The Auditor-General
Auditor-General Report No.21 2019–20
Performance Audit

Probity Management in Rural Research and Development Corporations

Across Entities

Australian National Audit Office

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18 December 2019

Dear Mr President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit across entities titled *Probity Management in Rural Research and Development Corporations.* Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

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

Yours sincerely

Grant Hehir
Auditor-General

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

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Probity Management in Rural Research and Development Corporations

Why did we do this audit?

- Research and development corporations (RDCs) work closely with industry in purchasing research, development and extension (RD&E) services.
- As a result of the close relationship with industry, probity risks are high.
- Very high levels of probity are expected of the five RDCs, as they spend taxpayer and industry money.

Key facts

- The RDCs purchased $285 million of RD&E in 2017–18 to benefit industry and the wider community.
- The corporations' funds are sourced from levy payers. The Australian Government matches these amounts up to certain limits.
- The corporations' research is often made freely available to producers. Sometimes it is legally registered and commercialised. The RDCs receive $7.6 million of royalties annually.

What did we conclude?

- The Cotton RDC was largely able to manage probity across its RD&E procurements, conflicts of interest, gifts, benefits and hospitality, intellectual property, and credit cards.
- AgriFutures Australia, the Fisheries and Grains RDCs, and Wine Australia partially did so.
- Wine Australia had the most significant shortcomings in how it managed probity.

What did we recommend?

- The boards at three RDCs take responsibility for policies on ethics, RD&E procurement and intellectual property.
- Two RDCs fully reflect the law in their conflicts policies.
- Two RDCs set up ways to receive probity allegations from the public.
- The corporations except for the Cotton RDC do more probity training.
- The RDCs accepted all recommendations.

Summary and recommendations

Background

1. Rural research and development corporations (RDCs) purchase research, development and extension (RD&E) services for the benefit of the industry and wider community. The RDCs are partly funded through industry levies, which the Commonwealth matches up to certain limits.[1]

2. Five corporations are corporate Commonwealth entities. These are AgriFutures Australia (open to all agricultural industries), the RDCs for Cotton, Fisheries and Grains, and Wine Australia.[2] Industries own another 10 RDCs, which were outside the scope of the audit.

3. The RDCs often target their projects at increased productivity and competitiveness through new breeds, varieties and production technologies. Examples are: collecting and analysing data to improve crop management; developing new herbicides; and researching animal vaccines to reduce production losses. Funded projects can also have environmental and social outcomes, such as reduced pesticide use and reduced food-borne illness.

4. The Acts establishing the corporations require the Minister to declare at least one industry body for each corporation as a representative organisation. These declared bodies are involved in the appointment of directors, the corporations' planning, and other activities.

Rationale for undertaking the audit

5. It is critical that the corporations uphold high probity standards given their often close interactions with a small number of researchers over time, and potential conflicts arising from the corporations' directors being industry representatives themselves. Total expenditure for the corporations in 2017–18 was $359 million and the audit was designed to provide assurance that RDCs are appropriately managing public funds in terms of probity risks. RDCs were last involved in a performance audit in 1998. The findings can provide lessons for future funding agreements managed by the Department of Agriculture, and the corporations can adopt examples of better practice highlighted in the audit.

Audit objective and criteria

6. The objective of the audit was to assess the effectiveness of the rural research and development corporations' management of probity. The audit criteria were:

- do the corporations have appropriate probity arrangements?
- have the corporations complied with applicable probity requirements?

7. Effectively managing probity requires RDCs to have high levels of compliance with appropriate probity arrangements.

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1 The Commonwealth typically matches levies up to half a per cent of the gross value of production.

2 AgriFutures Australia is responsible for a number of disparate industries including rice, chicken meat, buffalo, goat fibre, honey, kangaroo and wallaby. The other RDC's are responsible for industries as indicated by their title. In 2017–18, program spending of the RDCs was: AgriFutures Australia $21.4 million, Cotton, Fisheries and Grains RDCs $21.6 million, $26.0 million and $192.1 million respectively, and Wine Australia $36.2 million.

Conclusion

8. In managing probity issues, the Cotton RDC was largely effective and AgriFutures Australia, the Fisheries and Grains RDCs and Wine Australia were partially effective. Wine Australia had the most significant shortcomings in effectiveness.

9. The corporations' probity arrangements in relation to governance, policies and internal controls were largely appropriate, except for Wine Australia whose arrangements were partially appropriate.

10. The Cotton RDC effectively complied with its applicable probity requirements, while the other four corporations partially complied with Wine Australia the least effective.

Supporting findings

Do the corporations have appropriate probity arrangements?

11. The board's governance arrangements at the Cotton RDC were effective in promoting probity. The arrangements at AgriFutures Australia and the Fisheries and Grains RDCs were largely effective in promoting probity, while the arrangements at Wine Australia were partly effective in promoting probity.

12. The corporations' boards have approved charters or policy frameworks that allocate responsibility for approving probity policies, except for Wine Australia. These four boards have retained responsibility for policies around standards of behaviour. Reporting to the five corporations' boards about gifts, benefits and hospitality and probity incidents was appropriate. The Grains RDC can improve reporting to the board on compliance with RD&E procurement policies, noting that all procurement during the audit period was delegated to management. The five corporations, except for the Cotton RDC, can improve reporting to the board on conflicts of interest. The corporations' boards established policies and frameworks to enable them to oversight probity risks. The boards at AgriFutures Australia and the Cotton and Fisheries RDCs met legal requirements for risk reporting; the two other corporations did not and also had scope to improve their risk registers.

13. Four corporations' policies were largely appropriate in promoting probity in funding decisions, and managing intellectual property and credit cards, while Wine Australia's policies were partially appropriate. Areas for improving or reviewing policies were:

- contract variations, for all five corporations;
- reflecting the legal requirements for conflict of interest for the Cotton RDC and Wine Australia;
- providing RD&E funding to industry bodies, for all five corporations;
- for giving and receiving gifts, for all five corporations;
- reviewing credit card transactions, for all five corporations; and
- promoting reasonable competition, for Wine Australia.

14. The five RDCs have developed systems of internal control that are largely appropriate for their probity requirements. Key measures include: fraud control plans; internal audit programs to

confirm compliance with probity policies; and training on probity issues. Areas for improvement included:

- establishing a mechanism for the public to confidentially report fraud and probity allegations, for the Cotton and Grains RDCs and Wine Australia;
- Wine Australia to consider including fraud as a topic in its internal audit program, and fully comply with the 10 legislated requirements for fraud control; and
- increased training on probity policies, for AgriFutures Australia, the Fisheries and Grains RDCs, and Wine Australia.

15. Six allegations of non-compliance related to probity were reported to the RDCs in the two-year period to 31 December 2018, with five of the six addressed and managed effectively. The Grains RDC did not document investigating or finalising one allegation beyond initial scoping.

Have the corporations complied with applicable probity requirements?

16. The Cotton RDC complied with its probity policies in making funding decisions and managing intellectual property. The other four corporations partially complied. These corporations fully complied with their conflict of interest policies at the board level but there was incomplete evidence of implementation of this policy for panels and staff. AgriFutures Australia complied with its key policies for documenting the receipt of gifts, benefits and hospitality; Wine Australia partially did so; and the Fisheries and Grains RDCs did not. The Grains RDC largely complied with its policies for managing intellectual property in contracts and the other three RDCs partially complied.

17. The Cotton RDC largely demonstrated a focus on value for money in approving projects and varying contracts. AgriFutures Australia and the Fisheries and Grains RDCs partially did so; their exceptions were generally due to lack of documentation. For one project, management at the Fisheries RDC breached policy by approving a project that they anticipated would go to the board for a large variation. With limited policies, Wine Australia largely documented the development of its five major RD&E agreements and partially documented variations. For the grants projects tested, the Grains RDC and Wine Australia demonstrated a focus on value for money by having good processes and documentation. Wine Australia was also required to comply with the Commonwealth Grants Rules and Guidelines for these grants and largely did so.

18. Implementation of credit card controls was effective at the Cotton RDC, largely effective at the Grains RDC, and partially effective at the other corporations. AgriFutures Australia and Wine Australia were not able to provide supporting documentation for a number of large transactions (three and two respectively). Weaknesses in credit card control processes represent substantial probity risks for AgriFutures Australia, the Fisheries RDC and Wine Australia.

Recommendations

Recommendation no. 1 **Paragraph 2.11**	In respect of board charters: (a) AgriFutures Australia amends its charter to specify that the board is responsible for approving probity policies relating to ethics, procurement and intellectual property;

(b) the Grains RDC amends its charter to specify that the board is responsible for policies relating to procurement and intellectual property, and also ensures that policy approval is consistent with its charter; and

(c) Wine Australia, when approving a new charter, specifies that the board is responsible for policies on ethics, procurement and intellectual property.

AgriFutures Australia response: *Agreed.*

Grains RDC response: *Agreed.*

Wine Australia response: *Agreed.*

Recommendation no. 2
Paragraph 2.38

The Cotton RDC and Wine Australia revise their conflict of interest policies to fully reflect legal requirements.

Cotton RDC response: *Agreed.*

Wine Australia response: *Agreed.*

Recommendation no. 3
Paragraph 2.83

The Cotton and Grains RDCs both establish a mechanism for the general public to report fraud allegations.

Cotton RDC response: *Agreed.*

Grains RDC response: *Agreed.*

Recommendation no. 4
Paragraph 2.95

AgriFutures Australia, the Fisheries and Grains RDCs, and Wine Australia increase the scope, frequency and mandatory nature of their probity training to increase compliance with applicable requirements.

AgriFutures Australia response: *Agreed.*

Fisheries RDC response: *Agreed.*

Grains RDC response: *Agreed.*

Wine Australia response: *Agreed.*

Summary of entity response

19. A summary response from the Cotton RDC is below. All five RDCs provided full responses, which are in Appendix 1.

Cotton RDC

> The Cotton Research and Development Corporation (CRDC) welcomes the ANAO's report on probity management in rural research and development corporations. CRDC is committed to continuous improvement in our governance culture. CRDC is a micro-agency that aims to adopt governance systems that are agile, fit for purpose and enhance performance. CRDC accepts the recommendations of the ANAO contained in the report and notes the general findings that encourage CRDC to continue to review and enhance CRDC's policies, accountable authority instructions, risk management framework and practices.

Key messages from this audit for all Australian Government entities

20. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant to the management of probity in other Australian Government entities.

Governance and risk management

- Probity is important as it helps ensure decisions are made with integrity, fairness and accountability, while attaining value for money. The Cotton Research and Development Corporation demonstrated appropriate attention being paid to probity in a situation where the accountable authority requires appropriate policies to be developed, regularly reviewed and demonstrably adhered to through appropriate reporting on compliance. This involves an active, rather than passive, approach to acting on any probity risks (such as identified conflicts of interest).
- AgriFutures Australia fully documented its handling of probity allegations, which demonstrated a positive, transparent approach to managing probity. Such matters also represent an opportunity to test controls to ensure they are effective and can be used as a case study to train staff.

Procurement

- Advisory panels and staff can be influential in procurements. Where this is the case, entities can use board materials as an example of how to document the decisions of panels and staff.
- Demonstrating value for money through open tender reveals more information about the market than limited tender. If a purchaser opts for limited tender, they should document their knowledge of the market so that a non-expert can understand how they achieved value for money.
- Organisations and individuals sometimes offer gifts and hospitality in the course of business interactions. The acceptance of gifts or benefits has the potential to give rise to real or perceived conflicts of interest. Gifts and benefits policies are commonly developed as key mechanisms to communicate how to handle such offers. The content of these policies should be influenced by an entity's industry and operating environment.

Policy/program implementation

- The importance of probity can be promoted by requiring the completion of probity awareness declaration forms by staff and key contractors. The declarations can cover, among other things, receipt of probity awareness training and materials, agreement to abide by and implement those provisions in the discharge of their duties, and notification to the entity of any probity issues. The Cotton Research and Development Corporation showed that this also extends to declaring conflicts of interest.

Records management

- AgriFutures Australia maintained a comprehensive gifts register, which helped it demonstrate that it is appropriately managing its risks of inappropriate external influence. Similarly, retaining records of credit card transactions and their timely review, as the Grains Research and Development Corporation generally did, helps demonstrate that an entity is appropriately managing its credit card risks.

Audit findings

1. Background

Rural research and development corporations

1.1 Rural research and development corporations (RDCs) engage with research organisations to deliver research, development and extension (RD&E) services for the benefit of the industry and wider community. The RDCs are partly funded through industry levies, which the Commonwealth matches up to certain limits.[3]

1.2 In 2019 there were 15 RDCs, of which five were statutory and 10 industry-owned (see Table 1.1). The statutory RDCs have legislated levies, which are compulsory for industry participants.[4]

Table 1.1: Statutory and industry-owned rural research and development corporations

Statutory	Industry-owned
• AgriFutures Australia • Cotton RDC • Fisheries RDC • Grains RDC • Wine Australia	• Australian Egg Corporation Ltd • Australian Livestock Export Corporation Ltd • Australian Meat Processor Corporation • Australian Pork Ltd • Australian Wool Innovation Ltd • Dairy Australia Ltd • Forest and Wood Products Australia • Horticulture Innovation Australia Ltd • Meat and Livestock Australia • Sugar Research Australia Ltd

Source: Department of Agriculture, *Rural Research and Development Corporations*. Available from: http://www.agriculture.gov.au/ag-farm-food/innovation/research_and_development_corporations_and_companies#industryowned-companies [accessed 28 May 2019].

1.3 The establishing legislation for AgriFutures Australia and the Cotton, Fisheries and Grains RDCs is the *Primary Industries Research and Development Act 1989* (the PIRD Act). The fifth statutory RDC, Wine Australia, was created under the *Wine Australia Act 2013,* to merge the Grape and Wine Research and Development Corporation and the Wine Australia Corporation.

1.4 The two establishing Acts provide that the RDCs can only spend monies received from the Commonwealth if they comply with a written funding agreement. The corporations signed four-year agreements with the Commonwealth in June 2015 and extended them in June 2019 until December 2019, or until the execution of a new agreement. The agreements reinforce compliance with obligations under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the respective establishing Act. The agreements also require the RDCs to undertake a performance review.

3 The Commonwealth typically matches levies up to half a per cent of the gross value of production.

4 This overcomes the historical 'free-rider' problem that a producer may not pay a levy but nonetheless use new knowledge and take up new methods from the RD&E. Productivity Commission (PC), *Rural Research and Development Corporations,* Productivity Commission Inquiry Report, No. 52, PC, Melbourne, 2011, p. 23.

1.5 The establishing Acts require the Minister to declare at least one industry body for each corporation as a representative organisation. These declared bodies are involved in the appointment of directors, must be consulted during the corporations' planning, can be reimbursed for reasonable consultation expenses, must receive certain types of reports and plans, and must be able to meet with the corporation annually.

Research, development and extension activities

Functions and powers

1.6 The four RDCs' functions under section 11 of the PIRD Act include preparing research and development plans and annual operational plans, coordinating and funding research and development activities consistent with the annual operating plan, disseminating and commercialising the research and development, and arranging marketing.[5] The RDCs have powers under section 12 to do anything necessary or convenient for the purpose of these functions, including buying, holding and selling all types of property.

1.7 Wine Australia's functions under section 7 of the *Wine Australia Act 2013* include coordinating or funding wine and grape research and development, disseminating, commercialising and promoting the adoption of this work, marketing grape products and controlling the export of grape products. Its functions do not include conducting research and development. Section 8 gives Wine Australia the power to do all things necessary or convenient to perform its functions.

1.8 Examples of research projects that the corporations are funding are:

- AgriFutures Australia is providing $226,000 to co-fund with the Queensland Department of Agriculture and Fisheries a project to develop a visual guide to litter management for chicken meat producers to improve their management of litter;
- the Cotton RDC is providing $705,000 and $124,000 in-kind to co-fund with the CSIRO a project to model and assess cotton quality using spatial data to improve crop management;
- the Fisheries RDC provided $1.7 million to co-fund the Australian Aquatic Animal Health and Vaccine Centre with the Tasmanian Government, the Tasmanian Salmonid Growers' Association and the Seafood Co-operative Research Centre to conduct salmon vaccine research to reduce production losses through disease;
- the Grains RDC is providing $45 million over five years to Bayer to support the development of new herbicides[6]; and
- Wine Australia is providing $12.1 million to the Australian Wine Research Institute over five years to conduct seven research projects into wine texture, taste, quality and the effects of soil and climate.

5 However, the RDCs under the PIRD Act are yet to procure marketing services. The RDCs' functions do not include conducting research and development activities themselves.

6 The contractor for this project is Bayer CropScience.

Outcomes

1.9 In its 2011 report, the Productivity Commission noted that the rural RD&E sector had reported the following benefits from RD&E:

- increased productivity and competitiveness through new breeds, varieties and production technologies;
- environmental outcomes such as reduced pesticide use, improved fire management in forests and use of trees in urban areas to mitigate climate change; and
- social outcomes including reduced food borne illness, business opportunities for Indigenous Australians, and improved livestock welfare.[7]

1.10 The Productivity Commission stated that these categories are not separate and that the interests of consumers and producers are often linked. Improved livestock welfare could improve or maintain demand for the product, for example.[8]

1.11 The Council for Rural Research and Development Corporations is the sector's peak body. The Council has overseen the production of impact assessment materials that the corporations use to conduct or commission cost benefit analysis of RD&E projects.[9] The Council commissioned a 2016 study that collated individual impact assessments across the corporations. It found, for 167 projects in randomly submitted project groups across nine corporations, a weighted present value cost/benefit ratio of 1 to 4.5 for RDC funded projects.[10]

Governance

1.12 The PGPA Act and the two establishing Acts set out the corporations' governance structure. Section 16 of the PIRD Act provides that each corporation is constituted by a Chairperson (who is a director), an Executive Director (the chief executive officer) and five to seven other directors. Sections 17 and 77 provide that the Minister appoints the directors, except the Executive Director, whom the directors appoint. Section 13 of the *Wine Australia Act 2013* states that Wine Australia comprises the directors only. The Minister appoints the directors under section 14. Wine Australia has a general power to appoint employees, including the principal employee, under section 30.

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7 Productivity Commission, *Rural Research and Development Corporations,* Productivity Commission Inquiry Report, No. 52, PC, Melbourne, 2011, p. 45.

8 Productivity Commission, *Rural Research and Development Corporations,* Productivity Commission Inquiry Report, No. 52, PC, Melbourne, 2011, p. 46.

9 The main parameters outlined for cost benefit analysis are: the cost of RD&E; productivity improvements that would have otherwise happened; the adoption rate; market and non-market benefits to the corporation's industry, other industries and the community; and sensitivity analysis to test the importance of assumptions. Rural R&D Corporations, *Cross-RDC Impact Assessment Program: Guidelines,* 2018.

10 Out of the 167 projects, AgriFutures Australia had 24, Cotton RDC had nil, Fisheries RDC had 26, Grains RDC had 20, and Wine Australia had five. The non-government RDCs had 92 projects in the sample. Agtrans Research, AgEcon Plus and EconSearch, *Cross-RDC Impact Assessment and Performance Reporting Update: Stage 1: Cross-RDC Impact Assessment for the Period 1 July 2009 to 30 June 2015,* Council of Rural Research and Development Corporations, Canberra, 2016, p. 17.

1.13 The directors appointed by the Minister comprise the corporations' governing bodies.[11] For corporate entities, section 12 of the PGPA Act provides that the accountable authority of an entity is its governing body.

The board's role in promoting probity

1.14 The PGPA Act places a number of duties on accountable authorities. Section 15 requires each accountable authority to promote the proper use of public resources. Section 26 requires officials of corporations (both directors and staff) to act for a proper purpose. Section 8 defines 'proper' as efficient, effective, economical and ethical. There are broad probity obligations on the directors (and staff) of the corporations. The boards must fulfil their governance role, including in relation to probity matters.

1.15 Major Australian corporate governance reviews have included the 2003 Royal Commission into HIH Insurance, the 2018 APRA Prudential Inquiry into the Commonwealth Bank of Australia and the 2019 Royal Commission into the financial services industry. These reviews have discussed the importance of the 'soft' aspects of governance, in particular organisational culture. Their findings included that the corporations' boards were not receiving appropriate information and had accepted management's representations instead of forming an independent opinion.[12]

1.16 These issues were discussed in the introduction to the performance audit report, *Effectiveness of Board Governance at Old Parliament House.* The report noted that current guidance for accountable authorities focuses on legal compliance and Commonwealth boards do not have guidance along the lines of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* and the Australian Institute of Company Directors' resources. The report recommended that the Department of Finance update its guidance to incorporate lessons learnt from wider governance reviews. The department accepted the recommendation, noting that it reflected work underway.[13]

1.17 In order to fulfil their governing role in relation to probity, the corporations' accountable authorities would be expected to set out roles and reporting within the corporation, approve and review probity policies, ensure they are informed about the corporation's activities, act on information promptly, and take an active role when working with management.

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11 The governing role includes appointing the Executive Director or the principal employee.

12 N Owen, *The Failure of HIH Insurance Volume 1: A Corporate Collapse and its Lessons,* The HIH Royal Commission, 4 April 2003, The failure of HIH: a critical assessment and Chapter 6: Corporate Governance; Australian Prudential Regulation Authority (APRA), *Prudential Inquiry into the Commonwealth Bank of Australia (CBA) Final Report,* 30 April 2018, pp. 14, 81; K M Hayne, *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Final Report,* 1 February 2019, pp. 332–33, 346, 365, 393–99, 409.

13 Auditor-General Report No. 34 2018–19 *Effectiveness of Board Governance at Old Parliament House,* pp. 16–22. The current guidance for accountable authorities is Department of Finance (DoF), *Guide to the PGPA Act for Secretaries, Chief Executives or governing boards (accountable authorities) — RMG 200* [Internet], DoF, Canberra, 2016, available from https://www.finance.gov.au/resource-management/accountability/accountable-authorities/ [accessed 24 July 2019]. See also Australian National Audit Office (ANAO), *Board governance* [Internet], ANAO, 2019, available from https://www.anao.gov.au/work/audit-insights/board-governance [accessed 6 June 2019].

Profile of the corporations

1.18 The corporations have similar frameworks but differ in relation to their industries, size and other arrangements. Key points about individual corporations are:

- *AgriFutures Australia* is responsible for industries related to buffalo, goat fibre, honey, kangaroo and wallaby, meat chicken, pasture seed, rice, deer, ostrich, ginger, fodder, tea tree oil and thoroughbred horses, as well as new and emerging industries such as hazelnut, goat milk and hemp. The RDC supports industries that do not have their own research and development function, new and emerging industries, and issues that affect the whole of agriculture.
- The *Cotton RDC* is responsible for industries related to cotton fibre and seed cotton.
- The *Fisheries RDC* is responsible for Australian fishing and aquaculture related to all living aquatic natural resources in Australian rivers, estuaries and the sea.
- The *Grains RDC* is responsible for industries related to wheat, coarse grains, pulses and oilseeds.
- *Wine Australia* is responsible for industries related to grapes and wine. In addition to RD&E, the corporation regulates the export of wine and the geographical indicators on Australian wine, and conducts wine marketing. From 2018 to 2020 Wine Australia is also administering the Export and Regional Wine Support Package that includes export and regional tourism grants, training and export marketing.

1.19 The differences between the corporations give them different profiles for probity risk. For example, Wine Australia undertakes marketing, which may increase risk around the receipt of gifts, benefits and hospitality. A common risk for the entities is achieving value for money when procuring RD&E due to the specialised nature of the work in some cases and the resulting lack of competition. Another common risk is that conflicts of interest may arise due to the corporations' links with industry.

1.20 The corporations' operations are compared in Table 1.2.

Table 1.2: Comparison of the operations of the corporations, 2017–2018

Corporation	Program spending	Total expenses	Royalty revenue	Representative organisations	Locations
AgriFutures Australia	$21.4m	$28.2m	$0.4m	Australian Chicken Meat Federation National Farmers' Federation	Wagga Wagga
Cotton RDC	$21.6m	$25.1m	$1.2m	Cotton Australia	Narrabri
Fisheries RDC	$26.0m	$31.4m	Nil	Commonwealth Fisheries Association National Aquaculture Council RecFish Australia Seafood Industry Australia	Adelaide, Canberra, and Port Stephens
Grains RDC	$192.1m	$219.8m	$6.0m	Grain Growers Limited Grains Producers Australia Limited	Adelaide, Canberra, Perth and Toowoomba

Corporation	Program spending	Total expenses	Royalty revenue	Representative organisations	Locations
Wine Australia	$36.2m	$54.4m	Nil	Australian Grape and Wine Incorporated	Adelaide, London, San Francisco, Shanghai, Sydney and Vancouver

Note: Wine Australia's program spending includes $12.0 million in marketing expenditure, which the other entities do not engage in. Its overseas operations are managed by subsidiary corporate bodies.

Source: The corporations' 2018 annual reports.

Department of Agriculture, *Rural Research and Development Corporations* [Internet], 2019, available from: http://www.agriculture.gov.au/ag-farm-food/innovation/research_and_development_corporations_and_companies#statutory-rdcs [accessed 28 May 2019].

1.21 AgriFutures Australia relocated from Canberra to Wagga Wagga at the end of 2016. The corporation advised that, of its current personnel of 35, only two remain from the Canberra staff. The RDC also advised that its corporate and research teams in Wagga Wagga were under-resourced during establishment in that city.

Rationale for undertaking the audit

1.22 It is critical that the corporations uphold high probity standards given their often close interactions with a small number of researchers over time, and potential conflicts arising from the corporations' directors being industry representatives themselves. Total expenditure for the corporations in 2017–18 was $359 million and the audit was designed to provide assurance that RDCs are appropriately managing public funds in terms of probity risks. RDCs were last involved in a performance audit in 1998.[14] The findings can provide lessons for future funding agreements managed by the Department of Agriculture, and the corporations can adopt examples of better practice highlighted in the audit.

Audit approach

Audit objective, criteria and scope

1.23 The audit assessed the effectiveness of the rural research and development corporations' management of probity.

1.24 To form a conclusion against the audit objective, two high-level criteria were adopted:

- do the corporations have appropriate probity arrangements?
- have the corporations complied with applicable probity requirements?

Accordingly, effective management of probity requires RDCs to have high levels of compliance with appropriate probity arrangements

1.25 The audit examined probity processes and compliance with those processes in 2017 and 2018 for the five rural research and development corporations that are Commonwealth entities. The audit report focuses on practices and processes in place in those two years. Each of the five RDCs was responsive to issues raised during the audit, and sometimes had separate processes to

14 Auditor-General Report No. 23 1998–99, *Accountability and Oversight Arrangements for Statutory Bodies in the Former Primary Industries and Energy Portfolio*.

review probity policies and practices, and accordingly made a number of improvements to their management of probity in 2019. Some of these improvements are recognised in the report, but not all to reflect the primacy of the audit testing results and for the sake of reporting clarity.

1.26 The audit mainly addressed five probity themes: conflict of interest; gifts, benefits and hospitality; value for money in spending program funds, especially in relation to RD&E; intellectual property; and credit cards.

1.27 The audit did not examine Wine Australia's regulatory activities. The audit also did not examine the 10 industry-owned corporations that have funding arrangements with the Department of Agriculture.

Audit methodology

1.28 Audit procedures included:

- examining the entities' board documents, policies, risk assessments, internal audit records and compliance records;
- testing procurements, gifts and credit card records against entity policies and better practice standards;
- interviews with Chairs, Audit Committee Chairs, and senior staff at the corporations; and
- interviews with selected industry organisations.

1.29 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of approximately $625,000.

1.30 The team members for this audit were David Monk, Irena Korenevski, Anne Kent, David Willis, Danielle Page, William Richards and Andrew Morris.

2. Do the corporations have appropriate probity arrangements?

Areas examined

This chapter examines whether the research and development corporations have established appropriate frameworks to ensure that the board and staff conduct their affairs with probity. The audit reviewed the corporations' governance, in particular board practices, reporting to the board and risk management. The chapter also examines the corporations' probity policies and internal controls.

Conclusion

The corporations' probity arrangements in relation to governance, policies and internal controls were largely appropriate, except for Wine Australia whose arrangements were partially appropriate.

Areas for improvement

The ANAO made four recommendations directed at particular corporations designed to: improve their governance frameworks for probity (paragraph 2.11); improve their policies for conflicts of interest (paragraph 2.38); increase their mechanisms for receiving tip-offs about possible fraud (paragraph 2.83); and improve probity training (paragraph 2.95).

The ANAO made a number of suggestions for particular corporations to incorporate better practices into their policies, including to: specify the management of declared interests (paragraph 2.42); set appropriate reporting threshold for gifts, benefits and hospitality received and offered (paragraph 2.49); cover the receipt of hospitality when undertaking official business (paragraph 2.50); require management to brief the board on the tender method before it approves a procurement (paragraph 2.57); and cover the assessment of variations (paragraph 2.59).

2.1 The accountable authority of each research and development corporation (RDC) is the board. Section 15 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires the accountable authority to govern the entity in a way that promotes economy, effectiveness, efficiency and ethics. The sub-criteria in this chapter trace how the boards exert their authority over the RDCs, starting with their own governance, then the policies they approve or delegate, and finally how they ensure compliance with policy through internal controls.

Do the boards' governance arrangements promote probity?

The board's governance arrangements at the Cotton RDC were effective in promoting probity. The arrangements at AgriFutures Australia and the Fisheries and Grains RDCs were largely effective in promoting probity, while the arrangements at Wine Australia were partly effective in promoting probity.

The corporations' boards have approved charters or policy frameworks that allocate responsibility for approving probity policies, except for Wine Australia. These four boards have retained responsibility for policies around standards of behaviour. Reporting to the five corporations' boards about gifts, benefits and hospitality and probity incidents was appropriate. The Grains RDC can improve reporting to the board on compliance with RD&E procurement policies, noting that all procurement during the audit period was delegated to management. The five corporations, except for the Cotton RDC, can improve reporting to the board on conflicts of interest. The corporations' boards established policies and frameworks to enable them to oversight probity risks. The boards at AgriFutures Australia and the Cotton and Fisheries RDCs met legal requirements for risk reporting; the two other corporations did not and also had scope to improve their risk registers.

2.2 The corporations' boards are responsible for the corporations' governance under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), the *Primary Industries Research and Development Act 1989* (PIRD Act) and *Wine Australia Act 2013.* Section 15 of the PGPA Act requires the board, as the accountable authority, to promote the proper use and management of the public resources for which it is responsible. This would include mandating particular conduct and receiving sufficient reporting to be informed that it occurs. 'Proper' includes probity because the PGPA Act defines it as efficient, effective, economical and ethical.

2.3 The corporations' status as corporate Commonwealth entities means they have more discretion in how they conduct their affairs than non-corporate Commonwealth entities.

Did the boards establish appropriate governance frameworks for probity?

2.4 One way in which boards establish a governance framework is through a board charter that sets out the functions, roles, powers and membership of the board.[15] All the corporations had a charter except for Wine Australia, which has subsequently prepared one that is awaiting board approval. While recognising the clarity provided by a charter, Wine Australia advised that the roles of the board, its committees and staff were well understood at the time of the audit, but did not provide supporting documentary evidence.

2.5 A board would typically be responsible for the entity's statement of values, which would include proper standards of behaviour.[16] The boards at the Cotton, Fisheries and Grains RDCs used their charters to either affirm their commitment to ethical standards or acknowledge the board's role in ensuring the entity conforms to them. The charter at AgriFutures Australia required the directors to uphold certain ethical standards but did not comment on the ethical standards required at the corporation generally. Management set the ethical standards required of staff.

2.6 A board can use its charter to delegate responsibility for policies to management, including probity policies. The boards for the Cotton and Fisheries RDCs used their charters to retain responsibility for all policies. The board of the Grains RDC has approved a policy framework that reserves to it governance policies that cover areas such as standards for behaviour, financial limits, and external reporting. Additional to its charter requirements, this board approved its intellectual property policy. The charter for AgriFutures Australia reserves strategic policies for the board and

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15 ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations,* 4th edition, 2019, p. 6.

16 ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations,* 4th edition, 2019, p. 16.

delegates operational policies to the Executive Director, which does not make clear whether the board has retained responsibility for probity policies.[17]

2.7 Seven probity policies were tested to determine whether board practices of approval and review were consistent with their charters for the Cotton, Fisheries and Grains RDCs:

- five directly related to statutory standards of conduct under the PGPA legislation: ethics; use of position; use of information; disclosure of interests; and fraud[18]; and
- two related to the corporations' key activities: the procurement of research and development; and the management of intellectual property and project technology.[19]

2.8 Under their charters, the three relevant boards were expected to approve the five policies relating to standards of conduct. The boards of the Cotton and Fisheries RDCs did so. The board of the Grains RDC approved policies for use of position, disclosure of interests and fraud, but not for ethics or use of information. The boards of the Cotton and Fisheries RDCs were expected to approve the policies for procurement and intellectual property, which the Cotton and Fisheries RDCs did.

2.9 There are opportunities for improvement in how the corporations' boards manage probity policies. The board of AgriFutures Australia can take responsibility for policies around ethics, which would be consistent with generally recognised governance principles. The boards of AgriFutures Australia and the Grains RDC should approve their policies for procuring RD&E and managing intellectual property, given the importance of these areas to the entities. The board at Wine Australia should also take responsibility for these matters when it receives the draft charter developed by management.[20] The board of the Grains RDC can approve all its policies for ethics, as required by its charter.

2.10 The boards of the Cotton and Fisheries RDCs effectively managed their charters and complied with them when approving probity policies.

17 It may be more useful to distinguish between the board being responsible for policies and management being responsible for procedures. AgriFutures Australia advised that in September 2019 its board resolved to approve all policies.

18 The audit selected these standards of conduct because they are the specific, legislated probity requirements that apply to all Commonwealth entities. See sections 26–29 in the PGPA Act and sections 10 and 14–16 in the PGPA Rule.

19 The audit selected these activities because they are the RDCs' main functions under section 11 of the PIRD Act and section 7 of the *Wine Australia Act 2013*.

20 Wine Australia provided a draft charter developed during the audit, which states that the board must approve all policies for probity, ethics, procurement and intellectual property, except where it has delegated approval to the Audit Committee.

Recommendation no.1

2.11 In respect of board charters:

(a) AgriFutures Australia amends its charter to specify that the board is responsible for approving probity policies relating to ethics, procurement and intellectual property;

(b) the Grains RDC amends its charter to specify that the board is responsible for policies relating to procurement and intellectual property, and also ensures that policy approval is consistent with its charter; and

(c) Wine Australia, when approving a new charter, specifies that the board is responsible for policies on ethics, procurement and intellectual property.

AgriFutures Australia response: *Agreed.*

2.12 *The Board resolved at the September 2019 Board meeting to reserve the power to approve all policies commencing with the Governance Policies in December 2019. The Board Governance Manual and Audit Committee Charter were revised and updated in November 2019 and approved by the Board on 4 and 5 December 2019.*

Grains RDC response: *Agreed.*

Wine Australia response: *Agreed.*

2.13 *The Wine Australia Board has approved a new Board Charter that specifies that the Board is responsible for policies on ethics, procurement and intellectual property.*

Did the boards receive appropriate reporting on probity?

2.14 Section 15 of the PGPA Act requires the boards, as the accountable authority, to promote the economical, effective and efficient use of public resources. To implement this requirement, the boards can receive reporting on probity topics proportionate to risk as well as on confirmed probity incidents. Reporting to the board was examined for: procurement; conflicts of interest; the receipt of gifts, benefits and hospitality; and credit cards.

Procurement

2.15 Progress reporting to the boards on their portfolio of projects, for example in relation to time and budget, would inform them about the economy of their procurements. The boards of AgriFutures Australia, the Cotton and Fisheries RDCs and Wine Australia received this reporting but the board of the Grains RDC did not. Reporting on project impact would provide information on effectiveness. All boards received some reporting on effectiveness, which was typically based on impact assessments and cost-benefit analysis.

2.16 Reporting to the boards about compliance with procurement policies provides further information about economy and ethics. This particularly applies where procurement was delegated to management. The Cotton and Fisheries RDCs and Wine Australia had a low delegation limit and their boards approved a high number of projects.

2.17 AgriFutures Australia and the Grains RDC had high delegation limits and their boards approved four and zero projects respectively. The Audit Committee of AgriFutures Australia received and considered an internal audit report on RD&E procurement in February 2018, which found non-compliance with policies in relation to conflicts of interest and assessing value for money. During 2018, neither the board of AgriFutures Australia nor its Audit Committee used the audit to revise the policies. The board of the Grains RDC did not receive reporting about compliance with procurement policies. This board should receive regular compliance reports to assure itself that management is exercising delegations consistent with policy.

Conflicts of interest

2.18 Under section 16 of the PGPA Rule, staff at the corporations must disclose material personal interests in line with any directions given by the accountable authority. The funding agreements make the same requirement of panel members. All the corporations except for the Cotton RDC managed panels. In light of these requirements, the boards were expected to receive reporting about conflicts of interest held by staff and panel members.

2.19 Of the four corporations that managed panels, none of their boards received reporting about conflicts of interest held by panel members. The board of the Grains RDC received reporting about an internal audit on panels that included managing conflicts of interest.

2.20 The Audit Committee of the Cotton RDC received reporting on staff conflict of interest, through a fraud risk management review. In February 2018, management presented the register of staff interests to the board, along with the statutory requirement that staff must disclose material personal interests. The board noted the register.

Gifts, benefits and hospitality

2.21 None of the boards received reporting on gifts, benefits and hospitality. During interviews, the corporations advised of infrequent or nil levels of receiving these items. The exception was Wine Australia, where the CEO reported attending dinners for industry consultations and receiving bottles of wine as trade samples ‘to improve his knowledge of the sector and its products’. Wine Australia advised the ANAO that these gifts and hospitality were under the $200 reporting limit in its gifts policy and did not formally need to be recorded or otherwise reported. Reporting to the boards on gifts, benefits and hospitality is proportionate to risk. Management of gifts, benefits and hospitality is discussed further in Chapter 3.

Credit cards

2.22 None of the boards received reporting on credit card use. One means by which a board could receive reporting on them would be through conducting an internal audit. None of the entities conducted an internal audit of credit cards in 2017 or 2018. Compliance with policy in managing credit cards can be an indicator of culture, in which case its importance to senior management and the accountable authority extends beyond the materiality of the transactions.

Probity incidents

2.23 Six probity issues arose across the five corporations in 2017 and 2018. On the basis of confirmed incidents and legal requirements, reporting to the boards was appropriate. Two occurred at AgriFutures Australia, which investigated and finalised the matters with a nil finding. Four occurred at the Grains RDC. Two occurred within the board and were resolved by the board. One was a public interest disclosure made under the *Public Interest Disclosure Act 2013* and not eligible to be reported to the board.[21] The final matter involved staff. It was not investigated, not confirmed, and not reported to the board.[22] The probity incidents are discussed further later in this chapter (see paragraphs 2.99 to 2.102).

Did the boards appropriately manage probity risks?

2.24 Section 16 of the PGPA Act requires the accountable authority of each Commonwealth entity to establish and maintain an appropriate system of risk oversight and management.[23]

2.25 One way that boards can demonstrate risk oversight is to approve appropriate risk policies and to receive risk reports in line with these policies. All the boards approved a risk framework through a board charter or risk policy. Table 2.1 provides further information on how the boards oversighted risk.

Table 2.1: Board oversight of risk at the RDCs, 2017 and 2018

	Framework approved	Reporting frequency	2017 reporting	2018 reporting
AgriFutures Australia	2014, 2018	Not specified	3/4	2/4
Cotton RDC	2015, 2018	Not specified	5/6	5/7
Fisheries RDC	2016, 2017, 2018	Every meeting; not specified from August 2018	4/5	0/3 then 2/2
Grains RDC	2015, 2017, 2018	2/year	3/6	1/6
Wine Australia	2014	1/year and as required	0/5	0/5

Notes: The Fisheries RDC board adopted a new risk framework in August 2018 which did not have specific reporting requirements.

In the last two columns, the first figure is the number of meetings that the board received risk reporting and the second figure is the number of regular board meetings that year.

The years in the 'framework approved' column show if the board approved a framework in 2017 or 2018, as well as the most recent approval before then.

Source: ANAO analysis of the corporations' risk policies and board papers.

2.26 All five corporations had risk management plans and risk registers, which demonstrated risk management practices, as required under section 16. Combined with the oversight arrangements,

21 The Act creates a system where individuals can confidentially report suspected wrongdoing to an entity, which must arrange for it to be investigated and to take appropriate action.

The Commonwealth Ombudsman reports those entities that have received public interest disclosures. In 2016–17, the Commonwealth Ombudsman received disclosures from the Grains RDC: Commonwealth Ombudsman, *Annual Report 2016–17,* Canberra, 2017, p. 117.

22 The Grains RDC initially assessed the allegation as a public interest disclosure and later referred it to internal audit. The corporation did not document why the investigation did not proceed.

23 The *Commonwealth Risk Management Policy* does not apply to the RDCs because they are corporate Commonwealth entities. At page 9, the policy states that corporate Commonwealth entities 'should review and align' their arrangements with it to demonstrate good practice: Department of Finance, *Commonwealth Risk Management Policy,* Department of Finance, Canberra, 2014.

AgriFutures Australia and the Cotton and Fisheries RDCs provided sufficient evidence to indicate compliance with section 16.

2.27 The corporations' risk registers would typically be expected to show inherent risks, risk treatments, and residual risks within the context of their entities' risk appetites.[24] The risk registers for AgriFutures Australia and the Cotton RDC did this. The register for the Fisheries RDC did so from May 2018. The register for the Grains RDC and Wine Australia had some of these elements, but not all, meaning these corporations did not have an accurate, overall assessment of their risks:

- the Grains RDC register from January 2017 did not cover inherent risk and had little detail about treatment. The corporation revised its register in September 2018 to cover inherent risk and treatment, but omitted risk targets; and
- the Wine Australia register did not include risk appetite, some risks increased after treatment, some risks were incomplete, and some risk ratings did not comply with the process in the risk management plan. During the audit, Wine Australia provided a new risk register that addressed these matters.

2.28 Section 16 of the PGPA Act requires an accountable authority to establish an appropriate system of risk oversight and management. Key risks for the RDCs are value for money (the specialised nature of their procurements) and conflicts of interest (links to industry). Further, section 10 of the PGPA Rule requires the accountable authority to conduct fraud risk assessments regularly. The registers of all five corporations included fraud. Only the Grains RDC explicitly covered value for money (from September 2018). The registers of AgriFutures Australia, the Cotton RDC and Wine Australia included conflicts of interest and the register for the Grains RDC did so until September 2018. The register for the Fisheries RDC did not. In 2019, the Fisheries RDC updated its register to include risks for value for money and conflicts of interest.

2.29 In June 2019, the board of the Grains RDC approved a new strategic risk register that covered fraud, value for money and conflicts of interest. The register also covered inherent risks, risk treatments, residual risks, and risk targets. A new treatment in the register is regular compliance reporting to the Audit and Risk Committee and the board.

2.30 Probity incidents represent an opportunity for the corporations to update their risk registers. As discussed below, the only corporation subject to a confirmed incident was the Grains RDC. There was no evidence that this corporation updated its register to take the incidents into account. The Cotton RDC did not have a probity incident, but its audit committee considered the risk impact of a civil case involving a funded researcher and requested management to examine whether the matter was covered under the current risk register.

24 These components are explained in UL Anderson, MJ Head, S Ramamoorti, C Riddle, M Salamasick and PJ Sobel, *Internal Auditing: Assurance and Advisory Services,* 4th edition, Internal Audit Foundation Lake Mary Florida, 2017, p. 4–18.

Do the corporations have appropriate policies in place to promote probity and value for money in funding decisions, and manage intellectual property and credit cards?

Four corporations' policies were largely appropriate in promoting probity in funding decisions, and managing intellectual property and credit cards, while Wine Australia's policies were partially appropriate. Areas for improving or reviewing policies were:

- contract variations, for all five corporations;
- reflecting the legal requirements for conflict of interest for the Cotton RDC and Wine Australia;
- providing RD&E funding to industry bodies, for all five corporations;
- for giving and receiving gifts, for all five corporations;
- reviewing credit card transactions, for all five corporations; and
- promoting reasonable competition, for Wine Australia.

2.31 By approving policies, the corporations' boards and senior management can stipulate standards required of staff in relation to conduct, ensuring value for money in funding decisions, appropriately managing intellectual property, and appropriately managing credit cards. Clear, comprehensive policies mean that staff need to apply less discretion in probity matters, which decreases the chances of them engaging in conduct that is, or is perceived to be, inappropriate.

Do the corporations' policies promote probity in funding decisions?

2.32 The Commonwealth Procurement Rules (CPRs) apply to non-corporate Commonwealth entities and prescribed corporate Commonwealth entities. The RDCs are corporate Commonwealth entities, and do not need to comply with the Rules. The exception is the Grains RDC, which has been prescribed under the PGPA Rule. The CPRs do not state that they represent better practice for other Commonwealth entities.

2.33 The corporations' funding agreements stated that they should draw on better practice guidance in establishing a governance framework for managing and investing their funds. The Department of Finance has issued guidance outlining 11 principles to support probity in procurement.[25] Five of the principles relate to legal requirements placed on the corporations through the PGPA Act, PGPA Rule and the funding agreements. These relate to ethical behaviour, use of position (which also covers accepting gifts or benefits from potential suppliers), confidential information and conflict of interest.

2.34 All the corporations had policies in place for ethical behaviour, use of position, and confidential information.

25 Department of Finance, *Ethics and Probity in Procurement* [Internet], Department of Finance, 2019, available from https://www.finance.gov.au/procurement/procurement-policy-and-guidance/buying/accountability-and-transparency/ethics-and-probity/principles.html [accessed 7 April 2019]. Prior update was in 2014.

Conflict of interest

2.35 The corporations are subject to multiple legal requirements in relation to conflict of interest under section 29 of the PGPA Act, sections 14 to 16 of the PGPA Rule, and clause 4 of their funding agreements. The legal requirements include detail on how the board must manage directors' declared interests. The requirements are listed in Appendix 2.

2.36 The corporations were effective or largely effective in incorporating these legal requirements into their policies (see Table 2.2). At Wine Australia, the CEO rather than the board approved the conflict of interest policies. This does not comply with section 16 of the PGPA Rule that requires staff to disclose their material personal interests in line with any instructions given by the accountable authority. Better practice would be for the directors to take responsibility for declaring and managing their interests and approve the policies that apply to them, rather than the CEO doing this.

Table 2.2: Inclusion of conflict of interest requirements in RDCs' policies

Corporation	Completeness	Commentary	Reference
AgriFutures Australia	●	Meets all requirements	NA
Cotton RDC	◕	Did not explain the process in the PGPA legislation under which a board member must leave the meeting and not vote Legislation requires the accountable authority to decide if a director stays in a meeting, but the policy states this is a decision for the Chair	Sub-sections 15(2) and 15(3) of the PGPA Rule
Fisheries RDC	●	Meets all requirements	NA
Grains RDC	●	Meets all requirements	NA
Wine Australia	◕	Legislation requires staff to comply with any policy that the board approves for staff to disclose material personal interests, but the CEO approved the policy	Section 16 of the PGPA Rule

Key: ○ no requirements implemented
◔ up to one third of requirements implemented
◑ between a third and two thirds of requirements implemented
◕ between two thirds and all except one requirement implemented
● all requirements implemented

Note: Nine legal requirements for conflicts of interest were tested. The Cotton RDC did not manage industry panels, so it had eight applicable requirements. Wine Australia had ten because its Act modifies the definition of a material personal interest for that entity.

Source: ANAO analysis of the RDCs' policies.

2.37 As noted in paragraphs 1.19 and 2.28, the corporations have links with industry, creating the potential for conflicts of interest. This risk is recognised in their establishing legislation and all the corporations had conflict of interest policies that sought to avoid and manage this risk. The legislation provides some detailed processes and two of the corporations can improve their policies by incorporating all these requirements.

Recommendation no.2

2.38 The Cotton RDC and Wine Australia revise their conflict of interest policies to fully reflect legal requirements.

Cotton RDC response: *Agreed.*

2.39 *CRDC will update the conflicts of interest policies to fully reflect the legal requirements.*

Wine Australia response: *Agreed.*

2.40 *The Wine Australia Board has revised and approved its policies with respect to conflicts of interest. These policies fully reflect legal requirements.*

2.41 Testing of procurements, discussed further in Chapter 3, identified opportunities for the RDCs to extend or clarify policies around conflicts of interest. In one case, the board of the Fisheries RDC approved a project out of session at the request of management. Its policies and procedures for managing conflicts do not refer to out of session decisions[26] and those for out of session decisions do not refer to managing conflicts of interests. The corporation could not demonstrate that it had considered conflicts of interest before making its decision. The Fisheries RDC is revising its board governance policy to address this issue.

2.42 The corporations' policies did not fully cover managing declared interests, particularly those of staff. Section 29 of the PGPA Act requires directors and staff to declare material personal interests. Section 16 of the PGPA Rule requires staff to disclose material personal interests in accordance with any instructions made by the accountable authority. The purpose of these declarations is that the RDCs and their panels can then manage the interests.[27] In respect of policies to manage conflicts:

- A Director at Wine Australia had an interest in a research organisation that received funding at a meeting. The minutes did not record it or whether the board managed it. Wine Australia's policies did not provide guidance on managing conflicts.[28]
- The policies for AgriFutures Australia and the Grains RDC described systems for managing disclosed interests of staff, including at meetings. The policies for the other corporations did not. The testing in Chapter 3 indicated that no corporation could demonstrate using the disclosures to manage interests, partly because three of the corporations did not have this in their policies. It is suggested that these corporations amend their policies so they can positively demonstrate they are managing declared conflicts of interest.

2.43 The Department of Finance guidance to support probity in procurement (discussed in paragraph 2.33) lists six further principles that are not legal requirements. They are:

- officials avoiding claims of bias;

26 AgriFutures Australia was the only RDC whose charter did this.

27 In September 2019, the Fisheries RDC updated its employees policy to advise staff of requirements for declaring and managing material personal interests.

28 Wine Australia had an induction document for the board and staff that set out legal requirements for managing interests. These covered material personal interests, rather than perceived interests.

- entities not benefitting from dishonest, unethical or unsafe supplier practices;
- treating all tenderers equitably;
- applying probity and conflict of interest requirements proportionately;
- not excluding suppliers from consideration for inconsequential probity reasons; and
- appointing external probity specialists only where justified.[29]

2.44 The policies of the Grains RDC incorporated all these principles. The four other entities incorporated four of the principles in their policies. The principles that were typically omitted were in relation to not excluding suppliers from consideration for inconsequential probity reasons and appointing external probity specialists only where justified.[30]

Gifts, benefits and hospitality

2.45 A policy for giving and receiving gifts, benefits and hospitality is an important element of a robust control environment and supports ethical conduct. Section 27 of the PGPA Act states that an official must not improperly use their position to gain, or seek to gain, a benefit to themselves or another person. The giving or receiving of gifts, benefits and hospitality can create the perception that the RDCs are subject to inappropriate external influence. In his speech to the Australian Public Service in April 2019, the Prime Minister stated that entity decisions must be made in the best interests of the general public, not organised interests.[31]

Receiving gifts, benefits and hospitality

2.46 Officials at the five RDCs, which includes the board and staff, have legal obligations around the receipt of gifts, benefits and hospitality. Accepting a gift, benefit or hospitality connected to employment at one of the corporations could raise the question of compliance with section 27 and can create a real or perceived conflict of interest.

2.47 All the corporations had policies for the receipt of gifts, benefits and hospitality. The policies were generally available on the corporations' intranet. Except for the Cotton RDC, they also defined gifts, benefits and hospitality and required approval to retain gifts of a certain value (see Table 2.3).

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29 Department of Finance, *Ethics and Probity in Procurement* [Internet], Department of Finance, 2019, available from https://www.finance.gov.au/procurement/procurement-policy-and-guidance/buying/accountability-and-transparency/ethics-and-probity/principles.html [accessed 7 April 2019]. Prior update was in 2014.

30 The Fisheries RDC advised it is revising its procurement policy to cover all six of these principles.

31 The Hon Scott Morrison MP, Prime Minister, *Speech, Institute of Public Administration* [Internet], Department of Prime Minister and Cabinet, available from https://www.pm.gov.au/media/speech-institute-public-administration [accessed 28 October 2019].

Table 2.3: Details of the RDCs' policies for receiving gifts, benefits and hospitality

Corporation	Policy date	Published on intranet	Gifts defined	Specific reporting timeframe	Threshold for written reporting	Approval to keep gifts	Central gifts register
AgriFutures Australia	Dec 2015	Yes	Yes	–	$0	$50 value and above	Yes
Cotton RDC	Aug 2017	Yes	No	–	No	No	No
Fisheries RDC	Jun 2017	Yes	Yes	–	$0	Yes	Yes
Grains RDC	Dec 2016	Yes	Yes	14 days	No	Yes	Yes
Wine Australia	Undated	No	Yes	5 working days	$200	Yes	Yes

Note: The policy for the Fisheries RDC required a recipient to report the gift, benefit or hospitality immediately.

Source: The corporations' gifts, benefits and hospitality policies.

2.48 The most commonly omitted provisions across the entities were for the reporting timeframe and whether there was a value threshold above which the staff member had to provide written advice to the RDC about the gift, benefit or hospitality received. The policy for AgriFutures Australia was due to be reviewed in December 2018 and was reviewed in May 2019. The boards of the Cotton and Grains RDCs approved new gifts policies in June 2019 that set a $50 reporting threshold and addressed all the other items in the table, except reporting period for the Cotton RDC. The Fisheries RDC updated its employees policy in September 2019 to include detailed processes for the receipt of gifts, benefits and hospitality.[32]

2.49 Testing of compliance with the corporations' policies, discussed at paragraph 3.23, showed that AgriFutures Australia had significant detail in its central gifts register.[33] This demonstrated the scale of the risk of improper external influence through the receipt of gifts, benefits and hospitality, and that AgriFutures Australia was managing the risk. This approach applies to Wine Australia to a lesser extent because the $200 reporting limit provides less visibility than the $0 limit that AgriFutures Australia applied.[34] Given the nature of its business, Wine Australia's $200 limit as a sole reporting criterion is too high. It is suggested that the RDCs set reporting criteria that manage the risk of inappropriate external influence and provide visibility around the volume of gifts, benefits and hospitality received and offered.[35]

2.50 Official hospitality may include the provision of meals and beverages to directors and staff as part of conducting official business. AgriFutures Australia had a policy to manage this but the

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32 During the audit, Wine Australia provided a draft policy that addressed the matters in Table 2.3.

33 The register had entries for the date, type of gift, estimated value, the provider, the recipient, and the date of the Executive Director's approval for gifts above $50.

34 AgriFutures Australia had a $50 limit for approving the receipt of gifts, benefits and hospitality. The Fisheries RDC had a zero limit for reporting. It advised that it had not received any gifts in 2017 or 2018.

35 Examples of other criteria are whether the giver has previously provided gifts and whether the giver is a potential supplier.

other four RDCs did not. Due to the risks to the corporations' reputation and to avoid the perception of undue influence on conduct or decisions, it is also suggested that these four RDCs implement guidance around receiving hospitality when undertaking official business.

Giving gifts, benefits and hospitality

2.51 Three of the corporations had policies for giving gifts, benefits and hospitality[36]:

- AgriFutures Australia's policy had an approval process, required a work purpose, and had clear guidance and examples;
- the Fisheries RDC policy had an approval process; and
- Wine Australia's policy had an approval process and had clear guidance and examples.

2.52 In June 2019, the board of the Grains RDC approved a policy and guidelines for the giving of gifts and hospitality. The policy has an approval process, requires the giving to be for a work purpose, and has clear guidance and examples.

2.53 The corporations may wish to compare policies to take advantage of each other's better practice. These include:

- AgriFutures has specific guidance about what is reasonable hospitality at functions (for example quantities of alcohol and around tips), and required the Chair to approve gifts received by the Executive Director to exclude self-approval;
- the Grains RDC policy gave specific examples of what is or is not a gift or benefit and required staff to declare the cumulative value of gifts received from the donor; and
- Wine Australia's policy had examples of inappropriate conduct and suggestions about how an official might make a judgement, for example what is the intent of the gift, likely perceptions, and what if the situation was reversed.

2.54 More broadly, in October 2019 the Australian Public Service Commission released whole of government guidance on gifts and benefits that requires agency heads to publicly declare all gifts and benefits received of over $100 in value every quarter. The guidance states that it represents better practice for corporate Commonwealth entities such as the RDCs and that one of its principles is to promote consistency across Commonwealth entities.[37]

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36 The corporations are not subject to legal requirements for giving gifts. Section 66 of the PGPA Act places restrictions on the giving of gifts by Ministers and officials of non-corporate Commonwealth entities, but these do not apply to corporate entities.

37 Australian Public Service Commission (APSC), *Guidance for Agency Heads — Gifts and Benefits* [Internet], APSC, available from https://www.apsc.gov.au/guidance-agency-heads-gifts-and-benefits [accessed 24 October 2019].
Auditor-General Report No. 47 2017–18 *Interim Report on Key Financial Controls of Major Entities,* examined controls in relation to 26 Commonwealth entities (not including the corporations). The report concluded that, to promote good practice across Australian Government entities, there is merit in the development of a whole of government policy setting minimum requirements for gifts, benefits and hospitality. Refer pages 14–17, 213–14.

Do the corporations' policies promote value for money?

2.55 As discussed in paragraph 2.2, section 15 of the PGPA Act requires the accountable authority of a Commonwealth entity to promote the proper use and management of its public resources, where 'proper' is economical, effective, efficient and ethical. Section 26 requires the accountable authority and staff to act for a proper purpose. As corporate Commonwealth entities, the RDCs are not bound by the CPRs or the Commonwealth Grant Rules and Guidelines (CGRGs) and can establish their own processes provided they comply with sections 15 and 26 of the PGPA Act. One exception is the Grains RDC, which has been prescribed by section 30 of the PGPA Rule and must use the CPRs for procurements at $400,000 and over.[38] Other exceptions are that the corporations must comply with the CGRGs when they make grants on behalf of the Commonwealth[39] or agree to do so in a funding contract. One means by which the corporations might support value for money is to have policies that promote competition. Such an approach would need to be flexible and take into account that the market for research and development is specialised and in some cases there may be only one suitable supplier.[40] The corporations' procurement policies and procedures were examined for whether:

- they had thresholds for running an open tender on a procurement;
- the thresholds were reasonable[41];
- any exemptions to an open tender were reasonable and based on evidence or consultations;
- exemptions to an open tender had the appropriate level of approval;
- the value of the procurement needed to be estimated; and
- application selection criteria covered contractor experience, cost and adoption.

2.56 AgriFutures Australia and the Fisheries RDC had all these items in their procurement policies and procedures. The Cotton RDC's policy required the board to approve the procurement method for all RD&E procurements.[42] Testing in Chapter 3 indicated that the Cotton RDC used open tender for the majority of its large procurements. The Grains RDC, which is also covered by the CPRs, had all items except for the minimum selection criteria. Wine Australia only required its staff to estimate the total maximum value of the procurement.

2.57 For procurements of $300,000 and above, the procurement policy of the Fisheries RDC required one of three methods: open tender; government panel (selecting three panel members); or

38 The corporations' funding agreements with the Department of Agriculture require them to use either the Commonwealth Procurement Rule, or the Commonwealth Grant Rules and Guidelines, if they wish to provide research and development funding to industry representative bodies for either research and development or marketing activities. None of the corporations' policies incorporated this requirement. The Fisheries RDC is updating its representative organisation financial support policy to address this.

39 Department of Finance, *Commonwealth Grant Rules and Guidelines 2017,* Department of Finance, Canberra, 2017, p. 5.

40 This is consistent with the CPRs, which include an exemption to open tender for research and development procurements.

41 For non-corporate Commonwealth entities, the Commonwealth Procurement Rules require an open tender for procurements at or above $80,000. For entities prescribed under section 30 of the PGPA Rule, which includes the Grains RDC, the threshold is $400,000. Any amount between the two was regarded as reasonable.

42 The Cotton RDC set a $100,000 threshold for procurements not related to RD&E.

an open call for research proposals. The policy included an exemption to this if the board approved a project. Testing of its 20 major projects (reported in Chapter 3) revealed no documentary evidence that the corporation used any of these methods for the projects; the Fisheries RDC advised that one of them went to open tender. The board approved all of the 15 general RD&E procurements tested without management formally appraising them of the tender method. All 15 were above the relevant threshold. The corporation better managed the five procurements under the National Carp Control Plan by documenting management's recommendation to the board to delegate approval to the Executive Director and use limited tender due to time constraints, as well as the board's approval of this. It is suggested that the Fisheries RDC amends its procurement policy so the board only uses the general exemption if management formally briefs it on the tender method.

Financial variations

2.58 The requirements for economical, effective, efficient and ethical procurements in the PGPA Act also applied when a corporation considered whether to increase the value of a contract after it had commenced. The means by which the RDCs might support value for money in financial variations were to:

- have an appropriate level of negotiation and approval;
- consider a budget for the additional work;
- assess the reasonableness of the budget;
- consider the cumulative effect of prior variations; and
- consider contractor performance to date.

2.59 None of the corporations' policies covered all the criteria for assessing whether to approve a variation. The policies of all the corporations had guidance on who would approve a variation. Further, the Cotton RDC had a *Researchers' Handbook* that explained how a researcher should apply for a variation, for example submitting a revised budget. It is suggested that the corporations develop comprehensive policies on variations to better demonstrate they are achieving value for money when agreeing to a variation.

Economic impact assessments

2.60 The Council of Rural Research and Development Corporations has published guidance on how to calculate the economic impact of research and development projects, such as return on investment and cost/benefit ratio. The corporations conduct these assessments for the projects that they select.

2.61 As one element of the decision-making process, the corporations could analyse this data to determine whether certain project characteristics are correlated with economic, environmental and social outcomes. After comparing projects with a high return against those with a low return, the RDCs can use the results to better target future investments. The corporations' procurement policies showed no evidence that this had occurred. In July 2019, the Fisheries RDC received a proposal from a consultant for a preliminary study into non-market impact valuations.

Commonwealth Procurement Rules

2.62 The Grains RDC is subject to specific legal requirements that support value for money. It is prescribed under section 30 of the PGPA Rule and must comply with the Commonwealth

Procurement Rules for procurements at or above $400,000. The Grains RDC's policies were tested against six requirements in the Rules. Its policies reflected the legal requirements that:

- it must use AusTender for open tenders;
- it must estimate the value of the procurement before making a decision; and
- it can obtain an exemption from Division 2 of the Rules (tender types and tender processes) when it is procuring research and development.

2.63 The Grains RDC's policies did not reflect the legal requirements that:

- the official responsible for the procurement be satisfied, after reasonable enquiries, that they achieved a value for money outcome;
- the entity must consider the six assessment items in the Rules; and
- it must report on AusTender all procurements at or above $400,000 within 42 days of entering into the contract.

Commonwealth Grants Rules and Guidelines

2.64 When conducting its tourism grants program, Wine Australia was subject to the CGRGs because it agreed to do so when it received the funding from the Commonwealth. Wine Australia's policies were tested against six requirements in the CGRGs. Its policies reflected the legal requirements that it:

- develop grant opportunity guidelines;
- have regard to the seven key principles for grants administration[43];
- publish the grants on specified websites within a certain time period after the individual agreements take effect; and
- retain individual grants information on its website for two years, or publish the information on GrantConnect.

2.65 Wine Australia's policies did not reflect the legal requirements that:

- the grant approval includes an assessment against the grant opportunity guidelines and how the grant achieves value for money; and
- the grant opportunity guidelines will be publicly available.

Do the corporations have appropriate policies for intellectual property and project technology?

2.66 Under section 11 of the PIRD Act and section 7 of the *Wine Australia Act 2013*, the corporations' functions include disseminating and commercialising, and facilitating the dissemination and commercialisation of, the research and development for their relevant industries. Legally registering project outputs as intellectual property supports their commercialisation, but registering is not required to disseminate those outputs.

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43 The principles are: robust planning and design; collaboration and partnership; proportionality; an outcomes orientation; achieving value with relevant money; governance and accountability; and probity and transparency.

2.67 All the corporations had established policies and procedures, including terms in standard contracts, for managing intellectual property in RD&E procurements. During fieldwork, the audit discussed with the RDCs key issues regarding project technology and intellectual property and how the corporations could manage them in RD&E contracts. They comprised:

- access to the researcher’s intellectual property;
- access to third party intellectual property;
- decision-making around whether to commercialise or disseminate;
- ownership of project outputs; and
- requiring researchers to protect project outputs.

2.68 The corporations had policies that covered these items except for AgriFutures Australia. Its standard contract did not mention third party intellectual property and did not allocate responsibility for access to it. The other corporations’ contracts placed responsibility for this on the researcher.

2.69 The corporations’ policies, procedures and standard contracts favoured the free dissemination of project outputs over commercialisation. They did this by either expressly stating it in policy, stating that commercialisation decisions would be made for the benefit of industry, or having dissemination as the default approach in their standard contracts.

Do the corporations have appropriate policies for credit cards?

2.70 All five corporations issued credit cards to staff. Credit cards provide a flexible and convenient way for the corporations to pay for goods and services, albeit at some risk of inappropriate use. Appropriate policies around the issue of cards, their return, their use, and review of transactions help establish effective controls for the management of credit cards.

2.71 Section 16 of the PGPA Act requires Commonwealth entities to establish and maintain an appropriate system of internal control. There are generally recognised better practice processes in relation to credit cards. The corporations’ credit card policies were reviewed to determine whether they covered these practices:

- *for the issue of cards:* there is a business need to issue the card; approved by a certain person; there are obligations for the cardholder; the cardholder agrees to the obligations; and the cards have appropriate limits;
- *for the return of cards:* returned when no longer needed (for example at termination of employment);
- *cardholder’s responsibilities in the use of cards:* they retain appropriate documentation (invoices or receipts); and they acquit the transactions; and
- *reviewer’s responsibilities regarding transactions:* they are independent; acquittal is timely; the reviewer confirms that the purchase was for a work purpose; that the amount is reasonable; and the credit card statement matches the invoice or receipt.

2.72 The corporations’ policies had incorporated almost all the better practice processes for the issue of cards, return of cards, and use of cards (see Table 2.4).

Table 2.4: Inclusion of better practice elements in RDCs' credit card policies

Corporation	Issue of cards	Return of cards	Use of cards	Review of transactions
AgriFutures Australia	5/5	1/1	2/2	3/5
Cotton RDC	5/5	1/1	2/2	2/5
Fisheries RDC	4/5	1/1	2/2	1/5
Grains RDC	5/5	1/1	2/2	1/5
Wine Australia	3/5	1/1	2/2	1/5

Note: The first number in each cell is the number of better practice elements that the corporation included in its policy and the second number is the number of elements tested (as indicated in paragraph 2.71).

Source: Analysis of the corporations' credit card policies.

2.73 The corporations' policies for review of transactions is an area for improvement. None of the policies required the reviewer to assess that the amount was reasonable or match the supporting documents against the credit card statement. Only the policy for AgriFutures Australia required the reviewer to assess that the purchase was for a work purpose.

2.74 Wine Australia included the least number of better practices in its policies. During the audit, Wine Australia prepared a draft policy that meets all these better practices.

2.75 Acquittal of the final statement by employees reduces the chance of them making unauthorised purchases when they have changed roles or ceased employment. Testing of credit card transactions, discussed at paragraph 3.81, showed that the Grains RDC and Wine Australia had an employee leave the corporation without acquitting their final statement, which was not required under their policy at the time.

2.76 The Grains RDC and Wine Australia updated their credit card policies in December 2018 and July 2019 respectively to include a requirement that cardholders must acquit their final statement prior to their exit interview. The Fisheries RDC had this requirement in its policies; the remaining two corporations may wish to adopt it.

Do the corporations have internal controls that promote compliance with probity requirements and effectively address non-compliance?

The five RDCs have developed systems of internal control that are largely appropriate for their probity requirements. Key measures include: fraud control plans; internal audit programs to confirm compliance with probity policies; and training on probity issues. Areas for improvement included:

- establishing a mechanism for the public to confidentially report fraud and probity allegations, for the Cotton and Grains RDCs and Wine Australia;
- Wine Australia to consider including fraud as a topic in its internal audit program, and fully comply with the 10 legislated requirements for fraud control; and
- increased training on probity policies, for AgriFutures Australia, the Fisheries and Grains RDCs, and Wine Australia.

> Six allegations of non-compliance related to probity were reported to the RDCs in the two-year period to 31 December 2018, with five of the six addressed and managed effectively. The Grains RDC did not document investigating or finalising one allegation beyond initial scoping.

Have the entities established an appropriate system of internal control?

2.77 Information on the effectiveness of internal controls gives the board assurance around compliance with probity policies and the extent to which staff will uphold standards of conduct. Section 16 of the PGPA Act requires the corporations' boards to establish an appropriate system of internal control. Section 17 of the PGPA Rule requires the boards to establish an audit committee and systems of internal control. This would include coverage of oversight of the management of identified probity risks including fraud.

2.78 All entity boards have delegated to an audit committee responsibility for reviewing the appropriateness and effectiveness of their RDC's systems of risk oversight and management, systems of internal control and compliance framework. All RDC audit committees report to their boards about activities undertaken as part of their respective systems of internal controls. The nature and extent of this reporting is based on entity size, delegation, consideration of risk and operational practice.[44]

2.79 Common systems of internal controls include fraud control plans, internal audit and external reviews, checking credit card issue and return processes, and training.

Managing fraud risk

2.80 Section 10 of the PGPA Rule requires the accountable authority to take all reasonable measures to prevent, detect and deal with fraud relating to the entity.[45] It lists 10 requirements including fraud risk assessments, fraud control plans, and mechanisms for preventing fraud. Apart from Wine Australia, the corporations were either effective or largely effective in complying with these legislated requirements for fraud control as listed in Appendix 2. The corporations' exceptions against the legal requirements are in Table 2.5.

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44 For example, the Grains RDC Audit and Risk Committee Terms of Reference states that the committee is to report to the board on the appropriateness of internal audit reports, provide advice to the board on significant issues identified in audit reports, and recommend action on significant issues raised including identification and dissemination of good practice.

45 Attorney-General's Department, *Preventing, detecting and dealing with fraud,* Resource Management Guide No.201, August 2017 [Internet], Attorney-General's Department available from [accessed 13 June 2019]: https://www.ag.gov.au/Integrity/FraudControl/Documents/FraudGuidance.pdf.

Table 2.5: Compliance with the requirements for fraud control in section 10 of the PGPA Rule

Corporation	Compliance	Exceptions
AgriFutures Australia	◕	Mechanism for the general public to report is not easily accessible No fraud database to record allegations internally
Cotton RDC	◕	No mechanism for the general public to report
Fisheries RDC	●	Meets all requirements
Grains RDC	◕	No mechanism for the general public to report No fraud database to record fraud internally
Wine Australia	◑	No mechanism for the general public to report No fraud database to record allegations internally Updates of Fraud Control Plan not linked to risk updates Do not clearly document fraud prevention controls

Key: ○ no requirements implemented
◔ up to one third of requirements implemented
◑ between a third and two thirds of requirements implemented
◕ between two thirds and all except one requirement implemented
● all requirements implemented

Source: ANAO analysis of the selected RDCs fraud documentation and board papers.

2.81 Each entity has a fraud control framework in place consisting of a Fraud Control Plan, Fraud Control Policy, and Risk Management Policy and Guidelines. The corporations' internal audit programs for calendar years 2017 and 2018 included fraud related topics, except for Wine Australia. The fraud control plans were reviewed every two years for all RDCs.

2.82 Each of the selected entities had arrangements whereby staff and officials can report fraud allegations confidentially through public interest disclosures. Only two entities, the Fisheries RDC and AgriFutures Australia, have a mechanism for the public to confidentially report incidents.[46] During the audit, Wine Australia established a webpage for the public to report fraud allegations.

46 The Fisheries RDC's materials on fraud and corruption control, and the fraud reporting address, are found on its website: http://www.frdc.com.au/About-us/Fraud-and-corruption-control[accessed 12 June 2019].

Recommendation no.3

2.83 The Cotton and Grains RDCs both establish a mechanism for the general public to report fraud allegations.

Cotton RDC response: *Agreed.*

2.84 *CRDC will improve the public interest disclosure processes on our website to ensure the general public have a mechanism to report fraud allegations*.

Grains RDC response: *Agreed.*

Internal audit program and external reviews

2.85 Prioritising topics within an internal audit program through alignment with probity risks is a key part of an entities' system of internal controls. Each of the five entities had established internal audit programs including probity topics, as outlined in Table 2.6.

Table 2.6: Probity topics included in the RDCs' internal audit programs

Corporation	Internal audits[a] and probity topics
AgriFutures Australia	Seven internal audit topics were identified and three were probity related topics; all of the three probity audits were conducted.
Cotton RDC	Nine internal audit topics were identified and four were probity related; all four were conducted.
Fisheries RDC	Eight internal audit topics were identified with one directly related to probity; with the one conducted.
Grains RDC	The RDC had three high level internal audit categories, with two directly related to probity. Within these categories, four probity related audits were conducted.
Wine Australia	Eleven internal audit topics were identified with one topic directly related to probity and several provider audits conducted.

Note a: Data on internal audits was sourced from the entities in response to a request about internal audit programs. This audit reviewed the 2017 and 2018 calendar years, however in some instances the data included in this table also covers timeframes prior and post this two year period because the internal audit programs vary in length from one to three years.

Source: ANAO analysis of entity documentation.

2.86 These audits have resulted in changes to policy and procedures related to probity. Examples are:

- AgriFutures Australia changed the recording of conflicts of interest declarations for panels, and the documentation of value for money when assessing RD&E proposals;
- the Cotton RDC changed a procedure to provide the staff conflict of interest table to the Board when assessing new research proposals; and
- the Fisheries RDC updated its fraud control plan and risk register, and offered fraud awareness training.

2.87 The funding agreement with Department of Agriculture requires all entities to complete a *Compliance Assurance Report* by an external auditor by 30 November each year, concluding on specific clauses of the funding agreement.[47] The corporations arranged for private sector auditors to conduct these reports for 2016–17 and 2017–18 as required. Review of the reports confirmed no probity issues were raised in these reports for the five entities.

2.88 AgriFutures Australia and the Cotton, Fisheries and Grains RDCs complete a checklist focused on compliance with legislative requirements. This checklist allows monitoring of controls, including the requirements around fraud. Of these four corporations, only the Cotton RDC had a checklist that covered conflict of interest requirements. The AgriFutures Australia checklist partially covered these matters.[48] A version of this report has been completed by Wine Australia, but its document omits requirements for conflict of interest, use of position and use of information and most requirements for fraud control.

Processes for the issue and cancellation of credit cards

2.89 As discussed earlier and outlined in Table 2.4, the corporations' credit card policies were reviewed to determine whether they covered practices including the issue and cancellation of cards. All entities included some requirements for approving the issue of a credit card, although Wine Australia's policy only included basic guidance about the issue, use, reconciliation and authorisation procedures and expectations. All entities required cards to be returned and cancelled, but none described a process that could be tested, such as a time limit.

2.90 To establish if the policies for issuing cards were being implemented, the audit tested corporations' compliance against their own policy's key measures. These included three generally recognised better practice processes in relation to credit cards controls as discussed in paragraph 2.71, and results are summarised in Table 2.7.[49]

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47 This is a limited assurance engagement conducted annually examining an entity's compliance with clauses 5.5, 6.6 and 7.1 of the funding agreement.

48 The checklist covered the board for probity requirements under the PGPA legislation. It omitted these requirements for staff and omitted conflict of interest requirements for panels under its funding agreement.

49 The number of credit cards issued by the entities ranged from 5 to 63 cards (AgriFutures Australia — 15, Cotton RDC — 9, Fisheries RDC 5, Grains RDC 49 and Wine Australia 63). The number of credit cards cancelled ranged from 0 to 19 (AgriFutures Australia — 5, Cotton RDC — 0, Fisheries RDC 5, Grains RDC 16 and Wine Australia 19). Wine Australia advised that for six of the credit cards issued there had been a system error when issuing the card. This resulted in 57 credit card records being reviewed for Wine Australia.

Table 2.7: Results for the testing of key controls for the issue of credit cards

	Has the entity established a business need?	Has the entity followed their approval process when issuing a credit card?	Has the entity obtained a signed agreement when issuing credit cards?
AgriFutures Australia	○	●	●
Cotton RDC	●	●	●
Fisheries RDC	NA	◕	●
Grains RDC	NA	◕	◕
Wine Australia	NA	◔	NA

Key: ○ no requirements implemented
◔ up to one third of requirements implemented
◑ between a third and two thirds of requirements implemented
◕ between two thirds and all except one requirement implemented
● all requirements implemented

Note: The issue of credit cards was assessed for cards active during the period 1 January 2017 to 31 December 2018. When a requirement is not part of the entity's policy it has been recorded as NA.

Source: ANAO analysis of the selected RDCs' documentation.

2.91 The issue policies of the Fisheries and Grains RDCs, and AgriFutures Australia were implemented largely as required. The one exception was that AgriFutures Australia did not document a reason or business need for issuing its cards. The Cotton RDC complied with its policies. Testing of Wine Australia's records found that it only partially met its own policy requirements. For the 47 cards it issued, the corporation retained evidence of approval in 10 cases.

Promoting probity through education and training

2.92 Raising awareness about probity requirements to board, staff, panels and providers can be included in on-the-job and formal training, staff communication, and documented in guidance as part of the RD&E procurement process. This improves the level of assurance provided around the system of internal controls.

2.93 Four of the five entities provided examples of some training being undertaken on some probity topics within the two years to 31 December 2018. Wine Australia did not provide evidence of having conducted training in probity policies. Fraud training is provided by the Cotton RDC, AgriFutures Australia, and the Grains RDC on an annual basis, and the Fisheries RDC offers fraud awareness training via e-learning. The Grains RDC provides annual procurement training for staff and panels and annual gifts training for staff. Training on use of credit cards, conflicts of interest, procurement, and gifts and benefits are covered less often in other RDCs. A summary of probity training offered by the five entities is in Table 2.8.

Table 2.8: Probity training offered by the five corporations

Corporation	Commentary
AgriFutures Australia	Staff awareness training included some probity topics including procurement, confidentiality, gifts and hospitality, and conflicts. Induction training for board and panels included some probity training.
Cotton RDC	Staff training was provided on probity topics to coincide with policy handbooks being updated during 2017–18. Board induction training was offered but limited in information about probity. Panels are managed by Cotton Australia, so the Cotton RDC is not responsible for this training.
Fisheries RDC	Staff training program included probity topics to cover credit cards, code of conduct including conflicts and gifts, and fraud training. Gaps included value for money. Board induction training was offered and included procurement and conflicts, but not gifts. General panels (Research Advisory Committees) receive face to face training that includes conflicts of interest, confidentiality and procurement, but not gifts. The Special Advisory Group for the National Carp Control Plan did not receive probity training.
Grains RDC	Staff training included the probity topics of fraud, procurement, conflicts, and gifts and benefits; but not credit cards. Board induction training included code of conduct and conflicts; gaps included value for money and gifts. Panel induction training included fraud, conflicts, gifts and benefits, procurement and confidentiality.
Wine Australia	Staff training on contracts and procurement covered value for money; gaps included conflicts, gifts, and credit cards. Board induction training included conflicts. General panels are managed by Australian Grape and Wine and its predecessor bodies, so Wine Australia is not responsible for this training. For the Export and Regional Wine Support Package, Wine Australia did not provide training to the panels, but the annual operating plans covered conflicts of interest.

Source: The table is a summary of evidence provided by the entities on training in probity topics.

2.94 Testing in Chapter 3 indicates that, apart from the Cotton RDC, the corporations overall partially comply with applicable probity requirements. More comprehensive training would assist rates of compliance.

Recommendation no.4

2.95 AgriFutures Australia, the Fisheries and Grains RDCs, and Wine Australia increase the scope, frequency and mandatory nature of their probity training to increase compliance with applicable requirements.

AgriFutures Australia response: *Agreed.*

2.96 *AgriFutures Australia has already implemented new procedures to improve the quality of training and compliance testing. A new e-learning platform was implemented in November 2019. The online platform supports Directors and staff to learn AgriFutures Australia's policies and tests their understanding. In addition, the director and staff induction programs will be revised to ensure there is adequate emphasis on probity policies and the number of face-to-face policy refresher training sessions will increase from two per year to three per year in 2020.*

Fisheries RDC response: *Agreed.*

2.97 *The FRDC will include further probity training to ensure frequency with all staff and relevant bodies to achieve best practice training.*

Grains RDC response: *Agreed.*

Wine Australia response: *Agreed.*

2.98 *Wine Australia has implemented a plan to ensure that all staff receive mandatory probity training.*

Have the entities effectively addressed non-compliance?

2.99 For the period reviewed during the audit (2017 and 2018), no probity related allegations were identified at the Cotton and Fisheries RDCs and Wine Australia. There were four allegations associated with the Grains RDC and two with AgriFutures Australia. The allegations related to conflicts of interest, breach of contract and/or fraud related to a research project, and confidentiality.

2.100 Identification of the six alleged probity issues occurred by individuals reporting the allegations via a public interest disclosure and correspondence to the entity. Besides the public interest disclosure, the incidents were alleged to have occurred: as part of board meeting proceedings; in the course of contracting and undertaking research; and as reported by a staff member.

2.101 The entities effectively addressed the allegations of non-compliance in five of the six incidents. The incidents addressed according to law or policy are summarised below:

- At the Grains RDC, board minutes for two incidents showed a director leaving the meeting while the board assessed the matter and agreed on a protocol. One matter was investigated by an external party.
- The two incidents reported to AgriFutures Australia were alleged to have occurred in May 2017 and December 2018, and following investigation both resulted in an unsubstantiated

finding. One was investigated through an external investigation. The other allegation was managed through an internal investigation documented by the Executive Director.[50]

2.102 One of the probity allegations at the Grains RDC was not managed effectively. There was no written evidence of it being investigated or finalised, although various investigation options were considered. The Grains RDC should take actions to gain assurance that its probity policies are being fully implemented by staff. Entities not effectively managing non-compliance increases the risk that public resources will not be used properly and of reputational damage to the RD&E process and the entity.

50 The assessment found that the relevant entities' process was followed, but did not assess the accuracy of the investigation finding.

3. Have the corporations complied with applicable probity requirements?

Areas examined

This chapter examines the corporations' compliance with their probity policies in making funding decisions and managing intellectual property, achieving value for money in funding decisions, and using credit cards.

Conclusion

The Cotton RDC effectively complied with its applicable probity requirements, while the other four corporations partially complied with Wine Australia the least effective.

Areas for improvement

The ANAO suggested that selected RDCs develop registers of significant intellectual property and project technology, and regularly report to the board on the register and how the corporation is managing the listed items (paragraph 3.39).

3.1 The sub-criteria in this chapter comprise detailed testing of compliance with policy for the five probity themes of the audit: conflicts of interest; gifts, benefits and hospitality; intellectual property; value for money in procurement; and credit cards. The results indicate whether the boards have been successful in promoting economy, effectiveness, efficiency and ethics, as required under section 15 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

Have the corporations complied with their probity policies in making funding decisions and managing intellectual property?

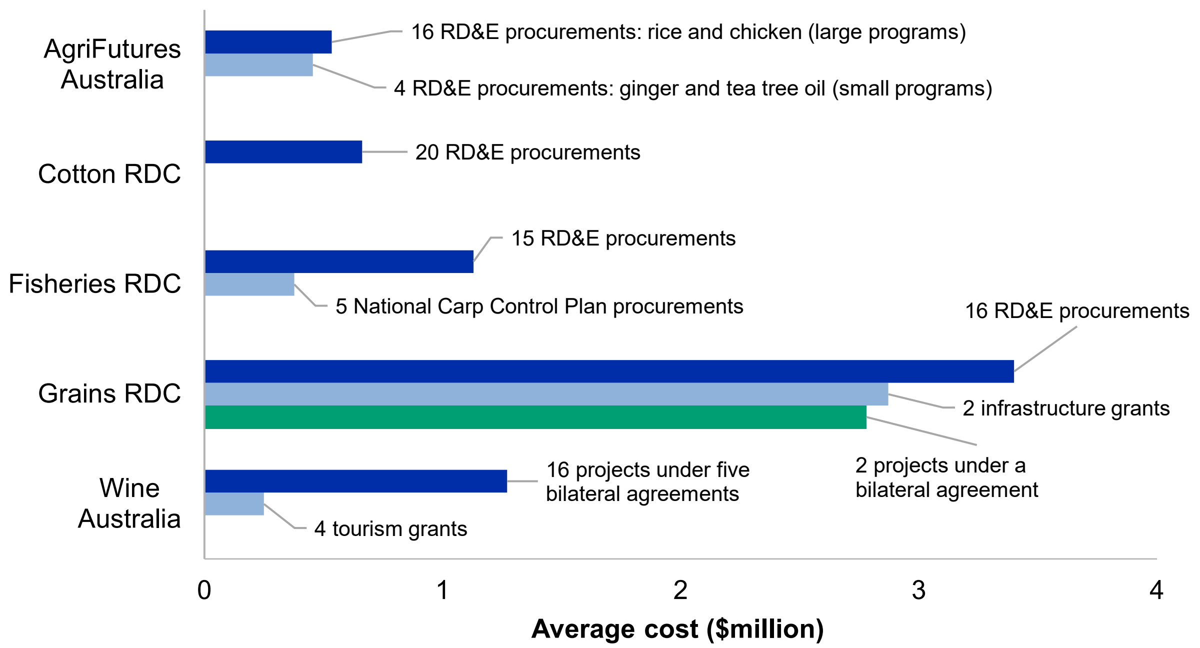
The Cotton RDC complied with its probity policies in making funding decisions and managing intellectual property. The other four corporations partially complied. These corporations fully complied with their conflict of interest policies at the board level but there was incomplete evidence of implementation of this policy for panels and staff. AgriFutures Australia complied with its key policies for documenting the receipt of gifts, benefits and hospitality; Wine Australia partially did so; and the Fisheries and Grains RDCs did not. The Grains RDC largely complied with its policies for managing intellectual property in contracts and the other three RDCs partially complied.

3.2 RDC boards, staff and panels are in a position where their activities can expose them to the potential for criticism based on bias or favouritism in making investment decisions. Funding decisions need to be considered not only from a conduct perspective but also from perceptions that might arise from this conduct. Boards, panel members and staff must be able to demonstrate that their decisions are made to best promote the entity's statutory functions.

3.3 Twenty RD&E projects were selected from each entity on a targeted basis for testing compliance with their probity policies. Targeting was based on risk factors including the larger value transactions, number of industries represented, procurement methods and stakeholder feedback. Figure 3.1 presents the average cost of these 20 projects for each corporation. The focus in assessing the application of probity policies in making funding decisions was on conflict of interest and gifts, benefits and hospitality.

3.4 The Grains RDC has the largest projects and greatest variety of funding streams in the targeted sample.

Figure 3.1: Average cost of the corporations' 20 projects examined



Note: Compared to the other corporations, the Grains RDC receives more funding and invests more resources into RD&E. In 2017–18, the Grains RDC's total investment was $192.1 million.

Source: Analysis of corporations' data.

Did the boards, advisory panels and staff comply with entities' policies on conflict of interest for funding decisions?

3.5 Common practices in the five corporations' policies to manage conflicts of interest for boards included:

- a requirement to declare interests[51] and changes to be notified to the corporation in a timely manner;
- a standing meeting agenda item at the beginning of meetings prompting changes to be advised, considered and managed; and
- documenting in meeting minutes identified conflicts, their consideration, and management (for example, leaving the meeting).[52]

51 Details recorded included material personal interests in any matter that relates to the affairs of the entity, memberships on boards (paid and unpaid), and employment.

52 Section 15 of the PGPA Rule requires that, for any member of the accountable authority with a material personal interest in a matter before it, the member must not be present while the authority considers the matter or votes on it. An exception applies if the Minister declares in writing that the member can participate and/or vote. Another exception is where the members who do not have a material personal interest agree that the member can participate and/or vote and this is recorded in the meeting's minutes. The corporations can apply other procedures, for example a ruling by the Chair, for other interests.

3.6 The five RDCs complied with their conflict of interest policies for board meetings, typically through maintaining registers of interests, considering the register at the start of each board meeting, and declaring interests when required. The corporations' policies focused on material personal interests,[53] with lesser standards required for perceived conflicts.

3.7 Staff approved Wine Australia's policy, which restated the requirements of the PGPA legislation. That is, directors must report material personal interests at board meetings and withdraw from a meeting while the other directors consider whether they can participate. The corporation had a process to support compliance through an agenda item at the start of each meeting where directors declared interests. Section 19 of the *Wine Australia Act 2013* states that employment as a grape grower or winemaker does not of itself indicate a material personal interest.

Panels

3.8 Industry advisory panels are a means by which the RDCs can bring in expert advice when considering projects for funding. At the five corporations, panels would include growers, researchers, business owners and producers. Panellists are not officials under the PGPA Act and panels do not have decision-making powers, but they can influence the RDCs in the projects they fund and who would conduct them.

3.9 Four RDCs managed panels and were responsible for managing their conflicts of interest — AgriFutures Australia, the Fisheries and Grains RDCs, and Wine Australia.[54] Members of industry panels are appointed due their skills and experience, often related to the industry, so the management of conflicts of interest is an important part of probity.

3.10 Requirements reviewed for compliance with policy included registers of interests, documenting the disclosure of interests in panel meeting minutes, considering a register of interests at a meeting, and documenting the management of any conflicts that arose.[55]

3.11 Wine Australia complied with its conflict of interest policy, but this only required the declaration of material personal interests with no process outlined for management of conflicts. The Fisheries RDC largely complied and the other two corporations partially complied. The corporations' key omissions were:

- AgriFutures Australia did not fully document actions taken to manage conflicts or produce the registers that panel minutes referred to; and
- the Grains RDC did not keep full minutes including documented conflicts of interests for all meetings.

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53 Section 29 of the PGPA Act requires directors and staff to declare material personal interests. Section 14 of the PGPA Rule sets out the process for members of the accountable authority. The legislation does not define a material personal interest but some RDC policies do. The definitions in the policies for the Fisheries and Grains RDCs include where an employee of a research organisation considers a funding application from that body. The policy for AgriFutures Australia applies the narrower criterion of where a friend or family member might receive a direct pecuniary benefit.

54 Wine Australia managed panels for assessing grant applications under the Export and Regional Support Wine Package. There is also a general industry panel that Australian Grape and Wine manages. Cotton Australia manages panels for the Cotton RDC. The corporations are not responsible for managing interests in these external forums.

55 Consideration of RD&E projects by panels (discussions, advice and recommendations) is captured in meeting papers and through online systems.

3.12 AgriFutures Australia had four projects approved by different panels where a panel member was employed by the receiving organisation. All four members attended the relevant meeting but the minutes showed no action to manage their interest, which two of them declared. These panels are influential in that they made recommendations for 17 of the 20 projects tested, all of which were accepted by the board or management.

3.13 The policy for AgriFutures Australia defined a material personal interest to include where a panel member had a friend or family member who would receive a pecuniary benefit from a decision. The policy did not cover the case where a work colleague of a panel member is applying for funding. Given that this situation occurs at AgriFutures Australia, its policy should define a material personal interest to include where a board or panel member is employed by an applying organisation. The Fisheries RDC does this in relation to its research advisory committees and the Grains RDC does this generally.

3.14 The Grains RDC could not demonstrate that it had effectively managed two declared material personal interests. A member of a regional panel that supported a project was employed by the receiving organisation. The project was a further phase of a previous project. The meeting minutes did not show that the person withdrew from the discussion or the panel discussed their interest.

3.15 The Grains RDC's National Panel later also endorsed this project. A member of its National Panel had declared they were married to a staff member of this research organisation. The National Panel approved a second project for this organisation as well. The corporation's Executive Director had previously approved an approach for managing this interest. This included advising members of the National Panel of the interest and managing it on a case by case basis, but the corporation could not evidence that this had occurred. For these two projects, only one provider, or set of providers, were requested to bid.

3.16 Panels at the Fisheries RDC examined five projects out of the 20 that the audit tested. In one case, they did not effectively manage a material personal interest. A member of a research advisory committee worked for a research organisation that received funds from the corporation to extend a program. The corporation advised that the member attended the meeting where the committee supported the project and did not leave the room on the basis that they were not getting a direct benefit from the project. Seven other research advisory committees also considered this project and the board approved it. The Fisheries RDC advised that it is now standard practice for the meeting to ask someone in this position to leave the room.

3.17 Two corporations have made improvements to conflict of interest processes for panels:

- In response to an internal audit conducted in December 2017, AgriFutures Australia added an option to tick a 'conflict of interest' box in its online system during the assessment process; and
- In May and August 2018, management at the Grains RDC reported to the board on an internal audit into panels that included findings, management responses and actions for conflicts of interest. Throughout 2018, the corporations' Northern and Western Panels implemented processes to declare interests and document how the panels were managing them. The Southern Panel and National Panel were in the process of doing so.

Staff

3.18 The RDCs' management of staff and conflicts of interest is documented in their conflict of interest policy and procedures. Staff are required to disclose any personal, financial, or other interest that may conflict with any duty or responsibility owed to their entity. Some policies do not permit outside employment or require permission to accept outside appointments (paid and unpaid). Interests may be compiled into a register, which the Cotton RDC did and the Grains RDC partly did.

3.19 When conflicts are managed consistently according to policy, and the policy is appropriate, the corporations can gain assurance that processes are in place to avoid bias in the procurement process. Section 29 of the PGPA Act requires staff (and directors) to declare material personal interests. Section 16 of the PGPA Rule requires them to disclose that interest in accordance with any instructions given by the board (the accountable authority). The corporations' policies incorporated these legal requirements, except for Wine Australia. There, the CEO approved the policy, rather than the board.

3.20 The Cotton RDC complied with its policy, AgriFutures Australia and the Grains RDC had evidence of partial compliance, and the Fisheries RDC and Wine Australia did not have evidence of compliance. Only the Cotton RDC fully demonstrated compliance with section 29 of the PGPA Act. The Fisheries RDC has since established a staff register of material personal interests.

3.21 In addition to these minimum legal requirements for disclosure, better practice indicates that the corporations' policies would have a system to use this information to manage these interests. The policies for AgriFutures Australia and the Grains RDC described systems for managing disclosed staff interests, including at meetings. The policies for the other corporations did not; the Fisheries RDC has since updated its employee policy to prescribe a process for managing declared interests. Paragraph 2.42 discusses this issue further.

Did the boards, their committees, advisory committees and staff comply with entities' policies on gifts, benefits and hospitality?

3.22 The corporations need to manage the receipt of gifts to prevent undue influence in procurements, or perceptions thereof. The audit tested appropriate documentation of the RDCs' gifts, benefits and hospitality policy[56] for the period January 2017 to December 2018. This was based on compliance with the following requirements from Table 2.3, where the corporations had adopted them in policy: a required period within which staff must report; threshold for written reporting; approval to keep gifts; and maintaining a central gifts register.[57]

3.23 AgriFutures Australia complied with its key policies for documenting the receipt of gifts, benefits and hospitality, and Wine Australia partially complied. The Fisheries and Grains RDCs did not comply with their policies and the Cotton RDC policy did not require written records, as outlined in Table 3.1.

56 All entities have established a gifts, benefits and hospitality policy. The Cotton, Fisheries and Grains RDCs have recently updated their policies, as discussed at paragraphs 2.48 to 2.52.

57 Auditor-General Report No. 47 2017–18 *Interim Report on Key Financial Controls of Major Entities,* pp. 14–17, 213–14, examined controls in relation to 26 Commonwealth entities, not including the corporations.

Table 3.1: RDCs' compliance with their policies for documenting the receipt of gifts, benefits and hospitality in 2017 and 2018

Corporation	Set reporting period	Threshold for written reporting	Approval to keep gifts	Central gifts register
AgriFutures Australia	No policy	Yes ($0)	Yes ($50)	Yes
Cotton RDC	No policy	No policy	No policy	No policy
Fisheries RDC	No policy	No ($0)	No	No
Grains RDC	No	No policy	No	No
Wine Australia	No	Yes ($200)	No	Yes

Notes: 'Yes' in the table indicates that the corporation's register has been filled out as per policy.
'No' in the table indicates that the RDC either did not fill out the register or did not have a register as per policy.
The figure in brackets is the dollar threshold for the respective requirement. AgriFutures Australia required staff to report all gifts but they only needed approval to keep them if their value was $50 or over.

Source: The corporations' policies and registers for gifts, benefits and hospitality.

3.24 The register for AgriFutures Australia listed 50 items for 2017 and 2018, reported mainly by staff members.[58] This comprised both gifts under $50 (which had to be reported) and gifts $50 and over (which had to be reported and then approved if the recipient wished to keep them). The highest value gift received was $85; food hampers were common. All gifts in the register valued at $50 or over were approved by a supervisor as required by policy and kept.

3.25 Wine Australia maintains a register with reporting limits of $200 and five business days. One gift to the value of $400 for dinner/entertainment was accepted during the audit period without record of approval. There is no approval information in the register and timeliness requirements for reporting cannot be assessed without a date recorded.

3.26 The CEO of Wine Australia advised that he attends dinners paid by industry for consultations and receives trade samples of wine for tasting. The CEO advised that tasting wine improves his product knowledge and supports his role in promoting the product.

3.27 Directors and staff advised that bottles of wine are also gifted to the corporations, or provided at functions attended by Wine Australia staff. With the exception of the one entry in the register, dinners and acceptance of wine was not included in Wine Australia's register. These items were assessed at being below $200 in value.

Did the corporations comply with their standard contracts and policies for intellectual property and project technology?

3.28 The RDCs procure RD&E services to develop new systems and knowledge that will assist industry and, in some cases, deliver social and environmental benefits. These broad outputs are sometimes referred to as project technology. An RDC could freely disseminate project technology or it could apply to legally register it as intellectual property (IP). The corporations' policies provide

58 Details recorded about the gift or benefit included: a date, type of gift, nominal value of the gift, name of donor and recipient, and who gave approval if required.

that this decision must provide the most benefit to industry, in effect recognising the interests of levy payers.

3.29 The standard RD&E contracts for the Cotton, Fisheries and Grains RDCs had clauses by which the corporations used IP and project technology to achieve their goals and manage the associated risks.[59] They covered:

- a list of IP the project required (such as access to a particular plant variety) and who was responsible for providing it — this managed the risk that required IP would not be available, leading to delays and increased costs;
- alternatively, provisions giving each party access to each other's IP (background IP) and making the researcher responsible for accessing third-party IP;
- how the parties will own the project technology — by retaining a share the RDC can help ensure it is used for the benefit of levy payers and enables the corporation to receive a royalty if the project technology is commercialised;
- how the project technology will be used — in some cases, the RDC intends for it to be freely disseminated from the start and in others the outcome is unclear and the contract sets out a process for exploiting any possible project technology; and
- safeguarding the project technology — to protect the interests of the RDC and retain the option of commercialisation.

3.30 The standard contract for AgriFutures Australia had these clauses except in relation to third party IP. The 16 RD&E projects tested for Wine Australia were one-off, long-term arrangements covering multiple projects and did not have standard contracts.[60]

3.31 For 18 projects, AgriFutures Australia covered the items listed above, except for third party IP. In the other two cases, it granted almost all the project technology to the researcher.[61] In one case, the contract required any royalties to be used for the benefit of that industry. In the other, AgriFutures retained the right to use reports provided under the agreement.AgriFutures did not document a reason for assigning the project technology this way. The corporation has forgone influence and the opportunity to receive a royalty if it is commercialised.

3.32 The Cotton RDC covered the five items for all 20 projects tested.

3.33 For five projects, the Fisheries RDC used contracts that did not have clauses governing access to third party IP. A project could be subject to delays and additional cost if the researcher requires third-party IP for the project and it is not covered in the contract. The remaining contracts placed responsibility for acquiring third-party IP on the researcher.

3.34 The Grains RDC had one project that did not allocate ownership of project technology. Therefore, the corporation may not own any of the project outputs and be unable to apply it for the benefit of industry or receive a royalty. It also had two contracts that did not cover background

59 The Grains RDC managed two of its 20 projects through a head agreement that included these clauses.

60 Due to the sampling approach, not all corporations had 20 contracts designed to produce project technology. The Grains RDC had 18 and Wine Australia had 16. The other projects were two infrastructure grants and four tourism grants respectively.

61 The IP policy for AgriFutures Australia states that contracts should only grant the entirety of project technology to a researcher on the basis that it occurs 'rarely'.

or third-party IP. This means there is a greater risk the researcher will not be able to access required IP, incurring delays or greater cost. In three cases, the RDC managed IP risk by linking the first milestone payment to the researcher providing a completed IP register. The Grains RDC made the payment after receiving the register.

3.35 For Wine Australia's bilateral agreements, the contract for eight of the 16 applicable projects did not allocate responsibility for accessing third-party IP or describe background IP. The contracts for another six projects did not describe background IP. This created the risk that, if it later became apparent that third party IP was required for a project, there could be additional expenses, as well as delays. Wine Australia partly manages this risk by making the researchers responsible for maintaining an IP register. Further, the agreements establish a management committee comprising members of the RDC and the research organisation to review the register. More robust approaches are available, such as linking the first milestone payment to the researcher providing a complete IP register.

3.36 The *Intellectual property principles for Commonwealth entities* state that a register of significant IP and project technology can support their effective management.[62] The policies for AgriFutures Australia and the Fisheries RDC, and from August 2017 for the Cotton RDC, required a register. AgriFutures Australia and the Fisheries RDC maintained their registers as lists. The Cotton RDC maintained it within a database. The Grains RDC and Wine Australia did not have a requirement to maintain a register. The Grains RDC had a register of significant IP and project technology and Wine Australia had a register for its trademarks.

3.37 As required by policy, management at AgriFutures Australia provides regular reports on significant IP and project technology to its Audit Committee through a register. A similar arrangement applied at the Cotton RDC with its IP Committee. None of the other corporations have a reporting requirement in policy, but some reporting did occur:

- the board at the Fisheries RDC received implementation reports in relation to an IP and commercialisation review; and
- management at the Grains RDC reported to the board about enforcement action to protect IP.

3.38 Management at Wine Australia did not report to the board or a board committee on how it was managing the corporation's stock of IP. Wine Australia advised that in 2017 and 2018 no project technology was developed that could have been commercialised. If there were, it would have been reported to the board through a board committee. In this situation, there is still benefit from some reporting; it would keep board members up to date and allow them to scrutinise management on IP and project technology.

3.39 Project technology and IP are the principal output of the RDCs. It is appropriate that boards be appraised of, and scrutinise, how management is administering these products. It is suggested that Wine Australia establishes a register of significant IP and project technology and that

62 Department of Communications and the Arts, *Intellectual property principles for Commonwealth entities,* Canberra, 2018, p. 5. Corporate Commonwealth entities such as the RDCs are not bound by the principles. At page 4, the principles state that corporate entities should consider the principles as 'good practice'.

management at this corporation and the Fisheries and Grains RDCs report to the board or a board committee on these matters.

Have the corporations complied with their probity policies on achieving value for money in funding decisions?

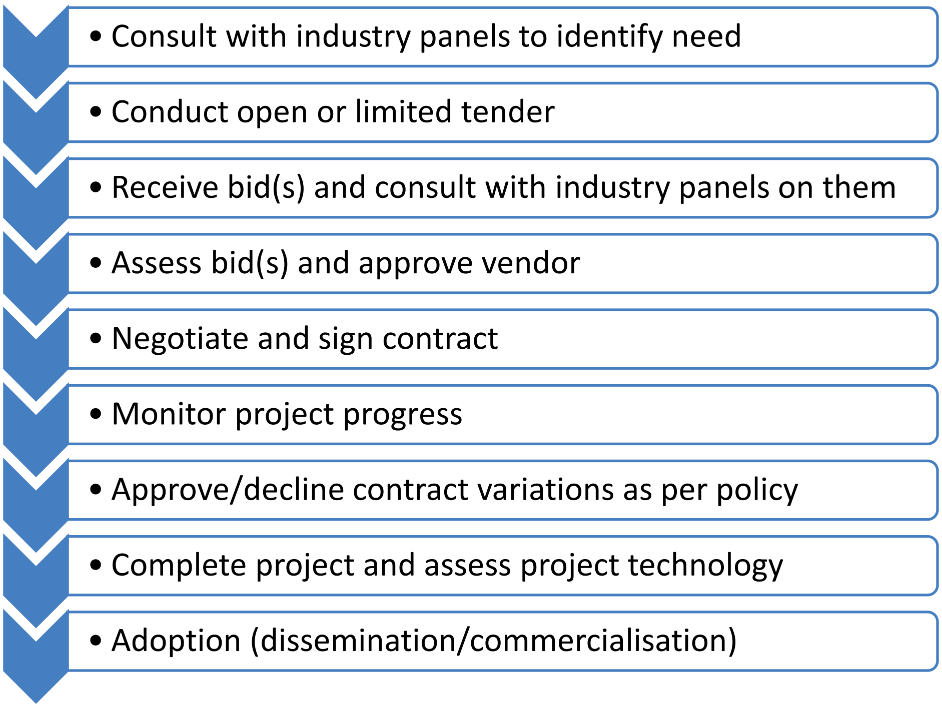
The Cotton RDC largely demonstrated a focus on value for money in approving projects and varying contracts. AgriFutures Australia and the Fisheries and Grains RDCs partially did so; their exceptions were generally due to lack of documentation. For one project, management at the Fisheries RDC breached policy by approving a project that they anticipated would go to the board for a large variation. With limited policies, Wine Australia largely documented the development of its five major RD&E agreements and partially documented variations. For the grants projects tested, the Grains RDC and Wine Australia demonstrated a focus on value for money by having good processes and documentation. Wine Australia was also required to comply with the Commonwealth Grants Rules and Guidelines for these grants and largely did so.

3.40 The corporations procure RD&E, deliver grants programs, award scholarships and bursaries, and deliver other programs on behalf of the Australian Government. The RDCs receive the bulk of their resources from taxpayers and levy payers. By complying with suitable procurement policies, the RDCs can demonstrate support for achieving value for money with these funds. By complying with suitable policies for contract variations, the corporations can demonstrate they are maintaining the focus on value for money over the life of their projects.

3.41 The RDCs' procurement processes varied, depending on the scale of the project and the structure of their panels. An example of a life cycle of a project is shown in Figure 3.2. Elements of this life cycle are discussed below in relation to the RDCs considering value for money in RD&E procurements.[63]

63 Table 3.2 includes the elements of: tender (open or limited); assessing bids (particularly consideration of the cost and contractor capability); approval; and the strategy/expectations for adoption.

Figure 3.2: Life cycle of an RDC's procurement of RD&E services



Source: The corporations' policies and interviews with corporation staff. The process varies across the RDCs.

3.42 As noted in paragraph 3.3, 20 RD&E projects were chosen at each corporation for testing based on project value, to reflect each corporation's approach to RD&E, and to take into account stakeholder feedback.

Have the corporations complied with policies in considering value for money in RD&E procurements?

3.43 The RDCs can demonstrate a focus on achieving value for money by having good processes and documentation for tendering, assessing bids, and approvals. Box 1 explains how these processes contribute to value for money.

Box 1: Processes to support value for money in RD&E procurements

Tendering

Limited tender is simpler than open tender, but generates less competition and is less transparent. Depending on the level of competition in the market, the extra cost of open tender is more likely to deliver value for money. Exceptions include where there is a small number of researchers with expertise or where a researcher owns required intellectual property. Consistent with the Commonwealth Procurement Rules, the RDCs' policies generally permit exceptions to open tender.

Conducting an open tender reveals information about researchers in the field, likely cost, and ideas for adoption. If a corporation documents its market knowledge and concludes that only one researcher has the necessary expertise or owns required intellectual property, then typically it has demonstrated an evaluation of researchers. Good market analysis improves tender processes.

Cost

When assessing bids, decision-makers would be expected to know whether costs were reasonable, either by comparing the bids in the case of an open tender, or by assessing them against their knowledge of the market.

Contractor

Research and development can be specialised work. Some contractors may be more expensive, but if they have a high level of expertise they could provide the greatest value for money. Extension projects are less specialised and are more like a standard procurement.

Adoption

The value of a project often depends on the extent to which producers take up the new knowledge. Nil adoption for a project aimed at producers would mean that it has little benefit.

Approval

The boards delegate some approval authority to staff, depending on project value. Recording compliance with this policy ensures that sufficiently senior staff or the board approve each project, that it met an appropriate benchmark, and meets any additional terms and conditions. Identifying the decision maker in the approval assists accountability and transparency.

3.44 The corporations' compliance with the policies for their general RD&E procurements is in Table 3.2, along with the areas they did not have an explicit policy. The Cotton RDC complied, the Fisheries RDC largely complied and AgriFutures Australia partially complied. The other two RDCs did not have explicit policies for some aspects of these procurements.

Table 3.2: RDCs' compliance with value for money policies for RD&E procurements, 2017 and 2018

Corporation	Tender	Cost	Contractor	Adoption	Approval
AgriFutures Australia	◑	○	◑	◕	◕
Cotton RDC	●	●	●	●	●
Fisheries RDC	●	●	◑	●	◕
Grains RDC	◑	●	No policy	No policy	◕
Wine Australia	No policy	No policy	No policy	No policy	●

Key: ○ no requirements implemented
◔ up to one third of requirements implemented
◑ between a third and two thirds of requirements implemented
◕ between two thirds and all except one requirement implemented
● all requirements implemented
The reference to 'no policy' for Wine Australia reflects this RDC negotiating five long-run research agreements that did not have a standard template or policy.

Source: ANAO analysis of the corporations' policies and records for the purpose of testing for the audit.

AgriFutures Australia

3.45 AgriFutures Australia had seven of the 20 examined projects above its open tender threshold of $220,000 where it used limited tender. It did not document the reason for this and could not demonstrate in these cases that limited tender supported value for money. Further, for the 20 projects, the corporation did not comply with its policy in relation to cost and largely complied with its policies for contractor expertise and adoption. For the seven undocumented exceptions to open tender, AgriFutures had no evidence that the cost was reasonable. In addition, the corporation did not document three panel approvals and one board approval, raising questions about whether the agreements reflected any value for money requirements in the approvals.

Cotton RDC

3.46 The Cotton RDC's policy requires the board to decide the procurement method for each RD&E project. In 2016 and 2018, management supplied a procurement plan to the board that specified whether a project would be open tender. These documents, combined with the minutes, demonstrated the board complying with policy. In 2017, management's procurement plan did not specify the procurement method so the RDC could not demonstrate that it complied with policy. The minutes record the board noting that approximately 60 per cent of the procurements will be open tender and requesting management to specify the procurement method in the next round.

3.47 Of the 20 tested projects, 17 went to open tender. For two of the remaining projects, the RDC documented the board approving limited tender. For the last project, the RDC did not document the board approving limited tender, but did document management advising the board that this was the procurement method before the board approved the procurement.

3.48 The Cotton RDC complied with policy for cost, contractor expertise, adoption and approval in all cases. The corporation largely demonstrated value for money for these procurements.

Fisheries RDC

3.49 All of the corporation's 15 RD&E projects were above the open tender threshold; the corporation advised that it conducted all but one through limited tender. As required by the policy, the board approved the projects to be procured outside policy. [64] The corporation complied with its policies for cost and adoption, but not for demonstrating contractor expertise in five cases.[65] This meant the Fisheries RDC had no evidence that it selected the best researchers for five of the 15 projects. The corporation properly approved all but one of the 15 projects.

3.50 For the five contracts tested for the National Carp Control Plan, the board approved management's proposal to use limited tender to meet timeframes set out in its agreement with the Commonwealth.[66] The Fisheries RDC and the Department of Agriculture signed the agreement in December 2016 with a finish date in December 2018. The board of the Fisheries RDC approved using limited tender in April 2017. In September 2018, the two parties agreed to extend the contract to December 2019, with no change in funding.

3.51 The corporation complied with its policy for cost and adoption and complied in three cases in relation to contractor expertise. Therefore, the Fisheries RDC had some confidence around costs and adoption but no documentation for two projects to support the reasons for selecting the researcher.[67] The board approved one project and delegated approval authority for the other four to the Executive Director, who approved them.

Grains RDC

3.52 The average value of the Grains RDC's 16 RD&E projects was $3.4 million, which was significantly larger than the other RDCs. It used open tender for six projects and documented its reason for limited tender for two, conducting the other eight limited tender procurements without explanation. The corporation had a policy to assess cost and complied with it. It did not have a policy for the contractor and adoption, and had partial documentation for these. The Grains RDC had some evidence that costs were reasonable, but no documentation in seven cases for the researcher and in five cases for adoption. The corporation did not have documented endorsements from its National Panel for three projects, raising questions whether the contract reflects the National Panel's value for money decision.

3.53 In 2017, the Grains RDC signed a long-term co-investment agreement with a research organisation across three research categories, totalling $64.6 million.[68] The board approved direct negotiation with the provider. The resolutions and processes occurred outside the corporations'

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64 Of the 20 RD&E activities selected for the Fisheries RDC, 15 were standard RD&E procurements and five were RD&E procurements for the National Carp Control Plan (see Figure 3.1).

65 The Fisheries RDC provided reasons for selecting the contractor for these five cases and the two for the National Carp Control Plan where the corporation did not originally document this. However, there is no evidence that this information was presented to the relevant decision-maker.

66 This is consistent with the CPRs, which at the time permitted entities to use limited tender 'when, for reasons of extreme urgency brought about by events unforeseen by the relevant entity, the goods and services could not be obtained in time under open tender or prequalified tender'. Department of Finance, *Commonwealth Procurement Rules: Achieving value for money,* Canberra, 2017, p. 27.

67 The Fisheries RDC advised that, for biosecurity reasons, only one research organisation in Australia could undertake one of the projects. For the other, only one provider had expertise because it had conducted previous versions of the same project.

68 This included existing project contributions, new cash and in-kind support.

procurement policies and procedures, which management had approved, so the board was entitled to take its own approach with the agreement.

3.54 This agreement set out a process by which the co-investing research provider would present proposals under the three categories to a management committee for approval. One of the approved projects complied with the process and the other, to support a research facility, largely complied. The agreement required the management committee to approve the next year's budget for each project. This did not occur in 2018 for the research facility. Further, at the start of the agreement in 2017, the management committee approved the facility without receiving advice on the activities that would be conducted there, contrary to the agreement. In December 2017, the management committee noted that a different research provider is conducting most of the projects at the facility and that it did not have any links to other projects in the agreement. In 2018, the Grains RDC reviewed the facility's operations and decided that funding would finish in June 2019.

3.55 The Grains RDC partially complied with the Commonwealth Procurement Rules (CPRs). It met all tender requirements because research and development activities are exempt from open tender under Appendix A of the CPRs. The corporation's assessments of value for money did not consider all of the six assessment elements in the CPRs.[69] The Grains RDC estimated the cost of all procurements in accordance with the CPRs prior to a decision. For five of the 16 procurements, there were no records showing that the decision maker was satisfied that the procurement achieved value for money.

3.56 The CPRs also have transparency requirements. The Grains RDC's open tenders were appropriately accessible on AusTender in line with the CPRs. They also require prescribed entities (such as the Grains RDC) to publish contracts for procurements above $400,000 within 42 days of signing. The Grains RDC complied with this for only one of the 18 procurements, limiting the timeliness of the procurements' transparency.[70]

Wine Australia

3.57 In 2017, Wine Australia signed long-term agreements with five research providers.[71] The board approved direct negotiation with the providers outside its procurement policies and procedures. The corporation had no policy for assessing the agreements, but it considered cost and researcher expertise for all 16 projects and the adoption strategy for two of the 13 where it was applicable. One of the 16 projects was a general adoption program, but this was not integrated into the individual project assessments or approvals.

Have the corporations complied with their policies in making funding decisions for grants?

3.58 As shown in Figure 3.1, Wine Australia and the Grains RDC were responsible for delivering grants programs. The funding agreements required the RDCs to comply with the Commonwealth

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69 The six criteria are: the quality of the goods and services; fitness for purpose of the proposal; the potential supplier's relevant experience and performance history; flexibility of the proposal; environmental sustainability of the proposed goods and services; and whole-of-life costs. Adoption is not included in the CPRs.

70 This includes both open and limited tenders.

71 Of the 20 RD&E activities selected for Wine Australia, 16 were research projects across five bilateral agreements and the remaining four were tourism grants.

Grant Rules and Guidelines if they funded a peak industry body for RD&E. Otherwise, the Guidelines did not apply to the Grains RDC for its infrastructure program because it is a corporate Commonwealth entity independently making its own grants. The Guidelines did apply to Wine Australia's tourism grants because, in its funding agreement with the Department of Agriculture, the RDC agreed to follow them.

3.59 Wine Australia's grant program guidelines for the International Wine Tourism Competitive Grants (the tourism grants) and the Grains RDC's application guidelines for infrastructure grants outlined the process for making funding decisions. The processes included eligibility assessments, criteria against which to assess the proposals, and a panel to conduct the assessments.

3.60 Testing of compliance against grant guidelines covered four of Wine Australia's 21 approved tourism grants. Wine Australia complied with its policies for the projects tested, except that it did not publish the grants on GrantConnect within 21 days of them commencing; it published them during the audit. The RDC's approval documented how it related to the grant opportunity guidelines and the principle of achieving value for money.[72]

3.61 Testing also covered two of the Grains RDC's 15 approved infrastructure grants. The RDC complied with its grant guidelines for the projects tested. The Grains RDC initially approved $3 million in funding for one project, which was the limit in the guidelines.[73] The RDC later varied the amount to $5.175 million.

Have the corporations considered value for money in RD&E contract variations?

3.62 A proposed contract variation can indicate different circumstances, such as:

- the project is producing unexpected positive outcomes and should be extended;
- the project is in difficulty and the corporation needs to manage it; or
- the winning bid was an inaccurate costing or the project was not accurately scoped at the start, raising a question about the original decision on value for money.[74]

3.63 To determine how well the corporations were managing these risks, the audit selected their 15 largest contract variations in 2017 and 2018 (by dollar) for testing against their policies.

3.64 A contract variation percentage was generated for each corporation to provide aggregate information about their variations. It comprised total variations approved divided by total project size for that RDC's 15 projects, prior to the variations. A statistic for average project size prior to each variation was also calculated.

3.65 The Grains RDC had larger varied projects with an average of $3 million and a variation size at a little over 20 per cent. AgriFutures Australia, the Cotton RDC and Wine Australia had similar results with an average project size of around $500,000 and a contract variation percentage of 10 to 25 per cent. The Fisheries RDC had a similar project size to the other three at a little under

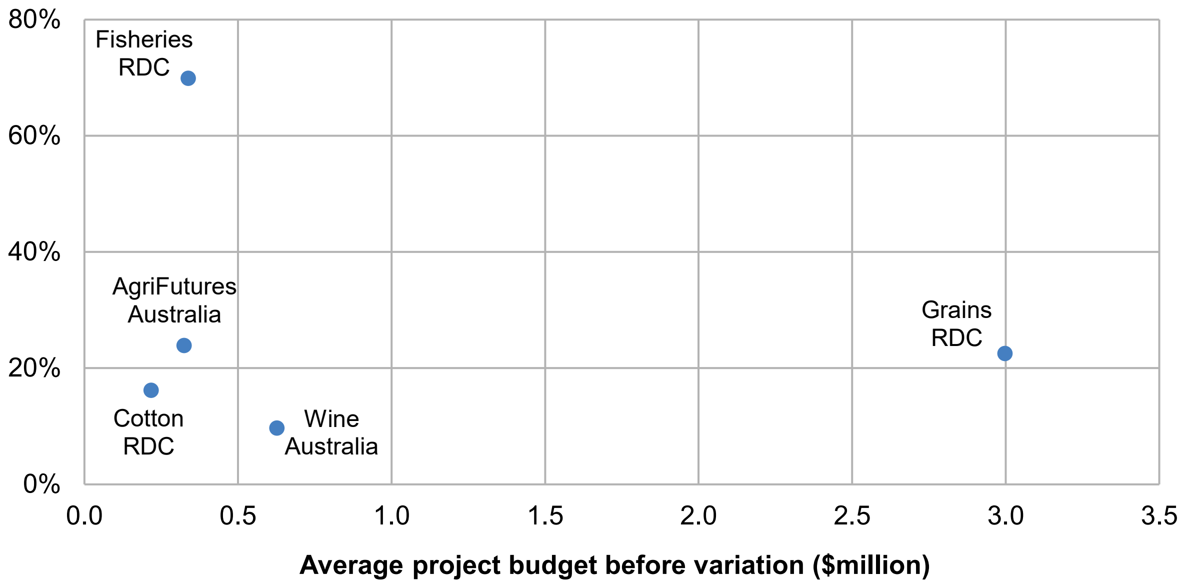
72 Wine Australia did not include this requirement in their policies.

73 The guidelines state that grant applicants were to seek between $20,000 and $3 million in funding (exc. GST).

74 The CPRs require the relevant entity to itself estimate the procurement cost before approval. Costing the approval should help manage this risk. Of the five corporations, only the Grains RDC was required to comply with the CPRs.

$500,000, but its variation measure was the highest of all entities at 70 per cent, as shown in Figure 3.3.

Figure 3.3: Variation percentage for the corporations' 15 largest contract variations for RD&E projects



Notes: Variation percentage is calculated by totalling the contract variations and dividing this by total project budgets prior to the variations.

The Fisheries RDC had one project with two large variations. Excluding this project would reduce the corporation's variation percentage to 37 per cent.

Source: ANAO analysis of the corporations' data.

3.66 All corporations had guidance on who would approve a contract variation. Three corporations appropriately approved financial variations in line with their policy. AgriFutures Australia did not provide documentation for the approval of one variation. Wine Australia did not have a record of approval for two financial variations, and advised they did not have a record of this. Its approval of two other variations to RD&E contracts was inconsistent with internal policy, where a selection of board members rather than the full board provided approval.

3.67 Only the Cotton RDC had further policies in relation to contract variations. These required notification from the researcher and their submission of a revised budget. The Cotton RDC complied with this requirement for all 15 variations. Outside its policies, this corporation generally approved variations on the basis of an internal memorandum that provided a progress report on the project. This demonstrated that the decision-maker knew the project status when they approved the variation. The RDC provided this evidence for 14 of the 15 variations. The Cotton RDC considered value for money in approving variations.

3.68 The other corporations had limited documentation to support their contract variations and did not demonstrate they considered value for money in approving them. Their standard contracts require researchers to provide progress reports, but the RDCs did not often refer to the reports in the approval.

3.69 The corporations' policies did not cover the circumstance of a contract variation taking a project exceeded the open tender threshold. If such a project were initially approved from a limited tender, the variation would raise the question of whether the corporation should have used open tender in the first instance.

3.70 The audit examined the projects associated with the 75 variations (15 for each corporation) to determine if a variation had pushed a project past that RDC's open tender threshold. This analysis identified six out of 30 projects across two corporations that started with a limited tender. For five projects, variations increased their value by more than 100 per cent, as shown in Table 3.3.

Table 3.3: RD&E projects procured through limited tender that the corporations varied past their open tender threshold, 2017 and 2018

Corporation	Project code	Original value	Open tender threshold	Final value	Increase	Contract variation approver
Fisheries RDC	2016-067	$159,000	$300,000	$2,211,646	1291%	Board
Fisheries RDC	2016-255	$82,000	$300,000	$325,000	296%	Executive Director
Fisheries RDC	2015-710	$81,900	$300,000	$311,400	280%	Executive Director
AgriFutures Australia	PRJ-011168	$98,600	$220,000	$330,216	235%	GM, Research and Innovation
AgriFutures Australia	PRJ-010780	$125,000	$220,000	$300,000	140%	GM, Research and Innovation
AgriFutures Australia	PRJ-008308	$194,078	$220,000	$224,023	15%	GM, Research and Innovation

Note: The open tender threshold is at the date the contract variations were approved.

Source: ANAO analysis of the corporations' documentation.

3.71 Consistent with Figure 3.3, the Fisheries RDC had the largest number and value of variations in the table. Its largest variation came about because management independently commenced a substantial project in 2016 using an amount within their delegation. The board approved two large variations in 2017 and 2018. The RDC documented this was due to time constraints and it anticipated bringing the project to the board. Noting that the Fisheries RDC had a policy for out of session decisions, the variations constituted a breach of its procurement policy.

3.72 Although the corporations approved these contract variations in line with their delegations, they did not document the value for money consequences of passing the open tender threshold.

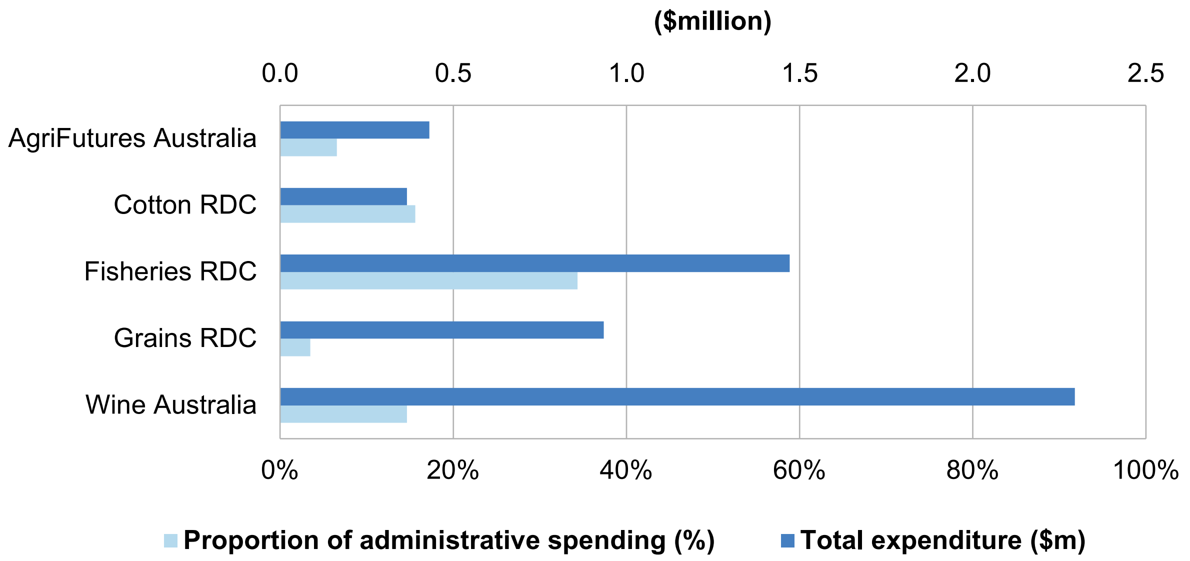
Have the corporations met the probity requirements in the use of credit cards?

Implementation of credit card controls was effective at the Cotton RDC, largely effective at the Grains RDC, and partially effective at the other corporations. AgriFutures Australia and Wine Australia were not able to provide supporting documentation for a number of large transactions (three and two respectively). Weaknesses in credit card control processes represent substantial probity risks for AgriFutures Australia, the Fisheries RDC and Wine Australia.

3.73 Credit cards represent a probity risk because cardholders have direct access to the corporations' cash, which is sourced from levy payers and taxpayers. The corporations would manage this risk by achieving close to 100 per cent compliance with their credit card policies. Every breach of policy is a potential probity incident.

3.74 The corporations use credit cards for official administrative expenses such as travel, hospitality and meetings. Figure 3.4 shows the total amount of the corporations' credit card expenditure over the two years between January 2017 and December 2018. It also shows, as a relative measure, the proportion of total administrative expenses paid by credit card.[75]

Figure 3.4: Credit card expenditure of rural RDCs in 2017 and 2018



Note: The corporations used credit cards for administrative expenses. This comprises most overheads and excludes salaries and programs.

Source: ANAO analysis of the corporations' credit card and payments data.

3.75 Wine Australia was the biggest user of credit cards with $2.3 million of credit card expenditure over 2017 and 2018. The Fisheries RDC had the highest proportion of credit card expenditure in comparison to the other corporations, with credit cards comprising 34 per cent of its administrative expenses over 2017 and 2018. The credit card policy at the Fisheries RDC requires all staff to be issued a card and for credit cards to be used for as many business purchases as practicable.

3.76 Transactions were selected for testing on the basis that they represented higher probity risks at the corporations between January 2017 and December 2018. The transactions tested included: single large transactions; transactions during employee leave and after ceasing employment; by type of good purchased; and multiple transactions of the same amount close to each other by date. The number of transactions tested ranged from 20 to 80 (AgriFutures Australia 21, Cotton RDC 20, Fisheries RDC 52, Grains RDC 72 and Wine Australia 80).

75 Administrative expenses exclude salaries, superannuation, program spending and some overheads such as depreciation.

Responsibilities of cardholders in using credit cards

3.77 The corporations' credit card transactions were tested to determine if cardholders were retaining appropriate records and checking their credit card statements.

Retaining purchase documentation

3.78 Retaining receipts or invoices is an important control that assists the corporations in reconciling their purchases against the amounts charged to the credit card. All the corporations required the cardholder to include a receipt or invoice of the purchase in their acquittal. Only the Cotton RDC retained documents for all tested transactions.

3.79 For AgriFutures Australia, supporting documentation for purchases was not included for three of the 21 transactions tested (14 per cent); two of these transactions were over $3,000. For the Fisheries RDC three of the transactions tested (six per cent) did not have appropriate purchase documentation. In these instances, staff signed statutory declarations for the purchases. The Grains RDC and Wine Australia each had one transaction without a receipt. The Wine Australia transaction was over $1,000. The RDC provided an unsigned lost receipt declaration for this. During the audit, the manager of the person who incurred the charge verified that it was valid.

Acquitting transactions

3.80 The requirement for cardholders to acquit their transactions places the burden on the person who made the purchase to approve their statement and sign off that they have complied with policy. All the corporations required the cardholder to sign off on their acquittal and submit it for review.

3.81 For AgriFutures Australia, six transactions (29 per cent) were not signed off by the cardholder before progressing to the reviewer for approval. For the Fisheries RDC, acquittals for three transactions (six per cent) were not signed off by the cardholder. The Grains RDC and Wine Australia each had one transaction where the acquittal was not signed off by the cardholder.

Review of credit card transactions

3.82 Key controls in each of the corporations for the review of credit cards were also tested. As discussed in Chapter 2, the five key controls expected in the corporations' policies were independent review, timeliness of acquittals, match between the receipt and credit card statement, spending is for a work purpose, and the amount is reasonable. The first four of these controls were tested.[76]

3.83 Controls for reviewing credit cards were effective at the Cotton RDC and partially effective at the other RDCs.

Independent review

3.84 Approval by an independent reviewer with knowledge of the cardholder's role in the organisation, often their manager, helps detect omissions in the acquittal and encourages cardholders to fulfil their responsibilities. The corporations had a policy requiring independent review, except for Wine Australia.

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76 Whether the amount for each purchase was reasonable was not tested because the corporations had the relevant expertise.

3.85 All tested transactions at the Cotton and Grains RDCs showed evidence of independent review. For the Fisheries RDC, one of the transactions tested did not include approval by a reviewer. AgriFutures Australia had two acquittals where it advised that it could not retrieve the reviewers' approval from storage.

3.86 For the 80 Wine Australia transactions, a supervisor approved one transaction by email and another supervisor approved a transaction through the bank's FlexiPurchase system. For the remaining 78 transactions, the Finance Manager approved 56 within this system, and a Finance Officer approved 22 transactions. Wine Australia did not provide documentary evidence of the checks undertaken for approvals by Finance officers. Wine Australia advised that the Finance team and General Manager (Corporate Services) regularly reviewed all credit card transactions through automated reports produced by the FlexiPurchase system. Wine Australia provided evidence of one instance where the General Manager (Corporate Services) followed up a transaction (outside the 80 transactions tested) following a FlexiPurchase report.

Timeliness of acquittals and review

3.87 The timely acquittal of credit card statements helps the cardholder to check the accuracy of their most recent transactions and for a supervisor to take prompt action if required. The policies for AgriFutures Australia and Wine Australia had time limits for cardholders to reconcile the transactions and provide supporting documentation (five and three working days respectively). These corporations did not prescribe time limits for review. In testing, thirty days was chosen as a minimum standard for acquittal by the cardholder and an independent reviewer.

3.88 Only dated acquittals were tested for their timeliness. The number of transactions tested ranged from 0 to 57 (AgriFutures Australia 13, Cotton RDC 9, Fisheries RDC 52, Grains RDC 57 and Wine Australia nil). All of the acquittals at the Fisheries RDC were dated. Wine Australia's acquittal process did not record the date the acquittal was received by the finance team.

3.89 For AgriFutures Australia, 15 per cent of transactions were not acquitted within 30 days of the release of the credit card statement. For the Fisheries RDC, 50 per cent of transactions were not acquitted within 30 days of the release of the credit card statement. For the Grains RDC, 21 per cent of transactions were not acquitted within 30 days of the release of the credit card statement.

3.90 Where receipts or invoices are mislaid, the timely submission of a statutory declaration or lost receipt form allows the reviewer to assess the acquittal within a normal processing timeframe. Staff at the Fisheries RDC completed their statutory declarations between three and eight months after the transaction date. Before December 2018, the Grains RDC's credit card policy required cardholders to complete a statutory declaration when documentation was mislaid. In the one instance where a receipt was mislaid in early 2017, a statutory declaration was signed during the audit. Wine Australia provided an unsigned missing receipt form for its undocumented transaction.

Transactions for work purpose and acquittals consistent with purchase documentation

3.91 All of the corporations required corporate credit cards to be used only for business purposes. A common way of checking this is to examine whether the purchase amounts in the monthly credit card statements align with the receipts or invoices submitted. The credit card policies for all the corporations except Wine Australia required the reviewer to check documentation, but matching was not specifically required.

3.92 Related to work purpose, the RDCs often placed additional restrictions on credit card use, for example that gifts could only be purchased by certain staff members or that certain purchases required Executive Director or CEO approval. Testing included compliance with these additional requirements.

3.93 For the Fisheries RDC, three transactions (six per cent) were not supported by policy. Two transactions were at restaurants and the corporation could not document why the amount in the credit card statement exceeded the amount in the receipt. The RDC did not document following up these transactions. One transaction was for a staff function; these were not permitted under policy. At the Grains RDC, eight per cent of transactions were not purchases supported by policy. Five transactions were at restaurants and the corporation could not demonstrate that policy supported the amount in the credit card statement being higher than in the receipt. One transaction was for the purchase of a gift by a staff member who did not have authorisation to do so.

3.94 For Wine Australia, six transactions (8 per cent) were not supported by policy or by law. Two of the six unsupported amounts were over $1,000:

- three transactions included tips at restaurants and the corporation could not demonstrate that policy supported paying tips;
- two transactions were for staff events that were not supported by policy; and
- one transaction was for a wine allowance for a senior member of staff where the RDC did not provide the relevant contract of employment.[77]

3.95 Wine Australia had two transactions where it could not demonstrate that policy supported the amount in the credit card statement being higher than in the receipt. The corporation followed up one of the transactions with the supplier during the audit and they have offered a voucher as recompense. The other was one of the staff events mentioned above, which the RDC held at a restaurant.

3.96 For AgriFutures Australia, 19 per cent of transactions did not include a stated reason for the purchase in the acquittal. These three transactions each exceeded $4,000.

3.97 None of the corporations followed up the transactions at the time.

Grant Hehir
Auditor-General

Canberra ACT
18 December 2019

77 Section 30 of the *Wine Australia Act 2013* requires the board to approve the terms and conditions of staff. Section 43 provides that the board can delegate this function except in relation to the CEO and Wine Australia advised that this occurred in 2003. The RDC did not provide the instrument of delegation, but provided corroborating documents showing that the delegation occurred. Six further credit card transactions for other senior staff members were within policy on this basis.

Appendices

Appendix 1 Entity responses

AgriFutures Australia

Research and innovation for rural prosperity

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6 December 2019

Grant Hehir
Auditor-General
Australian National Audit Office (ANAO)
19 National Circuit
Barton ACT 2600

Dear Mr Hehir,

Probity management in rural research and development corporations – AgriFutures Australia response

On behalf of the Board of AgriFutures Australia, I welcome the Australian National Audit Office (ANAO) report on Probity management in rural research and development corporations and appreciate the opportunity to respond. It is critical that our organisation upholds the highest probity standards and the Board of Directors and Management of AgriFutures Australia take our obligations very seriously.

The period audited (January 2017 – December 2018) directly followed the relocation of AgriFutures Australia from Canberra, ACT to Wagga Wagga, NSW. Our organisation, then known as the Rural Industries Research and Development Corporation, underwent significant change associated with its relocation, including the appointment of a new Chair, a significantly new Board, a new Managing Director, and an almost total change in staff. I am very proud of the newly established team in Wagga Wagga and commend them for having worked so diligently to learn, understand and implement the required government systems and processes. The results of this audit are a testament to the team and their dedication to probity and good governance.

I note that the report focussed on two key areas and resulted in four recommendations.

1. Do the corporations have appropriate probity arrangements?
   - AgriFutures' probity arrangements in relation to governance, policies and internal controls were found to be largely appropriate.
   - The Board's governance arrangements at AgriFutures Australia were found to be largely effective in promoting probity.
   - AgriFutures Australia's policies were largely appropriate in promoting probity in funding decisions, and managing intellectual property and credit cards.
   - AgriFutures Australia has developed systems of internal control that are largely appropriate for our probity requirements.
2. Have the corporations complied with applicable probity requirements?
   - AgriFutures Australia complied with its key policies for documenting the receipt of gifts.
   - AgriFutures Australia fully complied with our conflict of interest policy at a Board level but had incomplete evidence of the implementation of this policy for Panels and staff.
   - AgriFutures Australia partially demonstrated a focus on value for money in approving projects and varying contracts; the exceptions were due to incomplete documentation.

AgriFutures Australia is the new trading name for Rural Industries Research & Development Corporation. ABN: 25 203 754 319

AgriFutures Australia

Research and innovation for rural prosperity

- Implementation of credit card controls was partially effective at AgriFutures Australia as supporting documentation was not able to be provided for three transactions.
- The standard research, development and extension contract for AgriFutures Australia had clauses by which the corporation used intellectual property and project technology to achieve our goals and manage the associated risks, with the exception of third party intellectual property.

The Board has considered and discussed the Proposed Report at its meeting on 4 and 5 December 2019 and accepted the two recommendations that relate to AgriFutures Australia:

Recommendation No.1
AgriFutures Australia amends its charter to specify that the board is responsible for approving probity policies relating to ethics, procurement and intellectual property
AgriFutures Australia's response – Agreed. The Board resolved at the September 2019 Board meeting to reserve the power to approve ALL policies commencing with the Governance Policies in December 2019. The Board Governance Manual and Audit Committee Charter were revised and updated in November 2019 and approved by the Board on 4 and 5 December 2019.

Recommendation No. 2
That RDC's revise their conflict of interest policies to fully reflect legal requirements.
AgriFutures Australia's response – not applicable. AgriFutures Australia is already fully compliant.

Recommendation No. 3
That RDC's establish a mechanism for the general public to report fraud allegations.
AgriFutures Australia's response – not applicable. AgriFutures Australia is already fully compliant.

Recommendation No. 4
AgriFutures Australia increase the scope, frequency and mandatory nature of their probity training to increase compliance with applicable requirements.
AgriFutures Australia response – Agreed. AgriFutures Australia has already implemented new procedures to improve the quality of training and compliance testing. A new e-learning platform was implemented in November 2019. The online platform supports Directors and staff to learn AgriFutures Australia's policies and tests their understanding. In addition, the director and staff induction programs will be revised to ensure there is adequate emphasis on probity policies and the number of face-to-face policy refresher training sessions will increase from two per year to three per year in 2020.

The Board was surprised that given the lengthy duration and extent of the audit, there were only two recommendations relevant to AgriFutures Australia.

The Board was disappointed that Management was not given an opportunity to comment on the 'Audit snapshot' at the front of the report, which was added by the ANAO later.[a] The Board does not believe the 'Audit snapshot' represents a fair summation of the findings contained in the bulk of the report. In particular, the Board is of the view that, based on the full report, a more appropriate conclusion would have been that AgriFutures Australia is largely effective in managing probity.

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AgriFutures Australia

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I would also like to draw to your attention a number of initiatives that AgriFutures Australia has implemented during 2019 to improve compliance and achieve better business processes. Some of these initiatives include:

- A newly qualified auditor was employed to assist with the increased workload and to improve the thoroughness and quality of work papers.
- All research payments were doubled checked back to the original contracts by our accounts payable coordinator.
- Finalisation of the Policy Simplification project - AgriFutures Australia's General Manager, Corporate, reviewed and simplified all existing policies and procedures into five new policy handbooks. The handbooks are designed to improve access to the key policies and associated registers and are available for all staff and Board directors.
- Re-design of the employee induction process.
- Created an online compliance testing for all staff.
- Automated workflows for non-research procurements to ensure compliance with approved procedures, and
- Revision of our Intellectual Property Policy and the creation of an Intellectual Property toolkit for all staff.

To reiterate, on behalf of the Board and Management of AgriFutures Australia, we understand that it is critical for us to uphold the highest standards of probity and we take our obligations very seriously as we are spending levy payers and taxpayers money. I am confident that AgriFutures Australia will use the report to continue to improve probity management and adopt examples of better practice.

Yours sincerely

Kay E Hull

Mrs Kay Hull AM
Chair
AgriFutures Australia

AgriFutures Australia is the new trading name for Rural Industries Research & Development Corporation.
ABN: 25 203 754 319

ANAO comment on AgriFutures Australia response

(a) The board of AgriFutures Australia had access to a copy of the full draft audit report and associated 'Audit Snapshot' as part of the legislated section 19 consultation process. The board had 28 days in which to consider and comment on the draft report and snapshot. The ANAO did not provide an overall conclusion (or Audit Snapshot) in the preliminary Report Preparation Papers, as these are intended to facilitate discussion with audited entities on the preliminary audit findings. It would have been premature at this early stage to draw overall conclusions as outlined in the Audit Snapshot. The overall conclusion that AgriFutures Australia was 'partially' effective in managing probity issues stemmed from the opinion that AgriFutures Australia had 'largely appropriate' probity arrangements (the conclusion to Chapter 2 as reproduced in paragraph 9) and partial compliance with its applicable probity requirements (the conclusion to Chapter 3 as reproduced in paragraph 10).

Australian Government
Cotton Research and Development Corporation

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25 November 2019

Grant Hehir
Auditor-General
Australian National Audit Office

Dear Grant

Probity Management in rural research and development corporations.
CRDC response to the proposed report dated 7 November 2019.

The Cotton Research and Development Corporation (CRDC) welcomes the ANAO's report on probity management in rural research and development corporations. CRDC is committed to continuous improvement in our governance culture. CRDC is a micro-agency that aims to adopt governance systems that are agile, fit for purpose and enhance performance. CRDC accepts the recommendations of the ANAO contained in the report and notes the general findings that encourage CRDC to continue to review and enhance CRDC's policies, accountable authority instructions, risk management framework and practices.

Recommendation 2: The Cotton RDC and Wine Australia Revise their conflict of interest policies to fully reflect legal requirements.
CRDC will update the conflicts of interest policies to fully reflect the legal requirements.

Recommendation 3: The Cotton and Grains RDCs both establish a mechanism for the general public to report fraud allegations.
CRDC will improve the public interest disclosure processes on our website to ensure the general public have a mechanism to report fraud allegations.

Yours sincerely

Richard Haire
Chair of the Board

Australian Government
Fisheries Research and Development Corporation

29 November 2019

Grant Hehir
Auditor-General
Australian National Audit Office (ANAO)
19 National Circuit
Barton ACT 2600

Dear Mr Hehir,

Proposed Report under s.19 of the Auditor-General Act 1997
Auditor General Draft report - Probity management in rural research and development corporations.

I acknowledge the ANAO's proposed report under s.19 of the Auditor-General Act 1997 received on 8 November 2019, and I thank you for the opportunity to respond.

The Fisheries Research and Development Corporation (FRDC) is a co-funded partnership between its two stakeholders, the Australian Government and the fishing and aquaculture sector. In responding to your audit we note that FRDC takes an entrepreneurial approach in balancing strategic versus tactical research investments. The majority of FRDC's research addresses public good research in the area of natural resource management.

We would like to thank the ANAO for this audit, and acknowledge the task was enormous. FRDC appreciates that it was extremely challenging to understand the varying differences between each of the five Research & Development Corporations.

The FRDC will ensure all recommendations are adopted. The FRDC will specifically address recommendation 4, *"to increase the scope, frequency and mandatory nature of probity training to increase compliance with applicable requirements"*, and ensure that it is implemented within 12 months. FRDC's response to recommendation 4 is at attachment 1 below.

Where there are other learnings identified in the report, regardless of the agency, the FRDC will put in measures to address and improve probity within our organisation.

Thank you again for the opportunity to respond to the proposed audit report.

Yours sincerely

Colin Buxton

Professor Colin Buxton
A/g Chair
Fisheries Research & Development Corporation

Fisheries Research and Development Corporation
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Certified System
Quality
ISO 9001

GRDC
GRAINS RESEARCH & DEVELOPMENT CORPORATION

6 December 2019

Mr Grant Hehir
Auditor-General
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Mr Hehir

Probity Management in Rural Research and Development Corporations

Thank you for the opportunity to respond to the draft audit report on probity arrangements in rural research and development corporations. GRDC welcomes the ANAO's report and will use the findings, observations and recommendation to strengthen its probity arrangements.

The audit has provided the GRDC Board with an opportunity to review and reflect on what has been a period of the most significant changes in GRDC history. The changes have encompassed structural changes to business units and staffing, the establishment of regional offices, and changes to all supporting systems and processes. The biggest change has been in the establishment of a new purpose and focus on delivering research and development that increases the profitability of Australian grain growers.

This has required the adoption of a business model that fosters a more commercial investment management culture that is able to respond quickly and strategically to increasingly complex issues such as climatic and environment challenges, severe and prolonged drought conditions, herbicide resistance, community expectations of agricultural production, and declining terms of trade in the grains industry.

The focus is now on settling and refining these changes and GRDC Board is committed to improving and maintaining an approach that is consistent with the requirements and expectations of an industry and publicly funded body.

Response to Recommendations
The report sets out three recommendations that are relevant to Grains Research and Development Corporation (GRDC).

Recommendation 1: In respect of Board charters; GRDC amends its charter to specify that the Board is responsible for policies relating to procurement and intellectual property, and also ensures that policy approval is consistent with its charter.

Recommendation 3: That GRDC establish a mechanism for the general public to report fraud allegations.

Recommendation 4: That GRDC increases the scope, frequency and mandatory nature of probity training to increase compliance with applicable requirements.

GRDC accepts all of the recommendations and is taking steps to improve its probity arrangements in response to each recommendation.

Finally, I would like to thank the ANAO audit team for their professional and collaborative approach and acknowledge the usefulness of having an independent third party examine and review GRDC's probity arrangements.

Yours sincerely

John Woods
Chair
Grains Research and Development Corporation

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Page 1

GRAINS RESEARCH & DEVELOPMENT CORPORATION ABN 55 611 223 291

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Australian Government
Wine Australia

Wine Australia for Australian Wine

4 December 2019

Mr Grant Hehir
Auditor-General
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Mr Hehir

ANAO Proposed Report under section 19 of the *Auditor General Act 1997* – Probity management in rural research and development corporations (Proposed Report)

Thank you for providing us with the Proposed Report.

The Wine Australia Board and Management would like to thank the ANAO for its work in conducting the audit which has been a highly valuable process from which Wine Australia has already derived significant benefit.

Wine Australia acknowledges the importance of governance in driving organisational culture and promoting independent decision making. Accordingly – in the spirit of continuous improvement - Wine Australia has already implemented all the recommendations and suggestions of the ANAO in the Proposed Report to enhance its governance framework. This is reflected in Wine Australia's responses to the recommendations below.

Recommendation 1

That Wine Australia, when approving a new Board Charter, specifies that the board is responsible for policies on ethics, procurement and intellectual property.

Wine Australia response

The Wine Australia Board has approved a new Board Charter that specifies that the Board is responsible for policies on ethics, procurement and intellectual property.

Recommendation 2

That Wine Australia revises its conflict of interest policies to fully reflect legal requirements.

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Australian Government
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Wine Australia response

The Wine Australia Board has revised and approved its policies with respect to conflicts of interest. These policies fully reflect legal requirements.

Recommendation 3 (no response required from Wine Australia)

This recommendation pertaining to reporting by the public of fraud allegations does not apply to Wine Australia as the Proposed Report acknowledges that Wine Australia has already established a mechanism for the general public to report fraud allegations.

Recommendation 4

That the corporations increase the scope, frequency and mandatory nature of their probity training to increase compliance with applicable requirements

Wine Australia response

Wine Australia has implemented a plan to ensure that all staff receive mandatory probity training.

In addition to addressing the formal recommendations set out in the Proposed Report, Wine Australia has addressed each of the suggestions in the Proposed Report as set out below.

At paragraph 2.43, the Proposed Report suggests that the corporations should amend their policies pertaining to conflicts of interest so they can positively demonstrate management of declared conflicts of interest. Wine Australia has already documented its practices and obligations pertaining to conflicts of interest of employees and directors in two new policies that have been approved by the Board. These policies incorporate the recommendations made by the ANAO including that the Board should review declared conflicts of interest of employees and panel members (if any). Wine Australia has also implemented conflict of interest registers for directors and employees.

At paragraph 2.50, the Proposed Report suggests that Wine Australia sets reporting criteria to manage the risk of inappropriate external influence and provide visibility around the volume of gifts, benefits and hospitality received and offered. Wine Australia has already reviewed its gifts, benefits and hospitality policy which is under further review by the Board Audit Committee.

Page 2 of 3
4/12/2019

@Wine_Australia WineAustralia WineAustralia www.wineaustralia.com

Australian Government

Wine Australia

Wine Australia for Australian Wine

Consistent with recent guidance from the Australian Public Service Commission, Wine Australia's amended policy will provide that it must publish its register on its website and that the Audit Committee must review the register at each of its meetings as a standing agenda item, and report to the Board on same.

At paragraph 2.60, the Proposed Report suggests that the corporations develop comprehensive policies on variations to better demonstrate they are achieving value for money when agreeing to a variation. Wine Australia has already amended its procurement policy to reflect the recommendations of the ANAO pertaining to variations to provide that variation agreements can be made in accordance with its financial delegations unless the project deliverables are varied.

In addition, the Wine Australia Board is commissioning an external review of Wine Australia's governance arrangements to ensure they reflect best practice. This will include a review of how Management reports compliance against governance obligations to the Board.

In closing, Wine Australia would like to reiterate its thanks to the ANAO staff who led the recent review.

Yours sincerely

Mitchell Taylor
Chair – Audit Committee
Wine Australia

Page 3 of 3

4/12/2019

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Appendix 2 Selected legal probity requirements for the corporations

Table A.1: Conflicts of interest

Requirement	Source
An official[a] of a Commonwealth entity who has a material personal interest that relates to the affairs of the entity must disclose details of the interest.	Sub-section 29(1) PGPA Act
Members of the accountable authority (board members excluding the CEO) that have a material personal interest that relates to the affairs of the entity must disclose that interest, orally or in writing, to the members of the accountable authority.	Sub-section 14(1) PGPA Rule
The disclosure by the member of the accountable authority must include details of the nature and extent of the interest and how the interest relates to the affairs of the entity.	Sub-section 14(2) PGPA Rule
The member of the accountable authority must make the disclosure at a board meeting as soon as practicable, and update the accountable authority as soon as practicable if the interest has changed.	Sub-section 14(3) PGPA Rule
The member of the accountable authority must ensure that the disclosure is recorded in the minutes of the meeting.	Sub-section 14(4) PGPA Rule
If a member of the accountable authority has made such a disclosure, they must not be present at the authority's deliberations on the matter or vote on it.	Sub-section 15(2) PGPA Rule
The member of the accountable authority that has made the disclosure can be present at board meetings and vote if the Minister has given a written exemption or if the members of the accountable authority who do not have such an interest have given an exemption and this is recorded in the minutes.	Sub-section 15(3) PGPA Rule
Employees, including the CEO, who have a material personal interest that relates to the affairs of the entity, must disclose that interest in line with any instructions given by the accountable authority of the entity.	Section 16 PGPA Rule
For the purposes of section 29 of the PGPA Act (refer Row 1 above) a director who is a grape grower or a winemaker is not taken to have a material personal interest by reason only of being a grape grower or a winemaker.	Section 19 WA Act
If a member of a corporation's committee or panel concerned with selecting and funding RD&E or marketing activities has a pecuniary interest relevant to that body's deliberations, they must disclose the interest in line with the corporation's instructions.	Clause 4.4 or 4.5 Funding agreements

Note a: Under section 13 of the PGPA Act, an 'official' is generally a director or employee of a corporation.

Source: PGPA Act, PGPA Rule, *the Wine Australia Act 2013* and the corporations' funding agreements.

Table A.2: Fraud control

Requirement	Source
The corporation conducts a fraud risk assessment.	Sub-section 10(a) PGPA Rule
The corporation conducts the fraud risk assessment regularly, or when there is a substantial change in the structure, functions or activities of the entity.	Sub-section 10(a) PGPA Rule
The corporation has a fraud control plan.	Sub-section 10(b) PGPA Rule
The fraud control plan deals with identified risks as soon as practicable after conducting a risk assessment.	Sub-section 10(b) PGPA Rule
The corporation has an appropriate mechanism for preventing fraud.	Sub-section 10(c) PGPA Rule
Entity officials are made aware of what constitutes fraud.	Paragraph 10(c)(i) PGPA Rule
The risk of fraud taken into account in planning and conducting the activities of the entity.	Paragraph 10(c)(ii) PGPA Rule
The corporation has an appropriate mechanism for detecting incidents of fraud or suspected fraud, including a process for officials of the entity and other persons to report suspected fraud confidentially.	Sub-section 10(d) PGPA Rule
The corporation has an appropriate mechanism for investigating or otherwise dealing with incidents of fraud or suspected fraud.	Sub-section 10(e) PGPA Rule
The corporation has an appropriate mechanism for recording and reporting incidents of fraud or suspected fraud.	Sub-section 10(f) PGPA Rule

Source: PGPA Rule.