T h e   A u d i t o r - G e n e r a l
Audit Report No.39 2008–09
Performance Audit

Administration of the Securing our Fishing Future Structural Adjustment Package Assistance Programs

Department of Agriculture, Fisheries and Forestry

A u s t r a l i a n   N a t i o n a l   A u d i t   O f f i c e

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Australian National
Audit Office

Canberra ACT
27 May 2009

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the *Department of Agriculture, Fisheries and Forestry* in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Administration of the Securing our Fishing Future Structural Adjustment Package Assistance Programs.*

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

Yours sincerely

Steve Chapman
Acting 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

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Abbreviations

ABARE	Australian Bureau of Agricultural and Resource Economics
ABN	Australian Business Number
ACC	Area Consultative Committee
AFMA	Australian Fisheries Management Authority
ANAO	Australian National Audit Office
BRS	Bureau of Rural Sciences
CIU	Cabinet Implementation Unit (part of the Department of Prime Minister and Cabinet)
DAFF	Department of Agriculture, Fisheries and Forestry
FCA	Fishing Community Assistance
FVA	Financial Viability Assessment
KPI	Key Performance Indicators
MPA	Marine Protected Area
OBDA	Onshore Business Development Assistance
OBEA	Onshore Business Exit Assistance

Summary and Recommendations

Summary

The *Securing our Fishing Future* package

1. The then Minister for Fisheries, Forestry and Conservation announced the *Securing our Fishing Future* package on 23 November 2005. The package consisted of a $220 million structural adjustment component and new management measures to be introduced by the Australian Fisheries Management Authority (AFMA) to halt overfishing and give overfished stocks a chance to recover.[1]

2. The structural adjustment package, which was delivered by the Department of Agriculture, Fisheries and Forestry (DAFF) was to:

- buy back up to $149 million in fishing concessions within and across Commonwealth-managed fisheries;
- provide $50 million in industry and community assistance grants to individuals, businesses and companies that had been affected by the impacts of the buyback and/or by the new management measures;
- reduce the amount that AFMA would need to cost-recover through fishing concession holders to implement the new management measures ($15 million); and
- improve AFMA's science, compliance and data collection ($6 million).

Industry and community assistance grants programs

3. Industry and community assistance grants (which are the focus of this audit) were available to onshore businesses and communities that had been, or would be, impacted by reduced fishing activity as a result of fewer fishing concessions in use following the buyback program or reduced access to fishing in marine protected areas (MPAs).[2] Potential applicants included: communities

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1 On 14 December 2005, the former Minister for Fisheries, Forestry and Conservation issued a formal direction to AFMA under s.91 of the *Fisheries Administration Act 1991* requiring new management measures to be introduced.

2 In May 2006, the then Department of the Environment and Heritage (DEH), which is currently known as the Department of the Environment, Water, Heritage and the Arts (DEWHA), announced 13 MPAs in the south-east marine region, which stretches from the far south coast of New South Wales, around Tasmania and Victoria and west to Kangaroo Island (South Australia).

dependent on the fishing industry; seafood industry cooperatives; wholesalers; retailers; exporters; local government bodies; community groups or councils; and non-departmental government agencies. Up to $50 million in grants funding was available through three industry and community assistance programs (the assistance programs):

- Onshore Business Exit Assistance (OBEA): up to $50 000 for business owners who could not replace a leased concession that had been surrendered in the buyback or up to $100 000 for business owners who wished to diversify their operations, start up an entirely new business, or retire from the fishing sector;
- Onshore Business Development Assistance (OBDA): up to $250 000 for businesses that would provide services, infrastructure and processing capacity to Commonwealth-managed fisheries; and
- Fishing Community Assistance (FCA): up to $500 000 (nominally capped) for projects that contributed to the economy or created employment opportunities in the community.

4. There were three rounds of the OBEA and OBDA programs and two rounds of the FCA program through which applicants could apply for assistance.[3] Across the three programs and funding rounds, 358 applications were received and 144 applications were approved between April and December 2007, for a total of $33.6 million. Assistance was available to either fully or partially fund project costs. Projects funded under the programs included, for example, the:

- development of an offshore salmon farming system;
- construction of a deep water wharf; and
- purchase of land and buildings as part of a multi-stage project to build a marine discovery centre.

Assessment and approval of applications

5. An assessment panel was responsible for assessing the eligibility and competitive merit of the applications that had been received for industry and community assistance. The panel included two government officers and

[3] The rounds closed on 12 January 2007, 25 May 2007 and 31 October 2007.

four other members with fisheries-related and broader finance and business management experience. To assist with the panel's assessment of applications, DAFF conducted a preliminary assessment and provided assessments of applications by a financial assessor and Area Consultative Committees (ACCs).[4] AFMA, the Australian Bureau of Agricultural and Resource Economics (ABARE) and the Bureau of Rural Sciences (BRS) also provided information on the impact of the buyback program and the vulnerability of fishing communities. The panel recommended applications for approval by the relevant decision maker. The former Minister for Fisheries, Forestry and Conservation was the decision maker for the FCA program and a senior DAFF manager was the decision maker for the OBA programs. DAFF was also responsible for negotiating funding deeds with successful applicants, making payments and monitoring recipients' compliance with their funding deeds.

Audit objective and scope

6. The objective of the audit was to examine the effectiveness of DAFF's implementation and administration of the *Securing our Fishing Future* structural adjustment package industry and community assistance programs.

7. The ANAO examined a sample of 74 applications (20 OBEA, 28 OBDA and 26 FCA). This sample included 45 approved applications across the three programs valued at $15.5 million, 46 per cent of the total approved funding. In undertaking this audit, particular emphasis was given to the:

- promotion of the programs and the information provided to stakeholders;
- assessment and approval of applications;
- management of payments and compliance with the funding deeds; and
- governance arrangements supporting the programs.

8. The $21 million provided to AFMA under the structural adjustment package (refer to paragraph 2) was not examined in this audit. The ANAO audited the department's administration of the $149 million buyback of fishing concessions in ANAO Audit Report No. 38 2008-09, *Administration of the*

4 Area Consultative Committees are Australian Government funded, non-profit, community-based organisations.

Buyback Component of the Securing our Fishing Future Structural Adjustment Package, which has been tabled in conjunction with this report.

Overall conclusion

9. The industry and community assistance programs were one of the components of the *Securing our Fishing Future* structural adjustment package. The programs were to provide up to $50 million in assistance to onshore businesses and communities that had been, or would be, impacted by the reduction in fishing activity caused by the buyback program, the reduced access to marine protected areas and the new management measures introduced by AFMA. Of the 358 applications received, 144 were approved for the three programs between April and December 2007 for a total value of $33.6 million. Individual grants ranged from $12 000 to $1.4 million.

10. DAFF effectively established the three programs and gave potential applicants the opportunity and information necessary to apply for assistance. DAFF developed appropriate program guidelines and a sound framework to assess and approve the applications received for the three programs. However, in practice, the department's documented processes and procedures were not followed during the assessment process and when recommending applications to the decision makers.

11. An assessment panel, with fisheries–related and broader finance and business management expertise, was responsible for assessing the eligibility and competitive merit of applications and making recommendations to the relevant decision maker. The panel received input into its assessments from a DAFF secretariat, a financial assessor and the ACCs. As the panel did not appropriately document its assessments and justifications for its recommendations, the assessment process was not transparent or consistent with the panel's terms of reference. The lack of documentation meant that it was not clear how the panel determined the relative merit of over 60 per cent of the approved applications (28 applications) in the ANAO's sample, valued at $12 million (35 per cent of the total funding approved). There was no assessment of the competitive merit of 13 of these applications because the panel considered there were sufficient funds available to cover all applications received. For the other 15 applications, the viability of the project had not been assessed or the panel's recommendation was contrary to either the financial assessor's and/or the secretariat's assessment. Also, the advice provided to the decision makers did not accurately reflect the assessment undertaken by the panel or where a comprehensive assessment had not been completed.

12. Although not all funding deeds have been finalised, arrangements are in place to effectively manage payments and to report against the requirements in the funding deeds. Compliance strategies are also being developed for the programs.

13. Reporting of the programs is through DAFF's annual report and divisional performance reviews and reports to the department's Executive and the Minister. However, these reports do not advise the extent to which the objectives of the programs and the expected benefits from the structural adjustment package are being achieved. DAFF advised that it intends evaluating the programs when the longer−term benefits can be properly assessed. DAFF will need to develop key performance indicators for each program and assess whether the performance data currently being collected will support the evaluation and measure the achievement of the programs' objectives.

14. The lack of documentation supporting the assessment of grant applications and subsequent recommendations for funding has been raised in previous audits of DAFF's grant programs.[5] Whilst it is appreciated that DAFF has put considerable effort into reviewing its grant administration in recent times, this audit has highlighted the importance of the department reinforcing to program managers its procedures and processes, and obtaining assurance through its governance arrangements that programs are being administered in accordance with these requirements. Greater emphasis needs to be given to supervision, quality assurance and the management reporting of these programs. There would be benefits to the department in gaining assurance that its programs are being properly administered through, for example, its internal audit program.

15. The ANAO has made one recommendation in relation to performance reporting for the programs.

[5] For example, Australian National Audit Office Performance Audit Report No. 26 2007-08, *Tasmanian Forest Industry Development and Assistance Programs.*

Key findings by chapter

Applying for grant assistance (Chapter 2)

16. DAFF provided sufficient opportunity and information for potential applicants to apply for grant assistance under the *Securing our Fishing Future* package. The guidelines provided advice regarding the eligibility and merit assessment criteria against which applications would be assessed. However, as DAFF did not advise applicants of the relative weightings that would be applied to each merit criterion, applicants were not aware of the relative importance being placed on each criterion. The feedback provided by applicants in the ANAO's sample would suggest that the guidelines and application forms were understood. However, the evidence initially provided by OBA applicants to support the impact they claimed to have experienced as a result of the reduction in fishing activity was not adequate for DAFF to properly assess the eligibility of applications. Consequently, DAFF sent a follow-up letter to individual applicants requesting the additional information.

Assessment and approval of applications (Chapter 3)

17. DAFF established a sound framework to assess and approve the 358 applications received for the three assistance programs. An assessment panel, which included two government officers and four other members with fisheries-related and broader finance and business management experience, was responsible for assessing the applications and making recommendations to the decision maker. Its assessment was assisted by: the DAFF secretariat's preliminary assessment of applications; advice from the financial assessor on the viability of applicants and projects; and for FCA applications, advice from the relevant ACC. Information was also provided by AFMA, BRS and ABARE on the impact of the buyback program and the vulnerability of fishing communities.

18. Arrangements were in place to manage any potential conflicts of interest that may arise from the involvement of external parties in the assessment process. However, the process for managing panel members' potential conflicts of interest would have been more effective if the declarations made, and the subsequent action taken, had been documented in the minutes of all meetings.

Assessment by the financial assessor

19. A financial assessor reviewed the applicant's financial statements to confirm the applicant was in an average positive profit position and therefore viable, when undertaking a short financial viability assessment (FVA). Where a long FVA was requested, the financial assessor also verified the applicant's credentials and the financial viability of the project. DAFF advised that a long FVA was generally for applications seeking over $200 000.

20. DAFF generally requested a long FVA for applications in the ANAO's sample. However, in some instances the financial assessor was unable to undertake the level of review required under the contract with DAFF when assessing the viability of applicants' projects. The reason for this was generally the lack of detail in the financial information provided by applicants. DAFF accepted the ratings given by the assessor, even where the lack of documentation had limited the assessor's ability to review aspects of the project. Specifically commenting on whether the applicant had access to the additional funds required for their share of the project would have provided more assurance that the project could be delivered as expected.

Preliminary assessment by the DAFF secretariat

21. DAFF was to undertake a preliminary assessment of the eligibility of each application and the merit of OBDA and FCA applications against the criteria set out in the program guidelines. OBEA applications were not assessed against the merit criteria as the panel considered that sufficient funds were available to cover all of these applications if the decision maker chose to approve them.

22. DAFF documented, in an assessment summary, scores for each criterion, which enabled the applications to be given a preliminary ranking. There would have been merit in the secretariat advising the panel where project viability had not been assessed and where it gave ratings for project viability that were inconsistent with those given by the financial assessor. The transparency of the assessment process would also have been enhanced if the secretariat had documented its assessment in all cases.

Assessment of applications by the panel

23. DAFF advised that the panel's decision making process took into account a wide range of information as well as their expertise and experience. However, the panel did not document its assessment of eligibility or assess the competitive merit of the 58 OBEA applications received across the three rounds, or the 17 FCA applications received in round one. The panel developed its own eligibility and merit criteria to assess and rate OBDA applications and round two FCA applications, which were broadly similar to those outlined in the guidelines. However, the guidelines indicated that applicant and project viability would also be assessed, but these were not generally included in the criteria used by the panel.

24. The panel did not use appraisal checklists or summaries to record its assessment of each application and minutes were generally not taken to record their discussions. Each application was discussed and a general consensus reached. The outcomes from these discussions for OBDA and FCA applications in round two were captured in an unsigned, undated printout from the electronic whiteboard used to record the assessment. From the rating recorded against each criterion (ticks, crosses, question marks), it is not clear how the overall rating (between one and nine) was determined for each application. In each case, applications that were similarly rated against each criterion were given different overall ratings. Conversely, applications with the same overall rating had a range of symbols documented for each criterion. Using these printouts, the secretariat recorded the overall results for these applications in a spreadsheet. DAFF advised that the spreadsheets were prepared by the secretariat during the panel's meeting. However, the ANAO was unable to confirm that this had occurred. The spreadsheets were sent to the panel members for approval and formed the basis for the advice provided to the decision maker.

25. For OBDA applications in round one, there is no record of the panel's assessment against each criterion and, in round three, a Y, N and/or question mark was recorded. An overall rating for each application was recorded on the spreadsheet prepared by the secretariat.

26. It is not clear how the panel determined the relative merit of 60 per cent of the 45 approved applications in the ANAO's sample before recommending them to the decision maker for funding approval. For these 28 applications, valued at $12 million (35 per cent of the total funding):

- there was no assessment of the competitive merit of 13 applications ($1.4 million), because the panel considered there were sufficient funds to cover all applications received; and

- in 15 instances ($10.6 million), the viability of the project had not been assessed or the panel's recommendation was contrary to either the financial assessor's and/or the secretariat's assessment.

27. Further, it is not clear why the panel did not recommend three OBDA applications that were given overall ratings of seven or nine in round one when the cut-off for recommending applications in that round was a rating of five or more.

Approval by the decision makers

28. All recommendations made by the panel were approved by the decision makers. However, the information provided to support these recommendations was the secretariat's assessment summary. These summaries did not accurately reflect the assessment undertaken by the panel or where a comprehensive assessment had not been completed. This was particularly relevant where the viability of projects had not been assessed by the financial assessor, the secretariat or the panel or where the panel's recommendations were contrary to the secretariat's and/or financial assessor's assessments.

Unspent program funds used to fund election commitments

29. In May 2008, the Minister for Agriculture, Fisheries and Forestry approved the use of unallocated funds within the *Securing our Fishing Future* package to fund an election commitment made prior to the 2007 election. In its response to this audit, the department advised the ANAO that although the election commitments were funded from underspends in the *Securing our Fishing Future* package, this was a matter of priorities and convenience, and they would have been funded from underspends in another portfolio program had that been more convenient.

30. Although, the Minister had previously been advised that the projects covered by this election commitment were not considered appropriate for funding by the assessment panel, this background information was not included in the minute to the Minister seeking formal approval to fund these commitments. Further, the Minister was not advised that, in providing additional funding to one project, the two recipients involved would receive more than the maximum funding allowed ($250 000) had the program guidelines applied. Should the department be required to provide advice in relation to future election commitments, the ANAO suggests that the Minister be provided with all relevant information including prior assessments, any significant risks to expected outcomes, and options how these risks might best be managed.

Managing payments and monitoring compliance (Chapter 4)

31. DAFF was responsible for negotiating funding deeds with successful applicants. In the 41 funding deeds examined by the ANAO: the applicant's contributions were not documented (13 deeds); the recipient was not required to report against specific employment outcomes (six deeds); and the deed contained unnecessary or irrelevant requirements (two deeds). The time taken to negotiate the deeds ranged from one to 19 months due to various factors, including the large number of variations made to projects. As a consequence, the time available to deliver the projects is reduced. Where variations have been approved, DAFF has taken steps to gain assurance that the impact of these changes on the projects' outcomes is limited.

Managing payments to grant recipients

32. Payments to grant recipients have generally been well managed. As at 12 January 2009, a total of 57 payments (totalling $5.4 million) had been made to 34 grant recipients in the ANAO's sample. From the ANAO's sample, 28 of the 43 payments made to OBDA and FCA recipients were made in advance. DAFF accepts that, in some cases, the project will not proceed without the injection of grant funds. Where advance payments are requested, DAFF advised that the department made a judgment on a case-by-case basis of the risk(s) presented by the payment. However, its assessment of these risks was generally not documented.

Final reporting requirements

33. A condition of receiving a grant is that a recipient is to provide an audited statement of their expenditure of the grant and a final report within 30 days of the final payment being made. These reports are DAFF's key mechanism for collecting performance data on whether the outcomes expected from the grant funding have been achieved. From the ANAO's sample, final reports and audited statements were due from 16 recipients. Of these 16 recipients, final reports were overdue from five recipients and audited statements were overdue from seven recipients. DAFF has sent reminders to these grant recipients seeking this information.

Implementation and ongoing governance arrangements (Chapter 5)

34. DAFF's implementation of the structural adjustment package was monitored by the Cabinet Implementation Unit (CIU) in the Department of the Prime Minister and Cabinet. DAFF submitted a draft implementation plan for the package to the CIU in December 2005, which included the assistance programs. A subsequent draft was agreed in February 2006 and used by the CIU to monitor the implementation of the package. DAFF reported on a quarterly basis until April 2007. The CIU advised that these reports satisfactorily addressed its concerns in relation to the implementation of the package.

35. DAFF has a sound governance framework to support the administration of the programs. Reporting of the programs externally is through the annual report. Internal reporting is through biannual divisional performance reviews and reports to the department's Executive and the Minister. These reports are activity-based and provide information on the administration of the programs. However, these reports do not advise the extent to which the objectives of the programs and the expected benefits from the structural adjustment package are being achieved. DAFF advised that it intends evaluating the programs when the longer-term benefits can be properly assessed. DAFF will need to develop key performance indicators for each program and assess whether the performance data currently being collected will support the evaluation and measure the achievement of the program's objectives.

Summary of agency response

36. The ANAO provided a copy of the proposed report to DAFF. In addition, the ANAO provided an extract of the relevant sections of the proposed report to the financial assessor and to all members of the assessment panel, for comment.

37. Responses were received from DAFF and two members of the assessment panel. DAFF's full response is included in Appendix One and the panel members' responses are included in Appendix Two. DAFF also provided the following summary comments:

> The Department of Agriculture, Fisheries and Forestry (DAFF) notes the ANAO's conclusion that DAFF effectively established the three programs and gave potential applicants the opportunity and information necessary to apply for assistance. DAFF acknowledges the limited documentation surrounding

the panel's assessment of applications including the information provided to the decision makers, but advises that the decision makers received extensive verbal briefings on applications where required. The panel members also contributed significant expertise and experience when assessing the eligibility and merit of applications. DAFF notes the ANAO's recommendation that the collection and analysis of relevant performance information will support the evaluation of the programs.

DAFF acknowledges the ANAO's comment that it has put considerable effort into reviewing its grants administration and governance. DAFF is revising its *Chief Executive Instruction 23—Grants Management* and its *Grants Management Manual* to incorporate the ANAO's suggestions for improvement. DAFF agrees with the ANAO's view of the importance of the department gaining assurance that its programs are being administered according to its procedures and processes. A campaign to raise awareness of procedural requirements with program managers and an increased internal audit focus on grants administration is planned for 2009-10.

Recommendation

Recommendation No.1

Paragraph 5.26

To enable the Department of Agriculture, Fisheries and Forestry to measure and report against the objectives of the industry and community assistance programs, the ANAO recommends that the department:

- develop key outcome performance indicators for each of the programs; and
- collect, analyse and report the relevant performance information.

DAFF Response: *Agreed.*

Audit Findings and Conclusions

1. Background and context

This chapter provides context for the Securing our Fishing Future package's industry and community assistance programs. The audit objective, scope and methodology are also outlined.

The *Securing our Fishing Future* package

1.1 The then Minister for Fisheries, Forestry and Conservation announced the *Securing our Fishing Future* package on 23 November 2005. The package was intended to address factors that had been affecting the Commonwealth's fish stocks and the profitability of the fishing industry. The package consisted of a $220 million structural adjustment component and new management measures to be introduced by the Australian Fisheries Management Authority (AFMA) to halt overfishing and give overfished stocks a chance to recover.[6]

1.2 The objectives of the structural adjustment package were to:

- ameliorate the transitional impacts of fisheries management measures, which were required to address overfishing and avoid potential overfishing;
- address the impacts on fishing businesses that resulted from declaring Marine Protected Areas (MPA) in the south-east region[7];
- reinvigorate the operation of market forces within fisheries by hastening the removal of substantial fishing effort so that competitive and innovative businesses could succeed within an autonomously adjusting framework; and
- ensure that any assistance was capped and made available as a one-off measure only.

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[6] On 14 December 2005, the former Minister for Fisheries, Forestry and Conservation issued a formal direction to AFMA under s.91 of the *Fisheries Administration Act 1991* requiring new management measures to be introduced.

[7] In May 2006, the then Department of the Environment and Heritage (DEH), which is currently known as the Department of the Environment, Water, Heritage and the Arts (DEWHA), announced 13 Marine Protected Areas (MPAs) in the south-east marine region, which stretches from the far south coast of New South Wales, around Tasmania and Victoria and west to Kangaroo Island (South Australia).

1.3 The then government had instigated the package because many Commonwealth fisheries were incapable of self-adjusting due to the economic climate at the time. It was also necessary to reduce fishing capacity, in association with the catch reductions that had been announced by AFMA, to better position industry to be profitable and self-adjust in the future.

1.4 The structural adjustment package, which was delivered by the Department of Agriculture, Fisheries and Forestry (DAFF) was to:

- buy back up to $149 million in fishing concessions within and across Commonwealth-managed fisheries;
- provide $50 million in industry and community assistance grants to individuals, businesses and companies that had been affected by the impacts of the buyback and/or by the new management measures;
- reduce the amount that AFMA would need to cost-recover through fishing concession holders to implement the new management measures ($15 million); and
- improve AFMA's science, compliance and data collection ($6 million).

The buyback program

1.5 The buyback program offered the holders of eligible fishing concessions the opportunity to rationalise their business or to exit the industry. The buyback targeted concessions in the following four fisheries where stocks were overfished or at risk of being overfished: Bass Strait Central Zone Scallop Fishery (BSCZSF); Eastern Tuna and Billfish Fishery (ETBF); Northern Prawn Fishery (NPF); and Southern and Eastern Scalefish and Shark Fishery (SESSF). Concessions were also sought from other (non-target) fisheries managed by the Commonwealth. The Minister announced the completion of the second (final) round of the buyback program in December 2006.

Industry and community assistance grant programs

1.6 Industry and community assistance grants (which are the focus of this audit) were available to onshore businesses and communities that had been, or would be, impacted by reduced fishing activity as a result of fewer fishing concessions in use following the buyback program and reduced access for fishing in areas declared as MPAs. Potential applicants included: communities dependent on the fishing industry; seafood industry cooperatives; wholesalers;

retailers; exporters; local government bodies; community groups or councils; and non-departmental government agencies.

1.7 Up to $50 million in grant funding was available to the fishing industry primarily through three industry and community assistance programs (the assistance programs)—Onshore Business Exit Assistance (OBEA); Onshore Business Development Assistance (OBDA); and Fishing Community Assistance (FCA). The purpose of these programs and the funding available under each are outlined in Table 1.1.

Table 1.1

Purpose and funding available for the assistance programs

Program	Purpose of program	Funding available
Onshore Business Exit Assistance (OBEA)	To assist business owners who could not replace a leased concession that had been surrendered in the buyback.	Up to $50 000
	To assist business owners to: • diversify their operations by reducing their reliance on the fishing sector; • start up an entirely new business in a different sector; or • retire from the fishing sector.	Up to $100 000
Onshore Business Development Assistance (OBDA)	To strengthen Australia's onshore fishing sector by assisting businesses to provide services, infrastructure and processing capacity to Commonwealth-managed fisheries.	Up to $250 000
Fishing Community Assistance (FCA)	To assist Australian communities to undertake projects that contributed to the economy or created employment opportunities in the community.	Nominally capped at $500 000[8]

Source: ANAO analysis of DAFF information

Assessment and approval of applications

1.8 DAFF was responsible for the implementation and ongoing administration of the structural adjustment package, including the three assistance programs. DAFF officers also provided assistance to potential applicants to help them understand the guidelines and application process.

8 Applicants could seek more than $500 000 in grant funding. If this were the case, the project would be assessed as having a high project risk.

Applying for assistance

1.9 Three rounds of the OBEA and OBDA programs (the OBA programs) and two rounds of the FCA program were offered. Rounds one and two of the programs were opened simultaneously, but closed four months apart to accommodate the varying impacts of the buyback program and the opening of the marine protected areas. The timeline for each round of the assistance programs is shown in Table 1.2. Funding for the programs will cease in June 2010.

Table 1.2

Timeline for the assistance programs

	Round 1 *(OBA and FCA)*	Round 2 *(OBA and FCA)*	Round 3 *(OBA only)*
Opened	28 September 2006	28 September 2006	2 October 2007
Closed	12 January 2007	25 May 2007	31 October 2007
Decision announced	23 April 2007	5-6 September 2007	21 December 2007

Source: ANAO analysis of DAFF information

1.10 The programs' guidelines and application forms and assistance to applicants were available through DAFF's helpdesk and website. DAFF engaged the relevant Area Consultative Committee (ACC)[9] to help promote the FCA program and to provide assistance to applicants. Applicants for the OBA programs could obtain professional advice and, on provision of a tax invoice, claim up to $1500 from the Business Advice Assistance program. Under this program, DAFF paid, in total, 165 applicants approximately $237 000.

Assessing, approving and funding grant applications

1.11 An assessment panel was responsible for assessing the eligibility and competitive merit of the applications that had been received.[10] The panel

9 Area Consultative Committees are Australian Government funded, non-profit, community-based organisations.

10 The eligibility and merit criteria are outlined in Appendix Three.

included two government officers and four other members with fisheries-related and broader finance and business management experience. To assist with the panel's assessment of applications, DAFF conducted a preliminary assessment and sought advice on the applications from a financial assessor and the ACCs. DAFF is also responsible for negotiating funding deeds with successful applicants, making payments and monitoring recipients' compliance with their funding deeds.

1.12 Table 1.3 provides a summary for each program of the number of applications received, the number that were successful, the total grant funding offered and the range of grants approved by the decision makers.[11]

Table 1.3

Summary of the results of the assistance programs

Program	Number of applications		Total	Range of grant funding offered
	Received	Successful		
Onshore Business Exit Assistance	58	33	$2 661 046	$25 600 to $100 000
Onshore Business Development Assistance	162	64	$10 260 335	$12 000 to $250 000
Fishing Community Assistance	138	47	$20 720 169	$18 000 to $1 400 000

Source: ANAO analysis of DAFF information

1.13 The panel recommended applications for approval by the relevant decision maker. The former Minister was the decision maker for the FCA program and a senior DAFF manager was the authorised decision maker for the OBA programs. Successful OBEA applicants received funds to assist either in exiting the industry or adjusting following the buyback program. Assistance was available to either fully or partially fund project costs. Projects funded under the OBDA and FCA programs included, for example, the:

- development of an offshore salmon farming system;

[11] From the $50 million industry and community assistance grants allocation, the department also made payments for the Skipper and Crew Assistance program, BAA payments made to industry and community assistance applicants and tenderers to the buyback program. There was an underspend which was, in part, used to fund fishing related election commitments made by the government. These election commitments are discussed further in Chapter Three.

- construction of a deep water wharf; and
- purchase of land and buildings as part of a multi-stage project to build a marine discovery centre.

The department's review of its administration of grants

1.14 In December 2006, DAFF's executive management team endorsed a strategy to improve the department's management of grant programs particularly, its accountability, risk management, reporting, monitoring and acquittal practices. An executive-level Grants and Project Management Committee was established to oversee the project. The committee is supported by a Grants and Project Management Working Group of departmental grant and resource managers responsible for developing and implementing a structured framework for managing grant programs.

1.15 The strategy includes the adoption and reconfiguration of a Grants Management Information System, which was being tested at the time of the audit. A Grants Management Manual was also released in July 2007, to provide additional guidance to staff. The manual supports the department's *Chief Executive's Instruction No. 23: Grants Management.*

Audit objective, scope and methodology

1.16 The objective of the audit was to examine the effectiveness of DAFF's implementation and administration of the *Securing our Fishing Future* structural adjustment package industry and community assistance programs.

1.17 In undertaking this audit, particular emphasis was given to the:

- promotion of the programs and the information provided to stakeholders;
- assessment and approval of applications;
- management of payments and monitoring compliance; and
- implementation and ongoing governance arrangements.

1.18 The $21 million provided to AFMA under the structural adjustment package (refer to paragraph 1.4) was not examined in this audit. The ANAO has audited the department's administration of the $149 million buyback of fishing concessions in *Audit Report No. 38 Administration of the Buyback Component of the Securing our Fishing Future Structural Adjustment Package,* which has been tabled in conjunction with this report.

Audit methodology

1.19 The audit methodology included quantitative and qualitative analysis of documentation and file reviews. The audit team interviewed DAFF staff, members of the assessment panel and key industry stakeholders. The ANAO analysed a sample of 74 applications that included 20 OBEA, 28 OBDA, and 26 FCA applications. This sample included 45 approved applications across the three programs valued at $15.5 million, 46 per cent of the total approved funding.

1.20 The audit was conducted in accordance with ANAO auditing standards at a cost of $325 000.

Structure of the report

1.21 The structure of the report is outlined in Figure 1.1.

Figure 1.1

Structure of the report

Chapter One: Background and context	• The *Securing our Fishing Future* package • Assessment and approval of applications • Audit objective, scope and methodology
Chapter Two: Applying for grant assistance	• Communication strategies • Information provided to potential applicants • Applying for a grant
Chapter Three: Assessment and approval of applications	• Assessment and approval framework • Assessment of applications • Assessment by the financial assessor • Preliminary assessment by the DAFF secretariat • Assessment of applications by the panel • Approval by the decision makers • Unspent program funds used to fund election commitments
Chapter Four: Managing payments and monitoring compliance	• Establishing funding deeds • Managing payments to grant recipients • Ongoing compliance monitoring strategy
Chapter Five: Implementation and ongoing governance arrangements	• Implementation of the structural adjustment package • Ongoing governance arrangements • Measuring and reporting performance

2. Applying for grant assistance

This chapter examines how the department raised awareness of the assistance programs amongst potential applicants. The guidelines for the programs and information provided to applicants are also discussed.

Introduction

2.1 Industry was initially advised of the assistance programs in the former Minister's announcement of the *Securing our Fishing Future* package. DAFF was responsible for promoting the programs and developing and distributing the programs' guidelines and application forms. The ANAO reviewed how DAFF raised awareness of the programs amongst potential applicants and supported them in applying for assistance.

Communication strategies

2.2 DAFF developed two communication strategies for the structural adjustment package. The first strategy outlined DAFF's broad communication activities for the whole structural adjustment package. A second strategy was developed specifically for the assistance programs. The strategies identified the programs' potential audience[12] and documented a range of communication channels that would be used to contact this audience. For example, advertisements would be placed in key industry and major and regional newspapers promoting the package. DAFF also established a telephone hotline through which potential applicants could contact a helpdesk. The department promoted the availability of the hotline number through all its communication materials.

2.3 Through these strategies, DAFF sought to ensure that potential applicants were aware of the assistance programs, and applied for the appropriate type(s) of assistance. Key messages promulgated through the communication channels related to: whom the assistance was aimed at; what the assistance was for; and the eligibility requirements for applying for assistance.

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[12] As previously noted, potential applicants for the programs included: communities dependent on the fishing industry; seafood industry cooperatives; wholesalers; retailers; exporters; local government bodies; community groups or councils; and non-departmental government agencies.

Information provided to potential applicants

2.4 Potential applicants could contact DAFF's helpdesk by email, fax or mail for further advice about the programs. The helpdesk received approximately 950 calls from stakeholders seeking information regarding the programs. Through the helpdesk, stakeholders could register their contact details to receive updates via email or mail on the program(s) they were interested in. This was helpful to key stakeholders as the assistance programs did not open for applications until almost 11 months after the then Minister announced the package.[13]

2.5 It would have been helpful if DAFF had, as part of the announcement of the *Securing our Fishing Future* package, explicitly advertised that stakeholders could register to receive information and updates. By identifying potential grant applicants, DAFF could have assessed whether its communication strategies were appropriately targeted. Further, knowing the likely number of potential applicants would have assisted DAFF in planning the time needed to assess applications.

2.6 Following the opening of each round by the former Minister, application forms and the programs' guidelines could be accessed from DAFF's website and through the helpdesk. DAFF also advertised the opportunity to apply for assistance in regional newspapers and on the radio. Advertisements included the name of the program, the closing date for the round and information on how to contact DAFF. The Minister also issued 'reminders' to potential applicants about the closing dates of rounds.

2.7 The closing date for round two of the assistance programs was extended from 4 May to 25 May 2007 to allow time for unsuccessful applicants from round one to apply. To advise potential applicants of this extension, the former Minister made reference to the extension in a media release announcing the successful round one recipients from the Sapphire Coast region. In addition, DAFF advertised the new closing date on the website and in newspapers. Given that applicants for round two had from September 2006 (the initial announcement) to develop their applications, the ANAO considers that DAFF effectively publicised this extension.

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[13] The structural adjustment package was announced on 23 November 2005 and round one and two of the industry assistance programs opened for applications on 27 September 2006.

Conclusion

2.8 DAFF undertook a broad awareness-raising campaign to make potential applicants aware of the opportunity to apply for a grant under the assistance programs. Overall, DAFF provided sufficient opportunity and information to potential applicants to apply for grant assistance.

Applying for a grant

Guidelines and application forms

2.9 The guidelines and application forms for the assistance programs were prepared by DAFF's Corporate Legal Unit, reviewed by the Australian Government Solicitor and approved by the former Minister. The application forms and guidelines advised potential applicants of the:

- funding available;
- types of activities that funding could be used for;
- eligibility and merit criteria for each program[14];
- assessment process; and
- information applicants would need to provide with their applications.

2.10 Potential applicants were not informed of the weightings that would be applied to each merit criterion. It is considered better practice to advise potential applicants of the relative importance of each merit criterion in the guidelines to assist with the preparation of an application.[15] However, DAFF advised that it considered that it was not necessary to advise potential applicants of this information and it was sufficient (and met its *Chief Executive's Instruction No. 23: Grant Management*)[16] to determine the weightings that would be applied prior to assessing the applications. The weightings applied to each assessment criterion are discussed in more detail in Chapter Three.

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[14] The eligibility and merit criteria are outlined in Appendix Three.

[15] ANAO, *Better Practice Guide–Administration of Grants*, May 2002, Canberra, p. 47.

[16] For discretionary grants, such as the industry assistance programs, DAFF's *Chief Executive's Instruction No. 23: Grant Management* requires that a systematic assessment process be established (in advance) including the information that applicants must provide to support their applications, eligibility and merit criteria, and the method and scale to be used to rate applications.

Preparing an application

2.11 Assistance to understand the application forms was available from the helpdesk. As previously noted, OBA applicants could also obtain professional advice (such as accounting or legal) to help prepare their applications through the Business Advice Assistance program.[17] FCA applicants could contact their regional ACC for assistance free of charge. The ACCs also helped identify potential funding partners and assisted in completing the application forms.

2.12 The application forms provided a checklist for applicants to self-assess their eligibility for each program. The forms used a question and answer format to capture the information DAFF sought for its assessment. Once completed, the application forms were to be signed by an authorised representative of the applicant and a certified accountant to confirm the information provided was true and accurate.

Verification of the information provided in applications

2.13 The applicant's representative and accountant were to verify that the information that had been provided was true and accurate. Of the 74 FCA and OBA applications reviewed by the ANAO, there were six instances where the accountant had not verified the information in the application and two instances where the information was not verified by the applicant.[18]

Quality of evidence provided to support OBA applications

2.14 OBA applicants were required to provide evidence to support the impact they claimed to have experienced as a result of the reduction in fishing activity. For example, DAFF required financial information (profit and loss statements) and evidence to demonstrate the applicant's link to Commonwealth-managed fisheries. DAFF found that, in round one, applicants did not provide sufficient evidence to support their claims. It sent a follow-up letter to individual applicants requesting the additional information needed to assess the applications.

2.15 As rounds one and two had been announced simultaneously, it was impractical to reissue the guidelines for round two. Letters were again sent to

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[17] Across three rounds, DAFF issued 165 payments totalling more than $237 000 to applicants for Business Advice Assistance.

[18] Of these eight applications, three were successful.

individual applicants in round two who had not provided sufficient information. To reduce the effort involved in following up individual applicants in round two, DAFF could have better utilised its website, helpdesk and the list of registered stakeholders to clarify the information required. DAFF made changes to the OBA guidelines prior to round three.

Feedback on the guidance and application forms

2.16 The application forms for the assistance programs included a feedback questionnaire asking applicants a range of questions relating to:

- their awareness of the programs;
- their satisfaction with advice they received and DAFF's website; and
- the clarity of the guidance and application form.

2.17 The ANAO analysed 74 feedback questionnaires from its sample of assistance program applications. In general, responses indicated that:

- applicants had heard about the programs primarily through the DAFF website, government advisors, colleagues, consultants and business advisors;
- documents on DAFF's website were easy to find and the website provided useful information; and
- information provided by DAFF was easy to obtain and understand.

Conclusion

2.18 Program guidelines and application forms were readily available and clearly stated the eligibility and merit assessment criteria that applicants had to meet. However, as DAFF did not advise applicants of the relative weightings that would be applied to each merit criterion, they were not aware of the relative importance being placed on each criterion. Also, the information required in the OBA application forms was not adequate for DAFF to properly assess the applications. Considerable effort was made by DAFF to address this situation. Earlier consideration of what information was required and more clearly outlining these requirements in the guidelines and application form may have improved the quality of applications received and reduced the time needed to assess them.

3. Assessment and approval of applications

This chapter examines the processes for assessing and approving the applications received for the assistance programs.

Introduction

3.1 DAFF established a framework (illustrated in Figure 3.1) to assess and approve the 358 applications received for the three assistance programs. Across the three programs, 144 applications were approved for a total of $33.6 million. Table 3.1 gives the total funding provided under each program and a breakdown of the applications approved in each round.

Table 3.1

Total funding and the number of applications approved in each round of the programs as at December 2007

Program	Applications received	Number of applications approved			Total ($)
		Round One	Round Two	Round Three	
Onshore Business Exit Assistance	58	15	15	3	$2 661 046
Onshore Business Development Assistance	162	13	40	11	$10 260 335
Fishing Community Assistance	138	6	41	N/A	$20 720 169
TOTAL	**358**	**34**	**96**	**14**	**$33 641 550**

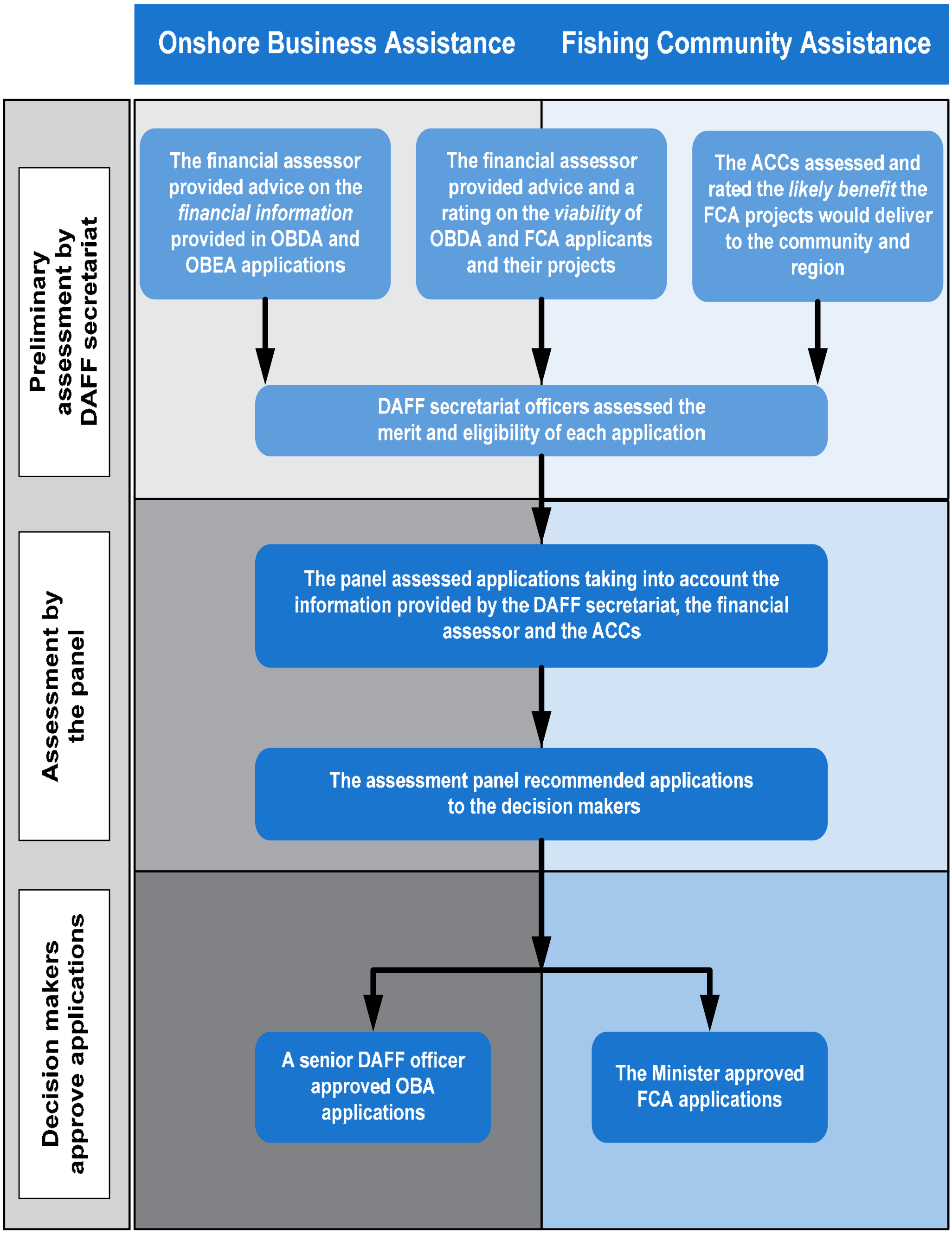
Source: ANAO analysis of DAFF data

Assessment and approval framework

3.2 As previously discussed, an assessment panel, which consisted of two government officers and four other members with fisheries-related and broader finance and business management experience, was responsible for assessing the applications and making recommendations to the decision maker. Grants under the FCA program were approved by the former Minister for Fisheries, Forestry and Conservation. A senior DAFF officer was authorised

Figure 3.1

Assessment and approval framework



Source: ANAO analysis of DAFF information to approve the grants for the OBA programs. DAFF established a secretariat to provide support to the panel. The secretariat undertook a preliminary assessment of the eligibility of each application and, for the OBDA and FCA programs, it also assessed the merit of each application. To assist the panel in assessing the applications, DAFF:

- obtained advice from a financial assessor and the relevant Area Consultative Committee (ACC) for FCA applications;
- considered data from AFMA on fishers that were successful in the buyback program, such as their home ports and the ports used to unload their catch; and
- commissioned the Bureau of Rural Sciences (BRS) and the Australian Bureau of Agricultural and Resource Economics (ABARE) to provide a report showing how significantly communities had been impacted by the government's buyback of fishing concessions. This report provided regional and port level information regarding the:
  - estimated impact of the reduction in fishing;
  - level of regional dependence on fishing; and
  - level of regional resilience or ability to effectively manage and adapt to change.

Financial assessor

3.3 The financial assessor was contracted by DAFF to undertake a financial viability assessment (FVA) of applications. The assessor conducted short and long FVAs. A short FVA advised if the applicant was viable and operating with an average positive profit. A long FVA provided additional financial analysis including financial indicators, anticipated project viability and the applicant's credentials.

3.4 DAFF advised that, generally, if the applicant requested a grant of less than $200 000, only the applicant's viability would be assessed (a short FVA report). If the applicant requested a grant of more than $200 000, the viability of both the applicant and the project would be reviewed (a long FVA report). The financial assessor would also provide advice on the competitive advantage that may be gained by an FCA or OBDA applicant over an existing business if requested by DAFF. The viability of the applicant and the project was generally rated by the assessor as either[19]:

- low—not reasonably viable and not able to sustain current operations;
- medium—standard practicability and average expectation of future capability; or
- high—economically viable and expected to be feasible in the future.

3.5 DAFF found during its assessment that the financial information provided by OBA applicants was largely variable. To assist it to manage this variability, the financial assessor standardised the financial information for all OBA applicants by adding particular expenses such as depreciation and financial commitments, back into expenses.

Advice obtained from the ACCs

3.6 The ACCs were engaged to provide advice on FCA projects that were to be delivered in their region. The ACCs assessed the likely benefits to the community and the region and rated the projects as high, medium or low against regional, economic and social significance and the level of regional support for the project.

Assessment panel

3.7 The assessment panel's terms of reference required it to provide an assessment and recommendations to the decision maker. The panel was to, as a minimum:

- provide advice on the eligibility of applicants against the eligibility criteria; and
- assess and rate applications on a competitive basis relative to other applications received in the same round of funding against the merit assessment criteria.[20]

3.8 The panel met once in round one, on three occasions in round two and once in round three. Although the assessment panel's operating protocols

[19] One assessment report reviewed by the ANAO had a low to medium rating.

[20] The eligibility and merit criteria are outlined in Appendix Three.

required minutes to be taken for each meeting, minutes were only recorded for two of the five meetings.

Potential for conflicts of interest

3.9 DAFF had suitable arrangements in place to manage any potential conflicts of interest that may have arisen for the financial assessor and the ACCs during the assessment process. The financial assessor and the advisor(s) from each ACC signed contracts that required any conflicts of interest to be disclosed. These requirements extended to any sub-contractors that were used in the assessment process. DAFF advised that no potential conflicts of interest were brought to its attention.

3.10 The panel's Code of Conduct set out its responsibilities for reporting and managing potential conflicts of interest. Each member declared any known conflicts on their engagement. Where minutes have not been documented, it is not known whether any later declarations of potential or actual conflicts of interest were made or how these were addressed. DAFF advised that there were one or two potential conflicts of interest raised in each round and the relevant panel member was not present for the discussion.

Conclusion

3.11 The assessment and approval framework provided a reasonable basis for making funding decisions. Suitable arrangements were in place to manage any potential conflicts of interest that may have arisen from the involvement of external parties in the assessment process. However, the process for managing panel members' potential conflicts of interest would have been more effective if the declarations made and the subsequent action taken had been documented in the minutes of all meetings.

Assessment of applications

3.12 Table 3.1 outlines the total funding and the number of applications approved for each program. To assess the effectiveness of the assessment and approval process, the ANAO examined a sample of 74 applications (20 OBEA, 28 OBDA and 26 FCA) across all rounds. Of these 74, there were 45 applications that were approved.[21] The sample also included

[21] These 45 applications (12 OBEA, 17 OBDA and 16 FCA) represented $15.5 million of the total $33.6 million that was approved under the three programs.

four applications that received funding as part of an election commitment by the new government. The total value of this commitment was $5.75 million.

3.13 For each application, the ANAO's examination included the:

- application form and supporting information;
- preliminary assessment by DAFF, the financial assessor and ACCs;
- assessment by the panel; and
- advice provided to the decision makers and their subsequent decisions.

FMA Act obligations of the decision makers

3.14 The *Financial Management and Accountability Act 1997* (the FMA Act) provides the framework for the proper management of public money. The *Financial Management and Accountability Regulations 1997* (the FMA Regulations) detail the rules about how public money and property are to be dealt with. FMA Regulation 9 requires that an approver (be that a Minister 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 an efficient and effective use of public money.

3.15 DAFF's *Chief Executive's Instruction No. 23: Grant Management* also requires that all decisions and outcomes in the selection of successful grant applications be publicly defensible and able to withstand scrutiny.

Assessment by the financial assessor

3.16 The financial assessor reviewed the applicant's financial statements (both audited and unaudited) to determine whether they were viable and in an average profit position when undertaking a short FVA. Where a long FVA was requested, the financial assessor also verified the applicant's credentials through credit[22] and probity[23] checks. Where a short FVA was conducted, DAFF was responsible for verifying the applicant's credentials.

[22] A credit check was conducted using *Multipower Express*. This search provided information about the relative risk of the applicant and its directors, credit history and Australian Securities and Investment Commission (ASIC) details. *Factiva* and *Baycorp* searches were also used to collect financial and credit related data about the applicants, such as their credit history.

3.17 For OBDA and FCA applications, a long FVA also provided advice on the financial viability of the project, based on an analysis of the applicant's projected financial results, business plan and market data. To form an opinion on the viability of the project, the assessor was to review whether the:

- financial projections were based on valid assumptions;
- project budget was realistic and sustainable;
- project was financially viable;
- costs in the budget were fair and reasonable;
- applicant had undertaken adequate research to support the viability of the project;
- applicant was in a position to fund its share of the project costs; and
- project was impacted by any other issues or further clarification was required.

3.18 Of the 358 applications received, DAFF advised that it requested the financial assessor to undertake 200 long and 123 short FVAs. An FVA was not required where the applicant was ineligible or had withdrawn, the application was for a startup organisation or the applicant had been assessed previously. There were four approved applications over $200 000 where a long FVA was not completed. For one OBDA application ($500 000), a long FVA was not completed because the applicant did not provide the relevant information.

The financial assessments completed for the ANAO's sample

3.19 Of the ANAO's sample of 74 applications:

- long FVAs were conducted for 36 OBDA and FCA applications;
- short FVAs were conducted for all the OBEA applications (20) and nine OBDA and FCA applications, which included two requesting

[23] A probity check reviewed if the applicant was: a registered entity; successful in the buyback program; a fish exporter, handler or processor; and on AFMA's 'Fish Receivers' list. The internet was also used to check the applicant.

grants of \$500 000[24] and \$494 500[25], well in excess of the \$200 000 threshold; and

- no FVAs were conducted for nine applications reviewed by the financial assessor because the application was either withdrawn, ineligible, was a 'start-up' business or had been assessed previously.[26]

Quality of the advice provided by the financial assessor

3.20 The financial assessor advised DAFF in the 36 long FVA reports examined by the ANAO, that a detailed review of the applicant's financial projections for project viability had not been conducted. All reports included commentary on the assumptions made by the applicant in determining its financial projections unless this documentation was not available.

3.21 As previously noted, projects could be fully or partially funded by the department. In 33 of the 36 long FVA reports, the applicant intended contributing to the project's costs. In six instances, the financial assessor provided specific comments on whether the applicant was in a position to fund their contributions. In 15 instances, the assessor did not specifically comment on the applicant's ability to fund its share of the project costs and, in 12 instances, no comment was made.

3.22 Further, in 18 of the 36 long FVA reports reviewed, the financial assessor advised that there was either a lack of detail in the documentation provided or no documentation provided for aspects of the project. In eight of these reports, the lack of documentation (such as information to support the applicant's assumptions or how they would achieve the financial projections) limited the assessor's ability to review aspects of the project and impacted on its overall assessment. In the other 10 reports, the assessor did not indicate whether the lack of documentation and/or quality of documentation had impacted the assessment. For these 18 assessments, the financial assessor had given a:

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24 As previously discussed, a long FVA was requested for one OBDA application (\$500 000) but relevant information was not provided to assess the viability of the project. The financial assessor provided DAFF with a short report that included a review of the applicant's credentials.

25 DAFF advised that it requested only a short FVA for the FCA application (\$494 500) because the applicant was considered to be a 'start-up' business.

26 For example, one applicant submitted three applications in the same round.

- high project viability rating in three instances;
- medium project viability rating in 12 instances;
- low to medium project viability rating in one instance; and
- low project viability rating twice.

3.23 It was not evident from the assessor's report how a medium or high rating was given for an applicant's project viability when the assessor had noted a lack of detail in the documentation provided for certain aspects of the project. The assessor advised that, although not explicitly stated, where there was a lack of documentation, the risk rating was based on the strengths and weaknesses of each applicant, which were summarised in the key findings of the report. DAFF relied on the ratings given by the financial assessor.

Conclusion

3.24 DAFF generally requested a long FVA for applications in the ANAO's sample. However, in some instances the financial assessor was unable to undertake the level of review required under the contract with DAFF when assessing the viability of applicants' projects. The reason for this was generally the lack of detail in the financial information provided by applicants. DAFF accepted the ratings given by the assessor, even where the lack of documentation had limited the assessor's ability to review aspects of the project. Specifically commenting on whether the applicant had access to the additional funds required for their share of the project would have provided more assurance that the project could be delivered as expected.

Preliminary assessment by the DAFF secretariat

3.25 DAFF conducted a preliminary assessment of the eligibility of each application and the merit of OBDA and FCA applications against the criteria set out in the program guidelines.[27] DAFF advised that OBEA applications were only assessed against the eligibility criteria as the panel considered that sufficient funds were available to cover all applications if the decision maker chose to approve them.

[27] The eligibility and merit criteria are set out in Appendix Three.

3.26 The DAFF secretariat prepared an assessment summary for the panel's information that outlined: the applicant's business type, the location and amount of funding sought, an assessment of the applicant's eligibility and, for OBDA and FCA applications, a rating against each merit criterion. For OBA applications, DAFF calculated the amount of grant funding that the applicant was eligible to receive.[28] Each assessment was to be signed off by a senior manager to ensure consistency and accuracy. However, DAFF advised that, because of the large number of applications received, and the OBA and FCA rounds being run in parallel, it was not feasible for a senior manager to review each assessment.

Assessment of the eligibility of FCA applications

3.27 DAFF assessed each FCA application against the eligibility criteria outlined in the guidelines. It advised the panel that its preliminary assessment had focused on ensuring that the type of activity proposed was eligible and the project was located within a relevant fishing community. To determine which communities and ports were relevant for the program, DAFF used the report provided by BRS and ABARE (discussed in paragraph 3.2). DAFF advised that it did not apply weightings to this eligibility criterion, although there was a range of impacts (from minor to extensive) identified in communities following the reduction in fishing activity. It considered that affected communities should have an equal opportunity.

Assessment of the eligibility of OBA applications

3.28 For the OBA programs, DAFF used checklists (in addition to the assessment summary) to record its assessment of the applicant's eligibility. For each eligibility criterion, the assessing officer circled 'yes' or 'no' to record the assessment result. The checklists included general comments that gave some indication of matters that had been considered and the follow-up action needed, but did not document the analysis that underpinned the assessment result. For one OBEA application and nine OBDA applications in the ANAO's sample, there were no signed eligibility checklists on the applicants files.

3.29 OBA applicants had to demonstrate that the reduction in fishing effort had impacted their business's final surplus by one-third or more. Applicants

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[28] The recommended grant amount was the lesser amount of: the amount requested, thrice the final surplus; or the maximum grant available under each program as outlined in Table 1.1.

were asked to provide their financial results for the period 2002–2005 and either financial results or estimates for 2006–07.[29] DAFF determined the applicant's 'pre-impact' final surplus by averaging the final surpluses reported for three years. To be eligible, the difference between the actual or estimated 2006–07 final surplus and the 'pre-impact' final surplus had to be 33 per cent or greater. In the sample reviewed by the ANAO, there was little or no substantiating evidence provided to support the assumptions behind the estimates that were provided. Further, for all OBEA applications and 65 per cent of OBDA applications, the financial results provided were from unaudited financial statements. It is recognised that some of the applicants would not be required to have audited financial statements. However, unaudited financial statements, by their nature, provide no independent assurance on the financial information presented.

3.30 Where the applicant's final surplus had been reduced by one-third or more, DAFF was to validate that the impact had been caused by the reduction in fishing activity and not due to other factors. To demonstrate that they had been affected, applicants provided invoices and other evidence that linked them to clients/suppliers who had, for example, relinquished a concession in the buyback program. Although this information would indicate that the applicant had potentially been affected, it would not enable DAFF to accurately quantify that the one-third reduction had been caused primarily by the reduction in fishing activity. Further, DAFF did not confirm that the applicant's clients were regular customers or if the applicant's suppliers had reduced the quantity supplied or ceased to supply to the applicant as claimed.[30]

Preliminary assessment of the merit of applications

3.31 DAFF advised the panel of the weightings assigned to each merit criterion that equalled a total of 100, giving an implicit ranking between applications.[31] It determined the score given for each merit criterion using

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29 Alternative periods were considered if the applicant made a case to do so.

30 Although a fisher may have been successful in the buyback, it was not a requirement to exit the fishing industry. As such, supply/demand could continue unaffected from these fishers if latent concessions were reactivated or other concessions were purchased on the private market.

31 The secretariat changed its weightings for three of the FCA program's merit criteria (outcomes, applicant and partnership funding and local support) between the two rounds.

either its discretion or a pre-determined scoring scale. These weightings and the method used to determine the score for each criterion are outlined in Appendix Four.

3.32 To reflect the applicant and project viability ratings given by the financial assessor, the secretariat used pre-determined scoring scales. Of the 45 FVAs conducted for the OBDA and FCA applications reviewed by the ANAO, there were 17 instances where the score given by the DAFF secretariat was inconsistent with its pre-determined scoring scale.[32] In 14 instances, it gave a higher score than the scale allowed and, for the other three, a lower score was given. The secretariat's rationale for departing from the financial assessor's rating was not documented. In one instance where the applicant had reapplied in a later round, the same FVA report was used for both assessments. However, a different score was given in each round for the same rating.

3.33 Where the financial assessor had not been requested to undertake a long FVA, the secretariat was to assess the viability of projects. There were 18 applications where only a short FVA report was prepared or no FVA was conducted. In five instances, the applicant withdrew or the information was available from the applicant's other applications. DAFF was responsible for assessing the project viability of the remaining 13 applications. For these DAFF:

- did not review the project's viability in three instances (one FCA and two OBDA applications) as it did not have the information to undertake the assessment;
- gave a score for project viability, but did not provide the rationale in the assessment summary for five FCA applications; and
- gave a score for project viability and documented its rationale in its assessment summary for five OBDA applications.

3.34 To assess project viability for OBDA applications, DAFF reviewed the information provided in the application about the initial viability of the project. For example, DAFF made comments about the project's market; the applicant's skills to implement the project; and risks involved in supporting or not

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32 In one instance, no score was given by DAFF as the government announced that this application would be funded in full as part of its election commitment before DAFF had finalised its assessment of applications.

supporting the project. Further, to assess the ongoing viability of the project, DAFF considered the applicant's experience and capacity to deliver the project and the factors that underpinned the project.

Verification of the applicant's credentials by DAFF

3.35 Of the 18 applications in the ANAO's sample where a short FVA, or no FVA, was conducted, 10 were later approved by the decision maker. For eight of these recipients, DAFF was responsible for verifying the applicant's credentials through credit and probity checks during the assessment.[33] Of these eight, DAFF conducted a probity check for three recipients and did not conduct any credit checks. Following the decision makers' approval, DAFF performed: credit checks for five recipients and a probity check for one recipient. In total, three recipients did not have a credit check and four recipients did not have a probity check. DAFF advised that credit checks could not be performed in the above cases as two recipients were family partnerships and the third was a start-up organisation that did not have a credit history.

Conclusion

3.36 The DAFF secretariat's assessment of the eligibility and relative merit of the majority of applications was based on the criteria outlined in the guidelines. It documented its preliminary assessment for the panel's reference. Scores were given for each criterion, which enabled the applications to be given a preliminary ranking. There would have been benefit in the secretariat advising the panel where its assessment had been limited and where it gave ratings for project viability that were inconsistent with those given by the financial assessor. The transparency of the assessment process would also have been enhanced if the secretariat had documented its assessment in all cases. It would also have been helpful if the secretariat had provided the panel with an overall summary document outlining the assessment undertaken for each application and any factors that had limited the assessment.

[33] Credit checks and probity checks were discussed previously in paragraph 3.16.

Assessment of applications by the panel

3.37 The assessment panel met on five occasions, for a total of nine days. At each meeting, the panel had access to all information provided by the applicant and the assessments undertaken by the secretariat, the ACCs (for FCA applications) and the financial assessor. As previously discussed, panel members had fisheries-related and broader finance and business management expertise. The panel also had the report prepared by BRS and ABARE. DAFF advised that members of the secretariat presented each application to the panel and were available to answer questions and, if necessary, seek further information from applicants.

Assessment of all OBEA applications and round one FCA applications

3.38 The panel did not document its assessment of the eligibility of the 58 OBEA applications received across the three rounds, or the 17 FCA applications received in round one. For these applications, the competitive merit was also not assessed as the panel considered that there were sufficient funds available to cover all eligible applications if the decision maker chose to approve them.

Assessment of all OBDA applications and round two FCA applications

3.39 To better manage the large number of FCA applications received in round two, DAFF screened these applications and ranked them (based on an agreed rating scale) as low, medium or high. Applications ranked as 'low'—the application did not meet basic levels of competitiveness—would be reviewed by the panel to validate the rating before they were excluded from further assessment. If the panel disagreed with the rating, then further information would be requested for the application.

3.40 The panel developed its own eligibility and merit criteria to assess and rate OBDA applications and round two FCA applications. Although these criteria were not the same as those outlined in the guidelines, they were broadly similar. However, the guidelines also indicated that applicant and project viability of FCA applications and the viability of OBDA projects would be assessed, but these were not part of the criteria used by the panel. Table 3.2 outlines the eligibility and merit criteria against which the panel assessed these applications.

Table 3.2

Assessment criteria used by the panel

Criterion	Onshore Business Development Assistance criteria	Fishing Community Assistance criteria
One	Strengthening the onshore fishing sector	Vulnerability of the community
Two	Maintaining profitability	Generation of new economic activity
Three	Long term employment	Generation of long term employment
Four	Strength of impact, direct association to the sector and were otherwise viable	Downstream effects on the community

Source: ANAO analysis of DAFF information

3.41 DAFF advised that criterion four for the OBDA program and criterion one for the FCA program had to be met for the application to be further assessed. DAFF also advised the criteria used by the panel were weighted equally and applications were given an overall rating of between one (low) and nine (high). However, the panel did not document its rationale for this rating system. The panel chair advised that applications were ranked in order of priority based on the relative attractiveness of the expected outcomes and likely longer term 'value for money'.

3.42 The panel did not use appraisal checklists or summaries to record its assessment of each application and, as previously noted, minutes were generally not taken to record their discussions. The panel chair advised that to determine the eligibility and competitive merit of applications, the panel evaluated the information available against the relevant criteria and gave a score which was the consensus of the panel.[34]

3.43 For ***OBDA applications in round one***, there is no record of the panel's assessment against each criterion.

3.44 The outcomes of the panel's discussions for ***OBDA and FCA applications in round two*** were captured in an unsigned, undated printout from the electronic whiteboard that was used to record the overall rating given to each application. Table 3.3 illustrates the panel's assessment against each criterion and overall rating for eight FCA applications in round two. Using this printout, the secretariat recorded the overall results for each application in a

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[34] Similar advice was provided by other panel members regarding the panel's process. The panel chair's response has been included in Appendix Two.

spreadsheet. DAFF advised that the spreadsheets were prepared by the secretariat during the panel's meeting. However, the ANAO was unable to confirm that this had occurred. The spreadsheets were sent to the panel members for approval and formed the basis for the advice provided to the decision maker.

Table 3.3

Extracts from the panel's whiteboard printout for the assessment and rating of FCA applications in round two

Generates New Economic Activity	Adds Long Term Employment	Downstream Effects on Community	In Vulnerable Community	Rating given by panel
✓✓	✓	✓	✓	9
✓	✓	✓?	✓	8
✓	✓	✓	✓	7
✓	✓	✓	✓	5
✓	✓	✓	✓	4
?	×	?	✓	4
✓?	✓?	?	✓	4
✓	✓	✓	✓	3

Source: Extract of whiteboard printouts on DAFF files

3.45 From the information recorded, it is not clear how the overall rating was determined for each application. Applications that were similarly rated (all ticks) against each criterion were given different overall ratings. Conversely, applications with the same overall rating (4) had a range of symbols documented for each criterion.

3.46 For ***OBDA applications in round three***, a 'Y', 'N' and/or 'question mark' as well as an overall rating for each application was recorded on the spreadsheet prepared by the secretariat.

Assessments supporting the recommendations made by the panel

3.47 From the ANAO's sample of 74 applications, 45 applications were recommended by the panel to the decision maker for approval. Of these, there were 28 applications (valued at $12 million or 35 per cent of the total approved grant funding) where it was not clear how the panel determined the relative merit of the applications. In these instances, there was either no assessment of competitive merit or the assessment made by the financial assessor and/ or the secretariat did not support the panel's recommendation. These applications included:

- 13 applications (valued at $1.4 million) where there was no assessment of competitive merit because the panel considered there were sufficient funds to cover all applications;
- two applications (valued at $114 752 and $500 000) that did not have a project viability assessment conducted by either the financial assessor or the DAFF secretariat;
- one application (valued at $494 500) that did not have an assessment of the viability of the project by the financial assessor. Although the DAFF secretariat gave a score for project viability it did not document its assessment to support this score; and
- 12 applications (totalling almost $9.5 million) that were rated as low by either the financial assessor for applicant and/or project viability or the DAFF secretariat as not meeting the basic levels of competitiveness.[35] Of these 12 applications, six were for grants over $500 000 (totalling $7.4 million or 36 per cent of the total funding approved under the FCA program).[36]

3.48 Generally, the applications in the ANAO's sample that were not recommended did not meet the eligibility criteria for the programs or were not considered competitive. However, in the absence of an assessment of the competitive merit of round one FCA applications, it is not clear how the panel justified the recommendation that two applications were not competitive.

3.49 In addition, the panel did not recommend three OBDA applications in round one on the basis that they were not competitive, although it had given each a high overall rating.[37] OBDA applications that were recommended to the

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[35] One of these 12 applications was a round one FCA application. The application's competitive merit had not been assessed by the panel. In addition, the financial assessor had given the application a low rating for project viability.

[36] One applicant, a fishing cooperative, was given a low rating by the financial assessor and by DAFF. DAFF advised that in this instance, the panel took into account that the financial assessor's low rating for applicant viability would have been influenced by the cooperative's business model which returns profits to its members.

[37] Each application had a rating of either seven or nine out of a total of nine.

decision maker in this round had an overall score of five or more. The panel's comment does not state why these applications were considered to be 'not competitive'. DAFF advised that these projects were not recommended as they did not offer value for money.

The department's review of its administration of grants

3.50 As previously discussed, DAFF has been developing and implementing a structured framework for administering its grant programs. In July 2007, the department released its Grants Management Manual, which provides guidance and templates to assist DAFF officers involved in the management and administration of grants programs. The manual underpinned the *Chief Executive's Instruction No. 23: Grant Management.*

3.51 The manual notes that record keeping is an integral part of program delivery and assists the department to provide evidence of business conducted and decisions made, and to meet its accountability obligations. Records to be kept include: agendas and minutes of assessment panel meetings; decision maker's agreement and approvals or advice (including statements of reasons); and debriefings (oral or written). The manual also outlines that assessors need to ensure the assessment process is structured and transparent. It further advises that applications, that are determined as eligible and not financially risky or unacceptable for other reasons, should be ranked in order of merit using a scoring process. A template is provided to assist with this process, weighting each criterion according to its importance in achieving the program's outcomes. Each application should be given a numerical score against each criterion and an overall score to rank applications.

3.52 The manual became available before the panel met to undertake its assessment of applications in round two.[38] DAFF advised that, because there were large numbers of applications that needed to be assessed in a timely manner, it was not in a position to reassess the entire process in line with the new manual.

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[38] Applications for round two were due by 25 May 2007 and the decision on the successful applications was announced in early September 2007. The panel assessed applications at the end of August 2007.

Conclusion

3.53 A sound assessment and approval framework was developed by DAFF for the three assistance programs. This was underpinned by processes and procedures outlined in DAFF's *Chief Executive's Instruction No. 23: Grant Management*, which are drawn from the department's FMA Act responsibilities and better practice. Further, the Grants Management Manual, released before the panel undertook its assessment of round two applications, outlined the importance of, and the processes to be followed to support a transparent and defensible assessment process. However, these processes were not followed.

3.54 The assessment panel had ultimate responsibility for assessing applications against the eligibility and merit criteria outlined in the guidelines. As the panel did not document its assessments and justifications for its recommendations, the assessment process was not transparent. The lack of documentation meant that it was not clear how the panel determined the relative merit of over 60 per cent of the approved applications (28 applications) in the ANAO's sample. There was no assessment of the competitive merit of 13 applications because the panel considered there were sufficient funds available to cover all eligible applications received. For 15 applications, the viability of the project had not been assessed or the panel's recommendation was contrary to either the financial assessor's and/or the secretariat's assessment.

Approval by the decision makers

3.55 The Grants Management Manual, which was issued to DAFF officers in July 2007 (prior to the panel recommending applications for approval in rounds two and three), outlines that, for discretionary grants, the minute to the decision maker should advise of:

- the merits of each application against the program's eligibility and assessment criteria;
- factors that contribute to the recommended application being better value for money than other applications that were not recommended;
- where applicable, the amount to be offered to the grantee(s), and how this was determined with regard to approved program funding principles;

- any specific risk factors that have been identified, along with the proposed methods for managing these, such as more stringent or more frequent reporting requirements; and
- any supplementary or revised grant conditions that are required or recommended.

3.56 Following the panel's assessment in each round, DAFF prepared a minute to each decision maker that, generally, outlined: when the panel met; the attachments included; program expenditure; and commentary about the assessment that had been undertaken by the secretariat. Attached to each minute was a letter from the panel's chair advising the applications recommended for approval and the secretariat's summary of its preliminary assessment for these applications. The panel added a brief comment to the assessment summary and advised of any conditions that should be met before funding was provided. The decision makers also had access to all the information used in the assessments. DAFF advised that the decision maker received extensive verbal briefing on applications where required. However, any review of applications by the decision makers and the briefings and responses to questions provided by the panel and/or secretariat were not documented.

3.57 The panel had used different assessment criteria to that used by the secretariat and recommended applications that the secretariat did not. It was therefore potentially misleading to provide the secretariat's assessment summaries to support the panel's recommendations as this suggests that the panel had also:

- assessed each application against the eligibility criteria and, for OBDA and FCA applications, the merit criteria in the guidelines; and
- undertaken an assessment of the merit of FCA applications in round one, which it did not.

3.58 The minute to the decision maker did not clarify the quality of assessment that had been undertaken. This was particularly relevant where the viability of projects had not been assessed by the financial assessor, the secretariat or the panel, or where the panel's recommendations were contrary to the secretariat's and/or financial assessor's assessments.

Approval of recommended applications

3.59 All recommendations made by the panel were approved by the decision makers. For both programs, the minute was signed by the decision maker to confirm the recommended applications were approved. For the OBA programs, the decision maker also signed each assessment summary. Any conditions suggested by the panel were noted on the summary and not raised in either the minute or the advice from the panel's chair. It would have been prudent to include in the minute, advice about those applications that had conditions attached and provide an option for the decision maker to 'approve with conditions' to ensure that these conditions were supported by the decision maker.

Conclusion

3.60 The department's Grants Management Manual and the panel's terms of reference clearly outlined the information to be provided to the decision maker. This information was not always given to the decision makers for the three assistance programs. Also, the advice provided did not accurately reflect the assessment undertaken by the panel or where a full assessment had not been completed. There would have been merit in advising the decision maker of the extent to which applications had been assessed. For example, who had reviewed project viability and the quality of the assessment that underpinned the scores given. This information would have given the decision makers greater confidence when exercising their responsibilities under the FMA Act.

Unspent program funds used to fund election commitments

3.61 During election campaigns, Ministers and other government and non-government candidates may announce party election policies and commitments. Except where a Minister with the necessary authority has approved spending for the relevant project prior to the commencement of the caretaker period[39], party election policies and other election commitments announced during an election campaign represent political undertakings to

[39] The caretaker period begins at the time the House is dissolved and the writs for the election are issued, and continues until the election result is clear or, if there is a change of government, the new government is appointed.

provide certain funding, services or facilities in the event the relevant party is elected or re-elected to government.

3.62 As previously discussed in paragraph 3.14, the financial framework requires that any decision by a Minister or authorised official to approve the expenditure of public money, including election commitments, must be undertaken in a manner that considers whether the proposed expenditure represents the efficient and effective use of public money. Within this context, it is important that, in putting forward election commitment projects for funding approval, departments appropriately inform Ministers of the nature of each project and whether it is likely to be an efficient and effective use of the public money. This assists Ministers in carrying out their statutory obligations when approving the expenditure of public money.

3.63 Prior to the 2007 election, the current government announced that it would provide $5.75 million from unallocated funds within the *Securing our Fishing Future* package to the Gippsland Ports Committee, East Gippsland Shire and Lakes Entrance Fishermen's Cooperative to create functional harbour facilities.[40] In its response to this audit, the department advised the ANAO that although the election commitments were funded from underspends in the *Securing our Fishing Future* package, this was a matter of priorities and convenience, and they would have been funded from underspends in another portfolio program had that been more convenient.

3.64 DAFF sought formal approval from the Minister to proceed with the election commitment funding of these four projects from program underspends in March 2008.[41] The Minister for Agriculture, Fisheries and Forestry approved the funding in May 2008.[42] The minute seeking approval advised the Minister that:

- there was sufficient unallocated funding available;
- applicants had originally requested $7.46 million in grant funding;

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40 Senator Kerry O'Brien, Shadow Minister for Primary Industries, Fisheries & Forestry, *Labor to Invest $11 million in Gippsland Lakes Communities*, Media Statement, 5 November 2007.

41 Appendix Five provides a summary of the assessments completed for these applications by DAFF and the assessment panel.

42 In total, $33.6 million (of the $50 million available) was approved in grants under the three programs. The $50 million also covered payments made under the Skipper and Crew Assistance program and the Business Advice Assistance program.

- applications had been considered by the assessment panel and the total value of grants recommended and approved was $1.7 million; and
- the sensitivity of the funding was considered low, although some parties, especially those unsuccessful, may be concerned that additional funds have been provided outside the competitive process.

3.65 The Minister was advised in an incoming government brief in late 2007 that these projects were not considered appropriate for funding by the assessment panel, as they potentially involved an element of cost shifting from state and local government responsibility to the Australian Government. However, this background information was not included in the minute to the Minister. The Minister was not advised that, in providing additional funding to one project, the two recipients[43] involved would receive more than the maximum funding allowed ($250 000) had the program guidelines applied. Should the department be required to provide advice in relation to future election commitments, the ANAO suggests that the Minister be provided with all relevant information including prior assessments, any significant risks to expected outcomes, and options how these risks might best be managed.

43 This application was submitted by a cooperative.

4. Managing payments and monitoring compliance

This chapter discusses the funding arrangements for successful grant recipients and the processes in place to monitor compliance with the terms and conditions of the funding deed.

Introduction

4.1 DAFF was responsible for negotiating funding deeds with successful applicants. It was also responsible for managing payments to grant recipients and for monitoring compliance with the terms and conditions of the deed. The ANAO examined the processes for negotiating the funding deeds and making payments to recipients. The development and implementation of strategies to monitor compliance were also examined.

Establishing funding deeds

4.2 The department's Corporate Legal Unit (CLU) tailored its standard funding deed to suit the requirements of each program and the recipients involved. Of the 45 successful grant applicants in the ANAO's sample, 41 recipients were to have funding deeds.[44] A statutory declaration was used by DAFF in the OBEA program as evidence that the recipient had 'exited' as required.

4.3 The funding deeds set out the:

- outcomes to be achieved with the grant funding;
- activity and milestone details, the amount of funding provided and scheduled payments; and
- financial and performance reports the recipient was required to provide.

[44] DAFF was to negotiate funding deeds with 10 OBEA, 16 OBDA and 15 FCA successful applicants. Four successful applicants did not require funding deeds because one FCA applicant withdrew; and three OBEA applicants had intended to cancel their Australian Business Numbers (ABN). Two OBEA applicants provided evidence to DAFF that their ABN's had been cancelled. The third OBEA applicant, had not cancelled their ABN. DAFF was seeking to execute a funding deed and statutory declaration that reflected that the applicant was going to retain their ABN.

4.4 As at 15 January 2009, 37 funding deeds had been established with successful applicants in the ANAO's sample. Funding deeds were still to be agreed with the other four successful applicants.[45] As previously noted, funding under the assistance programs will cease on 30 June 2010.

Revisions made to the department's standard funding deed

4.5 In May 2008, DAFF updated the standard funding deed to reflect the changes recommended by the ANAO in *Audit Report No. 26 2007-08, Tasmanian Forest Industry Development and Assistance Programs.*[46] As a result of this change, OBDA and FCA grant recipients' contributions (cash and kind) were to be documented in their funding deeds. Of the 27 deeds signed with FCA and OBDA recipients, 10 have been signed using the new deed. Of the remaining 17 deeds, DAFF had documented the recipient's contributions in only four instances. Where the recipient's contributions are not documented in the funding deed (13 deeds), it may be difficult for DAFF to obtain evidence to confirm that the recipient has made the expected contributions. Further, there is a risk that the expected contributions are not made and the expected outcome from the project is not achieved.

Negotiating funding deeds

4.6 DAFF developed guidance and provided training to staff on preparing and managing funding deeds. Checklists were also used to manage the negotiation of the funding deeds. The checklists reviewed by the ANAO had been completed to varying degrees of accuracy and staff had used different versions of the checklist within the same round. Although the checklists (and funding deeds) were to be reviewed by a second DAFF officer, errors were not always identified. For example, of the 37 deeds reviewed by the ANAO, the deeds for six OBDA and FCA recipients did not require them to report against the specific employment outcomes of their projects. DAFF was unable to explain why it had not included this requirement. Another two deeds contained unnecessary or irrelevant requirements.[47]

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45 Funding deeds were still to be signed with one OBDA and three FCA recipients.

46 This report recommended that to better protect the Commonwealth's interests, DAFF should tailor legal agreements to account for the various financial arrangements grantees had in place to acquire assets.

47 For example, one deed included reporting requirements that bore no relationship to the business that was being closed. DAFF has since addressed this error by amending the deed.

Timeliness of the negotiation of funding deeds

4.7 Applicants were also advised of the need to establish a funding deed before payments would be made and of the time allowed to negotiate the deed, which was:

- 30 calendar days for successful OBA applications; and
- three months for successful FCA applications.

4.8 From the date the application was approved, the total time taken to negotiate each deed in the ANAO's sample ranged from one month to 19 months. DAFF provided draft funding deeds to successful OBDA and FCA applicants, on average, over four and a half months after the application was approved. For the four deeds that have not yet been signed, it will be in excess of 20 months since the funding was approved.

4.9 DAFF advised that delays in finalising the funding deeds have been due to a number of factors including:

- its limited resources and the timeliness of responses from successful applicants;
- managing requests from successful applicants to vary the approved project; and
- the conditions of approval applied to the provision of funding for some applications.

Managing requests to vary the approved OBDA or FCA project

4.10 Of the ANAO's sample, 24 of the 27 successful OBDA and FCA applicants sought to vary their approved project before the funding deed was signed. Of these variations, 16 applicants requested a variation to adjust the outcomes of their project because the amount of funding approved had been less than requested. The remaining eight applicants sought variations to reduce their contributions as savings could be made on their original estimates; to adjust the milestones; or to change the equipment that would be purchased using the grant funding. For example, one successful applicant (receiving grant funding of $500 000) asked to vary its contributions from $1.153 million to $131 000. Rising costs and the downturn in the economy were stated as the reasons for this variation. The recipient advised that the outcomes of the project were not going to change significantly as only the scale of the project had been reduced. The delegate responsible for signing the funding deed agreed to the variation.

4.11 To vary a project, DAFF required the successful recipient to provide a revised project budget and a statement explaining how the variation would not impact on the agreed project outcome(s). In two instances, there was no clear statement providing assurance that the outcomes would not be affected. In these instances, the department has no assurance that the applicant will deliver the same outcomes as were originally approved by the decision maker.

Managing conditions of approval

4.12 Although applicants were explicitly advised of the need to establish a funding agreement before payments would be made, applicants were not routinely advised of any conditions that had to be met before a funding deed could be signed. The decision maker applied conditions to the approval of funding for one OBDA and five FCA applications in the ANAO's sample where matters needed to be addressed if the approved project's outcomes were to be delivered.

4.13 For example, one successful applicant entered into a contract to purchase land (for which the funding was being provided) immediately after they were advised of their in-principle approval. In this instance, the decision maker's approval was contingent on the applicant securing the additional $1.3 million needed to complete the project before the funding deed was signed. To mitigate this risk, DAFF incorporated, into the funding deed, a requirement for the recipient to secure the additional funding within 24 months of the deed being signed. If this is not achieved, DAFF is obliged to recoup the funding. For the remaining five applications, the conditions have generally been met in four instances and the funding deed is yet to be finalised in one instance. During the audit the department reviewed all the applicant files to verify whether there were any conditions attached to the funding of each project. After this review, a 'panel recommendations' section was inserted in the payment checklist for all the projects and DAFF has subsequently followed-up with grantees all conditions set by the panel, where required.

Conclusion

4.14 Funding deeds have been tailored to recipient's individual requirements. However, there would be merit in the department reviewing the funding deeds before they are finalised to ensure that they correctly record the agreed outcomes, payment information and reporting requirements.

4.15 Factors, including the large number of variations made to projects, have impacted on the timeliness of negotiating the funding deeds. Whilst appreciating that there are valid reasons for the delays in finalising funding deeds, the time taken in some instances has been excessive. As a consequence, the time available to deliver the project is reduced. Including a draft deed in the letter to successful applicants could help reduce the time taken to finalise the funding deeds. The draft deed could highlight the information required by the department. Where variations have been approved, DAFF has taken steps to gain assurance that the impact of these changes on the projects' outcomes is limited.

Managing payments to grant recipients

4.16 As at March 2009, DAFF had made 320 payments totalling $16.6 million and a total of 27 grants valued at more than $2.2 million across the three programs had been finalised. The department used checklists to manage the process for making payments to grant recipients. From the ANAO's sample, a total of 57 payments (totalling $5.4 million) had been made to 34 grant recipients.[48] Table 4.1 outlines the payments that were examined by the ANAO for each program as at January 2009.

Table 4.1

Number of payments as at January 2009 examined by the ANAO

Program	Number of funding recipients	Total number of payments	Value of payments
Onshore Business Exit Assistance	13	14	$1 033 435
Onshore Business Development Assistance	13	27	$1 815 489
Fishing Community Assistance	8	16	$2 628 695
TOTAL	**34**	**57**	**$5 477 619**

Source: ANAO analysis of DAFF information

48 Although a funding deed had been established, two OBDA and four FCA recipients had not yet claimed payments.

Managing payments to OBEA recipients

4.17 DAFF made single payments to most OBEA recipients. Payments were generally made before the recipient had 'exited' the onshore fishing sector to assist recipients to cover debts, pay outstanding wages and other costs. DAFF required each OBEA recipient to sign a statutory declaration even if a funding deed had been signed. The statutory declaration was to mitigate the risk that the entity would choose not to exit after the payment was made. The declaration stated that the individuals involved, such as the directors or partners of the business, intended exiting the onshore business sector at a future date and would not start a business in the same fishing sector for five years.

Managing payments to OBDA and FCA recipients

4.18 The programs' guidelines and the funding deeds set out the requirements that OBDA and FCA grant recipients had to meet prior to receiving a payment. For example, the grantee was required to establish a bank account solely for grant-related transactions. For the 27 OBDA and FCA recipients that had funding deeds, payments had been made to 21 recipients against some or all of the milestones in each deed.

4.19 Payments were made in advance and on a reimbursement basis. From the ANAO's sample, 28 of the 43 payments had been made in advance. DAFF advised that it accepts that, in some cases, the recipient cannot proceed with the project without the injection of grant funds. Advance payments are a practicality of grants administration, particularly if the department is providing 100 per cent of the project's costs. Where advance payments are requested, DAFF advised that it made a judgment on a case-by-case basis of the risk(s) presented by the payment. It also advised that the risks associated with making payments in advance were accepted by the department as it assisted to deliver the project within a shorter timeframe than would be possible if DAFF were inflexible in this regard. However, the department's assessment of the risks associated with advance payments was generally not documented.

Acquittal of OBDA and FCA payments

4.20 The deeds require that payments be acquitted, to show that the previous payments had been fully expended, or would be expended in the near future, before subsequent payments are made. As some payments were made in advance, DAFF advised that it was not always feasible to fully acquit the previous payment(s) before making the next payment.

4.21 In March 2008, DAFF developed a progress report template, which outlined the information and evidence (such as invoices/quotes) that DAFF required from FCA and OBDA recipients to acquit each milestone. DAFF staff are to sign-off each report to indicate if the report is acceptable or if follow-up action is required. For the ANAO's sample, progress reports were available where the milestone could be acquitted.

Final reporting requirements

4.22 Where only a statutory declaration was signed, there were no reporting obligations for OBEA recipients. If a funding deed had been executed, the recipient was to provide an audited statement of their expenditure of the grant and a final report within 30 days of the final payment being made. The performance and financial information that recipients were to provide in the final report were set out in the funding deed. In April 2008, DAFF developed a final report template to assist recipients to meet their final reporting requirements.

4.23 The final reports are DAFF's key mechanism for collecting performance data on whether the outcomes expected from the grant funding have been achieved. Grants funded under the:

- OBEA program were to assist onshore businesses who needed to rationalise or exit their onshore operations as a result of the reduction in fishing activity;
- OBDA program were to strengthen the onshore sector. For example, by enhancing employees' job security and increasing the attractiveness of the onshore sector to employees and investors; and
- FCA program were to stimulate sustainable new economic activity and employment opportunities in communities vulnerable to the reductions in fishing activity.

4.24 From the ANAO's sample, final reports and audited statements were due from 10 OBEA, one FCA and five OBDA recipients. Of these 16 recipients, final reports were overdue from five recipients and audited statements were overdue from seven recipients. DAFF has sent reminders to these grant recipients seeking this information. Without this information, DAFF will be unable to evaluate the extent to which outcomes have been achieved. In one instance, the recipient's final report advised that, in their view, the milestones had been met but did not report against the agreed project outcomes. DAFF accepted the report and finalised the grant.

Conclusion

4.25 The majority of the projects were still in progress in early 2009. The ANAO considers that payments to grant recipients have generally been well managed. Although it is helpful to recipients for the department to deliver grant funding as required rather than only upon a full acquittal of the previous payment, there is a risk that the grant will be expended without the project being completed. There would be merit in DAFF documenting on its checklists the rationale for making payments in advance. Further, as greater reliance is placed upon the final report and audited statements to provide assurance that the grant has been expended appropriately, it would be prudent to promptly follow-up recipients whose reports are overdue.

4.26 Developing the progress report and final report templates has clarified the reporting requirements for grant recipients and assists DAFF staff to finalise the grants. For future grant assistance programs, there would be benefit in the department developing such templates earlier in the process and advising successful applicants when negotiating the funding deeds.

Ongoing compliance monitoring strategy

4.27 Between April and May 2008, DAFF proposed ongoing compliance monitoring strategies for the grant assistance programs. However, as at March 2009, only the OBEA compliance monitoring strategy had been approved and no activity has yet been undertaken. All recipients will be reviewed and assessed to determine those that will require further monitoring, such as a site visit, following the finalisation of the OBEA payments. DAFF advised that the proposed compliance monitoring strategies for the OBDA and FCA programs would also involve a risk assessment of the projects funded. The OBDA strategy is currently being prepared. The proposed strategies should provide a sound basis for monitoring the ongoing compliance of grant recipients.

Register of complaints and reports of non-compliant behaviour

4.28 Although DAFF does not have an appeals process for the programs, it has established a register to record the details of complaints and/or reports of non-compliant behaviour. As at February 2009, there were 16 complaints and/or reports recorded on the register. Five of these related to applications in the ANAO's sample. DAFF has appropriate processes in place to deal with the complaints received regarding the three programs and satisfactorily addressed the complaints involving the applications in the ANAO's sample.

5. Implementation and ongoing governance arrangements

This chapter discusses DAFF's implementation of the assistance programs and the ongoing governance arrangements supporting these programs.

Introduction

5.1 DAFF's implementation of the structural adjustment package was monitored by the Cabinet Implementation Unit (CIU) in the Department of the Prime Minister and Cabinet. The ongoing administration of the programs is undertaken within DAFF's accountability and performance framework.

5.2 The ANAO reviewed the implementation of the three assistance programs, the effectiveness of the ongoing governance arrangements and the extent to which the objectives of the programs are being achieved.

Implementation of the structural adjustment package

5.3 Following the then Minister's announcement of the *Securing our Fishing Future* package, DAFF developed an implementation plan for the package, which included the assistance programs. The draft plan was submitted to the CIU in December 2005.[49] A subsequent draft was agreed in February 2006 and used by the CIU to monitor the implementation of the package. DAFF reported its progress on a quarterly basis until April 2007.

The implementation plan

5.4 The implementation plan was reasonably comprehensive. The plan outlined the structural adjustment package's purpose, component programs, governance arrangements, resourcing, milestones and a timeline for implementation. The plan did not include key performance indicators (KPIs) or identify the performance information necessary to measure the impact of the package.

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[49] An implementation plan is a detailed project management tool for a specific policy measure or package of measures, designed to assist agencies to manage and monitor implementation effectively. A plan should detail the outputs and outcomes to be delivered, how they will be delivered and how delivery will be evaluated.

Assessment of program risks

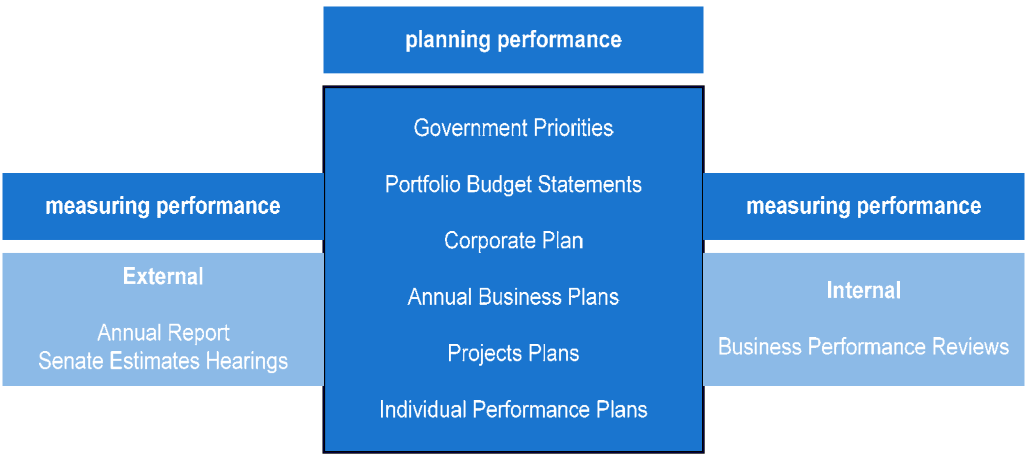
5.5 The implementation plan included an assessment of the risks associated with each grants program and a risk management plan. Each plan was generally comprehensive and covered a broad range of risks relating to the following stages of the programs: receipt of applications; assessment process; management of projects; acquittal of projects; and monitoring and evaluation of projects. For each stage, risks that may have affected the administration of each program were documented along with the impact(s). There was also documentation of controls and/or treatments, risk ratings (untreated and revised) and implementation/performance indicators.

Ongoing governance arrangements

5.6 DAFF works within an accountability and performance management framework that governs the department's annual planning and reporting processes. This is illustrated in Figure 5.1.

Figure 5.1

DAFF's accountability and performance framework



Source: Department of Agriculture, Fisheries and Forestry

5.7 DAFF's Corporate Plans for 2003–2006 and 2007–2010 provide a three-year outlook for the department and general information about its functions and challenges. Annual Business Plans are prepared by DAFF's divisions and for projects (programs). Divisional plans include key priorities and deliverables, but do not include targets or KPIs. These are found in the supporting project plans.

Divisional plans

5.8 The Fisheries and Forestry divisional plans for 2006–07, 2007–08 and 2008–09 included fisheries management activities as a key priority for delivery. The 2006–07 Divisional Plan assessed each key priority against DAFF's corporate risks.[50] To manage the risk to the successful implementation of fisheries management policies and programs, including the structural adjustment package, the division was to:

- adhere to guidelines for implementation and engage legal advice as required;
- consult with stakeholders; and
- monitor media to maintain positive publicity for the package.

5.9 A new planning template was used in 2007–08 that required significant divisional risks and KPIs for each priority to be documented. There were no risks relating to the grant assistance programs recorded in the Divisional Risk Register. The only KPI documented was 'to complete the implementation of the package in collaboration with AFMA'.

5.10 The 2008–09 divisional plan identified the completion of all grant payments and subsequent auditing by 30 June 2009 as a key priority.[51] Also, the department identified its capacity to demonstrate the achievements of policies and programs and their contribution to the government's key objectives as a major risk.

Project planning

5.11 Project plans were prepared annually for the structural adjustment package. These outlined the policy objective, the KPIs (as outlined in the Portfolio Budget Statements), milestones, risks and who was responsible for delivery.

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[50] The *2006-07 Divisional Plan* indicated the corporate risks were the failure to effectively implement and manage: priority policies and programmes; people management priorities; financial management/governance; contingency planning and positioning for the future; outsourced service providers; Government support; and stakeholder relationship management.

[51] As previously noted, the program is now due to cease on 30 June 2010. Funding has been re-phased to accommodate the delivery of grant funding under the three industry assistance programs.

5.12 Two plans were prepared in 2006–07; one each for the departmental and administered appropriations. A single project plan was developed for 2007–08. Four risks—security, fraud control, project management and staff turnover—were documented in the 2006–07 departmental appropriation plan. Each risk was classed as 'minor' and actions to address these risks were noted.[52] It was not documented how the risks identified were to be monitored and reported.

5.13 The 2007–08 plan identified operational risks associated with resourcing and the assessment and probity of the assistance programs. The plan outlined how each risk would be monitored, reporting mechanisms and the responsible officer. Although the identified risks were rated, the treatment strategies were not adequate to mitigate these risks.

5.14 The 2008–09 project plan outlined the activities to be delivered under the structural adjustment package. These included: establishing funding deeds that had not yet been developed; managing existing funding deeds; monitoring compliance by grant recipients; and administering the four new grants that resulted from an election commitment of the new Government. Three operational risks covering the inefficient and ineffective allocation of resources and finances have been identified as acceptable risks and rated as medium. A treatment strategy for each risk is outlined in the plan.

Measuring and reporting performance

5.15 DAFF's outcome is stated in the Portfolio Budget Statements (PBS):

> Australian agricultural, fisheries, food and forestry industries that are based on the 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.[53]

5.16 Since 2006–07, the structural adjustment package has been reported under two different outputs. The KPIs to measure the department's performance in delivering the assistance programs have changed each year.

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[52] For example, fraud risks were to be treated through the assessment of applications by panels and approved by a suitably delegated officer.

[53] Department of Agriculture, Fisheries and Forestry's: 2006-07 Portfolio Budget Statements, p. 35, 2007-08 Portfolio Budget Statements, p. 13 and 2008-09 Portfolio Budget Statements, p. 23.

Table 5.1 outlines the departmental outputs and KPIs for the relevant year and program.

Table 5.1

Departmental outputs and key performance indicators for the industry and community assistance programs

<table>
<tr><th>Year</th><th>Output</th><th>Key Performance Indicators</th></tr>
<tr><td>2006–07</td><td rowspan="2">Output 3: Industry development

To make Australia's agricultural, fisheries, forestry and food industries more globally competitive through sound policy advice and programme administration that enables business to perform better and respond to market signals along the value chain.</td><td>Fishing Communities Programme—the number of projects implemented to facilitate economic and social outcomes.
Skipper and Crew Assistance Grants—the number of skippers and crew who received assistance.
Onshore Business Restructure Assistance—the number of fishing related businesses that receive assistance.</td></tr>
<tr><td>2007–08</td><td>Fishing Communities Programme—the projects implemented within timeframe to facilitate economic and social outcomes.
Onshore Business Restructure Assistance—the number of fishing related businesses that receive assistance.</td></tr>
<tr><td>2008–09</td><td>Output 1.2:
Productive, innovative and competitive portfolio industries.</td><td>Completion of all grant payments and subsequent auditing under the industry and community assistance programs by 30 June 2009.</td></tr>
</table>

Source: ANAO analysis of DAFF's Portfolio Budget Statements 2006–07 to 2008–09

5.17 The KPIs only measure activity, such as the number of projects implemented and the number of businesses affected. There are no performance indicators in the PBS or in the project plans that will allow DAFF to measure whether the objectives of the assistance programs are being achieved. The objective of the:

- FCA program was to help stimulate sustainable new economic activity and employment opportunities in communities vulnerable to the reductions in fishing activity under the package; and
- OBA programs were to help offset the impact of reduced fishing activity on directly affected onshore businesses.

5.18 DAFF advised that the department intends evaluating the extent to which the industry and community assistance programs have met their objectives when the longer-term benefits of the programs can be properly assessed. As yet, no date has been set for this evaluation.

5.19 To effectively measure each program's success as well as the extent to which the programs have contributed to achieving the structural adjustment package's outcomes, DAFF will need to develop appropriate KPIs. It will also need to assess whether the performance data currently being collected will support the evaluation and measure the achievement of the programs' objectives. Performance data currently being collected from grant recipients includes:

- employment opportunities created and/or maintained, particularly for those affected by the buyback;
- increased provision of infrastructure or services that enhance economic opportunity and the viability of businesses;
- increased attractiveness of the community and/or business to employees and investors; and
- project-specific benefits.

5.20 The latest performance reporting templates are comprehensive, but the quality of the data reported and the supporting documentation provided will determine the extent to which DAFF is able to assess whether the programs' objectives have been achieved.

Internal reporting

5.21 The department's Executive received updates on the programs through weekly briefings. Status reports were also provided regularly to the General Manager. These reports offered a snap-shot of the activity that had been undertaken in relation to the programs. For example, the progress made in negotiating the funding deeds. Further, DAFF advised that any advice provided to the Minister was also copied to the DAFF Executive.

5.22 Divisional Performance Reviews are prepared biannually for DAFF's Executive. From the end of 2005 to mid-2008, these reviews were provided for the periods January-June and July-December. The reviews briefly summarised achievement of priorities, key activities and committed or actual expenditure. Emerging issues in the delivery of the grant programs were also noted. For example, the report covering January-June 2006 noted that delays in the rollout of the FCA and the OBA programs had resulted in a re-phasing of

$27.2 million into 2007–08. The reviews do not report progress against the KPIs that are in the PBS and project plans.

External reporting

Annual Report

5.23 The ANAO reviewed the information reported in DAFF's Annual Reports for 2006–07 and 2007–08. In its *Annual Report 2006–07*, DAFF reported against each KPI[54] albeit in some instances this indicated that no activity had occurred. In most instances, DAFF provided additional information, which may have provided context, but did not always address the key issue of whether the KPI had been met. In its *2007–08 Annual Report*, DAFF reported the number and total value of grants approved for the FCA and OBA programs. As these indicators are all activity-based, stakeholders and, particularly the Parliament, have not been informed of whether the objectives of the grant assistance programs are being achieved.

Reporting to the Minister

5.24 In addition to the minutes provided to the then Minister giving advice or seeking approval for the programs, DAFF prepared briefings for portfolio business meetings. These meetings are held weekly with the Minister and DAFF Executive during Parliamentary sitting weeks. Briefings are also prepared as requested or required on key issues.

Conclusion

5.25 DAFF has a sound governance framework to support the administration of the programs. Reporting of the programs externally is through the annual report. Internal reporting is through biannual divisional performance reviews and reports to the Minister and the department's Executive. These reports are activity-based and provide information on the administration of the programs. They do not report on whether the programs' objectives are being achieved. DAFF has advised that it intends evaluating the programs when the longer-term benefits can be properly assessed. DAFF will need to develop KPIs for each program and assess whether the performance

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[54] Reporting against the KPIs included the number of: projects implemented to facilitate economic and social outcomes; fishing related businesses that received assistance; and fishing operators and onshore businesses assisted to assess their business situations and options under the package.

data currently being collected will support its proposed evaluation and enable the department to determine whether the objectives of the programs and the expected benefits from the structural adjustment package are being achieved.

Recommendation No.1

5.26 To enable the Department of Agriculture, Fisheries and Forestry to measure and report against the objectives of the industry and community assistance programs, the ANAO recommends that the department:

- develop key outcome performance indicators for each of the programs; and
- collect, analyse and report the relevant performance information.

DAFF response

5.27 Agreed. DAFF agrees that the development of key performance indicators will contribute to the effective measurement of each program's success as well as the extent to which the programs have contributed to achieving the structural adjustment package's outcomes. DAFF notes the ANAO's recommendation that the collection and analysis of relevant performance data will support the evaluation of the overall package.

Steve Chapman | Canberra ACT

Acting Auditor-General | 27 May 2009

Appendices

Appendix 1: Agency response

Australian Government
Department of Agriculture, Fisheries and Forestry
Audit-in-Confidence

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13 MAY 2009

SECRETARY

11 May 2009

Mr Matt Cahill
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

MC 13/5

AUSTRALIAN NATIONAL AUDIT OFFICE
13 MAY 2009
RECEIVED

Dear Mr Cahill

Thank you for your letter of 17 April 2009 seeking the Department of Agriculture, Fisheries and Forestry's comments on the proposed performance audit report on the Administration of the Securing our Fishing Future Structural Adjustment Package Industry Assistance Programs.

The department notes the Australian National Audit Office's (ANAO) finding that the department had effectively established the three programs and had given potential applicants the necessary opportunity and information to apply for assistance. In addition, the department notes the audit identified that appropriate program guidelines and a sound framework to assess and approve the applications for the three programs were developed.

The department acknowledges the ANAO's finding about the lack of documentation on the panel's assessments and development of selection criteria. It notes that the development of key performance indicators will contribute to the effective measurement of each program's success.

I enclose an overall departmental response, including a response to the recommendation and a summary, for publication in the final report and an additional detailed commentary.

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

Thank you for providing me with the opportunity to comment on the proposed performance audit report.

Yours sincerely

Conall O'Connell

Conall O'Connell

Enc.

18 Marcus Clarke Street Canberra City ACT GPO Box 858 Canberra ACT 2601 ph +61 2 6272 4180 fax +61 6272 4906 www.daff.gov.au ABN 24 113 085 695

DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY

Australian Government

Department of Agriculture, Fisheries and Forestry

Audit-in-Confidence

Attachment A

1. Department's Full Response to the Audit

The Department of Agriculture, Fisheries and Forestry (DAFF) notes the ANAO's conclusion that DAFF effectively established the three programs and gave potential applicants the opportunity and information necessary to apply for assistance. DAFF notes the ANAO's comments that it developed appropriate program guidelines and a sound assessment and approval framework for the three programs.

DAFF acknowledges the ANAO's comments that there was a lack of documentation surrounding the panel's assessments, justifications and establishment of their criteria. DAFF considers that the panel drew on a wide range of information, expertise and experience as well as taking into account the program guidelines. The panel members' experience in the industry and knowledge of the regions meant they provided highly informed insights in the assessments which were not fully reflected in the documentation of the panel's meetings. The panel's final assessments were made on the basis of considering all of the available information and using its judgement accordingly. The extent to which all of the information considered was not formally documented reflects in part the scale of the assessment task (given that 358 applications were assessed) and practical judgements about the time the panel was able to make available.

DAFF notes the ANAO's finding that written advice provided to the decision maker did not clarify the quality of the assessment undertaken by the panel. However the decision makers received extensive verbal briefings on applications where this was required.

As acknowledged in the report, DAFF has put considerable effort into reviewing its grants administration and governance. DAFF now has templates in place to enable panels to document their assessments. DAFF agrees with the ANAO's view of the importance of the department gaining assurance that its programs are being administered according to its procedures and processes. A campaign to raise awareness of procedural requirements with program managers and an increased internal audit focus on grants administration is planned for 2009-10.

In framing its advice to the Minister on election commitment projects, DAFF sought to advise how the government's election commitments could be met and funded. The election commitments were funded from underspends in the Securing our Fishing Future (SoFF) program, but this was simply a matter of priorities and convenience, and they would have been funded from underspends in another portfolio program had that been more convenient. Furthermore, the election commitments were made in a separate context to the SoFF evaluation framework. For these reasons, the department considers that the linkage between the election commitments and the SoFF program are weak. However the department does note the ANAO's advice with respect to advising on commitments given during election campaigns and will take this into account in future briefings.

Appendix 2: Assessment panel member responses

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Mr. Matt Cahill,
Group Executive Director,
Performance Audit Services Group,
Australian National Audit Office,
GPO Box 707,
Canberra ACT 2601

9th May, 2009

Dear Sir,

Performance Audit of 'Securing our Fishing Future' Structural Adjustment Package Assistance Programs.

I refer to the above audit draft results which have been forwarded, in part, to me as chair of the Assessment Panel.

I provide the following comments on the draft results:

At the commencement of the process, the Panel was provided with all the relevant published material, as well as the applications and was advised that, provided it operated within the bounds of this material, it was up to the Panel to decide how it would undertake its tasks and what specific criteria and processes it would use to benefit from the collective expertise within the Panel. This was documented and included in the minutes of the early meetings and all individual scores were assessed against this criteria and documented at each meeting.

The principal task of the panel was firstly to determine whether or not a particular application satisfied the published criteria for meeting the guidelines for eligibility – essentially a "yes or no" answer, then secondly to rank the relative attractiveness of the proposals in order of priority based on their expected outcomes in terms of their likely long – term "value for money" - essentially a competitive ranking of projects.

This was achieved by considering all the information provided relating to each application, evaluating that information against the relevant criteria and scoring each application as a consensus score in terms of its relative merits and "value for money" in meeting the criteria and guidelines.

As essentially the outcomes required for the large number of applications were – eligible "yes" or "no" – and a competitive ranking score against each project, the Panel agreed that the "minutes" would be presented in this format. The various criteria adopted – long term employment, maintaining profitability etc. – were aspects of the overall viability of the proposal.

By the very nature of the task, the Panel was required to form an assessment of the likely viability, attractiveness and "value for money" of many very different community and business development proposals. It did this by developing and applying its criteria with each Panel member applying their judgement and expertise, until a consensus score or decision was reached. This meant that subjective judgements had to be applied to the objective 'ticks' or scores relating to the likelihood or 'strength' of a proposal becoming a reality into the future.

The final part of the process involved the Panel, through its Chair, checking and approving the Secretariats recommendations, before they went forward to the decision – maker.

I trust these comments are helpful.

Yours sincerely,

P. J. Neville
(Panel Chair)

23 April 2009

Mr Glass 29/4/09.

MLG 28/5

RECEIVED
28 APR 2009
mc

Mr Matt Cahill
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Dear Sir

Performance Audit of the Administration of the Securing our Fishing Future Structural Adjustment Package Assistance Programs

Thank you for the letter dated 17 April 2009 and for the opportunity to comment on the draft extract of the proposed audit report.

It is very difficult to respond to your draft report given that the assessment Panel first met over two years ago and particularly as I have no paper records to assist me. All proposal documents were held by DAFF and all email and written correspondence to me has since been deleted or destroyed as the Panel recommendations had been made and accepted by the decision makers some considerable time ago.

I am therefore only able to comment based on my general recollection of the process of assessing applications which was very thorough and was carried out in a timely and professional manner.

All applications were initially assessed by the DAFF secretariat with detailed comments from their financial/business consultant and input from AFMA and BRS etc. The Panel then carefully considered the various merits of each eligible application based on the agreed criteria. Each proposal in each category was competitively ranked in order of priority by the Panel and later reassessed given the funding limits with firm recommendations for each supported proposal forwarded to the decision makers.

The input from DAFF staff was exceptional given that many proposals were either incomplete or needed more information and this involved considerable communication with the applicants with additional input needed in time for the careful assessment by the Panel.

The draft audit report appears to be critical of the apparent lack of documentation of some assessments and the justifications for some recommendations and therefore the assessment process was not fully transparent and defensible in the opinion of the ANAO.

At the time the assessments were undertaken by the Panel over some nine days we used a range of aids to help in the consideration of each proposal including whiteboards and computer spreadsheets as well as paper records so that we fairly considered the merits of each application and ranked each group of proposals in order to stay within funding constraints.

It may be that some of these deliberations were not faithfully recorded in a manner that satisfies the ANAO but I have no records to agree or refute this. It should be remembered that the assessments involved a very considerable amount of data and varying opinions and views on each component particularly from Panel members but it is important to note that decisions were made on a cooperative basis and from memory all members eventually supported every decision.

The whole process was carried out in a careful and considerate manner and I was proud to be a member of the Panel that so professionally assessed each proposal and then provided quality recommendations to the decision makers.

Thank you again for the opportunity to comment on this matter.

Yours sincerely

R.K.LISTER

Appendix 3: Eligibility and merit criteria for the assistance programs

Onshore and Business Assistance Programs

Eligibility Criteria
A business must have been: • directly involved in the wholesaling, retailing, exporting or processing of seafood from Commonwealth-managed fisheries on 23 November 2005; or • directly dependent on the Commonwealth fishing sector on 23 November 2005, and be able to demonstrate the proportion of its income that is, or was, derived from the direct supply of goods or services to the Commonwealth fishing sector; or • leasing a fishing concession on 23 November 2005 that they lost access to as a direct result of the buyback, and that they are unable to suitably replace. The applicant must also be able to demonstrate that they: • were significantly impacted by the reduction in fishing activity; and • would have good prospects of being viable (its earnings before depreciation, interest and tax are sufficient to meet financial commitments) if it were not for the reductions in fishing activity.
Merit Criteria
Proposals for the Onshore Business Development Assistance program that strengthen the onshore sector with the best value for money options will be deemed the most competitive. Merit was assessed against: • how the proposal strengthens the onshore sector such as: – making the applicant's business more viable and profitable; – increasing the robustness of the supply of goods and services or processing effort in Commonwealth-managed fisheries; – enhancing employees' job security; and – increasing the attractiveness of the onshore sector to employees and investors. • what the particular need/demand for the project is, such as: – the unaddressed need and demand for the proposed project; and – the impact the unaddressed need/demand is having on customers. • the probability of the project's success and the risks to success, such as: – the applicant's managerial and financial capacity to deliver the project; – the viability of the project plan; and – how the projected outcomes of the proposed project will meet demand. The Onshore Business Exit Assistance program applicant's relative capacity to manage the impacts of reductions in fishing activity is based on a financial assessment of the applicant's business operating environment.

Source: ANAO analysis of DAFF data

Fishing Community Assistance

Eligibility Criteria
The applicant must: • be proposing an activity in a community that has been affected by the reductions in fishing activity associated with the package; • be one of the following types of organisations: private enterprise businesses, cooperatives, local government bodies, community groups or councils, non-departmental government agencies (including statutory authorities, land councils, government business enterprises or tertiary education institutions), non-profit organisations (including registered charities and incorporated associations); • have an Australian Business Number (ABN) or an Australian Company Number (ACN). The Department will not enter into a funding agreement with an applicant unless they have an ABN or ACN; and • propose an activity that will stimulate economic activity or enhance employment opportunities.
Merit Criteria
Applications will be assessed and rated on a competitive basis relative to other applications in the same round against: • outcomes; • applicant and partnership funding; • local support; • applicant viability; • project viability; • the level of competitive advantage; and • cost shifting.

Source: ANAO analysis of DAFF data

Appendix 4: DAFF secretariat's merit criteria and weightings for assessing applications

Merit criteria and weightings for the FCA program

Merit Criteria	Weighting (Round one)	Weighting (Round two)	Method used to determine score
Project outcomes	20	40	Pre-determined scoring scale
Applicant and partnership funding	20	10	Discretionary
Local support	20	10	Discretionary
Applicant viability	20		Pre-determined scoring scale
Project viability	20		Pre-determined scoring scale
Competitive advantage	-12.5		Discretionary
Cost shifting	-12.5		Discretionary
TOTAL	**100**		

Source: ANAO analysis of DAFF information

Merit criteria and weightings for the OBDA program

Merit criteria	Weighting	Method used to determine score
Provision of services and infrastructure	25	Pre-determined scoring scale
Employment benefit	15	Pre-determined scoring scale
Wider benefits to the onshore fishing sector	10	Pre-determined scoring scale
Initial viability	25	Pre-determined scoring scale
Ongoing viability	25	Pre-determined scoring scale
TOTAL	100	

Source: ANAO analysis of DAFF information

Appendix 5: Assessment of applications funded by the election commitment

Requested amount ($)	DAFF score /100	Panel decision	Election Commitment funding provided ($)	Observations or conditions on application
2 829 500	0	Not recommended	2 850 000	No assessment by the panel.
1 590 000	0	Not recommended	1 600 000	No assessment by the panel.
2 000 000	54	Recommended and approved for $1 200 000	800 000	Condition of approval for funding under the program was that the applicant was to secure the other $800 000.
1 000 000	22	Recommended and approved for $500 000	500 000	DAFF advised the financial assessor not to assess project viability for the round two application that sought $1 million and received $500 000. The round three application for the remaining $500 000 was not further assessed due to the provision of funds through the election commitment.

Source: ANAO analysis of DAFF data

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