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The Parliament of the Commonwealth of Australia

# Report 449

## Regional Development Australia Fund, Military Equipment Disposal and Tariff Concessions

**Review of Auditor-General Reports Nos 1-23 (2014-15)**

Joint Committee of Public Accounts and Audit

June 2015  
Canberra

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# Contents

Foreword .....	vii
Membership of the Committee .....	xi
Terms of reference .....	xiii
List of abbreviations .....	xv
List of recommendations .....	xvii

## **THE REPORT**

<b>1 Introduction .....</b>	<b>1</b>
Background to the review .....	1
The Committee's report .....	2
<b>2 Performance Audit Report No. 9 (2014-15) .....</b>	<b>1</b>
<b>Design and Conduct of Third and Fourth Funding Rounds of Regional Development Australia Fund .....</b>	<b>1</b>
Introduction .....	1
Report overview .....	1
Audit objective, scope and criteria .....	2
Audit conclusion .....	3
Audit recommendations and agency response .....	4
Committee review .....	5
Assessment and funding stages .....	5

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Transparency and accountability.....	17
Implementation of ANAO report recommendations.....	19
Better practice regional grants administration.....	21
<b>Committee comment.....</b>	<b>23</b>
Assessment and funding stages.....	23
Transparency and accountability.....	27
Implementation of ANAO report recommendations.....	28
Better practice regional grants administration.....	29
<b>3 Performance Audit No. 19 (2014-15).....</b>	<b>33</b>
<b>Disposal of Specialist Military Equipment.....</b>	<b>33</b>
Introduction.....	33
Report overview.....	33
<b>ANAO Audit objective and scope.....</b>	<b>35</b>
ANAO overall conclusion.....	36
Audit recommendations and agency response.....	39
<b>Committee review.....</b>	<b>41</b>
Redress of issues raised in the ANAO report.....	41
Disposal of decommissioned warships.....	43
Disposal of specialist military equipment in operational areas.....	46
Caribou aircraft.....	46
Disposal of Sandline helicopters.....	47
Financial delegations.....	48
Conflicts of interest.....	49
Staff training and corporate knowledge.....	51
Committee comment.....	52
<b>4 Performance Audit Report No. 20 (2014–15).....</b>	<b>55</b>
<b>Administration of the Tariff Concession System.....</b>	<b>55</b>
Introduction.....	55
Report overview.....	55
Audit objective and scope.....	56

Summary of audit outcomes.....	57
ANAO Recommendations .....	57
<b>Committee review .....</b>	<b>58</b>
Implementation of the audit report's recommendations.....	58
Organisational changes .....	61
<b>Committee comment.....</b>	<b>62</b>

## **APPENDICES**

<b>Appendix A – Submissions .....</b>	<b>65</b>
<b>Appendix B – Public Hearings.....</b>	<b>67</b>

## **LIST OF TABLES**

Table 2.1	RDAF applications and funding over rounds one to four .....	4
Table 2.2	ANAO recommendations, Report No. 9 (2014-15) .....	6
Table 2.3	ANAO recommendations, Report No. 3 (2012-13) .....	22
Table 3.1	ANAO recommendations, Report No. 19 (2014-15) .....	41
Table 4.1	ANAO recommendations, Report No. 20 (2014-15) .....	59





## Foreword

On 4 December 2014, the Joint Committee of Public Accounts and Audit (JCPAA) resolved to review Australian National Audit Office (ANAO) Report No. 9 (2014-15), *Design and Conduct of the Third and Fourth Funding Rounds of the Regional Development Australia Fund*. On 5 March 2015, the JCPAA resolved to review a further two ANAO reports: Report No. 19 (2014-15), *Management of the Disposal of Specialist Military Equipment*; and Report No. 20 (2014-15), *Administration of the Tariff Concession System*.

A key theme emerging from the Committee's review of these reports was encouraging better practice, both in terms of grants administration and implementation of audit recommendations.

Grants administration is an important activity involving a significant amount of public funds each year. The transparency and accountability of grant funding decisions have been matters of longstanding Parliamentary and public interest. The Committee was therefore interested in the ANAO's findings on the administration of the Regional Development Australia Fund, which involved a considerable outlay of public funds. The grants administration framework, through the *Public Governance, Performance and Accountability Act 2013* and the Commonwealth Grants Rules and Guidelines (CGRGs), promotes transparent, accountable and cost-effective grants administration. The key message for agencies is that grant approval processes which comply with the requirements under this framework are more likely to see the best applications selected for funding, as well as enabling effective administration of approved funding for the least effort and cost.

Agency implementation of audit recommendations, which often reflect the ANAO's experience of practices other departments have found to be beneficial, is another area of longstanding JCPAA interest. In its audits, the ANAO identifies areas where administrative improvements can be made and, in most cases, makes specific recommendations to assist agencies in improving their performance. Once an entity has agreed to implement an audit recommendation, timely

implementation is important. The Committee has made findings in this area with regard to all three audit reports.

ANAO Report No. 9, *Design and Conduct of the Third and Fourth Funding Rounds of the Regional Development Australia Fund (RDAF)*, found that there was not a clear trail through the assessment stages to demonstrate that the projects awarded funding were those with the greatest merit in terms of the published program guidelines. The ANAO also found that the then Department of Regional Australia, Local Government, Arts and Sport had not implemented recommendations from a previous audit of the first RDAF funding round and inadequate attention had been given to relevant aspects of the grants administration framework. A key message from the audit was that considerable work remains to be done to design and conduct regional grant programs in a way where funding is awarded, and can be seen to have been awarded, to those applications that demonstrate the greatest merit in terms of the published program guidelines.

The Committee made four recommendations: that the ANAO consider a future audit of implementation of audit recommendations by the Department of Infrastructure and Regional Development (DIRD); that the ANAO incorporate a new section on 'Regional grants administration' in the next update of its Better Practice Guide on *Implementing Better Practice Grants Administration*; that the Department of Finance, in consultation with the ANAO, update the CGRGs as necessary to reflect recent audit findings in this area; and that the ANAO consider a follow-up audit of the effectiveness of grants administration by DIRD and establishing a standing audit focus on regional grants administration.

ANAO Report No. 19, *Management of the Disposal of Specialist Military Equipment (SME)*, highlighted a number of issues, including: disposal of decommissioned warships; disposal of specialist military equipment in operational areas; financial delegations; conflicts of interest; and staff training and corporate knowledge. Despite this, the Committee was encouraged by the fact that it was the Department of Defence itself that requested this ANAO audit, having recognised that problems existed regarding disposal of SME. Defence provided an overview of the reforms the department had instituted to address the concerns raised in the ANAO report. The Committee commends the ANAO recommendation that Defence rationalise and simplify the framework of rules and guidelines for disposal of SME. The Committee also notes Defence's assurances that it is developing a consolidated, streamlined and simplified framework on Defence disposals.

The Committee made two recommendations: that the ANAO consider a follow-up audit of progress in Defence reforms concerning the disposal of SME, and that Defence develop comprehensive training and handover procedures for staff in the Australian Military Sales Office, the office that manages disposals.




ANAO Report No. 20, *Administration of the Tariff Concession System*, found that the mature administrative arrangements established by the Australian Customs and Border Protection Service (Customs) have generally provided a sound basis for the administration of the Tariff Concession System (TCS). However, the ANAO report made three recommendations designed to improve the administration of TCS. The Committee is encouraged that, at a time when Customs is undergoing significant organisational change, it has begun taking reasonable action to implement the ANAO recommendations. The Committee takes the view that the ANAO report findings and recommendations should inform Customs as it integrates with the Department of Immigration and Border Protection and the compliance function shifts to the Australian Border Force from 1 July 2015.

The Committee made two recommendations: that Customs report back to the JCPAA on its continued progress implementing the ANAO recommendations, and that the ANAO consider undertaking a future cross-agency audit of the administration of the TCS following finalisation of the current organisational restructuring.

I thank Committee members for their deliberation on these matters. I also thank agency representatives who appeared at public hearings for assisting the JCPAA in its important role of holding Commonwealth agencies to account for the efficiency and effectiveness with which they use public monies.

Dr Andrew Southcott MP  
Chair





## Membership of the Committee

**Chair**      Dr Andrew Southcott MP

**Deputy  
Chair**      Mr Pat Conroy MP

**Members**    Hon Anthony Albanese MP (from 12 Feb 2015)    Senator Cory Bernardi  
                  Ms Gai Brodtmann MP                                    Senator Katy Gallagher (from 26 March 2015)  
                  Mr Andrew Giles MP                                        Senator Chris Ketter  
                  Dr Peter Hendy MP                                         Senator Bridget McKenzie  
                  Mr Craig Laundry MP                                      Senator Kate Lundy (to 24 March 2015)  
                  Mrs Jane Prentice MP                                      Senator Dean Smith  
                  Mr Michael Sukkar MP (to 10 Feb 2015)  
                  Mr Angus Taylor MP  
                  Mr Tim Watts MP (to 12 Feb 2015)  
                  Mr Ken Wyatt MP (from 10 Feb 2015)

## Committee Secretariat

Secretary	Ms Susan Cardell
Inquiry Secretary	Dr Kate Sullivan
	Ms Sandra Kennedy
Research Officers	Dr Andrew Gaczol
Administrative Officer	Ms Tamara Palmer



## Terms of reference

On 4 December 2014, the Joint Committee of Public Accounts and Audit (JCPAA) resolved to review the following audit report in detail:

- Audit Report No. 9 (2014-15) *Design and Conduct of the Third and Fourth Funding Rounds of the Regional Development Australia Fund*

On 5 March 2015, the JCPAA resolved to review the following audit reports in detail:

- Audit Report No. 19 (2014-15) *Management of the Disposal of Specialist Military Equipment*
- Audit Report No. 20 (2014-15) *Administration of the Tariff Concession System*
- Audit Report No. 23 (2014-15) *Administration of the Early Years Quality Fund<sup>1</sup>*

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1 The Committee is yet to report on ANAO Report No. 23.





## List of abbreviations

AG	Auditor-General
AMSO	Australian Military Sales Office
ANAO	Australian National Audit Office
APS	Australian Public Service
CDF	Chief of the Defence Force
DIRD	Department of Infrastructure and Regional Development
DMO	Defence Materiel Organisation
DRALGAS	Department of Regional Australia, Local Government, Arts and Sport
FMA	Financial Management and Accountability
HMAS	Her Majesty's Australian Ship
JCPAA	Joint Committee of Public Accounts and Audit
MRAP	Mine-Resistant Ambush Protected
NRF	Not Recommended for Funding
RAAF	Royal Australian Air Force
RAN	Royal Australian Navy
RFF	Recommended for Funding
RDAF	Regional Development Australia Fund

SFF	Suitable for Funding
SME	Specialist Military Equipment
US	United States
WHS	Work Health and Safety





## List of recommendations

### 2 Design and Conduct of Third and Fourth Funding Rounds of Regional Development Australia Fund

#### Recommendation 1

The Committee recommends that the Australian National Audit Office consider prioritising the Department of Infrastructure and Regional Development – or, as applicable, the department responsible for administering the regional portfolio – in its continuing series of audits of agencies’ implementation of performance audit recommendations.

#### Recommendation 2

The Committee recommends that in the next update of its Better Practice Guide, *Implementing Better Practice Grants Administration*, the Australian National Audit Office (ANAO) consider incorporating a new section on ‘Regional grants administration’, focusing on the findings of recent ANAO reports on this area and the Committee’s report, to maintain an emphasis on increased effectiveness in regional grants administration.

#### Recommendation 3

The Committee recommends that the Department of Finance (Finance), in consultation with the Australian National Audit Office (ANAO), update, as required, the Commonwealth Grants Rules and Guidelines to reflect recent ANAO audit findings concerning departmental grants administration, including further reinforcing the requirement for decision-makers to record the basis for funding decisions.

#### Recommendation 4

To encourage better practice grants administration, particularly concerning regional grants programs, the Committee recommends that the Australian National Audit Office (ANAO) consider including in its schedule of performance audits:

- priority follow-up audits of the effectiveness of grants program administration by the Department of Infrastructure and Regional Development
- a standing priority audit focus on regional grants administration by the relevant department (with the specific timing of such audits as determined by the ANAO), noting that a potential performance audit of the design and implementation of the National Stronger Regions Fund is included in the ANAO's current forward Audit Work Program

### 3 Disposal of Specialist Military Equipment

#### Recommendation 5

The Committee recommends that the Australian National Audit Office (ANAO) consider a follow up audit 12 months following the tabling of this report to provide an update on the progress of Department of Defence's reforms with regard to the disposal of Specialist Military Equipment. Further audits in this area could be considered by the ANAO.

#### Recommendation 6

The Committee recommends that the Department of Defence develop comprehensive training programs, instruction procedures and handover briefs for all new Australian Military Sales Office staff.

### 4 Administration of the Tariff Concession System

#### Recommendation 7

The Committee recommends that the Department of Immigration and Border Protection report back to the Joint Committee of Public Accounts and Audit, within six months of the tabling of this report, on its continued progress implementing the Australian National Audit Office (ANAO) recommendations in Report No. 20 (2014-15).

### **Recommendation 8**

The Committee recommends that the Australian National Audit Office (ANAO) consider undertaking a cross-agency audit (Department of Industry and Science, and the Department of Immigration and Border Protection) of the Tariff Concession System at least 12 months following the finalisation of the Department of Immigration and Border Protection's organisational restructuring and the commencement of the Australian Border Force.

