

Delivery of the Filling the Research Gap under the Carbon Farming Futures Program

Department of Agriculture

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Canberra ACT
12 December 2013

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Agriculture with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament. The report is titled *Delivery of the Filling the Research Gap under the Carbon Farming Futures Program*.

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

AUDITING FOR AUSTRALIA

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For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Phone: (02) 6203 7505
Fax: (02) 6203 7519
Email: publications@anao.gov.au

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Audit Team

Michael Shiel
Kristen Burdon
Nathan Kissick
Brian Boyd

Contents

Abbreviations and Glossary	8
Summary and Recommendations	11
Summary	13
Introduction	13
Audit objective, scope and criteria	14
Overall conclusion	14
Key findings by chapter	16
Summary of agency response	21
Recommendations	23
Audit Findings	25
1. Introduction	27
Background	27
Filling the Research Gap Program	28
Audit objective, criteria and scope	31
Report structure	33
2. Program Design and Governance	34
Introduction	34
Program guidelines	34
Program administrative arrangements	39
Program evaluation and performance information	40
Key roles and responsibilities	45
Management of conflicts of interest	50
Conclusion	60
3. Access to the Program	64
Introduction	64
Publicising the program and calling for applications	64
Submitting applications	65
Eligibility criteria	67
Eligibility assessment	70
Conclusion	74

4. Merit Assessment for the First Round.....	76
Introduction	76
Allocation of applications to panel members	76
Round one merit assessment arrangements	77
Individual expert advisory panel members' assessment of applications	80
Scoring outcomes	82
Expert advisory panel's merit assessment report	89
Conclusion	91
5. Merit Assessment for the Second Round	93
Introduction	93
The online assessment tool	93
Merit assessment scoring results.....	102
Assessment report	106
Conclusion	107
6. Advice to the Minister, and Funding Decisions	109
Introduction	109
Merit assessment records	110
Advice to the Minister	112
Funding decisions	118
Ministerial reporting obligations	118
Conclusion	120
7. Funding Distribution, Feedback to Applicants and Implementation of Funding Deeds	121
Introduction	121
Distribution of funding awarded	121
Provision of feedback to unsuccessful applicants	126
Grant funding arrangements	128
Agency grant reporting obligations	140
Conclusion	141
Appendices	145
Appendix 1: Agency response.....	147
Index.....	150
Series titles.....	152
Current Better Practice Guides	154

Tables

Table S.1:	Number of assessment criteria and sub-criteria.....	19
Table 1.1:	Structure of the report.....	33
Table 2.1:	Filling the Research Gap merit assessment criteria – rounds one and two	38
Table 2.2:	Program outcome KPIs for the FtRG program.....	42
Table 2.3:	Round one conflict of interest declarations by panel members.....	55
Table 2.4:	Round two conflict of interest declarations by panel members	59
Table 4.1:	Round one – key metrics on successful coordination projects	88
Table 5.1:	Number of assessment criteria and sub-criteria.....	95
Table 5.2:	Round two research application assessment sub-criteria not addressed by assessment tool question(s) and/or all questions scored	99
Table 7.1:	Rounds one and two - grant applicants and recipients by sector.....	122
Table 7.2:	Rounds one and two – applications and approvals by political party	125

Figures

Figure 4.1:	Individual expert advisory panel members' application assessments: lowest and highest scores	81
Figure 4.2:	Distribution of merit criterion scores for eligible applications	83
Figure 4.3:	Round one – eligible application's overall assessment scores	85
Figure 5.1:	Outline of online assessment tool scoring arrangements in relation to research projects	98
Figure 5.2:	Individual expert advisory panel members' application assessments: lowest and highest scores	102
Figure 5.3:	Distribution of method, capacity, value and risk category scores for eligible applications	104
Figure 5.4:	Round two – eligible applications overall assessment scores	105
Figure 7.1:	Round one funding deed arrangements.....	130
Figure 7.2:	Round one reporting and grant payment arrangements	131
Figure 7.3:	Rounds one and two budgeted, applied for and contracted program funding	139

Abbreviations and Glossary

ABARES	Australian Bureau of Agricultural and Resources Economics and Sciences
Agriculture	Department of Agriculture, which prior to 18 September 2013 was known as the Department of Agriculture, Fisheries and Forestry.
ALP	Australian Labor Party
ANAO	Australian National Audit Office
ANAO Better Practice Guide	ANAO Better Practice Guide, <i>Implementing Better Practice Grants Administration</i> , Canberra, June 2010
CCRP	Climate Change Research Program
CCRSPI	Climate Change Research Strategy for Primary Industries
CFF	Carbon Farming Futures program
CFI	Carbon Farming Initiative, which is a voluntary carbon offset scheme
CGGs	Department of Finance and Deregulation, <i>Commonwealth Grant Guidelines—Policies and Principles for Grants Administration</i> , Financial Management Guidance No.23, Canberra, July 2009. The first edition took effect from 1 July 2009 and the second edition took effect from 1 June 2013.
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DCCEE	then Department of Climate Change and Energy Efficiency
ERC	Expenditure Review Committee of Cabinet
Finance	Department of Finance, which prior to the Administrative Arrangement Order of 18 September 2013 was the Department of Finance and Deregulation.
Finance Minister	Minister for Finance

FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
FtRG	Filling the Research Gap program
GST	Goods and Services Tax
KPI	key performance indicator
LSCBB	Land Sector Carbon and Biodiversity Board
Minister	then Minister for Agriculture, Fisheries and Forestry
NHMRC	National Health and Medical Research Council
PBS	Portfolio Budget Statements
PM&C	Department of the Prime Minister and Cabinet
SES	Senior Executive Service

Summary and Recommendations

Summary

Introduction

1. The Filling the Research Gap (FtRG) under the Carbon Farming Futures Program was established in 2011 as a six year research funding initiative. The FtRG is expected to deliver:

- a suite of collaborative research projects that address the research priorities identified for each funding round;
- practical management options to reduce on-farm greenhouse gas emissions and sequester carbon;
- research reports from each project, as well as an overarching report on each funding round;
- peer-reviewed journal papers; and
- a range of communication material to disseminate key findings and outcomes.

2. Some \$201 million was budgeted for FtRG over the period 2011–12 to 2016–17. Of this amount, \$150.4 million was available for grants, \$34.1 million for associated initiatives¹, and \$16.6 million allocated to the then Department of Agriculture, Fisheries and Forestry to administer the program. In September 2013, this department became the Department of Agriculture. Throughout this report, the department responsible for administering the FtRG program is referred to as Agriculture.

3. Agriculture established arrangements to support the program's operation as a multi-round competitive grants program. This included an assessment process whereby the eligibility of applications was assessed by departmental staff, and an expert advisory panel assessed the merit of eligible applications against the selection criteria published in the program guidelines.

4. The first funding round attracted 234 applications and was completed in May 2012. Grant funding offers were made to 58 applicants with a total value of \$47.3 million (GST exclusive). The grant offers were accepted by

1 This included \$30.5 million for the Australian Bureau of Statistics to undertake a biennial land management practice survey.

57 applicants (involving \$47.0 million) and all funding deeds were entered into by mid-October 2012. Most projects were contracted to be completed in May or June 2015, with three projects to be completed in 2013 and one in 2014.

5. The second funding round attracted 237 applications and was completed in April 2013. Grant funding offers were made to 31 applicants with a total value of \$27.1 million (GST exclusive). The grant offers were accepted by each successful applicant and all funding deeds were entered into by mid-September 2013. The research work for most projects is to be completed by May or June 2016, with one project to be completed in May 2015.

6. Further funding rounds had originally been planned but, in July 2013, the then Government announced the return of \$143 million of unallocated funding from the Carbon Farming Futures program to the budget.

Audit objective, scope and criteria

7. The objective of the audit was to assess the effectiveness of the delivery of the first and second funding rounds of the FtRG program by Agriculture.

8. The audit criteria reflected relevant policy and legislative requirements for the expenditure of public money and the grant administration framework, including the Commonwealth Grant Guidelines. They also drew upon ANAO's Administration of Grants Better Practice Guide.

Overall conclusion

9. As part of the then Government's *Clean Energy Future* plan, the FtRG grants program was to invest up to \$201 million in research to identify and develop new ways for land managers to reduce emissions, store carbon in the soil and enhance sustainable agricultural practices. Through the two funding rounds that have been undertaken, a total of \$74.1 million was contracted to 88 applicants located across all states and the Australian Capital Territory. The Commonwealth Scientific and Industrial Research Organisation (CSIRO) and universities accounted for the majority of funding awarded under the program. The research work for most round one projects is to be completed in May or June 2015, and most round two projects are to be completed in May or June 2016.

10. The delivery of the first and second funding rounds by Agriculture was effective in a number of important respects. Of note was that:

- clear roles and administrative responsibilities were established, including an expert advisory panel to assess and make recommendations on the most meritorious applications against the published selection criteria;
- the program guidelines were comprehensive and the design and conduct of the funding rounds contributed to accessible and competitive application processes;
- Agriculture's briefing of the then Minister on the assessment outcomes of each round addressed those matters relevant to grants decision-making and was timely; and
- the grant agreements signed with the successful applicants adequately protected the Commonwealth's interests.

11. There were, however, also some important shortcomings in Agriculture's implementation of the FtRG program. From a governance perspective, the arrangements adopted to identify and manage conflicts of interest were not tailored to the circumstances of the program.² Shortcomings were also evident in the application assessment approach for each funding round including, departures from the assessment approach outlined in the published program guidelines. In addition, unsuccessful applicants were not provided with feedback that clearly identified the reasons they had not been awarded funding.³

12. A recurring theme in ANAO's audits of grants administration over a number of years has been the importance of grant programs being implemented in a manner that accords with published program guidelines so that applicants are treated equitably, and those applications that are funded are the most likely to further the program's objectives.⁴ In this context, two of

2 Such tailoring was needed given the specialised nature of the program's research and the breath of the panel members' own engagement in this research. Because the arrangements were not tailored, panel members were not required to declare past authorship collaborations with applicants.

3 In round one, applications assessed as ineligible were not informed of this situation. In round two, feedback to unsuccessful applicants was not presented in terms of comparative performance against the assessment criteria.

4 Similarly, the grants administration framework was developed based, in part, on recognition that potential applicants and other stakeholders have a right to expect that program funding decisions will be made in a manner, and on a basis, consistent with the published program guidelines.

the four ANAO recommendations relate to Agriculture improving aspects of its assessment of grant applications with a particular focus on the department clearly following the approach outlined in the published program guidelines. The other recommendations relate, in turn, to tailoring the conflict of interest management arrangements to the circumstances of the particular granting activity, and providing clearer feedback to unsuccessful applicants.

Key findings by chapter

Program design and governance (Chapter 2)

13. Agriculture established a generally sound framework for the design and governance of the program. In this respect, a range of governance documentation was developed to assist in the delivery of each program funding round. However, while each funding round's implementation plan outlined the intention to have a monitoring and evaluation component as part of the program, it was not until late 2012 and early 2013 that the FtRG program area began focusing in detail on developing a monitoring and evaluation plan (and it had not been finalised more than 18 months after the program's establishment).⁵

14. Rather than implement the approach outlined in the program's implementation plans, the department decided to develop one monitoring and evaluation framework to cover all three of its Carbon Farming Futures programs. In this context, a number of Key Performance Indicators (KPIs) have been developed addressing both the administration of the program and program outcomes. Performance against these KPIs was to be reported to the Parliament through annual reports of the Land Sector Carbon and Biodiversity Board, but this has yet to occur.⁶ This reporting is separate to that required through the Portfolio Budget Statements (PBS) and Annual Report. In this context, the KPI for the program published in the PBS is inadequate as it does

5 This approach was adopted notwithstanding that, consistent with the Commonwealth Grant Guidelines (CGGs), Agriculture's Grants Management Manual highlights that it is important in the planning and design phase of the program to draft a monitoring and evaluation strategy as the elements of the strategy will feed into the whole grant and program administration processes and the development of key documents.

6 The 2011–12 Annual Report, the only report tabled to date, outlined that: 'Most Land Sector Package measures will commence in 2012–13. As these programs are still under development their performance indicators have not yet been fully defined. During the course of 2012–13 performance indicators for each of the measures will be developed and agreed and reported on in the 2012–13 Annual Report.'

not relate to whether the program is achieving its objectives but, rather, the number of projects that have been awarded funding.

15. On a more positive note, clear roles and responsibilities were established for the program, including in respect to an expert advisory panel to play a key role in the merit assessment stage. The panel brought specific knowledge, experience and judgement to bear in assisting Agriculture to formulate funding recommendations to the then Minister. Nevertheless, as might be expected, there were particular conflicts of interest issues to be addressed. For both funding rounds, a significant proportion of eligible applications and successful applications were subject to either a direct or indirect conflict of interest declaration by one or more panel members. This situation reflected the extent of the panel members' involvement in carbon research in the agricultural sector. In this context, the rates of declared conflicts of interest were similar to other non-agricultural research grant programs.

16. The FtRG program area followed the standard departmental arrangements for managing conflicts of interest. However, there were a number of shortcomings with the departmental record of declared direct and indirect conflicts of interest and how they were addressed. In addition, the conflict of interest arrangements that were adopted did not address the issue of potential conflicts that arise as a result of past collaboration between panel members and applicants, including through publications and co-authorships. There were also a number of shortcomings in relation to the management of those conflict of interest situations that were not addressed in the program governance arrangements.

Access to the program (Chapter 3)

17. The grant application process for both rounds was accessible and was effectively designed to maximise the attraction of high quality applications for assessment. Each round attracted over 230 applications and very few of these were assessed as ineligible.⁷

18. One important factor that contributed to the low level of assessed ineligibility was that most of the eligibility requirements were clearly grouped and identified in the program guidelines for each round. However, there were

7 Of the 234 applications received in round one, 222 (or 95 per cent), were assessed as eligible to proceed to the merit assessment stage. In round two, none of the 237 applications were assessed as ineligible, but one application was rejected because it was late.

some inconsistencies in the department's eligibility assessment in relation to applicants: providing all the necessary letters of support; and detailing in-kind contributions. In addition, the guidelines did not provide consistent advice to applicants concerning the required completion date for projects.

19. In round two, the program's use of an online SmartForm was able to limit applicants from entering some information that otherwise would have made the application ineligible. Nevertheless, departmental records do not demonstrate how queries raised in the course of the eligibility checking process were addressed before it was decided that applications were eligible. Further, the guidelines provided that in-kind contributions were 'required', but the department did not assess this statement as an eligibility requirement.⁸

Merit assessment for the first round (Chapter 4)

20. Consistent with sound grants administration practice, the merit assessment approach planned for the first round involved all eligible, compliant applications being assessed in the same manner against the same criteria. Also consistent with sound grants administration, the planned approach involved eligible applications being scored on a scale of zero to 10 against each of the seven equally weighted published criteria.⁹ However, the program's assessment arrangements operated in such a way that there was no requirement that applications satisfy each assessment criterion to be considered for funding. Such an approach does not recognise that applications that are assessed as not satisfactorily meeting the published merit assessment criteria are most unlikely to represent value for money in the context of the program objectives.

21. The panel's assessment report, prepared by the department, formed the basis for advice to the Minister on applications recommended for approval. However, there were a number of inconsistencies and inaccuracies in the report. In addition, the report did not draw attention to a significant departure that had occurred compared with the published program guidelines relating to

8 Three research project applications did not detail in-kind contributions, but were not considered ineligible applications by the department (none of these applications were awarded funding). The application form for the nine coordination project applications did not provide applicants with the opportunity to include a proposed budget, including in-kind contributions (one of these applications was awarded funding).

9 While none of the 58 recommended and approved applications scored less than six out of 10 against the first five assessment criteria, eight of those applications (14 per cent) scored between 3.2 and 4.8 out of 10 against the sixth criterion ('identifies key risks and mechanisms to treat these risks').

the assessment of the seventh assessment criterion, which was described as ‘appropriate budget’.

22. Specifically, the program guidelines outlined that the assessment would take into account the extent to which proposals demonstrated value for money. However, this criterion was not scored on a zero to 10 scale as with the other six assessment criteria. The effect of this approach was that the appropriate budget criteria was not equally weighted and similarly assessed with the other criteria¹⁰, as required in the guidelines. Further, the overall merit score for eligible applications did not incorporate an assessment of the extent to which they had included an ‘appropriate budget’ for the project.¹¹

Merit assessment for the second round (Chapter 5)

23. Adjustments to the published program criteria were made for the second funding round, reflecting lessons learned from the first round. In particular, separate criteria (and sub-criteria) were published for research projects and research coordination projects (see Table S.1).

Table S.1: Number of assessment criteria and sub-criteria

Applications	No of assessment criteria	No of assessment sub-criteria
Coordination project	4	19 (average of five per criterion)
Research project	7	46 (average of six per criterion)

Source: ANAO analysis of round two program guidelines.

24. Similar to the first round, the round two program guidelines had outlined that the round two merit assessment process would involve eligible applications being assessed against the published criteria and a merit ranking being allocated to each. However, Agriculture adopted an online assessment tool for the program that used four scoring categories (‘method’, ‘capacity’, ‘value’ and ‘risk’), rather than enabling the direct scoring of the program’s seven merit assessment criteria (‘addressing research priorities’, ‘defined

10 Early feedback from some panel members about challenges in scoring this criterion from the budget information provided by applicants led to assessors giving a yes or no assessment response, rather than scoring applications out of 10 against the criterion.

11 The only circumstance under which this departure could not have had an effect on the relative ranking of eligible applications would be in the unlikely situation that all 222 eligible applications had submitted an application that was equally meritorious in terms of demonstrating how the grant funding they had budgeted would contribute directly to the program objectives; the extent to which the value for money of their project was enhanced through cash or in-kind contributions; and the level of contribution evident in letters of support from co-contributors and/or consortium members.

activities and outcomes', 'achieve FtRG outcomes', 'technical feasibility', 'risk management', 'financial and managerial competency' and 'value for money'). In this context, the online assessment tool was not fit for purpose given the particular requirements of the FtRG program.

25. The FtRG program area developed 18 questions, closely aligned or reflective of the program's assessment criteria. This went some way towards implementing an assessment approach that reflected the criteria and sub-criteria¹² published in the program guidelines. However, for four of the assessment criteria, a quantitative assessment for one or more of the published sub-criteria was not able to be undertaken through the tool. As a result:

- certain sub-criteria were not addressed by the questions used for scoring applications against the four categories which meant that a number of assessment criteria were not fully assessed;
- applications were not scored, ranked and reported according to the seven assessment criteria contained in the program guidelines, but on the basis of four scoring categories; and
- the feedback that was provided to unsuccessful applicants was couched in terms of the four scoring categories rather than the published criteria.

Advice to the Minister, and funding decisions (Chapter 6)

26. While some aspects of the assessment process were not well documented by the department, the then Minister was provided with timely briefings on the outcomes of the two funding rounds that addressed those matters relevant to grants decision-making. The briefings included clear recommendations that the Minister should approve those applications assessed by the expert advisory panel as the most meritorious for grant funding. The only significant shortcoming in the departmental briefings was that they assured the Minister that the assessment process for each round had complied with the program guidelines. However, as indicated above, this was not the case. The Minister agreed to the funding recommendations he received from the department.

12 For each of the criterion, the published guidelines had stated that to rank highly against the criterion an application would need to demonstrate certain listed characteristics (using the phrase 'applications that will rank highly against this criterion will...'). In this report, ANAO has described those listed points under each criterion as sub-criteria.

Funding distribution, feedback to applicants and implementation of funding deeds (Chapter 7)

27. The first and second rounds of the program resulted in funding being distributed in a way that was consistent with the program's objective to draw upon industry, science and government sectors for practical research outputs.¹³ There was also no evidence of any political bias in the approval of funding.

28. The provision of feedback to unsuccessful applicants in terms of merit assessment was generally sound in round one, although applicants whose application had been assessed as ineligible were not informed of this situation (or the reasons). As indicated at paragraph 25, where detailed feedback was requested by unsuccessful applicants in round two, the feedback to applicants was not presented in terms of comparative performance against the assessment criteria contained in the program guidelines. This reflected the approach taken to the merit assessment process through the online assessment tool (see paragraphs 24 and 25).

29. The department adopted sound governance arrangements for the approved grants. Further, grant funding deeds were generally in accord with the terms approved by the then Minister and the expert panel's advice. However, there were a number of errors and oversights in Agriculture's reporting of grants.

Summary of agency response

30. The proposed audit report was provided to Agriculture and members of the expert advisory panel. Some adjustments were made to the report in relation to the suggestions made by the panel. The department provided formal comments on the proposed report and these are summarised below, with the full response included at Appendix 1:

The Department of Agriculture (department) welcomes the ANAO's findings in relation to the design and delivery of the Filling the Research Gap program, including the establishment of comprehensive guidelines enabling an open and competitive application processes for both rounds of the program.

13 Overall, universities accounted for 45 per cent of the total number of grants awarded in rounds one and two, followed by the CSIRO which accounted for 26 per cent of grants. State government departments/agencies and industry/other applicants each accounted for a similar share of grants—almost 15 per cent in each case.

Facilitated by the clear guidance provided to applicants, the department attracted a range of high quality research applications that addressed all of the program's research priorities. Through these applications, the department has established a comprehensive suite of research projects that will enable it to meet the program's objectives of identifying practical outcomes that Australia's farmers can use to reduce agricultural greenhouse gas emissions while maintaining productivity.

The department acknowledges the overall findings of the audit report including the identification of some areas where it can make some further improvements to its program design and delivery processes. The department is implementing changes to its Grants Management Manual to further emphasise the need to tailor each aspect of a program's design and consider how constructive feedback can be provided to unsuccessful applicants.

The department agrees with each of the recommendations made in the audit report and is taking action to implement these recommendations as part of its current review of its grant administrative processes to ensure that they address the key principles and requirements outlined in the updated Commonwealth Grant Guidelines.

Recommendations

Set out below are the ANAO's recommendations and the Department of Agriculture's abbreviated responses. More detailed responses are shown in the body of the report immediately after each recommendation.

Recommendation No.1 To improve the conflict of interest management arrangements for competitive, merit-based grant

Paragraph 2.74 programs, ANAO recommends that the Department of Agriculture:

- (a) emphasise in its Grants Management Manual the importance of these arrangements being tailored to the circumstances of the particular granting activity; and
- (b) when employing expert advisory panels to assist with the implementation of research grant programs, address in the program governance arrangements the potential conflicts of interest that arise from recent collaborations between applicants and panel members through publications and co-authorships.

Agriculture's response: *Agreed*

Recommendation No.2
Paragraph 4.40 To improve the assessment of applications to competitive, merit-based grant programs, ANAO recommends that the Department of Agriculture:

- (a) establish appropriate minimum scores that an application must achieve against each assessment criterion in order to progress in the assessment process as a possible candidate to be recommended for funding; and
- (b) develop guidance for producing assessment reports that provide an accurate outline of the application and selection process that was followed, the results of this work and the basis for the recommendations that are made to the decision-maker.

Agriculture's response: *Agreed*

Recommendation No.3
Paragraph 5.36 To improve the assessment of applications to competitive, merit-based grant programs, ANAO recommends that the Department of Agriculture properly test and authorise any information technology based system to support assessments before introduction.

Agriculture's response: *Agreed*

Recommendation No.4
Paragraph 7.66 To improve the feedback it provides to unsuccessful grant program applicants, ANAO recommends that the Department of Agriculture clearly outline:

- (a) whether the application(s) had been assessed as ineligible and, if so, the reasons for this; and
- (b) for applications that proceeded to merit assessment, the relative performance of their application(s) against the published assessment criteria.

Agriculture's response: *Agreed*

Audit Findings

1. Introduction

This chapter provides an overview of the Filling the Research Gap (FtRG) program. It also outlines the audit objective, criteria and scope.

Background

1.1 Climate change, associated with greenhouse gas emissions, has been recognised globally as a challenging and pressing environmental, economic and social issue. Recent Australian Governments have committed to reducing greenhouse gas emissions as well as assisting communities adapt to climate change. On 10 July 2011, the then Government announced its *Securing a Clean Energy Future* plan, which aimed to reduce greenhouse gas emissions through: introducing a carbon price¹⁴; promoting innovation and investment in renewable energy; encouraging energy efficiency; and creating opportunities in the land sector to cut carbon pollution.

1.2 Agriculture accounts for around 14 per cent of Australia's national greenhouse gas inventory.¹⁵ In this context, a major component of the then Government's *Securing a Clean Energy Future* plan involved the Land Sector Package, which committed \$1.7 billion in funding over six years to provide Australian farmers and land managers with opportunities to reduce carbon pollution and increase the amount of carbon stored on the land. In particular, the Carbon Farming Futures program, a component of the Land Sector Package, was to provide \$429 million over six years so that advances in emissions reducing technologies and techniques would help farmers and land managers reduce emissions and improve productivity. The Carbon Farming Futures Program comprised five discrete initiatives, with almost half the funding (\$201 million) going to the Filling the Research Gap (FtRG) program.¹⁶

1.3 In July 2013, the then Government announced the return of \$143 million of unallocated funding from the Carbon Farming Futures program to the

14 Direct agricultural emissions were excluded from liability under the carbon price.

15 Department of Agriculture, *Filling the Research Gap under the Carbon Farming Futures Program: Research Strategy (July 2012 to June 2017)*, Canberra, 2012, p. 2.

16 Other initiatives under the Farming Futures Program comprised: Action on the Ground (\$99 million); Extension and Outreach (\$64 million); Converting Research into Methodologies (\$20 million); and a 15 per cent refundable tax offset for new conservation tillage equipment installed between 1 July 2012 and 30 June 2015 (\$44 million).

budget.¹⁷ Some \$76.8 million of this return involved the FtRG program. This budget savings measure was announced in the context of the planned introduction of a carbon emissions trading scheme from 1 July 2014.

Filling the Research Gap Program

1.4 The FtRG program was initially established to provide \$201 million over six years (2011–12 to 2016–17) to support research into: emerging abatement technologies; strategies and innovative management practices that reduce greenhouse gas emissions from the land sector; increasing soil carbon; and enhancing sustainable agricultural practices.¹⁸ FtRG is a competitive grants program administered by the Department of Agriculture (Agriculture), which was known as the Department of Agriculture, Fisheries and Forestry prior to September 2013.¹⁹ A total of \$16.6 million was allocated over six years for departmental expenses associated with administering the program. FtRG has three broad objectives:

- developing greater knowledge and understanding of agricultural emissions, in line with the research priorities established for each grant funding round;
- facilitating the development of offset methodologies through the delivery of peer-reviewed scientific literature around abatement technologies and practices; and
- improving the national accounting of agricultural emissions through refinements in emission factors and measurement techniques as a result of research results from FtRG.

1.5 The FtRG is expected to deliver:

- a suite of collaborative research projects that address the research priorities identified for each funding round;

17 The Hon Chris Bowen MP, Treasurer, *Australia to move to a floating price on carbon pollution in 2014*, media release, 17 July 2013.

18 Under the FtRG's administered funding arrangements, \$30.5 million over six years was allocated to the Australian Bureau of Statistics to undertake a biennial land management practice survey and \$3.6 million was committed through various service contracts. Funding specifically available for competitive grants totalled \$150.4 million over the period.

19 The structure of the FtRG program was modelled on Agriculture's earlier Climate Change Research Program, and seeks to build upon the research undertaken through this program. The Climate Change Research Program provided \$46.2 million in funding over the period 2008–09 to 2011–12 for 59 projects.

- practical management options to reduce on-farm greenhouse gas emissions and sequester carbon;
- the Australian Bureau of Statistics conducting land management practice surveys;
- research reports from each project, as well as an overarching report on each funding round;
- peer-reviewed journal papers; and
- a range of communication material to disseminate key findings and outcomes.

First funding round

1.6 The first funding round opened to applications on 10 November 2011 and closed on 3 February 2012. A total of 234 applications were received, seeking some \$293 million in FtRG grant funding. Applicants included state government departments/agencies, universities, the Commonwealth Scientific and Industrial Research Organisation (CSIRO), industry groups and other businesses. The majority of applications involved support from a consortium of organisations to deliver the proposed projects.

1.7 Agriculture assessed the eligibility of applications. An expert advisory panel was then responsible for assessing each of the 222 eligible applications against seven published merit criteria, and allocating a merit ranking to each. Agriculture recommended to the decision-maker—the then Minister for Agriculture, Fisheries and Forestry, Senator the Hon. Joe Ludwig (the Minister)—that he approve for funding the 58 applications put forward by the panel as being the most meritorious. The Minister approved each of these projects, involving total program funding of \$47.3 million (GST exclusive). The successful applicants were publicly announced on 17 May 2012. Grant funding offers were accepted by 57 applicants²⁰ (involving \$47.0 million) and all funding deeds were entered into by mid-October 2012. Most projects are

20 One application covered two successful projects, such that there were 57 successful applications but 58 projects.

contracted to be completed in May or June 2015²¹, with three projects to be completed in 2013 and one in 2014.²²

1.8 The successful round one applications target a number of research priorities established through the program guidelines. These priorities involve: reducing livestock methane emissions (22 projects); reducing nitrous oxide emissions (17 projects); increasing soil carbon (16 projects); and improved modelling capability to better estimate levels of abatement and carbon sequestration (three projects). Program funds approved for projects range from \$144 398 to \$3 million (GST exclusive), with an average grant value of \$816 000. Universities accounted for the largest share of successful applications (around one-third).

Second funding round

1.9 The second funding round opened to applications on 14 November 2012 and closed on 23 January 2013. A total of 237 applications were received, seeking some \$226.1 million²³ in FtRG grant funding. Applicants again included universities, CSIRO, industry groups and other businesses.²⁴

1.10 As for round one, Agriculture assessed the eligibility of applications and the expert advisory panel was responsible for assessing each of the eligible applications against the published merit criteria²⁵ and allocating a merit ranking to each. Agriculture recommended to the then Minister the 31 applications put forward by the panel as being the most meritorious. The Minister approved each of these projects, involving total program funding of \$27.1 million (GST exclusive).

1.11 The successful applications were publicly announced on 3 April 2013. Grant funding offers were taken up by the 31 projects and all funding deeds

21 Some 20 successful applicants had proposed project completion dates in their application after the 1 June 2015 project completion date requirement set out in the program guidelines (see paragraph 3.25). However, the contracted completion dates established for these projects (that is, completion of the final milestone under their funding deed) were on or before 1 June 2015.

22 The average time period for the planned completion of round one projects is around 31 months.

23 In the case of nine coordination project applications, grant funding amounts were not requested in the application form, but the amounts for any successful applications were to be negotiated with the department, based on expert advisory panel advice.

24 State government departments/agencies were excluded from directly applying for grant funding in the second funding round, although they could be part of a consortium.

25 The program guidelines for round two provided that the department would assess the value for money merit criteria, based on advice from the expert advisory panel. This is discussed further in paragraph 5.18.

were entered into by mid-September 2013. The research work for one project is contracted to be completed in May 2015, while the research work for the remaining projects are to be completed by May or June 2016.²⁶

1.12 The successful round two applications continue the focus on the four research priorities identified in round one (16 projects), as well as additional priorities for round two concerning adaptation to climate change (10 projects) and the international coordination of ruminant pangenome research (five projects). Program funds approved for projects in round two range from \$226 162 to \$1.95 million (GST exclusive), with an average grant value of \$875 000. Universities accounted for the largest share of successful applications (almost two-thirds).

Audit objective, criteria and scope

1.13 The objective of the audit was to assess the effectiveness of the delivery of the first and second funding rounds of the FtRG program by Agriculture.

1.14 The audit criteria reflected relevant policy and legislative requirements for the expenditure of public money and the grant administration framework, including the Commonwealth Grant Guidelines (CGGs).²⁷ They also drew upon ANAO's Administration of Grants Better Practice Guide. In particular, the audit examined whether the:

- design, planning and promotion of the program was consistent with sound program management practice as well as the requirements of the Commonwealth's grants administration framework;
- assessment of applications, including the expert advisory panel's merit assessment arrangements, and the selection of funding recipients was undertaken in accordance with the published program guidelines and was consistent with the seven key principles for grants administration set out in the CGGs;
- departmental advice to the grant approver was complete and in accord with the CGGs; and

26 All round two funding deeds contain a final milestone involving a final financial report. This is to be provided within 60 days of the end of a deed's term. With one exception, the terms of all deeds end on 30 June 2016.

27 Department of Finance, *Commonwealth Grant Guidelines—Policies and Principles for Grants Administration* ('CGGs'), Financial Management Guidance No.23, Canberra, July 2009.

- funding deeds and project reporting arrangements were appropriate for effective ongoing management.

Audit scope and methodology

1.15 The audit scope covered the key elements of the FtRG program, from the planning phase to the signing of funding deeds with successful applicants. Grant payment arrangements and the provision of feedback to unsuccessful applicants were also included.

1.16 The audit examined the program against relevant policy and legislative requirements for the expenditure of public money and the CGG requirements that operated during grant funding rounds one and two of the program.²⁸ Agriculture records on the establishment and implementation of the program and the assessment of applications were examined. Discussions were also held with relevant Agriculture staff, members of the expert advisory panel and other interested parties.

1.17 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$430 600.

28 Revised CGGs were released in December 2012, to take effect from 1 June 2013, with agencies encouraged by the Department of Finance to consider their earlier adoption.

Report structure

1.18 The structure of the report is outlined in Table 1.1.

Table 1.1: Structure of the report

Chapter title	Chapter overview
2. Program Design and Governance	Examines the program's design and governance arrangements established by Agriculture, including the management of conflicts of interest.
3. Access to the Program	Examines the process for submitting applications and the department's assessment of applications against the eligibility criteria.
4. Merit Assessment for the First Round	Examines the merit assessment of applications to the first funding round, and the development of the expert advisory panel's assessment report.
5. Merit Assessment for the Second Round	Examines the assessment of applications to the second funding round, including the use of an online assessment tool and the development of the expert advisory panel's assessment report.
6. Advice to the Minister, and Funding Decisions	Examines the departmental advice to the then Minister for Agriculture, Fisheries and Forestry as to which applications should be approved for funding, and the funding decisions that were taken by the Minister.
7. Funding Distribution, Feedback to Applicants and Implementation of Funding Deeds	Provides an overview of the outcomes of the first and second FtRG funding rounds in relation to the distribution of funding. It also examines the provision of feedback to applicants, the grant funding arrangements with the successful applicants and Agriculture's reporting on the grant funding.

2. Program Design and Governance

This chapter examines the program's design and governance arrangements established by Agriculture, including the management of conflicts of interest.

Introduction

2.1 Between the July 2011 announcement by the Government of its *Securing a Clean Energy Future* plan and the FtRG's opening to applications in November 2011, Agriculture was responsible for designing and implementing a governance framework for the program. Accordingly, the ANAO examined:

- the development of the program guidelines, including through consultation with relevant stakeholders;
- internal program documentation;
- key roles and responsibilities for managing the program, including the role of the expert advisory panel; and
- the arrangements for managing conflicts of interest.

Program guidelines

2.2 Grant program guidelines play a central role in the conduct of effective, efficient and accountable grants administration. A key obligation under the grants policy framework is for all grant programs to have guidelines in place. Reflecting their importance, the guidelines for each program represent one of the policy requirements that proposed grants must be consistent with in order to be approved for funding in accordance with Regulation 9 of the *Financial Management and Accountability Regulations 1997* (FMA Regulation 9).²⁹

29 The principal obligation applying to the approval of all spending proposals is set out in FMA Regulation 9, which requires an approver to make reasonable inquiries in order to be satisfied that a proposal would be a proper use of Commonwealth resources and would not be inconsistent with the policies of the Commonwealth. For grant spending proposals, the relevant policies include the CGGs and the specific guidelines established for the program. Approvers of grants are required (by FMA Regulation 12) to record the basis on which they are satisfied that a proposed grant meets the requirements of FMA Regulation 9. This is in addition to the requirement applying to the approval of all spending proposals which is that the approver records the terms of the approval in writing.

Development and approval of the program guidelines

2.3 The grants administration framework at the time of the first and second funding rounds of the FtRG program provided that the appropriate Government approval for new or revised guidelines was to be determined by a risk analysis of the program conducted by the administering agency.³⁰

2.4 During September 2011, Agriculture's FtRG program area began developing the program's guidelines for round one³¹ and consulting with officials from the Departments of the Treasury, Finance, Prime Minister and Cabinet (PM&C) and the then Department of Climate Change and Energy Efficiency (DCCEE).³² Further, Agriculture began consulting members of the expert advisory panel about the guidelines in mid-October 2011.³³

2.5 Following Agriculture's risk assessment of the program which led to a rating of low³⁴ and advice from PM&C that the guidelines did not require Expenditure Review Committee of Cabinet consideration, the then Minister approved the round one guidelines as presented by Agriculture on 27 October 2011.³⁵ The then Minister opened the program to applications on 10 November 2011 and publicly released the guidelines at the same time.

2.6 The development and approval of the program guidelines for round two followed a similar process to round one, including consultation with central agencies and expert advisory panel members, but with additional input from the Land Sector Carbon and Biodiversity Board and the Australian Bureau of Agricultural and Resource Economics and Science (ABARES), which

30 Where a risk analysis of the program determines that it is high risk/sensitive, the proposed guidelines are required to receive Expenditure Review Committee of Cabinet consideration. Where the risk analysis determines the program to be of low/medium risk, the administering agency's minister is required to write to the Finance Minister informing about the agency's minister's intention to approve the guidelines.

31 The program area also received advice from Agriculture's Central Grants Policy Unit in the development of the guidelines.

32 Among the matters incorporated into the guidelines as a result of consultation with central agencies was the inclusion of a merit assessment criterion concerning value for money and clarifying that all merit assessment criteria were of equal weight in the assessment process.

33 A number of panel members made suggestions on the guidelines, particularly around clarifying various research priorities, but also around lengthening the application period (a suggestion that was not taken up) and placing a word limit on applications.

34 The risk assessment found that Agriculture's existing grant management procedures and systems were adequate to deal with the identified risks associated with the delivery of the FtRG program.

35 As set out under CGG requirements, the Minister wrote to the then Minister for Finance and Deregulation (27 October 2011) informing of his approval of the guidelines and providing the opportunity for any amendments before their public release.

is a program division within Agriculture.³⁶ The department's analysis of the program was that it continued to be low risk.

2.7 The Minister approved the round two guidelines on 31 October 2012 and publicly announced the opening of the second funding round and availability of the program guidelines on 14 November 2012.

Contents of the approved guidelines

2.8 The guidelines for rounds one and two of the program generally accord with the guidance provided by the CCGs, and ANAO's grants administration Better Practice Guide.³⁷ Among other matters, the guidelines identified the purpose of the program; the research objectives/priorities; operational arrangements; eligibility requirements; assessment criteria and weightings; assessment and approval processes; program timeframes; and complaints handling.

2.9 Compared with the guidelines for the first round, a number of changes were made to the guidelines for the second round. These involved:

- redrafting requested by the then Minister's office concerning:
 - departments of state and territory governments no longer being eligible to apply for grant funding; and
 - inclusion of a statement that a key consideration in the allocation of research funds would be to build research capacity across a broad range of Australian organisations³⁸;
- the addition of two new research priorities for the round;

36 Advice from the Australian Government Solicitor was not sought for the round two guidelines.

37 ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010.

38 The changes requested by the Minister's office highlighted some concerns about the level of funding state government departments had been awarded under the first round of the program. State and territory government departments were awarded almost 40 per cent of the total grant funds for round one (see Table 7.1).

- a number of other changes designed to improve the transparency of the application assessment process, including:
 - the addition of a section on the recording of conflicts of interest under the program³⁹; and
 - a clearer identification and separate merit assessment criteria for those applications seeking to conduct research projects and applications seeking to coordinate and manage a national research program, which comprised a number of research projects in the same research priority field.

2.10 In addition to the guidelines for round two, Agriculture developed a frequently asked questions document to assist applicants when applying for grant funding under the program. This document was consistent with the program guidelines, and provided additional information on how conflicts of interest for expert panel members would be managed.⁴⁰ This information could reasonably have been included in the guidelines as they represent the key public reference source for the program's policies and administrative procedures, and such an approach is recognised as assisting to ensure consistent and efficient grants administration.⁴¹

Merit criteria

2.11 The equally weighed merit criteria for rounds one and two were published in the program guidelines. In round one, applications for funding as either research projects or coordination projects were to be assessed against the same seven merit criteria. In round two, research projects were to be assessed against seven merit criteria that were either the same or similar to the round one merit criteria. Applications to coordinate research projects in round two

39 In this context, on 11 July and 1 August 2012, newspaper articles appeared in *The Australian* about the program's alleged cronyism amongst the expert advisory panel particularly in relation to successful applications in round one. In this respect, in October 2013, Agriculture advised ANAO that: 'The addition of a section on recording conflicts of interest in the guidelines for round two was done as part of the normal process of improving the guidelines as a result of conversations with the department's Grants Policy area, the Department of Finance and feedback received during the workshop on 7 August 2012 with applicants. It was not done ... as a reaction to the newspaper articles.'

40 Department of Agriculture, *Carbon Farming Futures Filling the Research Gap Program—Round 2, Frequently Asked Questions*, January 2013, p. 13. Conflicts of interest processes not covered by the guidelines involve: 'members of the Expert Advisory Panel that may have a conflict of interest with some applications do not receive or assess these applications'; and 'direct conflicts of interests by the Expert Advisory Panel are managed by excluding panel members from specific discussions and/or voting.'

41 CGGs, op. cit., p. 22.

were assessed against four separate merit criteria. The assessment criteria for each funding round are set out in Table 2.1.

Table 2.1: Filling the Research Gap merit assessment criteria – rounds one and two

Round one merit criteria – research and coordination projects	Round two merit criteria – research projects
(1) Addresses identified gap in one or more research priorities in the guidelines	(1) Addresses identified gap in one or more research priorities in the guidelines
(2) Clearly defined activities, outputs and outcomes that can be delivered within the timeframe	(2) Clearly defined activities, outputs and outcomes that can be delivered within the timeframe
(3) Demonstration that activities, outputs and outcomes will achieve the program's objective of new methods and technologies that will help landholders sequester carbon and reduce greenhouse gas emissions	(3) Demonstration that activities, outputs and outcomes will achieve the program's objective of new methods and technologies that will help landholders sequester carbon and reduce greenhouse gas emissions, adapt to impacts of climate change or deliver international collaboration
(4) Managerial and financial competency to manage the project and grant monies	(4) Technical feasibility and competency to deliver the project outputs and outcomes
(5) Technical feasibility and competency to deliver the project outputs and outcomes	(5) Demonstrate mechanisms for minimising risk are in place
(6) Identifies key risks and mechanisms to treat these risks	(6) Managerial and financial competency to manage the proposed work and grant monies
(7) Appropriate budget	(7) Extent to which the proposal demonstrates value for money
	Round two merit criteria – coordination projects
	(8) Identifies a need to establish or expand an existing national research program under FtRG
	(9) Offers significant benefits to the achievement of outputs from the coordinated research and supports FtRG objectives
	(10) Demonstrates leadership, coordination and management capability for research and/or communication, application and/or commercialisation of research findings in an area related to FtRG
	(11) Offers an established network with organisations relevant to the research priorities of FtRG, or stakeholders of Carbon Farming Futures program

Sources: Program guidelines, rounds one and two.

Note: The merit assessment criteria wording in the above table have been edited for purposes of the table's size, and does not include the sub-criteria as listed under each criterion heading in the guidelines.

2.12 Further, in the case of each criterion, the guidelines set out a series of sub-criteria against which applications would be ranked. In round two, the 11 merit criteria detailed in Table 2.1 involved a total of 65 sub-criteria for assessment (46 sub-criteria covering the seven assessment criteria for research project applications; and 19 sub-criteria covering the four assessment criteria for coordination project applications). A number of the sub-criteria were focused on eligibility and/or completeness assessment rather than merit assessment. For example, two sub-criteria included: ‘not request funding for costs that are ineligible for funding under Filling the Research Gap’; and ‘provide yearly budget information broken down into categories that assist the Expert Advisory Panel to assess value for money’. In this regard, some of the assessment sub-criteria outlined in the guidelines could have been improved by focusing more strongly on matters of applications’ merit, thereby contributing more fully to the merit assessment process.

Program administrative arrangements

2.13 The CCGs⁴² emphasise that agencies should develop such policies, procedures and guidelines as are necessary for the sound administration of grant programs. In this regard, the FtRG program area developed a range of guidance to facilitate the delivery of the program.⁴³ This included:

- a program implementation plan⁴⁴ and a grant application assessment plan for each funding round of the program;
- internal guidance to assist in the assessment of applications (including merit assessment guidance for the expert advisory panel in round two⁴⁵); and

42 The first and second funding rounds of the FtRG program operated under the requirements of the July 2009 CCGs. Revised CCGs came into operation on 1 June 2013, although they were promulgated in December 2012 to encourage agencies to begin incorporating enhanced grants administration practice before the operational date.

43 Corporate documentation used to inform the development and implementation of the program included Agriculture’s Grants Management Manual (October 2010) and Advisory Committee Handbook (November 2009).

44 The program’s implementation plan covers a number of matters including schedule, budget, risk management, governance arrangements, stakeholder management and monitoring and evaluation.

45 In round one, while some assessment processes were documented before the beginning of the round—such as the application assessment scoring regime, other important assessment processes such as whether or not each expert panel member would be required to assess all eligible applicants were only established after the application round closed. The round one merit assessment process is discussed further in Chapter 4.

- documentation such as frequently asked questions, to support entities when applying for a grant.

2.14 Grant applicants in funding round two had the benefit of using an online SmartForm to guide them in the application process.⁴⁶ In comparison, the department primarily relied upon manual systems to conduct both funding rounds. The program area's use of an online grant assessment tool for the second funding round is discussed in Chapter 5.

Program evaluation and performance information

2.15 The CCGs state that grants administration should focus on the delivery of government outcomes.⁴⁷ In this respect, the establishment of an effective performance framework is an important component of any grant program. The framework should be able to reliably establish the outcomes achieved through individual grants (or outputs) and overall program outcomes.⁴⁸

2.16 The ANAO Better Practice Guide highlights the importance of developing a performance/evaluation framework at the outset of a program. Similarly, Agriculture's grants management manual highlights that it is important in the planning and design phase of the program to draft a monitoring and evaluation strategy. The elements of the strategy feed into the grant and program administration processes and the development of key documents. It also provides a framework to review and refine the program's delivery.

2.17 The FtRG's implementation plans for rounds one and two provided that a monitoring and evaluation component would form part of the program. There was also recognition that aspects of the program's monitoring and evaluation would need to be consistent with broader performance measurement of programs across the Clean Energy Future's Land Sector Package.

2.18 While the FtRG program area began preliminary engagement with other agencies through a Land Sector interdepartmental committee in early 2012, it was not until late 2012 and early 2013 that the program began focusing in detail on developing a monitoring and evaluation plan. This work involved

46 Applicants who did not have access to the internet to complete the SmartForm could request a hard copy application form.

47 CCGs, op. cit., p. 17.

48 ANAO Better Practice Guide, op. cit., p. 98.

aligning evaluation questions and key performance indicators against program objectives, and establishing data requirements. In this regard, a particularly important source of data is project progress reports from grant recipients. The department's focus on linking the progress reports' data to the program's evaluation was clearer in the round two reporting template. The round one template was changed in round two to include: reporting on progress against key performance indicators (KPIs) (rather than on a milestone basis, as was set out in the round one reporting template); statements about how the project is contributing to emission reduction within the land sector; and identifying lessons learnt since the last progress report.

2.19 Nevertheless, an overall monitoring and evaluation plan for the program had not been finalised more than 18 months after the program's establishment. In this context, in October 2013, Agriculture advised ANAO that:

The planning and development of a monitoring and evaluation (M&E) framework for the CFF program, including FtRG, commenced in late 2011. Given the direct linkages between the three CFF programs, the department decided to develop one M&E framework to cover all three programs rather than individual frameworks per program. The department was required to work through whole-of-government processes in developing components of its M&E framework. This work established clear short, medium and long term KPIs (early 2012) for the department's three CFF programs based on the program logic for each program and the then planned program delivery timeline. Project reporting templates have been developed specific to the FtRG program to collect required data to address program KPIs as the program progresses.

2.20 The KPIs developed for the Carbon Farming Futures (CFF) programs included a range of indicators specific to the FtRG. A number related to the administration of the program. As outlined in Table 2.2, there was also a range of medium to long term indicators relating to program implementation outcome.

Table 2.2: Program outcome KPIs for the FtRG program

Objective	Key evaluation questions	KPIs	Baseline	KPI source data
On-farm management abatement technologies, practices and management strategies identified that can measurably/accountably be used to reduce agricultural greenhouse gas emissions or sequester carbon in soil.	How is the program contributing to emissions reduction within the land sector?	Outputs of FtRG projects submitted for publication in peer reviewed scientific literature.	Nil	Project reports.
		Outputs of FtRG projects identify and quantify how an abatement technology, practice or management strategy can measurably reduce on-farm emissions of greenhouse gases or sequester carbon in soil.	Nil	Project reports and additions to CFI positive list.
		Outputs of FtRG projects used to inform the development or assessment of CFI offset methodologies.	Nil	Departmental analysis.
Knowledge, skills and capacity of land sector community increased to enable participation in CFI.	How is the program helping to build the knowledge, skills and capacity of the land sector community to participate in the CFI?	Funded research addresses priorities of the Research Strategy for Filling the Research Gap.	Research Strategy for Filling the Research Gap.	Grant applications and project reports.
		Public communication/presentation of FtRG project progress result and outcomes that identify and quantify how an abatement technology, practice or management strategy can measurably reduce on-farm emissions of greenhouse gases or sequester carbon in soil.	Nil	Departmental analysis.
Contribute to improving Australia's reporting of land sector greenhouse gas emissions for international accounting purposes.	How is the program contributing to improving Australia's ability to measure and	Publication of peer reviewed scientific reports that improve Australia's ability to measure and internationally report on land sector greenhouse gas emissions.	Nil	Project reports. Departmental analysis.

Objective	Key evaluation questions	KPIs	Baseline	KPI source data
	internationally report on land sector greenhouse gas emissions?	Publication of peer reviewed models that improve Australia's ability to measure and internationally report on land sector greenhouse gas emissions.		
Farmers and land managers engaged in activities to reduce greenhouse gas emissions or sequester carbon in soil while maintaining productivity.	How is the program contributing to farmers and land managers identifying and engaging in actions to reduce agricultural emissions?	Publication of peer reviewed reports. Publication of FtRG project outcomes that identify and quantify how an abatement technology, practice or management strategy can measurably reduce on-farm emissions of greenhouse gases or sequester carbon in soil.	Nil	Project reports. Departmental analysis.

Source: ANAO analysis of Agriculture records.

Published performance information

2.21 Adequate performance information, particularly in relation to program effectiveness, allows managers to provide sound advice on the appropriateness, success, shortcomings and/or future directions of programs. Importantly, the Parliament and the public's consideration of a program's performance, in relation to impact and cost effectiveness, rely heavily on reliable and appropriate performance information.⁴⁹ In this context, in October 2013, Agriculture advised ANAO that there is an:

extensive suite of short, medium and long term KPIs that have been established for FtRG as part of its overall monitoring and evaluation requirements. These KPIs are designed to assess the effectiveness, efficiency and impact of the program in achieving its policy objectives over the six year funding profile.

The department is required to report against these extensive KPIs to the Land Sector Carbon and Biodiversity Board (LSCBB) on the delivery of its CFF

49 ANAO Audit Report No.5 2011–12, *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, 8 September 2011, p. 13.

programs. This information forms the basis for the LSCBB annual report to Parliament on the delivery of the Land Sector Package.⁵⁰

2.22 These performance indicators, and reporting by the LSCBB, are separate to Agriculture's performance reporting obligations. Specifically, within the context of the Outcomes and Programs Framework, KPIs are established to provide information on the effectiveness of programs in achieving objectives in support of respective outcomes. In Agriculture's 2013–14 Portfolio Budget Statements (PBS), the FtRG forms part of the department's Outcome 1, which involves:

More sustainable, productive, internationally competitive and profitable Australian agriculture, food and fibre industries through policies and initiatives that promote better resource management practices, innovation, self-reliance and improved access to international markets.

2.23 Agriculture's Outcome 1 consists of 13 programs, including Program 1.1—Tackling Climate Change, which has the following stated objectives:

- Strengthen the capacity for primary producers to adapt and adjust to a changing climate while maintaining productivity.
- Australian farmers and land managers participate in and benefit from the carbon credit scheme by generating carbon offset credits that can be sold in domestic and international carbon markets.

2.24 Major deliverables under Program 1.1 include:

- provide peer reviewed scientific data, technologies and land management practices that underpin the development of methodologies to enable farmers and land managers to participate in the Carbon Farming Initiative and benefit from carbon farming; and
- provide peer reviewed data for on-farm trials and demonstrations of research outcomes and land management practices that underpin the

50 The LSCBB was established under the *Climate Change Authority Act 2011* as part of the Clean Energy Future, Land Sector Package to among other matters; provide advice on the implementation, performance indicators and priorities for research in relation to the land sector package, including Carbon Farming Futures and the FtRG program. The Board first met in November 2011. The LSCBB's 2011–12 Annual Report, the only report tabled to date, outlined that: 'Most Land Sector Package measures will commence in 2012–13. As these programs are still under development their performance indicators have not yet been fully defined. During the course of 2012–13 performance indicators for each of the measures will be developed and agreed and reported on in the 2012–13 Annual Report.' Source: <http://www.environment.gov.au/cleanenergyfuture/land-sector/pubs/ar-2011-12.pdf> [accessed 10 October 2013].

development of methodologies to enable farmers and land managers to participate in the Carbon Farming Initiative and benefit from carbon farming.

2.25 The 2013–14 Agriculture PBS contains one KPI in relation to the FtRG being to ‘support large scale collaborative research projects with cross sectoral application’ involving minimums of: 12 projects in 2012–13; 70 projects in both 2013–14 and 2014–15; 20 projects in 2015–16; and six projects in 2016–17.

2.26 Program data shows that, at the end of June 2013, 54 collaborative research projects were in place under the program. However, this KPI is the program’s third publicly reported indicator for the program in eighteen months. This degree of measurement change does not support the consistent tracking of performance.⁵¹ Further, as with a number of the KPIs detailed for Program 1.1 in the 2013–14 PBS, the FtRG KPI is administrative in nature and does not relate to the effectiveness of the program in achieving its objectives (see paragraph 1.4) in support of the desired outcomes.⁵² This was the case notwithstanding that a range of program effectiveness indicators have been developed (see Table 2.2).

Key roles and responsibilities

2.27 The CGGs outline that a granting activity should be underpinned by solid governance structures and clear lines of accountability. In this respect, key roles and responsibilities in the administration of the program were set out in each funding round’s implementation plan, grant application assessment plan and program guidelines.

2.28 Direct oversight of the program has been provided through a Senior Executive Service (SES) Band 2 officer as the program’s business owner. Management oversight of the program has relied upon regular upward reporting at departmental management meetings and oral briefings about issues arising with the program. In this context, there were no regular, documented internal reporting arrangements to senior management specific to

51 Key performance indicators of FtRG were first publicly reported in Agriculture’s 2011–12 Additional Estimates Statements. The 2011–12 indicator involved ‘minimum of 12 projects’, while the 2012–13 and 2013–14 indicators involved ‘Data provided to enable the development of offset methodologies for the Carbon Farming Initiative.’

52 ANAO Audit Report No.5 2011–12, op. cit., identified that most agencies had scope to improve the development of effectiveness key performance indicators and reporting against them.

the program.⁵³ However, more broadly, the program has contributed to Clean Energy Future monthly implementation progress reports to Cabinet⁵⁴ and updates on the program were provided to meetings of the LSCBB.

2.29 The day-to-day management and delivery of the program has been carried out by the department's Adaptation Policy Branch. Advice was also provided by the department's Central Grants Policy Unit at certain stages of each grant round, particularly around compliance with the CGGs. An independent oversight of probity arrangements was not incorporated into the program's design, but was managed from within the Branch (see further at paragraphs 2.43 to 2.67).

2.30 To assist in the delivery of the program, the department engaged a 10-person expert advisory panel to merit assess and rank eligible applications. This assessment formed the basis of the department's recommendations to the Minister on those applications considered suitable for funding.

The expert advisory panel

2.31 It is relatively common for expert or advisory panels to be used to provide advice and/or recommendations to grant program decision-makers. Particularly where a program relates to an area of specialist expertise, such panels are able to bring specific knowledge, experience and judgement to bear in formulating, or assisting to formulate, funding recommendations. In this context, it is important that the basis on which an advisory panel is to be involved in a selection process is clearly established, and that the panel's deliberations and recommendations are appropriately documented.

2.32 The use of an expert panel to consider the merit of applications for the FtRG program was highlighted by the department in a brief to the then Minister in August 2011 about implementing the Carbon Farming Futures program. This approach was used in the precursor program to FtRG—the

53 In October 2013, Agriculture advised ANAO that: 'In terms of day to day oversight of the program the department's executive were regularly engaged and briefed on the delivery of the program in line with the normal reporting and oversight processes. This engagement included; a formal weekly meeting between the program manager and the acting senior executive (SES Band 1) officer, followed by weekly updates to the SES band 2 and fortnightly updates to the SES band 3 as part of Divisional reporting.'

54 The references to the program in the monthly reports are general in nature and focus on key events such as the opening of application rounds.

Climate Change Research Program (CCRP).⁵⁵ Subsequent to this briefing the department appointed the expert advisory panel members. However, the Minister was not briefed on the final membership of the panel, despite the important role it was to play in the application assessment process.⁵⁶

2.33 The program guidelines broadly set out that the expert panel would be responsible for:

- ranking applications against the published assessment criteria;
- identifying synergies between individual applications as well as ensure that project objectives, activities and outcomes are within the scope of the program;
- recommending to the department those applications which:
 - are ranked highly and could be funded in the round;
 - could be funded through the round provided that certain conditions are addressed/rectified; and
 - are ranked lowly and should not be pursued further.

2.34 The responsibilities of the expert panel were then further detailed in a number of program documents, including: the grant application assessment plan; the panel's terms of reference; and three documents signed by each panel member prior to each funding round involving their terms of engagement, code of conduct and the treatment of confidential information.

2.35 Broadly, the documents provide a sound basis for setting out the responsibilities of panel members. Nevertheless in round one, key documents such as the assessment plan and members' terms of engagement did not specifically alert panel members that their role in assessing applications and recommending funding grants (through the department) made them

55 Seven of the 10 expert advisory panel members for round one of the FtRG program had previously been members of the CCRP expert advisory panel (including the representative from the then DCCEE).

56 Biographical details of expert advisory panel members were provided on the FtRG webpage on Agriculture's website.

Agriculture staff for the purposes of the CCGs.⁵⁷ In round two, panel members were alerted to their obligations, as the round's assessment plan directed panel members to the CCGs.

Engagement process

2.36 The expert advisory panel for the program was first established in early 2012 by the department through a direct source procurement approach. The existing seven members of the CCRP expert advisory committee (excluding the Agriculture member) were invited by the department to continue in their roles as members of a revised expert advisory panel for the FtRG. The outcome of the department's invitation was that all advisory committee members of the former CCRP program agreed to join the new advisory panel. Two additional members were invited to join the expert panel, with one accepting—who had international expertise in agricultural greenhouse gases.

2.37 The round one guidelines had outlined that the panel 'will comprise leading research scientists, industry representatives and government officials'. Agriculture has advised the ANAO that consideration was given to the appropriateness of the membership for the new advisory panel but this was not undertaken in any formal manner or documented. In this respect, aside from the representatives from Agriculture and the then DCCEE on the CCRP advisory committee, the remaining membership was drawn predominately from universities and the CSIRO.⁵⁸ While the membership selection for the FtRG advisory panel did not produce a member with an industry-based background, most panel members had extensive ongoing interactions with industry, including through directorships of industry research and development corporations, cooperative research centers and industry advisory committees. In total, non-Commonwealth panel members were paid some \$45 000 (GST exclusive) in sitting fees and travel allowance for their work on the first round.

57 This is because where the advice provided by a panel directly informs a decision about expenditure—for example, where the panel assesses applications against particular criteria, and/or recommends supporting particular projects or distributing funds to particular applicants—panel members are taken to be officials of the relevant agency. The provision of such advice is the performance of a 'financial task' within the meaning of FMA Regulation 3. Persons performing financial tasks are deemed (by operation of part 5 of the FMA Act and Regulations 4(1)(a), 4(2) and 5(1)(b)) to be officials of the relevant agency. This situation has been made clearer in the revised CCGs.

58 Specifically, the 10-person panel for round one comprised five members holding a university appointment (two of the five members also held appointments with state government departments); a CSIRO chief research scientist; a private agricultural research consultant; a member from a New Zealand agricultural greenhouse gas research agency and two representatives from Australian government departments.

2.38 In the case of membership for the second funding round of the program, one member had resigned in August 2012 and was replaced by the department with a new member in September 2012. This added a sixth member holding a university appointment on the panel. Further, the representative from the then DCCEE continued on the panel, but not as a representative of a department. Payments to non-Commonwealth panel members in respect to the second funding round totalled some \$58 000 (GST exclusive) in sitting fees and travel allowance.

2.39 With the exception of the Agriculture member on the expert panel, each member signed a terms of engagement document⁵⁹, with attachments concerning the panel's terms of reference, members' code of conduct, a confidentiality deed, a statement of interests consent form and members' biographical consent form to enable their details to be placed on Agriculture's website. These documents were signed by members before they received the grant applications.

Support arrangements for the expert advisory panel

2.40 Agriculture's program timetables for both funding rounds provided between eight and nine weeks from the close of applications to undertake the assessment of applications and provide advice to the then Minister.⁶⁰ To facilitate the expert advisory panel's assessment process for both rounds, teleconferences and various email correspondence between panel members and the department took place to clarify arrangements and processes—shortly after members had received applications, and prior to the panel's first face-to-face meeting.⁶¹ In the case of the first round, records show that it was only after applications had closed that the department and panel members worked out the logistics of how the considerable, but not unexpected, number of applications would be assessed.

59 Among other matters, the terms of engagement set out remuneration and travel allowance rates for the chair and members of the panel.

60 In the case of the first round, administered funding of \$7.8 million had been allocated for grants in the 2011–12 financial year, in which case the establishment of a number of funding deeds with successful applicants before 30 June 2012 would have assisted in managing the program's funding profile.

61 In the first round, a teleconference was held on 13 February 2012, at which time there was agreement to a number of assessment matters including conflict of interest arrangements and assessment criteria scoring. In the second round, four teleconferences took place between 1 February and 8 February 2013 to clarify a number of matters including conflict of interest arrangements and the operation of the online assessment tool.

2.41 For the two funding rounds, the department provided each panel member with:

- access to each eligible application (irrespective of whether there was a declared conflict of interest);
- a copy of a merit assessment spreadsheet to record assessments (round one) and access to an online assessment tool to record assessments (round two); and
- support documentation (a merit assessment scoring guide for round one; and a more extensive range of support documentation in round two—mainly related to guidance in using the online assessment tool to review applications).

2.42 Further, as part of general program support the department was responsible for providing secretariat services to the expert advisory panel. This involved:

- distributing/providing access to applications for expert panel assessment and arranging panel teleconferences/meetings;
- supporting the Agriculture representative on the panel through drafting application assessments;
- providing advice to panel members;
- recording deliberations of the panel;
- recording conflict of interest declarations during the assessment process; and
- arranging appropriate remuneration and allowances for panel members with these entitlements.

Management of conflicts of interest

2.43 The CGGs advise that agencies should put in place appropriate mechanisms for identifying and managing potential and actual conflicts of interest.⁶² In this context:

- potential conflicts of interest relate to public officials being in a position where they may be influenced in the future by their personal, financial

62 *ibid.*, p. 28.

or professional interests when undertaking their official duties. For example, where a person with expertise in a relevant field is involved in the grant selection process, there is an inherent likelihood that the assessor will have existing relationships within the sector from which grant applications are being sought; and

- an actual conflict of interest arises when a public official undertaking their duties may be influenced by their personal, financial or professional interests. For example, were a person assessing a grant application has a direct or indirect interest that might prejudice their impartiality in advising on the selection of project or activities for funding.⁶³

2.44 The appropriate action to take in response to a potential or actual conflict of interest depends on the circumstances and nature and extent of the conflict. In this context, Agriculture's Grants Management Manual draws upon the CGGs and the ANAO's Better Practice Guide in providing advice to agency staff on identifying and managing potential conflicts of interest in grant programs.⁶⁴ Further, the department's Advisory Committee Handbook for secretariats outlines arrangements to effectively manage potential and actual conflicts of interest. In identifying and managing conflicts of interest, the handbook also points out that:

conflicts of interest do not automatically exclude members from participating in discussion and decision making but they need to be recognised and treated accordingly to ensure that advisory committees consider matters objectively.

2.45 The program's framework for identifying and managing conflicts of interest was consistent with Agriculture corporate requirements, including its Grants Management Manual.⁶⁵ The identification of potential conflicts of interest, and the management of actual conflicts of interest, were particularly important in relation to the advisory panel (but were also addressed by

63 Adapted from Independent Commission Against Corruption (New South Wales) and Crime and Misconduct Commission (Queensland), *Managing Conflicts of Interest in the Public Sector – Toolkit*, November 2004.

64 The manual notes that conflicts of interest can arise for both assessment panel members and agency staff.

65 In risk identification, analysis and assessment conducted by Agriculture as part of the program's implementation phase, probity issues arising in the selection process were assessed as low risk, with no additional treatment required beyond existing controls. These controls included internal and external approval of the guidelines and selection process (although the round one guidelines did not address conflicts of interest); public servants and panel members being required to declare conflicts of interest; and careful documentation of the selection process.

Agriculture in relation to department staff involved in the assessment of applications).

Identification and management of panel conflicts of interest for round one

2.46 For round one, detailed direction on conflict of interest arrangements was provided during the period when panel members started receiving applications from the department.⁶⁶ In particular, it was emphasised that, where there was a direct conflict of interest⁶⁷, a panel member could not take part in the assessment process for that project application. Where an indirect conflict of interest⁶⁸ arose, panel members could participate in discussion and assessment of that project application.

2.47 With the department providing panel members with a copy of all applications, it was then the responsibility of members to identify their conflicts of interest in relation to the applications, and these were recorded in a conflicts of interest register maintained by the department. However, there is no evidence that panel members signed off on their relevant sections of the conflicts of interest register maintained by the department. Agriculture has advised the ANAO that it did not separately established members' potential conflicts of interest in relation to the applications prior to providing applications. Agriculture further advised ANAO in October 2013 that:

The department provided a copy of the conflicts of interest register for round one to all panel members via email 30 March 2012. Panel members were asked to review the register and note any missing potential conflicts or actions. Only two of the ten panel members replied to the email, with both endorsing the register without changes.

The department was not in a position to accurately identify all members' conflicts of interest and there were set processes in place for dealing with

66 The minutes of an expert advisory panel teleconference held on 13 February 2012 indicate that not all panel members had received hard copies of their allocated applications by the time of this meeting.

67 A direct conflict of interest was considered to arise where: there was a direct association between the panel members and researchers involved in a project application; a panel member was nominated on a project application as a collaborator; there was an association between the panel member and the organisation involved in a project application where the panel member worked within the area or department involved with the application; and/or any other reason that the panel member believed could be a direct conflict of interest.

68 An indirect conflict of interest was seen to arise where: there was an association between the panel member and the organisation involved in a project application where the panel member did not work within the area or department involved with a project application; and/or any other reason that the panel member believed there could be an indirect conflict of interest.

conflicts of interest that panel members had to follow. In many cases members themselves would not have been able to identify all their COIs without first seeing the application.

2.48 Where members first separately assessed applications, potential conflicts of interest, particularly where the member was initially set as the lead assessor for the application, were identified by the member and communicated to the department so that the application could be reassigned to another member. Members also advised more generally about instances of direct or indirect conflicts of interest in relation to particular applications. Members identified direct conflicts of interest where they were named as a project partner or had close involvement in an application.⁶⁹ Indirect conflicts of interest were frequently identified in relation to a current or recent association with the main organisation(s) in the application (for example, an application from a university currently employing the panel member). Panel members also used their application assessment spreadsheet to identify a conflict of interest in relation to a particular application.⁷⁰

2.49 As part of the program's first funding round, the assessment panel members met for a three day period (27 to 29 February 2012) to assess the applications.⁷¹ Departmental notes from the meeting indicate that, at the outset, the chair advised members that when a project came forward for assessment, members would be formally asked to state whether there were any conflicts of interest in relation to the application, and then a panel decision made to see if a member needed to be excluded from the conversation. Members were advised that if they were included in an application they would have a direct conflict of interest and would need to leave the room. If the proposal came from an institution from which a panel member was employed, discussion would take place on any comments from the member but the member could not vote.

69 Expert advisory panel members advised ANAO in October 2013 that there were occasions where a panel member had been included in an application as a participant, reviewer or a source of advice, without their prior knowledge.

70 In round one, the identification of a conflict of interest in a member's application assessment sheet was sometimes included in the comments section of the spreadsheet. A specific 'conflicts of interest column' was not provided in the template assessment sheet sent out by the department to members.

71 The panel also assessed applications under the smaller Biochar Capacity Building Program at the meeting.

2.50 While departmental notes of the assessment meeting recorded some of the actions taken in relation to members' conflicts of interest with applications, it did not record all actions.⁷² Fortunately, the conflict of interest register for round one sets out conflict of interest declarations by members and the action taken to address the conflict.⁷³

2.51 Table 2.3 provides a summary of the number of conflicts of interest declared by panel members for the first funding round and within this, the number of instances where panel members participated in assessment discussion and scored applications. Overall for round one, 103 of the 222 eligible applications (46 per cent) and 47 of the 58 successful applications (81 per cent) were subject to either a direct or indirect conflict of interest declaration by one or more panel member(s). This outcome reflected the program's use of a small group of experts to assess applications, and the extent of the panel members' involvement in carbon research in the agricultural sector. By way of general comparison on the level of conflict of interest in other grant programs, unpublished data from the National Health and Medical Research Council (NHMRC) project grants program for 2011 and 2012 shows that 68 per cent of applications had one or more conflict of interest declarations by panel members. In the case of funded applications under the NHMRC's program, around 77 per cent had at least one panel member declare a conflict of interest with the application.⁷⁴

72 For example, evidence other than the meeting notes outlined that there were two applications where a member with direct conflicts of interest left the room during discussions—but this is not recorded in the departmental record.

73 The register for round one was not complete in some areas (two declarations did not list whether the conflicts of interest were direct or indirect).

74 The NHMRC's project grants program received a total of 7223 applications for 2011 and 2012. Some 4943 applications had one or more panel members declare a conflict of interest against an application. The average number of panel members per application was 15 in this period. In 2008, the NHMRC's CEO, Professor Warwick Anderson, stated that very frequently at least one conflict of interest needed to be managed for each application, even on the most carefully constructed panel http://www.nhmrc.gov.au/files/nhmrc/file/about/senior_staff/articles/peer-review-project-grants.pdf [accessed 24 June 2013].

Table 2.3: Round one conflict of interest declarations by panel members

Number of eligible applications	Conflict of interest	Declarations (number)	Member participated in assessment discussion (number)	Member scored application (number)
222	Direct	17 ⁽¹⁾	4	1 ⁽²⁾
	Indirect	119	70	43

Source: ANAO analysis of Agriculture round one program records.

Note 1: Two conflict of interest declarations in the register at the time of the completion of the assessment process did not identify whether they were direct or indirect. Based on the reasoning supplied by the member, the course of action taken and subsequent updates to the register by Agriculture, ANAO has categorised these as direct conflicts of interest.

Note 2: The panel advised ANAO in November 2013 that in this round, a panel member inadvertently scored a grant application in which they had a direct conflict of interest. The panel member realised and declared this direct conflict of interest before the panel discussed the application. The panel member then left the room and played no part in the panel discussions and decision. The panel decided that this application was uncompetitive and did not recommend it for funding.

2.52 There were three direct conflict of interest declarations that related to three expert advisory panel members applying for grants under the program, seeking a combined total of \$3.2 million in funding. One panel member's application was assessed as ineligible and two panel members' applications were subsequently approved for funding. The department's conflict of interest register records that the three members declared a direct conflict of interest in relation to their application; did not participate in discussion or decision making, and left the room during the panel's discussions. The members also alerted the department to their direct conflicts of interest in relation to their applications prior to the panel's meeting.

2.53 In reviewing the register, the type of conflict of interest, the reasons supplied for the conflict of interest and the course of action taken to address the conflict, a consistent course of action in response to the conflict was not always evident from the records. For example, in four instances of direct conflict of interest declarations, program records indicate that the member still participated in discussion and decision making. The expert advisory panel members advised ANAO in October 2013 that they were of the unanimous view that the department's recordkeeping was in error on these occasions; and that on no occasion did any panel member remain in the room and participate in discussion and decision making where the panel ruled that a member had a direct conflict of interest.

2.54 Departmental records also show that in a number of indirect conflict of interest cases where the action taken was that the member did not participate in discussion or decision making, the member's application assessment sheet indicate that they scored the application and this score was included in Agriculture's overall merit assessment scoring calculations.⁷⁵

Conflicts of interest in relation to publications and co-authorships

2.55 As the program provided grants for research, the ANAO also examined the scope for circumstances and/or relationships which may indicate potential conflicts of interest, and in particular publicly documented publication or co-authorships between panel members and the project leaders identified in successful grant applications. This examination was informed by guidance on the identification of conflicts of interest documented by other research grant programs. In particular, the NHMRC Project Grants Peer Review Guidelines provides a detailed list of conflict of interest situations for its panel members to consider.⁷⁶ This list covers the area of active collaboration between panel members and applicants, including publications and co-authorships. The guidelines provide that in general, the period to consider for these situations is whether they arose within the last five years.

2.56 In relation to the FtRG program in round one, there were a small number of instances where panel members had publication or co-authorships with successful project leaders that had not already been declared for other conflict of interest reasons. This mainly related to two of the three applications from the panel members outlined in paragraph 2.52. A number of panel members had co-authored publications with these successful applicants within the last five years. In the case of two other applications, a panel member had co-authored publications with the successful applicant within the last five years. In relation to round two, the ANAO's examination shows that there was one instance where a panel member had such a relationship with a successful project leader in the last five years, which had not been declared for other conflict of interest reasons outlined in footnotes 67 and 68.

75 The expert advisory panel advised the ANAO in July 2013 that, in a number of instances of declared indirect conflicts of interest by a panel member, the other panel members and the chair assessed that the circumstances were close to a direct conflict of interest, so the panel member left the room during the discussion of the application.

76 National Health and Medical Research Council, *NHMRC Project Grants Peer Review Guidelines for funding commencing in 2014*, 4 June 2013, p. 27.

2.57 The department's conflicts of interest register did not record these relationships between panel members and applicants. For the purposes of transparency, and consistent with the program's approach concerning 'a direct association between the panel members and researchers involved in a project application' (see footnote 67), more specific departmental advice to panel members on this type of relationship could usefully have been included in the program's conflict of interest management arrangements and members' declarations incorporated into the conflict of interest register.

2.58 On this matter, expert advisory panel members advised ANAO in October 2013 that:

where collaboration and/or co-authorship were current and/or very recent a conflict of interest was ruled. Where this was not the case (and bearing in mind that most to the members of the Expert Panel have published in excess of 100 papers over a 20-30 year period across a number of fields and disciplines and therefore have broad collaborative networks), professional COIs on former collaboration and co-authorship were then decided on a case by case basis.

Identification and management of panel conflicts of interest for round two

2.59 The substantive arrangements for the identification and management of conflicts of interest remained unchanged between rounds one and two of the program. Nevertheless, some program documentation was amended to more clearly outline conflict of interest arrangements. Most notably, the round two program guidelines included a conflict of interest section and required applicants to advise whether any actual or potential conflicts of interest existed in relation to their application and steps taken to deal with the conflict. However, the improvement to the guidelines for round two was not supported by the application form for that round, as it did not ask applicants to identify conflicts of interest as outlined in the guidelines. In this context, Agriculture records do not indicate that any applicants identified in their application conflicts of interest, including the two panel members who lodged an application in round two.⁷⁷

⁷⁷ In October 2013, Agriculture advised ANAO that: 'The department accepts that there was an oversight in the application form in not allowing applicants to register a conflict of interest. However, in both instances the panel member did notify the department that they had a conflict of interest in regard to the applications as part of the assessment process and did not participate in the assessment of these applications.'

2.60 The guidelines also outlined that a register of conflicts of interest would be maintained, incorporating conflicts of interest notified by applicants, panel members and Commonwealth officers. Agriculture's grant application assessment plan for round two also more clearly addressed the identification and management of conflicts of interest.

2.61 A further development for round two was the online assessment tool used by departmental staff and panel members to facilitate assessments. The tool required assessors to declare whether a direct conflict of interest arose with the application they were assessing, in which case they would not be able to access the application and it would be reassigned to another assessor by the tool's administrator.

2.62 The department advised the ANAO in June 2013 that, when allocating applications to panel members for assessment through the online assessment tool, care was taken to reduce the occurrence of conflicts of interest by not allocating applications to panel members from organisations employing the member. The department also conducted a key word search of applications concerning panel members' names, before applications were allocated. Such approaches represented some of the ways the department could actively manage conflicts of interest.

2.63 Nevertheless, these arrangements did not eliminate instances of panel members being assigned an application in respect to which they had a potential conflict of interest. In this respect, there were 42 instances where panel members were assigned an application to assess from their employer organisation. In 16 of these instances, the panel member declared a direct conflict of interest and the application was reassigned. In the remaining 26 instances, the panel member declared an indirect conflict of interest and assessed the application. In the case of the effectiveness of the key word search of applications and panel members' names, one panel member advised the ANAO that some applications referencing his name still came through to him and therefore required conflict of interest declarations.

2.64 The meeting of the expert panel to assess applications for round two took place over three days (27 February to 1 March 2013). Based on ANAO's analysis of program records covering conflicts of interest, the department's minutes of the meeting recorded most of the instances where specific members

declared a direct or indirect conflict of interest with an application for consideration.⁷⁸

2.65 Table 2.4 provides a summary of the number of conflicts of interests declared by panel members for the second funding round and within this, the number of instances where panel members participated in assessment discussions and scored applications. Overall for round two, 133 of the 236 eligible applications (57 per cent) and 26 of the 31 successful applications (84 per cent) were subject to either a direct or indirect conflict of interest declaration by one or more panel member(s). These rates of declared conflict of interest across applications are similar to those that existed in round one.

Table 2.4: Round two conflict of interest declarations by panel members

Number of eligible applications	Conflict of interest	Declarations (number)	Member participated in assessment discussion (number)	Member scored application (number)
236	Direct	32	0	0
	Indirect	188	185	69

Source: ANAO analysis of Agriculture round two program records.

Note: Departmental staff (ABARES) declared five instances of direct conflict of interest due to ABARES staff being listed as a service provider in a number of applications. One non-ABARES departmental staff member declared an indirect conflict of interest with an application, although this was inadvertently declared as a direct conflict of interest through the assessment tool.

2.66 In the case of two direct conflict of interest declarations, these related to two expert advisory panel members applying for grants under the program (one of which was subsequently awarded funding). The department's conflict of interest register records that both members declared a direct conflict of interest in relation to their application; did not participate in discussion or decision making and left the room during the panel's discussions.

2.67 In reviewing the conflict of interest register, the type of conflict of interest, the reasons supplied for the conflict of interest and the course of

78 The minutes of the panel's meeting were compared against: the advisory panel's assessment report; advice from panel members prior to finalising the panel's assessment report; and direct conflicts of interest registered through the online assessment tool (including allowing for advice where a panel member had incorrectly recorded a conflict of interest through the tool). In one case, a member's conflict of interest was recorded as indirect, but the weight of other evidence indicates that it was a direct conflict of interest; and in another case, the member was listed as having a direct conflict of interest, but the weight of other evidence indicates there was no conflict of interest.

action taken to address the conflict; a more consistent course of action in response to the conflict was evident from the register compared with the first round. However, the process of developing the conflict of interest register for round two was not clear and transparent. Four iterations of the conflict of interest register were drafted and the reasons for changes between these iterations were not recorded.⁷⁹

Conclusion

2.68 Agriculture established a generally sound framework for the design and governance of the program. Of note was that clear roles and responsibilities were established for the program, including in respect to an expert advisory panel to play a key role in the merit assessment stage. The panel drew its membership largely from a panel used in respect to a predecessor program. In this context, the panel included two departmental representatives with the remaining membership drawn predominately from universities and CSIRO.

2.69 The FtRG program area developed a range of documentation for the delivery of the program, providing an effective foundation for its administration. However, the program design and governance arrangements did not provide a sufficient focus on the delivery of program objectives and the desired outcomes. While each funding round's implementation plan outlined the intention to have a monitoring and evaluation component as part of the program, it was not until late 2012 and early 2013 that the program area began focusing on developing a monitoring and evaluation plan (and it has not yet been finalised).⁸⁰

2.70 Rather than implement the approach outlined in the program's implementation plans, the department decided to develop one monitoring and evaluation framework to cover all three of its CFF programs. In this context, a number of KPIs have been developed addressing both the administration of the program and program outcomes. Performance against these KPIs was to be

79 For example, across the four iterations of the conflict of interest register declared conflicts of interest changed between nil, direct and indirect conflict of interest 53 times without reasons being given for the change. In two of these instances the conflict of interest 'declaration' changed twice for the application/conflict of interest over the course of the iterations of the register.

80 This approach was adopted notwithstanding that, consistent with the CGGs, Agriculture's Grants Management Manual highlights that it is important in the planning and design phase of the program to draft a monitoring and evaluation strategy as the elements of the strategy will feed into the program administration processes and the development of key documents.

reported to the Parliament through annual reports of the LSCBB. This reporting is separate to that required through its PBS and Annual Report. The KPI for the program published in the PBS is inadequate as it does not relate to whether the program is achieving its objectives but, rather, the number of projects that have been awarded funding.

2.71 A range of governance documentation was also developed to assist in the delivery of each program funding round. Key in this respect were the published program guidelines that complied with the requirements of the grants administration framework. The content of the guidelines was appropriate for the program, although there were some aspects that could have been improved, namely:

- the guidelines included merit criteria and related sub-criteria, but a number of the sub-criteria were focused on eligibility and/or completeness assessment rather than on application merit; and
- some important information on how conflicts of interest for expert panel members would be managed was not included in the guidelines for the second round but in a separate frequently asked questions document. The CCGs outline that all key program information should be included in the guidelines.

2.72 Advisory panels are able to bring specific knowledge, experience and judgement to bear in formulating, or assisting to formulate, funding recommendations. Achieving the benefits from panel input in a way that is consistent with the CCGs requires agencies to have effective arrangements in place to identify and manage conflicts of interest given the likelihood that panel members will be involved in the area subject to the granting activity. For both funding rounds, a significant proportion of eligible applications and successful applications were subject to either a direct or indirect conflict of interest declaration by one or more panel members. This situation reflected the extent of the panel members' involvement in carbon research in the agricultural sector. The rates of declared conflicts of interest were similar to other non-agricultural research grant programs.

2.73 As FtRG was a research program with an external advisory panel playing a key role in assessing applications, there were particular conflicts of interest issues to be addressed. However, Agriculture's Grants Management Manual did not emphasise the importance of tailoring the probity and conflict of interest arrangements to the circumstances of each program. In this context,

the FtRG program area followed the standard departmental arrangements for managing conflicts of interest and these did not, for example, address the issue of conflicts of interest that arise as a result of past collaboration between panel members and applicants, including through publications and co-authorships. There were also a number of shortcomings in relation to the management of those conflict of interest situations that were not addressed in the program governance arrangements:

- administration was not fully effective in ensuring that panel members were not provided with, or assessed, applications where documented procedures had outlined that this should not have occurred due to a conflict of interest;
- there was inconsistency in actions taken to manage conflicts of interest. This was particularly evident in round one, with improvements evident in round two; and
- the program's records on conflicts of interest were not consistent, a situation that undermines confidence in this aspect of the department's management of the grants administration process.

Recommendation No.1

2.74 To improve the conflict of interest management arrangements for competitive, merit-based grant programs, ANAO recommends that the Department of Agriculture:

- (a) emphasise in its Grants Management Manual the importance of these arrangements being tailored to the circumstances of the particular granting activity; and
- (b) when employing expert advisory panels to assist with the implementation of research grant programs, address in the program governance arrangements the potential conflicts of interest that arise from recent collaborations between applicants and panel members through publications and co-authorships.

Agriculture's response:

2.75 *Agreed. The department acknowledges the importance of undertaking robust and transparent grant assessment processes with clearly defined conflict of interest arrangements specific to each program. In accordance with the Commonwealth Grant Guidelines, the department's Grants Management Manual (GMM) identifies that appropriate mechanisms for managing conflicts of interest need to be developed on a case by case basis for each program.*

2.76 *The department will revise its GMM to further emphasise the importance of tailoring management of conflicts of interest to the particular granting activity taking into account the composition and nature of potential relationship issues that could exist where an advisory panel is to be used in the grant assessment process.*

3. Access to the Program

This chapter examines the process for submitting applications and the department's assessment of applications against the eligibility criteria.

Introduction

3.1 Effective grants administration is supported by agencies adopting application and assessment processes that promote open, transparent and equitable access to grants. This includes clearly identifying eligibility requirements in the program guidelines and appropriate processes for checking the eligibility of those applications that are received.

3.2 The arrangements for potential applicants accessing the FtRG program were articulated in the program guidelines and the application assessment plan. These documents outlined the requirements and timeframes for submitting applications and the matters that would be assessed in establishing an application's eligibility under the program.

3.3 In this context, the ANAO examined Agriculture's processes for:

- notifying potential applicants of the grant opportunity;
- applicants to submit applications;
- including eligibility criteria in the guidelines; and
- assessing the eligibility of applications in accordance with the program guidelines.

Publicising the program and calling for applications

3.4 The appropriate and effective promotion of grant programs is important to raise awareness of the funding opportunity among potential applicants, and to encourage sufficient numbers of high quality applications that will contribute to achieving the program objective and the outcomes sought. In this context, the CGGs outline that, in order to promote open, transparent and equitable access to grants, publically available grant opportunities should be notified in ways that provide potential applicants with a reasonable opportunity to apply.

3.5 The then Minister for Agriculture, Fisheries and Forestry publicly announced the opening of the program to applications for the first funding

round on 10 November 2011. The invitation to submit applications was posted on the department's website, the Clean Energy Future website, the then Department of Regional Australia, Regional Development & Local Government Grantslink website and advertised in 18 major metropolitan and rural newspapers. The call for applications for round two by the Minister on 14 November 2012 followed a similar process to round one. In addition, round one applicants were emailed about round two opening to applications, and material was placed on the Global Research Alliance website based in New Zealand—since international collaboration was an additional research priority introduced in round two.

Submitting applications

Application requirements

3.6 The program guidelines set out the application requirements. In developing their application, applicants were advised to read and refer to the program guidelines to ensure they addressed all relevant requirements, and completed all sections of the application form. For round two, applicants were also advised to refer to existing research findings and current research activities⁸¹ since applications needed to explain how the proposed research was new and innovative, and built upon previous work. Further, applicants were provided with access to a draft standard funding deed and required to indicate in their application any proposed variations to deed clauses. Applicants needed to fully complete the application form by:

- providing applicant details, including any project partner(s) and the details of any service delivery agents;
- detailing the commencement and completion date of the project⁸²;
- outlining the project's details against each of the seven merit assessment criteria (or, for round two, the four merit criteria for applications seeking to coordinate national research programs); and

81 This information was set out in: Department of Agriculture, *Filling the Research Gap under the Carbon Farming Futures Program—Research Strategy (July 2012 to June 2017)*; and the Agriculture website containing details of projects funded under round one.

82 Under the program guidelines, round one projects were required to be completed by 1 June 2015, while round two projects were required to be completed by May 2016. However, the round two application form provided that projects were required to be completed no later than 30 June 2016. Agriculture advised ANAO that the inconsistency was an oversight. Funding deeds have all project work to be completed by 1 May 2016, consistent with the guidelines.

- providing relevant letters of support where cash or in-kind contributions were to be provided by other bodies as part of the project (or for round two, confirming that letters could be provided if requested by the department).⁸³

3.7 The application period was open for 12 weeks for round one (10 November 2011 to 3 February 2012) and 10 weeks for round two (14 November 2012 to 23 January 2013), which in both cases covered the Christmas/New Year period.

3.8 Under round one, both electronic and hard copy applications were required to be submitted.⁸⁴ Electronic applications needed to be received by the department by 3 February 2012. Hard copy applications needed to be post marked 3 February 2012 or earlier. The guidelines provided that the department could consider the submission of late applications under genuine extenuating circumstances, provided an alternative timeframe had been agreed prior to the closing date. Program records show that four electronic applications were received after 3 February 2012, with one having received a formal extension. In this regard, Agriculture advised ANAO in October 2013 that hard copies of the other three applications were received by the due date.

3.9 In round two, applicants could submit either an online application form or a hard copy application. Hard copy application forms needed to be requested from the department. Applications were required to be submitted to the department by 5 pm (Canberra time) 23 January 2013. The guidelines provided that the department may consider accepting late applications under extenuating circumstances, provided that a written request for late submission was approved by the department in writing prior to 5 pm (Canberra time) 21 January 2013. The department granted a five day extension to one applicant due to extenuating circumstances. In addition, 11 applicants that informed the department of technical difficulties in lodging an online application prior to closure of the application period were granted extensions until the technical issues were resolved. In a number of cases, applications needed to be lodged

83 The provision of a complete application as part of eligibility assessment was a matter that was examined in a previous ANAO audit of an Agriculture grants program (ANAO Audit Report No.22 2012–13, op. cit., p. 20). This audit found that, among other things, a number of applications were deemed eligible without having submitted the required documentation. The lack of documentation raised questions about whether equitable access was provided to the program.

84 The round one application form was a simple Word document template.

by Agriculture on behalf of the applicant, because of these technical issues arising with the SmartForm.

3.10 The program received 234 applications in the first round and 237 applications in the second round.⁸⁵ This level of interest in the program was in line with the earlier Climate Change Research Program, where more than 200 applications were lodged.⁸⁶

Eligibility criteria

3.11 It is important that program guidelines identify any threshold requirement that must be satisfied for an application to be considered for funding. Well constructed threshold or eligibility criteria should be straightforward, easily understood and effectively communicated to potential applicants, with the relevant program's guidelines clearly stating that applicants that do not satisfy all eligibility criteria will not be considered. This helps to:

- reduce frustration and unnecessary costs by assisting potential applicants to avoid developing and submitting applications that are ineligible or that have little chance of success;
- reduce the risk of an organisation failing to submit a proposal on the mistaken belief that they would not be eligible under the program guidelines; and
- promote consistent and efficient assessment processes.

Identifying and grouping of the eligibility criteria

3.12 Identifying and clearly grouping all eligibility requirements in a discrete section of the program guidelines has benefits for both potential applicants and the administering agency. Specifically, adopting this approach can provide a comprehensive checklist of minimum and mandatory requirements that:

85 In both funding rounds, a small number of applications were found to be duplicates of another application. In round two, four applications were not assessed as they were found to be unintended duplicates. Another application was deemed 'further information' to a previously submitted application. The number of applications for each round outlined in this report excludes duplicate or further information applications.

86 The Hon Tony Burke MP, Minister for Agriculture, Fisheries and Forestry, media release, 17 September 2008.

- potential applicants can easily use to inform a decision as to whether to invest resources in developing an application; and
- officials or others undertaking the assessment can use to ensure that any applications that fail to satisfy one or more of the eligibility requirements set out in the guidelines are identified as being ineligible for funding consideration. This can then be appropriately reflected in advice provided to the decision-maker.

3.13 Consistent with this approach, most of the program's eligibility requirements were set out in the 'who is eligible' and 'what qualifies for funding' sections of the guidelines. However, an eligibility requirement that was not included in the 'eligibility' sections of the guidelines was that in-kind contributions were required by applicants. The department's eligibility assessment records for round one show that this requirement was assessed on the basis that there could be cash contributions alone, although the guidelines made clear that in-kind contributions were required. Agriculture's approach of accepting just cash contributions to meet this requirement led to a number of applications being assessed as eligible despite not detailing in-kind contributions (see further at paragraph 3.25).

3.14 In round two, eligibility assessment required assessors to consider whether 'the proposed activity/ies represent value for money and are met with a comparable contribution from project partners.'⁸⁷ However as discussed in paragraph 3.29, there was a lack of transparency in how 'no' responses to this question were addressed and the final eligibility status reached. In the case of departmental assessments, 15 unsuccessful applications involved all departmental assessors recording 'no' against this question. Once expert advisory panel members came to assess applications, 12 unsuccessful applications were recorded by all panel assessors as 'no' against the question. For a further 43 unsuccessful applications, two of the three expert advisory assessors answered 'no'. There were no successful applications where all of the departmental or expert advisory panel assessors recorded a 'no' against this question.

87 This question was asked in the overview section of the online assessment tool and required a 'yes' or 'no' answer from assessors. However, other similar questions, which assessed value for money and other contributions from applicants, were also asked in the merit section of the online assessment tool, and required a numerical score to be assigned to the question (see Figure 5.1). It is not evident how all the questions in the online tool that considered various aspects of value for money and other contributions from applicants, were brought together for form an overall assessment of value for money of each application.

3.15 The guidelines emphasised that all applications needed to meet the eligibility and other requirements set out in the guidelines. The application forms for each funding round also supported applicants' awareness of the eligibility criteria, through sections structured around eligibility questions. In this respect, the round one application form was considerably clearer in grouping eligibility questions to be answered by the applicant, whereas the round two application form had questions on eligibility spread throughout the form.

Eligible applicants

3.16 The program guidelines provided that an applicant needed to be an Australian company, business or research organisation established as a legal entity. In round two, state/territory government departments were not eligible to apply as the lead organisation for an application.⁸⁸ In most instances, applications involved a consortium of organisations involved in the project proposal. For example, the successful round two research projects involved an average of four consortium members, as well as the lead applicant. Only one of the 30 successful applications solely involved the applicant organisation in the project.

Eligible projects

3.17 For round one, the program guidelines provided that an eligible project involved a proposal that:

- addressed one or more of the program priorities outlined in the guidelines, and would be undertaken in Australia;
- should be completed by 1 June 2015;
- addressed the assessment criteria; and
- proposed work that did not duplicate activities which were being funded under other programs.

3.18 In the case of round two, the program guidelines provided that an eligible project involved a proposal that:

⁸⁸ State/territory government departments could participate, through cash or in-kind contributions, as consortium partners where an eligible organisation submitted an application.

- addressed one or more of the funding round's priorities⁸⁹;
- supported the then Government's *Clean Energy Future* plan and the integrity of the Carbon Farming Initiative;
- demonstrated how the research/coordination activities improved management and reduction of on-farm emissions;
- completed the project by May 2016;
- addressed all assessment criteria;
- complemented existing research; and
- provided evidence of the commitment of project partners.

3.19 Both sets of guidelines also provided examples of eligible and ineligible activities to assist applicants in framing their application.

Eligibility assessment

3.20 The program guidelines provided that applications would be pre-assessed by Commonwealth officers to ensure the application was eligible and all requirements of the application process had been met. The department would then provide all eligible applications to the expert advisory panel, along with a summary of the pre-assessment of eligibility. However, for round two, expert advisory panel members were able to provide comments on the eligibility of an application they were assessing.⁹⁰ This reflected departmental recognition that some of the eligibility criteria required a deeper analysis, which panel members were able to bring to the process. These assessment arrangements are discussed further in paragraph 3.27.

Round one eligibility assessment

3.21 The majority of the department's eligibility assessment of round one applications took place over three days, beginning 4 February 2012. The key guidance provided to the staff responsible for assessing applications was the 'application assessment procedure' and the 'application assessment procedure—assessment team' documents.⁹¹ The primary tool used by the

89 The inclusion of international collaboration as a research priority in round two resulted in the guidelines no longer requiring work to be undertaken in Australia.

90 The round two grant application assessment plan provided that the assessment of eligibility and merit would be undertaken by the department and the expert advisory panel.

91 The ANAO found this documentation still marked draft at the time of the audit's fieldwork.

departmental staff member undertaking the eligibility assessment was a one page eligibility assessment form involving yes/no (or not applicable) answers to eight eligibility questions. The staff member had the ability to add comments on the application should they wish. The form correctly covered most of the eligibility requirements detailed in the guidelines. However, the guidelines statement that applicants' in-kind contributions were 'required' was assessed on a different basis—that there could be cash contributions alone. On this matter, the design of the assessment form did not aid clear eligibility assessment since the cash and in-kind contribution figures were totalled (not separately identified) and then simply noted in the context of any errors in the applications' budget summary calculations.⁹² In this regard, the failure of the subsequent merit assessment process to properly score the 'appropriate budget/value for money' criteria, which included an assessment of in-kind contributions, is discussed in paragraphs 4.9 to 4.14.

3.22 Eligibility assessment forms were completed for all but one application. These initial eligibility assessment forms were superseded by a spreadsheet, which tracked progress and outcomes on applicants' eligibility assessment. In addition, a limited number of assessments (10 applications) were reviewed by another staff member. In the case of two applications, the reviews resulted in the department's assessment changing from ineligible to eligible. More generally, Agriculture advised ANAO in October 2013 that each application's eligibility assessment by a departmental officer was reviewed by the acting senior executive responsible for the program. It was on this basis of review that the outcomes of the eligibility assessment process were finalised. However, this review process was not documented in program records, an approach that is not consistent with sound grants administration practice.

Round one eligibility assessment outcomes

3.23 The outcomes of the round one eligibility assessment conducted by the department were:

- 222 applications (or 95 per cent) were assessed as eligible to proceed to the merit assessment stage; and

⁹² The guidelines show that in-kind contributions were an overarching eligibility requirement on applications. Within this context, the 'appropriate budget' merit assessment criteria then asked assessors to consider 'the extent to which value for money of the proposed project is enhanced through further cash or in-kind contributions'.

- 12 applications were assessed as ineligible, and did not proceed to the merit assessment stage.

3.24 The reasons for Agriculture assessing an application as ineligible were:

- not addressing a research priority (eight applications);
- proposing work that exceeded the program's timeframe for round one (three applications); and
- one applicant withdrawing its application.

3.25 ANAO's examination of applications' eligibility against a number of the assessment criteria showed some inconsistencies. In particular:

- the guidelines provided that projects were expected to complete their work by 1 June 2015⁹³, but also outlined that funding was available to 30 June 2015 and that proposed work could be carried out over three years to 2014–15. In this context, 68 applications (20 of which were subsequently approved for funding) included stated completion dates ranging from 10 June to 1 October 2015.⁹⁴ There was some inconsistency about project completion dates stated at different areas of a number of applications. In this situation, Agriculture gave primacy to other data about applicants only seeking funding up to the end of the 2014–15 financial year (that is, 30 June 2015), or where they considered the applicant made 'simple errors', the application was assessed as eligible.⁹⁵ One application which stated a completion date of 1 October 2015 was mistakenly assessed as eligible. In addition to the 68 applications noted above, three other applications were assessed by the department as ineligible because their proposed timeframe did not involve completion by June 2015 and they were seeking Commonwealth funding outside the funding period specified in the guidelines;

93 The application form similarly required applicants to provide a yes or no answer to the question 'project will be completed by 1 June 2015'.

94 Ten applications simply stated 'June 2015' as the completion date for the project. These applications have not been included in the calculation of 68 applications stating completion dates between 10 June and 1 October 2015.

95 In this regard, three applications with what were seen to have completion date errors were considered eligible — two stated a completion date of 31 June 2015 and one stated 1 July 2015.

- records for four applications did not contain all the necessary letters of support; and
- eight eligible applications did not detail in-kind contributions.

Round two eligibility assessment

3.26 The department's eligibility assessment process for round two differed from that of round one. In particular, the program's use of an online SmartForm was able to limit applicants from entering some information that otherwise would have deemed the application ineligible. For example, the application form would not allow applicants to enter a project completion date past that set out in the guidelines.

3.27 The eligibility assessment of applications by the department was conducted using an online assessment tool. Expert advisory panel members assessing applications were also able to use the tool to alert the department if they considered an application ineligible against the guidelines. While panel members recorded negative responses against some eligibility questions in the assessment tool, and in three cases raised an application's eligibility as an issue at the panel's meeting, ultimately no applications were recommended as ineligible by the panel. Rather, the panel's approach was to not recommend funding and rank the application with a low assessment score.

3.28 The tool's 'overview/review' section set out a series of questions requiring yes/no answers from assessors, with a number of these questions addressing application eligibility under the program.⁹⁶ Departmental arrangements provided that 15 teams of two assessors dealing with 15 to 25 applications conducted both the eligibility assessments and the department's own assessment of the merit of applications against the selection criteria (merit assessment in respect to round two is discussed further in Chapter 5).

3.29 An examination of the department's records of the eligibility assessment show a lack of transparency about the reasons for changes in the

96 Eight of the 10 questions in the overview/review section of the assessment tool for research projects dealt with eligibility matters, consistent with the guidelines. The remaining questions asked the departmental assessor whether they had an indirect conflict of interest with the applicant, and whether they wished to discuss the application with the expert advisory panel. In the case of applications to coordinate research projects, six of the eight questions in the assessment tool's overview/review section concerned eligibility matters, consistent with the guidelines. The online assessment tool is discussed further in Chapter 5.

eligibility status of some applications as they moved through the assessment process. For example, departmental assessors provided yes or no answers to a series of eligibility questions asked through the assessment tool. One of the questions asked the assessors whether the proposed activities addressed the identified research gaps described under the stated round two priorities. In the case of four applications, all departmental assessors recorded no against this question. The subsequent review by the senior executive responsible for the FtRG program resulted in changes to these assessments, although the reasons for these changes were not documented.

3.30 Further, the guidelines provided that in-kind contributions were 'required', although the department did not assess this statement as an eligibility requirement. In round two, three research project applications did not detail in-kind contributions, but were not considered ineligible applications by the department. None of these applications were successful grant recipients. In the case of coordination project applications, the application form did not provide the opportunity for applicants to detail a budget, including in-kind contributions. This approach reflected a departmental and expert advisory panel view that grant funding for any coordination project would be negotiated at approximately 10 per cent of the value of the research projects it was coordinating. The budget for the one successful round two coordination project included an in-kind contribution representing one-quarter of the value of the project.

3.31 As with round one, the department has advised the ANAO that the application assessments by departmental officers were reviewed and consolidated into a single departmental assessment by the senior executive responsible for the program.

3.32 There were no round two applications assessed as ineligible by the department. One application was rejected because it was late.

Conclusion

3.33 The first and second funding rounds of the program were well publicised and open to applications for 10 and 12 weeks respectively. Each round attracted over 230 applications.

3.34 Most of the eligibility requirements were clearly grouped and identified in the program guidelines for each round. Of the 234 applications received in round one, 222 (or 95 per cent), were assessed as eligible to proceed to the merit assessment stage. In round two, only one of the 237 applications

was assessed as ineligible. Overall, these high levels of eligibility indicate that the criteria were reasonably straightforward and effectively communicated to potential applicants through the program guidelines and application form. However, there were some inconsistencies in the department's eligibility assessment in relation to applicants: providing all the necessary letters of support; and detailing in-kind contributions. In addition, the guidelines did not provide consistent advice to applicants concerning the required completion date for projects.

3.35 In round two, the program's use of an online SmartForm was able to limit applicants from entering some information that otherwise would have made the application ineligible. Nevertheless, an examination of the department's program records on eligibility assessment showed a lack of transparency about the reasons for the change in the eligibility status of some applications as they moved through the assessment process.

3.36 Further, the guidelines provided that in-kind contributions were 'required', but the department did not assess this statement as an eligibility requirement. In round two, three research project applications did not detail in-kind contributions, but were not considered ineligible applications by the department (none of these applications were awarded funding). The application form for the nine coordination project applications did not provide applicants with the opportunity to include a proposed budget, including in-kind contributions (one of these applications was awarded funding).

3.37 More generally, Agriculture advised ANAO in October 2013 that each application eligibility assessment by a departmental officer was reviewed by the senior executive responsible for the program. However, this review was not documented in program records, an approach that is not consistent with sound grants administration practice.

4. Merit Assessment for the First Round

This chapter examines the merit assessment of applications to the first funding round, and the development of the expert advisory panel's assessment report.

Introduction

4.1 The guiding principle for an appropriately conducted competitive, merit-based selection process is for all eligible, compliant applications to be assessed in the same manner against the published criteria, and then ranked in priority order for advice to the decision-maker. Accordingly, it is important for careful consideration to be given to the method and scale that will be applied in rating and ranking applications. In particular, the process should provide for the consistent application of the selection process outlined in the published guidelines. The program guidelines for both funding rounds provided that eligible applications would be scored and ranked against equally weighted assessment criteria.

4.2 The 10-member expert advisory panel was established by the department to assess applications against the merit assessment criteria and identify synergies between individual applications that could be brought together in consortium arrangements. The expert advisory panel was required to merit rank each eligible application and advise the Minister, through the department, on projects suitable for funding. Against this background, the ANAO examined the:

- allocation of applications to panel members for assessment;
- assessment, scoring and ranking of eligible applications; and
- expert advisory panel's merit assessment report.

Allocation of applications to panel members

4.3 With over 230 applications received in the first round, a number of panel members were of the view that this was an overly large number of applications to be assessed by each panel member. In consultation with the department, the panel agreed to an arrangement whereby panel members were allotted to one of two teams that separately focused on particular research priorities for the round. For each application, a member was nominated to

‘lead’ (initiate discussion at the panel meeting) and score the application, along with a minimum of two other panel members to also review and score the application. Where a panel member had not scored an application they could still participate in the determination of final scores, rankings and reasons for recommending approval to fund or not to fund an application at the panel meeting, subject to conflict of interest management arrangements.

4.4 This arrangement resulted in each panel member being the ‘lead’ on between 20 and 25 applications.⁹⁷ The Agriculture representative on the expert advisory panel scored all 222 eligible applications, while the remaining nine panel members each scored between 87 and 141 eligible applications. In examining the number of scorers per application, 192 applications (86 per cent) were scored by either five or six members, and eleven applications were scored by all 10 members (paragraphs 4.15 to 4.17 provide further details on panel members individually scoring applications, prior to the panel meeting).

Round one merit assessment arrangements

4.5 The department’s grant application assessment plan for round one provided that the scoring regime for quantitative assessments would involve each application being scored from zero to 10 against each of the seven merit selection criteria.

No requirement to meet all criteria

4.6 The CGGs require that, unless specifically agreed otherwise, competitive merit-based selection processes are used, based upon clearly defined assessment criteria.⁹⁸ In this context, it is reasonable to expect that applications would be required to at least satisfy each of the equally weighted assessment criteria to be considered for funding. This is because applications that are assessed as not satisfactorily meeting the published merit assessment criteria are most unlikely to represent value for money in the context of the program objectives.⁹⁹

⁹⁷ The panel chair was the lead on five applications.

⁹⁸ CGGs, op. cit., p. 24.

⁹⁹ In this context, see also: ANAO Audit Report No.1 2013–14, *Design and Implementation of the Livable Cities Program*, Canberra, 8 August 2013, pp. 76–77.

4.7 In this context, ANAO has observed instances where agencies have established minimum threshold scores that applications must achieve in order to be considered for funding, with the program guidelines indicating to applicants that such an approach would be adopted. In this respect, there can be value in setting different thresholds for different criteria so as to reflect their relative importance to the program. This may include, for example, giving particular emphasis to the criterion or criteria that relate directly to the program policy objectives and providing value for money to the Australian Government.

4.8 In this context, the panel's assessment report for the first round stated that 'An applicant must meet all selection criteria to be suitable'. However, the interpretation of the scoring results that supported such a statement was unclear given:

- Agriculture had not established minimum scores that an application was required to achieve in order to be considered to have met an assessment criterion; and
- while none of the 58 recommended and approved applications scored less than six out of 10 against the first five assessment criteria, eight of those applications (14 per cent) scored between 3.2 and 4.8 out of 10 against the sixth criterion ('identifies key risks and mechanisms to treat these risks').

Budget/value for money criterion

4.9 The program guidelines outlined that the seventh criterion, described as 'appropriate budget' would involve the panel taking into account the extent to which the proposal demonstrates value for money, including:

- a budget showing how the grant funding would contribute directly to the achievement of the program objectives;
- the extent to which value for money of the proposed project would be enhanced through further cash or in-kind contributions; and
- letters of commitment showing the level of contribution from co-contributors/consortium members.

4.10 From ANAO's experience in auditing competitive grant programs across a range of agencies, merit criteria addressing these considerations are quite common and, while requiring judgment (as is the case with all merit

criteria), are able to be assessed and scored. However, for the FtRG program, early feedback from some panel members about challenges in scoring this criterion from the budget information provided by applicants¹⁰⁰ led to the department providing members with a merit assessment guidance sheet which simply required assessors to provide a yes or no assessment response rather than scoring applications against the criterion. In taking this approach, the department did not address that this represented a departure from the program guidelines, the guidelines were not amended and the departure was not specifically brought to the then Minister's attention (see further at paragraph 6.15).

4.11 The effect of this approach was that the appropriate budget criterion was not of equal weight in the assessment process relative to the other six merit criteria in the guidelines. Therefore, only six of the seven merit criteria were scored by panel members and aggregated to establish a single score for initially ranking applications. This score was then used to aid the process of further qualitative consideration by the panel.

4.12 In October 2013, Agriculture advised ANAO that:

The department acknowledges the assessment of 'appropriate budget' was a departure from the program guidelines and the then Minister was not advised. However, ANAO are asked to note that the guidelines could not be amended since the round had closed. The department considers that the use of a yes/no response to this question made no material difference to the outcome as each yes or no¹⁰¹ score for an application was of equal value to all other applications.

4.13 The only circumstance under which this departure could not have had an effect on the relative ranking of eligible applications would be in the unlikely situation¹⁰² that all 222 eligible applications had submitted an application that were equally meritorious in terms of this criterion, including (as outlined in the program guidelines):

- demonstrating how the grant funding they had budgeted would contribute directly to the program objectives;

100 Departmental advice to the ANAO on 8 April 2013 and expert advisory panel advice to ANAO on 22 July 2013.

101 There were no applications where the final assessment was 'no' in terms of the 'appropriate budget' criterion.

102 In this respect, it is relevant to note that the panel recommended that the budget be reduced for some of the recommended applications.

- the extent to which the value for money of their project was enhanced through cash or in-kind contributions; and
- the level of contribution evident in letters of support from co-contributors and/or consortium members.

4.14 Further, the assessment process did not clearly demonstrate how the ‘appropriate budget’ criterion was finally assessed. Program records examined by ANAO show that panel members recorded in their assessment spreadsheets yes or no answers to ‘appropriate budget’. However, once the spreadsheets were combined by the department, the subsequent primary assessment spreadsheet did not record data against this merit criterion until this sheet was finalised for the panel’s assessment report. The panel’s assessment report scored all eligible applications ‘yes’ against this criterion, notwithstanding that:

- in 23 cases the panel’s advice was to reduce the amount of grant funding sought in the application; and
- prior to the panel meeting, individual panel members had rated between 6.5 per cent and 76.9 per cent of eligible applications they assessed as ‘no’ against the appropriate budget criterion. Of those applications initially assessed by one or more panel members as not having an appropriate budget, 38 were recommended and subsequently approved for funding, including one application where five of the six assessors recorded a ‘no’ in terms of whether there was an appropriate budget.

Individual expert advisory panel members’ assessment of applications

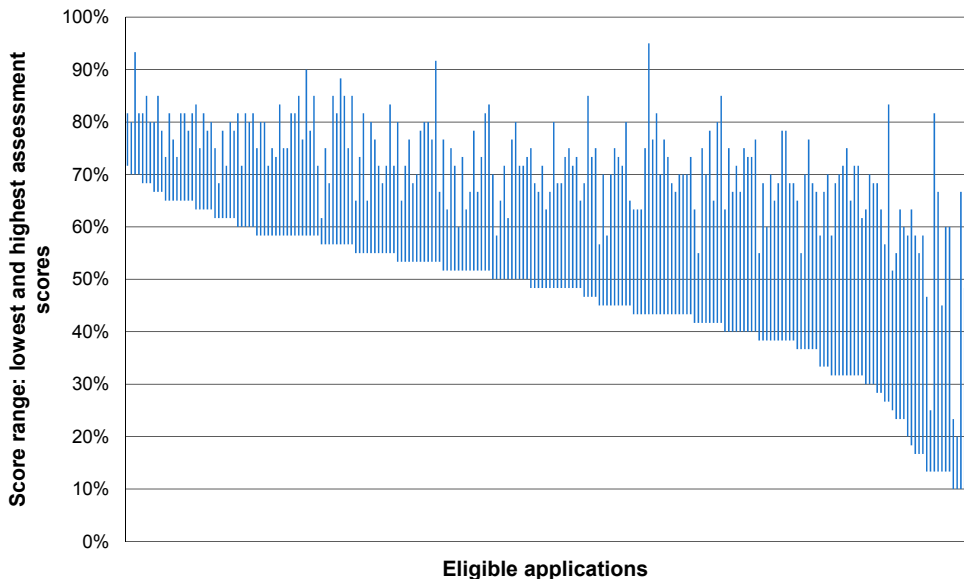
4.15 One benefit of involving an expert advisory panel in the assessment of eligible applications is that it allows a mix of relevant experience and expertise to be brought to bear. Typically, panel members will consider eligible applications separately and then meet to discuss and agree on the assessment outcome for each application, having regard to the different perspectives each member brings to the discussion.

4.16 The department provided expert advisory panel members with an electronic spreadsheet with which to score and assess eligible applications against the merit criteria. Panel members’ spreadsheets indicate that there were some applications where each member was broadly in agreement concerning the overall relative merit of the application when scored against six

of the seven published criteria. For example, there were 106 eligible applications (out of a total of 222 eligible applications) where all the assessors scored 50 per cent or more for the application.

4.17 As shown by Figure 4.1, there were also a number of applications where the aggregate scores indicated that the expert advisory panel members had significantly different views of the relative merit of an application in terms of the aggregate score for six of the seven merit criteria. For example, there were 125 applications where the scoring range between the lowest and highest aggregate scores by assessors differed by between 21 and 40 percentage points. There were also 11 applications where scores by assessors differed by between 41 and 60 percentage points.

Figure 4.1: Individual expert advisory panel members' application assessments: lowest and highest scores



Source: ANAO analysis of expert advisory panel member scoring sheets.

Scoring outcomes

4.18 Against this background, once expert advisory panel members had separately assessed applications, the panel came together over a three day period to review and finalise the merit assessment of applications. As may be expected through the panel's face-to-face deliberative process, the scoring of some applications changed from that generated through the initial aggregation of individual assessor scores. For example, in round one, 10 applications' scores increased as a result of the expert panel's deliberations, which enabled them to be included within the rank of projects recommended for funding.

4.19 Eligible applications were scored against six of the seven merit assessment criteria, with each of equal weight in the scoring calculations. Figure 4.2 details the distribution of merit criterion scores for eligible applications. In general, eligible applicants scored highest against criterion four—managerial and financial competency (average score of 7.1); followed by criterion five—technical feasibility (average score of 6.3); and criterion one—addresses research priorities, and criterion two—clearly defined activities and outcomes (average score of 6.1 for each). The criterion that was scored the lowest involved criterion six—identifies key risks (average score of 4.9). Some 103 eligible applications (46 per cent) scored less than five against this criterion, including eight applications approved by the Minister. In this regard, the departmental briefing to the Minister had advised that the applications recommended for funding by the panel were highly competitive across all selection criteria [ANAO emphasis]. This was clearly not the case. In this respect, in October 2013, Agriculture advised ANAO that:

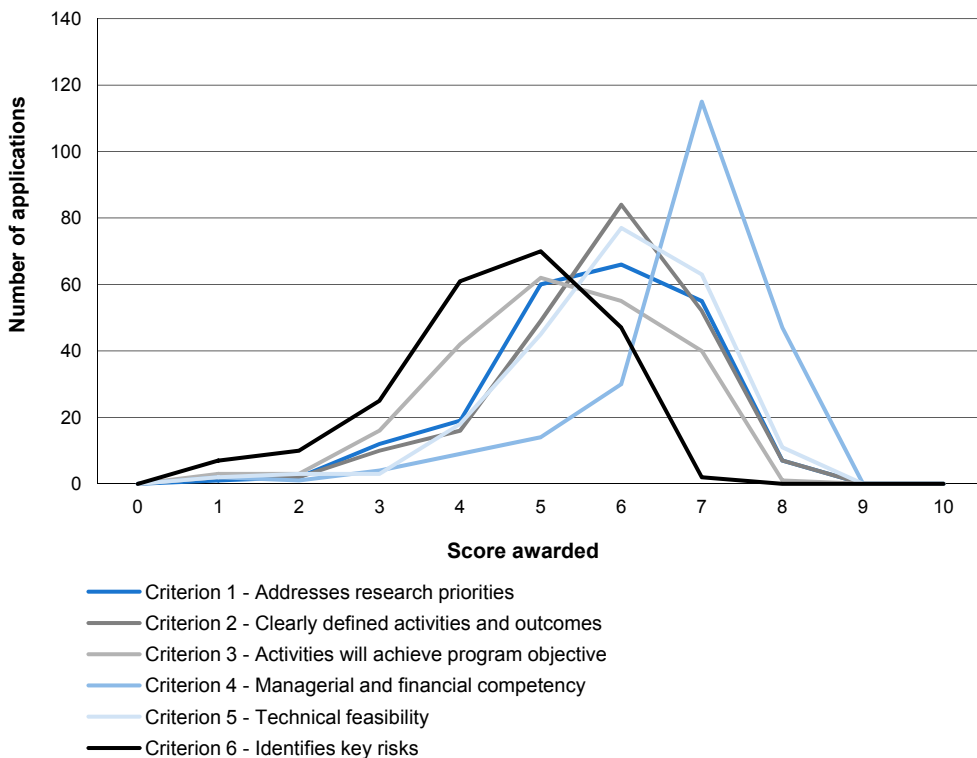
The department acknowledges that the wording was not reflective of the assessment. It would have been more appropriate to state that 'overall' the recommended projects were highly competitive against the criteria. While the eight approved projects did not score highly against the 'risk' criteria based on the risk assessment they provided, they were considered low risk projects by the panel based on the researcher's expertise, proven record of delivery and the institution they were working for.

It was noted by the department and the EAP that this particular criterion was poorly addressed by almost all applicants in round one.

The department will update its Grant Management Manual to provide specific advice to program areas on terminology and language to be used in assessment reports and briefings in relation to grant assessment processes.

4.20 Figure 4.2 also illustrates a general ‘bell curve’ score for each criterion. This indicates that the construct of the merit criteria did not necessarily favour (in terms of high scores) or discriminate against (in terms of low scores) certain types of applications. Some ANAO audit reports on competitive grant programs have found, for example, that the construction and scoring of the assessment criteria favoured certain types of applications, leading to a polarisation in the distribution of scores.¹⁰³

Figure 4.2: Distribution of merit criterion scores for eligible applications



Source: ANAO analysis of expert advisory panel assessment report.

4.21 The department’s brief to the Minister concerning the approval of round one grants stated that applications below the 58th ranking were ‘weak’ in addressing one or more of the assessment criteria. However, the expert

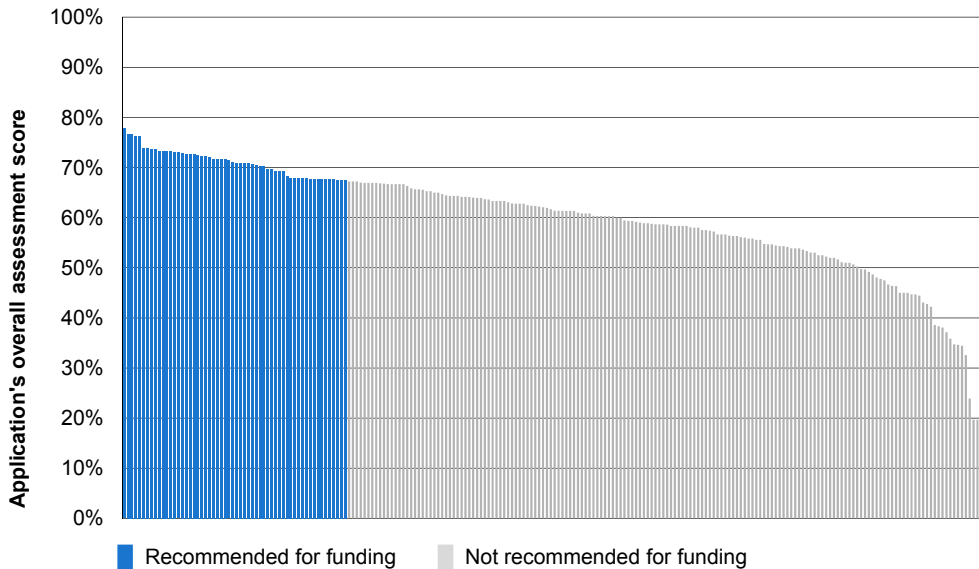
¹⁰³ See for example, ANAO Audit Report No.39 2011–12, *Management of the National Solar Schools Program*, Canberra, 7 June 2012, p. 74.

advisory panel's scoring of criteria does not bear this out. The ANAO examined the criteria scoring for the 10 lowest ranked applications recommended for approval and the 10 highest ranked applications recommended for rejection. The average criteria scores for both groups of applications were above 50 per cent. However, in the case of two criteria (criterion four—managerial and financial competency, and criterion six—identifies key risks) the average score for the 10 highest ranked not recommended applications was greater than the 10 lowest ranked approved applications (0.30 and 0.90 percentage points respectively). The average scores for the four remaining criteria were only slightly higher for the 10 lowest ranked approved compared to the 10 highest ranked applications recommended for rejection (between 0.55 and 0.23 percentage points). In October 2013, Agriculture advised ANAO that:

The department acknowledges that the wording in the briefing could have been better. It would have been preferable to simply state that projects below the 58th ranking were not considered to be suitable for funding. It should be noted that this does not alter the fact that the panel had sound reasons for not recommending these projects and this was recorded. The reasons for not approving these projects were provided in the attachments to the brief.

4.22 Figure 4.3 sets out the spread of eligible application aggregate scores in round one. Fifty eight applications scoring above 67 per cent of the maximum score possible were recommended for funding by the panel, subject to changes in scope proposed by the panel for some projects.

Figure 4.3: Round one – eligible application’s overall assessment scores



Source: Agriculture, expert advisory panel scoring records.

Note: Assessment scoring did not include one merit criteria – ‘appropriate budget’. The overall merit score was the average score across the six merit criteria that were scored by the panel.

4.23 The panel also developed its descriptive analysis of applications with each iteration of its assessment sheet. This descriptive analysis eventually formed the basis for statements of approval or rejection of an application that were included in the panel’s assessment report. Among the matters covered in the panel’s comments was whether the project should be funded as applied for, or with a reduced budget. In the case of 23 successful applications, lower program funding than that set out in the grant applicant was recommended by the panel.¹⁰⁴ In most of these cases, the reason for a successful application’s reduced funding related to the panel considering that certain activities should be excluded from the project. As the budget section of the application forms did not require applicants to cost specific project activities, the panel drew upon its own knowledge of the cost of research activities, as the basis for recommended project funding. It was then the responsibility of the department to negotiate funding deeds, consistent with the recommendations of the expert advisory panel (as approved by the Minister).

¹⁰⁴ The median reduction in grant funding per application for the 23 applications was \$551 500.

4.24 As outlined in paragraphs 7.40 and 7.41, ANAO's examination of the round one funding deeds/sub-deeds found that, for all projects, the program funding amount recommended by the panel and agreed by the Minister had been adhered to. Generally, the cash and in-kind contributions were also consistent with the contributions outlined in successful applications, taking into account any changes in the number of activities funded and the funding contributors to those activities. The project activities in the funding deeds were in accord with the activities recommended for funding by the expert advisory panel.

Grant funding for coordination/management projects in round one

4.25 While paragraph 4.23 outlines that a number of projects were recommended with reduced budgets, it is nonetheless instructive in the context of the CCGs requirement to achieve value with public money to examine the cost of projects that were performing broadly similar work. Proposals to coordinate national research programs are of relevance in this regard.

4.26 As previously outlined in paragraph 2.9, whether an applicant wished to apply for funding to undertake a research project or to coordinate/manage a group of research projects as a national research program, was not clearly set out in the round one guidelines and application form. Nevertheless, both types of application still needed to address the same merit assessment criteria. Five organisations applied to coordinate a national research program and five organisations were successful in obtaining funding to coordinate national research programs.¹⁰⁵ However, one of the five organisations did not apply to coordinate a research program, but was later approached by the department, supported by advice from the expert advisory panel, to undertake this role for the soil carbon national research program. This organisation was not assessed and ranked against the merit selection criteria to carry out the coordination of

105 Three of the successful round one organisations had previously received funding for coordination/management of research projects under the FtRG's precursor program, the Climate Change Research Program. This totaled \$3.2 million in grant funding over four years.

a national research program role, as required under the program guidelines.¹⁰⁶ Nevertheless, the department made a recommendation to the Minister to approve grant funding for the organisation, which he did. In this respect, in October 2013 Agriculture advised ANAO that:

Only a limited number of coordination applications were received under round one of the program. No eligible applications were received for the role of coordinating a national soils program.

The selection of [organisation] to undertake the additional role of coordination for the national soil carbon program was made following a number of discussions with panel members and was subject to the EAP's agreement. No formal assessment of the [organisation] research application was recorded against the coordination criteria but the requirement of the criteria was taken into account in discussion when considering which of the research applicants could reasonably take on this national role.

4.27 Under the funding deeds that were subsequently signed, the requirements on coordination/management projects are broadly similar in nature, including: the coordination of research, communication and data sharing within their program; the syntheses of projects' research; and regular reporting on research progress to the department. In this context, Table 4.1 details key metrics related to the cost of coordinating each FtRG national research program.¹⁰⁷

106 The organisation's application was to undertake a research project, and it was this research application that was assessed against the merit criteria. In briefing to the then Minister, the department advised that 'consistent with the FtRG program round one guidelines, the Panel advised that, of the applicants under the soil carbon priority, [the organisation] has the best capacity and scientific expertise to successfully manage and coordinate a scientific research program of this magnitude and deliver value for money. Additionally, [the organisation] have indicated readiness to accept this leadership role.' Unlike other successful national research program projects, this organisation did not provide co-contributions (cash and/or in-kind) to the national research program project. However, it did provide co-contributions for the research project for which it applied. Agriculture advised ANAO in October 2013 that as the organisation's projects were approved under the one grant, the organisation was providing co-contributions (in-kind) in relation to this project, consistent with guideline requirements.

107 Three projects concerning agricultural greenhouse gas modeling were directly managed by the department, rather than through a national research program project.

Table 4.1: Round one – key metrics on successful coordination projects

Research theme coordination	Projects under research theme (number)	Coordination grant funding (\$m)	Coordination grant as a proportion of research program funding (%)	Cost of coordination per research program project (\$)
Nitrous oxide - management	15	0.4	3.4	26 667
Nitrous oxide – data coordination ⁽¹⁾		1.99	17.0	132 817
Soil carbon	15	0.90	6.8	60 000
Livestock methane	16	1.35	10.8	84 375
Manure management	4	0.19	6.6	46 299

Source: FtRG round one national research program funding deeds and ANAO analysis.

Note 1: The project 'Nitrous oxide – data coordination' contained additional elements concerning the design of data storage/capture techniques and protocols, which were not required under the other national research programs. This includes the largest full time equivalent staff numbers of any of the coordination projects. Nevertheless, many of the other requirements on the project were similar administrative and reporting obligations as required of other national research program projects.

4.28 The costs of coordinating/managing the national research programs in terms of the proportion of a national research program's grant funding and per project show a significant degree of variation. Excluding the nitrous oxide data coordination project¹⁰⁸ to enable a closer comparison of similar project activities, the cost of coordinating projects in one national research program project could be more than three times greater than that in another national research program. While two projects (soil carbon and livestock methane) had some additional coordination activities compared to the other coordination projects, the justification for the extent of this variance in project costs was not addressed in departmental documentation, or in the advice to the Minister.¹⁰⁹

108 See Table 4.1 and Note 1 for an outline of this project's scope compared to the other national research program projects.

109 In the case of the livestock methane national research program project, departmental advice to the Minister was that 'the final amount of funding may be less because fewer applications will be managed than originally proposed. This will be negotiated by the department as part of the funding agreement.' However, the grant deed subsequently negotiated by the department provided the same level of grant funding as originally sought by the applicant.

Expert advisory panel's merit assessment report

4.29 The expert advisory panel provided a merit assessment report on the funding round. The report outlined the merit assessment processes undertaken, the merit ranking of applications and those recommended for funding, including the basis for each recommended grant. The report was drafted by the department, as secretariat to the panel.

4.30 The program governance arrangements for round one provided that the merit assessment report was to be endorsed by the expert advisory panel and signed by the chair of the panel. The chair of the panel signed the merit assessment report on 29 March 2012.¹¹⁰ In support of the department's funding recommendations to the Minister, a signed copy of the merit assessment report was included in the first of four briefing packages seeking the Minister's approval to funding FtRG projects.

4.31 Through the merit assessment report, the expert advisory panel recommended that the department:

- refer to the panel's recommendations on each application¹¹¹; and
- provide the panel's advice to the Minister for decision.

4.32 As was required by the grant application assessment plan, the merit assessment report provided an overview of the merit assessment process. However, the report also contained a number of inaccuracies that highlighted inconsistencies in the report. For example, the merit assessment report did not accurately reflect the number of applications recommended for funding. The merit assessment report stated 58 applications were recommended for funding, but one attachment stated 60 applications were recommended for funding and another attachment recommended 57 projects for funding, with one project stated to be 'maybe' recommended for funding.

4.33 Another notable inaccuracy was the report's statement that a quantitative weighted scoring system was used to assist with consistency of assessment method, and outlined the scoring scale in an attachment to the

110 Agriculture advised ANAO (8 April 2013) that verbal endorsement of the merit assessment report was received from the remaining panel members; however formal endorsement was not sought.

111 The recommendation for funding for one application was 'maybe' in the panel's assessment report, although the advice section in the report stated that '[t]he project offers the scientific leadership and coordination of the suite of enteric methane applications and will [be] recommended for funding'. The department advised ANAO in October 2013 that it was on this basis that the project was recommended for funding in advice to the Minister.

report. However, as previously discussed in paragraph 4.10, the merit criteria ‘appropriate budget’ was assessed as yes or no rather than on a zero to 10 rating scale, and therefore not equally weighted with the other assessment criteria. This departure from the assessment arrangements contained in the guidelines was not highlighted in the assessment report, although the report’s attachment containing the panel’s advice on each application made clear that the ‘appropriate budget’ criteria had been assessed as either yes or no.

4.34 Other inaccuracies in the report included:

- a statement that an applicant must meet all selection criteria to be suitable notwithstanding that Agriculture had not established minimum scores that an application was required to achieve in order to be considered to have met an assessment criterion¹¹²;
- a statement that all applications recommended for funding by the panel were highly competitive across all selection criteria. However, as noted in paragraph 4.19, eight applications recommended and approved by the Minister scored less than five out of 10 against the ‘identifies key risks’ criterion; and
- a statement that applications below the 58th ranking were weak in addressing one or more of the assessment criteria. However, as noted in paragraph 4.21, assessment criteria average scores for the 10 highest ranked applications not recommended for funding are not significantly lower (and in some cases are higher) than the average scores for the 10 lowest ranked applications recommended for funding.

4.35 Further, additional aspects of the panel’s assessment could reasonably have been included to provide a more comprehensive merit assessment report. In particular:

- the inclusion of the number and types of conflicts of interest declared by panel members would have highlighted the importance of the management of conflicts of interest for the program; and
- a summary of key statistics, including the number of applications and a breakdown of those ineligible, recommended for funding and to be rejected, would have provided an enhanced overview of the program’s position.

¹¹² The panel’s assessment report noted that a score of three to four for a particular criterion means that the applicant may meet that criterion, subject to further assessment by the expert advisory panel. [ANAO emphasis]. Eight successful applications scored between 3.2 and 4.8 against merit criterion six.

Conclusion

4.36 The 10-member expert advisory panel was established by the department to assess applications against the merit assessment criteria and identify synergies between individual applications that could be brought together in consortium arrangements.

4.37 The department's grant application assessment plan for round one provided that the scoring regime for quantitative assessments would involve each of the seven equally weighted selection criteria being scored zero to 10. However, Agriculture had not established minimum scores that an application was required to achieve in order to be considered to have met an assessment criterion. While none of the 58 recommended and approved applications scored less than six out of 10 against the first five assessment criteria, eight of those applications (14 per cent) scored between 3.2 and 4.8 out of 10 against the sixth criterion ('identifies key risks and mechanisms to treat these risks'). Such an approach does not recognise that applications that are assessed by the department and panel as not satisfactorily meeting the published merit assessment criteria are most unlikely to represent value for money in the context of the program objectives.

4.38 The program guidelines also outlined that the seventh assessment criterion, described as 'appropriate budget' would involve the panel taking into account the extent to which the proposal demonstrates value for money. However, early feedback from some panel members about challenges in scoring this criterion from the budget information provided by applicants led to assessors giving a yes or no assessment response, rather than scoring applications out of 10 against the criterion. This approach represented a departure from the program guidelines, the guidelines were not amended and the then Minister was not informed. As a consequence, the overall merit score for eligible applications did not incorporate an assessment of the extent to which they had included an 'appropriate budget' for the project.

4.39 At the conclusion of the expert advisory panel's assessment process, the 58 applications with the highest score were recommended for funding by the panel. The panel's assessment report, prepared by Agriculture, formed the basis for departmental advice to the Minister on applications recommended for approval. However, there were a number of inconsistencies and inaccuracies in the report, including the:

- number of applications being recommended for funding approval was variously stated as 57, 58 and 60 in different places; and
- departures from the assessment approach outlined in the program guidelines (see paragraphs 4.37 and 4.38) were not clearly identified.

Recommendation No.2

4.40 To improve the assessment of eligible applications to competitive, merit-based grant programs, ANAO recommends that the Department of Agriculture:

- establish appropriate minimum scores that an application must achieve against each assessment criterion in order to progress in the assessment process as a possible candidate to be recommended for funding; and
- develop guidance for producing assessment reports that provide an accurate outline of the application and selection process that was followed, the results of this work and the basis for the recommendations that are made to the decision-maker.

Agriculture's response:

4.41 *Agreed. The department acknowledges the importance of providing clear guidance to applicants, assessors and decision makers on how applications will be assessed and the scoring regime that will apply for each criterion. The department does not consider that it should be a mandatory requirement of all programs that minimum scoring is set for each criterion and notes that this is not a requirement of the recently revised Commonwealth Grant Guidelines. The department will however revise its Grants Management Manual (GMM) to include the following requirements:*

- *that programs consider whether or not minimum acceptable scoring thresholds should be set for each assessment criterion; and*
- *that program guidelines will state whether or not minimum acceptable scoring thresholds will apply and what these thresholds are when applicable.*

4.42 *In regard to recommendation 2(b), the department will update its GMM and reporting template to provide more specific direction on the format and content of assessment reports and the terminology to be used in making grant funding recommendations to the decision-maker.*

5. Merit Assessment for the Second Round

This chapter examines the assessment of applications to the second funding round, including the use of an online assessment tool and the development of the expert advisory panel's assessment report.

Introduction

5.1 Similar to the first round, the second funding round was conducted through a public call for applications. In addition, the expert advisory panel was again responsible for assessing each of the eligible applications against the published merit criteria and allocating a merit ranking to each. A key change from the first round involved the use of an online assessment tool in relation to the 236 eligible applications that were received. Accordingly, in analysing the round two merit assessment process, ANAO paid particular attention to the use of the online assessment tool. ANAO also examined the results of the merit assessment scoring process and the development of the merit assessment report.

The online assessment tool

5.2 The CGGs provide that the grants administration function itself should provide value.¹¹³ ANAO's Better Practice Guide states that an important aspect of achieving value for money in a grant program is establishing an assessment process that is efficient and effective in that it supports both: timely completion of the decision-making process; and robust assessment of grant proposals based on appropriate analysis and due diligence, having regard to the nature of the program and the program guidelines.¹¹⁴

5.3 A departmental decision was made to use an online assessment tool for round two. The department advised ANAO in October 2013 that the tool had been demonstrated to have a range of front-end administrative benefits/efficiencies associated with the department being able to manage the assessment process through an online program with applications and assessment data being held in an electronic database, and the assessor being

¹¹³ CGGs, op. cit., p. 30.

¹¹⁴ ANAO Better Practice Guide, op. cit., p. 71.

able to review and score applications online. However, the assessment tool had already demonstrated functional problems with another Agriculture grants program.

5.4 Agriculture’s business support area formally agreed to the assessment tool’s implementation into the department in mid-December 2012. This had followed a two week user acceptance testing period within some areas of the department—although not the FtRG.

5.5 In the course of this audit, the department’s grants policy unit provided advice to the ANAO that it was up to program areas whether they wished to use the assessment tool. Separately, the FtRG program area advised the ANAO that implementation was corporately driven. Various internal departmental emails held by the FtRG program area concerning the assessment tool’s deployment were used to support this position. However, these records highlight that the program area did not actively manage the risks with the tool from the program’s perspective, relying instead on corporate assurances, testing and sign-offs.

5.6 In this regard, the department’s information services division emailed the FtRG program area on 15 February 2013 (two weeks after the assessors had first been given access to the tool) about the program area accepting the risk of deploying the application into production without prior quality assurance being undertaken in a departmental test environment. Records indicate the FtRG program area believed it was not in an informed position to accept this risk. Nevertheless, deployment of the application for the FtRG program still went ahead. A formal sign-off for deployment of the application in relation to the FtRG was not recorded.¹¹⁵

5.7 The assessment tool proved to be problematic at a number of levels, including its inability to roll together individual assessor scores after they had been entered into the system. This resulted in the FtRG program area having to revert to a manual arrangement, whereby certain assessment scores (as outlined in paragraph 5.8) and comments in the system were copied into a

115 The department advised ANAO in October 2013 that the program area was not the ‘owner’ of the online tool and as such, was not in a position to make decisions in regard to the deployment of the tool as an IT system. This decision had already been addressed by the Grants Policy area in earlier user testing and formal approval for the deployment of the tool.

spreadsheet, which was then used to progress the assessment process.¹¹⁶ However, the use of the tool also created more significant problems concerning the basis upon which applications were to be assessed.

Effect of the tool on the application of the published assessment criteria

5.8 An important structural problem with the tool was that it was not modified by the department to reflect the particular assessment framework for the FtRG as set out in the program guidelines.¹¹⁷ Specifically, while the program had seven merit criteria for the assessment of research project applications by the panel, the tool as used only provided scoring against four categories ('method', 'capacity', 'value' and 'risk'). The terms used for the four categories had no relationship to the program's assessment criteria, but were simply scoring category terms that came with the tool. In this respect, and as illustrated in Table 5.1, the program guidelines provided that applications to undertake coordination projects would be assessed against four merit criteria involving 19 sub-criteria, while applications to undertake research projects would be assessed against seven merit criteria involving 46 sub-criteria.

Table 5.1: Number of assessment criteria and sub-criteria

Applications	No of assessment criteria	No of assessment sub-criteria
Coordination project	4	19 (average of five per criterion)
Research project	7	46 (average of six per criterion)

Source: ANAO analysis of round two program guidelines.

5.9 In round two, nine applications sought to coordinate a national research program. Through a series of 14 assessment questions against the 19 sub-criteria, scores for the four merit criteria in the guidelines were established. Where subsequent deliberative processes by the panel changed the rank order of applications, adjustments were made to the four scoring categories. The panel's assessment report used 'method', 'capacity', 'value' and 'risk' as the assessment scoring categories, which were not the merit criteria published in the guidelines.

¹¹⁶ The program area reviewed 86 application assessment reports from the online tool to test the accuracy of data transferred from the online tool to a manual worksheet. The report on this process was that there were no data errors in the transfer.

¹¹⁷ The program area cited the costs in changing the assessment tool, which had not been budgeted, as one reason for not modifying the tool to the program's specific needs. There was also concern that any changes to the tool may have delayed the assessment process.

5.10 In the case of research project applications, the FtRG program area developed 18 questions for assessors to score. In documentation provided to the ANAO by the department, each of the assessment questions was shown to address one or more of the 46 sub-criteria for achieving a high ranking application listed under the seven merit criteria in the guidelines.¹¹⁸ The questions were given different scoring weights as some were seen as more significant to the success of an application.¹¹⁹ In order to ensure each assessment criterion was equally weighted as had been stated in the program guidelines, the combined weight of all assessment questions for each criterion was 14.29 per cent.

5.11 In general, the questions were either closely aligned or reflective¹²⁰ of the assessment sub-criteria. In a number of instances a sub-criterion was not addressed by a question in the assessment tool as the sub-criteria concerned eligibility and/or completeness of the application. However, program documentation shows that, in one case, a sub-criterion was not addressed through a question in the assessment tool, but at the panel's meeting.¹²¹

5.12 A further consideration in the use of the assessment tool was how a quantitative score was reached for each merit criterion, leading to an initial ranking of applications. In this regard, where an assessment question addressed two different assessment criteria, the tool only allowed the question to be scored against one of the criteria. As discussed in paragraph 5.15 and detailed in Table 5.2, ANAO analysis shows that for four of the assessment criteria for research project applications, a quantitative assessment for one or more of their sub-criteria was not able to be undertaken through the tool. The impact of this limitation with the tool was that the quantitative assessment of some merit criteria as set out in the guidelines was not completed.

5.13 Figure 5.1 outlines the relationships between the assessment criteria, assessment questions in the tool and the grouping of questions into the tool's

118 In reviewing the assessment tool questions and their coverage against all the assessment criteria/sub-criteria set out in the guidelines, it was not until mid July 2013 that departmental documentation clearly outlined the extent of this coverage.

119 This was outlined in a departmental email of 5 February 2013 to expert advisory panel members explaining the online assessment tool and weightings. The scoring weights for the 18 assessment questions for research projects ranged from 3.6 to 10.7.

120 The round two application assessment plan noted that 'the assessment metrics used in the online assessment tool reflect the selection criteria set out in the Round 2 FtRG Guidelines'.

121 This related to sub-criterion 1(e) 'explain how a mitigation research proposal targets a major source of agricultural emissions and/or opportunities for significant abatement'.

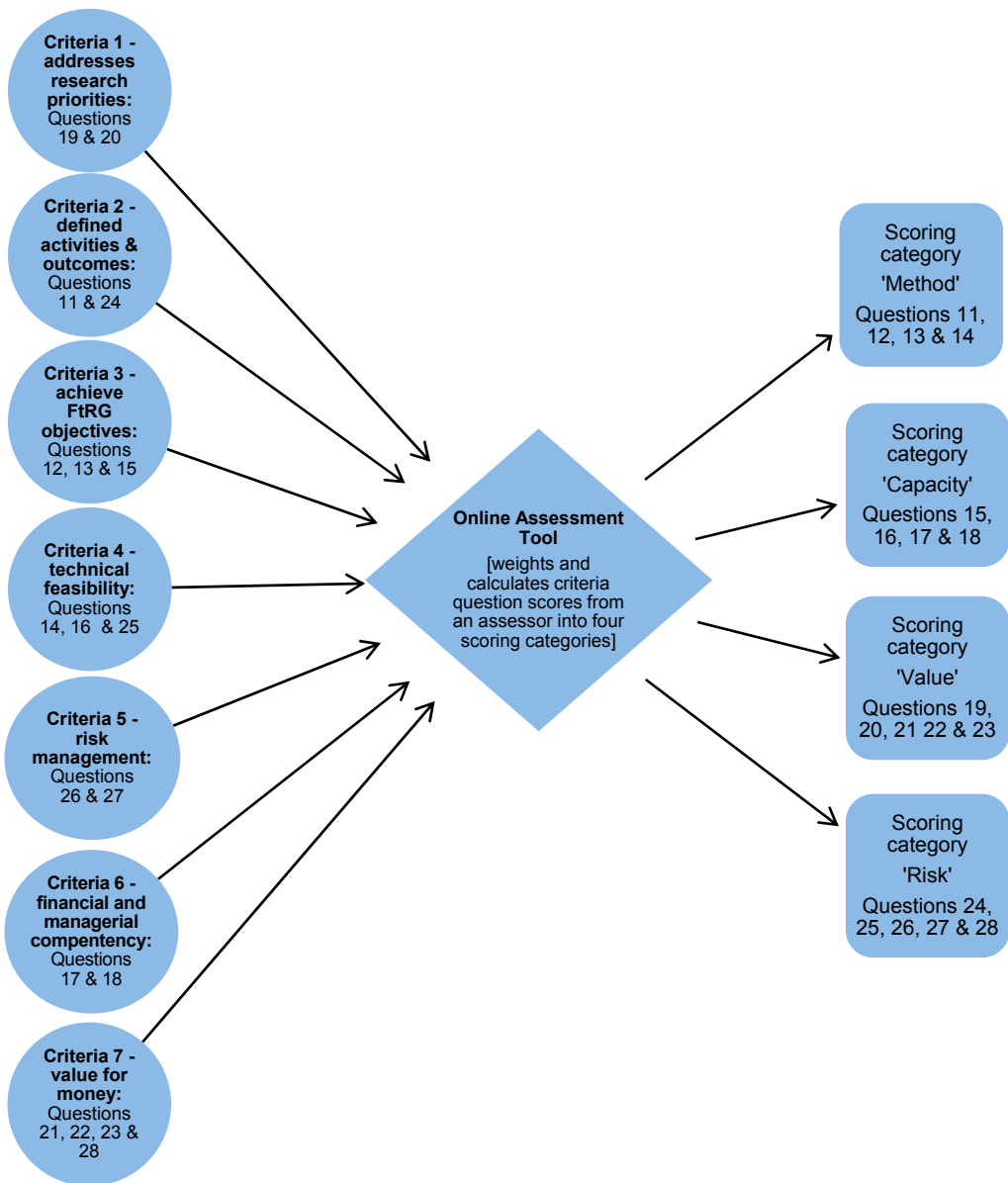
scoring categories, and highlights the considerable complexity that was added to the assessment process. Assessors scored questions through the assessment tool, which then produced four meaningless scores in relation to the program's assessment criteria.¹²² For example, assessment criterion three in the program guidelines required applicants to demonstrate:

that the proposed activities, outputs and outcomes will achieve the Filling the Research Gap objective of developing new methods and technologies that will help land managers sequester carbon and reduce their greenhouse gas emissions, adapt to the impacts of climate change or deliver international collaboration for agricultural climate change research.

5.14 While the guidelines identified seven sub-criteria for applicants to address and assessors to consider, the tool only allowed five of the sub-criteria to be scored using three questions in the tool (one question covered three sub-criteria). Assessors' scores on these three questions (12, 13 and 15) were entered into the assessment tool. However, two of the scores went to the 'method' scoring category (questions 12 and 13) and one went to the 'capacity' scoring category (question 15).

¹²² However, in the case of the chair of the panel assessing applications, due to frustration with the assessment tool, applications were scored in a separate spreadsheet against the seven merit assessment criteria set out in the program guidelines. The chair scored 67 research project applications in this manner. The department subsequently used a series of score weightings to recalculate the chair's seven merit criteria scores into the four scoring categories of the assessment tool.

Figure 5.1: Outline of online assessment tool scoring arrangements in relation to research projects



Source: ANAO analysis of FtRG program records.

Note: For the purposes of presentation, the merit criteria descriptors in the above figure have been shortened from that set out in the program guidelines.

5.15 In the context of the complicated assessment tool for the program outlined in Figure 5.1, the ANAO also examined whether each assessment sub-criterion had been addressed by an assessment question and was fully scored. Table 5.2 identifies one instance where a sub-criterion was not addressed by a question contained in the online assessment tool, and seven instances where two questions were designed to address a sub-criterion but scoring only related to one of the questions.

Table 5.2: Round two research application assessment sub-criteria not addressed by assessment tool question(s) and/or all questions scored

Criterion	Sub-criterion	Addressed by assessment question(s)	All questions scored against the sub-criterion
1	Explain how the proposal is new research and/or builds on existing research	Yes	No
1	Provide a rationale for the work and an indication of how the proposal has potential to lead to significant mitigation or adaptation outcomes	Yes	No
1	Explain how a mitigation research proposal targets a major source of agricultural emissions and/or opportunities for significant abatement	No	No
2	Provide clear, realistic timelines for the proposal and specify key milestones and deliverables	Yes	No
2	Clearly outline how proposed activities will benefit the land sector, particularly in term of abatement and potential for Carbon Farming Initiative participation	Yes	No
3	Clearly describe how the proposed activities, outputs and outcomes address the priorities and specific research gaps stated in the guidelines for Round 2 of FtRG	Yes	No
3	Explain how any proposed collaborations will help the proposal meet FtRG objectives	Yes	No
4	Provide evidence of proficiency in monitoring on reporting on research progress against expected outputs and outcomes	Yes	No

Source: ANAO analysis of Agriculture program records.

5.16 Against this background, the ANAO examined the guidance provided to panel members as to whether this provided sufficient clarity about the

assessment tool questions and their relationship to the merit assessment criteria the panel was required to assess applications against. In early February 2013, panel members were provided with a copy of the assessment tool questions and their score weightings. Panel members were also aided by the tool's merit assessment questions including a parenthesis at the end of the question indicating the assessment criteria the question was designed to address. The panel members advised the ANAO in October 2013 that:

while the restriction with the tool of four reporting areas was not ideal, the comprehensive and extensive questions did cover all equally weighted assessment criteria and the panel was confident that its scoring equally weighted all criteria which were reflected in the final score which was the panel's principle ranking method.

5.17 Nevertheless, while the expert advisory panel was provided with a list of tool questions, their weighting, and which of the tool's four scoring categories they contributed; the arrangements did not put panel members in a position to be fully informed about how their scoring of questions was ultimately impacting on their assessment of applications against the seven assessment criteria set out in the guidelines.

5.18 In relation to the assessment of the criteria, the round two program guidelines provided that the department would determine the value for money merit criterion, with advice from the expert advisory panel. However, program records do not demonstrate that departmental assessment/scoring of this criterion was integrated into the expert advisory panel's assessment process for the merit criteria. Rather, this criterion was assessed by the panel in the same manner as the other assessment criteria.

Results provided through the tool

5.19 The result of this approach to merit assessment by the department was that applications were not scored, ranked and reported according to the seven assessment criteria contained in the program guidelines.¹²³ This was reflected in the expert advisory panel's grant application assessment report which clearly set out the scores for 'method', 'capacity', 'value' and 'risk', and ranked

¹²³ In this regard, since the assessments did not record performance against the assessment criteria contained in the guidelines, the department was not in a position to provide feedback to unsuccessful applicants in terms of their applications' relative performance against each of the assessment criteria. Instead, analytical commentary from the expert advisory panel was provided to unsuccessful applicants requesting detailed feedback. See further at paragraph 7.19.

applications by averaging these four scores. The department used this assessment and rankings from the panel's report as the basis for advice to the then Minister on the approval of grant applicants for round two.

Effect of the tool on the allocation of applications for assessment

5.20 The design of the online assessment tool required a minimum of at least three scores from assessors for a valid overall assessment score to be recorded for an application against a criterion. In the context of this requirement, the department's allocation of applications to panel members was aligned with the areas of research priority interest expressed by members. As outlined in paragraph 2.62, the department advised the ANAO that care was taken to reduce the occurrence of conflicts of interest by not allocating applications to panel members employed by the organisation submitting an application. Despite this, there were over 40 instances where panel members declared conflicts of interest as the application they were assigned was from their employer organisation. Once assessors were assigned an application, they were only able to view the application through the assessment tool. However, the department provided a compact disk to each member containing all applications to read if they wished, prior to the expert advisory panel meeting.

5.21 These arrangements for round two resulted in each panel member assessing between 52 and 83 applications through the assessment tool.¹²⁴

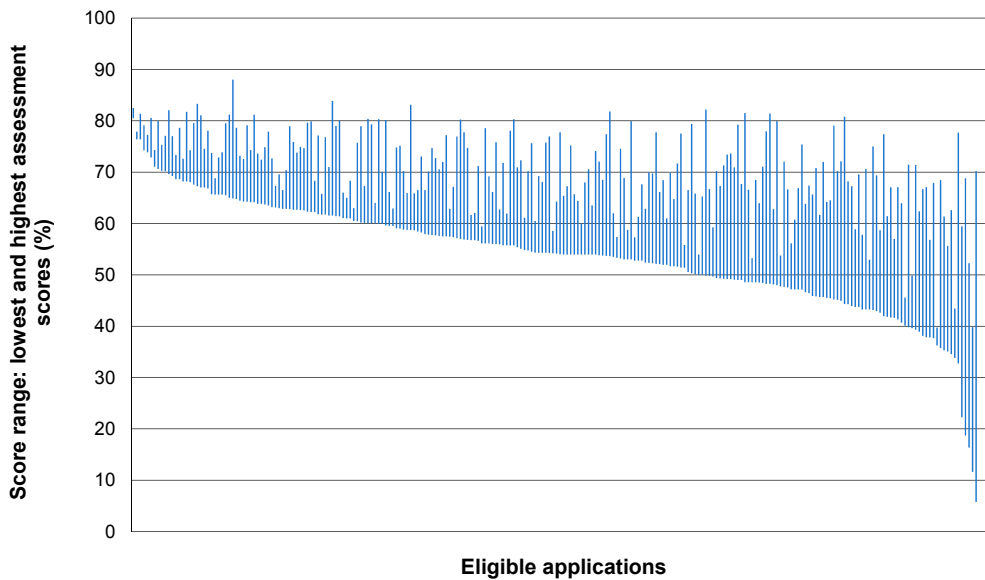
124 This includes scoring assessments for nine coordination project applications which were conducted by four of the panel members. One panel member did not score round two applications through the assessment tool—see footnote 122.

Merit assessment scoring results

Panel member scoring

5.22 Figure 5.2 illustrates the highest and lowest scores for each application at the stage of individual assessment by expert advisory panel members. In general, compared to round one (see Figure 4.1), the aggregate scoring range from assessors for each application was less dispersed. This partly reflects that there were only three assessors for each application in round two, while round one averaged five or more assessors per application. There were also only four scoring categories in round two, compared to the six merit criteria that were scored in round one.

Figure 5.2: Individual expert advisory panel members’ application assessments: lowest and highest scores



Source: ANAO analysis of program data.

Note 1: Includes research and co-ordination project applications.

Note 2: Scores are the average of four scoring categories generated through the online assessment tool. The extent of any relationship between these scoring categories and the merit assessment criteria contained in the program guidelines is discussed later in the chapter.

5.23 There were a significant proportion of eligible applications where members scoring applications were in broad agreement. There were 161 applications (68 per cent) where all the assessors scored 50 per cent or more for the application. There were also a number of applications where panel members had different views on applications, expressed through their scoring.

For example, there were 59 applications (25 per cent) where the scoring range between the lowest and highest aggregate score for the four scoring categories differed by between 21 and 40 percentage points. There were two applications where scores by assessors differed by between 41 and 60 percentage points.

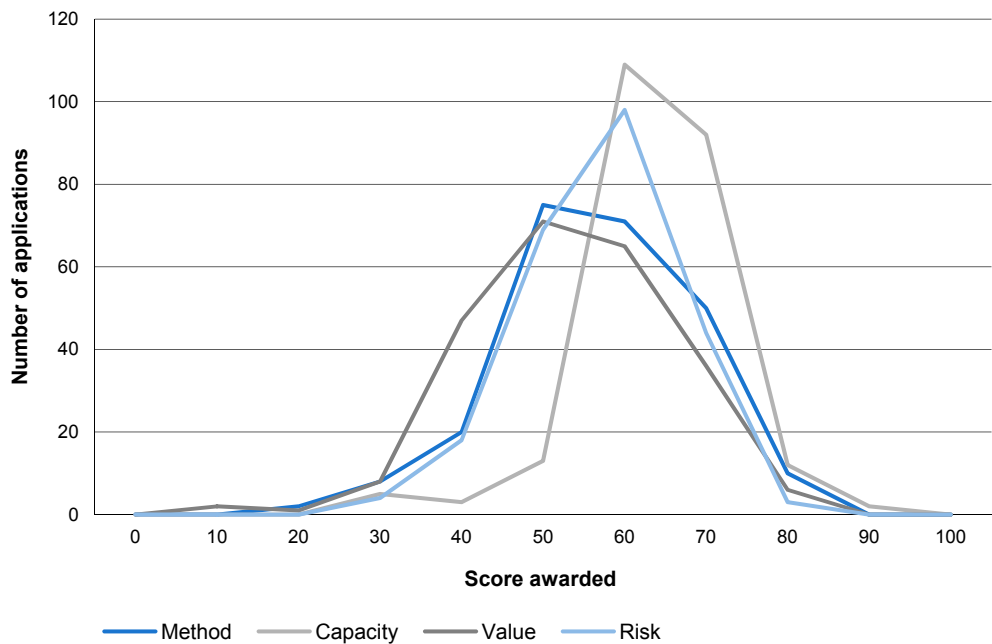
5.24 Separate to the advisory panel members use of the assessment tool, the department also ran the tool to undertake its own assessment of all applications. Each application was assessed by two departmental staff, and an average score generated for the application.¹²⁵ The Agriculture representative on the panel, having separately considered the application, reviewed and finalised scoring and comments on the application. The scoring and comments generated through this process were then used by the Agriculture representative when involved as one of the three panel members scoring applications, and in the discussions on all applications at the panel meeting.

Scoring results by tool category

5.25 Figure 5.3 details the score distribution of the four categories for eligible applications. In general, eligible applications scored highest against the 'capacity' category (average score of 69.0 out of 100); followed by the 'risk' category (average score of 62.1), 'method' category (average score of 61.5) and 'value' category (average score of 58.4). Figure 5.3 also illustrates a general 'bell curve' score for each scoring category. This indicates that the construct of the categories did not necessarily favour (in terms of high scores) or discriminate (in terms of low scores) certain types of applications. All applications approved by the then Minister scored above 50 per cent on each of the four scoring categories.

¹²⁵ The online assessment tool required a minimum of three assessment scores per application in order to operate. A 'dummy assessor' operated as the third departmental assessor. The dummy assessor's scores in the assessment tool were the average score of the two departmental staff assigned to assess the application. All three scores were used to establish an average score, that was then reviewed by the Agriculture representative.

Figure 5.3: Distribution of method, capacity, value and risk category scores for eligible applications

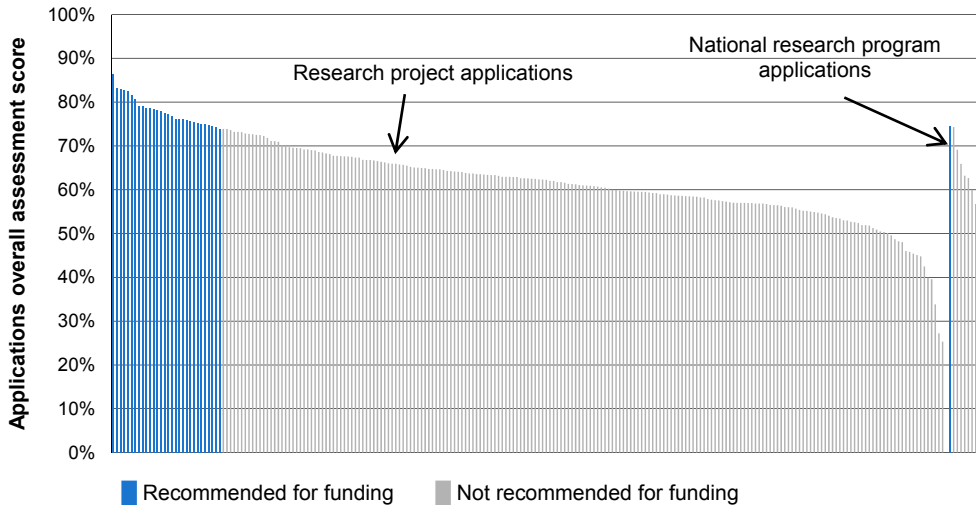


Source: ANAO analysis of expert advisory panel assessment report.

5.26 The department’s brief to the then Minister concerning the approval of round two grants stated that research project applications ranked below the top 30 were not recommended for funding because they did not properly target a priority under the program guidelines or did not adequately address one or more of the assessment criteria. However, the expert advisory panel’s assessment report did not provide assessment data to clearly support this advice by the department.

5.27 As outlined earlier in paragraphs 5.8 to 5.19, due to shortcomings in the assessment tool and how it was applied, the round two applications were not merit ranked according to the criteria outlined in the program guidelines. Against this background, Figure 5.4 sets out the spread of eligible application aggregate scores using the department’s approach in round two. Thirty research project applications scoring above 73.86 per cent were recommended for funding by the panel, subject to changes in activities recommended by the panel for some projects. One national research program coordination application scoring 74.54 per cent was recommended for funding.

Figure 5.4: Round two – eligible applications overall assessment scores



Source: Agriculture, expert advisory panel scoring records.

5.28 As in round one, the panel developed a descriptive analysis of each application for inclusion in its report. The report also included a more transparent outline of its funding assessment for each recommended application, compared to that in the first round. For five of the successful applications, specific percentage reductions in grant funding compared to that set out in the grant application were recommended by the panel. In each instance, the reason for a successful application's reduced funding related to the panel's assessment to exclude or modify certain activities in the project. A further four applications were recommended with modifications to activities, but without changes to their budgets.

5.29 In the case of the one successful national research program project (international coordination of the ruminant pangenome project), the panel had recommended that the budget for any coordination project should be in the range of eight to 12 per cent of the total budgets of the approved projects under the program. This advice was based on panel members' experience with other research programs in relation to what was a reasonable budget allocation for standard coordination projects. As eventuated, Agriculture gained the then Minister's approval to \$900 000 (10 per cent of the total budgets of approved

projects under the program) for the successful round two national research program project.¹²⁶

Could round two merit rankings have been different using the merit assessment criteria in the program guidelines?

5.30 As with round one, the application assessment process in round two involved a panel member scoring an application (with comments) that was then aggregated with a number of other members' scores, and subsequently overlaid through scoring moderation once the panel came together. Agriculture records show that the top 38 projects had their scores moderated through comments at the expert advisory panel meeting—30 projects had their scores increased and eight had their scores decreased.

5.31 The audit sought to examine whether, at the individual scoring aggregation stage of the assessment process, the merit order generated through this process may have differed were scoring against the seven merit criteria applied, rather than the four scoring categories used by the department. However, since the panel did not score against the seven merit criteria, but a series of questions that scored most (but not all) of the assessment sub-criteria (see paragraph 5.12), the difference in an application's ranking using the program guidelines criteria rather than the assessment process undertaken by the department cannot be established.

Assessment report

5.32 Similar to round one, a panel assessment report was provided to the department, with the panel's recommendations for each application and the basis for each recommendation. The round two assessment report was signed by the panel chair on 31 March 2013. Endorsement of the merit assessment report and attachments (conflict of interest register and panel assessments) was obtained from the other panel members.

5.33 The report provided an informative summary of the assessment process, including greater transparency in relation to the number and type of

126 ANAO's examination of funding deeds' consistency with the terms of the grant approval recommended by the expert advisory panel and approved by the then Minister is outlined at paragraphs 7.53 to 7.55.

conflicts of interest declared by panel members for each application.¹²⁷ However, the report was inaccurate in that it stated that research project applications were assessed against assessment criteria one to seven in the grant program guidelines, as set out in an attachment to the report. This attachment clearly showed that applications were scored and ranked against the four scoring categories derived from the online assessment tool used by the program in round two.

Conclusion

5.34 The program guidelines had outlined that the round two assessment process (following the department's assessment of applications' eligibility) would involve the expert advisory panel assessing eligible applications and allocating a merit ranking to each. However, there were significant differences between this guidance and the way the merit assessment was undertaken.

5.35 Of particular significance in this respect was the use of an online assessment tool. The risks with the tool's introduction were not actively managed by the FtRG program area, and a formal sign-off for deployment of the application in relation to FtRG was not recorded. Significantly, while there were seven published merit criteria for the assessment of research project applications, the tool as used only provided scoring against four categories ('method', 'capacity', 'value' and 'risk'). The FtRG program area developed 18 questions, closely aligned or reflective of the program's assessment criteria, for assessors to score. However, for four of the assessment criteria, a quantitative assessment for one or more of the published sub-criteria was not able to be undertaken through the tool. As a result:

- the quantitative assessment of some merit criteria as set out in the guidelines was not complete; and
- applications were not scored, ranked and reported according to the seven assessment criteria contained in the program guidelines.

¹²⁷ In one instance, a direct conflict of interest was incorrectly recorded as an indirect conflict of interest in the panel's assessment report, despite advice to the department from the panel member concerned. Further, the round two application assessment plan included a statement that the panel's assessment report would identify the actions taken to manage conflicts of interest. While the assessment report outlined the overall approach to managing conflicts of interest, the assessment report did not provide this information in relation to how conflicts of interest were managed for relevant individual applications.

Recommendation No.3

5.36 To improve the assessment of applications to competitive, merit-based grant programs, ANAO recommends that the Department of Agriculture properly test and authorise any information technology based system to support assessments before introduction.

Agriculture's response:

5.37 *Agreed. The department acknowledges that the introduction of new information systems needs to be managed with appropriate user consultation and testing prior to implementation to ensure that the system can meet the department's and system owner's requirements.*

5.38 *The department notes that through its Information Systems Division (ISD), it has comprehensive systems in place to manage the introduction of new information and communications technology (ICT) systems. The ISD uses a rigorous ICT Governance Framework that incorporates stringent change management processes across all corporate and operational ICT systems. Under this framework, all changes to the department's ICT environment, including the introduction of new capability, are only deployed into the production environment after:*

- *successful completion of User Acceptance Testing (UAT);*
- *endorsement by the respective system owner that the system is fit for purpose and that UAT test results confirm delivery of the capability described in the agreed business requirements specification;*
- *system owner endorsement for deployment of the accepted solution or system;*
- *if required, endorsement by the relevant First Assistant Secretary and Chief Information Officer of specific functionality that does not meet acceptance testing criteria but the risk and mitigation of these variances is considered acceptable.*

6. Advice to the Minister, and Funding Decisions

This chapter examines the departmental advice to the then Minister for Agriculture, Fisheries and Forestry as to which applications should be approved for funding, and the funding decisions that were taken by the Minister.

Introduction

6.1 The grants administration framework has a particular focus on the establishment of transparent and accountable decision-making processes for the awarding of grant funding. Key elements of the framework are that ministers:

- not approve a proposed grant without first receiving agency advice on its merits relative to the program's guidelines and published criteria;
- record the basis of each approval, in addition to the terms of the approval¹²⁸; and
- report to the Finance Minister all instances where they approve grants that the relevant agency recommended be rejected.

6.2 These requirements, together with other related requirements under the grants administration framework, do not affect a minister's right to decide on the awarding of grants. Rather, they provide a decision-making framework such that, where ministers elect to assume a decision-making role in relation to the awarding of grants, they are well informed of the assessment of the merits of grant applications. The requirements also seek to promote transparency in the reasons for decisions.

6.3 In January 2012, ANAO tabled a performance audit report that examined the administration of the grant reporting requirements first

¹²⁸ The principal obligation applying to the approval of all spending proposals is set out in FMA Regulation 9, which requires an approver to make reasonable inquiries in order to be satisfied that a proposal would be a proper use of Commonwealth resources and would not be inconsistent with the policies of the Commonwealth. For grant spending proposals, the relevant policies include the CGGs and the specific guidelines established for the relevant program. Approvers are required to record the basis on which they were satisfied that a proposed grant meets the requirements of FMA Regulation 9. This is in addition to the requirement applying to the approval of all spending proposals, which is that the approver records the terms of the approval in writing.

introduced in December 2007.¹²⁹ That report noted that high quality agency advice and briefings are a key underpinning of the grant reporting arrangements. ANAO concluded that the quality and nature of agency briefing practices was variable, with:

- a significant proportion of the briefs examined not clearly identifying the proposed grants that the agency recommended for approval, and those that it recommended be rejected;
- it was relatively common for agency briefings to not clearly identify to the minister that the spending under consideration involved a grant; and/or
- briefings did not outline the decision-making and recordkeeping obligations that apply when the approval of grants is being considered.

6.4 As part of the response to that report, the revised CGGs that came into effect from 1 June 2013 include more specific agency briefing requirements to improve the information provided to ministers and consistency in briefing practices across government.

6.5 Against the background of the grants administration framework requirements applying up until 1 June 2013, the ANAO examined the supporting records and advice provided to the then Minister in recommending which applications in grant rounds one and two should be approved for funding, and the funding decisions that were then taken.

Merit assessment records

6.6 It is a recognised part of any assessment process where an advisory committee or panel is established that, through the deliberative process, the different perspectives of members will appropriately result in a final score for each application against each criterion that synthesises the different perspectives of the members. In this context, creating and maintaining appropriate records of the expert advisory committee's assessments, deliberations and decisions was important for reasons of accountability and transparency, as well as to the panel's advice and, ultimately, the department's recommendations to the Minister.

129 ANAO Audit Report No.21 2011–12, *Administration of Grant Reporting Obligations*, 24 January 2012.

6.7 Further, Agriculture's own chief executive instructions to staff highlight the importance of recordkeeping to meet business, legislative and accountability requirements, as well as verifying past business activities and avoiding duplication of effort. The FtRG program area did not articulate specific recordkeeping practices for each grant funding round in key documents such as the implementation and assessment plans or program staff guidance material. For example, the round two program guidelines stated that a conflict of interest register would be maintained, but how this would be managed was not addressed in program plans.¹³⁰

6.8 The FtRG program area maintained a series of electronic folders which held a range of assessment data, including working assessment spreadsheets completed at various stages of the assessment process. These spreadsheets were able to provide sufficient transparency around the process of assessment, leading up to the applications recommended for funding in the expert advisory panel's assessment report and the department's list of grants recommended for approval by the Minister.

6.9 Less well documented by the department were the discussions and outcomes of the expert advisory panel meeting, particularly for round one.¹³¹ For round one, the meeting records: were not finalised; did not on their own provide an auditable trail of key decisions taken on applications at the meeting; and against other evidence, were less than complete in areas such as declarations of conflicts of interest made at the meeting.¹³² The department also did not provide draft minutes to the panel members for approval. In this context, in October 2013 Agriculture advised ANAO that:

The final decisions from the meeting, and the basis for those decisions, were recorded in the panel's advice on applications spreadsheet at Attachment A to the assessment report. This spreadsheet was considered a record of the meeting and is the basis on which the department recommended applications to the Minister for funding.

130 See paragraphs 2.43 to 2.67 concerning the management of conflicts of interest under the program and the conflict of interest registers for rounds one and two.

131 The expert advisory panel's assessment report provided a seven page 'summary record of meeting'. However, this was a very high level document providing commentary on broad issues arising from the range of applications.

132 The expert advisory panel's 'statement of interests consent form' provided that new or potential conflicts of interest should be recorded in the minutes of the meeting along with the course of action taken in relation to the conflict of interest. The round one minutes did not record any details on the courses of action taken in relation to conflicts of interest.

The department notes that there were some deficiencies in its record keeping for the round one panel meeting on declarations of conflicts of interest. However, [as discussed in response to Chapter 2], the department considers that conflicts of interest were dealt with appropriately and did not result in any adverse outcomes for the program.

6.10 The meeting record for round two were generally clearer and better structured. This included greater attention to recording individuals' direct and indirect conflicts of interest in relation to particular applications, and the times during assessment discussions when members with direct conflicts of interest left the room and returned to discussions. However, as with the round one meeting minutes, the department did not provide draft minutes to the panel members for approval. In this respect, in October 2013, Agriculture advised ANAO that:

Similar to round one, the final decisions from the meeting for round two assessments, and the basis for those decisions, were recorded in the panel's assessment spreadsheet at Attachment 3 of the assessment report. This spreadsheet was considered a record of the meeting. In March 2013, all members of the expert advisory panel were invited to endorse the round two assessment report, including the panel's assessment spreadsheet at Attachment 3.

Advice to the Minister

Ministerial briefing for grant round one

6.11 Departmental advice on grant applications for round one was provided to the then Minister in four briefs dated 30 March, 10 April, 18 April and 9 May 2012.¹³³ Each brief was signed by the department's senior executive responsible for the program, who was also the Agriculture representative on the expert advisory panel.¹³⁴

6.12 The department had intended that a single grant approval brief would be provided if the then Minister agreed to delegating the final approval of a number of projects to the department. At the time of the first brief, the department was still finalising its advice in respect to 36 applications

¹³³ As eventuated, all successful applications were announced at the same time.

¹³⁴ The department's Chief Finance Officer and Grants Policy Unit were consulted in preparing the briefing minutes to the then Minister.

recommended for funding by the panel.¹³⁵ However, the then Minister did not agree to delegating his approval of the remaining FtRG grants. Against the background of departmental concern to progress funding deed negotiations and meet the proposed timelines for a series of staggered public announcements of successful applications, this led to three further grant approval briefs to the then Minister as the department progressively finalised recommendations in relation to applications.

6.13 The first brief to the then Minister provided a comprehensive package of documentation on the outcomes of the assessment process. The package involved a covering minute and various attachments comprising:

- a spreadsheet summarising 22 manure management and nitrous oxide research applications recommended for funding, with information about the organisation's name, the purpose of the grant, the amount sought by the applicant and the recommended grant amount, the term of the grant, anticipated completion date, funding location, the basis for approval, application assessment ranking, and the departmental recommendation;
- another spreadsheet summarising 176 applications Agriculture recommended not be approved, with information about the organisation's name, the purpose of the grant, the amount sought by the applicant, the basis for rejection, application assessment ranking, and the departmental recommendation;
- a further spreadsheet summarising 36 applications identified as 'pending', with the same information for each application as provided in the recommended applications spreadsheet;
- a copy of the department's FMA Act Regulation 10 approval for budgeted FtRG funding in future years;
- the program's round one assessment plan; and
- the expert advisory panel's assessment report.

¹³⁵ Consistent with the published program guidelines, applications were ranked across the round irrespective as to which research priority category they had been assigned to. The first briefing advised the then Minister that applications 'below the 58th ranking were weak in addressing one or more of the assessment criteria'.

6.14 As part of the brief's key issues, the then Minister was advised that the expert advisory panel had identified 58 applications suitable for funding. Further, the briefing advised the Minister that the assessment process complied with the program guidelines and outlined the mandatory grants approval obligations under the CGGs. A similar assurance was provided in the second and third briefings.¹³⁶

6.15 However, notwithstanding the assurances provided to the Minister in each briefing, as outlined in Chapter 4 (Merit Assessment for the First Round), the assessment of round one eligible applications departed in an important respect from the documented (and published) merit assessment process. This involved the 'appropriate budget' assessment criterion (which included consideration of cash and in-kind contributions from applicants) not being scored on a zero to 10 scale as with the other six assessment criteria. Instead, the appropriate budget criterion was assessed as either 'yes' or 'no'. The effect of this approach was that the appropriate budget criterion was not equally weighted and similarly assessed with the other criteria, as required by the guidelines.

6.16 The first grant approval brief from the department included four recommendations, namely that the then Minister:

- note that FMA Regulation 10 authorisation had been given, thereby providing appropriation authority for the Minister to approve funding for applications over a timeframe under which the Parliament had yet to provide appropriation funding;
- approve, in accordance with FMA Act Regulation 9, the 22 manure management and nitrous oxide applications listed in the attachment, which outlined the recommended basis for their approval;
- agree to 'not approve' the applications identified in a further attachment to the briefing; and
- delegate his approval of the 36 'pending' applications to the department, once the details of the department's recommendations were finalised.¹³⁷

136 This was not relevant to the fourth briefing, the purpose of which was to increase the grant funding amount for a previously approved application.

137 The proposed delegate for approval was the relevant deputy secretary within the department.

6.17 The then Minister agreed with the first three recommendations, but did not agree to delegate the approval of the remaining 36 applications assessed as suitable by the expert advisory panel. Accordingly, a second brief was provided to the Minister seeking his approval of 16 applications concerning the livestock methane research priority under the program. The second brief clearly set out that grant approval was being sought, with the 16 recommended applications and their details listed in an attachment.

6.18 A third brief to the Minister then sought grant approval for 20 applications concerning soil carbon and modeling projects. Similar to the earlier briefings, it included an attachment that listed the 20 applications and their details as a basis for decision.

6.19 The final brief to the Minister sought approval to increase the grant funding amount on an application that had previously been approved in relation to soil carbon research. The proposal put forward by the department, and based on advice from the expert advisory panel, involved expanding the research project to include managing and coordinating the 15 research projects grouped under the soil carbon national research program. The brief advised the Minister that:

consistent with the FtRG Program round one guidelines, the Panel has advised that, of the applicants under the soil carbon priority, [*the organisation*] has the best capacity and scientific expertise to successfully manage and coordinate a scientific research program of this magnitude and deliver value for money. Additionally, [*the organisation*] have indicated a readiness to accept this leadership role.

6.20 Examination of the briefing in relation to this project highlights that there were deficiencies in the approach of the department relative to the grant guidelines, and the advice to the then Minister in relation to his mandatory grants approval obligations. The applicant had applied as a research project and was formally assessed against this scope. However, in significantly expanding the scope of the application¹³⁸, the organisation's ability to undertake this role was not competitively assessed against other possible providers, an approach that was not consistent with the program's design as set out in the guidelines. In addition, the extensive new activities proposed to

138 The organisation's research project was approved with grant funding of \$600 000 (GST exclusive). The organisation's management and coordination function for the soil carbon national research program was approved for \$900 000 (GST exclusive) in program grant funding.

be undertaken by this entity were not the subject of a documented assessment by the panel in terms of the published assessment criteria. The department advised ANAO in October 2013 that conflicts of interest recorded in relation to panel members advising on the organisation's research project applied to discussions in relation to the same organisation's coordination project.¹³⁹

6.21 A recurring theme in ANAO's audits of grants administration over a number of years has been the importance of grant programs being implemented in a manner that accords with published program guidelines. Similarly, the grants administration framework was developed based, in part, on recognition that potential applicants and other stakeholders have a right to expect that program funding decisions will be made in a manner, and on a basis, consistent with the published program guidelines. Further in this respect, reflecting their importance and as outlined at paragraph 2.2, the guidelines for each program represent one of the policy requirements that proposed grants must be consistent with in order to be approved for funding in accordance with FMA Regulation 9, which sets out the principal obligation applying to the approval of all spending proposals.¹⁴⁰

6.22 However, as outlined in Chapter 4, there were significant departures between the published program guidelines and the assessment methodology, but these were not drawn to the Minister's attention.

Ministerial briefing for grant round two

6.23 Departmental advice on grant applications for round two was provided to the then Minister on 2 May 2013. The brief was also signed by the department's senior executive responsible for the program, who was the Agriculture representative on the expert advisory panel.¹⁴¹

6.24 The briefing package included a covering minute which recommended that the applications listed in one of the brief's attachments be approved for grant funding. That attachment listed 31 applications in ranked order, and

139 In relation to expert advisory panel members' conflicts of interest declarations for the organisation's research project, one member had a declared direct conflict of interest and one member had an indirect conflict of interest.

140 Specifically, an approver is required to make reasonable inquiries in order to be satisfied that a spending proposal would be a proper use of Commonwealth resources and would not be inconsistent with the policies of the Commonwealth. The CCGs outline that one policy of the Commonwealth is the guidelines applying to the particular grant program.

141 Similar to round one, the department's Chief Finance Officer and Grants Policy Unit were consulted in preparing the briefing to the then Minister.

outlined the recommended basis of approval for each application. The briefing also sought the Minister's agreement not to approve 205 applications listed in a further attachment, which included 'the basis for rejection' in respect to each of these 205 applications.

6.25 The briefing advised the then Minister that the assessment process complied with the program guidelines, including that the recommendations were based on merit ranking against the published grant program guidelines and consideration of achieving value with public money. The then Minister was referred to the expert advisory panel's assessment report which documented the assessment process. However, notwithstanding the assurance provided to the Minister, as outlined in Chapter 5 (Merit Assessment for the Second Round), the assessment of round two eligible applications departed in important respects from the documented (and published) merit assessment process. This involved a number of assessment criteria not being fully assessed through a series of questions for scoring applications; and applications not being scored, ranked and reported according to the seven assessment criteria contained in the guidelines, but on the basis of four scoring categories.

6.26 This situation arose because the department gave insufficient attention to developing internal assessment plans and implementing an assessment methodology that was consistent with the published program guidelines; and in departing from the approach set out in the guidelines, added considerable complexity to the assessment process. In the circumstances, it would be prudent for the department to ensure that the review and approval of application assessment methodologies for grant programs explicitly address alignment with the published guidelines. In this regard, and as noted in paragraph 2.29 in the context of key roles and responsibilities, independent oversight of probity arrangements, which can include matters related to any proposed assessment methodologies, was not incorporated into the program's design.

6.27 As in round one, the departures from the guidelines occurred in the assessment of applications, but were again not drawn to the then Minister's attention.

Funding decisions

Round one grant funding decisions

6.28 The then Minister approved each of the grant funding recommendations set out in the series of three briefs for round one projects. As a result, \$47.3 million in total grant funding was awarded to 58 applications.¹⁴² The then Minister did not award funding to any applications that had not been recommended for funding approval by the department. The Minister and the then Parliamentary Secretary for Climate Change and Energy Efficiency, the Hon Mark Dreyfus QC MP, jointly publicly announced the successful applicants on 17 May 2012.

Round two grant funding decisions

6.29 The then Minister approved the grant funding recommendations set out in the department's brief for round two projects. This resulted in total grant funding of \$27.1 million being awarded to 31 applications.¹⁴³ The Minister did not award funding to any applications that had not been recommended for funding approval by the department. The Minister publicly announced the 31 successful applicants on 3 April 2013.

Ministerial reporting obligations

6.30 Ministers that are a member of the House of Representatives are required by the CGGs to report to the Finance Minister instances where they approve a grant within their own electorate. As a Senator, the own-electorate reporting requirements did not apply to the then Minister for Agriculture, Fisheries and Forestry.¹⁴⁴

6.31 All Ministers, irrespective as to whether they are a Senator or a Member of the House of Representatives, are required to report annually by 31 March to the Finance Minister on any instances where he or she approved a grant not recommended by an agency, and provide the Finance Minister with the basis for any such decisions.

142 The program budget planned for round one totaled \$47.8 million over four years.

143 The program budget planned for round two totaled \$50.2 million over three years.

144 Round one and two briefs to the then Minister recommending his approval to grants did not advise him that this grant reporting requirement did not apply to his approval of grants.

6.32 As noted at paragraph 6.16, the first briefing to the then Minister had included a recommendation that he ‘not approve’ 176 applications. Similarly, as outlined at paragraph 6.24, the briefing for the second round had recommended that the then Minister agree to ‘not approve’ 205 applications. Although the briefing recommendations had been that the then Minister ‘not approve’ those 381 applications across the two rounds, the briefing attachments that listed those applications used different language. Specifically:

- for the first round, the attachment was titled ‘Grants Recommended be Rejected’ which included a column titled ‘Department recommendation’, which was described as ‘Reject’, together with a column titled ‘Basis for rejection’; and
- the relevant attachment for the second round briefing was titled ‘Applications Not Recommended for Approval’ and included a column titled ‘Basis for rejection’.

6.33 The CGGs state that the overturn reporting requirement relates to applications that an agency has ‘recommended be rejected’. In the context of an ANAO cross-portfolio audit of the grant reporting obligations¹⁴⁵, completed shortly before the round one briefing was prepared, Agriculture advised ANAO in respect to another of its grant programs that, as it had not recommended that particular grants ‘be rejected’, Ministerial approval of grant applications other than those recommended for funding did not require reporting to the Finance Minister. In October 2013, Agriculture advised ANAO in relation to the FtRG briefings that:

The department acknowledges that the language used in briefing minutes and attachments was inconsistent but believes that the advice to the Minister was clear (that is, the department did not recommend these applications be approved) and the outcomes were the same. In addition, had the Minister approved these applications against the department’s recommendation, such approvals would have been reported as required by the Finance Circular.

6.34 Going forward, any departmental ambiguity in this area can be addressed by Agriculture’s Ministerial briefing template on grant approvals being framed with clear wording recommendations about which applications to approve, and which should be rejected. While a check list for drafters and clearance officers of ministerial briefing highlights including mandatory words

145 ANAO Audit Report No.21 2011–12, op. cit., p. 85.

for any grant applications which the department recommends be rejected, the briefing template itself does not set out this wording in the recommendations section of the briefing template. Accordingly, given the sensitivity that attaches to this reporting obligation, the department could usefully review its Ministerial briefing template for grant approvals to ensure consistency and clarity in this regard.

6.35 The then Minister did not approve any projects in either round that had not been recommended for funding.

Conclusion

6.36 Some aspects of the assessment process were not well documented, particularly for round one. Nevertheless, the briefings on the outcomes of the two funding rounds provided by the department to the then Minister addressed those matters relevant to grants decision-making and were timely. The briefings included clear recommendations from the department that the Minister should approve those applications assessed by the expert advisory panel as the most meritorious for grant funding.

6.37 The briefings to the Minister on the outcomes of each funding round also stated that each funding round assessment process had complied with the program guidelines. This was clearly not the case. Specifically, in round one, the 'appropriate budget' assessment criterion, which included consideration of cash and in-kind contributions from applicants, was not scored on a zero to 10 scale as with the other six assessment criteria. The effect of this approach was that the appropriate budget criteria was not equally weighted and similarly assessed with the other criteria, as required in the guidelines. In round two, a number of assessment criteria were not fully assessed through a series of questions for scoring applications; and applications were not scored, ranked and reported according to the seven assessment criteria contained in the guidelines, but on the basis of four scoring categories.

6.38 The Minister agreed to the funding recommendations he received from the department.

7. Funding Distribution, Feedback to Applicants and Implementation of Funding Deeds

This chapter provides an overview of the outcomes of the first and second FtRG funding rounds in relation to the distribution of funding. It also examines the provision of feedback to applicants, the grant funding arrangements with the successful applicants and Agriculture's reporting on the grant funding.

Introduction

7.1 The published program guidelines outlined that the successful research projects would draw on industry, scientific and government sectors to ensure that:

- sufficient expertise and experience is brought together to achieve outcomes that will make a difference; and
- commercial realities are taken into account to improve the transition from applied research to demonstration of commercial applications.

7.2 Further, in round two, the guidelines provided that a key consideration in the allocation of research funds would be to build research capacity across a broad range of Australian organisations.

7.3 In the first funding round, a total of \$47.3 million was awarded for 58 projects. In the second funding round, a total of \$27.1 million was awarded to 31 projects. The ANAO examined the distribution of funding, the provision of feedback to unsuccessful applicants, the development of program funding deeds and Agriculture's compliance with various reporting requirements for the grant funding.

Distribution of funding awarded

7.4 The program guidelines set out that applicants must be an Australian company, business or research organisation.¹⁴⁶ The guidelines also provided that research projects would draw upon industry, science and government

¹⁴⁶ Departments of state and territory governments were eligible to apply for grants in round one, but were not eligible to apply for grants in round two.

sectors to ensure that: the best expertise and experience was brought together to develop practical outputs; commercial realities were taken into account in transitioning from applied research to commercial applications; and international collaborations were fostered. Additionally, the round two guidelines provided that ‘a key consideration in the allocation of research funds will be to build research capacity across a broad range of Australian organisations.’

7.5 In this context, Table 7.1 provides an outline of the grant funding applicants and recipients by sector. It illustrates that, to varying degrees, industry, science and government sectors were successful applicants in each funding round. Further, the use of consortiums of organisations to deliver the large majority of research projects supported cross-sectoral involvement in many of the successful applications.

Table 7.1: Rounds one and two – grant applicants and recipients by sector

Sector	Eligible applications				Funding awarded				Success rate	
	No of applications		Funding sought (\$m)		No of applications		Funding awarded (\$m)		No of applications (%)	
	R1	R2	R1	R2	R1	R2	R1	R2	R1	R2
University	76	148	94.7	145.1	20	20	15.0	15.9	26.3	13.5
CSIRO	47	39	54.4	41.2	16	7	8.6	6.8	34.0	17.9
Industry / Other	56	49	80.1	36.9	9	4	5.0	4.4	16.1	8.2
State Department	43	na	54.8	na	13	na	18.7	na	30.2	na
Total	222	236	284.0	223.2	58	31	47.3	27.1	26.1	13.1

Source: ANAO analysis of Agriculture data.

Notes: FtRG rounds one and two are abbreviated to R1 and R2 respectively in the above table.

na — not applicable.

7.6 Overall, the success rate of CSIRO applications was well above the average for both funding rounds. This sector accounted for 18 per cent of the approved funding in the first round, and one-quarter of the funding awarded in the second round. The next most successful sector was the universities, where the success rate of applications was just above the average. However, this sector accounted for the second largest share of grant funding in round one (32 per cent) and the largest share of grant funding in round two (59 per cent). In this context, the success rate of applications from

five universities were notable for being above the overall average for universities in both rounds, as follows:

- in round one, the Queensland University of Technology lodged four applications and each was successful. In round two, the University lodged four applications of which three were successful;
- the University of Western Australia lodged six applications in round one of which five were successful. In the second round, this university lodged 14 applications of which five were successful;
- in round one, the University of Melbourne lodged seven applications of which three were successful and three of its 19 round two applications were also successful;
- the University of New England lodged six round one applications and two of these were funded. In round two, three of the 11 applications this university lodged were successful; and
- the University of Newcastle lodged three applications in round one, and one of these was approved for funding. A further application (of five lodged) was successful in round two.

7.7 In the case of three universities (Queensland University of Technology, University of Western Australia and University of Melbourne), five expert advisory panel members held an appointment with one these universities. As discussed at paragraph 2.46, an indirect conflict of interest was declared if the application was from the panel member's organisation but they had no involvement in the project, or a direct conflict of interest was declared where there was a direct association between the panel member and the application.

7.8 Industry and other sectors (peak industry groups, sectoral research and development corporations, private consultants, agribusinesses and farm operators) experienced application success rates below the program average and accounted for 11 to 16 per cent of each round's total grant funding.

7.9 Applications from state government departments in round one had the second highest sectoral rate of success and the highest share of grant funds (40 per cent). However, under the round two program guidelines these agencies were excluded from applying for grants.

Electorate distribution

7.10 As noted at paragraph 6.30, the CCGs require that ministers report to the Finance Minister on a number of grant matters including each instance in which they approved a grant in their own electorate. More broadly, and as has been noted by ANAO¹⁴⁷, where audit reports or public commentary have raised questions about the political distribution of grants funding, the concerns raised have generally related to a wider issue than grants approved by a minister in his/her electorate. Specifically, the concern has more often been whether the total distribution of approved grants under a particular program has favoured the party in government, rather than just the electorate of the particular minister who was making the decisions.

7.11 In this context, the departmental briefing provided to the then Minister to inform his funding decisions for the first and second grant funding rounds did not include any information concerning the electorates in which grant applications had been located. A benefit of the approach adopted by the department was that it reduced the risk that grant funding decisions may be seen to have been influenced by electoral considerations. Further in this respect, the then Minister approved each of the recommended grants for each of the rounds, and did not approve grants to any other applicant.

7.12 As illustrated by Table 7.2, just over half the applications to the program in rounds one and two were from organisations located in Coalition held seats, while one-third of applications were from organisations located in Australian Labor Party (ALP) held seats. Applications from Coalition held seats had a success rate that was more than double that for applications for ALP seats (25 per cent compared to 11 per cent). Overall for rounds one and two, Coalition held seats accounted for more than two-thirds of the program's approved applications and grant funding.¹⁴⁸

147 ANAO Audit Report No.21 2011–2012, op. cit., p. 81.

148 For the purposes of this analysis, the location of the applicant organisation has been used as the basis for electorate location. Many applications involved a consortium of organisations, some of which may not be in the applicant's electorate. Similarly, successful applications may involve fieldwork in other locations.

Table 7.2: Rounds one and two – applications and approvals by political party

Political party	Electoralates held at time of rounds # (%) ⁽³⁾	Applications received ⁽¹⁾		Eligible applications ⁽¹⁾		Applications approved by Minister		Approval rate for eligible applications (%)
		# (%)	\$m ⁽²⁾ (%)	# (%)	\$m ⁽²⁾ (%)	# (%)	\$m (%)	
Australian Labor Party	72 (48)	162 (34)	199.6 (39)	157 (34)	195.5 (39)	18 (20)	15.2 (20)	11
Coalition	73 (49)	243 (52)	245.3 (47)	236 (52)	240.4 (47)	58 (65)	49.9 (67)	25
Australian Greens	1 (1)	34 (7)	32.6 (6)	33 (7)	31.7 (6)	6 (7)	4.4 (6)	18
Independent Members	4 (3)	32 (7)	39.7 (8)	32 (7)	39.7 (8)	7 (8)	4.9 (7)	22
Total	150	471	517.2	458	507.3	89	74.4	19

Sources: ANAO analysis of Agriculture program and Australian Electoral Commission data.

Note 1: The numbers of applications received and eligible applications excludes unintended duplicate applications.

Note 2: Nine round two applications to coordinate national research programs were not asked to provide proposed budgets in their applications. As such, there are no funding amounts for inclusion in the dollar values of 'applications received' and 'eligible applications' columns in the table above.

Note 3: Percentages do not total 100 per cent due to rounding.

Provision of feedback to unsuccessful applicants

7.13 The provision of feedback to applicants has been emphasised by the Joint Committee of Public Accounts and Audit¹⁴⁹ and the ANAO's Better Practice Guide¹⁵⁰ as an important element of grant administration practice.

7.14 The program guidelines for funding rounds one and two outlined that both successful and unsuccessful applicants would be advised in writing about the outcome of the round. In the case of unsuccessful applicants, the guidelines advised that there was no appeal mechanism, nor would applications be reviewed. More broadly, the guidelines set out department contact information in the event an applicant was dissatisfied with the way in which their application was handled by the department and wished to lodge a complaint.¹⁵¹ Program records showed that no complaints were made through the program's complaints handling process.

7.15 In implementing effective feedback arrangements to unsuccessful applicants, ANAO's Better Practice Guide also notes that all unsuccessful applicants should be provided with full and actual reasons for the non-awarding of funding or with a reasonable opportunity to seek reasons from an agency. In advising of the outcome of each funding round:

- the then Minister wrote to successful applicants and outlined the funding amount approved¹⁵²; and
- a departmental representative wrote to unsuccessful and ineligible projects, advising in broad terms that eligible applications were assessed against the program's guidelines and needed to be highly

149 Joint Committee of Public Accounts and Audit, *Report 423: Review of Auditor-General's Reports Nos 39 2009–10 to 15 2010–11*, Canberra, 4 July 2011, p. viii.

150 ANAO Better Practice Guide, op. cit., p. 40.

151 The guidelines outlined that a complaint to the program may then be reviewed by one or more independent areas of the department.

152 The department advised ANAO in September 2013 that letters were sent by the then Minister's office to successful applicants on the day of the public announcement of successful applicants (17 May 2012), although the Minister signed tranches of letters to successful applicants dated 30 April and 17 May 2012. The successful soil carbon coordination project did not receive a letter from the Minister, but was contacted by the department as part of the negotiations for the delivery of the national soil carbon program.

competitive across all assessment criteria. Unsuccessful applicants were further advised that feedback could be sought.¹⁵³

7.16 In funding round one, the department's letter to 11 of the 12 organisations that submitted ineligible applications was the same as its letter to organisations that submitted eligible but unsuccessful applications. The one organisation that withdrew its application (which was assessed as ineligible) was informed that it was not included in the assessment process. The other ineligible applications were not advised about their eligibility assessment and that they therefore, were not merit assessed and ranked against other applications. Such an approach does not promote transparency to applicants.

7.17 In round one, some 28 (around 16 per cent) unsuccessful/ineligible applicants approached the department about feedback in relation to their application. In most cases, the department provided written feedback about the relative strength of the application against particular merit criteria, and elements of qualitative advice about the application from the expert advisory panel's assessment report. Such an approach was sound and promotes transparency.

7.18 Further, all round one lead applicants¹⁵⁴ were invited to a half-day feedback session on 7 August 2012 in Canberra, with presentations from a number of expert panel members concerning the assessment process and what makes a good research application. Over 70 people attended the session. A feedback session in relation to round two applicants was cancelled by the department due to the then Government's decision not to proceed with further funding rounds.

7.19 In round two, some 97 (around 47 per cent) unsuccessful applicants approached the department about detailed feedback in relation to their application. The department's written feedback to each applicant provided a degree of detail mainly on the weakness of the application, drawing upon assessment commentary provided by the expert advisory panel. However, the

¹⁵³ In round one, the departmental letters to unsuccessful applicants gave a telephone and email address for requesting feedback from the department. The departmental letters to unsuccessful applicants in round two provided an email address for requesting feedback from the department.

¹⁵⁴ Invitations were also sent to members of the Climate Change Research Strategy for Primary Industries (CCRSPI). CCRSPI is a joint initiative of the Rural Research and Development Corporations; the state and territory governments; Agriculture; and CSIRO. CCRSPI is managed by the Rural Industries Research and Development Corporation.

feedback to applicants was not provided in terms of comparative performance against the assessment criteria contained in the program guidelines. This was the result (as outlined in paragraph 5.19) of the department adopting an approach to merit assessment whereby applications were not scored, ranked and reported according to the seven assessment criteria contained in the program guidelines. As a result, the assessment approach (which departed from the program guidelines) did not enable the department to report to applicants on their proposals' relative performance against the published assessment criteria.

7.20 The round two feedback from the department also highlighted some confusion or incorrect information on the status of applications under the program. In one case, an applicant seeking feedback was advised that the proposal was ineligible for funding in accordance with the program guidelines. However, the earlier letter from the department to the applicant advising that the application had been unsuccessful made no reference to the application having been assessed as ineligible.

Grant funding arrangements

7.21 The program guidelines provided that, before program funding could be received, grantees would be required to enter into a funding deed with the Commonwealth of Australia, based on the clauses of the standard funding deed of the department.¹⁵⁵

7.22 However, in practice, not all round one projects entered into a funding deed with the Commonwealth (see further at paragraph 7.25 and Figure 7.1). This matter of program grants management practice was clarified in the round two program guidelines. Specifically, the round two program guidelines outlined that, where an organisation was approved to lead the coordination of a national research program, it would become the grantee, and would be responsible for the administration of contractual arrangements with each of the research delivery organisations undertaking activities as a component of that grant.

¹⁵⁵ The application form in round two expressly asked applicants whether their organisation accepted the clauses of the department's standard funding deed. If not, they were asked to outline any proposed variations. In round one, the application checklist asked whether the applicant had read the department's standard funding deed template. Any standard funding deed issues were to be raised as additional information in the application form.

Round one grant funding arrangements

7.23 The department's approach to grant funding arrangements for round one broadly involved managing projects through one of four national research programs (nitrous oxide, manure management, livestock methane and soil carbon)¹⁵⁶, each under the direction of a coordination project that had been awarded grant funding to perform this role in round one.¹⁵⁷ The coordination projects were expected to play a significant role in the synthesis of complex scientific research and report on the progress of projects' research to the department. Further, it was anticipated that the approach would ensure the coordination and sharing of research outputs at a national level as well as allowing peer review and agreement of research results between organisations.

7.24 In managing this structure, the department implemented a deed of agreement with each of the four organisations responsible for a coordination project. In this regard, as outlined in Table 4.1, the four coordination projects were approved grant funding totalling \$2.84 million to manage the research projects within their program theme.¹⁵⁸

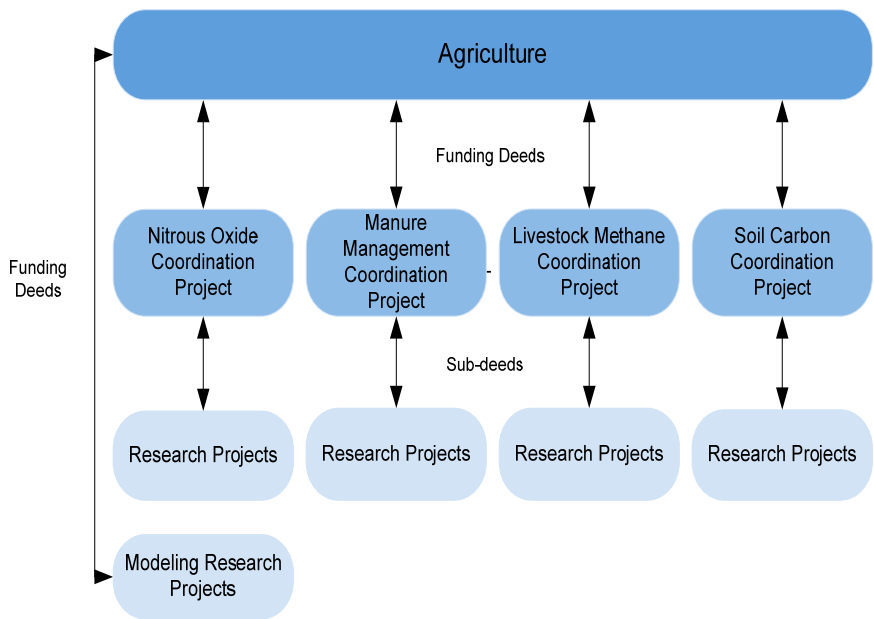
7.25 The coordination projects then implemented individual sub-deeds with each of the research projects under their national research program, consistent with the deed between the coordination project and the Commonwealth. Figure 7.1 outlines the funding deed arrangements.

156 Three projects concerning agricultural greenhouse gas modeling were not grouped under a national research program. These projects were directly managed by the department.

157 The nitrous oxide national research program comprised two projects to coordinate the program—an overall management and reporting project, and the coordination of an integrated, data synthesis and modeling network project.

158 A further \$1.99 million was approved for a nitrous oxide data coordination project. Among other things, this project involved similar administrative and reporting obligations as required of other national research program projects.

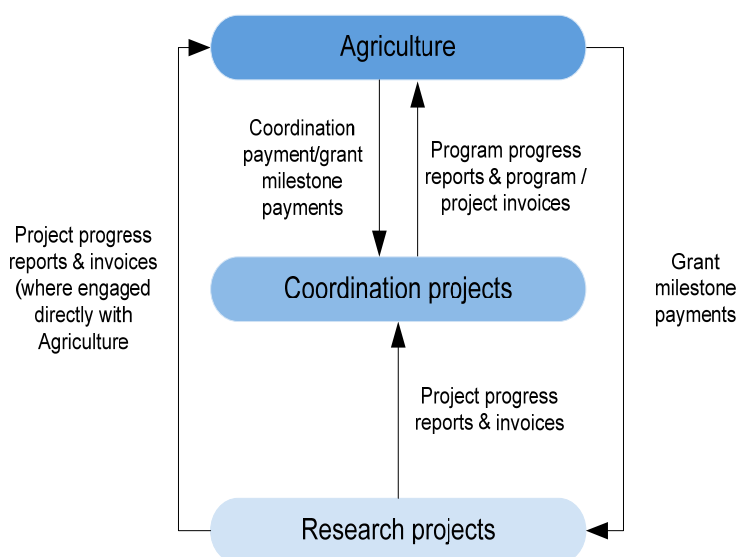
Figure 7.1: Round one funding deed arrangements



Source: ANAO analysis of program funding deeds.

Note: For one research project (soil carbon), a funding sub-deed was not put in place, but was covered through the coordination project's funding deed as the organisation was also undertaking a research project.

7.26 Grant payments to projects are made directly by the department to the research projects based on progress reports from the coordination projects and correctly rendered tax invoices from the research projects addressed to the Commonwealth—also forwarded by the coordination projects. Figure 7.2 provides an outline of the reporting and grant payment arrangements under round one of the program.

Figure 7.2: Round one reporting and grant payment arrangements

Source: ANAO analysis of program funding deeds.

7.27 The department briefed the then Minister on these arrangements and advised that ‘the direct payment to successful applicants ensures compliance with the *Financial Management and Accountability Act 1997*’. The department also advised that the Australian Government Solicitor had been consulted extensively on the deeds of agreement.¹⁵⁹

7.28 The clauses in the funding deeds/sub-deeds for FtRG grants were amended in a number of areas from the standard clauses in the Agriculture funding deed. Additional/unique matters addressed in the deeds/sub-deeds included: requirements to identify background intellectual property; intellectual property licensing arrangements between the Commonwealth and grantee; grant funds not being required to be held in a separate bank account; notification about staff involved in projects refusing to provide moral rights (copyright) consents; and in the case of CSIRO projects—providing annual statements of forecast interest from grants funds.

7.29 The program guidelines outlined that the funding deeds were anticipated to be signed by both parties and initial payment made by

¹⁵⁹ The advice to the then Minister also outlined that the department had been working closely with the lead organisations in the development of the deeds of agreement. Successful research applicants had also undertaken work with the lead organisations to develop the deeds of agreement.

June 2012.¹⁶⁰ However, by 30 June 2012, only four funding deeds had been signed by both parties and three initial payments totalling \$387 965 made to grant recipients.

7.30 As part of its implementation plan, the program had allowed 10 weeks to negotiate and sign the funding deeds. However, the amount of work involved in the department and coordination projects negotiating the deeds and sub-deeds was significantly underestimated, with the last funding sub-deeds signed on 12 October 2012. This was 21 weeks after the then Minister's public announcement of grant funding recipients.¹⁶¹

Key funding deed and sub-deed terms

7.31 The deeds between Agriculture and each coordination project contained principal clauses; a schedule describing the research program and details about the coordination project. This included activities such as research program administration and reporting by the coordination project (termed key performance indicators) to Agriculture, milestones, delivery dates and funding instalment dates for each milestone. Also incorporated into the deed are details about each research project the coordination project is managing under the program, including activities, milestones, delivery dates, key performance indicators and funding instalments for each milestone that are planned to be paid by Agriculture. Further, each funding deed's annexure contains a detailed description of each project under the research program including planned budget expenditure and funding (cash and in-kind) contributions.

7.32 The sub-deeds between coordination projects and each research project contain principal clauses, and then a schedule of project details including activities, milestones, delivery dates, funding instalments—generally consistent with details contained in the funding deeds between Agriculture and the coordination projects (paragraph 7.35 outlines some evidence of inconsistencies between deeds and sub-deeds).

7.33 Overall, the sub-deed arrangements between coordination projects and the research delivery organisations provide the Commonwealth with an adequate level of transparency and accountability for grant funding under the program. Proposed activities, funding contributions and itemised expenditure

160 The Implementation Plan for FtRG round one also provided that all funding deeds would be signed before the end of June 2012.

161 The monthly progress in signing deeds/sub-deeds was: four in June 2012; four in July 2012; 11 in August 2012; 29 in September 2012 and 10 in October 2012.

are clearly outlined in each sub-deed's schedule, as well as the content and timing of regular progress and financial reports. A number of sub-deed clauses establish protections for the Commonwealth, including the suspension of grant payments for the non-completion of reports or the non-achievement of milestone requirements as set out in the sub-deed. Should the Commonwealth suspect that funding and other contributions have not been spent in accordance with the sub-deed, it can request the grantee to provide at its own expense a report, as specified by the Commonwealth, of an independent auditor verifying that funding and other contributions have been spent on the project in accordance with the sub-deed.

7.34 However, an area of risk that was not well addressed in the sub-deed arrangements concerned other funding contributions to projects from consortium members. The sub-deeds simply required the research organisations to ensure that other contributions set out in the project schedules were obtained, and notify the relevant coordination project if any part of the other contributions were not obtained. Where the required contributions are not obtained, the Commonwealth may, among other measures, suspend payment of the grant funding until other contributions are received. In this context, the deed arrangements in round two were strengthened by requiring grantees to have signed subcontracts with each consortium member organisation that was specified in its application for funding (see also paragraph 7.51).

7.35 A further area of risk related to the consistency of the sub-deed schedule to the schedule contained in the deed with the coordination project. Generally, the sub-deed schedules were a direct copy of the schedule contained in the deed with the coordination project. However, a small number of sub-deed schedules contained milestone KPIs that differed in terms of content and delivery date, from the milestone KPIs contained in the coordination projects' deed schedule with the Commonwealth.

7.36 A further area of Commonwealth interest is the treatment of intellectual property arising from the projects under deed and sub-deed arrangements. Under standard draft departmental funding deeds, grantees grant to the Commonwealth a non-exclusive, perpetual, royalty free licence to use and adapt the project material. However, in the case of the FtRG, under all the deed and most sub-deed arrangements, where any significant project material may be potentially patentable or capable of giving rise to other registrable rights (that is, commercial intellectual property), the

Commonwealth, the coordination project organisation and the research delivery organisation will meet to agree measures necessary to protect commercial intellectual property and may enter into a separate agreement(s) for this purpose. Agriculture advised ANAO in October 2013 that the matter of protection of commercial intellectual property with FtRG projects had not arisen, but would handle matters on a case by case basis, and informed by appropriate legal advice.

7.37 Most round one projects are contracted to be completed in May/June 2015, with three projects to be completed in 2013 and one in 2014. The shortest timeframe for a project is seven months and the longest timeframe is 36 months. The average contracted timeframe for research projects is 31 months.

Funding deed budgets and activities

7.38 The CGGs require that a funding agreement must be consistent with the terms of the approval given, including any conditions on the approval.¹⁶² Where a funding agreement will not be consistent with the approval, the revised project should be referred back to the decision-maker for consideration. This promotes compliance with the requirements of FMA Regulation 8 and helps to ensure the program is not exposed to greater risks concerning the achievement of the program's objectives and value for money.

7.39 As outlined in paragraph 4.23, the expert advisory panel developed a descriptive analysis of each project which formed the basis of the approval statement that was provided as part of the briefing package to the then Minister. The department was then responsible for negotiating the funding deeds, consistent with the approval statement and recommendations of the expert advisory panel, which were relied upon by the Minister as the basis for approving the grants.

7.40 The funding amounts recommended by the panel and agreed by the then Minister were incorporated into the funding deeds/sub-deeds. Generally, the cash and in-kind contributions were also consistent with the contributions outlined in successful applications, taking into account any changes recommended by the expert advisory panel and the funding contributors to activities. However, in the case of a successful coordination project, the expert advisory panel's recommendation had expected that the amount of grant

162 CGGs, op. cit., p. 8.

funding negotiated with the applicant would be reduced since fewer projects would need to be managed than originally proposed. However, the grant deed subsequently negotiated by the department provided the same level of grant funding as originally sought by the applicant.

7.41 Similarly, the project activities in the funding deeds/sub-deeds were broadly consistent with the activities recommended for funding by the expert advisory panel. A number of projects' activities were rearranged or merged to form the activities in the funding deeds, and were largely consistent with the panel's recommendations.

7.42 Overall, departmental records did not provide insights into the negotiations between the department and successful applicants regarding the expert panel's recommendations.

Reporting and payment arrangements

7.43 Most funding deeds and sub-deeds contain seven milestones, with a progress report provided at each milestone after the first milestone.¹⁶³ The spread of grant funding under each deed/sub-deed generally involved:

- 18 per cent of total grant funding at the completion of the first milestone (signing of the deed/sub-deed);
- six per cent at both the second and third milestones;
- 23 per cent at both the fourth and fifth milestones; and
- 13 per cent at both the sixth and seventh milestones.

7.44 Over two-thirds of round one funding deeds/sub-deeds, representing just over 60 per cent of the rounds total funding, used this spread of grant funding payments.¹⁶⁴ These arrangements are broadly consistent with the practices outlined in the ANAO's Better Practice Guide.

7.45 Reflecting the timing of the signing of funding deeds/sub-deeds, departmental payments to projects against the first milestone were largely completed over the course of the second half of 2012. Some \$9.4 million was paid to projects once deeds/sub-deeds had been signed and invoices submitted.

¹⁶³ Program/project financial reports were also required at the first milestone and after 30 June each year.

¹⁶⁴ Three project deeds comprised just three milestones, with the last milestone to be completed by mid-March 2013. Under these arrangements, 50 per cent of the total grant value was set for milestone one, and 25 per cent at each subsequent milestone. As at late September 2013, two projects had received final funding instalments and the department was awaiting final financial reports. The third project's final report was being reviewed before final payment.

7.46 The second milestone for research projects largely involved providing their first progress report to the organisations coordinating their research program. Coordination projects were then given a month to assemble these reports into a national research program report for the department. Three of the four coordination projects submitted their national research program reports to the department on or before their required due date (two reports were due 1 November 2012; and two reports were due 1 December 2012), although one project was asked by the department to resubmit its report. This it did one and a half months later. The remaining coordination project submitted its report two months after the due date (8 January 2013), as a result of performance matters with one project in its national research program. This report was also required to be resubmitted by the department, which the coordination project did one and a half months later. By June 2013, all round one projects had received second milestone grant payments totalling \$2.8 million.

7.47 The third milestone for projects involved providing a second progress report. By the end of September 2013, 55 of the 57 round one projects had received payment for completion of their third milestone under deed/sub-deed arrangements, involving \$2.6 million in grant funds. The two remaining projects were some four months behind schedule.

Round two grant funding arrangements

7.48 The department's approach to grant funding arrangements for round two differed in a number of respects from round one. The approach in round one of a project coordinating a number of projects in a research priority area (see Figure 7.1) was not used to the same extent in round two. In round two, one new coordination project was approved for funding to manage four research projects in the area of livestock methane emissions (ruminant pangenome). The remaining round two projects are not formally coordinated through a head project, but funding deed arrangements require that the grantees attend meetings of a group of associated or related research projects to discuss the grantee's project methodologies, progress and findings. Nine round two research projects were also required to provide progress reports to a coordination project established in round one, for synthesis with reports from other round two projects.

7.49 In this context, the department entered into funding deeds with each of the 31 successful grant applicants. Grant payments are made once the

Commonwealth has accepted that the project has demonstrated adequate performance against the particular milestone and key performance indicators, and a correctly rendered tax invoice then provided.

7.50 The program guidelines outlined that the funding deeds were expected to be signed by both parties and initial payments made before July 2013. By 1 July 2013 none of the successful applications had progressed to signed funding deed. Nevertheless, 21 deeds were signed during the course of July, eight deeds were signed in August and two deeds were signed in September 2013. By late September 2013, payments related to the signing of funding deeds had been made to 28 projects and involved \$4.6 million.

Key funding deed terms

7.51 The round one template for FtRG funding deeds (see paragraph 7.31) was carried forward into round two. The main changes in deed terms involved: grantees specifying in a schedule, background intellectual property they were aware of that was necessary for the project (previously the Commonwealth had to prepare and maintain this list); arrangements for sharing project information within the program; and a clear requirement that grantees have signed subcontracts with each consortium member that formed part of its application. Other changes included final financial reports needing to be independently audited, and additions to the progress report template (see earlier at paragraph 2.17).

7.52 Most round two projects are expected to be completed over 36 months, with project work to be completed by May 2016 and formal contract completion by 30 June 2016. One project is contracted to be completed by 30 June 2015.

Funding deed budgets and activities

7.53 As outlined in paragraph 7.38, the CGGs require funding deeds to be consistent with the terms of approval given by the decision-maker. Similar to round one, it is reasonable to expect that the activities and budget in the funding deeds for round two will be consistent with the budget and activities recommended for funding by the expert advisory panel and approved by the then Minister.

7.54 Overall, round two was similar to round one in that: all round two funding deeds adhered to the recommended and approved program funding amount; and generally, the other contributions and activities were also consistent with the approval. However, program documentation for 11 projects

does not clearly explain why elements of projects' budgets changed from that assessed by the expert advisory panel and approved by the then Minister.

7.55 The 11 projects referred to above were recommended for funding without changes to their budgets. However, the mix of the other contributions in the deeds varied to that set out in the application. Specifically, three projects altered their cash and/or in-kind contributions, resulting in an overall net decrease of total other contributions. The average decrease of these three projects was four per cent and the net decrease in contributions ranged from \$4 880 to \$130 000. Conversely, eight projects experienced an average increase of 12 per cent in the other contributions as a result of the changes in the mix of other contributions. The net increase in other contributions ranged from \$9 123 to \$430 513. Department records do not explain why the three projects are contributing lower amounts than set out in the application, when there has been neither a change in grant funds nor a substantial change in the activities to be undertaken. Overall, the funding deeds contained activities that were consistent with the approval.

Payment arrangements

7.56 Most funding deeds contain seven milestones after the signing of the deed. Each milestone involves a progress report, as well as a final report and final financial report. The spread of grant funding under each deed generally involved:

- an average of 18 per cent of total grant funding on the signing of the deed (although five deeds had around one-quarter of their funding linked to the signing of their deed);
- an average of 15 to 18 per cent of total funding for the achievement of milestones one to four;
- an average of seven to eight per cent of total funding for the achievement of the fifth and sixth milestones; and
- no payment linked to the seventh and final milestone involving the provision of a final financial report within 60 days of the end of the deed term.

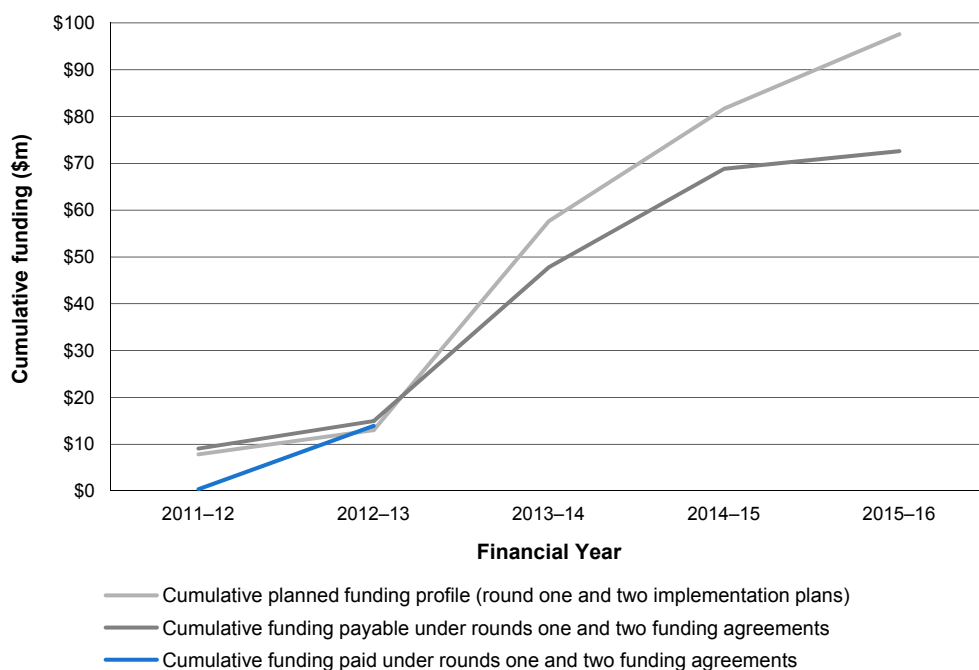
7.57 These arrangements are generally consistent with the practices outlined in the ANAO's Better Practice Guide. However, in relation to the last milestone and the provision of a final financial report, the ANAO's Better Practice Guide notes that it is good practice to retain a portion of grant funds until the

recipient has completed and fully acquitted the project. This provides an incentive for funding recipients to comply with all obligations set down in the funding agreement. In the case of the FtRG's round two funding deeds, this incentive was not built into the payment arrangements.

Program's budget and payment profile

7.58 Overall, the payment profile established by rounds one and two funding deeds are expected to enable grant payments to broadly occur in line with the budgets contained in the program's implementation plans, as illustrated in Figure 7.3. Since round two committed just over half the planned budget for this round (\$50.2 million), a divergence between the program's planned budget and expected payments under deed arrangements is evident from 2013–14 onwards.

Figure 7.3: Rounds one and two budgeted, applied for and contracted program funding



Source: ANAO analysis of grant funding deeds, Clarity grant payment records and program implementation plans.

Agency grant reporting obligations

Web-based reporting of executed grant agreements

7.59 In order to promote transparency and accountability, the CGGs require each agency to publish, on its website, mandatory data fields on individual grants within a set time period.¹⁶⁵ This information is to be retained on an agency's website for at least two financial years.

7.60 FtRG grants for rounds one and two have been published on Agriculture's website. However:

- the grant reporting data field 'signed date' is not consistent with the requirement on agencies to use 'approval date'—which is the date the funding agreement takes effect¹⁶⁶;
- while the department's grants reporting includes grantee's postcodes, this is not in a separate data field as required under reporting arrangements¹⁶⁷;
- the value of grants for 28 round two projects was initially incorrectly reported as GST inclusive values, when the figures are GST exclusive values (this was corrected after the error was identified by ANAO); and
- small errors in two round two grant funding amounts remain on the website page.

Annual Report requirements

7.61 The *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, approved by the Joint Committee of Public Accounts and Audit, requires agencies to list all grant programs administered by that agency in their Annual Report. Also, to state that information about the individual grants awarded in the previous financial year is available on the agency

¹⁶⁵ Under the CGGs that applied until 30 May 2013, information on individual grants were required to be published on the agency's website no later than seven days after the funding agreement takes effect. Under the CGGs applying since 1 June 2013, agencies have 14 working days to publish individual grant information on their website. Guidance on implementing the website reporting requirements outlined in the CGGs are contained in Department of Finance issued Finance Circulars 2009/04, *Grants—Reporting Requirements*, 29 June 2009; and revised in 2013/02, *Australian Government Grants: Briefing and Reporting*, May 2013.

¹⁶⁶ Although Agriculture's grants reporting uses 'signed date' as a data field, the data in this field is not the signed date for 50 round one funding sub-deeds.

¹⁶⁷ Department of Finance, Finance Circular No. 2013/02, *Australian Government Grants: Briefing and Reporting*, sets out grants briefing and reporting requirements which took effect on 1 June 2013.

website. Agriculture fulfilled this requirement with respect to FtRG in its 2011–12 and 2012–13 Annual Reports.

Parliamentary reporting requirements

7.62 The Senate requires ministers to report to it on grants approved in the intervening period since the previous Senate estimates hearing, no later than seven days prior to the estimates hearing.¹⁶⁸ For round one FtRG grants, Agriculture met this requirement in part, as follows:

- for the grants approved in April 2012 following the first two Ministerial briefings (see paragraphs 6.16 and 6.17) Agriculture advised the total number of grants approved to the end of April 2012, the total grant value awarded and the dates on which funding had been awarded. This approach did not meet the requirements of the Senate Order¹⁶⁹; and
- a list providing the required details for those grants approved in May 2012 following the third and fourth briefings (see paragraphs 6.18 and 6.19) was provided for the October 2012 supplementary additional estimates hearings.

7.63 For round two FtRG grants, all 31 approved grants were reported for the period 22 January to 6 May 2013.

Conclusion

7.64 The first and second rounds of the program resulted in funding being distributed in a way that was consistent with the program’s objective to draw upon industry, science and government sectors for practical research outputs. Overall, universities accounted for 45 per cent of the total number of grants awarded in rounds one and two, followed by the CSIRO which accounted for 26 per cent of grants. State government departments/agencies and

168 *Procedural Order of Continuing Effect 14: Departmental and agency grants*, also known as Senate Order 95 or the Minchin Order.

169 The Senate Order requires a detailed list including the value of the grant, recipient of the grant and the program from which the grant was made. Agriculture advised ANAO in October 2013 that it provided summary information only because of commercial sensitivities as the funding agreements were still being negotiated. This perspective is not consistent with the Senate Order requirements and defeats the purpose of this reporting obligation (which is to provide detailed information on grants awarded but for which a funding agreement has not yet been entered into). Further in this respect, the identity of the successful applications were announced by the then Minister on 17 May 2012 such that there should have been no sensitivity on the part of the department to also meeting the requirements of the Senate Order reporting.

industry/other applicants each accounted for a similar share of grants—almost 15 per cent in each case. In terms of electoral distribution, the application and assessment approach adopted, and the resulting briefing of the Ministerial decision-maker, reduced the risk of the grant funding decisions being influenced by electoral considerations, and there was no evidence of any such bias in the approval of funding.

7.65 The provision of feedback to unsuccessful applicants in terms of merit assessment was generally sound in round one, although applicants whose application had been assessed as ineligible were not informed of this situation (or the reasons). Where detailed feedback was requested by unsuccessful applicants in round two, the feedback to applicants was not presented in terms of comparative performance against the assessment criteria contained in the program guidelines.¹⁷⁰ This was the result (as outlined in paragraph 5.19) of the department adopting an approach to merit assessment whereby applications were not scored, ranked and reported according to the seven assessment criteria contained in the program guidelines. This did not enable the department to provide feedback to applicants on their proposals' relative performance against the assessment criteria.

Recommendation No.4

7.66 To improve the feedback it provides to unsuccessful grant program applicants, ANAO recommends that the Department of Agriculture clearly outline:

- (a) whether the application(s) had been assessed as ineligible and, if so, the reasons for this; and
- (b) for applications that proceeded to merit assessment, the relative performance of their application(s) against the published assessment criteria.

Agriculture's response:

7.67 *Agreed. The department acknowledges the importance of providing unsuccessful applicants with feedback on their application in a timely and informative manner. The department will revise its Grant Management Manual (GMM) to require*

¹⁷⁰ One application to the second round was assessed as ineligible. As outlined at paragraph 7.20, this applicant was only informed of this situation after it had sought more detailed feedback from the department.

that where an applicant's application was ruled ineligible during the assessment process that the applicant is provided with specific information as to why the application was ruled ineligible.

7.68 *In relation to providing feedback to unsuccessful applicants, the department notes that it already has processes in place to do this as a matter of course; either through the initial correspondence to an applicant advising them that they have been unsuccessful or through providing specific contact details by which an applicant can seek feedback on their application. The department will revise its GMM to provide more specific instruction on the provision of feedback to unsuccessful applicants, including that feedback must be provided in terms of the applicant's relative performance against the assessment criteria.*

7.69 Agriculture adopted sound governance arrangements for the approved grants. This included appropriate funding agreement terms and conditions and payment arrangements that involve funds being provided to recipients over time, as milestones are achieved. ANAO's analysis shows that grant funding deeds established under the program were generally in accord with the terms of the approved applications and the expert panel's advice. However, Agriculture's performance in respect to the various grant reporting obligations has been mixed, with a number of errors and oversights in the data published for the benefit of Parliamentarians and other interested stakeholders.



Ian McPhee
Auditor-General

Canberra ACT
12 December 2013

Appendices

Appendix 1: Agency response



Australian Government
Department of Agriculture

GED
3 DEC 2013
9.10

SECRETARY

Ref:EXEC2013-07303

Ms Barbara Cass *KW 2/12/2013*
Group Executive Director, Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Ms Cass

Thank you for your letter of 1 November 2013 regarding the proposed performance audit report on the administration of the Delivery of the Carbon Farming Futures Program, Filling the Research Gap program.

The Department of Agriculture (department) welcomes the ANAO's findings in relation to the design and delivery of the Filling the Research Gap program, including the establishment of comprehensive guidelines enabling an open and competitive application processes for both rounds of the program.

Facilitated by the clear guidance provided to applicants, the department attracted a range of high quality research applications that addressed all of the program's research priorities. Through these applications, the department has established a comprehensive suite of research projects that will enable it to meet the program's objectives of identifying practical outcomes that Australia's farmers can use to reduce agricultural greenhouse gas emissions while maintaining productivity.

The department acknowledges the overall findings of the audit report including the identification of some areas where it can make some further improvements to its program design and delivery processes. The department is implementing changes to its Grants Management Manual to further emphasise the need to tailor each aspect of a program's design and consider how constructive feedback can be provided to unsuccessful applicants.

The department agrees with each of the recommendations made in the audit report and is taking action to implement these recommendations as part of its current review of its grant administrative processes to ensure that they addresses the key principles and requirements outlined in the updated Commonwealth Grant Guidelines.

With respect to the four recommendations within the report, the department provides the following comments.

Recommendation No. 1 (a) and (b): Agreed.

The department acknowledges the importance of undertaking robust and transparent grant assessment processes with clearly defined conflict of interest arrangements

T +61 2 6272 3933
F +61 2 6272 5161

18 Marcus Clarke Street
Canberra City ACT 2601

GPO Box 858
Canberra ACT 2601

daff.gov.au
ABN 24 113 085 695

specific to each program. In accordance with the Commonwealth Grant Guidelines, the department's Grants Management Manual (GMM) identifies that appropriate mechanisms for managing conflicts of interest need to be developed on a case by case basis for each program.

The department will revise its GMM to further emphasise the importance of tailoring management of conflicts of interest to the particular granting activity taking into account the composition and nature of potential relationship issues that could exist where an advisory panel is to be used in the grant assessment process.

Recommendation No. 2(a) and (b): Agreed.

The department acknowledges the importance of providing clear guidance to applicants, assessors and decision makers on how applications will be assessed and the scoring regime that will apply for each criterion. The department does not consider that it should be a mandatory requirement of all programs that minimum scoring is set for each criterion and notes that this is not a requirement of the recently revised Commonwealth Grant Guidelines. The department will however revise its Grants Management Manual (GMM) to include the following requirements:

- that programs consider whether or not minimum acceptable scoring thresholds should be set for each assessment criterion; and
- that program guidelines will state whether or not minimum acceptable scoring thresholds will apply and what these thresholds are when applicable.

In regard to recommendation 2(b), the department will update its GMM and reporting template to provide more specific direction on the format and content of assessment reports and the terminology to be used in making grant funding recommendations to the decision-maker.

Recommendation No. 3: Agreed.

The department acknowledges that the introduction of new information systems needs to be managed with appropriate user consultation and testing prior to implementation to ensure that the system can meet the department's and system owner's requirements.

The department notes that through its Information Systems Division (ISD), it has comprehensive systems in place to manage the introduction of new information and communications technology (ICT) systems. The ISD uses a rigorous ICT Governance Framework that incorporates stringent change management processes across all corporate and operational ICT systems. Under this framework, all changes to the department's ICT environment, including the introduction of new capability, are only deployed into the production environment after:

- successful completion of User Acceptance Testing (UAT);
- endorsement by the respective system owner that the system is fit for purpose and that UAT test results confirm delivery of the capability described in the agreed business requirements specification;
- system owner endorsement for deployment of the accepted solution or system;

- if required, endorsement by the relevant First Assistant Secretary and Chief Information Officer of specific functionality that does not meet acceptance testing criteria but the risk and mitigation of these variances is considered acceptable.

Recommendation No. 4 (a) and (b): Agreed.

The department acknowledges the importance of providing unsuccessful applicants with feedback on their application in a timely and informative manner. The department will revise its Grant Management Manual (GMM) to require that where an applicant's application was ruled ineligible during the assessment process that the applicant is provided with specific information as to why the application was ruled ineligible.

In relation to providing feedback to unsuccessful applicants, the department notes that it already has processes in place to do this as a matter of course; either through the initial correspondence to an applicant advising them that they have been unsuccessful or through providing specific contact details by which an applicant can seek feedback on their application. The department will revise its GMM to provide more specific instruction on the provision of feedback to unsuccessful applicants, including that feedback must be provided in terms of the applicant's relative performance against the assessment criteria.

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

Thank you for the opportunity to comment on the proposed audit report.

Yours sincerely



Paul Grimes

29 November 2013

Index

A

ANAO Better Practice Guide, 14, 31, 36, 40, 51, 93, 126, 135, 138

Applications, 66, 119, 123

eligible, 17, 29, 50, 54, 61, 68–74, 76–77, 79–80, 82, 84, 102, 104, 114, 117, 127

ineligible, 17, 21, 39, 68–75, 90, 126–28, 142

rejected, 74, 90, 110, 119

Assessment process, departure from, 18, 79, 90, 91

C

Carbon Farming Initiative, 44–45, 70

Climate Change Research Program, 47–48, 67

Commonwealth Grant Guidelines (CGGs), 14, 31, 36, 39–40, 45–46, 48, 50, 51, 61, 64, 77, 86, 93, 110, 114, 118–19, 124, 134, 140

Commonwealth Scientific and Industrial Research Organisation, 14, 29–30, 48, 60, 122, 131, 141

D

Department of Finance, 35

Department of the Prime Minister and Cabinet, 35

Department of the Treasury, 35

E

Expert Advisory Panel

assessment and scoring, 18–20, 50, 54, 59, 76–81, 83–84, 89–91, 94, 95–96, 99–106, 114, 117, 120, 142

assessment report, 18, 78, 80, 85, 88–91, 95, 100, 104, 106, 111, 113, 117, 127

assessment tool, 19–21, 50, 58, 70, 73–74, 93–96, 99–101, 104, 107

conflicts of interest, 15–17, 34, 37, 50, 51, 52, 55, 58, 61, 77, 90, 101, 106–7, 111, 116

direct conflicts of interest, 52–55, 58–59, 112, 123

indirect conflicts of interest, 17, 52–53, 56, 58, 112, 123

meeting minutes, 17, 50, 55–57, 58, 80, 111, 112

potential conflicts of interest, 51, 52, 56

F

Feedback

to applicants, 15–16, 20–21, 32, 79, 91, 126–28, 142

Financial Management and Accountability Act 1997, 34, 113–14, 116, 131, 134, 140

Financial Management and Accountability Regulations 1997, 34, 114, 116, 134

Funding

deeds, 21, 29, 30–32, 65, 85, 86, 87, 113, 128–39, 143

distribution, 21, 122–23, 141

other contributions, 18, 66, 68, 71, 73–74, 75, 78, 80, 86, 114, 120, 133–34, 137

J

Joint Committee of Public Accounts
and Audit, 126, 140

K

Key performance indicators, 16, 41, 44–
45, 60, 132–33, 137

L

Land Sector Carbon and Biodiversity
Board, 16, 35, 44, 46, 61

N

National Health and Medical Research
Council, 54, 56

P

Portfolio Budget Statements, 16, 44–45,
61

Program guidelines, 15, 17, 20, 30–31,
34–35, 37–39, 45, 47–48, 57–58, 61,

64–67, 69–74, 76, 78–79, 86, 91, 93, 95,
100, 106–7, 111, 114, 116–17, 120–21,
128

Projects

coordination, 19, 37, 39, 74–75, 88,
95, 105, 116, 132, 129–36

research, 19, 28, 37, 39, 45, 69, 74–75,
86, 95–96, 104, 107, 115, 121–22,
129–30, 132, 134, 136

T

then Minister for Agriculture, Fisheries
and Forestry, 15, 20, 29–30, 35, 46,
49, 64, 79, 91, 101, 103–5, 110, 114–18,
120, 124, 126, 131–32, 134, 137

U

Universities, 14, 29–30, 48, 60, 122–23,
141

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