guide. DAFF advised that the independent members were not asked to nominate any potential conflicts of interest at the time of appointment, but believes that the independent members have diligently identified any potential conflicts of interest during committee meetings, in accordance with the procedures in the code of conduct. The minutes of face-to-face Advisory Committee meetings from August 2005 to

[41] The courses of action include: allowing the member to participate in discussion and decision-making on the matter; to be involved in discussions but not decision-making; non participation in any discussion or decision-making; or the member leaves the meeting during deliberation of the matter.

September 2007 recorded potential conflicts of interest for committee members on five occasions.[42]

4.11 It was not evident how potential conflicts of interest were addressed when the Advisory Committee met via three teleconferences. The proceedings of only one teleconference (September 2005) were documented. DAFF advised that applications were only discussed during one teleconference and the other two involved the development of the guidelines for the programs.

## The independent assessor

4.12 The potential for conflicts of interest also applied to the independent assessor and their sub-contractor as both companies have interests in the Tasmanian forest industry. These companies have access to sensitive commercial information provided by applicants and may also have access to government material, which is not in the public domain.

4.13 The department's *Chief Executive Instruction on Procurement* requires an appropriate risk assessment to be undertaken for the proposed purchase of services, in line with the procedures outlined in DAFF's *Risk Assessment in Procurement Processes*. DAFF advised that such a risk assessment was not undertaken as part of the procurement process for the independent assessor.

4.14 The Consultancy Agreement with the independent assessor outlines the process for dealing with potential conflict of interest. The independent assessor is to notify DAFF and disclose all relevant information relating to the conflict. DAFF advised that, to date, there has been one potential conflict of interest reported by the assessor. In this instance, DAFF engaged an alternative forestry consultant company to assess the applications involved.

4.15 The Consultancy Agreement is between the independent assessor and DAFF. The role of the sub-contractor was not formalised in this Agreement and there was no formal contract in place between the independent assessor and the sub-contractor. The ANAO considers that it would have been prudent for DAFF to have included the sub-contractor in the Consultancy Agreement.

## Conclusion

4.16 The ANAO considers that DAFF's processes for managing potential conflicts of interest would be strengthened if members of the Advisory

[42] On four occasions, members declared their interest and removed themselves from the meeting. On the other occasion, the Committee agreed that the committee member could participate in the discussion as the assistance did not materially affect the grant applications under consideration.

Committee were requested to sign a declaration of interests and if potential conflicts of interest that arise during the Committee's teleconferences are documented. Arrangements with the sub-contractor engaged by the independent assessor should also be formalised and steps taken to ensure that the sub-contractor is not in a position where its business, or personal interests, could result in a potential conflict of interest situation.

## Assessment of applications

4.17 Table 1.2 outlined the applications received for the three TCFA programs and their status as at 30 November 2007. Total funding for the 88 approved applications to 30 November 2007 was $ 42 955 744.

4.18 The ANAO reviewed the processes in place to:

- assess applications by the secretariat, the independent assessor and Advisory Committee;
- recommend applications to the Ministers for funding; and
- approve applications by Ministers.

### FMA Act obligations

4.19 The *Financial Management and Accountability Act 1997* (FMA Act) provides a framework for the proper management of public money. Many of the detailed rules about how public money and property are to be dealt with are in the *Financial Management and Accountability Regulations 1997* (FMA Regulations). The FMA Act, and associated Regulations and Orders, apply to Ministers and officials in Australian Government Departments of State, Departments of the Parliament and agencies prescribed in the FMA Regulations.

4.20 The financial framework governing the entering into of commitments to spend public money reflects sound principles that have evolved over time. In this context, it was important that in designing the TCFA programs explicit consideration was given to:

- who would be responsible for approving grant applications, recognising the obligations that the FMA Regulations place on an approver; and
- how related obligations under the Regulations would be addressed.

4.21 FMA Regulation 9 requires that an approver (be that a Minister, agency Chief Executive or authorised official) must not approve a spending proposal unless satisfied, after undertaking such inquiries as are reasonable, that the proposed expenditure:

- is in accordance with the policies of the Commonwealth; and
- will make efficient and effective use of public money.

4.22 In considering whether to approve funding for an application under the TCFA programs, the Ministers received formal advice from DAFF, of the Advisory Committee's assessment of the applications recommended for funding. It was therefore important that assessment and selection processes were supported by a transparent and accountable process.

4.23 DAFF's *Chief Executive Instruction on Grant Management* requires systematic assessment processes be established, which include the:

- information to be provided with grant applications;
- grant eligibility criteria; and
- method and scale of rating applications.

4.24 As previously discussed, a framework was developed for assessing and approving applications. However, no weightings were applied to either eligibility criteria or funding priorities. DAFF also advised that there are no internal operating procedures for administering the programs or guidance to the secretariat and the Advisory Committee on how applications should be assessed.

## Assessment of applications against eligibility criteria

4.25 Applicants were expected to provide information to support each of the eligibility criteria in their application for funding. This information included:

- the impact of the TCFA on available resource supply;
- past business investment expenditure;
- details of an adequately secure timber resource supply; and
- details of proposed expenditure.

4.26 DAFF documented its preliminary assessment in a report to the Advisory Committee. An assessment was completed for 79 of the 88 approved applications. DAFF advised that it did not assess the other nine applications because there was insufficient time before the next Advisory Committee meeting was convened and that the Committee considered these applications in relation to the program guidelines. The total value of the grants for the nine applications approved without a DAFF assessment was almost $9 million. The individual grants ranged from $49 950 to $7.9 million.[43]

## Assessing applications against priorities for funding

4.27 The Advisory Committee was responsible for assessing applications, including against the funding priorities outlined in the guidelines for the programs. The highest priority for funding across the three programs was given to proposals from applicants affected by the impact of the TCFA. Other priorities for funding included innovation and the provision of significant upgrading of technology and industry-wide, State-wide or regional benefits.

4.28 As previously discussed, many applications required further supporting information before the assessment process could proceed. For these applications, the Advisory Committee asked the secretariat to request further information from applicants or DED to assist applicants with their business cases/plans and to undertake visits to the applicants. For example, following the Advisory Committee meeting in December 2005, DED were asked to provide assistance in preparing 16 business cases for the TCSAP. They were also asked to assist with 15 business cases as well as undertake six visits for the TFIDP.

## Involvement of DED in the assessment process

4.29 There were no guidelines or criteria covering DED's role in the assessment process. The ANAO reviewed the DED assessment reports that were available on applicants' files (12 applications). These reports were provided to the Advisory Committee and generally covered:

- the entity's business structure;
- the equipment being sought;
- financial position; and
- supply agreement.

[43] DAFF advised that, although a preliminary assessment was not completed for the $7.9 million grant application, it did provide an assessment following receipt of the independent assessor's report. Due diligence work was also undertaken by the Tasmanian Government for this major project.

4.30 Broadly, the assessments gave an overview of an applicant's business and major customers. Information on the proposed budget, a profit and loss summary and confirmation of finance being available to proceed with the proposal were also provided. The assessments drew on DED's knowledge of the local forest industry and were informed (where relevant) by the DED assessor's site visit to appraise the proposal.

4.31 DED also provided some input into the ongoing development of another 19 applications. However, this input was not a comprehensive assessment and was for example, following up inquiries from the Advisory Committee.

## Assessment of applications by the independent assessor

4.32 As part of its assessment of the applications, the Committee decided which applications would be reviewed by the independent assessor. However, there were no criteria or thresholds that determined which applications would be subjected to the more detailed review undertaken by the assessor. DAFF advised that applications requesting more than $50 000 in funding were generally sent to the assessor. DAFF's status reports indicated that, as at 30 November 2007, 89 applications had been referred to the independent assessor.

4.33 A summary of the independent assessor's report was prepared for the Committee by the DAFF secretariat.[44] The report generally covered:

- the financial status of the applicant, including a review of recent performance;
- an assessment of the technical and operational feasibility of the applicant's proposal;
- an assessment of the financial viability of the proposal, including a review of projected cash flows and identification of key variables and assumptions;
- an investment risk analysis, including the sensitivities of key variables;
- the sustainability of new jobs created by the proposal;
- the availability of infrastructure, raw materials, and other support services necessary to implement the proposal;

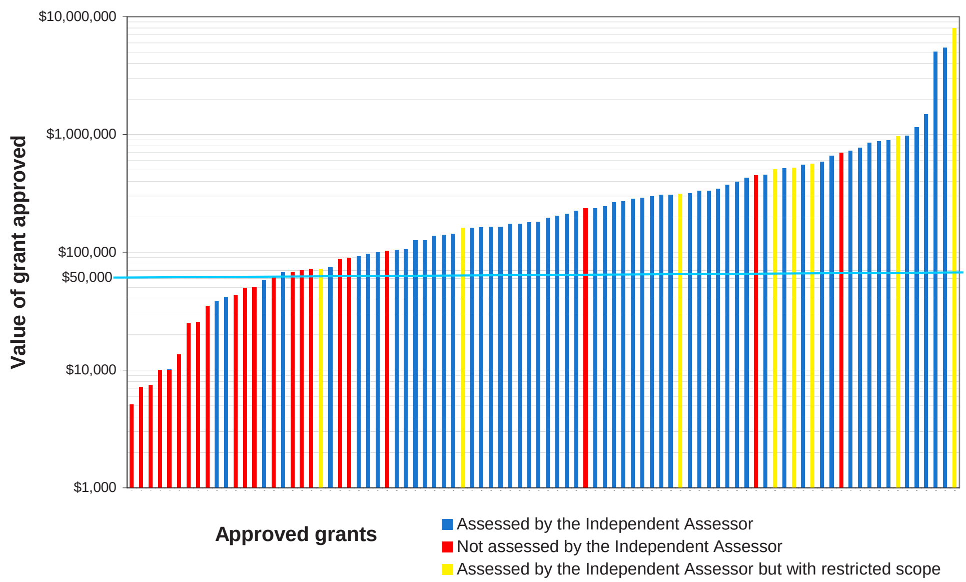
[44] A complete copy of the report was available to the Committee if required.

- the ability of the applicant to provide the finance required to implement the proposal;
- confirmation that the applicant has the necessary licences and other approvals required to implement the proposal; and
- any other issues that the consultant considers may affect the eligibility of the applicant for a grant.

4.34 Figure 4.2 illustrates the value of the 88 approved applications and whether or not an independent assessment was completed.

**Figure 4.2**

**Assessment of approved applications as at 30 November 2007**




Source: ANAO analysis of DAFF data

4.35 Ten applications over the $50 000 threshold were approved without an independent assessment being carried out. There were also another eight applications sent to the assessor where the scope of the assessment was restricted by the Advisory Committee. These applications are discussed in more detail in paragraphs 4.39 to 4.42.

## Assessment of applications by the Advisory Committee

4.36 The Advisory Committee was engaged for its knowledge of the Tasmanian forest industry and with the expectation that this expertise would add value to the assessment process. The Chair of the Advisory Committee advised the ANAO that a thorough assessment was completed for each application and some applications were reviewed by the Committee on multiple occasions. He further advised that the assessment process for the programs was not competitively based and that all projects that met the intent of the programs had been recommended for funding.

4.37 The Advisory Committee's assessment was to be informed by the secretariat's preliminary assessment against the eligibility criteria and, where relevant, by the DED assessment and report prepared by the independent assessor. The Advisory Committee did not use appraisal checklists or assessment summaries to document its assessment of applications against the funding priorities for the programs. The Committee also decided not to undertake a comparative assessment of applications and recommended applications were not rated or ranked. The Committee meeting minutes briefly summarised the Committee's discussion surrounding each application. The entry for each application generally included: the value of the proposed grant; a brief description of the project or equipment; whether the assessor's report (where available) was favourable; and the risk rating assigned by the assessor. Any action to be taken by the DAFF secretariat or DED to progress the application and whether it would be submitted to the Ministers for approval was also noted. Table 4.1 outlines the assessments completed for approved applications.

### Table 4.1

**Assessments undertaken for approved applications as at 30 November 2007**

| Application Value | Approvals | DAFF Assessment | DED Assessment | Independent Assessor's Assessment |
|---|---|---|---|---|
| Applications $50 000 and less | 14 | 12 | 6 | 2 |
| Applications $50 000 and over | 74 | 67(1) | 6 | 64(2) |
| Total | 88 | 79 | 12 | 66 |

Note 1: One assessment covered two applications: one for TCSAP and one for TFIDP.

Note 2: The scope of the assessment by the independent assessor was restricted for eight applications.

Source: ANAO analysis of DAFF data

4.38 The analysis of these assessments indicated that, for the 14 applications for $50 000 or less, there was:

- only a DED assessment for one application (for $49 950); and
- no documented assessment for six of the 14 applications under $50 000 covering the financial viability of the applicant or the technical and operational viability of the proposed projects, areas normally covered by the independent assessor or, to a lesser extent, by DED.

4.39 The analysis of the assessments for the approved applications over $50 000 indicated that ten applications (with a total value of almost $2 million) were not assessed by the independent assessor. Two of these applications (for $68 312 and $102 585) were only assessed by DED.

4.40 For these applications, there was no documented assessment covering the financial status of the applicant, the financial viability and technical and operational feasibility of the proposal or an investment risk analysis, areas normally assessed by the independent assessor.

4.41 In addition, the following eight applications (totalling $11.1 million) were sent to the independent assessor with instructions from the Advisory Committee to restrict the scope of the assessment:

- one application had the proposal's financial cost of $4 588 900 omitted from assessment. The value of this grant was $962 600. A second application from the same company also had the proposal's financial cost of $1 004 450 omitted from its assessment. The reason for restricting the scope of these assessments was not documented in the Advisory Committee minutes however, the assessor's report noted that all financial costs were removed from the assessment as detailed estimates were included in the applications. The value of this grant was later amended to allow additional costs of $57 750, bringing the total value of the grant to $559 975;
- one application for a proposal valued at $31.9 million had the financial details of the applicant shareholders omitted from assessment. The value of this grant was $7.9 million;
- two applications from one company for proposals totalling $4.10 million had the financial viability of the applicant excluded from the independent assessment for all applications because it was an Australian public company, limited by shares. The total value of the grants was $800 000; and

- three applications from one company for proposals totalling $2.96 million had the financial viability of the applicant excluded from the independent assessment of all applications because it was an Australian public company, limited by shares. The total value of the grants was $741 000.

4.42 DAFF advised that the decision to omit the financial details of the shareholders in the application for a grant of $7 .9 million was based on due diligence work undertaken by the Tasmanian Government during its international search for an investor to undertake this major infrastructure project. DAFF further advised that the Advisory Committee did not formally request information from the Tasmanian Government regarding its due diligence work, these views were presented by the Tasmanian Government representative on the Committee.

4.43 In summary:

- there was no documented assessment by the Advisory Committee against the programs' funding priorities for any applications;
- six approved applications under $50 000 only had a preliminary assessment by DAFF against the eligibility criteria for the programs;
- 10 of the 74 approved applications over $50 000 were not referred to the independent assessor;
- the scope of the independent assessment of eight applications over $50 000 was restricted by the Advisory Committee. For five of these applications, the financial viability of the applicant was excluded from the assessment. For the other three applications, aspects of the financial viability of the proposal were excluded.

The total value of the 18 grants (over the threshold of $50 000) was in excess of $13 million and individual grants ranged from $62 500 to $7.9 million. Three of these applications (with a total value of $8.2 million) were not assessed by DAFF.[45]

## Documenting assessment decisions by the Advisory Committee

4.44 The guidelines for the programs stated that, as a general rule, eligible projects would be offered a minimum grant of 25 per cent of the total project

[45] Two of these applications (for $68 312 and $102 585) were assessed by DED.

costs, with grants of up to 50 per cent being considered for projects, which made a significant contribution to the priorities for funding. The Committee advised the Ministers that it considered that most country sawmills were significant sources of employment and economic activity in their communities and recommended that most TCSAP applications be funded at the 50 per cent level. Generally, TSIDP and TFIDP applications were funded at the 25 per cent level.

4.45 Three of the TFIDP projects were funded for 37 per cent ($105 282), 40 per cent ($700 000) and 50 per cent ($5.05 million) respectively. Two TSIDP projects were funded at 37 per cent ($99 882)[46] and 50 per cent ($90 000). The advice to the Ministers indicated that the 50 per cent funding for the TFIDP grant was justified on the basis of industry-wide benefits. The TFIDP grant funded at 40 per cent was a whole of industry project. The Ministers were not given reasons for recommending the additional funding for the other three projects.

4.46 There was no documented assessment by the Advisory Committee to justify the additional funding for these projects. The Committee meeting minutes noted the increase in funding was because of potential regional and industry-wide benefits. However, the basis for determining the specific level of funding was not clear. The ANAO reviewed the funding deeds for these projects. One was still being negotiated but three deeds supporting these projects did not include any additional requirements to capture the industry wide-benefits that were the basis for justifying the additional funding. This was in contrast to the schedules in the funding deed for the 40 per cent TFIDP proposal, which specifically included milestones and indicators relating to the dissemination of material to industry.

## Advice provided to the Ministers

4.47 In considering whether to approve funding for an application, the Ministers received formal advice from DAFF of the Advisory Committee's recommendations for funding. An assessment summary and covering minute gave details of the applicant, description of the project, the recommended grant[47], total project cost and the location of the operation. The Ministers

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[46] The TFIDP and TSIDP projects funded at 37 per cent were for the same applicant for the same project. As the project included both hardwood and softwood operations, applications were approved under both the TFIDP and the TSIDP.

[47] The grant as a percentage of the total cost was also noted.

would note for each application whether the grant was to be approved, not approved or required further discussion. In approving funding, the Ministers relied upon DAFF's and the Advisory Committee's assessments and advice. The Ministers approved all applications recommended by the Advisory Committee.

4.48 The assessment and approval framework developed and agreed for the three programs provided an expectation that applications had been properly assessed. The assessment process also met the Australian government's requirements of FMA Regulation 9—to undertake 'reasonable inquiries' to demonstrate that the proposed expenditure would make efficient and effective use of public money.

4.49 Appendix 3 outlines the advice provided to the then Minister for Fisheries, Forestry and Conservation for applications over $50 000 recommended for funding where there was no independent assessment or the scope of the assessment was restricted. For eight of the 18 applications, the Ministers were advised that:

> All applications have been subjected to a thorough assessment process. Following initial assessment by Australian and Tasmanian officials, the advisory committee has undertaken a detailed review of each application including site visits and discussions with applicants for projects of particular significance or where further clarification was required. The larger applications have also been referred to an independent assessor for comment on the financial status of applicants and the adequacy of their business planning.
>
> or
>
> The recommendations have been unanimously agreed by the advisory committee. Taking into account advice from DAFF officials, Tasmanian Government officials and the independent assessor appointed to review the financial status of applicants and the adequacy of their business plans.

4.50 For a further ten applications the departmental brief to the Ministers noted that 'the recommendations have been unanimously supported by the Advisory Committee'.

4.51 The Ministers were not advised where there was no assessment completed by the independent assessor or the scope of the assessment was restricted and there was no DED or DAFF involvement.

4.52 Similarly, the Ministers were not informed that there had only been an assessment by DAFF against the eligibility criteria for six applications under

$50 000. There was also no documentation to support the Advisory Committee's assessment of the applications.

## Conditional approvals

4.53 In the advice to the Minister on 24 September 2007, the department recommended that the following six grants be conditionally approved:

- five grants (for a total of $1.57 million) pending receipt of advice from the independent assessor on technical aspects of the applications; and
- one grant (for $513 750) be approved when the applicant provided satisfactory confirmation of access to external finance.

4.54 The five grants conditional on technical viability related to the two applicants whose independent assessments also excluded financial viability. DAFF advised that the Advisory Committee confirmed that these conditions were met at its meeting on 11 December 2007. However, there had been no response from the applicant in relation to the grant for $513 750.

## Privacy concerns

4.55 Prior to approving funding for one of the projects recommended by the Advisory Committee, the then Minister for Fisheries, Forestry and Conservation requested DAFF to make further inquiries on the technical feasibility of this proposal. To provide this information, DAFF sent the business proposal relating to the application under consideration to another applicant, with whom there was a contractual business relationship. However, DAFF did not seek approval from the applicant prior to providing this information or advise the Minister that to do so would be a breach of privacy. One of the members of the Advisory Committee raised his concerns (via email) and removed himself from further consideration of the application in question. DAFF acknowledges that the department should have provided the Minister with advice that seeking comments on the proposal without the consent of the applicant would be a potential breach of privacy.

## Additional funding for grant recipients

4.56 On 16 October 2007, the then Minister for Fisheries, Forestry and Conservation wrote to successful applicants advising that all grants awarded under the programs would be increased by 30 per cent. The increased funding was to assist applicants in offsetting the income tax liability of the original grant. DAFF advised that the matter was not handled by the department and no written briefings were provided to the former Minister on this issue. Informal conversations occurred with senior officers of the department when the proposal was initially suggested. The additional payments (of $16.8 million) were agreed by the former Prime Minister on 6 October 2007, subject to costs being agreed by the then Minister for Finance and Administration.[48] PM&C did not support the additional payments. DAFF advised that, as at 30 November 2007, no payments in relation to this additional funding increase had been made as administrative arrangements were still being developed. DAFF subsequently advised the ANAO on 7 February 2008, that the incoming Government had reviewed spending commitments made by the former Government, which had not been legislated. An outcome of that review was a decision by the Government in February 2008 to increase the grant provided to successful applicants in the TCFA industry development programs by 30 per cent. Implementation of that decision is underway.

## Conclusion

4.57 A sound assessment and approval framework was developed for the three programs and outlined in the MoU and exchange of letters between the two governments. DAFF also has processes and procedures for assessing grant applications and these are outlined in the department's Chief Executive Instructions and Better Practice Guides. However, in practice, these processes were not always properly implemented when assessing and recommending proposed projects to the Ministers for funding under the programs. There were also no operating guidelines developed to assist staff in administering the programs or for assessing applications.

4.58 The Advisory Committee was guided in its assessment of applications by the preliminary assessments prepared by the DAFF secretariat and, where relevant, the reports produced by the independent assessor and DED. However, the Committee did not document its assessment of applications, including against the funding priorities for the programs. For those applications where there was also no documented assessment by DAFF, DED or the independent assessor, the basis for the Advisory Committee's recommendation for funding was not apparent. This lack of documentation means that the assessment process was not fully transparent, and was not

[48] This brings the total funding for the programs to $72.8 million.

consistent with the expected standards of an effective grant assessment and selection process.

4.59 For a number of applications, the advice provided to Ministers did not accurately reflect when assessments were not completed by DAFF, DED or the independent assessor and when the scope of the assessment was restricted by the Committee. The Ministers were not advised that ten applications over $50 000 had been not assessed by the independent assessor or that the scope of the assessment for a further eight applications had been restricted. In the absence of such advice, the Ministers would have reasonably assumed that the process outlined in the MoU and exchange of letters between the two governments had been followed when assessing these applications.

## Quality of information used to assess applications

4.60 The Advisory Committee and DAFF had a responsibility to ensure that a comprehensive assessment of applications was undertaken. This would ensure that any funding decision made by the Ministers took account of all relevant information and met the requirements of the FMA regulations. The ANAO reviewed the assessments and considered that more emphasis could have been given to the following areas:

- financial credit checks;
- the purchase of second hand equipment; and
- the financial arrangements for funding the purchase of equipment and projects.

4.61 The sources of information used by the independent assessor included:

- financial statements;
- business cases for the proposed projects;
- financial projections;
- cash flow budgets; and
- communication with applicant’s accountant and financiers.

4.62 The independent assessor reasonably noted in their reports that, under the terms of engagement, the assessor had not conducted an audit of the applicant’s financial statements and other information relied upon in the preparation of the report. For example, considerable reliance was placed on applicants’ unaudited financial statements, some of which were for related entities rather than the actual applicant. In all circumstances, the assessor gave no warranty of accuracy or reliability of the information provided. The assessor's report further noted that:

> As the achievement of any prediction as to the result of the subsequent trading is dependent upon future events, the outcome of which cannot be assured, the actual results achieved may vary materially from the [applicant's] attached projection.

## Financial credit checks

4.63 As would be expected, forest contractors report a range of profitability depending on individual circumstances and business structures. The nature of forest contracting requires large investments in machinery so that fixed costs associated with interest payments and the relative level of equity are key influences on contractor profitability. For smaller operators with high gearing, a reduction in quota volumes means less revenue with relative small changes in costs thereby reducing profitability significantly.

4.64 These factors notwithstanding, the independent assessor did not conduct credit checks of the applicants and, in the vast majority of cases, did not undertake an Australian Securities and Investment Commission (ASIC) check. In the context of understanding companies and their operations, ASIC maintains a number of registers that provide, free of charge, information about companies and people it registers or licences. It is also possible to purchase further information about a company from ASIC's public registers. This includes relational organisational information, such as on the roles and shares a company holds in respect to other organisations. In this latter respect, documents lodged with ASIC are also available for purchase, including copies of financial reports, annual reports and changes made to company details.

4.65 Whilst the ANAO recognises that the grants were generally for either 25 per cent or 50 per cent of the cost of the project, the value of some grants was substantial. In the ANAO's view, accessing financial credit information would enable a more comprehensive assessment of the applicant, particularly where they have been identified as a medium or high financial risk. Table 4.2 outlines the risk ratings assigned by the independent assessor for approved applications.

## Table 4.2

### Risk ratings for the independent assessment of approved applications as at 30 November 2007

| Assessor Risk Rating | Number of Approved Applications |
|---|---|
| Low financial risk | 5 |
| Acceptable financial risk | 6 |
| Moderate/Medium financial risk | 19 |
| Medium financial risk, low technical risk | 1 |
| High financial risk | 26 |
| Low financial risk, some supply risk | 2 |
| Technical risk | 2 |
| Low technical risk | 2 |
| Significant supply risk and high financial risk | 2 |
| High financial risk and performance risks | 1 |
| **Total** | **66** |

Source: ANAO analysis of DAFF data

## Purchase of second hand equipment

4.66 The guidelines for the programs stated that the objectives of the programs are to:

> ...assist the continued development of a sustainable…value-adding…industry by facilitating retooling and investment in new plant and technology.[49]

4.67 The Advisory Committee agreed to fund proposals involving second hand equipment as it considered that there was no reason why applicants should have to purchase new equipment. DAFF indicated that the decision to fund second hand equipment was considered on an application by application basis. Second hand equipment was acceptable, provided it represented an upgrade for the applicant and the equipment being purchased was not beyond its acceptable life.

4.68 Applicants were not required to provide the year, model or condition of equipment being funded. There was also no documented assessment by DAFF, DED or the independent assessor on the market value of the equipment

[49] Australian Government and Tasmanian Government, *Tasmanian Community Forest Agreement Tasmanian Forest Industry Development Program Guidelines*, October 2005, available from http://www.daff.gov.au/forestry/national/cfa [accessed 1 August 2007].

being funded. DAFF indicated that, where new equipment was purchased, the supplier's invoice was adequate proof of market value. Where second hand equipment was involved, it relied on documentary evidence from the applicant, to establish the market value of the equipment as it did not have the capacity to do so itself.

4.69 DAFF considered that, if prices had been inflated by the applicant, the assessor would have commented. However, the independent assessor was not contractually obliged to provide an assessment of market value and did not explicitly comment on the value of equipment purchased. There were only two instances in the sample of 61 payments reviewed by the ANAO where the assessor commented that funding was being sought for second hand equipment.

4.70 DAFF advised that equipment more than five to seven years old was considered to be well past being new. Subsequent to this advice, DAFF indicated that it is not possible to define old equipment in terms of years and that it is determined by the number of hours the equipment has been used, and a range of other factors. However, this information was not requested and DAFF has been unable to provide any documented assessment concerning the market value or quality of the second hand equipment approved for funding.

4.71 The ANAO reviewed payments for second hand equipment funded under the three grant programs for the period June 2006 to May 2007. Of the total payments ($6.54 million), $1.1 million was for the following second hand equipment:

- five instances where the harvesting equipment funded was five to ten years old (totalling $235 050);
- four instances where the harvesting equipment funded was over ten years old (totalling $162 000); and
- 13 instances where DAFF had no record of the year or model of the equipment funded (totalling $714 202).

4.72 The ANAO considers that DAFF could have adopted a more structured approach to assessing the market value of equipment to be funded, to provide greater assurance to the Ministers that the grants funded under the programs represented value for money. For example, determining the current value of the equipment as a measure for comparison and, where there was concern about the age and/or value of equipment, seeking some assurance about its serviceability.

## Financial arrangements

4.73 Applicants were not required in their application, or at any stage in the assessment process, to provide details of the type of financial arrangements underpinning any proposed investment. Therefore, the specific type of financial arrangement in place for the proposed projects or purchase of equipment was often not clearly defined as part of the assessment process or prior to the projects being approved and funding deeds negotiated.[50] For example, the independent assessor's report may indicate that the project was bank financed, but not the specific type of financial arrangement. In some instances, it was the payment evidence that indicated the arrangement. For example, a hire purchase or chattel mortgage.

4.74 The ANAO recognises that the grants under the programs were to partially fund the proposed projects (generally 25 per cent or 50 per cent of the total cost). However, where funding was recommended, it would be appropriate to make such approval subject to the applicant providing evidence of finance approval and the specific financial arrangements from its bank or financier. This would have addressed the risk of a TCFA grant being paid to the applicant prior to the funding necessary to complete the project having been secured.

*Considering other sources of funding*

4.75 It is important to consider other sources of funding (public sector and private), which may be available for the proposed projects, to eliminate the possibility of 'double dipping'.[51] The terms of the MoU stated that:

> The Committee will take into account all sources of funding for the proposed project. This information will be sought in grant applications. The Governments agree to share any relevant information with the independent assessor.[52]

4.76 To the extent that other funding sources were noted and assessed, the focus was primarily on the availability of credit from financial institutions. Details of other sources of government funding were not explicitly requested

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[50] The financial arrangements for the projects are outlined in Table 5.1 and discussed within the context of funding deeds in paragraphs 5.6 to 5.10.

[51] 'Double dipping' refers to payments made from different government funding programs for the same project.

[52] Memorandum of Understanding signed between the Australian and Tasmanian Governments for the establishment of the Tasmanian Forest Industry Development Program.

in the application forms or considered when determining the level of funding offered to applicants.

### Conclusion

4.77 The ANAO considers that the assessment of applications could have been more effective if:

- financial credit and ASIC checks had been undertaken when assessing an applicant's financial viability;
- processes were established to determine how the value of equipment would be assessed; and
- documentation was requested to support the specific financial arrangements for the proposals.

4.78 Details of all sources of government funding should also have been requested from applicants and taken into consideration when determining the value of the grant being offered. The ANAO would suggest including these elements in the assessment of applications in any future grant program.

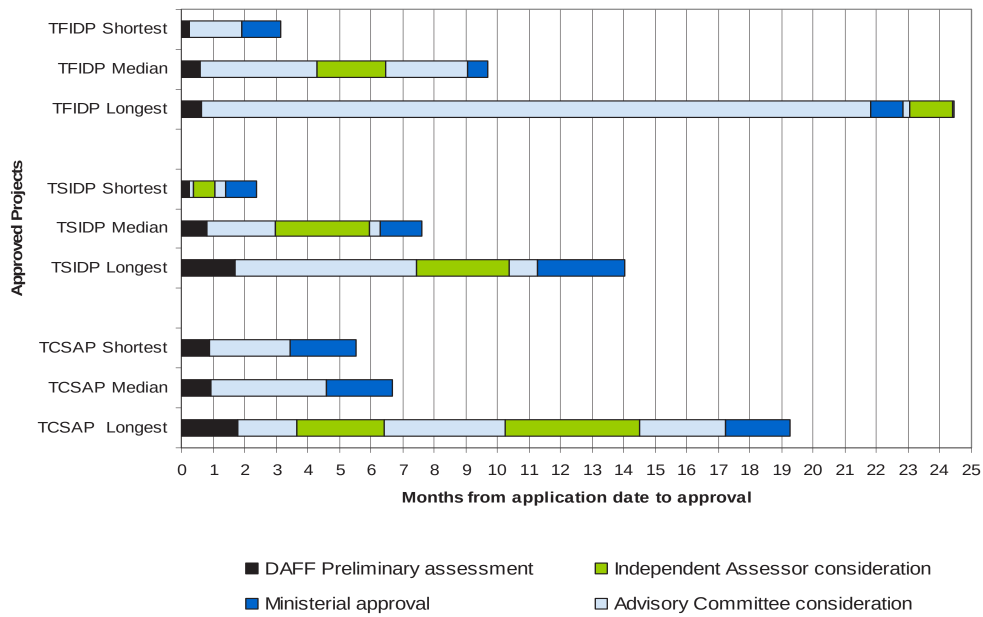
## Timeliness of the assessment process

4.79 As noted earlier, DAFF did not include in the guidelines for the programs a timeframe for assessing applications. This notwithstanding, the ANAO considers that it was important to ensure that the assessment of applications was undertaken in a manner that minimised delays in the consideration and decision-making process.

4.80 Figure 4.3 shows the shortest, median and longest timeframes for the assessment of applications in each program. In the absence of DAFF recording the date applications were received, the ANAO has undertaken its analysis using the date the applications were signed as the application date.

## Figure 4.3

### Assessment time of approved applications across the three programs




Note 1: The medians were calculated based on the total timeframe from application date to final Ministerial approval for 82 of the 88 approvals.

Note 2: Six approvals were not included in this data as the applications were undated.

Source: ANAO analysis of DAFF data

4.81 The average time taken to finalise approved applications was ten months, with 28 applications taking in excess of 12 months. Four applications took in excess of 24 months.

## Reasons for delays

4.82 The ANAO recognises that there were valid reasons for delays in processing applications. However, it should be a cause for concern if some applications are taking well in excess of 12 months to process. In reviewing the applications for all programs, the ANAO sought to determine the factors contributing to these delays and found that they were generally because of the:

- time taken by applicants to respond to information requests from either DAFF or the independent assessor;
- number of times the applications were reviewed by the Advisory Committee; and

- ‘hold’ placed on decisions by Ministers while DAFF commissioned a consultant to examine the financial viability of the harvesting sector contractors.

*Information requests*

4.83 As previously noted, applicants were not required to provide business related financial documentation to demonstrate financial viability or a business case/plan to support their project proposals.[53] This documentation would normally be a starting point for assessing requests to partially fund projects and it would be difficult to even begin the assessment process without such information. The need to request this information or to have DED assist in preparing business cases meant that there were delays before the assessment process began. These delays were further compounded when applicants were not timely in responding to information requests and DAFF did not follow up these requests.

4.84 DAFF advised during the audit that it had written to a number of applicants advising them that they needed to contact DAFF within a month if they wished to proceed with their applications. DAFF also acknowledges that, in hindsight, the program guidelines could have contained provisions relating to the requirement for applicants, when requested, to provide information within a given time period or else have their application rejected.

*Review by independent assessor*

4.85 The time taken by the independent assessor to review the applications also contributed to the delays. The contract with the independent assessor requires applications to be assessed within 10 days of receipt of any additional information requested from the applicant. The ANAO noted that DAFF raised concerns about delays in receiving reports from the assessor in August, September and November 2006. The independent assessor informed DAFF that, while some delays had been due to the difficulty in securing required information from applicants, other delays had been caused by the sub-contractor.

4.86 The ANAO recognises that delays occurred because applicants were not timely in responding to requests for information. However, the assessor could have advised DAFF of the hold-ups and issues relating to these applications. The secretariat or the Advisory Committee could then have decided whether they would be followed up. Imposing a timeframe in which a

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[53] The rationale for the Committee’s decision was discussed in detail in Chapter 3 (paragraph 3.9).

response had to be received if the application was to continue could also have expedited the process. DAFF acknowledges that it could have improved its management of the contract with the assessor if it had more closely monitored the number of days taken for the contractor to respond, once information had been provided by the applicant.

### *Review by Advisory Committee*

4.87 The ANAO's analysis of the assessment review process shows that some applications were reviewed by the Advisory Committee on up to five occasions, often spanning many months. DAFF advised that applications that had not yet been recommended to Ministers generally fell within two categories:

- the Committee was awaiting further information from either the applicant and/or independent assessor; or
- the Committee had determined that the proposals were only worthy of recommendation if there was sufficient funding remaining once other applications had been fully assessed.

4.88 As the Committee did not document its assessment process, it was often difficult to determine the concerns relating to individual applications, why the process took so long or why applications were reviewed several times. Furthermore, as applications were being received on a continuous basis, it is also difficult to see how the Committee would know if 'more worthy' proposals would be received. Weighting criteria and ranking applications would have helped to determine the proposals that represented the best value for money.

### *Review of the financial viability of the harvesting sector contractors*

4.89 In late 2006, DAFF commissioned a review of the financial viability of harvesting sector contractors. The review was commissioned after a harvesting contractor went into liquidation not long after being paid a grant under TFIDP. DAFF advised that the situation presented the following dilemmas for the programs:

- there were a large number of applications from harvesting contractors;
- the assessment process had not raised any significant concerns about the financial viability of the contracting business that subsequently failed;

- there are always political sensitivities when government money is provided to a business that subsequently fails;
- most harvesting contractors are small businesses with significant debts and relatively low returns on assets;
- the program included investments in new harvesting equipment as a priority; and
- the independent assessor was ranking most harvesting contractors as high risk investments.

4.90 Given all these factors, it was decided that all harvesting contractor applications would be 'put on hold' until the review of the Tasmanian forest contracting sector was completed.[54] The review did not identify any significant reasons why grants should not be made to harvesting contractors and the then Minister for Fisheries, Forestry and Conservation agreed to re-commence the assessment process for these applications.

*Extension to programs*

4.91 A further consequence of the delays in processing applications was that as at 30 November 2007, 76.7 per cent ($42.9 million) of the allocated funding of $56 million had been committed and 29.6 per cent ($ 16.6 million) of allocated funds had been spent. All project milestones were to be finalised by 30 June 2008 and delays in commencing projects also impacts on some applicants' capacity to complete their projects in the required timeframes. To address the program underspend and to allow applicants more time to complete their projects, the then Minister for Fisheries, Forestry and Conservation approved an extension to the programs in September 2007. DAFF advised that grants will continue to be approved until 30 June 2008 and it is anticipated that grant recipients will be able to negotiate revisions to some project milestones, which will enable payments to be made until 30 June 2009.

## Conclusion

4.92 Some applicants have had to wait a considerable period of time to learn the outcome of their applications and, given the rationale for establishing the programs, may have been subject to business and financial uncertainty as a

[54] The aim of the consultancy was to understand the underlying viability of the contracting sector businesses and see if there were any factors that made it different from other contracting businesses in Australia.

result. The ANAO considers that the time taken to process applications could have been reduced if DAFF had put in place strategies to better manage delays.

4.93 Where eligibility had been confirmed, applicants could have been asked to provide complete supporting information or told to seek assistance from DED to prepare a business case prior to the application going to the Advisory Committee. This would have assisted the Advisory Committee and independent assessor. Whilst there may still have been delays because applicants did not respond to any additional information requests in a timely manner, these could also have been reduced. Where applicants had been given a reasonable timeframe in which to respond and did not, they could have been advised that their application would no longer be considered for funding unless the necessary documentation was provided.

# 5. Monitoring Compliance with the Funding Deeds

*This chapter discusses the development of the funding deeds used for the three programs and the processes in place to monitor compliance with the deeds.*

## Introduction

5.1 The funding deed signed between a successful applicant and an authorised representative[55] (on behalf of the Commonwealth) establishes the terms and conditions for receiving funding under the programs. The effective management of the deed is dependent upon incorporating appropriate terms and conditions, based on the analysis of the program and project specific risks, and supported by an efficient and effective monitoring regime.[56]

5.2 Under the Memorandum of Understanding (MoU) and exchange of letters between the two governments, DAFF was responsible for negotiating the funding deeds with approved applicants and monitoring compliance with the deeds. The ANAO examined the development of the funding deeds, the payments made to recipients and the arrangements in place to monitor compliance with the deeds. The 69 funding deeds that had been finalised as at 30 November 2007 were reviewed.

## Developing the funding deeds

5.3 The department advised that it is the responsibility of contract managers to ensure current contract templates are used and these are made available on its tendering and contract intranet site. DAFF's *Chief Executive Instruction on Grants Management* indicates that, where the department's funding agreement is not considered appropriate, advice is to be sought from the Corporate Legal Unit on an alternative form of agreement.

5.4 The funding deed used for the programs differed from the standard funding deed and deed of grant used within the department at the time. The program area advised that it had revised the standard deed to reflect that the grants funded under the three programs would be paid on a reimbursement basis, rather than as an 'upfront' payment for future commitments.

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[55] The authorised representative was the General Manager, Forest Industries, Department of Agriculture Fisheries and Forestry.

[56] Australian National Audit Office, *Better Practice Guide–Administration of Grants*, May 2002, p. 48.

5.5 The department's standard funding deed was revised in July 2006. The program area advised that it was not aware of this new template, and although the majority of the deeds were signed after this date, the revised standard deed was not used.[57] In reviewing the funding deeds used for the programs, the ANAO found inconsistencies in the definition of 'assets' and reporting requirements.

## Ownership of assets and funding deed implications

5.6 The definition of assets in the funding deed used for the programs has implications for the obligations within the various asset clauses of the deed. The definition of an asset in the deed 'means an asset acquired by the Recipient wholly or partially with the grant'. However, clause 10.1 of this deed states that 'an asset is owned by the recipient'.

5.7 The ANAO sought legal advice on the assets clauses used in this deed and the department's standard funding deed. This advice indicated that the assets under the programs' funding deeds are only those that are in fact owned by the recipient. However, some assets funded under the programs were acquired through financial arrangements such as hire purchase, chattel mortgage and business loans. Whether or not a particular asset is owned by the recipient depends upon the specific terms of the agreement for the acquisition of that asset. For example, there may be circumstances under a hire purchase arrangement where the recipient will not own the asset until it is fully paid off.[58]

5.8 If under any lease agreement, hire purchase arrangement, chattel mortgage or bank/loan financing, the recipient is not the relevant owner of the asset, then the provisions of the funding deed that applies to assets will not apply to those assets acquired by the recipient under these arrangements. This means that there is no:

- requirement of the recipient to only use those assets for the purposes consistent with the project;
- requirement of the recipient to pay the Commonwealth the attributable proportion of proceeds of the sale or insurance proceeds if the funded

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57 Thirteen deeds were signed before July 2006 and 56 were signed after July 2006.

58 The available copies of hire purchase agreements entered into by recipients indicated the hire purchase agreements were generally for a five year term.

asset is sold, lost, damaged beyond repair or disposed of within three years after the completion date of the deed;

- requirement of the recipient to pay the Commonwealth the attributable proportion of proceeds of the sale or insurance proceeds of the funded asset if the recipient does not remain in a business substantially the same as that for which the grant was provided for three years after the completion date of the deed;
- restriction on the recipient encumbering those assets; and
- obligation on the recipient to hold those assets securely and maintain them in working order.

5.9 Of the 88 applications approved, the ANAO examined the different type of financial arrangements used to purchase the assets funded under the programs. Table 5.1 outlines these arrangements.

### Table 5.1

**Financial arrangements for approved projects as at 30 November 2007**

| Financial Arrangement | Number of Applications | Approved Amount ($) |
|---|---|---|
| Outright or Company Purchase | 11 | 9 670 654 |
| Hire Purchase | 4 | 591 822 |
| Chattel Mortgage | 2 | 130 375 |
| Bank or Loan or Equity Financed | 48 | 19 307 076 |
| Mix (Hire Purchase and Bank/Loan/Equity Financed) | 2 | 587 670 |
| Mix (Hire Purchase and Chattel Mortgage) | 2 | 451 000 |
| Unknown | 19 | 12 217 147 |
| Total | 88 | 42 955 744 |

Source: ANAO analysis of DAFF program documentation

5.10 The ANAO noted that information on the type of finance arrangement was not specifically identified when applications were approved and funding deeds negotiated. The funding deeds did not provide details of the financial arrangements under which assets were purchased. This information was sourced by the ANAO from applications, the assessment of applications and payment claims. For example, the independent assessor's report may indicate that the project was bank financed, but the specific type of financial arrangement was often not clear. In some instances, it was the payment evidence that indicated the type of arrangement in place such as a hire purchase or chattel mortgage.

*Department's standard funding deed*

5.11 The department's standard funding deed accounts for owned and leased assets, but not when an asset has been acquired through other finance arrangements (such as hire purchase, chattel mortgage and business loans). There is also no requirement in the standard deed for the recipient to obtain Commonwealth approval before encumbering assets even though these arrangements limit the Commonwealth's ability to enforce the recovery provisions in the deed. Where assets are acquired through arrangements other than outright purchase or leasing, the assets clauses should be tailored to specifically deal with such assets. The ANAO considers that to appropriately tailor the funding deed, DAFF needed to know the specific provisions of the financial arrangements that recipients had in place to purchase the asset, before funding was approved. Applicants should also have been required to provide documentation to substantiate these arrangements.

## Recommendation No.2

5.12 To better protect the Commonwealth's interests, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry use the current standard funding deed for future projects, tailored to incorporate the:

- method by which payments are made; and
- financial arrangements in place to acquire the assets, other than through outright purchase or leasing.

### Agency response

5.13 Agreed. The department notes the ANAO's finding that the current standard funding deed does not account for assets acquired through finance arrangements other than direct ownership or leasing. The department agrees to tailor the standard funding deed to reflect the methods by which payments are made and the applicants' financial arrangements for acquiring the assets.

## ANAO access clause

5.14 The funding deed used for the programs and the revised standard deed do not include a clause providing direct access to the ANAO. In 1998, in response to a recommendation from the Joint Committee of Public Accounts and Audit[59], the Government stated that:

> The Government supports Commonwealth bodies including appropriate clauses in contracts as the best and most cost effective mechanism to facilitate access by the ANAO to a contractor's premises in appropriate circumstances.[60]

5.15 The deeds give the Commonwealth (as represented by and acting through DAFF) general access rights to grant recipients' records. DAFF advised the ANAO that it considered that these general access powers and powers of direction were sufficient to protect the Commonwealth's interest, and would not preclude the ANAO (as a Commonwealth entity) access if required. Including a specific ANAO access clause would be consistent with the standardised funding agreements developed as part of the Australian Government's *More Accessible Government* initiative.[61]

## Timeliness of negotiating funding deeds

5.16 Once funding had been approved for the applications, DAFF was prompt in negotiating the agreements, with the majority finalised within a few months. However, of the 88 applications approved to 30 November 2007, there were six approved proposals where the funding deed had not been returned, even though the grants had been approved between six to twelve months earlier.[62] DAFF advised that, although there had been considerable delays in finalising these deeds, it was not able to advise an approved applicant that funding was no longer available (because the deed had not been finalised) without the agreement of the Ministers. DAFF considered that it was unlikely that Ministers would agree to such a course of action.

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[59] Joint Committee of Public Accounts and Audit, *Report 368, Review of Audit Report 34, 1997-98 New Submarine Project, Recommendation 5.*

[60] Letter from the then Auditor-General of Australia to Australian government agency heads, June 2001.

[61] The *More Accessible Government* initiative is aimed at improving grant administration across Commonwealth agencies. As part of this initiative, 15 Commonwealth departments cooperated to develop a standard long form agreement.

[62] The total approved value of these applications was $5 240 084.

## Payments to recipients

5.17 DAFF's *Chief Executive Instruction on Grant Management* indicate that procedural rules and operational guidelines should outline payment procedures, including the payment of grant instalments where approved, and review and compliance mechanisms. DAFF does not have a documented compliance monitoring strategy for the programs or operational guidelines for staff. It has relied on the experience officers have gained through administering other grant programs. To monitor the grants, DAFF has developed a number of spreadsheets, which detail the status and progress of applications and the payments made to recipients.

5.18 The funding deed includes the total funding approved, a payment schedule and the total project budget. The payment schedule outlines activities that correlate with the milestone schedule in the deed. The recipient purchases equipment and/or other materials as part of their project and then submits a claim for payment. This claim is to include evidence of purchase and the reports required under the funding deed before payment is made by DAFF.

### Payment evidence

5.19 The ANAO examined all payments made to recipients up to 30 November 2007. These payments totalled $16.6 million. The ANAO found that DAFF accepted the following as evidence of purchase:

- tax invoices where the balance was still owing, but stamped as paid, signed paid or had cheque details written on the invoice;
- tax invoices with the balance still owing that had bank disbursement details provided;
- tax invoices with the balance still owing, accompanied by copies of signed and dated or unsigned and undated contracts with the financier;
- tax invoices with the balance owing and no other supporting documentation; and
- statutory declarations and some supporting documentation from company representatives that purchases had been made.

5.20 The ANAO also noted:

- DAFF was unable to provide evidence of purchase for two payments totalling $250,098. In both instances, DAFF indicated that the audited statement received at the conclusion of the project confirmed the purchase; and

- two payments totalling $27 213 were made outside the timeframe of the funding deed. The deeds were not varied to reflect any extension in timeframe.

5.21 Each claim for payment is to include a milestone report.[63] This report provides information relating to the effectiveness of the new equipment and employment details. Of the 79 milestone reports due with the claims for payments, 31 were received before the payment was made. This means that, there were 48 instances where DAFF made payments, where the milestone report had not been received. DAFF indicated that the audited statement received at the conclusion of the project confirmed the purchase.[64]

### Conclusion

5.22 Tax invoices that have the full balance of payment owing are not sufficient by themselves as evidence of a purchase. Where supporting documents of purchase are incomplete, such as unsigned and undated contracts, DAFF should request further evidence of purchase, such as a receipt. Further, where grant funds are used to finalise the purchase, a receipt confirming this has occurred should be provided within 30 days of the grant payment. Also, payments should not be made unless the milestone report required under the funding deed accompanies the payment claim.

## Monitoring of funding deeds

5.23 The funding deeds included provisions for the recipients to:

- establish and maintain an asset register;
- provide reports to DAFF for payment and acquittal of the grant;
- pay the Commonwealth the attributable proportion of proceeds of the sale or insurance proceeds if the funded asset is sold, lost, damaged beyond repair or disposed of within three years after the completion date of the deed; and

63 Milestone reports are discussed in more detail in paragraphs 5.25 and 5.26.

64 The funding deed requires an audited statement to be submitted within 45 days of the end of the agreement. The audited statement should verify that the funding was applied to the items identified in the funding deed and the equipment and materials were used in accordance with the deed.

- pay the Commonwealth the attributable proportion of proceeds of the sale or insurance proceeds of the funded asset if the recipient does not remain in a business substantially the same as that for which the grant was provided for three years after the completion date of the deed.

## Reporting requirements and acquittal process

5.24 Recipients are required to provide performance and financial reports for payments and to acquit the grant. These include:

- a milestone report to be provided with each claim submitted for a payment; as well as
- a final report; and
- an audited statement(s) on completion of the project.

*Milestone reports*

5.25 As previously noted, a milestone report is to be submitted with each claim for payment. This report covers: the effectiveness of the new equipment; any problems experienced with the equipment; and employment implications or verification of specific employment numbers for the Tasmanian forest industry. Of the 31 milestone reports received, only 11 met all the reporting requirements outlined in the deed.

5.26 In 12 of the 69 deeds examined by the ANAO, the recipient was also asked to report on how the project had 'provided and will provide a demonstration for other Tasmanian timber processing businesses'. In explaining this request, DAFF advised that, in some cases, either the Advisory Committee or the department wanted the applicants to comment on the benefits of the grants to the wider industry or community. However, in seven of the 12 instances, DAFF's assessment of the projects did not indicate any industry-wide benefits. DAFF advised that, in these instances, this condition was inadvertently copied into the funding deed. Three projects, which were considered by DAFF to provide industry benefits, were not required to report on the potential benefits.

*Employment details*

5.27 DAFF identified maintaining employment as one of the outcome performance indicators in the project plan for the programs and the Portfolio Budget Statements. When applicants applied, they were asked to indicate proposed employment changes as a result of the project being funded. Schedule 6 of the funding deed also required some recipients to verify the employment gain or the employment implications of their project on the Tasmanian forest industry.

5.28 Of the 69 deeds examined by the ANAO, 65 deeds contained an employment reporting requirement. Recipients were to verify, in their milestone and final reports, the number of extra full-time equivalent jobs created by the project, or comment on the employment implications of the project. Of these:

- 45 recipients were required to confirm the employment figures, as stated in their application[65];
- 20 recipients were not required to verify the employment figures as stated in their application, even though they had identified an increase in employment; and
- four recipients were not required to report at all on employment increases or employment implications.

5.29 DAFF advised the ANAO that the employment numbers stated in applications are reasonably accurate estimates, but are not included as specific targets in the funding deeds. However, the ANAO found that 65 per cent of applicants were asked to report on these specific employment targets. DAFF could not explain why some recipients were not asked to verify the employment changes stated in their application or why others were not asked to comment on employment at all. Where recipients did report against employment, there was no mechanism to verify this information. DAFF also does not record or analyse the employment data received.

### *Final report*

5.30 Recipients are to provide a final report within 20 days of the completion of the project, which includes providing:

- financial statements for the receipt, holding and expenditure of the grant and reconciliation;
- a statement that the project had been carried out in accordance with outcomes, aims and milestones; and
- a report of all assets created or acquired during the period.

[65] This included two applicants who had indicated job losses in their applications and were required to report against any new jobs created or the employment implications of their projects.

5.31 Of the 29 final reports due as at 30 November 2007,[66] 15 final reports had been received. None of the final reports received met all the requirements required by the funding deed. The fact that this information is not being provided by any recipients would suggest that the advice provided is not clear or recipients intend providing the necessary information with their audited statement.

*Audited statement*

5.32 The requirement for an independent auditor's statement is outlined in the body and Schedule 6 of the funding deed. However, the body of the deed states that the statement is due within 40 days of completion of the project, whereas Schedule 6 states within 45 days of the end of the term. Recipients could be confused about the due date of the statement, particularly when a project could be completed several months before the end of the term of the funding deed. There is also some inconsistency relating to the content of the statement[67], which is to verify that:

- an auditor or accountant has reviewed the recipient's books, records and financial statements relating to the funding and the recipient's contributions; and
- grant and recipient contributions were spent in accordance with the budget and funding deed.

5.33 Of the 29 audit statements due as at 30 November 2007, 13 audit statements had been received. Of these, only six met all deed requirements. In two other cases, projects had not been completed but the funding agreements had not yet been extended to reflect the revised timeframes of the projects. The ANAO suggests that, where recipients are not able to meet agreed timeframes, DAFF should renegotiate revised milestones and completion dates.

## Conclusion

5.34 DAFF's focus has been on implementing the programs and having proposals assessed and funded, rather than following up already approved grants. As a result, it is not adequately monitoring compliance with the funding deeds. There are no operational procedures to support the monitoring process and this is compounded by inconsistencies within the deeds.

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[66] Two projects had not been completed and the funding agreements had not yet been extended.

[67] For example, the requirements for the audited statement outlined in Schedule 6 of the deed are more comprehensive than those in the body of the deed.

5.35 The requirements for milestone reports, final reports and audited statements are outlined in the body and schedules of the deed. However, there are inconsistencies between these sections of the deed that make the due dates for these key monitoring and reporting documents unclear. The required content of the final report is also duplicated, to some extent, in the audited statement. Recipients are not always providing these reports and, when they do, they do not meet the requirements outlined in the funding deed. Clarifying reporting requirements and providing guidance (including pro formas) on the format and content of the reports would assist recipients. Outstanding reports and audited statements should also be followed up to properly acquit the grants.

## Recommendation No.3

5.36 To effectively monitor compliance with the funding deeds, for the Tasmanian forest industry assistance programs, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry:

(a) develop operational guidelines for the payment of claims, compliance reporting and the acquittal of grants; and

(b) clarify reporting requirements and provide guidance to grant recipients.

### Agency response

5.37 Agreed. The department notes the ANAO's findings that the department has been focussed on implementing the programs and having proposals assessed and funded. The department accepts that the development of operational guidelines for the payment of claims, compliance reporting and acquittal of grants will improve the administration of the programs. The department also accepts that clarifying the reporting requirements and providing guidance on the format and content of final reports will assist recipients in accurately acquitting their proposals.

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Ian McPhee
Auditor-General

Canberra ACT
28 February 2008

# Appendices

# Appendix 1: Agency Response

Australian Government

Department of Agriculture, Fisheries and Forestry

**SECRETARY**

12 February 2008

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

Dear Ms Cass

Thank you for you letter of 24 December 2007, providing the Department of Agriculture, Fisheries and Forestry the opportunity to comment on the proposed Performance Audit Report – Forestry Structural Adjustment Package for Tasmania.

The department notes the findings of the ANAO that it has effectively promoted the industry development programs to potential applicants and, in conjunction with the Tasmanian Government, developed a sound framework for assessing and approving applications for the three programs.

In addition, the department acknowledges the ANAO's findings that some aspects of the programs' administration could be improved and supports all the recommendations in the Audit Report.

As requested, attached are the department's comments to be included in an appendix to the final report, a response to each of the recommendations and a short summary of the department's comments for use in the report summary and brochure.

Finally, I would like to commend the members of your audit team for the manner in which they conducted themselves throughout the course of the audit.

Thank you again for providing me with the opportunity to comment on the Audit Report.

Yours sincerely

Conall O'Connell

Conall O'Connell

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DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY

Australian Government

Department of Agriculture, Fisheries and Forestry

**Attachment A**

**Context of the development of the programs**

The Tasmanian Community Forest Agreement Industry Development Programs are three programs jointly agreed and implemented by the Australian and Tasmanian governments. The operational program guidelines for the administration of the programs were agreed by the Australian and Tasmanian governments after lengthy consultation with stakeholders to provide specific guidance on how the concepts set out in a Memorandum of Understanding (MOU) and exchange of letters would be implemented. The programs are based on the reimbursement of 25 to 50 per cent of total project expenditure to successful applicants, as opposed to 100 per cent of up front payments, which is common in a number of grant programs. Assessment of applications and recommendations for funding to decision makers was undertaken by an Advisory Committee established by both governments. While this context significantly influenced how the programs were established and implemented, DAFF considers that the administration arrangements ensured efficient and effective use of the funds allocated to these programs.

In establishing the programs' administration the Department of Agriculture, Fisheries and Forestry (DAFF) considered all relevant Departmental guidelines and procedures, including the *Chief Executives Instructions on Grant Management.* However, in the context of these programs as noted above, some aspects of the programs' final administration differ from departmental 'best-practice' guidelines. The best practice guidelines include setting out the method and scale of rating applications as part of assessment. In developing the program guidelines, the Advisory Committee made an explicit decision not to allocate specific weightings to the eligibility criteria or to set funding priorities. The Advisory Committee decided not to indicate that priorities such as adjusting to the changing nature of supply were any more important than investing in value adding or protecting existing jobs and received no further direction from governments. The Committee also determined that it was not meaningful to weight eligibility criteria such as capable business management, contributing to industry competitiveness or to be commercially viable.

The consideration and assessment of applications was in accordance with the MOU and the exchange of letters between both governments. In addition to the agreed process of assessment, DAFF undertook preliminary eligibility assessments, and, in some cases, the Tasmanian Department of Economic Development (DED) undertook preliminary assessments to assist the Advisory Committee in their deliberations.

**Assessment of projects**

All projects were assessed against the eligibility criteria established for the programs. The majority of projects underwent further assessment by DAFF, DED and/or the independent assessor to facilitate consideration by the Advisory Committee who considered the merits of application and all assessments undertaken before making their recommendations to Ministers.

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Australian Government

Department of Agriculture, Fisheries and Forestry

Some applicants requesting smaller funding amounts were not referred to the independent assessor if it was considered that the risk to the Commonwealth was low. In some instances the cost of the independent assessment would have exceeded the total value of the grant. In other instances, where the applicant sought funding for equipment already acquired (legitimately under the eligibility guidelines), the Advisory Committee considered a detailed financial assessment unwarranted, as the applicant had already independently fully funded and purchased the asset in question.

DAFF notes the concerns in the Audit Report about the comprehensiveness of the assessment of a major project ($7.9 million). DAFF agrees that the assessment process for this project was different than for other projects, and notes that it reflects the due diligence already undertaken by the Tasmanian Government and the importance of this proposal to the Tasmanian economy. Prior to the announcement of the TFCA in May 2005, the Tasmania Government conducted a public process find a joint venture investor to establish two new veneer mills (with a combined investment of over $60 million). This process took several years and involved considerable due diligence, which was well outside the control of the Advisory Committee. Once the Tasmanian Government had completed this process and agreed to enter into long-term wood supply agreements with the selected joint venture partner, the Advisory Committee recommended funding for the second veneer mill (which commenced after May 2005), without a detailed assessment of some aspects of the financial viability of the company. The Advisory Committee was informed about the Tasmanian Government's previous due diligence work and subsequently decided to omit the financial details of the shareholders in the assessment by the independent assessor.

DAFF notes the concerns in the Audit Report regarding the timeliness of the assessment for some applicants. DAFF agrees that there have been delays in the implementation of the programs but suggests these are mostly due to the need for applicants to provide substantive documentation to support their application, the comprehensive assessment process undertaken by the Advisory Committee and the need for successful applicants to fund and acquire the relevant equipment before being eligible to receive any grant funding. The Advisory Committee made an explicit decision at the outset of the program to run a two phase application process. Where applicants were ready to fully apply for funds they could submit a fully formed business case. Where companies had not yet prepared a detailed business case they could submit an expression of interest for funding to confirm their eligibility status. The Advisory Committee did not want to subject companies to the requirement to undertake lengthy, and potentially costly, preliminary work prior to knowing if their applications were eligible. DAFF does not consider that this approach impacted negatively on the assessment process.

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DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY

**Australian Government**

**Department of Agriculture, Fisheries and Forestry**

**Recommendations:**
DAFF supports all recommendations in the report.

**Recommendation 1**
*To effectively report against the outcome performance indicators for the Tasmanian forest industry assistance programs on the Portfolio Budget Statements and the department's project plan, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry:*

(a) *collect and, where necessary, validate relevant performance data; and*
(b) *record, analyse and report this data on an ongoing basis.*

Agreed. The department notes the ANAO's findings that current reporting arrangements provide limited information on the administration of the programs. The department agrees that collection and analysis of performance data will assist in reporting against the programs' performance indicators. This finding also highlights the need to better select meaningful performance indicators to better monitor the success of such programs.

**Recommendation 2**
*To better protect the Commonwealth's interest, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry use the current standard funding deed for future projects tailored to incorporate the:*

(a) *method by which payments are made; and*
(b) *financial arrangements in place to acquire the assets, other than through outright purchase or leasing.*

Agreed. The department notes the ANAO's finding that the current standard funding deed does not account for assets acquired through finance arrangements other than direct ownership or leasing. The department agrees to tailor the standard funding deed to reflect the methods by which payments are made and the applicants' financial arrangements for acquiring the assets.

**Recommendation 3**
*To effectively monitor compliance with the funding deeds, for the Tasmanian forest industry assistance programs, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry:*

(a) *develop operational guidelines for the payment of claims, compliance reporting and the acquittal of grants; and*
(b) *clarify reporting requirements and provide guidance to grant recipients.*

Agreed. The department notes the ANAO's findings that the department has been focussed on implementing the programs and having proposals assessed and funded. The department accepts that the development of operational guidelines for the payment of claims, compliance reporting and acquittal of grants will improve the administration of the programs. The department also accepts that clarifying the reporting requirements and providing guidance on the format and content of final reports will assist recipients in accurately acquitting their proposals.

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DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY

Australian Government

Department of Agriculture, Fisheries and Forestry

**Summary of DAFF's response to the Audit Report**

The Tasmanian Community Forest Agreement Industry Development Programs are three programs jointly agreed and implemented by the Australian and Tasmanian governments. The operational program guidelines for the administration of the programs were agreed by the Australian and Tasmanian governments after lengthy consultation with stakeholders to provide specific guidance on how the concepts set out in a Memorandum of Understanding (MOU) and exchange of letters would be implemented. The programs are based on the reimbursement of 25 to 50 per cent of total project expenditure to successful applicants, as opposed to 100 per cent of up front payments, which is common in a number of grant programs. Assessment of applications and recommendations for funding to decision makers was undertaken by an Advisory Committee established by both governments. The Department of Agriculture, Fisheries and Forestry (DAFF) accepts that in this context, ANAO's finding that some aspects of the programs' final administration differ from departmental 'best-practice' guidelines.

DAFF notes the ANAO's conclusion that it developed, in conjunction with the Tasmanian Government, a sound framework for assessing and approving applications for the three programs. In addition the ANAO found that DAFF effectively promoted the programs to potential applicants within the industry through its awareness raising activities and promotional material.

DAFF notes and welcomes the report's recommendations to collect and record performance data to more effectively report against the outcome performance indicators; to tailor the standard funding deeds to better reflect payment methods and financial arrangements in place to acquire assets; and to put in place clear payment guidelines and reporting requirements to better monitor compliance with the funding deeds.

While not yet fully implemented, the Industry Development Programs have met the Government's objectives by leveraging significant investment from industry participants and assisting forest industry companies to adjust to the changing nature of the timber resource in Tasmania.

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DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY

# Appendix 2: Available Data Sources to Measure Program Effectiveness

| Objective component | Relevant selection criteria | Measurable | | |
|---|---|---|---|---|
| | | Objective | Comment | Data source |
| Continuing development of sustainable, efficient and value adding forest and forest products industry | Investment will improve entity's efficiency | Objective | Approved applications can demonstrate expected increased efficiency from project.<br>The final report and audited statement provides details of what has been achieved by the project | Applicants' files and assessment record |
| | Value adding | Objective | Approved applications can demonstrate value add to production<br>The final report and audited statement provides details of what has been achieved by the project | Applicants' files and assessment record |
| Provision of grants | Not applicable. | Objective | Number of businesses assisted | Administrative spreadsheets |
| | Not applicable. | Objective | Value of grants made | Administrative spreadsheets |
| | Not applicable. | Objective | Value of resultant investment | Administrative spreadsheets |
| Assist industry to adjust to changes in wood resource mix arising from the TCFA | Changes in timber supply for applicant | Objective | Approved applications get priority if they can demonstrate that adjustments are being made due to changes in resource mix arising from the TCFA<br>The final report and audited statement provides details of what has been achieved by the project | Applicants' files and assessment record |

Source: ANAO analysis of DAFF data

# Appendix 3: Advice to Minister for Approved Applications over $50 000 with no Independent Assessment or the Scope of the Assessment was Restricted

| Application Number | Approved Amount ($) | DAFF Preliminary Assessment | DED Assessment | Independent Assessor | Details of DAFF advice provided to the Minister |
|---|---|---|---|---|---|
| TCSAP 11 | 72 500 | Y | N | N | All applications have been subjected to a thorough assessment process. Following initial assessment by Australian and Tasmanian officials, the advisory committee has undertaken a detailed review of each application including site visits and discussions with applicants for projects of particular significance or where further clarification was required. The larger applications have also been referred to an independent assessor for comment on the financial status of applicants and the adequacy of their business planning. Other applications were considered to be too small to justify referral to the independent assessor. |
| TFIDP 9 | 962 600 | Y | N | Restricted Scope | |
| TCSAP 24 | 559 975 | Y | N | Restricted Scope | The recommendations have been unanimously agreed by the advisory committee. Taking into account advice from DAFF officials, Tasmanian Government officials and the independent assessor appointed to review the financial status of applicants and the adequacy of their business plans. |
| TFIDP 96 | 87 500 | Y | N | N | |
| TFIDP 97 | 62 500 | Y | N | N | |
| TFIDP 89 | 70 000 | Y | N | N | |
| TSIDP 17 | 90 000 | Y | N | N | |
| TCSAP 15 | 235 945 | Y | Y | N | |
| TFIDP 23 | 700 000 | Y | N | N | The recommendations have been unanimously supported by the advisory committee. |
| TCSAP 2 | 102 585 | N | Y | N | |
| TFIDP 87 | 7 989 855 | N | N | Restricted Scope | |

| Application Number | Approved Amount ($) | DAFF Preliminary Assessment | DED Assessment | Independent Assessor | Details of DAFF advice provided to the Minister |
|---|---|---|---|---|---|
| TSIDP 21 | 450 000 | Y | N | N | |
| TFIDP 51 | 160 625 | Y | N | Restricted Scope | |
| TFIDP 52 | 72 582 | Y | N | Restricted Scope | |
| TFIDP 54 | 507 875 | Y | N | Restricted Scope | |
| TFIDP 114 | 522 500 | Y | N | Restricted Scope | |
| TFIDP 115 | 314 250 | Y | N | Restricted Scope | |
| TSIDP 23(a) | 68 312 | N | Y | N | |

Source: ANAO analysis of DAFF data

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| Business Continuity Management | Jan 2000 |
| Building a Better Financial Management Framework | Nov 1999 |
| Building Better Financial Management Support | Nov 1999 |
| Commonwealth Agency Energy Management | June 1999 |
| Security and Control for SAP R/3 | Oct 1998 |
| Controlling Performance and Outcomes | Dec 1997 |
| Protective Security Principles (in Audit Report No.21 1997–98) | Dec 1997 |