

Administration of the Export Market Development Grants Scheme

Australian Trade Commission

© Commonwealth of Australia 2014

ISSN 1036–7632 (Print)

ISSN 2203–0352 (Online)

ISBN 0 642 81534 8 (Print)

ISBN 0 642 81535 6 (Online)

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Canberra ACT
17 December 2014

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Australian Trade Commission titled *Administration of the Export Market Development Grants Scheme*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

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

Yours sincerely

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

Ian McPhee
Auditor-General

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

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Contents

Abbreviations.....	8
Summary and Recommendations	9
Summary	11
Introduction	11
Audit objective and criteria	14
Overall conclusion	14
Key findings by chapter	16
Summary of entity response	21
Recommendations	22
Audit Findings	23
1. Background and Context	25
Introduction	25
Processing of EMDG applications	27
Number and profile of EMDG applications	29
EMDG funding arrangements	31
External reviews of the EMDG scheme	33
Audit objective, criteria and methodology	34
2. Program Management	36
Introduction	36
Planning and risk management	38
Managing fraud risks	42
Procedures and guidance to support decision-making	47
Conclusion	49
3. Registration of Applications and Initial Assessment of Risk	51
Introduction	51
Guidance for the EMDG applicants and consultants	51
Receipt and registration processes	54
Initial risk assessment of EMDG applications	58
Conclusion	61
4. Final Assessment and Distribution of Payments	64
Introduction	64
Confirmation of the initial risk assessment	64
Completion of EMDG assessments and approval of grant entitlements	68
Quality assurance mechanisms	73
Controls for supporting the payment process	76
Conclusion	78

5. Monitoring and Reporting on Performance	81
Introduction	81
Outcomes and program structure	81
External and internal reviews	85
Client satisfaction surveys	88
Conclusion	89
Appendices	91
Appendix 1: Response from the Australian Trade Commission.....	93
Appendix 2: The provisional grant entitlement and the Export Market Development Grants performance measure	96
Appendix 3: Export Market Development Grants scheme eligibility requirements.....	99
Index.....	102
Series Titles.....	103
Better Practice Guides	105

Tables

Table 1.1: Profile of EMDG grant recipients by grant year (2007–08 to 2011–12).....	31
Table 1.2: EMDG appropriations and administrative budget per financial year	32
Table 1.3: Report structure	35
Table 2.1: EMDG function (as at September 2013)	36
Table 2.2: Overview of Austrade’s risk management framework.....	40
Table 2.3: Factors affecting the likelihood and consequences of failing to effectively administer the EMDG scheme (2011–12 to 2013–14).....	41
Table 2.4: Identified EMDG fraud related incidents (2008–09 to 2013–14).....	42
Table 3.1: Mechanisms in place to inform applicants and consultants of the EMDG scheme	51
Table 4.1: Assessment activities applied to EMDG applications	65
Table 4.2: Total number of applications where an adjustment was identified and the total adjusted value for GYs 2011–12 and 2012–13	70
Table 4.3: Key system processes and controls tested for implementation (GY2012–13)	77
Table 5.1: Austrade outcome and program structure (2014–15)	82
Table A.1: Product or service eligibility	101

Figures

Figure 1.1:	High-level overview of the EMDG process.....	28
Figure 1.2:	Number of EMDG applications and recipients by grant year (2005–06 to 2011–12)	30
Figure 2.1:	Number of cases on the SIU databases and sources (as at 30 June 2014).....	45
Figure 3.1:	Awareness of the EMDG scheme	53
Figure 3.2:	High-level overview of the EMDG system	55
Figure 3.3:	Overview of the EMDG risk assessment process	59
Figure 5.1:	Actual processing times against benchmark times (GY2012–13).....	84

Abbreviations

CMS	Claims Management System
COI	Conflict of Interest
CRA	Client Risk Assessment
EDL	Electronic Document Library
EMDG	Export Market Development Grants
GY	Grant Year
ICT	Information and Communication Technology
KPIs	Key Performance Indicators
PBS	Portfolio Budget Statements
PGPA Act	Public Governance Performance and Accountability Act
QIP	Quality Incentive Program
SIU	Special Investigations Unit

Summary and Recommendations

Summary

Introduction

1. The Export Market Development Grants (EMDG) scheme was established in 1974, and is the Australian Government's principal financial assistance program for aspiring and developing exporters. Administered by the Australian Trade Commission (Austrade), the EMDG scheme aims to provide incentives to small and medium Australian enterprises for the development of export markets through reimbursement of up to 50 per cent of expenses incurred on eligible export promotion over \$15 000.¹ The EMDG scheme is not a grant program for the purposes of the Commonwealth Grant Guidelines, and consequently does not encompass the competitive, merit-based selection process of more traditional grant programs. Rather, the EMDG scheme is a benefit or an entitlement established by legislation², that assesses an applicant's eligibility against the *Export Market Development Grants Act 1997* (EMDG Act).³ The scheme does, however, use the term 'grant' to describe the payments made to eligible applicants.

2. To fulfil the eligibility requirements under the EMDG Act, an EMDG application must involve: an *eligible applicant* who has incurred an *eligible expense*; where the expense was in relation to an *eligible product*. An eligible applicant is any Australian individual, partnership, company, association, co-operative, statutory corporation or trust and approved entities under the Act including joint ventures and approved bodies, who, among other things, has an income of not more than \$50 million in the grant year and has not previously received a grant in respect of eight or more previous grant years.⁴ Eligible expenses are those that relate to specific promotional activities genuinely incurred by the applicant for marketing eligible products in foreign countries. Expenses must be in respect of eligible products, the rationale being

1 For an applicant's first two grants, the EMDG reimburses 50 per cent of those expenses above a \$5000 threshold up to a limit of \$150 000. In making an application for a third (up to the eighth grant), the applicant must satisfy the requirements of the EMDG performance measure in order to receive subsequent grants, which is explained in Appendix 2. The performance measure is intended to reduce the quantum of the EMDG grant payments commensurate with the applicant's increased international business activities.

2 Department of Finance and Deregulation (now known as the Department of Finance), Finance Circular No. 2013/01, *Other Financial Arrangements*, 1.4.3, p. 8.

3 The EMDG Act superseded the *Export Market Development Grants Act 1974*.

4 Approved bodies may receive grants beyond eight years if their approval remains current.

that the products are substantially of Australian origin. The types of eligible products are listed in the EMDG Act as: goods; services (tourism and non-tourism); events; intellectual property; and know-how.

Processing of EMDG applications

3. Potential applicants may access the EMDG scheme through: direct application to the scheme; or an EMDG consultant, who lodges an application on their behalf. Since July 2013, with the introduction of a web-based lodgement system, all applications have been lodged electronically. Applications (or claims for reimbursement) are processed through the EMDG Claims Management System (CMS), the scheme's central electronic processing system.

4. The degree of scrutiny and administrative effort applied by EMDG grant assessors is determined by the assessed level of risk of each application and the key risk that Austrade is seeking to mitigate is that of making payments to ineligible applicants. As a general rule, the CMS assigns applications so that the higher the perceived risk, the greater the level of scrutiny and effort employed by the assessors.⁵ Assessment activities range from file checks and desk audits, through to site visits. Recommendations made by the EMDG grant assessors, and the CEO of Austrade or delegate determines the EMDG applicant's entitlement to the grant.⁶ Applicants who are dissatisfied with the determination of a grant application, including the paid amount, may formally request Austrade to undertake an internal review of the decision.

5. EMDG grant payments are made under a split-payment system whereby grants are paid in two rounds: an initial payment of grant entitlements up to a specified payment ceiling amount; and a second tranche payment of grant entitlements above the initial payment ceiling amount. The initial payment ceiling amount is determined by the Minister for Trade and Investment in June each year.⁷ The extent to which the total eligible reimbursement will be paid to eligible applicants in the second tranche depends on available funds remaining in the EMDG budget, assessed at the end of each financial year. This split-payment system was designed to ensure that the appropriated funding for the scheme was not exceeded and that applicants were treated in an equitable manner.

5 In general, new applicants are considered high risk because of Austrade's lack of knowledge on the applicant and the high risk of materially incorrect claimed expenses.

6 Section 80 of the EMDG Act.

7 Section 68 of the EMDG Act.

Number and profile of EMDG applications

6. Applications for reimbursement under the EMDG scheme are processed by Austrade in subsequent financial years, for example, expenses incurred in 2012–13 will be processed in the 2013–14 financial year. The number of EMDG applications peaked for grant year⁸ (GY) 2008–09 at 5149 applications, then fell by approximately 41 per cent to 3045 applications for GY2011–12 expenses.⁹ Between 2007–08 and 2011–12 the profile of EMDG recipients by industry was: services (including ICT, tourism and education and culture) around 60 per cent; manufacturing (including food and beverage manufacturing) around 30 per cent; and primary industry (less than five per cent). The average grant paid for GY2012–13 (which was paid in 2013–14) was \$45 708.

EMDG funding arrangements

7. Expenditure under the scheme is set through annual Appropriation Acts. Since July 1997, a capping mechanism has been in place to ensure that total expenditure under the scheme is limited to appropriated funding. The cost of Austrade's administration of the scheme must not exceed, in any financial year, five per cent of the appropriated amount.¹⁰

8. The EMDG's appropriation was reduced during 2012–13 from \$150.4 million to \$125.4 million. In 2013–14, the scheme's appropriation was increased by \$12.5 million, as a result of the new Government providing additional funding of \$50 million over four years from 2013–14.¹¹

External reviews of the EMDG scheme

9. Throughout its 40 year life, the EMDG scheme has been the subject of a number of external reviews, including two ANAO performance audits in the 1990s: the ANAO Report *The Export Market Development Grants Scheme—Its Efficiency and Effectiveness* published in 1994, which focused on Austrade's administration of the scheme; and a follow-up audit in 1996.

8 A grant year is the 12 month period during which applicants have incurred expenses.

9 Austrade has cited the combined effects of the Global Financial Crisis, as well as the high Australian dollar over the period as the main reasons for the fall in demand for the scheme.

10 Section 105 of the EMDG Act.

11 Australian Government, *Mid-year Economic and Fiscal Outlook 2013–14, Expense Measures for the Foreign Affairs and Trade*, Commonwealth of Australia, Canberra.

10. The EMDG Act requires that an external review of the scheme is undertaken periodically in order to make recommendations about the EMDG's continuation.¹² The most recent external review was conducted in 2008 by David Mortimer AO (the Mortimer Review).¹³ The review examined the EMDG scheme and its impact in stimulating export growth and found that the scheme was helpful in introducing smaller Australian businesses and new exporters to the global market, and should be continued. The next legislatively mandated review is to commence no later than 1 January 2015, with the review to be completed by 30 June 2015.¹⁴

Audit objective and criteria

11. The objective of the audit was to assess the effectiveness of the Australian Trade Commission's administration of the Export Market Development Grants scheme, in providing incentives to small and medium Australian enterprises for the development of export markets.

12. To form a conclusion against the audit objective, the ANAO adopted the following high level criteria:

- effective governance arrangements, including appropriate risk management, performance measurements and reporting processes were in place;
- an accessible grant application process to maximise the attraction and selection of high quality applications was established; and
- sound processes for risk assessing, approving and distributing payments, consistent with the EMDG scheme objectives were implemented.

Overall conclusion

13. The Export Market Development Grants (EMDG) scheme provides financial assistance to small and medium Australian enterprises by offering incentives to develop export markets. The Australian Trade Commission (Austrade) is responsible for administering the scheme, which aims to support

12 Section 106A of the EMDG Act.

13 D Mortimer, *Winning World Markets: Review of the Export Market Development Grants Scheme*, 1 September 2008, Commonwealth of Australia, Canberra.

14 Section 106A(1) of the EMDG Act.

Australian businesses by encouraging additional promotional activities. In 2013–14, the EMDG scheme's appropriation was initially set at \$125.4 million, but increased by \$12.5 million, with the new Government providing additional funding of \$50 million over four years from 2013–14 to 2016–17. External reviews of the scheme have found that the EMDG successfully stimulates exports, with the latest review in 2008 estimating that each dollar provided to recipients generates between \$13.50 to \$27.00 worth of exports.¹⁵

14. The EMDG scheme has been in operation since 1974 and, reflecting this maturity, Austrade has well established practices that support the effective administration of the scheme. Overall, the mechanisms employed by Austrade to provide EMDG information and guidance to applicants and consultants are appropriate, including through the entity's website, information sessions, meetings with the export industry, brochures and the EMDG update e-newsletters. The processing and assessment of applications is underpinned by generally sound program management arrangements, with recently revised key performance indicators providing better insights into overall scheme performance. The distribution of EMDG payments and the controls supporting the payment process are also sound. In addition, clients have reported a generally high level of satisfaction with Austrade's administration of the EMDG. Nevertheless, there is scope to further strengthen aspects of Austrade's administration of the scheme, including:

- risk management and fraud risk assessment processes—some implementation risks, particularly in respect of intra-year changes to risk thresholds, were not specifically addressed in the scheme's risk management plan, and evidence of management considerations and decisions was not retained; and
- application assessment and quality assurance—the rationale for the manual changes to the assessment activities recommended by the CMS, was not consistently recorded. Implementing an EMDG quality assurance program to complement existing assurance mechanisms would also provide additional assurance regarding the integrity of the assessment process.

15 D Mortimer, *Winning World Markets: Review of the Export Market Development Grants Scheme*, 1 September 2008, Commonwealth of Australia, Canberra, p. 14.

15. To assist Austrade to further strengthen its administration of the EMDG scheme, the ANAO has made three recommendations designed to: improve risk management processes including fraud risk assessments; clarify arrangements for managing changes to risk thresholds in the Claims Management System; and enhance the transparency of the application assessment process particularly in relation to manual adjustments to assessment activities, supported by the implementation of a quality assurance program to provide additional assurance in relation to the assessment of applications.

Key findings by chapter

Program Management (Chapter 2)

16. Austrade has mature arrangements in place to guide its administration of the EMDG scheme, including planning and risk management frameworks. An EMDG specific business plan was in place for 2013–14 that included the scheme's: forward work program; strategic direction; and an outline of the challenges of operating within a capped administration budget. There was also appropriate alignment between the objectives of the 2013–14 EMDG business plan and Austrade's broader corporate plan for the same year. While Austrade's risk management framework provided entity management with a level of assurance that, in general, key risks with respect to the EMDG scheme were being appropriately identified and treated, there was scope to broaden the coverage of risk assessments. In particular, the inclusion of additional implementation risks, such as intra-year changes to the risk thresholds¹⁶ and an ageing and experienced workforce who were predominantly approaching retirement age, would provide management with greater visibility of these risks and assurance in regard to their treatment.

17. Austrade had also prepared EMDG specific fraud risk assessments in 2012 and 2014¹⁷, which outlined a broad range of fraud risks, their triggers, the current controls and strategies in place, as well as the actions needed to mitigate the risks. However, the extent to which grant assessors were consulted in the development of the assessments, and whether management

16 The EMDG risk model is periodically adjusted during the course of the year in light of available resources to process remaining applications. These adjustments can change the way applicants are treated for similar risks depending on when an application is processed.

17 Austrade did not prepare EMDG specific fraud risk assessments in 2013.

had formally accepted the fraud risk assessments, including risks identified as having inadequate controls, were not documented.¹⁸ The involvement of assessors would provide useful insights into the identification of fraud risks, given their familiarity with the day-to-day delivery of the scheme, while formal endorsement of the assessments would demonstrate management consideration of key fraud risk exposure and treatments.

18. There is a broad range of guidance material and procedural documents available to Austrade staff to inform their administration of the EMDG scheme, including the EMDG Procedures Manual and Administrative Guidelines. These materials generally provide an appropriate level of guidance and support to staff. Austrade has also developed a policy to manage potential and actual Conflicts of Interests (COI), with EMDG staff required to complete COI forms outlining relevant COIs. While Austrade is managing declared conflicts of interest in accordance with the established policy, there would be benefit in providing staff with additional guidance in relation to interactions with EMDG consultants. The involvement of consultants who are former Austrade employees and managers could pose a risk to the perceived fairness and impartiality of decisions taken by EMDG staff who had previous personal and professional relationships with these consultants and, thus these relationships require careful consideration and management.

Registration of Applications and Initial Assessment of Risk (Chapter 3)

19. Austrade has employed a broad range of approaches to build awareness of the EMDG scheme to potential applicants, including conducting information sessions and meetings with the export industry. Notwithstanding the implementation of these initiatives, there has been a steady decline in scheme awareness since 2010. Austrade's client awareness survey, conducted in 2013, showed that awareness of the scheme had declined from 87 per cent in 2010 to 77 per cent in 2013. Given these results, there would be benefit in Austrade reviewing its current communication strategies and channels for raising scheme awareness.

18 Separately, the ANAO recently completed a performance audit on Fraud Control in Government Agencies that reviewed agencies' entity wide fraud control arrangements, where Austrade is also an auditee. The audit concluded that there would be benefit in Austrade considering an approach involving more structured cross-communication between the entity's fraud units, to strengthen coordination arrangements. ANAO Audit Report No.3 2014–15 *Fraud Control Arrangements*, p. 57.

20. The processes established by Austrade to acknowledge the receipt of applications and register their lodgement were generally sound. The ANAO's analysis of applications for GYs2011–12 and 2012–13 showed that all applications were recorded as they were received, and that relevant documentation required for each EMDG application was retained on hard copy files or stored in the Claims Management System (CMS) electronic document library. Austrade officers demonstrated a sound understanding of these processes. In addition, the documentation prepared by Austrade for the application process was fit-for-purpose, with the information sought from applicants through the application form enabling EMDG officers to complete eligibility assessments.

21. Once the lodgement of an application has been registered, it is entered into Austrade's CMS. An initial risk assessment is automatically generated through the system, with a risk ranking assigned, assessment type determined and assessor allocation completed. The risk ranking and assessment type are based on thresholds (a series of percentile points in a risk continuum), and are designed to mitigate the risk of Austrade making a payment to an ineligible applicant. The thresholds are used by Austrade to derive the recommended assessment activity (for example, a file check, desk review or a site visit). The ANAO's analysis found that the CMS was correctly assigning risk rankings and that applications were correctly allocated to the appropriate EMDG officers for the years reviewed (GYs2011–12 and 2012–13).

22. Over the course of each year, Austrade adjusts thresholds as a means to balance available resources for assessment activities and the need to complete application processing within established timeframes—essentially reducing the level of scrutiny over the course of the year for some applications as a means of increasing the number of applications to be processed. These adjustments to thresholds do, however, result in applications presenting similar risk profiles being subject to different scrutiny depending on whether the applications are assessed before or after adjustments are made. Given the impact on application scrutiny, any changes to thresholds require careful consideration and appropriate authorisation. Austrade is, however, yet to document the rationale underpinning the adjustment process or the subsequent authorisation process. Further, adjustments to the thresholds are progressively 'overwritten' and, as a result, there is no audit trail that records historical changes to thresholds within the CMS, such as the risk ratings assigned to applications, previous percentile points and the reasons for adjustments.

Final Assessment and Distribution of Payments (Chapter 4)

23. Once an application is assigned to an assessor, a final assessment is undertaken and payments are determined. While Austrade has established processes and procedures to guide staff undertaking final assessments, there is scope for additional guidance to staff to reinforce the importance of adequately documenting decisions to manually adjust risk rankings. Within existing procedures, grant assessors are able to adjust the initial recommended assessment activity determined by the risk model in CMS. Approximately 30 per cent of the total applications for GYs2011–12 and 2012–13 involved a manual adjustment to the recommended assessment activity type. In general, the reasons for changes of the recommended assessment activity type were recorded by assessors, however, there was a varying level of detail provided to substantiate the need for an adjustment. Given that these adjustments represent a deviation from the automated risk model's initial risk assessment, it is important that Austrade systematically assesses the appropriateness of manual adjustments and uses this analysis to further refine its automated risk model.

24. The controls established by Austrade to provide assurance regarding the accuracy of EMDG payments were generally sound, with the ANAO's analysis confirming that EMDG grant payments for both GYs2011–12 and 2012–13 were accurate (appropriate payment amounts were calculated and paid). In the case of file checks, however, where applications are expected to have the lowest level of risk, a single officer is permitted to complete an end-to-end financial transaction without independent approval. Notwithstanding these applications having the lowest level of risk, having one person assess and approve an application is undesirable. The ANAO's analysis found that approximately 15 per cent (818 applications) of the 5510 EMDG applications lodged for GYs2011–12 and 2012–13 were assigned to, and processed by, EMDG officers that conducted both the assessment and approval of the application. Assigning end-to-end responsibility to a single officer increases the risks to the integrity of payments. Further, the ability for EMDG assessors to 'self-select' an approval officer creates additional risks. Austrade has informed the ANAO that it is considering introducing revised practices that will randomly allocate approval officers, to prevent staff from self-selecting approval officers in the future but that a final decision is yet to be determined.

25. Austrade has implemented several initiatives to provide assurance to management in relation to the quality of assessments undertaken by EMDG assessors. These initiatives include an EMDG Policy and Consistency Committee,

random audits and internal audits. Austrade is, however, yet to establish a quality assurance program that involves the regular review of a sample of applications that are analysed (for suggested improvements in the assessment process) and reported to management. Such a program would provide additional assurance that assessments are undertaken in accordance with established policies and procedures, as well as highlighting good practices and areas for improvement.

Monitoring and Reporting on Performance (Chapter 5)

26. Since its establishment, there have been a number of EMDG reviews that have found that the scheme has effectively stimulated exports for small to medium exporters. The reviews have also reported that the EMDG has contributed to additional exports (\$1.4 billion in exports based on a 1994 review and \$1.69 billion in a 2000 review). The most recent review in 2008 concluded that, although there was a small net positive economy-wide benefit derived from the scheme, the benefit was greater when positive spill-over effects were taken into account.¹⁹ In the context of export promotion, for example, the benefits of one firm's pioneering work to secure foreign sales may not accrue exclusively to it (such as in the form of increased revenues) because later entrants may be able to 'free ride' on its marketing efforts.²⁰ In other words, some early entrants may have built a reputation for Australian-produced goods or services on which later entrants can capitalise—the Australian wine industry is often cited as an example of this.²¹

27. In 2014–15, Austrade implemented a revised performance measurement framework, including revised key performance indicators (benchmarks) to better measure the overall effectiveness of the EMDG scheme. For example, one of the revised benchmarks is the proportion of EMDG recipients reporting that the receipt of a grant supported their business to become a more sustainable exporter. Austrade's annual reports for 2011–12 and 2012–13 have also reported on the scheme's performance, and on statistical information about the EMDG's applicants.²²

19 D Mortimer, *Winning World Markets: Review of the Export Market Development Grants Scheme*, 1 September 2008, p. 1.

20 *ibid*, p. 10.

21 *ibid*.

22 Information reported included: total grant recipients and value of grants; profile of the EMDG applicants and recipients by GY, including first time applicants; EMDG recipients by business type, annual income and annual export earnings; and top six countries targeted by the EMDG recipients.

28. EMDG reports internally to management on the percentage of applications processed within established benchmarks. The processing times for all assessment activities for GY2012–13 was, on average, 15 days longer than the established target. Generally speaking, the more complex the assessment activity, the greater the disparity between the benchmark and actual processing times. There would be benefit in Austrade reviewing the reasons for the increasing disparity, and revising its benchmarking approach, as necessary.

Summary of entity response

29. Austrade's summary response to the proposed report is provided below, with the full response at Appendix 1.

Austrade accepts the ANAO's recommendations in full with the majority either implemented or currently subject to implementation and those remaining awaiting the completion of the annual grant cycle before implementation. Austrade notes that the ANAO's observations that EMDG risk management and grant payment mechanisms are generally sound provides assurance to the Government, Austrade management and industry stakeholders and increases public confidence in the scheme.

Recommendations

Recommendation No. 1

Paragraph 2.40

To strengthen the program management arrangements underpinning the Export Market Development Grants (EMDG) scheme, the ANAO recommends that Austrade:

- (a) considers a broader range of risks that affect the administration of the scheme in preparing its risk management plan; and
- (b) documents the involvement of relevant EMDG officers and staff in the development and review of the fraud risk assessments, including the formal acceptance of risks and controls by management.

Austrade's response: *Agreed*

Recommendation No. 2

Paragraph 3.29

To strengthen decision-making under the Export Market Development Grants (EMDG) scheme assessment process, the ANAO recommends that Austrade documents the analysis, review and approval processes for adjusting the risk assessment model thresholds in the Claims Management System.

Austrade's response: *Agreed*

Recommendation No. 3

Paragraph 4.47

To enhance assurance in respect of the assessment and distribution of payments for the Export Market Development Grants (EMDG) scheme, the ANAO recommends that Austrade:

- (a) systematically assesses the appropriateness of manual adjustments to recommended assessment activities and uses this analysis to refine its automated risk model; and
- (b) develop and implement a quality assurance program to provide additional assurance that the scheme is being administered consistently, and in accordance with requirements.

Austrade's response: *Agreed*

Audit Findings

1. Background and Context

This chapter provides an overview of the Export Market Development Grants scheme and sets out the audit objective, scope and criteria.

Introduction

1.1 The Export Market Development Grants (EMDG) scheme was established in 1974, and is the Australian Government's principal financial assistance program for aspiring and developing exporters. Administered by the Australian Trade Commission (Austrade), the EMDG scheme aims to provide incentives to small and medium Australian enterprises for the development of export markets through reimbursement of up to 50 per cent of expenses incurred on eligible export promotion over \$15 000.²³ The scheme provides eligible applicants with one grant per year up to a maximum of eight grants.²⁴ Applications open in July of each year and close on the last business day of November.²⁵

1.2 The EMDG scheme is not a grant program for the purposes of the Commonwealth Grant Guidelines, and consequently does not encompass the competitive, merit-based selection process of more traditional grant programs. Rather, the EMDG scheme is a benefit or an entitlement established by legislation²⁶ that assesses an applicant's eligibility against the *Export Market Development Grants Act 1997* (EMDG Act).²⁷ The scheme does, however, use the term 'grant' to describe the payments made to eligible applicants.

23 For an applicant's first two grants, the EMDG reimburses 50 per cent of those expenses above a \$5000 threshold up to a limit of \$150 000. In making an application for a third (up to the eighth grant), the applicant must satisfy the requirements of the EMDG performance measure in order to receive subsequent grants, which is explained in Appendix 2. The performance measure is intended to reduce the quantum of the EMDG grant payment commensurate with the applicant's increased international business activities.

24 These requirements apply from 2014–15.

25 Applications for 2013–14 grant year opened on 1 July 2013 and closed on 2 December 2013 as 30 November 2013 fell on a Saturday. Applications lodged by certain consultants approved by Austrade in the consultant Quality Incentive Program are permitted to lodge their applications by the end of February.

26 Department of Finance and Deregulation (now known as the Department of Finance), Finance Circular No. 2013/01, *Other Financial Arrangements*, 1.4.3, p. 8.

27 The EMDG Act superseded the *Export Market Development Grants Act 1974*.

Export Market Development Grants Act

1.3 The underlying principle for the EMDG scheme is to support Australian businesses in the export of substantially Australian products by encouraging them to undertake additional promotional activities. To fulfil the eligibility requirements under the EMDG Act, an EMDG application must involve: an *eligible applicant* who has incurred an *eligible expense*; where the expense was in relation to an *eligible product*.²⁸

1.4 Under the EMDG Act, an eligible applicant is any Australian individual, partnership, company, association, co-operative, statutory corporation or trust, who, among other things, has an income of not more than \$50 million in the grant year and has not previously received a grant in respect of eight or more previous grant years.²⁹ Special approval may also be granted to groups and organisations that are not otherwise eligible under 'approved joint venture' or 'approved body' status.³⁰

1.5 Eligible expenses are those that relate to specific promotional activities genuinely incurred by the applicant for marketing eligible products in foreign countries. Ineligible expenses are those arising from production or from product development, distribution or certification. The types of expenses that qualify include expenses for overseas representatives, marketing consultants and marketing visits.

1.6 Expenses must be in respect of eligible products, the rationale being that the products are substantially of Australian origin. The types of eligible products are listed in the EMDG Act as: goods, services (tourism and non-tourism), events, intellectual property and know-how. For each eligible product, the EMDG Act requires that a degree of connection between the product and Australia be demonstrated.³¹

28 The eligibility requirements under the EMDG Act are detailed in Appendix 3.

29 Sections 6–7 of the EMDG Act.

30 Sections 7(2) and 89 of the EMDG Act. The approved joint ventures and approved bodies are described in Appendix 3.

31 For example, under s 24, a good is eligible if: the good is made in Australia; or the CEO of Austrade is satisfied that Australia will derive a significant net benefit from the sale of the goods outside Australia. For a detailed version of the eligibility requirements under the Act, see Appendix 3.

Processing of EMDG applications

Access and registration to the scheme

1.7 Potential applicants may access the EMDG scheme in one of two ways: direct application to the scheme; or through an EMDG consultant, who lodges an application on behalf of the applicant. Since 2013–14, all applications have been lodged electronically with the introduction of a web-based lodgement system in July 2013.³²

1.8 Applications (or claims for reimbursement) are processed through the EMDG Claims Management System (CMS), the scheme's central electronic processing system. The CMS performs: a general eligibility check; an initial risk assessment; and, based on the defined risk parameter, automatically assigns applications to an initial assessment type. There are different grants assessment types that vary in terms of the degree of scrutiny and administrative effort. As a general rule, the CMS assigns applications so that the higher the claim's perceived risk, the greater the level of scrutiny and effort employed by Austrade. Assessment activities range from file checks and desk audits, to site visits.

Final assessment of EMDG applications

1.9 The CMS also assigns each application to an EMDG officer who is presented with a summary of the risk ranking and recommended assessment activity in a Client Risk Assessment (CRA). The assignment of an EMDG application to the appropriate EMDG officer is a key control in processing EMDG applications for reimbursement. Depending on the risk assessment rankings generated by the system, an EMDG application is assigned to either a senior EMDG officer or a grant assessor. In general, higher risk applications are assigned to senior EMDG officers and low to medium risk applications are assigned to grant assessors.

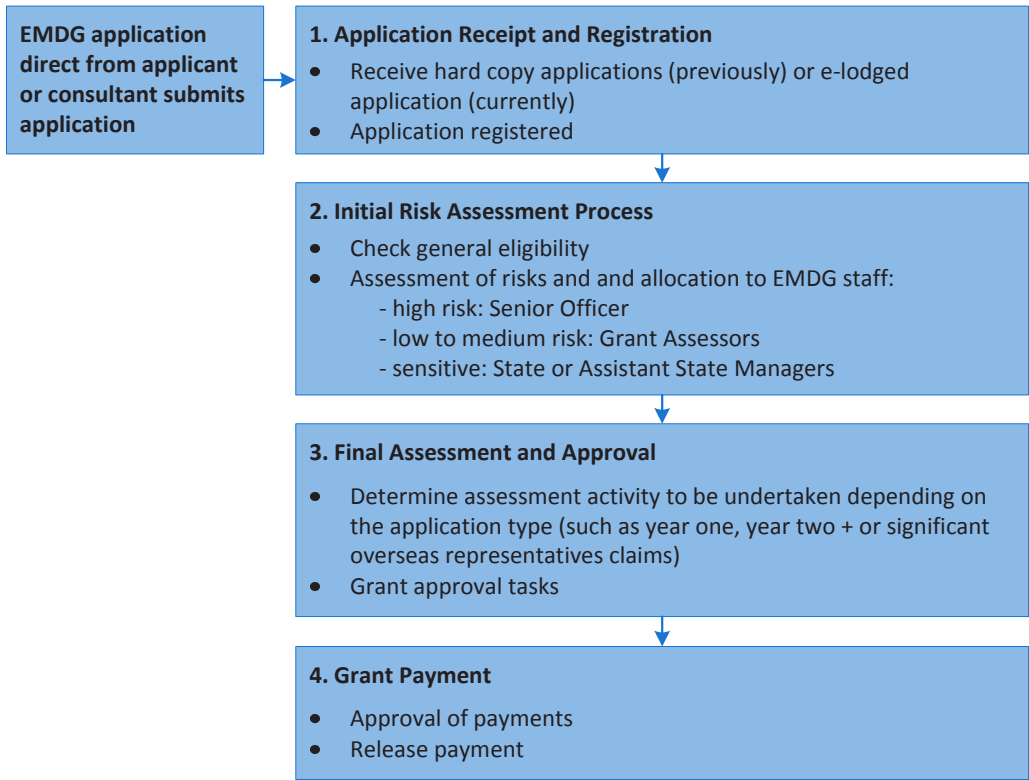
1.10 All completed applications are independently reviewed by an officer with the delegation to approve a recommendation by a grants assessor.³³ Approval officers are responsible for the overall accuracy and quality of

32 Prior to and including FY2012–13 (for GY2011–12 expenses and earlier), applications direct from applicants were paper applications and only consultant-prepared applications were lodged electronically.

33 File checks are excluded from these applications.

assessment work. Decisions on assessments are made by the EMDG grant assessors, with the CEO of Austrade to determine the EMDG applicant's entitlement to the grant.³⁴ A high-level overview of the EMDG process is illustrated in Figure 1.1.

Figure 1.1: High-level overview of the EMDG process



Source: ANAO analysis of Austrade documentation.

Payment of approved grants

1.11 EMDG grant payments are made under a split-payment system, which is intended to ensure that spending under the EMDG is kept within budget. Under the split-payment system, grants are paid in two rounds:

- An initial payment of grant entitlements up to a specified payment ceiling amount; and

34 Section 80 of the EMDG Act.

- A second tranche payment of grant entitlements above the initial payment ceiling amount.

1.12 The initial payment ceiling amount is a fixed amount decided by the Minister for Trade and Investment in advance of the financial year under s 68 of the EMDG Act. Applications that have been approved at or below the initial payment ceiling amount are eligible to receive the entire grant, once approved. For applications with approved amounts above the initial payment ceiling, applicants are eligible to receive: a preliminary payment at the initial payment ceiling amount when the claim is approved; and all or a proportion of the balance at the end of the financial year. The extent to which the total balance will be paid depends on available funds remaining in the EMDG budget, assessed at the end of the financial year.³⁵

Internal and external review of assessment decisions

1.13 Applicants who are dissatisfied with the determination of a grant application may formally request Austrade to undertake an internal review of the decision.³⁶ An internal review decision may be appealed to the Administrative Appeals Tribunal.³⁷ Other sources of external review are through the *Freedom of Information Act 1982*, Commonwealth Ombudsman and the Federal Court under the *Administrative Decisions (Judicial Review) Act 1979* are also available.

Number and profile of EMDG applications

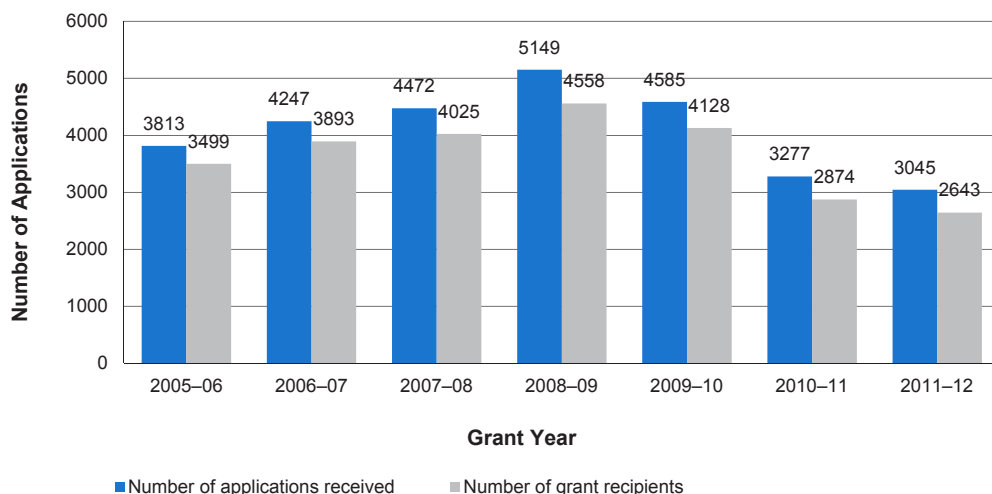
1.14 In recent years, the number of EMDG applicants and recipients has risen and fallen within a relatively narrow band (2643 to 5149). Figure 1.2 shows the number of EMDG applications and recipients by grant year from 2005–06 to 2011–12.

35 Sections 81–82 of the EMDG Act.

36 Sections 97–98 of the EMDG Act.

37 Section 99 of the EMDG Act.

Figure 1.2: Number of EMDG applications and recipients by grant year (2005–06 to 2011–12)



Source: Austrade Annual Reports.

1.15 A grant year (GY) is the 12 month period during which applicants have incurred expenses. Applications for reimbursement under the EMDG scheme are processed by Austrade in subsequent financial years, for example, expenses incurred in 2012–13 are processed in the 2013–14 financial year. Austrade reports that the number of applications peaked for GY2008–09 at 5149 applications due to amendments in the EMDG Act that broadened the scope of potential EMDG applications.³⁸ The number of applications then fell by approximately 41 per cent to 3045 applications for GY2011–12 expenses. Austrade has cited the combined effects of the Global Financial Crisis, as well as the high Australian dollar over the period as the main reasons for the fall in demand for the scheme.

1.16 EMDG recipients comprise a broad range of Australian exporting businesses. Between 2007–08 and 2011–12, the profile of EMDG grant recipients by industry was: services (including ICT, tourism and education and culture) around 60 per cent; manufacturing (including food and beverage manufacturing) around 30 per cent; and primary industry (less than five per cent). The average grant paid for GY 2012–13 (which was paid in 2013–14) was \$45 708. Table 1.1 further illustrates the profile of EMDG grant recipients.

38 Amendments to the EMDG Act took effect in June 2008 and included, among other things: a \$5000 reduction in the minimum eligible expenditure (to \$10 000); expanding eligible applicants to those with a maximum yearly turnover of \$50 million instead of \$30 million; and increasing the number of grants that an applicant could claim from seven to eight.

Table 1.1: Profile of EMDG grant recipients by grant year (2007–08 to 2011–12)

	2007–08	2008–09	2009–10	2010–11	2011–12
Total value of grants paid (\$ million)	180.7	190.4	130.2	120.2	113.5
Average value of grant (\$)	44 892	41 768	31 531	41 818	42 950
Median grant (\$)	30 678	27 828	25 050	28 421	28 182
Recipients from rural and regional areas (% of recipients)	23	24	25	22	21
First time applicants (% of recipients)	27	30	27	23	26

Source: Austrade Annual Reports.

EMDG funding arrangements

1.17 Expenditure under the scheme is provided for by annual Appropriation Acts. Since July 1997, a capping mechanism has been in place to ensure that total expenditure under the scheme is limited to the appropriated amount. The cost of the administration must not exceed, in any financial year, five per cent of the appropriated amount.³⁹ Table 1.2 outlines the EMDG annual appropriation, administrative budget and reported actual expenses.

39 Section 105 of the EMDG Act.

Table 1.2: EMDG appropriations and administrative budget per financial year

Financial Year	Appropriation (\$ million)	Total Allowable Administrative Cost Component (\$ million)	Reported Total Expenses ⁽¹⁾ (\$ million)
2008–09	200.4	8.4	194.3
2009–10	200.4	10.0	208.1
2010–11	150.4	7.5	150.6
2011–12	150.4	7.5	133.1
2012–13	125.4	7.5 ⁽²⁾	127.9
2013–14	137.9	7.3 ⁽³⁾	120.9
2014–15	137.9	6.9	–

Source: Austrade Portfolio Budget Statements and available Austrade annual reports.

Note 1: Comprises the reported total value of grants paid plus administration costs per financial year.

Note 2: The cap of administration costs is calculated on the appropriated amount. In this year, the EMDG budget was changed during the year. However, the mechanism for this did not change the appropriated amount until after the financial year closed.

Note 3: The amendment to the EMDG Act in 2014 (s 105(2)) provided for additional administrative expenditure from other sources. This enabled Austrade to provide an additional \$0.4 million from departmental funds.

1.18 The scheme's appropriation was reduced during 2012–13 to \$125.4 million, following the release of the (then) Government's Mid-year Economic and Fiscal Outlook. In 2013–14, the scheme's appropriation was initially maintained at \$125.4 million, but was later increased by \$12.5 million, as a result of the new Government providing additional funding of \$50 million over four years (or \$12.5 million per year from 2013–14 to 2016–17).⁴⁰

1.19 Under s105 of the EMDG Act, administration costs must not exceed five per cent of the funding appropriated by Parliament for the scheme. In March 2014, Austrade became aware that it would exceed the legislative cap on administrative costs for the 2013–14 financial year (in respect of 2012–13 expenses) as a result of an accounting oversight. To address this issue, Austrade sought and obtained approval from government for an amendment to s105 of the Act on 21 March 2014. The EMDG Act currently has the effect that additional administration costs above the five per cent cap may be met from departmental appropriations, but only in respect of the 2013–14

40 Australian Government, *Mid-year Economic and Fiscal Outlook 2013–14, Expense Measures for the Foreign Affairs and Trade*, Commonwealth of Australia, Canberra.

financial year. Subsequent financial years are still subject to the cap on administrative expenses at five per cent of the amount appropriated to the scheme alone.

External reviews of the EMDG scheme

Previous ANAO audits

1.20 Throughout its 40 year life, the EMDG scheme has been subject to a number of external reviews, including two ANAO performance audits in the 1990s. The ANAO Report *The Export Market Development Grants Scheme-Its Efficiency and Effectiveness*⁴¹ published in 1994 focused on Austrade's administration of the scheme and found, among other things, that improvements could be made in respect of:

- the documentation relating to strategic planning;
- the entity's fraud control plan;
- the risk assessment of applications; and
- reporting of information on the use and effectiveness of the scheme to Parliament.

1.21 In a follow-up audit in 1996 it was found that of the 20 recommendations in the original report, most (13) had been implemented in full, with four partially implemented.

External reviews

1.22 The EMDG Act requires that an external review of the scheme is undertaken periodically in order to make recommendations about EMDG's continuation.⁴² The most recent external review was conducted in 2008 by David Mortimer AO (the Mortimer Review).⁴³ The review examined the EMDG scheme and its impact in stimulating export growth. Using econometric analysis it found, among other things, that: the scheme was helpful in introducing smaller Australian businesses and new exporters to the global

41 ANAO, *The Export Market Development Grants Scheme-Its Efficiency and Effectiveness*, Audit Report No.33 1993–94.

42 Section 106A of the EMDG Act.

43 D Mortimer, *Winning World Markets: Review of the Export Market Development Grants Scheme*, 1 September 2008, Commonwealth of Australia, Canberra.

market; there was a small positive net benefit based on economy-wide modelling (which was greater when spill-over effects were taken into account); and that the funding arrangements for the EMDG caused difficulties for Austrade in administering the scheme as well as for recipients who could not be certain as to the actual grant amount that was to be paid. The next legislatively mandated review is to commence no later than 1 January 2015, with the review completed by 30 June 2015.⁴⁴

Audit objective, criteria and methodology

Audit objective

1.23 The objective of the audit was to assess the effectiveness of the Australian Trade Commission's administration of the Export Market Development Grants scheme, in providing incentives to small and medium Australian enterprises for the development of export markets.

Audit criteria

1.24 To form a conclusion against the audit objective, the ANAO adopted the following high level criteria:

- effective governance arrangements, including appropriate risk management, performance measurements and reporting processes were in place;
- an accessible grant application process to maximise the attraction and selection of high quality applications was established; and
- sound processes for risk assessing, approving and distributing payments, consistent with the EMDG scheme objectives were implemented.

Audit methodology

1.25 The focus of the audit was on the program management and administrative arrangements and key elements of the EMDG scheme, from the application phase to the release of payments, including the EMDG Claims Management System (CMS). A stratified sample of 1699 applications from the 2011–12 and 2012–13 grant years were analysed, as well as an automated analysis of all EMDG applications for the two grant years. Interviews were also

44 Section 106A(1) of the EMDG Act.

conducted with relevant staff from Austrade, particularly with selected EMDG State Managers and Grant Assessors. EMDG related performance and customer satisfaction information was also reviewed. Audit fieldwork was undertaken in Austrade's head office in Sydney, as well as in Melbourne, Adelaide and Canberra.

1.26 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$451 977.

Report structure

1.27 The structure of the report is outlined in Table 1.3.

Table 1.3: Report structure

Chapter	Chapter Overview
2. Program Management	Examines the program management arrangements underpinning the EMDG scheme.
3. Registration of Applications and Initial Assessment of Risk	Examines Austrade's receipt and registration of EMDG applications and its initial assessment of risk.
4. Final Assessment and Distribution of Payments	Examines the final assessment of EMDG claims, including quality assurance mechanisms and the distribution of payments.
5. Monitoring and Reporting on Performance	Examines Austrade's approach to monitoring and reporting on the performance of the EMDG scheme and outcomes of its activities.

2. Program Management

This chapter examines the program management arrangements underpinning the EMDG scheme.

Introduction

2.1 The management of the EMDG scheme has evolved over the 40 years since it was established. In September 2013, the EMDG was part of Austrade's Education and Corporations team, under the Programs, Consular and Business Services Division. The Division, headed by the General Manager, had oversight of the administration of the EMDG scheme, as well as Austrade's consular and business service functions.⁴⁵ As at September 2013, the EMDG function had four core units⁴⁶, as outlined in Table 2.1.

Table 2.1: EMDG function (as at September 2013)

Unit	Responsibilities
EMDG Operations	Managed all operational functions and issues that include: coaching claimants and potential claimants; advice on the claim lodgement system; advice on claim eligibility; receipt of applications; application assessment; appeals and management of AAT cases; day-to-day EMDG consultant issues; implementation of changes and other related functions.
EMDG Policy and Scheme Development	Responsibilities include: policy setting and interpretation (this would include advice to government on policy options such as policy formulation and framing legislation, regulations and guidelines for government decision); maintenance and development of the EMDG systems; reviews of the scheme and inputs to major and minor reviews; data requests; risk strategy, modelling and reporting; major audit activities; communications and marketing; consultant management and liaison with industry, consultants and allies; and correspondence and reporting.
Special Investigations Unit (SIU)	Responsible for fraud awareness and deterrent activities within the EMDG scheme; investigations; liaison with the Commonwealth Director of Public Prosecutions; project activities to identify and deter fraud; and assessment of higher risk applications.
Central office management function	The unit is involved in all of EMDG budgeting and reporting, purchasing and monitoring of financial activities that include credit card use.

Source: Austrade.

45 The consular and business services functions include Austrade's property functions, consular and passport services for Austrade Consulates, coordination with the Department of Foreign Affairs and Trade, business continuity planning and insurances.

46 The EMDG function had 47 staff, with 45 full-time employees.

2.2 Austrade's EMDG senior officers and grant assessors are primarily responsible for undertaking the audit or assessment of grant applications.⁴⁷ As at June 2014, these staff operated out of the five EMDG state offices: Sydney (for New South Wales and the Australian Capital Territory); Melbourne (for Victoria and Tasmania); Brisbane; Adelaide (for South Australia and Northern Territory); and Perth.

2.3 From 1 July 2014, Austrade advised that responsibility for EMDG moved from the Education and Corporations team to the Tourism Investment Education and Programmes Group. This re-structure included the re-engagement of an ongoing Risk Manager and a Communications Officer. EMDG Operations now includes a Central Assessment Team (CAT) reporting to a Manager. Unlike the previous structure, the CAT is assigned applications from anywhere in Australia rather than specific states or territories.⁴⁸ In addition to the CAT, there are three regional teams that assess, in the main, applications from exporters seeking assistance under the scheme for the first time. The three regional managers are based in Sydney, Melbourne and Brisbane.⁴⁹

2.4 The roles and responsibilities of the EMDG senior officers and grant assessors are defined in their individual annual Performance Plans. The ANAO interviewed 19 operational staff outposted to four state offices. A number of these officers had many years of experience in their current role, often with an accounting or business background, and demonstrated a sound understanding of their responsibilities.⁵⁰ Staff are provided with appropriate guidance⁵¹ and training. Additional technical support on the interpretation of the EMDG Act is also available to staff from the Legislation and Policy Coordination Section.

47 The EMDG Procedures Manual (as at January 2013) qualify the following as Senior Officers: the EMDG State Managers; the Manager Operations, Strategic Support; the Manager for Legislation and Policy Co-ordination; MEDG Assistant State Managers; Senior Grant Assessors; Manager for Special Investigations; Assistant Manager for Special Investigations; and Special Investigator.

48 The applications assessed by CAT have a lower level of audit effort applied, with the team expected to assess around two thirds of applications.

49 To better balance the responsibilities between teams, the Brisbane Regional Manager covers Queensland, the Northern Territory, South Australia and Western Australia. The Sydney based manager covers New South Wales and the ACT. The Melbourne based manager covers Victoria and Tasmania.

50 The average work experience of the EMDG officers conducting assessments was extensive, at 13.6 years.

51 Austrade's EMDG Procedures Manual (as at January 2013) is one of several documents used by Austrade staff to assist decision-making regarding the assessment of the EMDG applications. The Procedures Manual is intended to complement the EMDG Administrative Guidelines as well as other related key government documents.

2.5 The ANAO's review of Austrade's program management arrangements for the EMDG scheme included the examination of: planning and risk management practices; managing fraud risks; and processes for dealing with conflict of interest.

Planning and risk management

2.6 Austrade's long-term strategic direction was outlined in its 2013–14 corporate plan. The plan detailed: the entity's key priorities for the year; its primary activities; outcomes; and performance measures in order to meet its strategic goals. The strategic goals included (but were not limited to):

- providing assistance to Australian businesses and education institutions;
- focusing on Asian, growth and emerging markets;
- focusing on established markets, such as North America and Europe;
- aligning foreign direct investment with agreed government priorities in target markets;
- continuing to work with industry and internationally on its branding: *Australia Unlimited* and *Future Unlimited*; and
- administering the Asian Century Business Engagement Plan.⁵²

2.7 The ANAO reviewed the 2013–14 EMDG business plan, which included the EMDG work program for the year. The plan outlined the scheme's strategic direction⁵³, and the challenges faced when working within a capped administration budget. An assessment of some of the entity's high level risks and its risk management approach were also included. The ANAO observed that there was appropriate alignment between the 2013–14 EMDG business plan and Austrade's corporate plan for the same year. Overall, Austrade's strategic and program level (EMDG) planning processes provided a sound foundation for the entity's operational activities.

52 The Asian Century Business Engagement Plan is a new program that commenced in July 2013 to assist member-based Australian business organisations to harness commercial opportunities in the Asian region.

53 The EMDG strategic direction includes: the Government's changes to the legislation; reduced over claiming at lodgement; end-to-end electronic process; improving client service; measuring and managing productivity and efficiency; process improvement and better technology; and improving staff acceptance.

2.8 Austrade released its current corporate plan for 2014–15 to 2018–19 in July 2014. The new plan outlined the entity’s strategies and priorities for the four years, which include, that Austrade will:

- continue to help Australian businesses and institutions make the most of international business opportunities and promote Australia as a desirable foreign investment destination;
- strengthen its skills relevant to investment and play a stronger role supporting Australia’s Minister for Trade and Investment;
- continue to promote Australia’s education and training sector, work to strengthen the tourism industry, and use its unique commercial perspective to inform policy development; and
- deliver consular services in a number of locations.⁵⁴

2.9 The administration of the EMDG scheme is identified in the current corporate plan as one of Austrade’s roles in helping Australian companies grow their business in international markets.⁵⁵ The effective management of the entity’s risks is central to Austrade achieving this outcome.

Risk management

2.10 Austrade’s risk management arrangements are established through the entity’s Chief Executive Instruction on risk management (CEI 13), its corporate governance framework and risk management plan. These arrangements outline the entity’s overall risk appetite and its approach to managing its key risks, including those relating to the EMDG. An overview of Austrade’s risk management framework is shown in Table 2.2.

54 Austrade Corporate Plan 2014–15 to 2018–19, p. 3. At the time of preparing this report, the 2014–15 business plan was under development.

55 *ibid*, p. 4.

Table 2.2: Overview of Austrade’s risk management framework

<p>Austrade’s risk management policy comprises the following:</p> <ul style="list-style-type: none">• Chief Executive Instruction 13 on risk management;• Corporate Governance Framework; and• Entity’s Risk Management Plan.
<p>Other corporate policies and guidelines that support Austrade’s risk management policy include the entity’s:</p> <ul style="list-style-type: none">• Fraud Control Plan and Fraud Control Guidelines;• Business Continuity Framework and Plans;• Security Policy, IT Security Policy and Protective Security Instructions;• Risk Management Toolkit; and• Delegations Schedule.

Source: Austrade Chief Executive Instruction 13 on risk management.

2.11 Austrade’s corporate and operational plans are supported by the ‘Agency Risk Management Plan’, which identifies the enterprise wide strategic, transitional and operational risks that may impact on Austrade’s ability to achieve its strategic objectives and priorities. The controls in place to ensure that objectives are met, together with a residual risk rating are also outlined.⁵⁶ The failure to appropriately administer the EMDG scheme, including its operational improvement initiatives to meet budget requirements is identified as one of Austrade’s operational risks.

2.12 From 2011–12 to 2013–14, Austrade identified the factors influencing the likelihood and consequences of failing to appropriately administer the EMDG scheme. An example of these covering the period 2011–12 to 2013–14 is provided in Table 2.3.

56 Austrade Chief Executive Instruction 13 – Risk Management, October 2011.

Table 2.3: Factors affecting the likelihood and consequences of failing to effectively administer the EMDG scheme (2011–12 to 2013–14)

Factors Influencing Likelihood	Description of Consequences
<ul style="list-style-type: none"> • Defined administration budget constrains administration of the scheme. Funding available for administration limited to five per cent of the EMDG scheme's appropriation. • Pressure on administration budget with growth in claim numbers and declining budget from limits on resources for detailed investigation work. • Pay-out rates reflect funding allocation and consequently a higher demand than available funding will result in a less than 100 percent payout rate and affect the scheme's impact. • Risk of instances of fraud not being identified. 	<ul style="list-style-type: none"> • Inappropriate payment of grants. • Damage to Austrade's reputation. • Scheme not achieving objectives leading to scheme closure.

Source: Austrade Agency Risk Management Plans.

2.13 The 2011–12 to 2013–14 plans outlined a variety of controls at the policy and operational levels to address risks identified for the EMDG scheme, such as 'monitoring implementation of Austrade's reforms' and 'five-point eligibility check for all new organisations to Austrade'. The residual overall risk rating was 'High' in the 2011–12 and 'Medium' in the 2012–13 and 2013–14.

2.14 In general, Austrade's risk management framework provides its Executive with reasonable assurance that key risks with respect to the EMDG scheme will be dealt with effectively, and risk treatments are appropriately implemented and monitored. However, there were specific risks to the administration of the EMDG that have not been included in the program's risk management plan, and which may warrant closer consideration. These risks include:

- **Intra-year changes to risk thresholds may raise the perception of inconsistent or inequitable application of risk treatments.** The EMDG risk model is periodically adjusted during the course of the year in light of available resources to process remaining applications. These adjustments can change the way applicants are treated for similar risks depending on when an application is processed. While the risk management plans identified the capped administration budget and pressures of processing increasing claim numbers (as outlined in Table 2.3), the nature of this particular risk was not clearly articulated.

- **Loss of experienced officers.** The workforce of EMDG Operations comprised senior officers with considerable experience in either EMDG or Austrade. The risks presented by an ageing workforce who were predominantly of retirement age, and the loss of valuable knowledge and expertise on technical aspects of the EMDG Act and its interpretations are not specifically addressed in the program risk plan (as outlined in Table 2.3).

2.15 Austrade has informed the ANAO that it is in the process of revising its risk management plan to take into account the findings of a 2014 internal review with a view to including a broader range of risks in its program risk plan, including those identified by the ANAO.

Managing fraud risks

Fraud against the scheme

2.16 Ensuring that appropriate fraud controls are in place continues to be an important function in Australian Government entities. Notwithstanding the financial and personal cost of fraud, the reputational damage to entities can be direct and long-lasting.⁵⁷ The risk of fraud within the EMDG scheme has been consistently categorised as a high inherent risk for Austrade. There was a total of 53 EMDG fraud related incidents identified by Austrade from 2008–09 to 2012–13 as shown in Table 2.4.

Table 2.4: Identified EMDG fraud related incidents (2008–09 to 2013–14)

Financial Year	Number of Cases	Case Values (Total Approximate \$ Value)
2008–09	8	364 702
2009–10	11	345 167
2010–11	6	166 730
2011–12	2	111 580
2012–13	5	290 418
2013–14	21	1 290 000
Totals	53	2 568 597

Source: Austrade information.

57 ANAO Better Practice Guide, *Fraud Control in Australian Government Entities*, March 2011, p. 1.

2.17 Of the 53 identified fraud incidents, there were six cases of actual losses to the Commonwealth, where grant payments were made to fraudulent EMDG applicants. The first case was in 2008–09 where there was an actual loss to the Commonwealth of \$21 300, and the second case was in 2009–10 when the actual loss was \$30 613. One case of fraud in 2009–10 for the amount \$11 186 has been recovered through the courts. There were four cases of fraud for 2013–14 where the actual loss to the Commonwealth was \$88 586.⁵⁸ The remaining 47 identified cases of fraud were detected prior to the EMDG grants being paid.

2.18 There were no convictions of fraud against the EMDG scheme during 2013–14.⁵⁹ However, one case was with the Commonwealth Director of Public Prosecutions for consideration as to whether to commence court proceedings.⁶⁰

Strategies to minimise fraud

2.19 To minimise fraud and abuse within the scheme, Austrade has adopted the following strategies:

- establishing a Special Investigation Unit (SIU) for the EMDG scheme;
- putting in place a Fraud Hotline for reporting suspected fraud under the EMDG scheme, including contact details of the Fraud Hotline being listed on EMDG publications and on the Austrade website;
- requiring applicants to provide documentation at the time of lodgement of applications;
- analysing and assessing applications by SIU on the basis of industry, assessment types, expenditure categories, EMDG consultants, and lodgement patterns (applicants and EMDG consultants are aware that applications may be subject to closer scrutiny);
- making changes to the EMDG Act to incorporate additional deterrents, such as Section 56A claiming of cash payments capped at \$10 000, and section 87AA relating to Not Fit and Proper persons;
- developing and implementing an SIU Alert system and analytical tools to identify high risk of fraud or over claiming;

58 These cases are still active.

59 Austrade, *Annual Report 2012–13*, p. 78.

60 *ibid.*

- delivering fraud awareness presentations to the EMDG grant assessors to ensure appropriate internal referrals; and
- advising potential applicants at information sessions of the role and responsibilities of the SIU.

2.20 A key strategy to deter fraud against the EMDG scheme was the establishment of the SIU, which was prompted by an ANAO performance audit in 1995. The SIU is responsible for deterring, detecting and investigating fraud and in meeting Austrade's responsibilities under the Commonwealth Fraud Guidelines with regards to the EMDG scheme.

2.21 The SIU function is also independent of grant processing operations and is directly responsible to the General Manager of the EMDG scheme. As at June 2014, the SIU team had four full-time staff located in Sydney and Melbourne comprising a Manager, Assistant Manager and two Investigators.⁶¹ The SIU conducts investigations and examines cases where there has been an attempt to obtain a grant, or increase the amount of a grant that would not otherwise have been payable.⁶²

Sources of the SIU's work or investigations

2.22 The SIU's investigation workload is primarily sourced from:

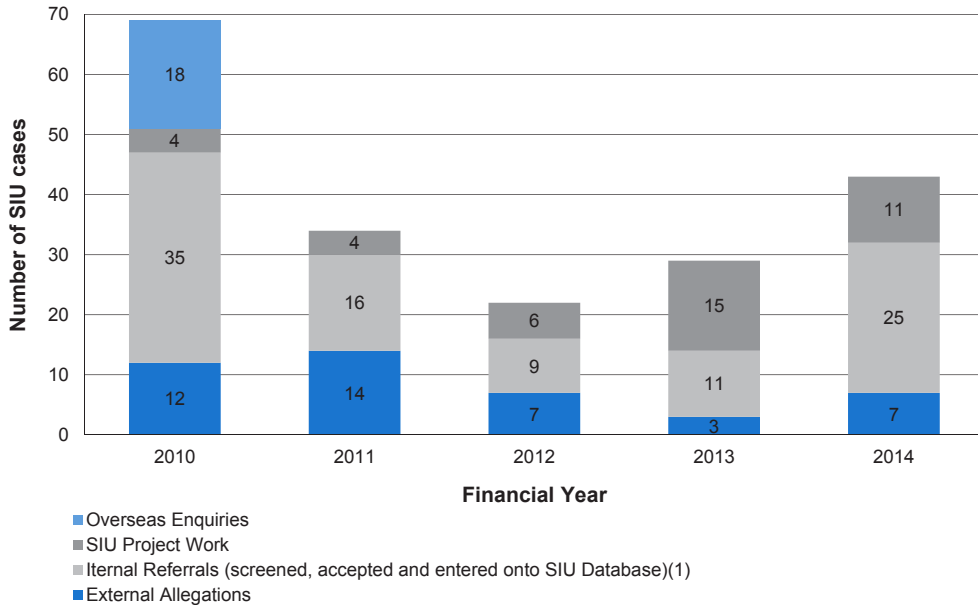
- external allegations—referrals from parties outside Austrade;
- internal referrals—referrals from the EMDG grant assessors;
- SIU project work—undertaken by the SIU on perceived high risk cases and general audits for which an SIU case is commenced; and
- overseas enquiries—checks conducted by Austrade agents or through EMDG staff overseas visits for which an SIU case is commenced.

2.23 Figure 2.1 illustrates the number of fraud cases on the SIU database and sources. The number of new fraud cases peaked in 2010 (GY 2008–09), with 69 cases being recorded. Austrade attributed this increase to the large number of applications received in that grant year, as well as new cases from overseas enquiries.

61 In July 2014, the SIU advised that one of the investigators had taken a voluntary redundancy and had not been replaced.

62 The SIU investigation officers are not investigating officials as defined by section 3ZQA of the *Crimes Act 1914*. In addition, they are not law enforcement officers and have no power of arrest or any special powers.

Figure 2.1: Number of cases on the SIU databases and sources (as at 30 June 2014)



Source: ANAO analysis of Austrade data.

Note 1: Excludes cases that have been referred to, but not accepted by, the SIU.

2.24 The total number of new fraud cases decreased by approximately 50 per cent from 2010, but has remained relatively stable over recent years.⁶³ Austrade has also advised that overseas enquiries by SIU staff ceased in 2010 due to funding constraints. Currently, the majority of SIU investigations is sourced from internal referrals.

2.25 Austrade has advised that the number of internal referrals has decreased since 2010 and this reduction has mostly been attributed to the emphasis being given to processing 95 per cent of applications in any given financial year. The SIU indicated that fewer applications are being referred for investigation, as EMDG staff are aware that investigations can be time-consuming and are reluctant to refer instances of potential fraud to SIU. While maintaining a strong focus on processing time is an important consideration, the ANAO considers that this focus should not override the need to conduct investigations where warranted.

⁶³ The ANAO was advised that when required, inquiries on behalf of the SIU to the EMDG applicants or representatives based overseas are outsourced to Austrade Agents and/or Austrade staff who are posted to Austrade offices overseas.

EMDG Fraud Risk Assessments

2.26 In June/July 2011, the Manager of the SIU initiated the conduct of yearly fraud risks assessments within the EMDG scheme. The identified risks are based on general risks common to government grants and claimable expenditure items that are specific to the EMDG. These include:

- expenses that are not acquitted;
- overseas representation (Schedule 1A of the application);
- marketing consultants (Schedule 1B);
- marketing visits (Schedule 2);
- free samples (Schedule 4);
- promotional literature and advertising (Schedule 6);
- overseas buyers (Schedule 7);
- IP registration (Schedule 8);
- export earnings (Schedule 9); and
- internal fraud.

2.27 The ANAO reviewed the EMDG's fraud risk assessments for 2012 and 2014.⁶⁴ The assessments were appropriately targeted, encompassing a wide range of risks and their triggers, the current controls and potential strategies in place, as well as the actions needed to mitigate the risks. Risk ratings were assigned in relation to the likelihood, consequences and effectiveness of the current controls.

2.28 In its review of the 2012 and 2014 fraud risk assessments, the ANAO noted some fraud risks that were identified by Austrade as having a low level of likelihood, but also an 'inadequate' effectiveness of current controls. Austrade has not retained evidence to indicate the steps taken to address the inadequate controls and whether EMDG management has formally accepted the fraud risks identified in the annual fraud risk assessments. In addition, the documentation retained by Austrade does not indicate the extent to which grant assessors were consulted in the development of the risk assessments. The development and review of the fraud risk assessments would benefit from

64 The SIU advised the ANAO that no fraud risk assessment was conducted in 2013.

broader involvement of EMDG senior officers and grant assessors. Such involvement would also enhance fraud awareness amongst EMDG staff, and improve the internal monitoring and reporting of fraud (particularly between the grant assessors and the SIU).

Internal and external reporting on fraud

2.29 The internal reporting of SIU fraud risks is through the unit's reports submitted to the General Manager. SIU reports are on a 'need to know' basis, and most recently—from January to May 2014—have been prepared on a monthly basis. The reports include information that relates to cases: at court; referred to the Commonwealth Director of Public Prosecutions (CDPP) and the Australian Federal Police; with the Administrative Appeals Tribunal; under SIU consideration and investigation; and a summary of new cases for the year. Austrade's Executive is informed of the entity's fraud issues through the Audit and Risk Committee, which obtains reports on fraud from the EMDG branch. In its annual reports, Austrade also reports on fraud against the EMDG scheme, including the number of: convictions; persons before the courts; and cases with the CDPP for consideration. Fraud reporting provides relevant updates and emerging patterns that inform management and other stakeholders of fraud within the EMDG scheme.

Procedures and guidance to support decision-making

2.30 Austrade EMDG Procedures Manual (as at January 2013) is one of several documents used by Austrade staff to assist them in making decisions regarding the assessment of the EMDG applications. The key components of the manual cover: general information; controls; routine tasks; internal and external reviews; and senior management approvals.⁶⁵ The manual also includes provisions for the management of Conflict of Interest (COI). It stipulates that EMDG staff who have, directly or indirectly, a pecuniary interest in, or family, social or any other relationship with an (EMDG) applicant, may have a conflict of interest.

65 The Procedures Manual is intended to complement the EMDG Administrative Guidelines, as well as other related key government documents.

Compliance with Austrade's Conflict of Interest policy

2.31 Austrade advised that under its COI policy, all EMDG staff are required to complete a COI form once per calendar year. Where there is the possibility of potential, perceived or actual COI, an EMDG employee (as well as all Austrade employees) is required to draw the matter to the attention of their supervisor by completing a COI Management Plan.⁶⁶

2.32 The ANAO reviewed the compliance of EMDG officers with Austrade's COI policy, for the period 2012 to 2014. The ANAO found that:

- in 2012, all EMDG staff had completed their COI forms, with eight out of 51 EMDG staff declaring a COI;
- in 2013, all EMDG staff had completed their COI forms, with three out of 52 EMDG staff declaring a COI; and
- in 2014, all EMDG staff had completed their COI forms, with six out of 34 EMDG staff declaring a COI. EMDG management's review of the six COI declarations resulted in three requiring a COI management plan.

2.33 EMDG grant assessors are also required to disclose their work relationships with ex-Austrade EMDG consultants under the current Austrade COI policy if they consider that the prior relationship amounts to personal or private interests that may directly or indirectly influence or benefit the EMDG officer or others. To date, no EMDG staff member has made such a disclosure. Austrade advised the ANAO that there is a significant number of consultants who assist in preparing and lodging EMDG applicants' claims who are ex-EMDG staff, including some former EMDG State Managers who had oversight of the EMDG functions. At the time of the audit (June 2014), there were EMDG grant assessors employed by Austrade who previously reported to these consultants.

2.34 While Austrade is managing declared conflicts of interest in accordance with the established policy, there would be benefit in providing staff with additional guidance in relation to interactions with EMDG consultants. The ANAO considers that, if not managed carefully and transparently, the involvement of consultants who are former Austrade employees and managers could pose a potential risk to the perceived fairness and impartiality of decisions taken by current Austrade staff who have had previous personal and professional relationships with these consultants.

66 Austrade Conflict of Interest Procedures.

Approved EMDG consultants

2.35 EMDG consultants are independent of Austrade and assist exporters with lodging applications. For the 2011–12 and 2012–13 grant years, the proportion of applications which were prepared by these consultants was 57 per cent and 61 per cent, respectively. While EMDG consultants are not formally accredited or registered⁶⁷, some consultants are recognised by Austrade in its Quality Incentive Program (QIP) and are afforded an extended lodgement period of eight months instead of the usual five months.

2.36 The QIP was first introduced in FY2013–14 for GY2012–13 expenses⁶⁸ and was intended to improve the quality of applications prepared by consultants and reduce the assessment activity needed for these applications. Consultants in the QIP must meet criteria as prescribed in the Export Market Development Grants (Extended Lodgement and Consultant Quality Incentive) Determination 2012.⁶⁹ A current list of the QIP approved EMDG consultants is published on Austrade’s website and, as at July 2014, there were a total of 55 approved EMDG consultants across all states and the Australian Capital Territory.

Conclusion

2.37 Austrade’s program management arrangements for the EMDG scheme are sound, with well-defined roles, responsibilities and accountability arrangements. The EMDG business plan is also aligned with Austrade’s overall strategic direction as outlined in the entity’s corporate plan. While Austrade’s risk management framework provides its Executive with reasonable assurance that key identified risks with respect to the EMDG scheme will be dealt with effectively, a broader range of risks associated with the administration of the EMDG scheme, such as intra-year changes to risk thresholds and loss of experienced officers, may warrant closer consideration.

2.38 The EMDG’s fraud risk assessments for 2012 and 2014 are appropriately targeted, with fraud risks relevant to the EMDG clearly identified. However, the extent to which EMDG officers and staff were involved in the development and review of the yearly EMDG fraud risk assessments was not documented. In

67 It is noted that s100 of the EMDG Act provides a facility for Austrade to accredit EMDG consultants.

68 The QIP lodgement period for FY2013–14 was from 1 July 2013 to 28 February 2014.

69 Further conditions applicable to the conduct and administration of the QIP are prescribed in the Export Market Development Grants (Extended Lodgement and Consultant Quality Incentive) Determination 2012.

addition, evidence has not been retained to indicate that EMDG management has formally accepted the fraud risk assessments, including for risks identified as having inadequate controls.

2.39 Guidance and procedures for EMDG staff are generally sound, including policies for the identification and management of Conflicts of Interest (COIs). In relation to the management of COIs, EMDG officers and staff have completed the necessary COI forms, with a small number of COIs identified. There would be benefit, however, in providing staff with additional guidance in relation to interactions with EMDG consultants (particularly for those consultants who were previously employed by Austrade to administer aspects of the EMDG scheme).

Recommendation No.1

2.40 To strengthen the program management arrangements underpinning the Export Market Development Grants (EMDG) scheme, the ANAO recommends that Austrade:

- (a) considers a broader range of risks that affect the administration of the scheme in preparing its risk management plan; and
- (b) documents the involvement of relevant EMDG officers and staff in the development and review of the fraud risk assessments, including the formal acceptance of risks and controls by management.

Austrade's response:

2.41 *Agreed.*

- (a) *Following a management initiated review the EMDG program risk management plan has been expanded to consider a broader range of risks including those identified by the ANAO. This recommendation has been implemented.*
- (b) *EMDG will commence the documentation of the involvement of relevant staff in the next annual review of fraud risk and document the formal acceptance of risk and controls identified in that review.*

3. Registration of Applications and Initial Assessment of Risk

This chapter examines Austrade’s receipt and registration of EMDG applications and its initial assessment of risk.

Introduction

3.1 The effective administration of the EMDG is supported by Austrade adopting application and assessment processes that are accessible, open, transparent and equitable. In this context, the ANAO examined Austrade’s:

- guidance for EMDG applicants and consultants;
- receipt and registration processes; and
- the initial risk assessment of EMDG applications.⁷⁰

Guidance for the EMDG applicants and consultants

3.2 EMDG is a mature program and, since its establishment, Austrade has put in place various mechanisms to provide EMDG information and guidance to applicants and consultants seeking to participate in the scheme. The information and communication channels used by Austrade are outlined in Table 3.1.

Table 3.1: Mechanisms in place to inform applicants and consultants of the EMDG scheme

Mechanism	Description
Austrade website	Provides extensive information on the scheme that includes (but is not limited to): who can apply; what can be claimed; how to apply; assessment and payment amounts; information on EMDG consultants; EMDG scheme changes; amendments to the EMDG Act; success stories and other relevant information that is helpful to a prospective EMDG applicant.
Information sessions	These targeted sessions are designed to assist EMDG applicants in preparing their applications. The sessions are conducted by senior grants staff in major cities around Australia (that is in Sydney, Melbourne, Perth, Adelaide and Brisbane). Some of the topics covered during the sessions include: an introduction to the EMDG; how to plan for EMDG; and how to get the best out of the scheme.

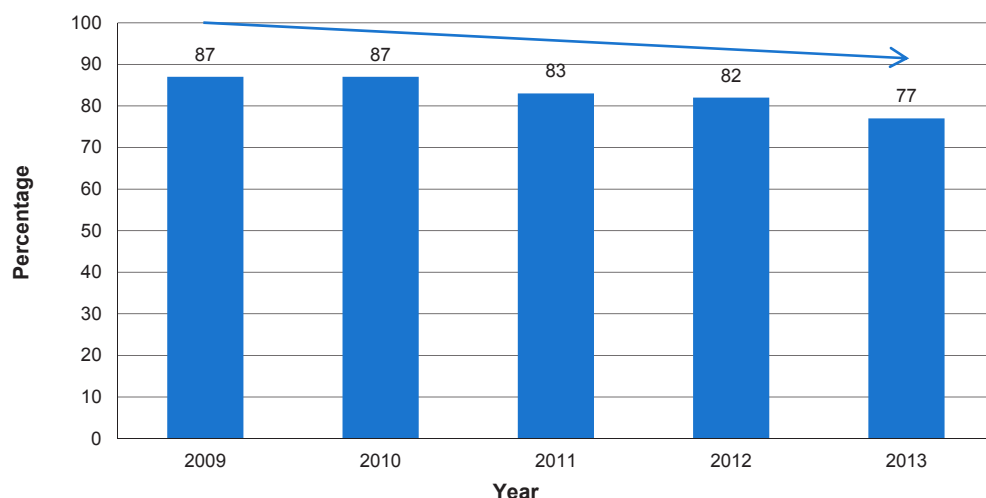
70 Chapter 4 examines the subsequent confirmation of the initial risk assessments and completion of risk treatments (assessment activities), and the grant payment processes.

Mechanism	Description
Meetings with the exporting industry, including the EMDG applicants and consultants	As requested or on a needs basis, EMDG senior grants staff are invited to talk about the EMDG scheme to various exporter groups and associations, that includes the exporters' consulting industry.
Downloadable brochures and fact sheets	Brochures cover: general information on the scheme; special approvals information; technical information; Ministerial Determinations, including sanctions and industry specific information.
EMDG Update e-newsletter	The EMDG Update contains information and updates on the EMDG scheme including key dates, upcoming events, EMDG exporter success stories, and 'tips' for intending applicants. A link is provided for interested parties to click on, and subscribe to the newsletter.
Provision of a contact number and email help address	Austrade has also made available to the general public a contact number and email address for EMDG related or EMDG specific enquiries.
EMDG consultants	Austrade has advised that it also relies on EMDG consultants to market the scheme to potential applicants.

Source: ANAO analysis of Austrade's website and EMDG documentation.

3.3 The scheme's guidelines and related published material are clear and consistent, and set out the details of the program, as well as the arrangements through which potential applicants are able to access the scheme. Although information on the EMDG scheme is readily available to applicants, Austrade's telephone survey of its client base in 2012–13 indicated that awareness of the scheme has been declining since 2010 (see Figure 3.1).⁷¹

⁷¹ Austrade, through a telephone survey, surveyed a total of 1302 Austrade clients. Of those aware of the EMDG scheme, 28 per cent indicated that they had received assistance under the scheme in the past two years. This proportion was significantly higher among organisations with fewer than 20 employees (34 per cent). One in five EMDG recipients indicated that receiving the EMDG has had a critical impact on their level of export marketing activity.

Figure 3.1: Awareness of the EMDG scheme

Source: Austrade.

3.4 Austrade advised that the direct applicability of the findings of its client survey to the EMDG scheme declined due to a number of factors, including the termination of Austrade's strategy to double the number of exporters (new exporters have traditionally been a key client group of the scheme). Notwithstanding these factors, there would be benefit in Austrade analysing the entity's client survey and reviewing EMDG's existing communication and awareness mechanisms so that marketing strategies can be tailored to specific industry groups and exporters that may not be aware of the scheme.

Eligibility criteria and lodgement

3.5 The scheme's eligibility requirements are set out under the EMDG Act. An eligible applicant generally refers to any Australian individual, partnership, company, association, co-operative, statutory corporation or trust, which:

- has generally carried on a business in Australia during the grant year;
- has an income of not more than \$50 million in the grant year;
- has not previously received eight or more EMDG scheme grants in previous grant years; and
- has had no disqualifying conviction under the EMDG Act.⁷²

⁷² Sections 6–7 of the EMDG Act.

In addition, some groups and organisations that do not undertake export activity may apply for grants (as approved bodies) for a five year renewable term.

3.6 As outlined earlier, the EMDG Act stipulates the eligible product types under the scheme and these include: goods; services (tourism and non-tourism); events; intellectual property and know-how. The EMDG Act also provides for various categories of promotional activities that qualify as eligible expenses: overseas representatives; marketing consultants; marketing visits; communications; free samples; trade fairs; seminars; in store promotions; promotional literature and advertising; overseas buyers; and registration and/or insurance of eligible intellectual property. Details on the eligibility requirements are included in Appendix 3.

3.7 An EMDG application must be in a form and manner approved by Austrade⁷³, and lodged with the entity within five months after the end of the grant year, from 1 July to 30 November, or 28 February if lodged through a QIP approved EMDG consultant. The EMDG Act prevents Austrade from considering an application that was not provided to the entity by the closing date.

3.8 EMDG scheme guidelines clearly outline the eligibility criteria that applicants must satisfy in order to be considered for reimbursement, with descriptions and examples provided to assist applicants to determine documentation requirements. In addition, the lodgement dates by which applicants are required to submit their applications are included in all EMDG guidance material, including a statement that applications that are not received within the required timeframe would not be accepted.

Receipt and registration processes

3.9 As previously discussed, Austrade uses an electronic system, the EMDG system, to record and maintain details of applicants, claimed amounts and payments made under the EMDG scheme.⁷⁴ The EMDG system is located on a standalone technology platform that is independent of the Austrade ICT environment.⁷⁵ Within the EMDG system are the EMDG claims management

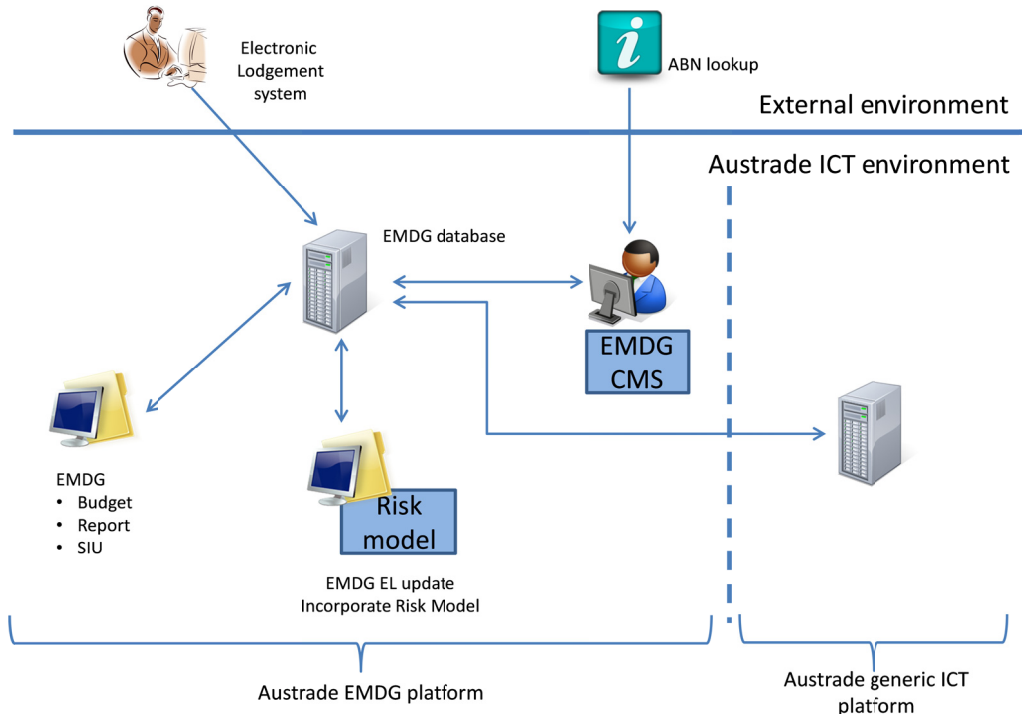
⁷³ Section 70 of the EMDG Act.

⁷⁴ The EMDG system consists of a number of client-server software applications (or modules), which provide maintenance, reporting and investigative capabilities.

⁷⁵ The majority of the EMDG system business logic is implemented on in-house developed modules, with the exception of the web based application lodgement system, which was developed by an IT services company.

system (CMS) and the EMDG risk model, which are central to EMDG operations. The CMS manages the workflow of the EMDG application assessment process, and the risk model identifies the relative risk of individual applications. Since July 2013, the CMS has also included an electronic lodgement system for all EMDG applicants. Previously, Austrade received hard copy applications directly from applicants, with only consultants being able to lodge applications electronically. A high-level overview of the EMDG IT system is illustrated in Figure 3.2.

Figure 3.2: High-level overview of the EMDG system



Source: ANAO analysis of Austrade documentation.

Applying for an EMDG grant

3.10 To apply for an EMDG grant, potential applicants need to ensure that they have an AUSkey⁷⁶ and are eligible for the EMDG grant. An application is then lodged electronically by completing an online application form and

⁷⁶ AUSkey is a secure electronic key used by businesses to access government online services. This electronic key provides an online identification of the business owner and the business. Any business that has an Australian Business Number is eligible for an AUSkey.

attaching the required documentation. Following registration, applicants and consultants receive an official receipt from the EMDG online application system. The registration process enables the CMS to assign a sequence number to all EMDG applications, to ensure that applications are not misplaced and are considered by Austrade. After registration, the EMDG applications are risk assessed by the risk model and automatically assigned to the relevant EMDG officer.

3.11 The ANAO examined 1699 paper and electronic applications⁷⁷, constituting 34 per cent of the total population of applications for the 2011–12 and 2012–13 grant years.⁷⁸ The applications were recorded as they were received. The registration of EMDG applications into the CMS, and the allocation of a registration number was sound.

Introduction of the electronic lodgement system

3.12 To assist applicants and consultants, Austrade established an EMDG hotline to answer queries regarding e-lodgement (introduced in July 2013) during the lodgement period for the 2013–14 financial year (June 2013 to January 2014). The ANAO's analysis of Austrade's records showed that of the 837 queries received during the period, at least 90 per cent were technical issues, most of which were addressed on the same day by the EMDG officer answering the query or by referral to another officer. In contrast, around 10 per cent were substantive queries about eligibility to the scheme, generally resolved by internal referral on the same day. The introduction of the CMS electronic lodgement was appropriately managed by Austrade.

Initial checks and key documentation on file

3.13 In addition to completing an EMDG application form, applicants are required to submit relevant documentation and information that includes:

- for first time applicants: financial statements (profit and loss statement and balance sheet for previous GY and the GY for which the applicant wishes to make a claim); information describing the business and product or service (brochure, company profile and other relevant

77 For GY2011–12, the ANAO examined 428 paper applications and 609 electronic files, whilst for GY2012–13 662 electronic files were examined.

78 The total population for GY2011–12 was 3026 applications, while GY2012–13 had a total of 1923 applications. GY2011–12 applications were comprised of both paper and electronic applications, while GY2012–13 comprised only electronic files. Paper files ceased for GY2012–13 with the introduction of the web lodgement system.

materials); and, if the business made a loss in the GY, information on how the applicant intends to fund his/her future export activities.

- All applicants:

- if claiming expenses of A\$40 000 or more for an overseas representative: GY financial statements (profit and loss and balance sheet); and information describing the nature of activities undertaken by the overseas representative (current appointment letter of agreement, up to five monthly or weekly activity reports or emails confirming the representative's activities).
- if promoting goods that are not made in Australia, a submission justifying why Australia would derive a significant net benefit from the sale of the goods (with details such as whether Australia is the base of business assets and activities and whether the export would generate employment in Australia).
- if the applicant has already received two grants and has selected the Option B EMDG performance measure⁷⁹: corporate and financial documents (business plan, international marketing strategy, audited profit and loss statements, balance sheets); and a statement justifying the Australian Net Benefit Requirements (details include whether employment, new capital investments, new technologies, new value-added operations will be generated in Australia as a result of the export activity).
- a list of all company directors and partners in a partnership.
- evidence of expenditure claimed (for example, invoices, shipping documents, bank statements and/or correspondence).

3.14 The EMDG application form appropriately identifies the information required by Austrade to undertake the assessment of applications against the eligibility criteria. In addition, the ANAO reviewed the relevant documentation required for each EMDG application and found that documentation was either retained on file (for paper files), or stored in the CMS Electronic Document Library (EDL) for the 1699 applications included in the audit sample.

79 The Option B EMDG performance measure refers to eligibility requirements that an applicant may be required to demonstrate if they are claiming an EMDG grant for a third time (or more). The requirements are set out in Appendix 3.

Initial risk assessment of EMDG applications

3.15 Once an application is registered, it is assessed within the CMS (by the EMDG risk model), and produces a client risk assessment (CRA) that identifies the assessment activity required, based on the perceived risk presented by the application.

EMDG risk model

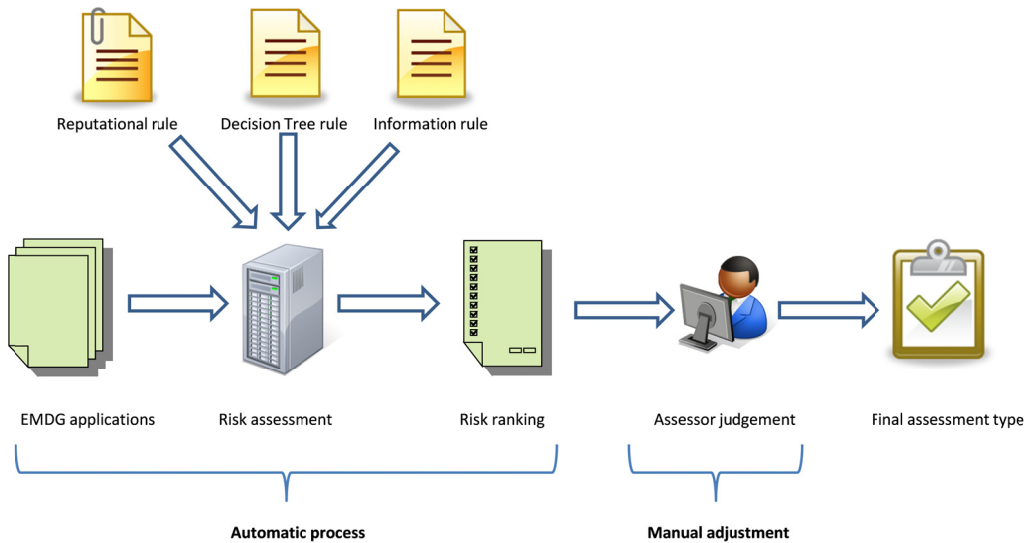
3.16 The EMDG risk model uses quantitative methods to assess the grant applications and determine the most appropriate assessment activity. The risk model uses three types of business rules: the decision tree rules; reputational rules; and the information rules.

3.17 The decision tree is at the core of the EMDG risk model. Using statistical analysis of a substantial amount of historical EMDG data, a risk rating is assigned to incoming applications.⁸⁰ The reputational rules also assign applications to recommended assessment activities, but the allocation is based on Austrade's accumulated business knowledge on the risks relating to the characteristics of a claim, rather than historical EMDG data.⁸¹ The combined effect of the decision tree and reputational rules is the production of a risk rating and a recommended assessment activity.⁸² The information rules do not affect the risk rating or the recommended assessment activity, but appear as information that draws to the attention of the EMDG grant assessor the particular characteristics of the claim. Figure 3.3 provides an overview of the EMDG risk assessment process.

80 The decision tree operates as a tool for decision-making by using a tree-like model to map out choices between a number of alternatives and the consequences of choosing between those alternatives.

81 Reputational rules take precedence over the decision tree rules and are seen as risks that may have consequences to the entity's reputation if not addressed. They are not statistically significant and, therefore, do not manifest in the tree rules.

82 There are different assessment activities with varying degrees of scrutiny from file checks, desk audits, phone audits, visits, random and sample assessments. A detailed description of the assessment activities is provided in Chapter 4.

Figure 3.3: Overview of the EMDG risk assessment process

Source: ANAO analysis of Austrade documentation.

Creation of decision trees

3.18 As outlined earlier, the decision trees assign risk ratings to incoming applications based on historical EMDG data. They are created by a data-mining process that examines the correlation between claim characteristics (independent variables) and the adjustments for over claiming found in historical applications (dependent variables). Up to 140 independent variables are used to build the EMDG model to calculate the predicted adjustment for each application (claim). Independent variables include business type, the Australian and New Zealand Standard Industrial Classification (ANZSIC code⁸³), number of years in the business and number of years in the EMDG scheme.

Percentile points in the risk ranking

3.19 The CMS automatically assigns a risk ranking to each claim—a number between zero (lowest risk) and 100 (highest risk)—and assigns the claim to an assessment activity based on the ‘cut-off point’ for that assessment type. A series of percentile points in the risk ranking are used as parameters to derive the recommended assessment activity or process for assessing individual

⁸³ ANZSIC is a classification that provides a framework for organising data about businesses by grouping business units carrying out similar productive activities. ANZSIC was first published in 1993 and was revised in 2006.

applications, and have a direct relationship to the administrative workload for Austrade. If the percentile points are set at a lower value, more EMDG applications will go through a more intensive scrutiny process. Conversely, if the percentile points are set at a higher value, fewer applications will be subject to intensive scrutiny.⁸⁴

Adjustments to the percentile points within a grant year

3.20 The percentile points setting the assessment activity applied to each application are determined and adjusted by EMDG management. Austrade advised that, during each application period, the cut-off points are adjusted twice within each grant year, having regard to the number of applications remaining to be completed and EMDG's workforce capability. Adjustments are generally made to reduce the number of assessments that demand relatively greater administrative effort (that is, generally for higher risk applications) in order to increase claim assessment throughput.⁸⁵

3.21 A risk assessment and treatment method that is based on a consistent set of risk parameters helps to ensure that applicants are treated equally regardless of when an application is received. However, under the current arrangements, EMDG applications with the same risk profile are subject to different scrutiny depending on whether the applications are assessed before or after an adjustment is made. Austrade has acknowledged that these adjustments can affect the consistency with which the entity applies its assessment activities.

Accountability for changes to the percentile points

3.22 The ANAO examined specific aspects of the risk assessment process to determine the level of compliance with established processes and procedures. In examining the CMS programming code for GY2012–13, the ANAO found that when percentile points are adjusted, the previous values were overwritten by the new values. There is no audit trail that records the historical information in the system, such as the risk ratings assigned to applications, previous percentile points and the circumstances of any change to the points system. Consequently, the number and value of applications affected by changes is not

84 For example, if the cut-off point for a phone audit was changed from zero to 33 to zero to 20 (and therefore the cut-off point for a visit was changed to 21 to 100 instead of 34 to 100), then the applications with a risk ranking of between 21 and 33 would be upgraded from a phone assessment to a visit.

85 Over the years, Austrade has used slightly different risk models.

known. In addition, the ANAO found that for GYs 2011–12 and 2012–13, there was no formal documentation to demonstrate that adjustments to the percentile points were based on an informed risk analysis or review, or were endorsed by EMDG management.

3.23 Given that adjustments to the percentile points can affect the equitable treatment of applications, documentation supporting the analysis, review and approval of changes to the percentile points should be retained to demonstrate the basis on which decisions have been taken.⁸⁶

Allocation of assessments to appropriate EMDG officers

3.24 The CMS automatically assigns all applications via the CRA to a file, desk, phone or visit assessment⁸⁷ based on the risk ranking given to the application.⁸⁸ Applications recommended as visit assessments, where special circumstances apply (for example, the applicant is in a regional area), are referred to an EMDG Allocation Officer to confirm the initial risk ranking of the claim and determine the appropriate EMDG grant officer to assess the claim (either a senior EMDG officer or a grant assessor).⁸⁹ In general, higher risk applications are assigned to senior EMDG officers and low to medium risk applications are assigned to the grant assessors. The EMDG applications in the ANAO's sample for GYs 2011–12 and 2012–13 were correctly assigned to the appropriate EMDG officer.

Conclusion

3.25 A broad range of information on the EMDG scheme is made available by Austrade to EMDG applicants, consultants and the general public. However, there has been a steady decline in scheme awareness since 2010 suggesting that there may be benefit in Austrade reviewing its current strategies for raising awareness of the EMDG scheme and communication channels to maximise the number of eligible applications.

86 Austrade advised that the changes to the percentile points are not software changes and, therefore, are not required to go through Austrade's change control process.

87 Applied to both Year 1 and Year 2+ applications.

88 Regional and sample assessments are not assigned by the CMS.

89 A Year 1 application, risk rated as a visit, can be assessed as a phone assessment or a desk assessment. This may be the case for applicants in remote locations and/or where applicants are well known to Austrade.

3.26 Austrade has sound processes in place to document and support the receipt and registration of applications, with information requested from applicants sufficient for EMDG officers to assess applications against the eligibility criteria. The guidelines outlining the receipt and documentation of applications are well understood and implemented by the EMDG operational areas.

3.27 The initial risk assessment of applications conducted by the CMS, which automatically assigns a risk ranking and assigns applications to assessment activities and EMDG officers, has correctly assigned applications to the appropriate EMDG officers for GYs 2011–12 and 2012–13, which were examined by the ANAO. However, adjustments to the CMS (percentile points) that can result in EMDG applications with the same risk profile being subject to different scrutiny depending on whether the applications are assessed before or after adjustments are made, has the potential to impact on the equitable treatment of applicants and the mitigation of risks.

3.28 While adjustments to thresholds are a means for Austrade to periodically revise the balance between available resources for assessment activities and the need to complete application processing, there is also a need for accountable decision-making in respect of any system changes. Currently, the rationale supporting the changes and the decision-making and approval process is not documented, and the previous percentile points are overwritten. There is no audit trail that records the historical information in the system, such as the risk ratings assigned to applications, previous percentile points and the reasons for changes.

Recommendation No.2

3.29 To strengthen decision-making under the Export Market Development Grants (EMDG) scheme assessment process, the ANAO recommends that Austrade documents the analysis, review and approval processes for adjusting the risk assessment model thresholds in the Claims Management System.

Austrade's response:

3.30 *Agreed. Austrade has always conducted an extensive analytical process followed by detailed consultation across relevant senior managers prior to adjustments to the risk model thresholds. This is now enhanced by centralised recording of this process and the subsequent management decisions. This recommendation has been implemented.*

4. Final Assessment and Distribution of Payments

This chapter examines the final assessment of EMDG applications, including quality assurance mechanisms and the distribution of payments.

Introduction

4.1 Once an application is assessed by the CMS and assigned a risk ranking and a recommended assessment type, the system (or in limited special circumstances, an EMDG Allocation Officer) assigns the application to a senior EMDG officer or a grant assessor for assessment and payment of an entitlement. Within this context, the ANAO examined the:

- process for confirming the initial risk assessment applied by the CMS to applications;
- completion of the assessments and approval of grant entitlements;
- quality assurance mechanisms; and
- controls supporting the integrity of the payment process.

Confirmation of the initial risk assessment

4.2 Grant assessors are initially required to assess an application and decide whether the recommended assessment activity is appropriate. The assessor may agree with, and apply the recommended assessment activity, or change it by upgrading or downgrading the activity, with the reasons for any change required to be appropriately documented. Any changes are to be noted in the client risk assessment (CRA), entered into the CMS, and approved by a senior EMDG officer prior to the final assessment being undertaken.⁹⁰

4.3 The assessment process is graduated, with the highest administrative effort expected to be applied to the highest risk application. A description of the types of assessment activities applied to EMDG applications is outlined in Table 4.1.

90 Senior officers who have the authority to confirm changes to the CRA selected assessment activities include: State Managers; Assistant State Managers and Senior Grant Assessors.

Table 4.1: Assessment activities applied to EMDG applications

Assessment activity	Description
File checks	<ul style="list-style-type: none"> Applied to applications that are expected to have the <i>lowest level of risk</i> of materially incorrect claimed expenses.
Desk assessments	<ul style="list-style-type: none"> Applied to applications that are expected to have a <i>low level of risk</i> of materially incorrect claimed expenses.
Phone assessments	<ul style="list-style-type: none"> Applied to applications that are expected to have <i>low to medium levels of risk</i> of materially incorrect claimed amounts.
Visit – Year 1	<ul style="list-style-type: none"> Year 1 applications (made by applicants who are applying for an EMDG grant for the first time) have an inherently <i>higher degree of risk</i> because of the lack of knowledge about the applicant and/or expenditure claimed and the high risk of materially incorrect claimed expenses.
Visit – Year 2+	<ul style="list-style-type: none"> Year 2+ applications (these are applications made from the second year to the final year of entitlement) that are perceived to have <i>high levels of risk</i> of overall ineligibility and materially incorrect claimed amounts are assessed by conducting a visit. Where ineligibility is easily established, telephone contact with the applicant may be sufficient.
Random assessments	<ul style="list-style-type: none"> A random assessment program is used as a method of risk management for the EMDG scheme. Random sampling is used to assess whether the assessment methods are accurately identifying the risk profile of applications. Random assessments are undertaken on all application types. Carried out by a visit to the applicant's premises.
Sample/judgemental assessments	<ul style="list-style-type: none"> Undertaken on any applicant where the perceived risk is sufficient to warrant an in-depth assessment. Judgement or sample assessments are undertaken in accordance with the standards prescribed for random assessments.

Source: Austrade documentation.

Manual adjustments to the recommended assessment activities

4.4 The ANAO analysed the proportion of adjustments made by the grant assessors to the CMS assigned recommended assessment activities for GYs2011–12 and 2012–13.⁹¹ Around one-third of applications for both grant

91 As outlined in Chapter 1 and discussed in Chapter 3, the ANAO analysed a stratified sample of 1699 paper and electronic applications for GYs2011–12 and 2012–13 to determine grant assessors' adherence to procedural requirements and any patterns or deviations to EMDG assessment activities. The ANAO also conducted an automated analysis of all EMDG applications for the two grant years.

years had the initial activity adjusted by the grant assessors (and approved by senior officers). The ANAO found:

- from the stratified sample—215 out of 662 applications, or approximately 33 per cent of applications reviewed for GY2012–13⁹², involved an adjustment to the system derived activity types. Of the applications that were adjusted, 169 were upgraded (78.6 per cent) and 46 applications were downgraded (21.4 per cent); and
- from the automated analysis of all CMS data for the two GYs—1450 out of 5510 applications⁹³, or approximately 26 per cent of the overall applications for GYs 2011–12 and 2012–13 varied from the system derived assessment activity type. Of the adjusted applications, 936 were upgrades (65 per cent), and 514 were downgrades (35 per cent).

4.5 Austrade does not analyse upgrades and downgrades to assessment types as an input into the risk model because the entity considers that upgrades and downgrades do not always correlate to claim adjustments.

4.6 At around 30 per cent of risk assessed applications, the number of manual adjustments made to the automated EMDG risk model rating (which incorporates the business rules) is significant. To help ensure that the integrity of the risk model is not undermined by a high incidence of manual adjustments, there would be merit in Austrade systematically assessing the number and appropriateness of adjustments, and establishing processes that enable the outcomes of such analysis to be incorporated into the automated risk assessment model.

Reasons for changes in the recommended assessment activities

4.7 When a manual assessment type adjustment occurs, the EMDG guidelines require the grant assessor to detail the reasons for the change in the CRA. For GY2011–12, in relation to the paper files reviewed⁹⁴, the ANAO found that 20 out of the 428 applications, or approximately five per cent, did not have reasons recorded for the change in the assessment type. In relation to electronic applications⁹⁵, for GYs 2011–12 and 2012–13, the ANAO found that

92 Paper applications for GY2011–12 were not included in this sample.

93 At the time of the audit, the CMS processed a total of 5510 EMDG applications for GYs2011–12 and 2012–13, with 3031 applications for GY2011–12 and 2479 applications for GY2012–13.

94 The ANAO reviewed GY2011–12 paper files for: NSW, Victoria, SA, ACT and Tasmania.

95 The ANAO reviewed both GY2011–12 and GY2012–13 electronic files for: NSW, Victoria, SA, WA, ACT, Tasmania and NT.

for all applications where manual adjustments in the assessment type had been made, the reasons were recorded. This finding was not unexpected as the requirement for recording the reasons for changing the assessment activity is an inherent feature of the electronic CMS, as it requires the grant assessor to complete the 'reason for change' field before proceeding to the next step in the process.

Varying level of detail in the reasons recorded

4.8 While manual adjustments were generally accompanied by documented reasons for the change, there was a wide variation in the level of detail justifying the decision to deviate from the risk assessment determined by the model. Examples of recorded reasons include:

- **in-depth information as to why a risk adjustment was made:** such as, 'the original allocation of risk of SIU referral is wrong and thus [sic] was undertaken as an SIU check in 2011 and passed. In 2012, this file was classed as a visit and checked in detail with no adjustments being made. There seems to be little reason to again subject the applicant to a full investigation when similar costs and apportionments have been claimed' (the ANAO noted at least six applications of this kind);
- **reference to projects or management directives for which no further detail was provided:** such as, 'SIU project', 'reputational rules to apply', 'no visits to be undertaken to NT for 12/13 grant year applications. Do as detailed phone' (21 applications noted);
- **risk factors as a justification for change although explanation was brief:** such as, 'no phone/visit for 2 grant years'; 'fifth year without visit'; 'possible s46 issues; see also last year's assessment' (20 applications noted); and
- **comments that could not be seen as a justification for a change:** such as, 'lower risk', 'higher risk', 'desk more appropriate audit', 'contact not warranted', 'reviewed expenses claimed' (19 applications noted).

4.9 The 'reason for change' field is a free text field for both paper and electronic files and is intended to record the reasons for changes and the judgement executed by the grant assessor before processing the remainder of the claim. The ANAO was advised that, in designing the system, it was decided that a free-text field was preferred to provide flexibility for recording the many possible reasons for a change. In addition, the CRA is not the only source of information that can be taken into account in determining how to

assess an application. The paper files and the EMDG electronic library also contained all the other documentation that supports a claimant's application.⁹⁶

4.10 While administrative flexibility is important, the transparency of the assessment process would be enhanced if the reasons for changing the initial recommended assessment activity type were appropriately documented. In discussions with the ANAO, EMDG staff indicated that access to a comprehensive, central source of information that draws upon the corporate knowledge of all EMDG staff, would support more consistent decision-making. A more structured approach to the completion of the 'reason for change' field, including examples where changes are warranted, would provide important reference material.

Completion of EMDG assessments and approval of grant entitlements

Undertaking the assessments and making recommendations

4.11 When the initial risk assessment is deemed appropriate, or the changes to the recommended assessment activity type have been approved by a senior officer, the assessor is then required to complete the assessment of the application in accordance with the EMDG Operational Procedures.⁹⁷ The appropriate assessment activity is to be applied, and a recommendation (the preliminary outcome) made in relation to the amount of the grant that should be paid. The preliminary outcome will be one of the following:

- approval of the entire application and all claimed amounts with no adjustments identified;
- approval of the application with adjustments made to inaccurate applications; or
- rejection of the entire application.

96 Supporting documentation includes, for example: financial statements for the grant year; information describing the business and product or service; if the business made a loss in the previous grant year; and information on how the applicant intends to fund export activities into the future.

97 Completion of the assessment involves activities such as: reviewing supporting documentation; performing calculations; and making adjustments to claimed amounts.

Implementation of the assessment activities

4.12 Austrade has specific procedures covering the processes to be followed for each assessment activity applied to an EMDG application, which outline that the assessor must:

- **check the ‘key risks’ for each application:** that the company has not discontinued business and is not insolvent; the application is not fraudulent; meets the general eligibility criteria; the supporting schedules provide sufficient information to enable a judgement on eligibility of expenditure and earnings, and others; and
- **complete the checklist that is specific to the assessment activity:** such as, solvency checks; conducting searches on external websites; examination of the supporting schedules and documentation provided in the application; preparation and completion of the report writing summary⁹⁸; meetings with staff of the applicant (if appropriate); and others.⁹⁹

4.13 For the GYs 2011–12 and 2012–13 sample reviewed by the ANAO, the EMDG grant assessors implemented the assessment activities relevant to the EMDG applications in all cases.

Adjustments

4.14 As outlined in Chapter 3, as a result of the assessment process, adjustments are made to claimed amounts (that is, the difference between the claimed amount and the approved amount). The ANAO’s analysis of the total number of applications where adjustments were identified and the amounts involved for GYs 2011–12 and 2012–13 is set out in Table 4.2.

98 A report writing summary is a series of standardised forms used to document and control the amount of assessment work completed by the grant assessors.

99 Austrade, EMDG Operations Procedures, January 2013.

Table 4.2: Total number of applications where an adjustment was identified and the total adjusted value for GYs 2011–12 and 2012–13

Grant year	Total EMDG Applications	Number of EMDG Applications Where an Adjustment Was Identified	Proportion of the Total Population Where an Adjustment Was Identified (%)	Sum of the Adjusted Value (\$m)
2011–12	3031	1402	46.3	26.0
2012–13	2479	849	34.2	14.9

Source: ANAO analysis based on the EMDG transaction data provided by Austrade after the end of year closing process.

Approval of grant entitlements

4.15 Once completed, EMDG assessments are recorded on the applicant's file and in the CMS. All completed assessments (except for file checks) must be independently reviewed by a second EMDG officer with the delegation to approve a recommendation made by the grant assessor.

Role of the EMDG grant approver

4.16 The grant approver is required to review the original application supporting information and the preliminary outcome, and make a final decision to either approve (either the full claimed amount or with adjustments) or reject the application. Before making a final decision, the approver, among other things, is required to:

- ensure that the type of assessment activity undertaken and the extent of scrutiny reflects the risks presented by the application;
- ensure that the procedures for the type of assessment activity undertaken have been complied with, and that a high quality of work and reporting has been demonstrated;
- confirm that all risk issues raised in the report writing summary have been resolved;
- ensure that the EMDG CMS records the required information about the application and the assessment and approval process; and

- satisfy themselves that the eligibility requirements under the EMDG Act and Administrative Guidelines have been met and adjustments made where necessary.

During the course of the approval process, the approver may make further adjustments to the claimed amount.

4.17 The ANAO reviewed the approval of assessments for a sample of GYs2011–12 and 2012–13 applications. In relation to paper files for GY2011–12, the ANAO found that, for 65 out of the 428 applications¹⁰⁰ (15 per cent) the approval officer had not signed the assessment summary.¹⁰¹ In relation to electronic applications for the two grant years examined, the ANAO found that all applications had an approval officer recorded in the CMS. As was the case for risk model adjustments, the controls within the electronic system require that approval be given before a claim can be completed.

Segregation of duties

4.18 To maintain the integrity of the CMS, the business processes involved in processing an EMDG application—from registration to payment—are required to be segregated in accordance with an EMDG officer’s duties and delegations. The automatic controls implemented in the CMS are intended to preclude the same officer from receiving, registering, allocating, assessing and approving the payment of an EMDG application. The ANAO’s examination of the segregation of duties and the approval process for the EMDG scheme identified that, for some assessment types, assessors can ‘self-approve’ and also determine the approver in other assessment types.

Self-approvals

4.19 Austrade’s EMDG Procedures Manual states that all assessments are to be independently reviewed by an approver (an EMDG officer with the delegation to approve a recommendation by a grants assessor) and an officer with an approval delegation should not approve their own assessments. The manual makes an exception for file checks, which do not require independent approval, but must be undertaken by senior grant assessors.¹⁰² The ANAO’s

100 File checks were excluded from this sample as EMDG guidelines do not require file checks to be independently reviewed by another EMDG officer, but can be self-approved by a senior grants assessor.

101 For paper files, the ANAO made note of whether an approval officer had signed the assessment summary, which briefly outlines the outcome of an assessment issued on completion, as required by the guidelines.

102 Austrade EMDG Procedures Manual.

analysis of the CMS transaction data shows that approximately 15 per cent (818 file check applications) of the 5510 EMDG applications lodged for GYs 2011–12 and 2012–13 were assigned to, and processed by, EMDG officers with appropriate levels of access who conducted both the assessment and the approval of the application.¹⁰³

4.20 Although the self-approval of file checks of low risk applications has been considered as acceptable by Austrade and is formalised in Austrade’s EMDG Procedures Manual, the ANAO considers that allowing the one officer to complete an end-to-end financial transaction is not desirable, primarily as it increases the potential risk of fraud.¹⁰⁴

Self-selection of an approver

4.21 The current CMS permits grant assessors to select an approver from a dropdown list, with Austrade advising that grant assessors would, in general, choose their direct supervisor or manager as the approver to review their preliminary assessments.

4.22 Self-selection for an approval officer creates a risk of preferential treatment that has the potential to weaken the control of the segregation of duties. In particular, for locations where EMDG staff work in very small groups, this practice may encourage a ‘group think’ mentality that could jeopardise process integrity.

4.23 To address this risk, Austrade has advised that there was a technical enhancement under development within CMS that will randomly assign approvers to review grant assessors’ initial risk assessments. Austrade subsequently advised in September 2014, that the entity has conducted some preliminary work on randomly assigning approval officers. Austrade is yet to determine whether it will move to randomisation.

Audit trails

4.24 It is good practice for business transactions, particularly financial transactions, to include a complete audit trail. The CMS audit log only records the user authentication information, the time when the user logs on and logs

103 The CMS processed a total of 5510 EMDG applications for GYs 2011–12 and 2012–13, with 3031 applications for GY2011–12 and 2479 applications for GY2012–13. Approximately 52 per cent (423 applications) of the total 818 file check applications were from GY2012–13, and 48 per cent (395 applications) of the total 818 file check applications were from GY2011–12.

104 IT Governance Institute, CobiT 4.1, *P04.11 Segregation of Duties*, p. 42.

off and limited information with regards to the business transaction. The audit log does not, however, capture the transaction history. Austrade advised that the lack of system functionality to enable it to maintain a complete audit trail and transaction history was a feature of the original CMS design.

4.25 The ANAO was advised that, in 2009–10, Austrade identified enhancements for CMS and put forward a proposed enhancement that was estimated to cost \$8.8 million. Ultimately, the proposal was not agreed to by Austrade management from a financial perspective. While decisions on capital investments are for entity management, any future consideration of the CMS should include operational and business shortcomings, including weaknesses with respect to the system's controls.

4.26 Overall, Austrade has established a structured approach to the assessment and the approval of grant entitlements, with generally appropriate processes in place for the identification, analysis and treatment of risks relating to each EMDG application. The assessment process enables the grant assessors to form a conclusion, and make a recommendation, in respect to the relative merits of each application. There are, however, some aspects of the assessment process, such as the ability of assessors to self-approve applications, where there is scope for further strengthening.

Quality assurance mechanisms

4.27 Quality assurance processes are designed to ensure consistency in the assessment of applications and to provide assurance that the outcomes (in this case, the final EMDG payment) will be made on the same basis regardless of the location of the assessment or who completes the assessment (either a senior EMDG officer or a grant assessor) of the claim for reimbursement. Austrade advised that it applies a number of quality assurance measures to the assessment of EMDG applications that include: a Policy and Consistency Committee; sample audits; and internal audit reviews.

Policy and Consistency Committee

4.28 Austrade advised that the EMDG Policy and Consistency Committee provides some level of assurance to EMDG management in relation to the quality of the work undertaken by grant assessors. At the time of the audit, the Committee comprised the EMDG Manager for Legislation and Policy

Coordination (based in Sydney) and the various EMDG state managers. The ANAO was advised that the committee held regular meetings¹⁰⁵, via telephone, to raise issues of consistency, such as: how to implement the EMDG Act in light of particular cases or expenses and whether guidelines should be amended to reflect changed circumstances; the effect of changes in legislation; and using actual applications as an example, discussing how applications are to be assessed.

4.29 While the Policy and Consistency Committee provides a forum where consistency issues relating to EMDG assessments can be discussed, it does not have oversight of a structured EMDG quality assurance program.

Sample audits

4.30 Austrade introduced sample ‘audits’ in 2006 as a method of managing the risks to the EMDG scheme, in particular to assess whether the EMDG risk assessment is working correctly and to determine the extent of any missed grant adjustments. Sample ‘audits’ do not, however, involve a process for quality reviewing the work undertaken by grant assessors.

4.31 The CMS randomly selects a sample of low and high risk applications, and these are assigned to any EMDG grant assessor. While described as ‘sample audits’, the selected applications are to be assessed using a more thorough and stringent method of assessment to reaffirm the risk rating of the individual application and provide assurance of the risk model parameters. Austrade advised that the results of the assessments of sample audits are analysed and used to: evaluate the effectiveness of the risk model in its assessments; compare the ‘strength’ of the different assessment types; and produce an estimate of the total value of over-claiming for the EMDG scheme.

4.32 Austrade informed the ANAO that there were no audits undertaken for GY2011–12. The ANAO’s analysis of GY2012–13 applications found that the total number of EMDG sample audits was 194, or 3.5 per cent of all applications for that year.¹⁰⁶

105 There is no fixed timetable for the Policy and Consistency Committee meetings. In general, they are held on an as-needs basis.

106 In September 2014, Austrade advised that a total of 230 sample audits have been conducted for GY2012–13.

Internal audit reviews

4.33 The ANAO was advised that, over recent years, EMDG management had initiated regular internal audits of the administration of the EMDG scheme. The ANAO reviewed Austrade's internal audit reports of the scheme from 2006 to 2014, which included reviews of the EMDG's: administration costs; audit (assessment) approach; balance distribution; and rolling compliance audits.¹⁰⁷ A summary of the findings of these internal audits is as follows:

- **Administration costs**—past reviews have found that the capped nature of EMDG administration funding is a risk to the effective operation of the EMDG, particularly in light of fluctuating demand for the scheme, and the risk that claimants may not receive 100 per cent of their grant entitlements due to the payment cap;
- **Audit (assessment) approach**—reviews of the audit approach have been conducted to assess the impact of these activities on the scheme. For example in 2008, an audit approach that reduced the scrutiny for medium-risk EMDG applications was assessed as having the effect of, among other things, reducing audit coverage for low to medium risk applications for the relevant grant year.
- **Balance distribution**—internal audits are conducted annually to determine whether EMDG payments are accurate. No issues in relation to the accuracy of payments were raised in the years reviewed.
- **Rolling compliance**—rolling compliance audits have been undertaken to ensure that the administration of the EMDG scheme is consistent with the Act and Austrade's internal procedures. Previous findings have included that there were weaknesses in the documentation of grant assessors' assessment decisions and that mechanisms need to be put in place to communicate better practice and ensure consistency in the risk treatment process.

4.34 While the internal audit reviews provide a measure of assurance as to the administration of the EMDG scheme, they are not intended to provide assurance on the consistency of the final outcomes of individual EMDG assessments.

¹⁰⁷ Austrade's Audit and Risk Committee (ARC) monitors the internal audit recommendations that relate to the EMDG scheme. These are recorded in the ARC's quarterly reports. As at September 2014, there are four outstanding recommendations from the recent EMDG Administration Review, covering themes of strategy, workforce, process and technology.

4.35 The current measures would be strengthened by Austrade developing an annual quality assurance program that would identify good practices or the need for improvements in assessments and decision-making, as well as educational or training requirements for the EMDG staff. These could, for example, relate to the: appropriateness of the EMDG assessment type undertaken; consistency of assessments; correctness of the calculation of eligible and non-eligible expenditures and the determination of the final EMDG payment, and timeliness of the EMDG assessments.

4.36 In addition, a robust quality assurance program that is conducted annually, could include:

- a rolling sample that covered all EMDG grant assessors from all locations;
- a streamlined automated sampling approach that gives Austrade an acceptable confidence level;
- documented processes, that could include 'ratings' or a 'grading system' covering all elements of the EMDG application process;
- management reporting and response; and
- an action plan for continuous improvement to track progress (against recommendations and suggested improvements) from a quality perspective.

The establishment of an EMDG quality assurance process would better position the Policy and Consistency Committee to undertake its role, and may provide the opportunity for Austrade to rationalise the internal audit coverage of the EMDG scheme.

Controls for supporting the payment process

4.37 The CMS is designed to calculate and distribute grant payments automatically.¹⁰⁸ Relative to manual processes, system based controls and automatic processes are designed to produce results in a more consistent and predictable manner.

¹⁰⁸ The vast majority of controls in the payment process are implemented as programming logic, embedded in the CMS procedures that can be triggered and executed automatically.

4.38 The ANAO conducted a review for GY2012–13 to confirm the implementation of the business rules that reflect the relevant legislation, regulations and policies for GY2012–13. The ANAO also tested key system processes and controls used for the EMDG grant calculations. This testing confirmed that Austrade’s implementation of the nine key system processes and automatic controls for GY2012–13 were accurate (see Table 4.3).

Table 4.3: Key system processes and controls tested for implementation (GY2012–13)

Key System Processes and Controls	Confirmed Correct
Apply the formula for grant amount calculation	✓
Cap of expenditures for overseas representative, limit buyer, limit IP registration, and marketing representatives	✓
Cap of total grant amount (currently set at \$150 000)	✓
Calculate and apply communication expense (3%)	✓
Apply minimum grant amount rule (currently set at \$5000)	✓
Apply minimum expense threshold test (currently set at \$20 000)	✓
Apply export earning test and exempt body test	✓
Cap grant amount through applying various percentage points corresponding to the number of years they have involved in the scheme	✓
Exclusion of applications from non-eligible industries	✓

Source: ANAO analysis of Austrade systems documentation.

Accuracy of the EMDG payments

4.39 As previously discussed, EMDG grant payments are made under a split-payment system, which is intended to ensure that spending under the EMDG is kept within the budget allocation and all eligible applicants receive a grant. Under the split-payment system, grants are paid in two rounds:

- an initial payment of grant entitlements up to a specified payment ceiling amount¹⁰⁹; and

¹⁰⁹ The initial payment ceiling amount is the maximum amount payable as an initial payment to eligible EMDG applicants.

- a second tranche payment of grant entitlements above the initial payment ceiling amount.

4.40 The initial payment ceiling is a fixed amount that must be decided by the Minister for Trade and Investment in advance of the financial year under s 68 of the EMDG Act. Applications which have been approved at or below the initial payment ceiling are eligible to receive the entire grant, once approved. For applications with approved amounts above the initial payment ceiling, applicants are eligible to receive: a preliminary payment at the initial payment ceiling amount when the claim is approved; and all or a proportion of the balance at the end of the financial year. The extent to which the total balance will be paid depends on available funds remaining in the EMDG budget, assessed at the end of the financial year.¹¹⁰ A final pay-out factor is used to determine the proportion of the outstanding amount to be paid as a second tranche payment.¹¹¹

4.41 The ANAO's analysis of CMS' programming logic confirmed that appropriate formulas were used to calculate payments, based on the eligibility requirements, and testing showed that the algorithms used to calculate all payments for GYs 2011–12 and 2012–13 operated correctly.¹¹² Overall, the ANAO's analysis confirmed that EMDG grants payments (both in terms of the number of applications and amounts paid) align with the number of eligible applicants and the assessment results that were applied.

Conclusion

4.42 Austrade's processes for the final assessment and distribution of payments are generally sound, although there is scope for improvement in several areas, including adjustments to assessment types, segregation of duties, system audit logs and quality assurance.

4.43 Once an assessment activity has been determined by CMS, the application is referred to an assessor. Grant assessors are able to review the

¹¹⁰ Sections 81–82 of the EMDG Act.

¹¹¹ The pay-out factor is a calculated percentage figure derived at the end of financial year through budget closing procedure, using the total outstanding amount and the remaining budget amount. Details of the calculation are provided in Appendix 2.

¹¹² The code review included an examination of the initial payment process, the end of year closing process and the payment distribution process. In addition, special payment cases were also examined, including the recovery of overpayments, applications from cases remaining from the previous financial year and payments for appeal cases.

assigned assessment activity and, where considered necessary, manually adjust the initial recommended activity. Approximately 30 per cent of the total applications for GYs 2011–12 and 2012–13 involved a manual adjustment to the recommended assessment activity type. While reasons were generally recorded for changes in the recommended assessment activities, there was varying level of detail included in the reasons recorded. Given that these changes represent a deviation from the risk model's initial risk assessment, it is important that Austrade systematically assesses the appropriateness of manual adjustments and uses this analysis to refine its automated risk model.

4.44 For low risk applications, such as file checks, a single officer is permitted to complete an end-to-end financial transaction without independent approval, which increases the risks to the integrity of the assessment process. In addition, the ability of assessors to self-select an approval officer creates a risk to the integrity of decision-making. Austrade has, however, advised that it is considering introducing revised practices that will randomly allocate approval officers, to prevent staff from self-selecting approval officers in the future but that a final decision is yet to be determined.

4.45 While controls supporting the EMDG payment process are sound, the CMS audit log only captures the user authentication information—the time stamps when the user logs on and logs off the CMS—and limited information with regards to the business transaction. The audit log does not capture the transaction history, which makes it difficult for Austrade to monitor system data changes and reduces the assurance over data quality.

4.46 Austrade has measures in place that provide some assurance to EMDG management in relation to the quality of assessments and decision-making undertaken by grant assessors. However, it is yet to establish a quality assurance program that involves the regular review of a sample of applications that are analysed (for suggested improvements in the assessment process) and reported to management. Such a program would provide assurance that documented processes are being implemented, and that EMDG applications were processed appropriately, as well as highlighting good practices and areas for improvement.

Recommendation No.3

4.47 To enhance assurance in respect of the assessment and distribution of payments for the Export Market Development Grants (EMDG) scheme, the ANAO recommends that Austrade:

- (a) systematically assesses the appropriateness of manual adjustments to recommended assessment activities and uses this analysis to refine its automated risk model; and
- (b) develops and implements a quality assurance program to provide additional assurance that the scheme is being administered consistently, and in accordance with requirements.

Austrade's response:

4.48 *Agreed.*

- (a) *Austrade will include this analysis in the next annual update of the automated risk model scheduled in late 2014–15.*
- (b) *Austrade notes that this recommendation accords with recommendations of the management initiated PricewaterhouseCoopers review of EMDG in 2013. Implementation of this recommendation will be in addition to the current quality assurance processes that the ANAO has acknowledged in its report which includes:*
 - *a policy and consistency committee;*
 - *random sampling of claims;*
 - *a rolling compliance audit by internal audit;*
 - *management initiated audits from time to time; and*
 - *Austrade supervision and management of claims processing.*

5. Monitoring and Reporting on Performance

This chapter examines Austrade's approach to monitoring and reporting on the performance of the EMDG scheme and outcomes of its activities.

Introduction

5.1 Public sector agencies must assess, and report to the Parliament, the progress and performance of programs for which they have responsibility. Underpinning this process is the collection, analysis and reporting of relevant performance information, including a combination of quantitative and qualitative data designed to assist management decision-making and the accurate reporting of entity achievements. The ANAO's review of Austrade's monitoring and reporting of EMDG's performance was based on the outcomes and program framework that has been in place since 2009–10. As part of the progressive implementation of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act)¹¹³, a new performance framework was being developed at the date of preparation of this report.

5.2 To assess the effectiveness of Austrade's monitoring and reporting of the EMDG scheme, the ANAO examined the entity's:

- outcomes and program structure;
- key performance indicators;
- performance reporting;
- time taken to process applications; and
- external and internal reviews.

Outcomes and program structure

5.3 The Outcome/Program structure in Austrade's 2014–15 PBS is shown in Table 5.1.

¹¹³ The PGPA Act, which replaced the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act), came into effect on 1 July 2014 following a review of the Australian Government's financial framework.

Table 5.1: Austrade outcome and program structure (2014–15)

Austrade Outcome 1
Contribute to Australia's economic prosperity by promoting Australia's export and other international economic interests through the provision of information, advice and services to business, associations, institutions and government.
Program 1.2
Programs to promote Australia's exports and other international economic interests. ¹
Program Objective
Administer programmes that support Australian businesses engagement in international business, provide an incentive for small to medium business to enter into export and grow to become sustainable exporters.
Program 1.2 Deliverables
Export Market Development Grants Scheme (EMDG): Administration of the EMDG scheme, providing partial reimbursement for expenditure on eligible export promotion activities.

Source: Austrade Portfolio Budget Statements 2014–15, pp. 92–101.

¹ PBS program name change was made to consolidate administered programmes.

5.4 The performance framework is consistent with Austrade's functions and with the requirements of the EMDG Act. In addition, Austrade's deliverable that relates to the EMDG scheme represents the major area of activity under the EMDG scheme. The deliverable is measurable and quantifiable, and clearly identifies the tangible product (that is, the reimbursement) to be produced to meet the program objective.

Key performance indicators

5.5 The KPIs for the EMDG scheme for the period 2009–10 to 2013–14 were the: number of grant applications; and number of grant recipients. While these quantitative indicators provide insights into EMDG activity, they do not assess whether the EMDG scheme is achieving its objective.

5.6 The Report of the National Commission of Audit (March 2014) on the topic of Commonwealth accountability and performance, also commented on the appropriateness of the EMDG's KPIs, with the report noting:

the information presented to Parliament in the portfolio budget statements for Austrade's Export Market Development Grants scheme is of limited usefulness in answering basic questions like what was the money used for? What was the policy objective? Was it achieved?

The information provided simply outlines that \$125 million is budgeted to be spent. The key performance indicators are the number of grant applications

and the number of grant recipients. There is no information on the results of this spending.¹¹⁴

5.7 Subsequently, Austrade amended its KPIs in its 2014–15 PBS to the:

- proportion of EMDG recipients reporting that the receipt of a grant supported their business to become a more sustainable exporter; and
- proportion of EMDG recipients reporting that the receipt of a grant enabled them to grow their international revenue.

5.8 These revised indicators will enable Austrade to better measure the overall effectiveness of the EMDG scheme. To give stakeholders further insights into the efficient administration of the EMDG scheme, Austrade may consider additional KPIs that measure and report on the timeliness of processing applications and the accurate payment of reimbursements.

External reporting

5.9 In Austrade's 2011–12 and 2012–13 annual reports, the entity reported the following information on the EMDG scheme's performance:

- payments to EMDG recipients: total number of grant recipients and the value of grants;
- profile of the EMDG applicants and recipients by grant year, including first time grant applicants, recipients from rural and regional areas, and volume of exports generated by grant recipients;
- EMDG recipients by: business type; annual income; number of employees; annual export earnings; state and territory; and industry;
- top six countries targeted by the EMDG recipients; and
- EMDG recipients by expenditure category.

5.10 The annual reports have previously noted the number of applications that have been processed in the first quarter of each grant year, and have consistently stated that Austrade is 'striving for faster turnaround.' As previously discussed, performance reporting could also include the time taken to process EMDG applications.

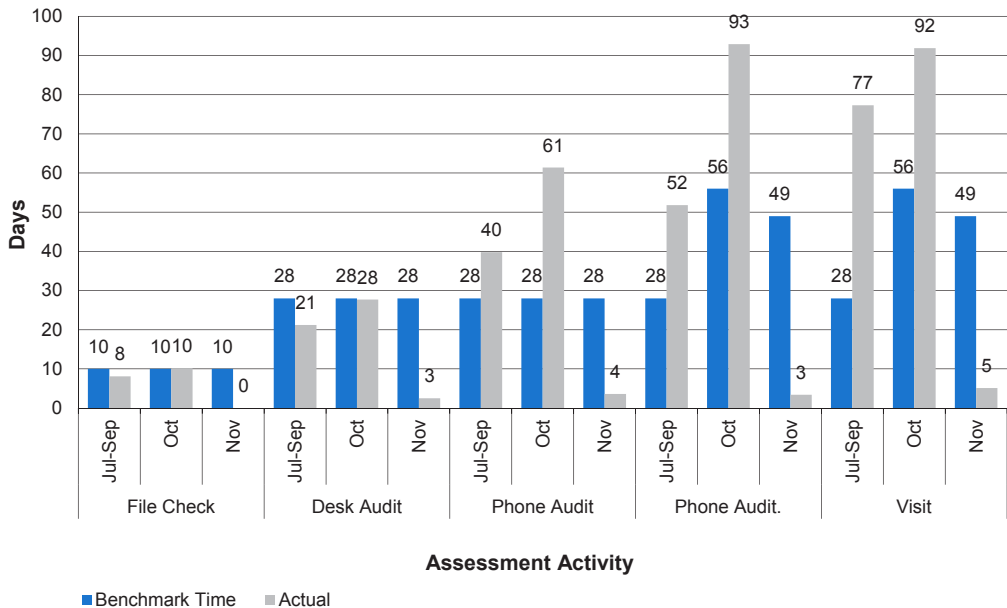
114 Available from: <<http://www.ncoa.gov.au/report/appendix-vol-3/2-4-accountability-performance.html>> [accessed 20 June 2014].

Time taken to process applications

5.11 When an EMDG application is received by Austrade, the CMS records the date when: the application is received; the assessment process begins (investigation start date); and a Notice of Determination (NOD) is issued advising the applicant of the outcome of the claim for reimbursement.

5.12 Austrade sets internal target benchmarks for the processing of EMDG applications.¹¹⁵ These times will vary depending on the month an application is received during the lodgement period, and the type of assessment activity that is applied. The ANAO compared the actual time taken to process EMDG applications against Austrade’s benchmark times for all applications received in 2012–13 (see Figure 5.1).¹¹⁶

Figure 5.1: Actual processing times against benchmark times (GY2012–13)



Source: ANAO analysis of Austrade data.

Note: The difference between the two phone audit (assessment) types ('phone audit' and 'phone audit.') relates to the underlying risk of the applications. These risks were categorised separately to track the performance of phone assessment methodology. In previous years, the higher risk category (phone audit.) had been assessed by the visit type assessment.

115 Benchmark times are termed 'target turnaround times' by Austrade.

116 The ANAO was not able to compare the actual number of EMDG applications against Austrade's target turnaround times for 2011–12 as these data sets had been overwritten.

5.13 The processing time for all assessment activities throughout 2012–13 was on average around 15 days longer than Austrade’s benchmark. As shown in Figure 5.1, the more complex the assessment activity, the greater the disparity between the benchmark and actual processing times. For example, the disparity in the number of days between the benchmark and actual processing times was four days for file checks and 11 days for desk audits. However, on average, phone audits (assessments) were taking 29 days and visits were taking 43 days longer to complete than Austrade benchmark times for these two assessment types.¹¹⁷ There would be benefit in Austrade reviewing the reasons for the increasing disparity, and revising its benchmarking approach, as necessary.

5.14 The ANAO also noted that the later a claim is processed in a grant year, the greater the disparity with Austrade’s benchmark time. In addition, the actual processing times for the November period were significantly shorter than the benchmark time for all assessment activity types. Actual processing times were on average 15 days longer than the benchmark times for the July–September period, 21 days longer for October, but around 30 days shorter in November. Austrade reports internally to management the percentage of applications that are processed within benchmark times. It does not report on the processing times of all EMDG applications against agreed targets—and the reasons why targets have not been met. Austrade did not retain documentation that explained the basis on which benchmark processing times were determined and whether they were approved by management, nor whether actual processing times and the extent to which they varied from benchmark times was acceptable.

External and internal reviews

External reviews of the efficiency and effectiveness of the scheme

5.15 The EMDG Act requires the Minister to provide for intermittent external reviews of the scheme for the purpose of making recommendations about its continuation. To date, there has been a total of 14 external reviews throughout the scheme’s 40 year history. The next review is to be conducted

¹¹⁷ Phone audits are not audits under the Australian Auditing Standards, rather, they are assessment activities undertaken by Austrade for EMDG applications.

not later than 1 January 2015, with the written report provided to the Minister not later than 30 June 2015.¹¹⁸

5.16 On the whole, the previous reviews have found that the EMDG scheme has been effective in stimulating exports for small to medium exporters and have recommended its continuation. Past reviews have used various methodologies including econometric modelling to determine the economy-wide impacts of the EMDG scheme. For example, EMDG grants paid in one year were found to have contributed an additional \$1.4 billion in exports based on the 1994 review, and an extra \$1.69 billion in the 2000 review. The 2005 review found that the EMDG scheme was generally effective in assisting claim recipients to develop into new exporters and generating additional exports, more so where recipients were reliant on the receipt of a grant.

5.17 The most recent external review conducted in 2008¹¹⁹ used econometric modelling, stakeholder consultations, public submissions, surveys and other data to assess the efficiency and effectiveness of the scheme. It concluded that, although there was a small net positive economy-wide benefit to the scheme, this was greater when positive spill-over effects were taken into account. In addition, those economy-wide benefits compared favourably with other government programs. In terms of effectiveness, the report found that:

- growth in exports achieved by current and former EMDG recipients exceeded growth achieved by non-recipient firms; and
- for each dollar the scheme provided to recipients, some \$13.50 to \$27 worth of exports was generated.

5.18 The report identified that the uncertainty surrounding the actual grant amount to be paid needed to be addressed¹²⁰, but overall the scheme was helpful in introducing smaller Australian businesses and new exporters to the global market and should be continued.

118 Section 106A of the EMDG Act.

119 David Mortimer AO, *Winning World Markets: Review of the Export Market Development Grants Scheme*, 1 September 2008.

120 This is as a result of grant payments, specifically second tranche payments, being tied to the capped EMDG budget.

Internal reviews

5.19 Internal reviews of the scheme have also been conducted on a regular basis, with the following internal reviews undertaken since 2010:

- in November 2010, KPMG reviewed the scheme to determine whether its administration was efficient, effective, in line with Austrade's corporate strategy, and integrated with the rest of Austrade. It recommended, among other things, that Austrade: register its consultants; consider revising funding arrangements to address the capped EMDG budget; and implement a web-based lodgement system (which had not, at that time, been implemented);
- a series of rolling compliance audits examining whether EMDG administration was compliant with EMDG policies and procedures:
 - a May 2011 audit that examined a sample of 50 applications from GY2008–09. The audit recommended that Austrade standardise its assessment documentation, develop minimum requirements for all assessment activities, provide training and quality assurance processes to ensure consistency in grants assessment, and update guidance material (among other things);
 - a June 2012 audit that examined a sample of 50 applications from GY2010–11. The audit recommended that Austrade develop minimum requirements for the documentation to support grant assessment decisions to improve transparency; and
 - a November 2013 audit that examined a sample of 60 applications from GY2011–12. The audit recommended that Austrade require EMDG grant assessors to declare any conflicts between applicants' and their personal interests, and to take into account whether trading partners of grant recipients are countries subject to trade sanctions in its risk model;
- three reviews were completed (in October 2012, March 2013 and September 2013) to track the introduction of the EMDG web-based applications lodgement system. The key findings in the reviews included: weaknesses in the project management plan, stakeholder communication plan and the benefits realisation strategy; an over ambitious project schedule with little contingency and very short timeframes; and delays in the scheduled rollout that resulted from

insufficient detail included in the user requirements, and inappropriate quality controls over testing by Austrade's external contractor; and

- in 2014, a consultant conducted staff interviews, surveys and a review of a sample of 60 applications to examine Austrade's administration of the scheme, including risk management, resource allocation, and grants processing and payment. Key risks identified included: workplace planning in light of the demography of the EMDG team (such as the concentration of staff at the executive levels); and the absence of meaningful KPIs to drive performance. The report made a number of recommendations, including that Austrade: implement a change management plan and strategy to build EMDG staff capability; and review its KPIs.

Client satisfaction surveys

5.20 Austrade conducted EMDG-specific client satisfaction surveys every year until 2004. The 2004 survey involved interviews with 500 grant applicants by telephone to obtain their views in relation to a number of topics such as: overall satisfaction with the scheme; reasons for being dissatisfied with the scheme; how clients found out about the scheme; whether and why clients used consultants; the ease of the application process; and how significant an EMDG grant was to their exporting activities. The results of these historical client satisfaction surveys (1999–2004) showed that satisfaction with the EMDG was generally high (between 80 and 90 per cent of clients being 'very satisfied' or 'satisfied' with the scheme) and that clients generally considered that the scheme had an impact on decisions to expend money on export marketing.

5.21 In addition, Austrade has conducted entity-wide client satisfaction and service improvement surveys since 1995. Two of these surveys included telephone interviews with EMDG recipients to determine their level of satisfaction with the scheme. In 2008–09, 500 EMDG grant recipients were interviewed and it was found that: overall satisfaction remained high at 90 per cent (steadily increasing since 2003 from 82 per cent); and satisfaction with the services provided by EMDG staff who assisted with the application and conducted the assessment was also high (between 85 and 88 per cent, respectively). In 2012–13, 28 per cent of EMDG grant recipients (365 of 1302) were surveyed, and one in five stated that the grant had a 'critical' impact on their export marketing activity. However, as previously discussed, awareness of the scheme had fallen from a peak of 92 per cent in 2004 to 77 per cent in 2013.

Conclusion

5.22 Previous reviews of the EMDG have found that the scheme has been effective in stimulating exports for small to medium exporters, and have recommended its continuation. The reviews have also reported that the EMDG has contributed to additional exports (\$1.4 billion in exports based on a 1994 review, and \$1.69 billion in the 2000 review).

5.23 For 2014–15, Austrade has developed a generally sound performance framework, including revised KPIs to better measure its performance in meeting its PBS outcome and objective of the EMDG scheme. The various components of this framework are consistent with Austrade's functions and with the EMDG Act. There would also be merit in reporting the timeliness in assessing applications against Austrade's established benchmarks and, where applicable, the reasons why these targets have not been met.



Ian McPhee
Auditor-General

Canberra ACT
17 December 2014

Appendices

Appendix 1: Response from the Australian Trade Commission



Australian Government
Australian Trade Commission

GED
- 3 DEC 2014
10.30

Chief Executive Officer

28 November 2014

Mr Ian McPhee *27*
Auditor-General
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Ian
Dear Mr McPhee,

Proposed audit report on the Administration of the Export Market Development Grants scheme

Thank you for your letter of 4 November 2014 providing the proposed audit report on the Administration of the Export Market Development Grants scheme.

The ANAO's recommendations and observations provide helpful guidance to enable Austrade to further improve its management of this long-standing scheme. I note your recognition that across all the key areas of scheme administration Austrade's management of EMDG is essentially sound. This provides important reassurance to us in our management of the scheme. Austrade's response against each ANAO recommendation is attached.

I can advise you that in relation to the three recommendations made by the ANAO, Austrade accepts each in full and has already either implemented the recommendation, is in the process of doing so, or has scheduled implementation as part of an existing annual cycle.

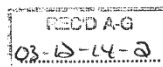
Thank you for the opportunity to comment on the report.

Yours sincerely

Bruce Gosper

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ANAO audit report on the administration of the Export Market Development Grants scheme

Austrade's summary response

Austrade accepts the ANAO's recommendations in full with the majority either implemented or currently subject to implementation and those remaining awaiting the completion of the annual grant cycle before implementation. Austrade notes that the ANAO's observations that EMDG risk management and grant payment mechanisms are generally sound provides assurance to the Government, Austrade management and industry stakeholders and increases public confidence in the scheme.

Austrade's response in full

ANAO Recommendations and Agency Response

Recommendation No. 1 (paragraph 2.40 of the report)

To strengthen the program management arrangements underpinning the Export Market Development Grants (EMDG) scheme, the ANAO recommends that Austrade:

- a) considers a broader range of risks that affect the administration of the scheme in preparing its risk management plan; and
- b) documents the involvement of relevant EMDG officers and staff in the development and review of the fraud risk assessments, including the formal acceptance of risks and controls by management.

Austrade response: Agreed

- a) Following a management initiated review the EMDG program risk management plan has been expanded to consider a broader range of risks including those identified by the ANAO. This recommendation has been implemented.

- b) EMDG will commence the documentation of the involvement of relevant staff in the next annual review of fraud risk and document the formal acceptance of risk and controls identified in that review.

Recommendation No. 2 (paragraph 3.29 of the report)

To strengthen decision-making under the Export Market Development Grants (EMDG) scheme assessment process, the ANAO recommends that Austrade documents the analysis, review and approval processes for adjusting the risk assessment model thresholds in the claims management system.

Austrade Response: Agreed

Austrade has always conducted an extensive analytical process followed by detailed consultation across relevant senior managers prior to adjustments to the risk model thresholds. This is now enhanced by centralised recording of this process and the subsequent management decisions. This recommendation has been implemented.

Recommendation No. 3 (paragraph 4.47)

To enhance assurance in respect of the assessment and distribution of payments for the Export Market Development Grants (EMDG) scheme, the ANAO recommends that Austrade:

- a) systematically assesses the appropriateness of manual adjustments to recommended assessment activities and uses this analysis to refine its automated risk model; and
- b) develop and implement a quality assurance program to provide additional assurance that the scheme is being administered consistently, and in accordance with requirements.

Austrade response: Agreed

- a) Austrade will include this analysis in the next annual update of the automated risk model scheduled in late 2014-15.
- b) Austrade notes that this recommendation accords with recommendations of the management initiated PricewaterhouseCoopers review of EMDG in 2013. Implementation of this recommendation will be in addition to the current quality assurance processes that the ANAO has acknowledged in its report which includes:
 - a policy and consistency committee;
 - random sampling of claims;
 - a rolling compliance audit by internal audit
 - management initiated audits from time to time; and
 - Austrade supervision and management of claims processing.

Appendix 2: The provisional grant entitlement and the Export Market Development Grants performance measure

1. Section 63 of the EMDG Act sets out the general rules on how to work out an EMDG claimant's provisional grant amount. In addition, Austrade provides detailed information on calculating the provisional grant entitlement, how unpaid provisional grants are dealt with and the EMDG performance measure.

Calculating the provisional grant entitlement

2. For an EMDG applicant's first two grants, Austrade will calculate the provisional grant entitlement based on a formula. A minimum grant of \$5000 applies. The maximum grant for eligible applicants is \$150 000, subject to funds available in the scheme. A provisional payment is calculated as:

- 50 per cent of (total eligible expenses less \$5000 non-reimbursable threshold amount).

For example, if total eligible expenses were \$55 000, the provisional grant entitlement would be \$22 500.

How unpaid provisional grants (balance grants) are dealt with

3. During June of the year following the particular grant year, Austrade will calculate the amounts paid out as initial payments (including payments for earlier years if applicable) and also administrative outlays for that year. The balance subtracted from the total EMDG scheme appropriation will be the amount distributed.

4. The Minister for Trade and Investment is required to determine the date at which this calculation is made. This date, set by Ministerial determination, is called the *balance distribution date*. The *pay-out factor* is determined as soon as practicable following the *balance distribution date*.

5. The *pay-out factor* will be applied to all unpaid provisional grants so that the balance amounts can be paid. The payout factor ensures the funding cap for that grant year is not exceeded.

EMDG Performance Measure

6. In making an application for a third EMDG grant, the applicant must satisfy the requirements of an EMDG performance measure in order to receive subsequent grants. In order to do this, the applicant must choose from two different options to be assessed against—Option A (The Export Performance Test) or Option B (The Australian Net Benefit Requirements), and state this in the relevant application form.

7. When an EMDG applicant has made a decision, and has chosen either Option A or Option B, the applicant cannot change their choice after the application has been received by Austrade. If an applicant chooses Option B and Austrade determines that the Australian Net Benefit Requirements are not met, no grant is payable and the applicant cannot revert or default to Option A. Similarly, applicants that choose Option A, but have their claimed export earnings reduced, or assessed as ineligible under the EMDG (Export Performance Requirements) Determination 2008 cannot revert or default to Option B. A brief description of these two Options follows:

- **Option A: The Export Performance Test.** Under this test, applicants will receive the lesser of :
 - 50 per cent of (total eligible expenses less \$5000) subject to the maximum legislated grant amount of \$150 000; and
 - the relevant percentage of export earnings depending on how many grants the EMDG applicant has received. These percentages are as follows:

Grant year	Percentage of export earnings
3	40
4	20
5	10
6	7.5
7 and 8	5

- **Option B: The Australian Net Benefit Requirements.** Applicants that meet these requirements will be entitled to receive a grant calculated as, 50 per cent multiplied by (total eligible expenses less \$5000). A maximum grant of \$150 000 applies. Similarly, applicants that do not meet the requirements of Option B will not be entitled to receive a grant.

8. Austrade will determine if an applicant satisfies the Australian Net Benefit Requirements by taking into account whether:

- (a) a commercial return:
 - (i) was received in the grant year;
 - (ii) is receivable in respect of the grant year; or
 - (iii) can reasonably be expected to be received in the foreseeable future

by the applicant as a result of the activities to which claimed expenses relate and that, having regard to the length of the periods over which those activities have been undertaken and the amounts expended on them, that commercial return:

- (iv) was or would be reasonably commensurate with the quantum of those expenses; and
 - (v) of sufficient magnitude as to warrant further expenditure of public moneys by way of a further grants; and
- (b) the financial position of the applicant's business, including its reasonable prospects of gaining access to adequate levels of finance, is such that the applicant has reasonable prospects in the foreseeable future of achieving sustainable international business success; and
- (c) the applicant's international business activities do now, or are reasonably likely in the foreseeable future to, generate economic benefits to Australia in two or more of the following areas:
 - (i) employment in Australia;
 - (ii) new capital investment in Australia;
 - (iii) introduction of new technologies into Australia; and
 - (iv) new value-added operations in Australia, being benefits that are reasonably commensurate with the sum of any eligible expenses previously claimed by the applicant and the amount of the eligible expenses now claimed by the applicant.

Appendix 3: Export Market Development Grants scheme eligibility requirements

Eligible applicant

1. Requirements for an eligible applicant are provided under sections 6–7 of the EMDG Act. The Act refers to any Australian individual, partnership, company, association, co-operative, statutory corporation or trust, which:

- has genuinely carried on a business in Australia during the grant year;
- has an income of not more than \$50 million in the grant year;
- has not previously received eight or more EMDG scheme grants in previous grant years; and
- has had no disqualifying conviction under the EMDG Act.¹²¹

2. The following groups or organisations that are not otherwise eligible are granted approval status for a five year renewable term:

- **approved joint venture status**—approved joint ventures are small to medium sized Australian business that co-operate or collaborate in a joint venture style marketing arrangements to pursue specific export activities under s 7(2) of the EMDG Act; and
- **approved body status**—under s 89 of the EMDG Act, groups or organisations with approved body status are non-profit export focused industry bodies which, although not exporting themselves, undertake export promotion on behalf of their particular industry or membership. The industry may be national, state/territory or regional in nature, including regional economic development bodies and tourism bodies that promote Australian exporters.

3. Requirements for eligibility also depend on whether an applicant has received three or more EMDG grants, in which case they must satisfy the performance measure requirements (see Appendix 2).

Eligible expenses

4. The Austrade website and Part 5 of the EMDG Act provides for nine categories of promotional activities that qualify under the scheme:

121 Sections 6–7 of the EMDG Act.

overseas representatives; marketing consultants; marketing visits; communications; free samples; trade fairs, seminars, in store promotions; promotional literature and advertising; overseas buyers; and registration and/or insurance of eligible intellectual property.

5. Examples of ineligible expenses are also provided on the Austrade website and include expenses that:

- are not substantiated;
- are incurred by a related business entity;
- relate to business with the Democratic People's Republic of Korea (DPRK) (North Korea), Iran and New Zealand;
- are not promotional;
- were incurred when the applicant was not a resident of Australia;
- relate to after-sales activities;
- have or will be subject to reimbursement by a third party (other than EMDG);
- relate to an illegal or unlawful activity;
- are a commission or discount;
- are in payment of an Australian tax, levy or charge (except Australian departure tax);
- relate to any form of pornographic material with a classification equivalent to the X-rating for films; and
- are cash payments exceeding \$10 000 per application.

Eligible products

6. The EMDG Act lists the types of products and the conditions that need to be satisfied to determine whether the product is eligible, as shown in the Table below.

Table A.1: Product or service eligibility

Eligible Product Type	Conditions Under the EMDG Act
Goods	<ul style="list-style-type: none"> the goods are made in Australia; or the CEO of Austrade is satisfied that Australia will derive a significant net benefit from the sale of the goods outside Australia (significant net benefit requirement).
Services (non-tourism)	<ul style="list-style-type: none"> the service is supplied (whether in or outside Australia) to a person that is not a resident of Australia; and significant net benefit requirement is fulfilled.
Services (tourism)	<ul style="list-style-type: none"> the service is supplied in Australia (whether or not through a resident of Australia) to a person that is not a resident of Australia; and significant net benefit requirement is fulfilled.
Events	<ul style="list-style-type: none"> among other things, that the event is held in Australia; and significant net benefit requirement is fulfilled.
Intellectual property	<ul style="list-style-type: none"> if a trade mark, that the trade mark was first used in Australia; or has increased in significance or value because of its use in Australia; or if another intellectual property right relating to any other things, that the thing resulted to a substantial extent from research or work done in Australia.
Know-how	<ul style="list-style-type: none"> the know-how resulted to a substantial extent from research or work done in Australia.

Source: Part 4 of the EMDG Act.

7. In determining whether Australia will derive a *significant net benefit* from an eligible product or service, Austrade is required to consider the following factors under the Export Market Development Grants (Significant Net Benefit) Guidelines 2006 made under paragraph 101(1)(baa) of the EMDG Act:

- the business assets that are used in making the goods ready for sale (other than assets used in manufacture) are primarily or substantially based in Australia;
- the activities (other than manufacture) that result in the goods being made ready for sale are primarily or substantially carried on in Australia;
- a significant proportion of the value of the goods is added within Australia; and
- any sale of the goods generates, or is reasonably likely in the foreseeable future to generate, economic benefits for Australia, including in the area of employment, that are substantial relative to the amount of the grant claimed by the applicant.

Index

A

Administration of the EMDG, 82

Assessment decisions, 29, 75, 87

Australian Trade Commission, 11, 12,
13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 25,
26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36,
37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47,
48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58,
59, 60, 61, 62, 63, 65, 66, 69, 70, 71, 72,
73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83,
84, 85, 87, 88, 89, 96, 97, 98, 99, 100,
101

C

Conflict of interest

COI forms, 8, 47, 48

Conflict of Interest, 8, 17, 47, 48, 50

D

Distribution of Payments, 19, 35, 64

E

Eligibility

Applicant, 99

Expense, 11, 26, 99

Product, 100

EMDG applications, 12, 13, 19, 27, 29,
30, 34, 35, 37, 47, 51, 56, 58, 60, 61, 62,
64, 65, 66, 69, 72, 73, 75, 79, 83, 84, 85

EMDG consultants, 17, 43, 48, 49, 50,
51, 52

Export Market Development Grants
scheme, 8, 11, 12, 13, 14, 15, 16, 17,
18, 19, 20, 21, 22, 25, 26, 27, 28, 29, 30,
31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41,

42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52,
53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63,
64, 65, 66, 68, 69, 70, 71, 72, 73, 74, 75,
76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86,
87, 88, 89, 96, 97, 99, 100, 101

External reviews of EMDG, 13, 33

F

Final Assessment, 19, 35, 64

Funding arrangements, 13, 31

G

Grant payments, 11, 12, 19, 28, 77

I

Initial Assessment

Risk, 17, 35, 51

M

Monitoring, 20, 35, 81

P

Performance

measurement framework, 20

Q

Quality

assurance mechanisms, 73

Quality assurance, 73

Program, 73

R

Risk management, 39

frameworks, 39

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Administration of the Export Market Development Grants Scheme

Australian Trade Commission

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